JPMORGAN CHASE WHALE TRADES:
A CASE HISTORY OF DERIVATIVES
RISKS AND ABUSES

HEARING
BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED THIRTEENTH CONGRESS
FIRST SESSION
VOLUME 2 OF 2
MARCH 15, 2013

Available via the World Wide Web: http://www.fdsys.gov/

Printed for the use of the
Committee on Homeland Security and Governmental Affairs
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Permanent Subcommittee on Investigations
EXHIBIT #102

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Testimony of Jamie Dimon, Chairman & CEO of JPMorgan Chase & Co., before the Senate Committee on Banking, Housing and Urban Affairs, June 13, 2012 (Printed as Exhibit 3) 527
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* SEALED EXHIBITS retained in the files of the Subcommittee.
** On CD retained in the files of the Subcommittee and available for public review.
JPMC & COMPANY
CIO Synthetic Credit Portfolio

FDICPROD-0001783
As far back as 2006, CIO's mandate was to act as a traditional ALM function with multiple priorities, including investing the firm's excess cash, managing the firm's pension fund and capital hedging (mitigating stress events).

From inception through year-end 2011, the CIO activities indicated that the firm was acting under this mandate.

Going into 2012 the firm had short high yield credit positions and as the market conditions were improving, CIO sought to lift dealer hedges.

To achieve the goal of reducing the short high yield positions, the CIO desk entered into a significant long credit position via investment grade indices (IG-9). From a notional perspective, the firm was net long credit.

The firm believed that due to the historical correlation (beta) of the tranches of the IG-9 index, they were getting into a neutral position by going long 4-5 times the high yield short positions.

The firm conceded that at this point, the CIO desk was no longer hedging its book and had real exposure to high yield versus investment grade as the historic relationship between them changed. Essentially, the macro hedge no longer represented a hedge against their bank portfolio once the desk was net long credit. JP senior management has described the trade as mismanaged and poorly executed.
In late March, the firm started to see days of significant losses in the hundreds of millions of dollars. Ira Drew (CEO of CIO) first explained to management that the dislocation of the markets was an anomaly and the historic relationship would eventually revert to the mean. She expected that the CIO desk would end the quarter between -150mm and up to 250mm in PI.

On April 5, the "London whale" story ran and the position continued to experience significant losses. Losses totaled approximately $415 million on April 10, 2012.

The feeling inside the firm was that the trade was too big, the market knew their holdings and that they were being attacked or targeted causing the positions to continue to deteriorate. At this point they still believed that the price levels would revert to the mean.
April 4-6: News reports that in recent weeks investors have been puzzled by unusual movements in credit markets citing a JPM-UK trader with "deep pockets" putting on large credit trades and dubbed "the London Whale". Bloomberg reports of the "London Whale", a JP Morgan trader amassing a large positions in the CDX IG Series 9 and the European iTRAXX Series 9 Indices.

FDIC onsite staff contact the OCC and NY Fed to inquire about the news reports.

April 9: OCC and NY Fed meet with the Drew to discuss the reported trades.

April 12: Pre-earnings release meeting with regulators (including the FDIC) with CFO Dougie Braunstein. Mr. Braunstein reports that there are no problems within the CIO book.

April 13: Jamie Dimon told analysts that the media attention on the big bets taken by one of the bank's traders in London, dubbed the London Whale, was "a complete tempest in a teapot." The Wall Street Journal reported that trader Bruno Michel Lee, who is part of the bank's chief investment office, has a very large position in credit default swaps in corporate bonds and some hedge funds are betting against him. Asked about the trades by an analyst on a conference call, Dimon said: "Every bank has a major portfolio."
Timeline Cont'd

- April 13: Bloomberg runs story regarding the credit trades and states that CIO is being used as a proprietary book.

- April 16: FDIC, OCC and NY Fed meet with Ina Drew who provides an overview of the synthetic credit book and its recent rebalancing. P&L scenarios were presented and discussed at this time. Analysis indicates high stress loss of hundreds of millions of dollars.

- April 19: FDIC onsite team attends regularly scheduled monthly meeting with the NY Fed. Team raises topic of CIO and synthetic credit book and told that there were no issues with which they should be concerned.

- May 4: Firm discusses the $2 billion loss with the OCC and the NY Fed.

- May 10: JPMC announces unrealized losses of $2 billion in their synthetic credit position in the CIO portfolio in the past six weeks. The firm continues to announce changes in strategy and management for the CIO portfolio. FDIC learns of loss with the public announcement.

- May 21: SEC begins investigations into the appropriateness and completeness of JPMC's financial reporting, specifically with respect to the value-at-risk (VaR) model for CIO and whether it was applied in a way that allowed the portfolio to appear safer.

- May 21: JPMC suspends repurchases of its stock, but intends to continue dividends payments.

- May 24: The chairman of the Senate Banking Committee requests that Jamie Dimon testify before the panel.

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Observations Prior to Loss Announcement

- In 2010, the OCC issued an MRA addressing issues in CIO investment policies and portfolio decisions. In particular, the OCC noted a need to clearly define the processes used to manage investments and to identify objectives and investment parameters.

- JP Internal Audit reviewed EMEA CIO Credit-Market Risk and Valuation Practices and noted "needs improvement" on March 30, 2012. Deficiencies noted include:
  - Use of unapproved models
  - Insufficient consideration of potentially applicable fair value adjustments
  - Lack of formally documented/consistently applied price testing thresholds
  - Exclusion of strategic asset allocation book from the firm wide market risk limits framework
CIO Lack of Transparency

- Minimal reporting to the regulators. FDIC only received quarterly Executive Management Report for CIO which contained mostly balance sheet information.
- No reporting of VaR, limit utilization or CIO P&L to the regulators.
- FDIC did not attend regular meetings to discuss CIO. It is our understanding that only quarterly meetings were held between the CCO and the firm.
- Other areas of the firm, such as the investment bank, provide much greater transparency. Evidenced by weekly, monthly and quarterly meetings with the firm to discuss credit and market risk issues, as well as Treasury issues. P&L reported to the regulators on a daily basis together with periodic reporting regarding limits and exposures.
Firm Self Assessment

- Special team led by Mike Cavanagh to evaluate transaction timeline and the risk management controls in place, including reporting and limits.
- Outside counsel engaged to review all supporting documentation including emails and other correspondence.
- Firm focused on what issues were escalated, to whom and when.
- Review of the two VaR models used from January 2012 to date, including governance around the models.
- Evaluate the history and role of compensation in CIO's trading strategy.
- JPMC Board of Directors has established an independent committee to assess the situation.
- Firm would like to complete its work so that it can disclose results to the public at its July 19 analyst meeting.
Regulatory Work Plan Focus

- Firm's current financial and funding profile.
- CIO mandate and operations of individual business lines.
- Potential risk of synthetic credit trading portfolio to the firm.
- CIO models and valuation methods.
- Potential range of losses in portfolio and impact on lead bank's ability to continue dividends to the holding company.
- Strength of risk management, governance and control framework.
- Volcker Rule implications.
**Firm Summary of CIO**

- CIO is responsible for managing the firm's structural risks (e.g., interest rate risk, macro credit risk, FX capital risk, MSR hedging).
- Traditional asset/liability management (e.g., invest excess liabilities).
- Focus on long-term risk management and value, not short-term profits.
- Reported mark-to-market gains for the CIO AFS investment portfolio are -$88 (reflects -$118 of securities gains realized in 2012).
- Since 2007, CIO has generated -$218 in cumulative revenue - associated with -$11.5B cumulative net income.
1. **Investment Portfolio**: primary tool for traditional asset/liability management (e.g., investing firm's excess liquidity)

2. **Synthetic Credit Book**: tool for managing the firm's credit risks, primarily those arising from the CDO Investment Portfolio.
   - Revenue recognized as mark to market
   - $157.5 of notional net exposure ($76.8B RWA)

3. **Other Portfolios**: additional portfolios used to manage the firm's aggregate franchise balance sheet and structural risks (e.g., FX capital hedging, MSR hedging, other MTM positions)
   - Revenue primarily recognized as mark-to-market
CIO presents the Majority of the Firm's AF Portfolio

Redacted by the Permanent Subcommittee on Investigations
CIO Balance Sheet

- Current Amortized Cost Totals $344Bn
- Portfolio provides:
  - 30 day stress buffer of __
  - 360 day stress buffer of __

<table>
<thead>
<tr>
<th>CDO/MS Positions as of 5/1/2012</th>
<th>Internal Liquidity Timesheet</th>
<th>Available Collected</th>
</tr>
</thead>
</table>
| Agency ABS                      | Amortized Cost | Market Value (M) | 360-d | Total NAL-
| CMBs                            |                |                  |       | 4
| Corporate Bonds                 |                |                  |       |         |
| Municipal L/Cs                   |                |                  |       |         |
| MBSs                             |                |                  |       |         |
| Non US Government MBS           |                |                  |       |         |
| REMIC, ABS & CDO                |                |                  |       |         |
| US Agency Debentures            |                |                  |       |         |
| US Treasuries                   |                |                  |       |         |
| Total                            | 344,2B | 344,2B | 34,4B |

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The firm sold $24.5Bn in securities that realized approximately $1 Bn in gains.

<table>
<thead>
<tr>
<th>CIO APS Assets Update 2Q13 Sales</th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency MBS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketable CDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mata</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Governments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMBS, ABS &amp; CLO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Agency Debentures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>-22</td>
<td>-25.5</td>
</tr>
<tr>
<td>Net</td>
<td>-5</td>
<td>-5</td>
</tr>
</tbody>
</table>

Amortized Cost: price as adjusted over time for accounting changes in any discount or premium.
Summary of the Synthetic Credit Position in the CIO Portfolio
Synthetic Credit Book Issue Overview

JP Morgan Chase (JPMC) buys and sells various synthetic credit indexes as a tool for managing the firm's credit risks arising from CIO securities investments and the firm actively invests in various index relationships.
Late in 2011, the synthetic credit position was long credit protection in high yield (HY).

Early in 2012, CIO sought to be short credit protection in investment grade (IG).

<table>
<thead>
<tr>
<th></th>
<th>12/31/11</th>
<th>6/30/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net notional</td>
<td>$51B</td>
<td>$15B</td>
</tr>
<tr>
<td>High Yield indices - Net short</td>
<td>$20Bmn</td>
<td>$31Bmn</td>
</tr>
<tr>
<td>Investment Grade indices - Net long</td>
<td>($177)mn</td>
<td>($304)mn</td>
</tr>
<tr>
<td>Total book</td>
<td>$50Bmn</td>
<td>($273)mn</td>
</tr>
</tbody>
</table>

Late 2011 Synthetic Credit Spread Book provided net protection from credit spread widening.

Early 2012, the CIO sought to implement a strategy to reduce protection and to short HY.
Position Overview Balance provided by the firm (May 13, 2012)

<table>
<thead>
<tr>
<th>Position</th>
<th>Short</th>
<th>Long</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Investment Grade High Yield</td>
<td>(1355)</td>
<td>4291</td>
</tr>
<tr>
<td>Other High Yield</td>
<td>(33,020)</td>
<td>4,153</td>
</tr>
<tr>
<td>Total</td>
<td>(3,267)</td>
<td>4,458</td>
</tr>
</tbody>
</table>

**Commentary**

- **Positions:**
  - **Short Investment Grade High Yield**
  - **Long Investment Grade High Yield**

- **Exposure:**
  - Directional, curve, off-the-run, forward default exposure when Investment Grade 5yr matures in December 2012.
  - Contributes to Investment Grade vs. High Yield position as well.

- **Portfolio:**
  - Long Investment Grade risk and short high yield risk.

- **European Investment Grade**
  - Long Investment Grade and short lower quality names in Europe.

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JPMorgan

FDICPROD-0001804
CIO historical Profit and Loss

- P&L for Synthetic Credit Book began to show significant losses at the end of March 2012
- Total Year to Date Loss is $3.76B as of May 15th:
  - Q1 $700Mn
  - Q2 $3.06Bn
  - May $2.37Bn
  - 16 May $2.27Bn

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Firm Stress Losses for Synthetic Credit Portfolio
Fi. 1's extreme tail loss estimate for 1 Year: over $12Bn

Portfolio tail risk based on economic capital model

- Assumes no management actions to reduce risk over time
- Primary risk is driven by the HY/IG spread ratio
- As the ratio declines, losses increase
- Currently the ratio is roughly 5.5% while at the 99.9% level the ratio is estimated to be 3.1%

<table>
<thead>
<tr>
<th>Loss Distribution</th>
<th>Commentary</th>
<th>Conditional Average Loss &amp; Scenario</th>
<th>Tail Loss</th>
<th>Thick Tails</th>
<th>Tail Moments</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>1%</td>
<td>5.5%</td>
<td>1.5%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>100%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>150%</td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>200%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>250%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>300%</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>350%</td>
<td>7%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>400%</td>
<td>8%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>450%</td>
<td>9%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
<tr>
<td>500%</td>
<td>10%</td>
<td>1%</td>
<td>1%</td>
<td>0.5%</td>
<td>0.05</td>
</tr>
</tbody>
</table>

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FDICPROD-0001807
Summary of Synthetic Credit Book Risk Factors (May 30, 2012)

- The firm leveraged its strategy by investing in combinations of credit indexes.
- Primary strategies include the six listed below.

<table>
<thead>
<tr>
<th>Est. Quarterly Loss Potential (Using 5yr Historic Data)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Directionality (exposure to spread widening)</td>
</tr>
<tr>
<td>2. Curve (long vs. short)</td>
</tr>
<tr>
<td>3. Decompression (IG vs. HY)</td>
</tr>
<tr>
<td>a. Crossover versus Itraxx</td>
</tr>
<tr>
<td>b. Europe versus US</td>
</tr>
<tr>
<td>4. Off-the-Run (older vs. newer issues)</td>
</tr>
<tr>
<td>5. Tranche (Senior vs. Equity)</td>
</tr>
<tr>
<td>6. Individual Names Default</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portfolio Worst 3 Months:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of without diversification</td>
</tr>
<tr>
<td>$1.18bn</td>
</tr>
<tr>
<td>$2.18bn</td>
</tr>
</tbody>
</table>
Risks, Profile and Attribution

Reductions in risk contribution were in "Credit Spread Widening" and "On the Run Vs. Off the Run" but at the expense of an increase in basis between "High Yield vs. Investment Grade."

Risk Base Model Change

- Total Credit
- Credit Spread Widening
- On the Run vs. Off the Run
- Liability

Individual Maturity

- High Yield vs. Investment Grade
- Off the Run
- Liability

Note: Risk factors are expressed in the 95% confidence level for the day with the highest basis. This is a conservative estimate, as the actual model shows a 95% confidence level for the day with the lowest basis. This is the 95% confidence level for the day with the highest basis.

FDICPROD-0001809
Changes in the VaR Model

In early January, CIO exceeded its Value at Risk (VaR) limits. These excesses were approved as CIO argued that the VaR model in use (Model A) was overestimating risk in the CIO portfolio.

- On January 20, 2012, the VaR limit was increased temporarily from $95 mm to $105 mm. Even after this increase, the VaR utilization continued to remain over its new temporary limit of $105 mm with a maximum utilization of $120 mm.

- On January 26th, a new VaR model (Model B) was implemented. The firm believed the new model captured the risk of the synthetic credit portfolio more effectively. After implementing the new model, the VaR utilization went down significantly. The VaR limit was changed back to $95 mm.

- Over the course of the next few months, the maximum VaR utilization increased from $55MM in February to approximately $85MM in April.

- On May 10th, the firm realized that the Model B may be actually understating risk in the Synthetic Credit portfolio and decided to revert back to Model A. As a result of this change, the VaR for CIO shot up from $94 mm to $147 mm in one single day.

- This increase in VaR caused both CIO and firm-wide limit breaches. Both limits were increased temporarily – the CIO limit was increased from $95 mm to $160 mm and the firm-wide VAR limit was increased from $180 mm to $200 mm.

- The firm recalculated the VaR for the 1Q filing for the first quarter.

- The firm has acknowledged that the weakness in Model B was due to flawed implementation.
CIO Synthetic Credit VaR Model (New vs. Old)

- The dotted blue line represents VaR estimates restated using the old methodology.
- The solid blue line after January 2012 represents VaR under the new methodology.
- The orange line represents the established VaR limits.
The table below shows the results of the Firm’s VaR measure using a 95% confidence level.

<table>
<thead>
<tr>
<th>Total and trading VaR by risk type</th>
<th>1Q 2012</th>
<th>2Q 2012</th>
<th>3Q 2012</th>
<th>4Q 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit portfolio VaR</td>
<td>260</td>
<td>186</td>
<td>145</td>
<td>148</td>
</tr>
<tr>
<td>Derivative benefit to trading and credit portfolio VaR</td>
<td>142</td>
<td>96</td>
<td>72</td>
<td>61</td>
</tr>
<tr>
<td>Trading and credit portfolio VaR</td>
<td>405</td>
<td>282</td>
<td>217</td>
<td>209</td>
</tr>
<tr>
<td>Other risk</td>
<td>72</td>
<td>55</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Total risk</td>
<td>337</td>
<td>237</td>
<td>198</td>
<td>191</td>
</tr>
</tbody>
</table>

*Derivative benefit to trading and credit portfolio VaR includes foreign exchange and other risk.

CIO VaR increases 238% (+$131Mn)
CIO Reporting and Limits

Risk reporting was not comprehensive
Several of key risk matrices relevant to this portfolio were not reported.
• Maturity-mismatch risk
• High Yield vs. Investment Grade risk
• Illiquidity of older indices or tranches (i.e. on-the-run vs. off the run)
• Correlation risk between Super senior and Equity tranche positions and the default risk of individual names.

Limit Structure was weak
Before the loss announcement, the limit structure applicable to the synthetic credit books consisted of a relatively simple set of limits consisting of VAR, Stop Loss, Credit Spread BP01 and 10% Credit Spread widening.
• VAR limit, one of the three elements of the limit structure, was not effective in controlling risks, as VAR model was unable to detect risk of Synthetic credit book significantly.
• The limit structure in place was also deficient as it did not limit key risks of the synthetic credit portfolio (listed above) were not included.
Weak Limit Governance

Trading positions exceeded existing limits

- According to firm's risk policy, limit excesses should result in notification to market risk and limit approvers and a decision should be made whether positions should be cut or a temporary or permanent change to limit needs to be approved.

- On March 30th 2012, three out of four of the existing limits were breached. One of these limits - Credit Spread BPV was exceeded 937% for 59 trading days.

- The Mark-to-Market Stop-Loss limit was exceeded by 158% for 5 business days. However, this excess was not escalated as this limit was only 'advisory' (e.g. not a hard limit which would require hedging or cutting of the positions).

- The limit on 10% Credit Spread Widening (CSW) was in excess for over a month from March 22 to April 30th 2012, with an average limit utilization.

- Escalation procedures for limit excesses remain unclear. Some of these limits were increased temporarily and traders were not asked to cut their positions.
New limits were established on May 1rst 2012

29 new limits specific to the Synthetic Credit Book have been implemented to create consistency with the JPMCo's IB approach. Some of key limits implemented are:

- Maximum net notional exposure limits for 4 major indices
- 95% VaR limit on Synthetic Credit Book – in addition to the existing 99% limits
- Limits on curve steepening by 10%.
- Limits on "higher-order" shocks - U.S. and EU compression (Extent to which Synthetic Credit Book is exposed to differential performance of IG and HY positions within a given geography) and 10% correlation shift (Sensitivity of the tranches to a 10% shift of the correlation curve).
Limit Utilization Under Old and New Limits

<table>
<thead>
<tr>
<th>CIO Limits</th>
<th>Old Limit</th>
<th>Avg Utilization</th>
<th>New Temp Limit Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIO Total -10q VAR</td>
<td>1-10 TO 1-19</td>
<td>95</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>1-14 TO 1-26</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>Int 10q Credit VAR</td>
<td>1-13 to 1-23</td>
<td>95</td>
<td>110</td>
</tr>
<tr>
<td></td>
<td>2-28 Jan</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>CIO MTM Stress Losses</td>
<td>2-9 Mar</td>
<td>500</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td>4-2 to 4-19</td>
<td>-1536</td>
<td></td>
</tr>
<tr>
<td>Global Credit 10% CSW</td>
<td>3-22 to</td>
<td>200</td>
<td>209</td>
</tr>
</tbody>
</table>
Volcker Rule

Redacted by the Permanent Subcommittee on Investigations
Firm Financial Profile
Redacted by the Permanent Subcommittee on Investigations
Firm Liquidity Cont'd

Redacted by the
Permanent Subcommittee on Investigations
Redacted by the Permanent Subcommittee on Investigations

<table>
<thead>
<tr>
<th>TCE Level</th>
<th>LCRO</th>
<th>FDICPRD-0001825</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>40%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>60%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>70%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>80%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>90%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>Contributions</td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------</td>
<td></td>
</tr>
<tr>
<td>Chase, Citibank, JPM Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chase, Citibank, Chase USA Bank</td>
<td>-1000</td>
<td></td>
</tr>
<tr>
<td>Citibank, JPM Trust</td>
<td>-1500</td>
<td></td>
</tr>
<tr>
<td>Citibank, JPM Trust</td>
<td>-2000</td>
<td></td>
</tr>
</tbody>
</table>

**Redacted by the Permanent Subcommittee on Investigations**
Appendix

- Legal Structure
- Index Descriptions
Synthetic Credit Trades are booked in Whit£ us Inc, London

Redacted by the
Permanent Subcommittee on Investigations
Di~cretionary Return Portfolio – JCF (Chief Investment Office)

Credit Synthetics Trades
Customer Counterparty face JPMCB London
Trades are internally booked with Whitefriars Inc.

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What are the CDX and ITRAXX Indices

- The CDX and ITRAXX are intended to represent returns on pools of Credit Default Swaps
  - The pools are generally:
    - The more liquid names in the Credit Default Swap market
    - Should have the same reference maturity (5yr, 7yr, 10yr being the most common and liquid)
    - The credits should be evenly weighted at inception (% 100 credits each would be 1% of pool)
    - Segregated by credit quality of reference entity (separate High Grade and High Yield indices)
    - Also, segregated by region US, Europe, Asia, Emerging Markets etc
  - The pools are generally issued in "Series" twice a year with fairly consistent reference credits

- The CDX are generally North American and Emerging Market indices and have the characteristics provided below

<table>
<thead>
<tr>
<th>Index</th>
<th>Name</th>
<th>Region (Rank)</th>
<th>Recovery (Risk)</th>
<th>Debt Rating</th>
<th>Rating in years</th>
<th>Includeable</th>
<th>Single Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX</td>
<td>North American, Emerging Markets</td>
<td>5.0 - 5.5%</td>
<td>1, 2, 3, 7, 10</td>
<td>AA, BB, BB+</td>
<td>High Yield</td>
<td>High Grade, Emerging Markets</td>
<td></td>
</tr>
<tr>
<td>CDXH</td>
<td>100</td>
<td>4.75%</td>
<td>1, 2, 3, 7, 10</td>
<td>AA, BB, BB+</td>
<td>High Yield</td>
<td>High Grade, Emerging Markets</td>
<td></td>
</tr>
<tr>
<td>CDXO</td>
<td>200</td>
<td>4.25%</td>
<td>1, 2, 3, 7, 10</td>
<td>AA, BB, BB+</td>
<td>High Yield</td>
<td>High Grade, Emerging Markets</td>
<td></td>
</tr>
<tr>
<td>CDXH</td>
<td>100</td>
<td>4.75%</td>
<td>1, 2, 3, 7, 10</td>
<td>AA, BB, BB+</td>
<td>High Yield</td>
<td>High Grade, Emerging Markets</td>
<td></td>
</tr>
</tbody>
</table>

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What are the CDX and ITRAXX Indices /“Tranches”

- Tranches of the CDX and ITRAXX allow leveraged and de-levered risk exposures to the respective indices.
  - These tranches are generally:
    - Based on the more liquid indices
    - Are quoted with the name of the index for which it is based and two numbers representing the attachment and detachment points (these points will vary from pool to pool)
  - Risk and return increase with lower tranches and less subordination
  - Losses are always absorbed by the most subordinate tranche outstanding (i.e., the first 10% of losses, assuming 0% recovery, are taken by the equity tranche below)

Sample Transaction: below would be CDX.NA.HY Series 9 SY 15-25

![Diagram of CDX.NA.HY Series 9 SY 15-25 tranche structure]

FDICPRG-0001831
From: Yao, James
Sent: Thursday, May 24, 2012 05:14 PM
To: Reitz, Karl R.
Subject: FW: Information previously provided to FSA

Karl,

Please find attached the FSA information, as discussed on the call. Welcome to the SWAT team.

James

From: Arya, Om P.
Sent: Thursday, May 24, 2012 3:13 PM
To: Yao, James; Charurat, Bob; Capsavage, Brian A.
Cc: Byars, Jessica P.
Subject: FW: Information previously provided to FSA

FYI.

From: Genova, Diane M. [mgm.com]
Sent: Thursday, May 24, 2012 1:19 PM
To: Crane, Scott X; Waterhouse (Regulator), Scott X; Needham, Catherine; Arya, Om P.
Subject: Information previously provided to FSA

Attached are the documents previously requested and provided to the FSA relating to the CIO Core Credit Book. The attached includes:

- Item 1: Daily time series of position size and P&L from June 30, 2011 to May 11, 2012
- Item 2: Daily time series of VaR for the portfolio from June 30, 2011 to May 11, 2012
- Item 3: Periodic time series of Stress Loss size from June 30, 2011 to May 11, 2012
- Item 4: Detail of the composition of the loss on March 30, 2012
Item 5: Explanation and breakdown of 10% CSW changes from February 29, 2012 to March 30, 2012

Item 6: Detail of risk factors and stress parameters applied until late April 2012 and reassessment of additional risk factors

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8/27/2013

PRIVILEGED
FDICPRDO-0024275
<table>
<thead>
<tr>
<th>Date</th>
<th>VaR 2011 Model</th>
<th>Var New Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/30/2011</td>
<td>31,338,508</td>
<td></td>
</tr>
<tr>
<td>07/01/2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>07/04/2011</td>
<td>30,589,809</td>
<td></td>
</tr>
<tr>
<td>07/05/2011</td>
<td>30,587,033</td>
<td></td>
</tr>
<tr>
<td>07/06/2011</td>
<td>30,853,087</td>
<td></td>
</tr>
<tr>
<td>07/07/2011</td>
<td>30,590,842</td>
<td></td>
</tr>
<tr>
<td>07/08/2011</td>
<td>31,474,673</td>
<td></td>
</tr>
<tr>
<td>07/11/2011</td>
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<td>04/05/2012</td>
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<td>60,482,615</td>
</tr>
<tr>
<td>04/06/2012</td>
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<td>60,216,896</td>
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<td>04/09/2012</td>
<td>184,927,005</td>
<td>61,106,212</td>
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<td>04/10/2012</td>
<td>184,530,965</td>
<td>71,653,320</td>
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<tr>
<td>04/11/2012</td>
<td>185,441,910</td>
<td>71,225,360</td>
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<tr>
<td>04/12/2012</td>
<td>185,398,279</td>
<td>68,765,480</td>
</tr>
<tr>
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<td>186,239,610</td>
<td>72,558,024</td>
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<td>73,376,576</td>
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<td>04/17/2012</td>
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<td>70,357,192</td>
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<tr>
<td>04/18/2012</td>
<td>187,063,989</td>
<td>72,906,072</td>
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<tr>
<td>04/19/2012</td>
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<td>75,215,453</td>
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<tr>
<td>04/20/2012</td>
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<td>75,279,095</td>
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<td>04/23/2012</td>
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<td>04/24/2012</td>
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<td>04/25/2012</td>
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<td>04/26/2012</td>
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<td>192,810,686</td>
<td>91,833,435</td>
</tr>
<tr>
<td>04/30/2012</td>
<td>191,311,240</td>
<td>91,051,628</td>
</tr>
<tr>
<td>Date</td>
<td>Account 1</td>
<td>Account 2</td>
</tr>
<tr>
<td>------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>05/01/2012</td>
<td>186,685,923</td>
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<td>05/02/2012</td>
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<td>05/03/2012</td>
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<td>89,511,582</td>
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<td>05/04/2012</td>
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<td>89,506,005</td>
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<tr>
<td>05/07/2012</td>
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<td>81,498,679</td>
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<tr>
<td>05/08/2012</td>
<td>156,343,373</td>
<td>81,895,979</td>
</tr>
<tr>
<td>05/09/2012</td>
<td>146,738,714</td>
<td>-</td>
</tr>
<tr>
<td>05/10/2012</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>05/11/2012</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

FDICPROD-0024286
What Happened in JP Morgan's CIO?
A Primer
(July 16, 2012)
- Background

- What happened to JP Morgan in the Markets?

- What happened to JP Morgan's CIO Trading Portfolio?
  - Directional Risk
  - Investment Grade vs. High Yield Risk
  - "On the Run" vs. "Off the Run" Risk

- What Happened to JP Morgan's CIO Controls?
Background

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- **January – April 6th 2012**
  - JP Morgan commences selling protection (going long) the CDX investment grade Indices going from Net protection buyers of $8 billion to Net protection sellers of $60 billion Net Notional by the end of March (The largest of these positions is the CDX IG Series 9, which had a Net protection sell of nearly $75Bln.
  - JP Morgan also increases its position in the European ITRAXX Investment Grade Indices from Net protection sellers of $76 billion to Net protection sellers of $115 billion by the end of March (The largest of these positions is in the ITRAXX Series 9, which had a Net Protection Sale of $90 Billion by the end of March)
  - Both Indices are considered “off-the-run” and liquidity in these markets can be limited
  - JP Morgan had sold enough protection in these indices to create a market dislocation
  - As hedge funds saw the dislocation they attempted to purchase protection in anticipation of a market correction, but the size of JPM’s trades dislocated markets further, creating paper losses for the hedge funds
  - It is suspected that these Hedge Funds begin to circulate news of the large JPM positions

- **April 6th 2012**
  - Bloomberg reports of the “London Whale”, a JP Morgan trader amassing a large positions in the CDX IG Series 9 and the European ITRAXX Series 9 Indices

- **April 6th – May 10th 2012**
  - JP Morgan in separate statements indicates
    - “The CIO unit is focused on managing the long-term structural assets and liabilities of the firm and is not focused on short-term profits.”
    - “Our CIO activities hedge structural risks and invest to bring the company’s asset and liabilities into better alignment.”
  - Markets react to reports and begins to trade against JP Morgan

- **May 10th 2012**
  - Jamie Dimon makes public announcement of potential losses and potential errors made by JPM and its CIO group
What Happened to JP Morgan in the Markets? (A Simple Example) CFI Monitoring Group

### CDX IG Series 9, 5 Year

<table>
<thead>
<tr>
<th>JP Morgan (CIO)</th>
<th>Theoretical Spread (Cost of Buying Protection on Underlying Credits)</th>
<th>Hedge Funds</th>
<th>MTM Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade</strong></td>
<td><strong>MTM Result</strong></td>
<td><strong>Trade</strong></td>
<td><strong>MTM Result</strong></td>
</tr>
<tr>
<td>Sell $1MM Prot CDX IG Series 9 @ 200</td>
<td>None, assuming initial trade at Market</td>
<td>Sell $1MM Prot CDX IG Series 9 @ 200</td>
<td>Made 10 Bps on Original $1MM Position</td>
</tr>
<tr>
<td>Sell $1MM Prot CDX IG Series 9 @ 190</td>
<td>Made 10 Bps on Original $1MM Position</td>
<td>Buy $1MM Prot CDX IG Series 9 @ 190</td>
<td>Lost 10 Bps on Original $1MM Position</td>
</tr>
<tr>
<td>Sell $1MM Prot CDX IG Series 9 @ 180</td>
<td>Made 20 Bps on 1st and 10 Bps on 2nd Position</td>
<td>Buy $1MM Prot CDX IG Series 9 @ 180</td>
<td>Lost 20 Bps on 1st and 10 Bps on 2nd Position</td>
</tr>
<tr>
<td>Offer Sell $1MM Prot CDX IG Series 9 @ 180</td>
<td>No MTM Change Since no transactions</td>
<td>NO INTEREST TO BUY</td>
<td>No MTM Change Since no transactions</td>
</tr>
<tr>
<td>Buy $1MM Prot CDX IG Series 9 @ 220</td>
<td>Made 20 Bps on 1st and 30bps on 2nd, 40bps on 3rd</td>
<td>Sell Prot CDX IG Series 9 @ 220</td>
<td>Made 20bps on Original, 30bps on 2nd, 40bps on 3rd</td>
</tr>
</tbody>
</table>

### The Simple Example Synopsis
- JP Morgan begins selling protection on the CDX IG Series 9 at or near theoretical value of the underlying credits and continues to sell at lower spreads, which begins to drive the index below the theoretical value, creating a Negative Skew.
- Hedge Funds see an arbitrage opportunity and begin buying protection, waiting for spreads to return to theoretical.
- JP Morgan continues selling protection, driving the spread down further and creating MTM losses for hedge funds.
- Hedge Funds circulate rumors of large positions held by JPM, and begin to realize that JPM needs to exit these positions.
- Hedge Funds get the last laugh, as the spreads finally do converge to theoretical and JPM is finding it very expensive to buy back their protection.
What Happened to JP Morgan's CIO Trading Portfolio?

The CIO Trading Portfolio (Is an Index an Index?)
- The CIO had nearly 100 individual index positions of varying exposures, vintages, and tenors
- They severely underestimated the ability for these indexes to diverge from historical or assumed relationships and move independently
- This problem was exacerbated by the fact that they became such a large participant in some specific indexes (CDX IG Series 9 and the ITRAXX Main Series 9) that it caused greater market dislocation

What were the Major Risks to JPM? (Recall our earlier "Basis Risk" discussion)
- "Directional Risk" is the Risk that the spreads move against you, uniformly across indices and in parallel

```
| SFR01 of Portfolio | Unexpected Parallel Market Move | Unexpected Loss/Gain | Directional Risk |
```

- "Investment Grade vs. High Yield" is the Risk that Investment Grade Indices (ie. CDX IG and the ITRAXX Main) dislocate from assumed relationships to the High Yield Indices (ie. CDX HY and the ITRAXX XO)

```
| CDX IG Series 17 | Change in Relationship | CDX HY Series 17 | High Yield vs. Investment Grade Risk |
```

- "On the Run" vs "Off the Run" is the Risk that "Off the Run" indexes perform in an unexpected manner in relation to "On the Run" indexes

```
| CDX IG Series 9 | Change in Relationship | CDX IG Series 18 | "On the Run" vs "Off the Run Risk" |
```
## What Happened to JP Morgan’s CIO Trading Portfolio?

How big are these Risks and how do they appear? (A Hypothetical Portfolio Loosely based on JPM positions as of May 5th)

<table>
<thead>
<tr>
<th></th>
<th>Net Notional</th>
<th>SPR01</th>
<th>Assumed Beta</th>
<th>Beta Adjusted SPR01</th>
</tr>
</thead>
<tbody>
<tr>
<td>US High Yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Investment Grade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX IG Series 9 &quot;Off the Run&quot;</td>
<td>75,000,000,000</td>
<td>(140,000,000)</td>
<td>2.0</td>
<td>(38,000,000)</td>
</tr>
<tr>
<td>CDX IG Series 14 &quot;Off the Run&quot;</td>
<td>15,000,000,000</td>
<td>2,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX IG Series 15 &quot;Off the Run&quot;</td>
<td>20,000,000,000</td>
<td>7,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX IG Series 16 &quot;Off the Run&quot;</td>
<td>20,000,000,000</td>
<td>7,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX IG Series 17 &quot;On the Run&quot;</td>
<td>10,000,000,000</td>
<td>(5,000,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX IG Series 18 &quot;On the Run&quot;</td>
<td>20,000,000,000</td>
<td>(9,000,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total US Investment Grade</td>
<td>60,000,000,000</td>
<td>(38,000,000)</td>
<td>1.0</td>
<td>(38,000,000)</td>
</tr>
<tr>
<td>European High Yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Investment Grade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>115,000,000,000</td>
<td>(25,000,000)</td>
<td>1.0</td>
<td>(25,000,000)</td>
</tr>
<tr>
<td>Total</td>
<td>160,000,000,000</td>
<td>(53,000,000)</td>
<td>1.0</td>
<td>(53,000,000)</td>
</tr>
</tbody>
</table>

Assumed to be the Beta1 Baseline

How big are these Risks and how do they appear? (Some Basic Definitions)
- **SPR01** is the profit or loss from a 1 basis point widening of the underlying spread
- **Beta** is the assumed relationship between the performance of two different indexes, Beta’s are based on the “On the Run” CDX IG Series 18 and CDX IG Series 17
- **Beta Adjustment** is simply the SPR01 for a given index multiplied by it Beta
What Happened to JP Morgan's CIO Trading Portfolio?

CFI Monitoring Group

Directional Risk - What is it? How Does it Work?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Segment 1</th>
<th>Segment 2</th>
<th>Assumed Beta</th>
<th>Beta Adjusted Spread Move</th>
<th>Projected Profit &amp; Loss</th>
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</thead>
<tbody>
<tr>
<td>US High Yield</td>
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<td>0.000000</td>
<td>1.0</td>
<td>40,000,000</td>
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<tr>
<td>US Investment Grade</td>
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<td>0.000000</td>
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<td>1,000,000</td>
<td>5.0</td>
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<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>COX IG Series 14 &quot;Off the Run&quot;</td>
<td>75,000,000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>COX IG Series 15 &quot;Off the Run&quot;</td>
<td>75,000,000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>COX IG Series 16 &quot;Off the Run&quot;</td>
<td>75,000,000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>COX IG Series 17 &quot;On the Run&quot;</td>
<td>75,000,000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>Total US Investment Grade</td>
<td>0.000000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>European High Yield</td>
<td>0.000000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>European Investment Grade</td>
<td>0.000000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>0.000000</td>
<td>0.000000</td>
<td>1.0</td>
<td>75,000,000</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Assumed to be the Beta 1 Baseline

How can "Directional Risk" drive JP Morgan's Losses

- As indicated in the previous slide the "Directional" P&L results from a uniform widening of spreads, under predefined Beta assumptions.
- In the example above the Investment Grade Indexes widen by 5 basis points and the High Yield Indexes move by 25 basis points, maintaining the original 5:1 Beta assumption.
- We then multiply the SPRO1 by the basis point move, arriving at the Profit or Loss in each position.
- Summing those individual positions we come to a ($40,000,000) loss, purely from the 5 basis point "Directional" move.
What Happened to JP Morgan's CIO Trading Portfolio?

CFI Monitoring Group

Investment Grade vs. High Yield Risk – What is it? How Does it Work?

<table>
<thead>
<tr>
<th></th>
<th>Net Notional</th>
<th>SPR01</th>
<th>Assumed Beta*</th>
<th>Beta Adjusted</th>
<th>Basis Point Spread Move</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>US High Yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Investment Grade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CXX IG Series 9 &quot;Off the Run&quot;</td>
<td>75,000,000,000</td>
<td>10,000,000</td>
<td>1.0</td>
<td>(40,000,000)</td>
<td>5.0</td>
<td>(20,000,000)</td>
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<td>CXX IG Series 14 &quot;Off the Run&quot;</td>
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<td>2,000,000</td>
<td>1.0</td>
<td>2,000,000</td>
<td>5.0</td>
<td>10,000,000</td>
</tr>
<tr>
<td>CXX IG Series 15 &quot;Off the Run&quot;</td>
<td>(20,000,000,000)</td>
<td>7,000,000</td>
<td>1.0</td>
<td>7,000,000</td>
<td>5.0</td>
<td>35,000,000</td>
</tr>
<tr>
<td>CXX IG Series 16 &quot;Off the Run&quot;</td>
<td>(20,000,000,000)</td>
<td>7,000,000</td>
<td>1.0</td>
<td>7,000,000</td>
<td>5.0</td>
<td>35,000,000</td>
</tr>
<tr>
<td>CXX IG Series 17 &quot;On the Run&quot;</td>
<td>(10,000,000,000)</td>
<td>2,000,000</td>
<td>1.0</td>
<td>(2,000,000)</td>
<td>5.0</td>
<td>(10,000,000)</td>
</tr>
<tr>
<td>CXX IG Series 18 &quot;On the Run&quot;</td>
<td>(20,000,000,000)</td>
<td>7,000,000</td>
<td>1.0</td>
<td>7,000,000</td>
<td>5.0</td>
<td>35,000,000</td>
</tr>
<tr>
<td>Total US Investment Grade</td>
<td>60,000,000,000</td>
<td>30,000,000</td>
<td>1.0</td>
<td>(10,000,000)</td>
<td>5.0</td>
<td>(50,000,000)</td>
</tr>
<tr>
<td>European High Yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Investment Grade</td>
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<td>3,000,000</td>
<td>1.0</td>
<td>3,000,000</td>
<td>5.0</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Assumed to be the Beta of Baseline |

How can "Investment Grade vs. High Yield Risk" drive JP Morgan's Losses

- As indicated in the previous slide the "Investment Grade vs. High Yield" P&L results from spread movements of Investment Grade positions that are not in line with the original projected relationships to High Yield positions (Beta's).
- In the example above the Investment Grade Indexes widen by 5 basis points and the High Yield Indexes only move by 15 basis points (implying a Beta of 3:1 vs. the assumed Beta of 5:1).
- We then multiply the SPR01 by the basis point move, arriving at the Profit or Loss in each position
- Summing those individual positions we come to a total loss from the move in spreads of ($150,000,000).
- Recall from the previous slide you can categorize ($40,000,000) of the loss from "Directional" moves and the remaining ($110,000,000) as a "Investment Grade vs. High Yield" loss.
What Happened to JP Morgan’s CIO Trading Portfolio?

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"On the Run" vs. "Off the Run" Risk – What is it? How Does it Work?

<table>
<thead>
<tr>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Basis</td>
<td>SPR01</td>
</tr>
<tr>
<td>Spread Move</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US High Yield</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPR01</td>
<td>SPR01</td>
<td></td>
</tr>
<tr>
<td>Baseline</td>
<td>Baseline</td>
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<table>
<thead>
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<th>US Investment Grade</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Basis</td>
<td>SPR01</td>
<td></td>
</tr>
<tr>
<td>Spread Move</td>
<td>SPR01</td>
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</tr>
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</table>

<table>
<thead>
<tr>
<th>US IG Series 9 &quot;Off the Run&quot;</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Basis</td>
<td>Springer</td>
<td></td>
</tr>
<tr>
<td>Spread Move</td>
<td>SPR01</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US IG Series 14 &quot;Off the Run&quot;</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Basis</td>
<td>Springer</td>
<td></td>
</tr>
<tr>
<td>Spread Move</td>
<td>SPR01</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US IG Series 18 &quot;Off the Run&quot;</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Basis</td>
<td>Springer</td>
<td></td>
</tr>
<tr>
<td>Spread Move</td>
<td>SPR01</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US IG Series 17 &quot;On the Run&quot;</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Basis</td>
<td>Springer</td>
<td></td>
</tr>
<tr>
<td>Spread Move</td>
<td>SPR01</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>US IG Series 16 &quot;Off the Run&quot;</th>
<th>Beta Adjusted</th>
<th>Projected Profit &amp; Loss</th>
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How can "On the Run" vs. "Off the Run" Risk drive JP Morgan's Losses

- As indicated on the initial slide the "On the Run" vs. "Off the Run" P&L results from spread movements of "On the Run" positions that are not in line with or the original projected relationships to "Off the Run" positions. (It would appear that JPM assumed that the relationship was 1:1 or movements would move in lockstep)

- In the example above most of the Investment Grade indexes widen by 5 bps and the High Yield Indexes move 25 bps (the correct 5:1 Beta assumption). However the CDX IG Series 9 "Off the Run" moves by 10 bps, which is not in line with the "On the Run" Series 18.

- We then multiply the SPR01 by the basis point move, arriving at the Profit or Loss in each position

- Summing those individual positions we come to a total loss from the move in spreads of ($240,000,000).

- Recall from the previous slide you can categorize ($40,000,000) of the loss from "Directional" moves and the remaining ($200,000,000) as a "On the Run" vs. "Off the Run" loss.
"Basis Risk" Is it that Easy?

- In the previous slides we have demonstrated a very simple example and isolated the Basis risks individually
- With nearly 100 positions, the relationships and potential for market deviation increases significantly
  - There are 6 primary indexes traded
  - On average each index has approximately 7-8 different Series
  - There are up to 4 different Tenors (maturities) traded
  - Some of the Index/Series/Tenors also have 4-5 tranche positions
- One can easily see how there can be a fairly complex matrix of Beta's, which would need to be dynamically hedged and adjusted

- To manage the process Indexes, Series, Tenors, or Tranches are sometimes grouped and assumed to have similar performance, significantly simplifying the correlation matrix.
- However, this grouping can mask relationships as was the case in the CDX IG Series 9 "Off the Run" vs the CDX IG Series 18 "On the Run"
What Happened to JP Morgan's CIO Controls?

Letting Traders advise on closing prices without consistent Independent Price Verification
- The previous slides provided an indication of the potential P&L effects from spread changes in specific positions.
- Depending on the liquidity of the specific indexes, Bid/Offers can range from 5 or less bps under normal liquid market dynamics for “On the Run” investment grade indices to easily 20-30+ bps on “Off the Run” high yield or less liquid tranche positions.
- It appears that, although arguably “GAAP” approved, traders were marking their positions on the favorable side, and not at Mid or on a consistent basis.
  - Marking spreads on the tight (low) side for Net protection sold positions and,
  - Marking spreads on the wide (high) side for Net protection bought positions.

Poor Implementation and Governance of new trading models
- Poor and inconsistent new model testing and governance, as CIO itself had primary control of the process.
- A new model was put in place at the beginning of the year and it was discovered to contain errors and inconsistencies that resulted in a period of poor risk controls, during this period traders continued increasing positions.
- After discovery of the issues the old model was finally reinstated, but by then the positions were already on the books.

Poor Risk Controls and Structure
- Failure to identify and set limits to increasing risks as market dynamics shifted.
- An ability for CIO management to override existing Risk limit breaches.
- CIO had an insular structure with limited visibility and control from other groups within the firm.
- CIO's trading successes bred an environment where risk managers were not motivated to bring issues to the attention of senior management.
- Potential incentive alignment issues, as CIO Senior Management (including traders) had significant input in CIO Risk Manager bonus compensation. (Which can easily be multiples of an employees base salary.)
Bob Charurat
Sr. Large Bank Specialist
RMS

Microsoft Outlook
From: Charurat, Bob
Sent: Tuesday, June 05, 2012 11:09 AM
To: Reitz, Karl R.; Bennett, Rosalind
Subject: FW: JPM Position Report, as provided to FSA
Attachments: JPM provided positions to FSA June 30 2011 to May 11 2012.xlsx

Yao, James
Sent: Wednesday, May 30, 2012 11:03 AM
To: Needham, Catherine; Auya, Om P.; Capsavage, Brian A.; Charurat, Bob
Cc: Ledbetter, Stephen J.
Subject: JPM Position Report, as provided to FSA

Catherine,

As requested, please find attached asummary position report I prepared from the JPM Information provided to FSA. It shows the month end positions of the Indexes going back to June 2011. It appears that JPM did not significantly increase their positions until the beginning of this year, specifically in the US and European High Grade Indexes. That being said they did have a Net Long of $4.7Bln throughout the end of last year.

Please keep in mind that these are net notional alone and may not represent risk profiles directly. Again, this does not take into account things like maturity and leverage from tranches, that are represented in the CRD1's or SPRO1's. There is also a simple graph of the positions on the following tab for your reference.

Please let me know if you have any additional questions.

James
Confidential

As requested, attached please find a detailed daily P&L and Risk report related to the Synthetic Credit Book dated June 6, 2012 for COB June 5, 2012. These materials are in draft form and are subject to continuing internal review.

Please contact me at 212-648-0362 with any questions.

David Gillis

David K.F. Gillis
Managing Director & Associate General Counsel
J.P. Morgan
270 Park Avenue, 38th Fl., New York, New York 10017
dkfgillis@jpmorgan.com Tel: 212.648.8362 Fax: 917.316.8854

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9/6/2012
PRIVILEGED AND CONFIDENTIAL
From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Thu, 05 Apr 2012 23:02:52 GMT
To: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
Subject: Re: Bloomberg and upcoming WSJ stories

I will be on cell. I called you around 5 30

--- Original Message ---
From: Braunstein, Douglas
Sent: Thursday, April 05, 2012 06:58 PM
To: Drew, Ina
Subject: Fw: Bloomberg and upcoming WSJ stories

If you are around tmrw would like to catch up around what we say next week on this topic

--- Original Message ---
From: Evangelisti, Joseph
Sent: Thursday, April 05, 2012 06:52 PM
To: Executive Committee
Cc: Press Team 2012
Subject: Bloomberg and upcoming WSJ stories

Below is the first version of a Bloomberg report related to hedging positions in our CIO group. The Wall Street Journal is expected to run a front-page story on this tomorrow as well. We've corrected some information about our CIO function and provided the following comments. Please refer any follow up calls to me. Thanks, Joe

- The Chief Investment Office is responsible for managing and hedging the firm's foreign exchange, interest rate and other structural risks.
- CIO is focused on managing the long-term structural assets and liabilities of the firm and is not focused on short-term profits.
- Our CIO activities hedge structural risks and invest to bring the company's asset and liabilities into better alignment.
- Our CIO results are disclosed in our quarterly earnings reports and are fully transparent to our regulators.

BLOOMBERG

JPMorgan Trader Iksil's Hefl Is Said to Distort Credit Indexes
2012-04-05 22:45:58.172 GMT

By Stephanie Ruhle, Bradley Keoun and Mary Childs
April 6 (Bloomberg) -- A JPMorgan Chase & Co. trader of derivatives linked to the financial health of corporations has amassed positions so large that he's driving price moves in the multi-trillion-dollar market, according to traders outside the firm.

The trader is London-based Bruno Iksil, according to five counterparts at hedge funds and rival banks who requested anonymity because they're not authorized to discuss the transactions. He specializes in credit-derivative indexes, an off-exchange market that during the past decade has overtaken corporate bonds to become the biggest forum for investors betting on the likelihood of company defaults.
Investors complain that Iksil’s trades may be distorting prices, affecting bondholders who use the instruments to hedge hundreds of billions of dollars of fixed-income holdings. Analysts and economists also use the indexes to help gauge interest rates that companies must pay for new credit. Though Iksil reveals little to other traders about his own positions, they say they’ve taken the opposite side of transactions and that his orders are the biggest they’ve encountered. Two hedge-fund traders said they have seen unusually large price swings when they were told by dealers that Iksil was in the market. Joe Evangelisti, a spokesman for New York-based JPMorgan, declined to comment on Iksil’s specific transactions. Iksil didn’t respond to phone messages and e-mails seeking comment.

Speculation Intensifying

Speculation about his positions intensified yesterday after the newest and most-active index of investment-grade credit, the Markit CDX North America Investment Grade Index of credit- default swaps Series 18 climbed 4.4 basis points to a mid-price of 97 basis points at 5:13 p.m. in New York, the biggest increase in almost four months, according to Markit Group Ltd. The credit indexes are linked to the default risk on a basket of 100 or more companies. In some cases, Iksil is believed to have “broken” the index — Wall Street lingo for the market dysfunction that occurs when a price gap opens up between the index and its underlying constituents, the people said. The persistence of price dislocations has frustrated some hedge funds that were betting on the gap to close over time, the people said.

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--Editors: David Scheer, Peter Etchenbaum

To contact the reporter on this story:
Bradley Keoun in New York at +1-212-617-2310 or bkeoun@bloomberg.net; Stephanie Ruhle in New York at +1-212-617-0784 or sruhle2@bloomberg.net; Mary Childs in New York at +1-212-617-6772 or mchilds5@bloomberg.net.

To contact the editor responsible for this story:
David Scheer at +1-212-617-2358 or dscheer@bloomberg.net;
Shannon D. Harrington in New York at +1-212-617-8558 or sharrington6@bloomberg.net.
Jamie and Doug,

The CIO credit book was fully marked at quarter end based on our established pricing and valuation approach (resulting in $558mm in synthetic book MTM offset by $183mm in positive credit securities revaluation). Given the recent deterioration in market liquidity in series 9 synthetic credit tranche positions, we are proposing a liquidity reserve of $155mm for 1Q12 for these positions. This reserve was estimated utilizing our established VCG liquidity reserve framework. Let me know if you have any questions.

John

John C. Wilmut | Chief Investment Office | john.wilmot@jpmorgan.com | W Work: (212) 834-5432 | W Cell: (917) 664-1690

Confidential Treatment Requested By JPMORGAN CHASE & CO.
Below is detail relative to the liquidity reserve taken on the Series 9 credit tranche positions. I will forward the related notional exposures tomorrow morning as they are not included below and London is closed. John

John C. Wilmot | Chief Investment Office | (212) 364-4533 | Cell: (917) 664-1690

6 CREDIT TRANCHE POSITIONS IMPACTED
3 Maturities of iTrAXX Series 9 (5yr, 7yr, 10yr Maturity)
3 Maturities of CDX Investment Grade (5yr, 7yr, 10yr Maturity)

CREDIT TRANCHES LIQUIDITY RESERVE DETAILS
Total Increase of approximately +$155 Million

RATIONALE FOR ADDITIONAL TRANCHE LIQUIDITY RESERVES
As part of CIO’s recurring liquidity review, Credit Index markets (post Series 8) are deemed liquid and are excluded from CIO’s Liquidity Reserve computation. Liquidity reserves are taken for the Series 6, 7, and 8 Credit Index and Tranches. Credit Tranche markets have always been considered less liquid (compared to Index markets) and Liquidity reserves are therefore computed and taken. However, in the past, the Liquidity Reserve associated with these 6 Series-9 Tranche positions was not taken because their markets were deemed sufficiently liquid. The additional +$155 Million Liquidity Reserve was taken due to the inclusion of these 6 Series-9 tranche positions; this reflects the market’s reduced liquidity.

CALCULATION METHODOLOGY (DEFINED BELOW)
Liquidity Reserve = ([CS01] x Square Root [Holding Period]) x [Spread Volatility]

[CS01] (Credit Spread sensitivity to a 1bps change in market spreads relative to Position Size)
[Holding Period (JPM CIO suggested maximum 120 days used by CIO)]
[Spread Volatility] (provided by JPM IB VCG; varies by position in capital structure; highest volatility for Equity tranches; lowest volatility for Super Senior tranche)
CONTROLLERS
CORPORATE ACCOUNTING POLICIES

CATEGORY:  1-0100 General Accounting Policies
SUBJECT:  Fair Value Measurement
POLICY NO:  1-0105
EFFECTIVE DATE:  January 1, 2012
ISSUE DATE:  May 10, 2012

Accounting Policies Contacts:  Alistair Webster (primary)
Matt Gordon (secondary)

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I. INTRODUCTION

Accounting Standards Codification Topic 820, Fair Value Measurement ("Topic 820"), provides a single definition and framework for fair value measurements. In May 2011, The FASB issued Accounting Standards Update No. 2011-4, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to make amendments to clarify or change previous guidance and to converge US GAAP and IFRS. In summary, Topic 820:
• Defines fair value;
• Establishes a three-level hierarchy for fair value measurements based upon the 
  transparency of inputs to the valuation of an asset or liability as of the measurement 
  date;
• Provides an exception to allow for portfolio based measurements for items managed on 
  a net basis and measured at fair value on the balance sheet.
• Prohibits valuation adjustments when fair value is measured using a quoted price of an 
  identical asset or liability, and prohibits the application of position size-based 
  premiums and discounts to level 2 and level 3 instruments except where the asset or 
  liability being valued is considered single unit of account, and a sized-based adjustment 
  would be applied by market participants.
• Requires consideration of the Firm’s own creditworthiness when valuing liabilities; and 
• Expands disclosures about instruments measured at fair value.

II. DEFINITION OF TERMS

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in 
an orderly transaction between market participants at the measurement date.

• Represents an exit price. The transaction price, or entry price, may in certain cases 
  represent the exit price but the entry price should not be presumed to represent the fair 
  value of an asset or liability at initial recognition.

Highest and best use (non-financial assets)
The highest and best use of a nonfinancial asset is determined from the perspective of 
market participants, even if the entity intends a different use. However, a reporting entity’s 
current use of a nonfinancial asset is presumed to be its highest and best use unless market 
or other factors suggest a different use by market participants would maximize the value of 
the asset (e.g. where the maximum value of the instrument is derived principally through its 
use in combination with other instruments.)

Inputs
Observable—Observable inputs are inputs that reflect the assumptions that market 
participants use in pricing the asset or liability developed based on market data obtained 
from sources independent of the Firm. Characteristics of observable inputs include readily 
available, not proprietary, regularly distributed, and transparent.

Unobservable—Unobservable inputs are inputs that reflect the Firm’s own assumptions 
about the assumptions that market participants would use in pricing the asset or liability 
developed based on the best information available in the circumstances.

Market participants
Buyers and sellers in the principal (or most advantageous) market. A market participant 
must be independent (not a related party to JPMC), knowledgeable, able to transact (have 
the legal and financial capacity to do so), and willing to transact (not forced or otherwise 
compelled to do so).
Nonperformance risk
Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which a liability is transferred. Nonperformance risk includes the reporting entity's credit risk as well as settlement risk and may include, in the case of commodities, the risk related to physically extracting and transferring the asset to the delivery point.

Unit of account
The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated or disaggregated for purposes of applying existing accounting pronouncements.

III. SCOPE
Instruments/transactions for which a fair value or fair-value-based measurement may apply but are not subject to this policy include:

- Share based payments accounted for in accordance with Topic 718 and Subtopic 505-50. While certain measurements in that guidance are fair-value-based measurements, they may exclude the effects of certain inputs such as conditions, restrictions and other features that would be considered in a fair value measurement under Topic 820.
- Instruments, such as physical commodities, valued in accordance with Accounting Research Bulletin No. 43, Inventory Pricing.
- Accounting pronouncements that permit measurements that are based on, or use, vendor-specific objective evidence of fair value.
- Situations where U.S. GAAP provides a practicability exception to the application of fair value, for example:
  - Guarantees accounted for in accordance with Topic 460 which allows for the use of transaction price (an entry price) to measure fair value at initial recognition. See also Corporate Accounting Policy #1-0108, "Guarantees."
  - Certain disclosures provided in accordance with Subtopic 225-10, Disclosure about Fair Value of Financial Instruments, where it is not practical to measure fair value. Corporate Accounting Policies must be consulted where this is determined to be the case.
  - Certain Asset Retirement Obligations accounted for in accordance with Subtopic 410-20 and Sections 440-10-50 and 440-10-55, Accounting for Asset Retirement Obligations, where fair value is not readily determinable.
  - Certain Contributions accounted for in accordance with FASB Statement No. 116, Accounting for Contributions Received and Contributions Made, where contributions cannot be measured with sufficient reliability.

Note: Topic 805, Business Combinations, requires the use of fair value as the measurement objective, at inception, for certain assets acquired and liabilities assumed in a business combination (for example, intangible assets) and these assets and liabilities are therefore subject to this policy. In certain circumstances, where the valuation techniques applied to the asset or liability may be similar to a fair value measurement but fair value is not explicitly the required measurement objective, this policy does not apply (for example, receivables, notes payable, plant and equipment to be used).
IV. ACCOUNTING POLICY

This policy describes JP Morgan Chase’s (JPMC) policy in consideration of Topic 820. The focus of this policy is how to arrive at a fair value measurement. This policy does not incorporate guidance regarding which instruments are required to be measured at fair value or which instruments the Firm has made an optional election to measure at fair value.

**Fair value measurements**

Fair value is the price to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. The sale or transfer assumes an orderly transaction between market participants. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). Because that exit price objective applies for all assets and liabilities measured at fair value, any fair value measurement requires identification of the following:

a. The particular asset or liability that is the subject of the measurement
b. The valuation premise appropriate for the measurement
c. The principal (or most advantageous) market for the asset or liability
d. The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use in pricing the asset or liability.

A. Valuation Premise

The valuation premise considers that an asset would be used either (a) in combination with other assets or with other assets and liabilities (for example, a reporting unit or business) or (b) on a standalone basis (for example, a financial instrument). Whether the asset or liability is a standalone asset or liability or a group for recognition or disclosure purposes depends on its “unit of account”. The unit of account is generally determined in accordance with the Topic that requires or permits the fair value measurement.

Financial instruments are generally valued using a standalone valuation premise. However, Topic 820 provides an exception to allow for portfolio-based measurements for items managed on a net basis and measured at fair value on the balance sheet. A reporting entity that holds a group of financial assets and financial liabilities is exposed to market risks (that is, interest rate risk, currency risk or other price risk) and to the credit risk of each of the counterparties. If the reporting entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risk or credit risk, the reporting entity is permitted to apply an exception to Topic 820 for measuring fair value. The exception permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (an asset) for a particular risk exposure or to transfer a net short position (a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.
conditions. Accordingly, the "portfolio" is valued consistently with how market participants would price the net risk exposure at the measurement date.

The exception may be applied under the following conditions:

- The group of assets and liabilities is managed based on the net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with documented risk management or investment strategy.
- Information is reported on that basis to management.
- Assets or liabilities are required or have been elected to be carried at fair value on the balance sheet at the end of each reporting period.

JPMorgan Chase has elected to apply the portfolio exception to its market making derivative portfolios and related cash instruments within the Investment Bank.

B. Relevant Market

A fair value measurement should reflect an exit price in the principal market for the asset or liability. The principal market is the market (a) with the greatest volume and level of activity for the asset and liability and (b) to which the Firm has access.

- If there is no principal market, the exit price should reflect the amount that would be received or paid in the most advantageous market (the market in which the Firm would maximize the amount that would be received for an asset or minimize the amount that would be paid to transfer a liability).
- If there are multiple markets for the same asset or liability, the most likely exit market should be considered to determine the exit price and the other exit markets do not need to be considered.
- For assets and liabilities where there is little or no trading, or a one-way market, the Firm must make a determination of what a willing counterparty would offer to purchase an asset or assume a liability. The determination of what a willing counterparty would offer to purchase an asset or assume a liability should consider all available market information that the market participants would use to price the asset or liability.

A discussion of the application of principal market to certain instruments has been included in Appendix A.

See also discussion of transaction costs below.

C. Valuation/Measurement

Valuation techniques used to measure the fair value of an asset or liability should maximize the use of observable inputs, including inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Valuations must consider current market conditions and available market information and will therefore represent a market-based, not entity specific, measurement.

If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is
most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. The use of bid prices for asset positions and ask prices for liability positions is permitted but is not required. Topic 820 also permits the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Fair value should be based on quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, option volatilities and currency rates. In certain circumstances valuation adjustments must be made to ensure that financial instruments are recorded at fair value. These adjustments should be applied consistently over time and may include:

- **Credit valuation adjustments** ("CVA") are necessary when the market prices (or parameters) are not indicative of the credit quality of the counterparty.

- **Debit valuation adjustments** ("DVA") are necessary to reflect the impact of the Firm's own creditworthiness in the valuation of liabilities that are carried at fair value. See further discussion of DVA in Appendix B of this policy. See also discussion of Liability considerations below.

- **Liquidity valuation adjustments** are necessary when the Firm may not be able to observe a recent market price for financial instruments that trade in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions. Liquidity adjustments are based upon the following factors:
  - The amount of time since the last relevant pricing point
  - Whether there was an actual trade or relevant external quote
  - The volatility of the principal component of the financial instrument

- **Valuation adjustments** are prohibited when fair value is measured using a quoted price of an identical asset or liability. In addition, the application of position size-based premiums and discounts to level 2 and level 3 instruments is prohibited except where the asset or liability being valued is considered single unit of account, and a sized-based adjustment would be applied by market participants.

  - Costs to exit larger-than-normal market-size risk positions are determined based upon the size of the adverse market move that is likely to occur during the extended period required to bring a position down to a nonconcentrated level. Size of position adjustments may be considered when applying the portfolio exception (as described in Section IV.A), if such adjustments would be considered by a market participant.

- **Unobservable parameter valuation adjustments** are necessary when positions are valued using internally developed models that use unobservable parameters (parameters that must be estimated and are therefore subject to management judgment) at their basis. Risk-averse market participants generally seek...
compensation for the uncertainty associated with the cash flows of an asset or liability (risk premium).

- **Uncertainties and customization related to loan securitization** for loans that are expected to be securitized, fair value is estimated based on observable pricing of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity to arrive at a whole loan value.

- **Restrictions**

  There are generally two types of restrictions:

  **Restrictions on sale**
  Examples of a restriction on sale include restrictions on private placements, underwriter lock-up, and volume restrictions. An adjustment must be made to the value of the instrument to reflect the price adjustment that a market participant would make due to the lack of marketability. An adjustment for a restriction should be re-evaluated and adjusted appropriately as the time to the expiration of the restriction decreases.

  Note: When a publicly traded security position incorporates both restricted and non-restricted securities, the adjustment for restrictions will be applied only to the restricted shares. For example, securities subject to SEC Rule 144 restrictions may have portions of the position that are unrestricted depending on trading volume. Additionally, SEC Rule 144 shares may be free to trade if a shelf registration has been filed.

  **Restrictions on use**
  An example of a restriction on use would include a restriction on the use of a physical asset such as land or a building. An adjustment cannot be taken as a result of the restriction if it is deemed to be a restriction on use.

  The determination of whether a restriction should be incorporated in the valuation of an asset or liability requires judgment and consultation with Corporate Accounting Policies.

- **Liability considerations**—a fair value measurement for a liability assumes (1) that the liability is transferred to a market participant and the liability to the counterparty continues (it is not settled), and (2) that the risk of nonperformance is the same before and after the transfer. Nonperformance risk or the risk that the obligation will not be fulfilled impacts the amount at which a liability would be transferred.

  The adjustment to a valuation for nonperformance risk (or the impact of the Firm's own creditworthiness) is called the Debit Valuation Adjustment or "DVA." See further discussion of DVA in Appendix B of this policy.
D. Valuation Hierarchy

All instruments measured at fair value are required to be classified within a three-level hierarchy that is primarily used for external disclosure purposes. The fair value hierarchy prioritizes inputs to the valuation of an instrument. When the inputs to the valuation fall within different levels of the hierarchy, the level in which the instrument is classified is based on the lowest level significant input to the valuation.

Detailed below is a description of the hierarchy levels, the Firm’s policies associated with the determination of classification, and examples of products included within each of the levels:

Note: Maintenance of documentation to support the level of classification for a product within the fair value hierarchy is the responsibility of the Line of Business Controllers and CFOs.

Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- An active market is defined as one in which an accurate daily price can be obtained from multiple reliable sources and a fair value measurement (exit price) may be arrived at without adjustment or the use of a model.
- Where a quoted price in an active market is available for the identical asset but pricing of the individual instruments is not practical/efficient, the Firm may use an alternative pricing method (for example, matrix pricing). Where an alternative pricing method is utilized as a practical expedient the instruments must be classified in a lower level of the hierarchy.

Examples of Level 1 instruments:

Highly liquid government bonds, certain mortgage products (for example, residential agency pass-through securities), exchange-traded equities, and exchange-traded derivatives.

Level 2—inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market).
- Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument (for instance, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).
There is generally evidence of two-way flow (purchases and sales in the market) for instruments that are classified within Level 2.

Examples of Level 2 instruments:

Common stocks traded and quoted on an inactive market in an emerging country, privately placed bonds whose value is derived from a similar bond that is publicly traded, over-the-counter interest rate swaps valued based on a model whose inputs are observable LIBOR forward interest rate curves, resale and repurchase agreements, warehouse loans, and debt obligations, certain high-yield debt securities, as well as certain structured liabilities where the inputs to the valuation are primarily based upon readily observable pricing information.

Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair value for Level 3 instruments is based on internally developed models in which there are few, if any, external observations. For transactions in this category, there is rarely a two-way market, and typically there is considerable structuring (making the product largely one-off and JPMC specific).

- Unobservable inputs should only be used when observable inputs are not available (inputs are unobservable when they reflect the Firm’s own assumptions about the assumptions market participants would use to price the instrument).
- The exit price measurement objective remains the same in Level 3; therefore, the Firm’s own data should be adjusted if there is contrary data indicating that market participants would use different assumptions to price the instrument.
- In certain circumstances, an instrument that is classified within Level 3 at inception may become more observable as it approaches maturity. In those cases, when the unobservable component is no longer significant, the instrument will be transferred to Level 2 at that time.

Instruments for which there is an unobservable input are generally classified within Level 3. If there is evidence present to demonstrate that the unobservable inputs are not significant to the valuation through evidence such as two-way market trades, extensive pricing agency data, broker data or other relevant trade information, the instrument may be classified within Level 2.

Examples of Level 3 instruments:

Long-dated commodity swaps where the relevant forward price curve is not directly observable or correlated with observable market data, shares of a privately held company, structured notes with significant unobservable inputs, mortgage servicing rights, retained interests in securitizations, and goodwill.

E. Transaction Costs

The price in the principal (or most advantageous) market used to measure the fair value of an instrument should not include transaction costs. Transaction costs represent incremental direct (i.e., invoiced) costs to transact in the principal or most advantageous market, are not an attribute of the asset or liability being measured, and are reported as direct expenses in the Consolidated Statement of Income with limited
exception (see Corporate Accounting Policy #1-0107, "Netting of Assets and Liabilities and Related Income and Expense"). Transaction costs include, but are not limited to, invoiced brokerage and commissions and certain due diligence costs.

Transaction costs which are incorporated within the bid offer spread (i.e., in-the-price brokerage) are reported net within principal transactions and are not separately identified for reporting purposes.

Transaction costs do not include the costs that would be incurred to transport an asset or liability to (or from) the principal (or most advantageous) market. Where location is an attribute of the asset or liability as may be the case for a commodity, the price in the principal or most advantageous market used to measure fair value of the asset or liability should be adjusted for the costs that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market.

F. Other Considerations

Cut-off time
For instruments for which quotes are available prices must be obtained at the same time each business day. This includes cases where products are valued using models even though market prices are available in other time zones (for example, when trading across different exchanges). In addition, prices for hedges and the items being hedged must be sourced at the same time of day.

For internal trades between portfolios based in different regions, each side may be priced using the closing price obtained at the appropriate cut-off point in the relevant region.

V. CROSS-REFERENCES

Corporate Accounting Policy #1-0106, "Fair Value Option"
Corporate Accounting Policy #1-0107, "Netting of Assets and Liabilities and Related Income and Expense"
Corporate Accounting Policy #1-0108, "Guarantees"
Corporate Accounting Policy #1-0112, "Consolidation of Variable Interest Entities"
Corporate Accounting Policy #2-0301, "Repurchase/Reverse Repurchase Agreements and Securities Lending and Borrowing"
Corporate Accounting Policy #2-0401, "Trading Securities"
Corporate Accounting Policy #2-0501, "Investment Securities"
Corporate Accounting Policy #2-0601, "Loan Securitizations"
Corporate Accounting Policy #2-0604, "Commercial Loans and Lending Facilities"
Corporate Accounting Policy #2-0605, "Consumer Loans"
Corporate Accounting Policy #2-0701, "Long-Lived Assets (Other than Internal Use Computer Software/Web Site Development)"
Corporate Accounting Policy #2-1001, "Foreclosed Assets"
Corporate Accounting Policy #2-1005, "Investments in Nonmarketable Equity Securities"
Corporate Accounting Policy #3-0701, "Long-Term Debt"
Corporate Accounting Policy #5-0101, "Accounting for Derivatives and Hedging Activities"
Corporate Accounting Policy #6-0101, "Accounting for Lending-Related Fees"
VI. REFERENCES TO AUTHORITATIVE LITERATURE

FASB Statement No. 107, Disclosure about Fair Value of Financial Instruments
FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities
FASB Statement No. 123R, Share Based Payment
FASB Statement No. 141, Business Combinations
FASB Statement No. 143, Accounting for Asset Retirement Obligations
FASB Statement No. 157, Fair Value Measurements
FASB Statement No. 159, The Fair Value Option for Financial Assets and Liabilities
ASR No. 118, Accounting, Valuation and Disclosure of Investment Securities
APPENDIX A

Fair Value Measurements for Certain Instruments Carried at Fair Value

This Appendix is intended to give further background regarding the fair value measurements for certain instruments carried at fair value. The list is not meant to be all inclusive.

I. Derivatives: IB Market-Making under portfolio exception
   • Background
     The Firm makes markets in derivative contracts, transacting with retail and institutional clients as well as other dealers.
   • Valuation Premise
     For the IB market making portfolio, JPM has elected to apply the portfolio exception provided in Topic 820. As a result, the unit of account is the net open position.
   • Relevant Market
     In general, the dealer market is the Firm’s principal market for derivative transactions as the greatest volume of derivatives activities occur in the dealer market and the Firm’s IB market making businesses have access to that market. In addition the dealer market is the most advantageous exit market for the Firm.
   • Valuation/Measurement
     As a result of electing the portfolio exception, the unit of valuation for IB market-making derivatives is the portfolio. The starting point for the valuation of the IB market-making derivatives portfolio is mid market. As a dealer, the Firm can execute at or close to mid market thereby profiting from the difference between the retail and dealer markets. If the Firm cannot exit a position at mid market certain adjustments are taken to arrive at exit price. (See Section IV.C. of this policy for a discussion of valuation adjustments.)

II. Structured Notes/Repos/Resales
   • Background
     The Firm issues structured notes as a means to deliver derivative risk to retail and institutional clients that wish to invest in derivative risk in a funded format. Derivative risk, which may include credit risk, interest rate risk, foreign exchange risk, commodity risk and equity risk, is embedded in a debt host contract and issued in the Firm’s name. The derivative risk is the primary driver of the profit and loss.
   • Valuation Premise
     The valuation premise for structured notes is on a standalone basis. The unit of account is the transaction.
Relevant Market

There is no active secondary market for most structured note products and sales to third parties are rare. Dealers (issuers) will provide indicative quotes for their own paper and will repurchase or unwind with the original counterparty (investor). A dealer generally will not buy instruments issued by others. As such, not all market participants operate on both sides of the structured notes market.

The principal market for the Firm is the primary (issuance) market for structured notes. Market participants include other dealers (issuers) to whom a liability could be transferred (who take positions on the liability side of their balance sheets).

Valuation/Measurement

To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturities. As the primary risk in the "funded derivative" is derivative risk, market participants that issue structured notes use the same assumptions in valuation as those used in deriving an exit price in the derivatives market. In the absence of actual data for liability transfers for this product, the hypothetical transaction is based on assumptions in active markets for similar risks (derivative market).

III. Mortgage Loan Warehouses

Background

The Firm purchases and originates mortgage loans for securitization. Types of mortgages include: Agency mortgages (conforming mortgages sold to GNMA, FNMA and/or Freddie MAC) Alt-A, Alt-B, subprime and commercial mortgages.

Valuation Premise

The unit of account is the mortgage loan. Mortgage warehouse loans are valued on a standalone basis.

Relevant Market

The principal market for a product or instrument is the market in which the Firm transacts with the greatest volume or level of activity. The securitization market is the principal market for mortgage warehouse loans as securitization is the primary exit strategy for the Firm.

Valuation/Measurement

Fair value is based upon observable pricing of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity to arrive at a whole loan value.
Valuation technique
All mortgage warehouse loans should be priced using a mock securitization (bond execution) basis, which is a market approach valuation technique. Under this approach, structuring models (combined with Rating Agency modeling approaches) are used to create representative deal structures, including bond levels by rating with loss coverage amounts and reflect the “offer” side of the market where the securitization take out occurs.

IV. Mortgage Servicing Rights

- Background
  Mortgage servicing rights ("MSRs") represent rights to receive cash payments in connection with performing the tasks required to service pools of previously sold mortgage loans. These cash payments include, but are not limited to, negotiated servicing fees, interest earned on escrow balances, late fees, and float earnings on principal/interest payments.

- Valuation Premise
  Pooling of MSRs maximizes value to the market participants by both creating less uncertainty in the cash inflows and permitting the market participant to benefit from cost synergies that occur in servicing more mortgage loans. As a result of these benefits, market participants see more value for MSRs that are pooled in a portfolio than they would for individual servicing contracts. Consequently, the highest and best use of MSRs from the perspective of marketplace participants is in-use.

- Relevant Market
  MSRs are not traded actively with readily observable prices; sales are typically negotiated and brokered privately between entities. Trading volume is infrequent and unlike the brokering of a financial asset, the entities transacting must have a servicing platform and be able to perform the required servicing. Sales of MSRs are also subject to approval by investors in the mortgage-backed securities issued when the underlying loans were securitized. Based on the above, the principal market for MSRs, for the Firm, is a hypothetical market where the market participants have extensive servicing capabilities and benefit from certain cost economies of scale.

- Valuation/Measurement
  The valuation of MSRs is generally estimated by calculating the present value of the estimated net future servicing cash flows to be received over the life of the servicing contract. The net cash flows are comprised of servicing revenues less related costs of servicing. The maximization of MSR value must either increase the cash inflows or decrease the costs of servicing.
JPMC Implementation of DVA

(See also discussion of liability considerations in Section IV.C. of this policy.)

In order to incorporate the effect of changes in the Firm’s creditworthiness in derivative valuations, and because there is no industry standard for such calculations, the Firm developed its DVA methodology utilizing assumptions that it believes other market participants would use to value liabilities due by the Firm.

Specifically, the Firm leverages its current Credit Valuation Adjustment (CVA) methodology used to calculate and record the effect of counterparty credit risk for derivative receivables. The CVA is derived by calculating an expected positive exposure (EPE) at time of counterparty default (including certain collateral assumptions) and applying to it the counterparty’s credit spread or a proxy thereof and a standard default recovery rate to arrive at an adjustment for credit. Similarly, DVA is calculated as expected negative exposure (ENE) x JPMC’s market credit spread and a standard recovery assumption. Details for each of these key inputs follow.

Expected Negative Exposure (ENE)
The basic building block for DVA is Expected Negative Exposure (ENE); that is, what the Firm would expect to owe derivative counterparties at the time of its default. This is computed by first generating possible scenarios of underlying market factors and averaging over all portfolio market-to-market values, treating positive values as zero. These scenarios take into account the impact of legally enforceable netting agreements and existing collateral agreements with the counterparty as well as collateral agreements which are probable of being enacted in the event of a significant deterioration in the Firm’s credit standing.

Legally enforceable netting agreements
The Firm has master netting agreements in place with virtually all derivative counterparties. Upon default or termination of any one contract, a master netting agreement provides for the net settlement of all contracts with the counterparty through a single payment in a single currency. The netting provisions in the agreement are legally enforceable and as such would serve as a mitigant (a reduction) to ENE to the extent that the Firm had positive exposure to the respective counterparty for other derivative contracts. An important assumption that the Firm makes for both CVA and DVA is that the Firm would net settle all deals where possible. The Firm believes that this assumption is well corroborated by the behavior and the behavior of other market participants. The Firm also believes that the incorporation of netting agreements into the DVA calculation is supported by paragraph 15 of Statement 157 which indicates that the terms of credit enhancements related to a liability should be incorporated in the value of that liability. Although it deals with presentation, Paragraph 21 of FIN 39 also acknowledges that credit risk is best reflected by net amounts under a master netting agreement.
Existing collateral arrangements with counterparties

Consistent with the Firm’s approach regarding master netting agreements, the Firm incorporates the existence of collateral agreements in deriving the ENE. The Firm assumes that a counterparty to which an assignment was being made would demand credit protection comparable to that obtained by the transferor, thus requiring reflection in the exit price.

Probable collateral arrangements

In an idiosyncratic default scenario, the Firm also considers the probability of new credit enhancements being required at the time of the credit event. This assumption impacts the exposure (ENE) to the Firm’s counterparties as the Firm’s credit deteriorates.

As the Firm heads to default idiosyncratically, in order to maintain its derivatives franchise the Firm would likely be required by its counterparties to either enter into unilateral collateral agreements where there are none, or to renegotiate existing collateral agreements to terms more favorable to the Firm’s clients. For modeling purposes, the assumption is that a unilateral collateral agreement, in favor of the client, would be put into place.

Consideration of the impact of probable credit enhancements within the valuation appropriately prevents the recognition of a gain that would not be realized due to the imposition of a new collateral agreement.

While it is clear that derivative counterparties impacted by the Firm’s credit deterioration would request additional credit support, there is also evidence suggesting that market participants faced with a call for additional collateral would also respond by posting collateral in order to protect their derivative franchise. The Firm notes that several firms have established AAA-rated entities to house their derivatives activity for precisely this reason.

JPMC Credit Spread

The second major component of the DVA calculation is the Firm’s credit spread. An observable market indicator of the Firm’s creditworthiness, the credit spread is the sum of (a) the market risk premium (reflecting the market’s perception of the Firm’s credit risk or the systemic risk) and (2) the real probability of default (the idiosyncratic entity-specific risk factor).

The Firm currently uses counterparty credit spreads from the credit default swap market to calculate the CVA. Credit default swap spreads assume a recovery assumption. Many of the Firm’s competitors also use credit spreads to assess the credit risk associated with counterparty receivables. It is therefore reasonable to assume that market participants would similarly include the Firm’s observable credit spread as a key input in derivative valuations.

The Firm’s CVA methodology is based on the best evidence of how sophisticated market participants value the credit risk inherent in derivative transactions. The DVA methodology applies the same logic where the Firm is in a payable (versus receivable) position. In order to validate the reasonableness of the methodology and how credit would be considered in the transfer of a liability, the Firm considered recent transactions where the impact of the counterparty’s creditworthiness was clearly
considered in the unwind price of a derivative receivable. The Firm believes that where an entity is required to assess its own creditworthiness for liabilities which it records at fair value, an adjustment similar to that applied for counterparty creditworthiness is appropriate and, although based on limited historical evidence, supportable. The Firm believes that this methodology will also be validated by the pricing of future unwinds/assignments and as such, the Firm believes that its calculation of DVA—the product of the ENE, the JPMC credit spread, and a standard recovery rate—produces an exit price consistent with that derived by a market participant.

Other considerations - DVA for structured notes
In order to assess nonperformance risk for structured notes, the Firm leveraged the current DVA methodology applied to derivatives with limited modification. Modifications were based on the following:

- Cash flows on derivatives may be either positive (inflows) or negative (outflows), whereas cash flows on a structured note are all outflows. As a result, for structured notes, the equivalent of the ENE (within the derivative calculation) is the libor flat discounted cash flows for the note.
- Due to operational constraints, the DVA methodology for structured notes assumes that there is only one cash outflow which happens at maturity, similar to a zero coupon note.

The DVA methodology for structured notes is based on readily available information (data) for the underlying structured notes. The data required is: 1. fair value of the structured note in its entirety (excluding the impact of the Firm’s credit) and 2. the expected maturity of the instrument. The methodology calculates an adjustment to the fair value based upon the Firm’s survival probability at the expected maturity date of the instrument. The formula is as follows:

\[ \text{DVA} = \text{FV} \times (1 - \text{SP(EM, RR)})^{1 - \text{RR}} \]

- FV: the model-based fair value of the instrument as reported on the Firm’s books and records (exclusive of the Firm’s credit spread). The fair value represents the expected negative outflows as described below.
- SP(EM, RR) is the Firm’s survival probability at the note’s expected maturity EM, which is the equivalent of the JPMC credit spread X a recovery rate RR.

The Firm’s use of CDS spreads to calculate the DVA for structured notes is principally based on the substance of the instruments being valued. Structured notes can be viewed as funded derivatives or hybrid instruments that are similar in many ways to derivatives. As market participants within the hypothetical wholesale market for structured notes would include other dealers; and as other dealers generally incorporate an adjustment for credit risk into the fair value (exit price) of derivatives using liquid/observable CDS spreads; the Firm has consistently used CDS spreads to value similar risks within the structured note population.
Nonrecurring Fair Value Measurements

Certain assets, liabilities and unfunded commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of an impairment or there is a lower of cost or fair value adjustment.)

Examples of instruments that are subject to nonrecurring fair value adjustments include:

- Held-for-sale loans or commitments carried at lower of cost or fair value; see Corporate Accounting Policy #2-0604, "Commercial Lending Facilities."
- Held-for-investment (accrual) loans that are impaired and are written down to fair value based on the fair value of the underlying collateral, or based on an observable market price; see Corporate Accounting Policy #2-0611, "Allowance for Credit Losses."
- Equity investments accounted for either at cost or under the equity method; see Corporate Accounting Policy #2-1005, "Investments in Nonmarketable Equity Securities."
- Goodwill and other intangible assets; see Corporate Accounting Policy #2-1004, "Intangible Assets and Goodwill."
- Long-lived assets including real estate, fixed assets, assets under operating leases, and capitalized software; see Corporate Accounting Policies #s 2-0701 to 2-0705, "Premises and Equipment."
ENDNOTES

1 An orderly transaction assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such instruments; it is not a forced transaction (for example, a forced liquidation or distress sale).

2 Valuation techniques may include:

   Market approach
   The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities and may include use of matrix pricing or market multiples derived from a set of comparables.

   Income approach
   The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). Valuation techniques include present value techniques; option pricing models, such as Black-Scholes-Merton formula (a closed-form model) and binomial model (a lattice model) which incorporate present value techniques, and the multi-period excess earnings method, which is used to measure fair value of certain intangible assets.

   Cost approach
   The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (otherwise known as current replacement cost).

3 The examples provided are generalized across asset classes. Classification within the valuation hierarchy is based on a review of the products and the related facts and circumstances including the significance of any unobservable inputs to the valuation methodology.

4 Within this appendix, the term "structured note" is used to refer structured notes, structured repo and structured resales.

5 Another consideration is that even for an entity with servicing capability, the size of the servicing operations may not provide adequate economies of scale in its own servicing cost structure.

6 The final ENE is a weighted average of the results from the two default scenarios (a systemic default and an idiosyncratic default).

7 In the systemic default scenario it is much less clear that the Firm's counterparties will be able to impose or change collateral agreements in their favor, thus incremental collateral has not been considered.

8 Underlying data collected from the businesses include carrying value, expected maturity and Legal Entity (to determine the application of the bank versus holding company spread).
From: lksil, Bruno M <bruno.m.lksil@jpmchase.com>
Sent: Thu, 01 Mar 2012 05:44:04 GMT
To: Stephan, Keith <keith.stephan@jpmorgan.com>
Subject: FW: Core credit book update

------ Original Message ------
From: lksil, Bruno M
Sent: Wednesday, February 29, 2012 10:27 PM
To: Martin-Artajo, Javier X
Subject: Core credit book update

I have sold important amounts of protection in Ig9 10yr (close to 7bln all day or 3.5m cs01) and this will push the cs01 beyond the 25m limit. This is related to month end price moves that were all adverse although we could limit the damage.

I reckon the cs01 will jump to 28m (I bought protection for approx 500k in hy and xover) from 25m this morning. I went back inside the 25m limit this morning initially but there was an insistent bid on Ig9 10yr later in the day. Among the other weird moves we observed today, I picked this one because this is the most obvious one when we analyze the lags we have in the core book.

I will correct the breach tomorrow buying back some protection on main s16 mostly and us hy. Initially, I sold risk in hy in front of the risk I added in Ig9 10yr but the hy market could not provide enough risk versus the size I was trading in Ig9.

The reason why Ig9 10yr was well bid was that MBIA was reporting its earnings at the close. Hence, into the us close, I could see good bids for risk in hy17 (that has mbia in it) but the protection became bid in ig9 10yr (while the ig9 5yr was tightening!). So I engaged in selling protection in Ig9 10yr. It was modest at first and became aggressive as we drew towards ny close. Then the bids for risk in hy vanished and I could not offset all the risks properly. I did not want to run after the market prices after the close in equities.

I bought a little Ig17 5yr but in a very small amount. I apologize for the trouble it may cause. This would not create a material long risk exposure in term of say 50pct credit spread widening (50m or so). It is unfortunate that it happens at month end the day when mbia reports its earnings at the close. The exposure to mbia default is not materially altered because the 5yr cbs trades at 27-28 pts upfront plus 500run/ading. So, a lot is priced in. More I sold risk in hy17 that contains mbia.

This trade will also increase the rwa snapshot at month end I am afraid.

Best regards
Transcript of Call 5601530708350439343.txt

Call #5601530708350439343

Custodian: Julian Grout
Participants: Bruno Iksil, Julian Grout

MR. IKSIL: Hello.
MR. GROUT: Hello, Bruno.
MR. IKSIL: Yes.
MR. GROUT: Are you doing well?
MR. IKSIL: Yes.
MR. GROUT: Very well. Are you well rested this week?
MR. IKSIL: Yes.
MR. GROUT: Are you relaxed?
MR. IKSIL: Yes, yes, I don't want to go back home, so I'm relaxed.
MR. GROUT: I know. This is a radical change.
MR. IKSIL: Yes, this is very good for me. You will see, it's a party over here. Just one thing to clarify. In fact, Eric updated the flight curve to around 12 noon.
MR. GROUT: Yes.
MR. IKSIL: And we didn't change it since then because I must say that I am not very much aware --
MR. GROUT: Yes, yes, it seems'
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Transcript of Call 5601530708350439343.txt
correct to me.

MR. IKSEL: The year-to-date
overall when I see Atlas -- it is closer to the
one I see in the Atlas.

MR. GROUT: Yes, okay, very well.

MR. IKSEL: You see, by strategy
this is not it. I have negative 0.4 with regard
to Core and negative 0.5 on tactical, but I have
2.2 million in reserve.

MR. GROUT: So you should release
the 2.2 million.

MR. IKSEL: I release 2.2 million?
This leads to 700 versus negative 1.4.

MR. GROUT: Yes, that's good.

(Inaudible).

MR. GROUT: Is it Cooti (phonetic)
or Cooti and credit? It's all included.

MR. IKSEL: That's all.

MR. GROUT: Okay. Very well, very
well, very well. I see very well what they're
doing. And that's it, it's JP, so one shouldn't
try to understand. As you can see, I had this
meeting with (inaudible). Of course the guy is
super bulletproof.

RISK LIB. The guys take a model
from CRM LIB that is blowing a fuse. The guys
at Flow LIB defend him systematically so
everything is going well, it's normal.

Page 3
MR. IKSIL: (Inaudible).

MR. GROUT: And fortunately thanks to our friends in New York, we are sure that it's going to continue.

Well, you know, you shouldn't .... one must not be a philosopher.

MR. IKSIL: Yes, yes.

MR. GROUT: We don't really have a choice. There's life after that. That's true, there is life after that and that's the way it is.

The result is not so bad after all. In fact, when you see how we messed up, it's not so bad.

MR. IKSIL: Yeah, here it's pushing it a little bit.

MR. GROUT: Yes, yes, of course, yes.

MR. IKSIL: So you will see --

MR. GROUT: Yes, yes, I imagine. I see that very well.

Is Ravi -- does Ravi know about the magnitude?

MR. IKSIL: I told him, yes, I told him.

I hold him that they had to push back two or three BIS today. There's nothing they could do it. Everything is calm. It was
March 9, 2012

Transcript of Call S601530708350439343.txt

yesterday, in fact, that worrisome --

MR. GROUT: Yes.

MR. IKSIL: It was with

(inaudible). The guys did not want to give me

any colors. It was something that did not make

any sense anyway.

MR. GROUT: That's okay. Report

that thing that was accumulated day after day

and that's it. You see?

Here we're lagging -- we're lagging

-- well, you'll tell me this on Monday and

anyway, I see the impact very well. I have a

vague idea you know how this is going to end up.

You know that (inaudible) Trevor is

going to try to get some capital, Ina will say

no, so it will be a big fiasco and it will be a

drama when, in fact, everybody should have

-- should have seen it coming a long time ago

and everybody's -- and everybody's working in a

way that would lead for that to happen.

So you see all that we're going to

do is that when we get to the end of the month,

we will -- we will lose another 200 pars, and at

the end of the month we will defend ourselves

and we will say in the end, this is your fault,

and that's it.

Anyway, you see we cannot win here.

I don't focus on Core right now. It's not worth
it. It's not worth it. We're fighting against
our own firm. So you see we have to think.

MR. IKSIL: Um-hum.

MR. GROUT: What is important is
what you mentioned and that is Radiant
(inaudible). That all rallies except the ones
that are holding Radiant. I am sure that the
five years rallied.

MR. IKSIL: The five years plunged.

MR. GROUT: But the five years did
not last five years, so you see -- wouldn't you
know that it's your own firm that is doing this?

What do you want to do? What do you want to do?

It's not worth it, you see. This

is a (inaudible). It's not worth the fight.

MR. IKSIL: Um-hum.

MR. GROUT: One must be
philosopher. Just keep it like this. We keep
the flotation line and we drown nicely and
quietly and if we have to accelerate, we never
know, we may get a loan.

(inaudible).

MR. IKSIL: I spoke to our analyst
once again about Radiant today. This is an
interesting situation, in fact, because I think
that Dire (phonetic), Radiant, you have two
companies, you have Goldman Sachs. This is
really on a single name --

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Transcript of Call 5601530708350439343.txt

MR. GROUT: Yes.

MR. IKSIL: Okay -- and JP on the index, in fact.

MR. GROUT: Yes.

MR. IKSIL: So you see on JP we lose the index. On (inaudible).

MR. GROUT: Yes.

MR. IKSIL: And you see, in fact, that when of the guys talked to you -- when the guys speaks to you -- I asked the guy did everything go well this year? He said no, not at all. I don't know anything about this. We must stop this nonsense.

The market is creating a false focus on the maturity that they have in January 2013 -- February 2013.

MR. GROUT: Yes.

MR. IKSIL: They say yes, yes, they're going to be able to pay it back no problem, but that's not the problem. They could always pay it back. They have enough cash to pay it back today if they needed. You see?

MR. GROUT: Um-hum, um-hum, um-hum.

MR. IKSIL: The problem is what's going to happen if they have to admit their loss or not.

MR. GROUT: Yes.

MR. IKSIL: And here, you see, here...
March 9, 2012

Transcript of Call 5603530708350439343.txt

is where it gets interesting. This is where the
guys are -- this is where the lady from Goldman
told me anyway, the regulator, which is the
Insurance Department of Pennsylvania, which is
the one regulating Radiant --

MR. GROUT: Yes.

MR. IKSIL: -- they are the less
strict in the country, ironically, you see.

MR. GROUT: Yes.

MR. IKSIL: And they have no
interest in -- to put Radiant (inaudible).
You see, the other analyst said,
you know, it is in their best interest to
protect the policyholders.

MR. GROUT: Yes, yes.

MR. IKSIL: So I found it
interesting to see that -- I felt that there was
somebody who was pushing really.

MR. GROUT: Yes, there's a lot of
money involved.

MR. IKSIL: Yes. Yes, and it was
(inaudible) of course.

MR. GROUT: Um-hum, um-hum.

MR. IKSIL: (Inaudible), but here I
must finish --

MR. GROUT: Go ahead. We see this
way if it's benign --

MR. IKSIL: I forgot to update the
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March 9, 2012

Transcript of Call 5601530708350439343.txt

G-9 curve. I stayed at 14.5 versus 34. I need
to (inaudible) or I can do that on Monday.

MR. GROUT: Yes, go ahead and do
that on Monday. Forget about it. It's against
us and it's going to complicate things for you
regarding P&L, so forget about it.

MR. IKSIL: Yes.

MR. GROUT: Do it Monday.

MR. IKSIL: Yes. Okay, so have a
good last two days. Do you know what time you
get in on Monday?

MR. GROUT: I get in early.

Normally I should get there around 8:30 in the
morning. I have a meeting with (inaudible) --

MR. IKSIL: At 9 a.m.?

MR. GROUT: At 9 a.m., yes.

MR. IKSIL: (Inaudible).

MR. GROUT: Okay.

MR. IKSIL: Okay.

MR. GROUT: And anyway, it's our
future, you see. You see, when you're on
vacation, you see that this thing is dead at its
birth. It's going to die so what's going to --
it's a firm, it's a special firm, JP.

Everything is going well, it's dynamic,
everything is questioned very frequently, so we
will see what's going to happen.

We're going to try to do our job.
I believe that it is better to say that it's dead, that we are going to crash. The firm will service the debt. The CIO is perfectly prepared for (inaudible). You see what I mean? So we're going to be in the center of this thing. It's going to be very uncomfortable but we must not screw up. That's all. It's going to be very political in the end.

That's it.

MR. IKSIL: Yes.

MR. GROUT: We'll see. We'll see, but if they -- but if they continue to push the G-9 complex like this, we may recharge (inaudible) because it's almost for free now if they continue.

I'm still waiting a little bit, you see. We must have some rally that (inaudible) are compressed and at that point it's going to become interesting.

MR. IKSIL: Yes.

MR. GROUT: It will become -- well -- where is the five years at this time?

MR. IKSIL: Eighty-one thousand.

MR. GROUT: Oh, yes, it grew very well.

MR. IKSIL: Yes, but at the same
1417

Transcript of Call 56035070835049343.txt

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1 time, you see, what do we call it, Radiant, that
2 lost 1.5 points, so -- so it's not the end of
3 the world.
4
5 MR. GROUT: Yes. Yes, if Radiant
6 (inaudible) the entire curve must converge.
7 MR. IKSIL: That's it. In fact,
8 their marketing point on the CNM is to say that
9 there's no problem in any way. They're going to
10 present a tender for January 2013, February
11 2013. So there's no interest in having CDLS
12 from December 2012 when we know for sure that
13 after that they're going to die.
14
15 MR. GROUT: Yes.
16
17 MR. IKSIL: You see, this is a good
18 marketing argument.
19
20 MR. GROUT: Yes. And while why
21 would they make a tender if they're certain
22 they're going to die? I don't understand the
23 objective very well. You see?
24
25 (inaudible) --

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MR. GROUT: Yes.
MR. IKSIL: They can say
(inaudible) February 2013 what's this mess.

MR. GROUT: Yes. So what you are
Page 11
Transcript of Call 5601530708350439343.exe
going to do? Anyway, we'll see about that
Monday.
We're going to (inaudible) with our
equities. We are protected with (inaudible).
We don't have anything to worry about, in any
case. However, we must be careful.
MR. IKSIL: Yes. We must.
MR. GROUT: Okay. We have until
December to cover this thing. We have sometime.
MR. IKSIL: Yes. In the meantime,
enjoy your last days.
MR. GROUT: Um-hun.
MR. IKSIL: Okay.
MR. GROUT: Okay.
MR. IKSIL: Okay.
MR. GROUT: Ciao.
(End of call.)
From: Grout, Julien G <julien.g.grout@jpmchase.com>
Sent: Thu, 15 Mar 2012 18:45:37 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Iksil, Bruno M <bruno.m.iksii@jpmchase.com>
Subject: Book ex-xls.zip
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### Table 1

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From: Ikkil, Bruno M <bruno.m.ikkil@jpmchase.com>
Sent: Mon, 19 Mar 2012 11:44:53 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: Core Book analysis and proposed strategy

Book position
- The book has positive carry, P&L upside on defaults and positive convexity if spreads gap wider. It is relatively neutral directionally overall at current market spread levels.
- To obtain this profile, the book receives the forward credit spreads. When markets are caught in squeeze like this one, the P&L volatility can become very large; this is what is happening since the beginning of this year in CDX IG9 and Main iTRAXX S9 series. The hit amounts to 5-10 Bps lag in those forwards versus the 50-60bps rally.
- The book incurred a loss of 100m USD IN us hy from KODAK default and RESCAP almost certain default: this weakness have been corrected now and offers decent upside in any new default in HY indices.

Market behaviour
- The CDX IG9 and iTRAXX Main S9 are the series where index tranches still trade. This is where the street owns some protection especially in the longer tenors for capital relief reason and uncertainty about the timing of defaults.
- some large Hedge funds have some "skew trades" where they buy protection on the series 9 10yr indices versus the single names.
- in the rally, those series (where the book is long risk and the street is short risk) have lagged consistently: by trading trying to correct the lag, we could retrieve 1-2bps but then we met strong resistance either with size or bid-ask widening.
- this year the tranche market depth has vanished: we can trade but small size each time with an appetite from dealers to load protection on the longest tenors.
- in US HY, in addition to the 2 defaults, we face a flattening trend advertised by dealers saying that either we have defaults or we rally, either ways, the curve flattens and we have a steepener on.
- as a summary, the book is a very visible player and holds a trade that the street wants to have now: ie a protection against unpredictable defaults. At the same time, they still own their "no default" trades from last year. So the street systematically steepens the series 9 curves and maintain the longest tenors wider than anything else.

Proposed strategy:
- Let the P&L fluctuate while not defending, just maintaining the upside on defaults over time.
- CDX IG and iTRAXX MAIN: over the next 18 months
  - buy back the protection in D-3 10yr to reverse the profile (3bln in main, 6bln in IG)
  - buy some 0-3 in 7yr tenors (1bln main-2 bln in IG)
  - sell protection over time on widenings to maintain the carry (5-10 Bln main and IG)
- CDX US HY: over the next 18 months
  - put flatteners on in HY14-hy15-hy16-hy17 series while we own the protection on the 5yr now
  - let the longs in HY10-hy11 series live as they have lost already 18 names out of 100 and look safer than hy 14 to hy17 series

P&L possible range: the loss is likely to range between 100m to 300m
- main reason is the CDX IG9 lag (2-3bps on 100-150m)
- second next is CDX HY: the hit is another 100m spread within the tranche and index bid-ask. Typical here, you cannot really trade but the mid does not change.
- third is Main iTraxx: the curve in S9 steepened by 5bps pushing the forward back up while the other curves steepened 1bp in the rally. The hit here is 80-100m.
- the estimated bid-ask on the book grossly amounts to 500m all-in (200m for IG, 100m for iTraxx main, 200m for CDX HY).

Conclusion
- the book has very useful features and should be maintained with its upside on defaults as much as possible.
- the market is very small now and we are too visible with likely some of our trades creating a concern among dealers: this affects us both in the bid-ask cost and the Markt-To-Market because the street owns the long term protection to cover their legacy, ie "no default" trades mostly held in form of steepeners and long risk in short term equity tranches.
- there is a trap that is building: if we limit the Mark-To-Market we risk increasing the notional further and weaken our position versus the rest of the market. One solution would be to let the book be really long risk, yet this would not be in a liquid market and may increase the P&L noise especially in corrections.
- the solution proposed amounts to be longer risk and let the book expire carrying the upside on default. I think we own here a very good position for a size that is also significant. This would involve some mechanical trading, ie buy protection on 10yr equity tranches, put flatteners in HY 14-17 and SELL protection on spread widening.

The PNL breakdown and bid-ask analysis will come soon after, Julien is on it.

Bruno
March 20, 2012

Transcript of Call # 560153070835033333357

Participants: Bruno Iksil

Iksil Hello Javier. It's Bruno. Again, you know we can't try to be close to the market prices and we would show a loss of 40 million core and 3 million in tactical and I wanted to know if that was okay with you. I'm going to send you an SMS to get your approval. We're still in the range but its three(?) everywhere so, as I try to get closer to the target and I don't want to make it last you know. I think we should, we should start, start showing it. Please call me back if you can or just reply to my SMS please.
the purpose of the meeting is to highlight an important issue that are appearing in the book from the market in terms of P/L but is related to the findings that we have made so far regarding the RWA's of the book.

Our recent changes in the book and capital have highlighted that we have reduced our RWA by 10 Bln from the beginning of the year and also increased the IB's RWA too for a similar amount. This result is a larger reduction in RWA than what we thought in January.

We have increased our CS01 from being net short in JAN to net long in MAR and reduced our total book Nationals by 14 Bln. This has resulted in an increase in the books RWA due to capital charge called IRC of 18 Bln in RWA. This should be seen as the extra long that the book currently has as compared with what the model would consider neutral. The fact that the increase that we have seen in the book has not materialized in our performance has raised the following issues:

1. Our current underperformance in the Synthetic Book is large compared to our estimates given the changes in the profile of the book.
2. The increase in transparency with QIF and now with Risk Management regarding the optimization is highlighting the positions that we have and also revealed that our optimization benefit is increasing the RWA cost to the IB and increased their speed to reduce the CRM by externalizing it with a counterparty or to reduce the books offsetting trades.

...the dilemma that we face at the moment is that we are improving our RWA position vs the IB but the trades that we made from the beginning of the year are upsetting this balance with our IB (and others) because they have been eager to take
the opposite side of our trades this was due to a more bearish view and also the benefit that that opposite position would have for their capital. The IB now is becoming aware of this as the numbers were released on Monday and therefore their reaction in the market.

My conclusion here is that we need to keep our current positioning that is slightly increasing the long in IG and then correct the RWA next quarter either by reducing the IRC by selling our extra long IG or get the CRM charge reduced by joining the IB and reduce the exposure with a third party.

ards
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Yesterday's exhaustive meeting.
March 23, 2012

HIGHLY CONFIDENTIAL

Transcription of Recorded Telephone Conversations

CALL NUMBER: 572287694662392261

PARTICIPANTS:

ARTAJO-STEPHAN
Call #5722876046602392261

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MR. ARTAJO: JPMorgan.
KEITH: Hello, Javier, it's Keith, how are you.
MR. ARTAJO: Hey, Keith, man.
Having a lot of headaches here.
KEITH: I cannot wait to come back to London. I can't tell you how much fun it is, like, in the amount of time I have spent discussing with Pete and Irv, and I sometimes just feel like a broken record, like, you know, especially -- and I'm trying to, to be, you know, as thorough and as patient as I can be. But, you know, I'm just getting strange requests, like, can you walk me through this, can you walk me through that? I mean I've been through the book before with Pete as you're aware. I talk to him every day about it. So I have some patience to take Irv through it. But it seems like there's a breakdown in the link of communication here because I was under the impression that everybody was very clear that what that what
March 23, 2012

18:14:45 5 we were doing was adding another 20
18:14:47 6 to 25 million of risk in one sense
18:14:49 7 --
18:14:50 8 MR. ARTAJO: no, no.
18:14:51 9 KEITH: now it seems like
18:14:52 10 everybody says, no, we didn't know
18:14:53 11 what we were doing.
18:14:54 12 MR. ARTAJO: I spoke with Ina.
18:14:56 13 The reason I told her, the reason
18:14:57 14 I'm doing that is to defend the
18:14:59 15 position, okay. we cannot do that.
18:15:01 16 I just with didn't want the
18:15:03 17 investment bank to rollover us.
18:15:04 18 This is increase the book by 25 or
18:15:08 19 26 billion of IWA which is freaking
18:15:10 20 them out. I said, look, you know,
18:15:12 21 relax. I just don't want -- I
18:15:14 22 needed to do this in order to
18:15:15 23 settle with them, okay. okay. So
18:15:17 24 when this is going all the way up,
18:15:19 25 man, just for you to know. And I

18:15:22 2 we have raised this issue and he's
18:15:24 3 going to talk to Hogan and he's
18:15:26 4 going to talk to Danielle Pinto and
18:15:28 5 he's going to talk to the America;
18:15:30 6 okay. So we escalating the problem
18:15:32 7 here all the way up. The issue
here is that the investment bank is manipulating the prices. They want us out of -- you know how valuable the IG9 position is, right.

MR. ARTAJO: And we have a lot of it. It is almost they trying to squeeze us out. I have evidence they trying to squeeze us from a loft different point of views because we get the marks, we get the shit. Bruno saying he's getting very rattled. We have a good position. It's not performing and we are getting paranoid here. At the same time, I didn't want them to squeeze us out of the trade. I said, okay, man, I don't mind if we get a little high on our IWA. I get long on IG. This defense, the decompression trade. It puts a little bit of pressure on them because we are going to have to settle this now, okay. We going to have to settle these differences here. You know, whether or not we do a trade or not. This is out of my control or out of control now.
March 23, 2012

18:16:24 12 This is Ina. Ina has to decide
18:16:27 13 this with, with Jess.
18:16:30 14 KEITH: Jess.
18:16:31 15 MR. ARTAJO: With Jess Staley
18:16:32 16 basically. Otherwise it going to
18:16:34 17 be a shit show. These guys are
18:16:35 18 putting things on the street. It
18:16:36 19 is a fight between JPMorgan and
18:16:38 20 JPMorgan and the street. This is a
18:16:39 21 stupid thing, okay. So, you know,
18:16:41 22 the problem that we have is that
18:16:43 23 we've been trying to optimize our
18:16:44 24 book. We didn't know how it works.
18:16:46 25 So obviously we made mistakes.

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18:16:48 2 We've made mistakes because we, we
18:16:50 3 think there is reward. We think
18:16:52 4 like okay this is good for me, this
18:16:54 5 is a good trade, so we put a book
18:16:56 6 that has long carry and has got
18:16:58 7 good defaults. It is a very good
18:17:00 8 book. You ask Bruno what he really
18:17:02 9 thinks. He thinks he hasn't made a
18:17:05 10 mistake. Maybe a little slow in
18:17:06 11 covering the short we have in
18:17:08 12 investment grade, okay. So we
18:17:09 13 haven't really stepped on shit
18:17:10 14 really other than having a little
March 23, 2012

18:17:12 15 Call #5723876046602392261
18:17:14 16 bit of unfortunate defaults on
18:17:14 16 Kodak. But, you know, it's fine
18:19:32 17 that the book is down for some
18:19:33 18 reason. But, you know, it is good
18:19:35 19 for our file and we like the book.
18:19:37 20 So this is what I told Ina. The
18:19:39 21 investment bank for some reason
18:19:40 22 they are incredibly sensitive to
18:19:41 23 the position that we have, okay.
18:19:48 24 The investment grade. I don't know
18:19:49 25 why that is. Bruno thinks that

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18:19:54 2 because of the size of the book
18:19:55 3 they have; it's a very flat book
18:19:57 4 but it has huge notional, okay.
18:19:59 5 And apparently what I'm hearing is
18:20:01 6 that the book is very sensitive to
18:20:03 7 this thing in their own, in their
18:20:04 8 own behavior, okay.
18:20:06 9 KEITH: I think it's -- I
18:20:08 10 think, and you and I discussed this
18:20:09 11 briefly before I left on Tuesday, I
18:20:11 12 think that's a function of the fact
18:20:11 12 that if you look at what that thing
18:20:14 14 does as sort of the on the run
18:20:16 15 correlation series, it remains the
18:20:17 16 thing that looks like the cheapest
18:20:19 17 instrumentation to hedge your sort
18:20:21 18 of single name exposure in the
Call 572287646602392621 (2).txt

ratings and all the rest. So
there's a perpetual bid to kind of
continue to just, you know, lift
protection on IG ten year and at
the same time they end up the other
way around I think. Because what
you do is sell protection on the
other.

MR. ARTAJO: That's right. So
they end up with having a mirror
position with ours, right.
KEITH: Compression trade
basically.
MR. ARTAJO: So basically we
are fighting the idea. They are
doing that. Now they are fighting
with two things. One is actually
by trying to source the risk. But
we are not trading a lot of volume,
okay. The whole problem that I
have with this, and the whole
problem I have with Bruno is if
they were trading size on the other
side I feel, shit, we've got a bad
position, okay. So, fuck, you
know, they really want it. But
they are not trading volume. They
March 23, 2012

18:21:07 22 Call #5722076046602392261
18:21:09 23 had just volume us. They are just giving us bad marks. So they are
18:21:11 24 not getting -- it's not that they
18:21:13 25 are giving us headache and the

1

18:21:15 2 HIGHLY CONFIDENTIAL
18:21:16 3 market is moving and you trade and the opposition increases and gets
18:21:18 4 worse. Opposition increases
18:21:20 5 because we trade with them but we
don't trade size. There is no
18:21:23 7 volume, okay. So this this is purely their trading, this month end. They are worried about this.
18:21:24 8
18:21:26 9 They must have something in the
18:21:28 10 book that is obviously not working
18:21:29 11 because otherwise I don't see the
18:21:31 12 investment bank reacting this way.
18:21:32 13 I haven't seen them react this way,
18:21:34 14 okay? But it is very obvious they
18:21:36 15 are targeting us. They have a lot
18:21:40 17 They have our positions. They
18:21:43 18 really are targeting us. We had
18:21:46 20 too many dialogues here. I've had
18:21:47 21 too many dialogues with
18:21:50 22 (INAUDIBLE), too many dialogues
18:21:51 23 with the America (INAUDIBLE) has
too many dialogues there too. Ina
18:21:55 24 has mentioned this. To be honest
18:21:56 25 Page 8
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18:21:58
18:22:00
18:22:01
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18:22:28
18:22:31
18:22:33
18:22:36
18:22:38

with you, this, they know that we
are sensitive to this. They know,
they know, they know very well now.
So they are manipulating the market
and we have to stop it. Because
now it is coming to me from the
market. The market is asking us
what the fuck are we doing. We
have a large position. And that's
last thing you want. Then you need
to stop that. I told Peter, this
is all the way up. It might go to
Jamie Dimon then.

KEITH: Just to, just to add
like a little bit more color and
this is like a random anecdotal
thing. But some like junior
fucking kid called Ari Wechsman who
works in credit.

MR. ARTADO: What?

KEITH: There's a junior kid
who works in market risk for
credit, credit markets who
apparently was calling the market

Page 9
risk guys in CIO in New York
saying, hey, we've had like two
standard deviation distortion in
this main verse cross over
decompression and apparently it's
all because of a big prop trader
called Bruno in CIO. That's just
for you to know, right. So --
MR. ARTAJO: That is nasty,
man, that is nasty.
KEITH: What that means is that
the traders in credit flow are
telling that to their risk guys and
just spreading sheet.
MR. ARTAJO: That's right. But
we need to stop that.
KEITH: I don't know how to get
in front of it. I don't know. I
mean the only thing we can do is
what you're suggesting now, which
is Ina has to have that
conversation with Jess and someone
has to say knock it the fuck off
because we look like idiots in the
street.

MR. ARTAJO: That's right. We
need to stop this exactly.
March 23, 2012

Call #5728076946602392261

KEITH: I'm telling you, this
is like associate level market risk
kid who doesn't even know what the
word decompression means. Can you
tell it's not his words.

MR. ARTAJO: We need to stop
this. We need to stop this shit
internally. We need to stop that.
I mean listen we have issues here
too. I'm not saying, I'm not
telling you honestly that we are
the pretty boys and everybody else
is, is ugly. We have an issue here
that, you know, I'm using too big
IWA. But this is known by, by the,
it's a known weakness. They are
using that, they are exploiting us.

KEITH: All right.

MR. ARTAJO: Irv is calling my.
I'll call you back.

KEITH: All I did is a graph
with the notionals and I sent it to
you and I sent it to Irv. I'll

Page 11
Call #5722876946602392261
talk to you later. Bye.
From: BRUNO IKSIL <BIKSIL2@JPM>  
Sent: Fri, 23 Mar 2012 14:56:42 GMT  
o: BRUNO IKSIL <bruno.m.iksil@jpmorgan.com>; JAVIER MARTIN-ARTAJO <JMARTAJO@JPM>  
Subject:  

03/23/2012 05:37:08 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room  
03/23/2012 05:37:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
*** JPMORGAN CHASE BANK, (748320) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL CONFIRMATION OF TERMS; THE INFORMATION IS BELIEVED TO BE RELIABLE, BUT WE DO NOT WARRANT ITS COMPLETENESS OR ACCURACY, PRICES AND AVAILABILITY ARE INDICATIVE ONLY AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. WE MAY HOLD A POSITION OR ACT AS A MARKET MAKER IN ANY FINANCIAL INSTRUMENT DISCUSSED HEREIN. CLIENTS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.  
03/23/2012 05:37:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
hello  
03/23/2012 05:37:11 JAVIER MARTIN-ARTAJO, MORGAN (J.P.) has joined the room  
03/23/2012 05:37:12 JAVIER MARTIN-ARTAJO, MORGAN (J.P.) says:  
*** MORGAN (J.P.) (20833) Disclaimer: THIS IS FOR INFORMATION ONLY AND NOT THE PRODUCT OF JPMORGAN’S RESEARCH DEPT, IT IS INTENDED FOR THE RECIPIENT ONLY. IT IS NOT AN OFFER OR SOLICITATION FOR PURCHASE OR SALE OF ANY FINANCIAL PRODUCT AND NOT SUITABLE FOR PRIVATE CUSTOMERS. PRICES ARE INDICATIVE ONLY. WE MAY HOLD A POSITION OR ACT AS MARKET MAKER IN ANY FINANCIAL PRODUCT DISCUSSED ABOVE. CLIENTS SHOULD CONSULT THEIR ADVISORS ON TAX, ACCOUNTING, LEGAL OR OTHER ISSUES ARISING AND EXECUTE TRADES THROUGH A JPM ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE. FOR INFORMATION ABOUT JPM UK ENTITIES REFER TO WWW.JPMSL.COM/PAGES/DISCLOSURES 2009. JPMORGAN CHASE & CO. JPM IS AUTHORIZED AND REGULATED BY THE FSA.  
03/23/2012 05:38:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
the main is pushed back up xover does not move  
03/23/2012 05:38:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
eurostoxx was at the same level yesterday  
03/23/2012 05:38:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
Ade tried to contact you for some colour on IB  
03/23/2012 05:39:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
the var increase went a lot from tactical because they picked the wrong equity delta  
03/23/2012 05:39:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
i sold a little more protection in main for tactical  
03/23/2012 05:39:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
i am done for the whole book now  
03/23/2012 05:39:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says:  
i sent u a couple of emails
03/23/2012 05:39:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says: they push also the series 9 main wider than market.

03/23/2012 05:40:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says: so we will lose more today.

03/23/2012 05:40:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says: for sure.

03/23/2012 05:40:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says: and this is going to happen across the book.

03/23/2012 05:40:31 BRUNO IKSIL, JPMORGAN CHASE BANK, says: they will also fram the hy indices and tranches against us.

03/23/2012 05:40:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says: this will be aggressive.

03/23/2012 05:41:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says: main ahs widened 2.5 bps.

03/23/2012 05:41:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says: nothing else moved.

03/23/2012 05:41:54 BRUNO IKSIL, JPMORGAN CHASE BANK, says: m yesterday.

03/23/2012 05:53:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I reckon we have today a loss of 300m USING THE BEST BID ASKS.

03/23/2012 05:53:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says: and approx 600m from mids.

03/23/2012 05:53:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i see it coming.

03/23/2012 06:07:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I will stop trading at all now.

03/23/2012 06:07:53 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I do not need to unless removing the long risk in 0-3 10yr 59 and 1G9.

03/23/2012 07:54:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says: do you need any material to be prepared for today’s meeting?

03/23/2012 10:56:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I was on the call.

03/23/2012 10:56:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I asked Pat and Samir to provide marginals to see what I can do to reduce the var and rwa.
03/23/2012 05:45:49 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
03/23/2012 05:45:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (743671) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR
SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL
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EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS
GOVERNING LAW PERMITS OTHERWISE.

03/23/2012 05:45:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno

03/23/2012 05:45:54 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/23/2012 05:45:54 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (746335) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR
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EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS
GOVERNING LAW PERMITS OTHERWISE.

03/23/2012 05:45:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
salut

03/23/2012 05:46:01 JULIEN GROUT, JPMORGAN CHASE BANK, says:
salut

03/23/2012 05:46:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c mort la

03/23/2012 05:46:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
david de CS appelle au sujet des skew trades. Je lui demande un prix ferme sur indice vs single names?

03/23/2012 05:46:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
coupons matched etc

03/23/2012 05:46:33 JULIEN GROUT, JPMORGAN CHASE BANK, says:
?

03/23/2012 05:46:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
03/23/2012 05:46:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: c un full upfront

03/23/2012 05:46:54 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok understood

03/23/2012 05:48:11 JULIEN GROUT, JPMORGAN CHASE BANK, says: pour revenir a ton premier point

03/23/2012 05:48:14 BRUNO IKSIL, JPMORGAN CHASE BANK, says: continue a vendre la ss

03/23/2012 05:48:25 BRUNO IKSIL, JPMORGAN CHASE BANK, says: leve la 0-3 10yr

03/23/2012 05:48:28 JULIEN GROUT, JPMORGAN CHASE BANK, says: on en discutera lundi si tu veux bien,

03/23/2012 05:48:32 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok ok je continue ca

03/23/2012 05:48:38 BRUNO IKSIL, JPMORGAN CHASE BANK, says: oui

03/23/2012 05:48:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je te dis

03/23/2012 05:48:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says: vont nous defoncer

03/23/2012 05:48:56 JULIEN GROUT, JPMORGAN CHASE BANK, says: y a bcp a dire, mais je ne veux pas charger ta charette qui est deja bien remplie

03/23/2012 05:52:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says: c soir tu as au moins 600m

03/23/2012 05:52:36 BRUNO IKSIL, JPMORGAN CHASE BANK, says: BID ASK

03/23/2012 05:52:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says: MID

03/23/2012 05:52:51 BRUNO IKSIL, JPMORGAN CHASE BANK, says: BID ASK TU AS 300M AU MOINS

03/23/2012 05:54:46 JULIEN GROUT, JPMORGAN CHASE BANK, says: tu as vu le run de Jospehine.. attack full force.

03/23/2012 05:57:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says: oui

03/23/2012 05:57:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says: c partout

03/23/2012 05:58:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says: on est mort je te dis
03/23/2012 05:58:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: mais bon c hors de mon controle maintenant

03/23/2012 05:58:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says: j'ai fait ce qu'il fallait

03/23/2012 06:04:04 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

03/23/2012 06:18:11 JULIEN GROUT, JPMORGAN CHASE BANK, says: oula bnp...

03/23/2012 07:27:02 JULIEN GROUT, JPMORGAN CHASE BANK, says: bruno/

03/23/2012 07:30:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: oui

03/23/2012 07:31:38 JULIEN GROUT, JPMORGAN CHASE BANK, says: l'arret du trading c nous 3 ou juste moi?

03/23/2012 07:31:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says: toi

03/23/2012 07:31:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says: sur core

03/23/2012 07:31:52 JULIEN GROUT, JPMORGAN CHASE BANK, says: k

03/23/2012 07:32:05 JULIEN GROUT, JPMORGAN CHASE BANK, says: eric/luis ils peuvent continuer, sur leur tactical

03/23/2012 07:32:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says: continue sur la ss les 0-3 1A yr

03/23/2012 07:32:07 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok?

03/23/2012 07:32:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says: oui

03/23/2012 07:32:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says: continue sur les 25-35 HY

03/23/2012 07:32:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says: pas les 15-25

03/23/2012 07:32:53 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

03/23/2012 07:33:02 JULIEN GROUT, JPMORGAN CHASE BANK, says: tu pourras me donner la couleur stp? s'il y en a.

03/23/2012 07:33:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says: rien pour le moment.
03/23/2012 07:33:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
03/23/2012 07:33:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ca va se negocier avec IIB
03/23/2012 07:33:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout en haut
03/23/2012 07:33:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
et je vais en prendre pour mon grade
03/23/2012 07:33:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
today?
03/23/2012 07:33:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais bon on a du carry
03/23/2012 07:33:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah? cela t'a été confirme/
03/23/2012 07:34:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c pas necessaire
03/23/2012 07:34:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu ne perds pas 500M sans consequences
03/23/2012 07:34:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
arde le pour toi
03/23/2012 07:34:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh oui
03/23/2012 07:34:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c le bon sens qui me dit ca
03/23/2012 07:46:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tua as parle a august? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
03/23/2012 07:47:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
03/23/2012 07:47:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
03/23/2012 07:47:38 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
essaie de collecter des prix fermes
03/23/2012 07:47:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
j'ai rien vu de ferme pour le moment
03/23/2012 07:48:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
03/23/2012 07:56:47 JULIEN GROUT, JPMORGAN CHASE BANK, says:
Bruno? tu as besoin de qqqho/
03/23/2012 08:13:16 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon bruno

03/23/2012 08:13:26 JULIEN GROUT, JPMORGAN CHASE BANK, says:
Javier est reparti dans un conf call avec A

03/23/2012 08:13:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je n'ai pas pu lui parler

03/23/2012 08:14:05 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/23/2012 08:14:24 JULIEN GROUT, JPMORGAN CHASE BANK, says:
mais bon il m'avait pas l'ai concerné par des vendo.. plutôt autre chose

03/23/2012 08:14:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je vais chercher le dej et je reviens

03/23/2012 08:26:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu es la?

03/23/2012 08:31:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
urgent.

03/23/2012 08:33:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oui

03/23/2012 08:59:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
garde ton email

03/23/2012 09:00:02 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
essayé de retrouver les run de roman shukhman sur ig9 pour montrer qu'ils ont plus steep et mettent le
Ig9 10yr plus que le marché

03/23/2012 09:01:36 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno

03/23/2012 09:02:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
essayé de retrouver les chat sur les chat de jo ou ils nous sniffent

03/23/2012 09:02:13 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu te rappelles l'histoire de début d'année avec Sylvain sur le roll s9 5y?

03/23/2012 09:02:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
non

03/23/2012 09:02:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c'était koi déjà?

03/23/2012 09:02:41 JULIEN GROUT, JPMORGAN CHASE BANK, says:
j'avais checké sylvain, et fait une gross taille de roll s9 5y

03/23/2012 09:02:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
aux de temps après il me dit que jpm le lift dessus

03/23/2012 09:02:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ah oui
03/23/2012 09:03:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    faut le retrouver celui la

03/23/2012 09:03:13 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    je 'ai, en francais malheureusement

03/23/2012 09:03:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    c pas grave envoie

03/23/2012 09:03:31 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    en meme que peux tu me rappeler ce que tu avais trade/booked?

03/23/2012 09:03:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    achilles comprend tres bien le francais

03/23/2012 09:03:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    cad?

03/23/2012 09:03:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    je veux le timing exact

03/23/2012 09:03:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    de quoi?

03/23/2012 09:04:03 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    ben des evenements

03/23/2012 09:04:16 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    parce que si tu as deja trade du roll avant moi la dessus

03/23/2012 09:04:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    ca sera encore plus limpide

03/23/2012 09:04:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    tu vois?

03/23/2012 09:04:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    je ne me souviens plus

03/23/2012 09:04:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    ok je regarde le blotter

03/23/2012 09:04:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    c quel jour?

03/23/2012 09:05:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    ah oui tu as trade 250m de roll s9 avec db a 7h55!!

03/23/2012 09:05:29 JULIEN GROUT, JPMORGAN CHASE BANK, says:
    le 4-jan

03/23/2012 09:06:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    'k

03/23/2012 09:06:18 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
    tu as le chat?
03/23/2012 09:06:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
'joule le
03/23/2012 09:06:29 JULIEN GROUT, JPMORGAN CHASE BANK, says:
avec sylvain? oui
03/23/2012 09:06:31 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne vois rien chez moi
03/23/2012 09:06:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais je me rappelle
03/23/2012 09:14:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok apparemment tu as booké le trade vers 8h20 ce jour là, moi j'ai trade à 9h.
03/23/2012 09:14:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cool
03/23/2012 09:50:07 JULIEN GROUT, JPMORGAN CHASE BANK, says:
pour l'instant je n'ai que 5 'pieces' au dossier
03/23/2012 09:53:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde ton email
03/23/2012 09:53:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vu
03/23/2012 09:53:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
un de plus
03/23/2012 09:54:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ben oui on ne va pas boiser comme si on était parano tout le temps aussi
03/23/2012 09:54:25 JULIEN GROUT, JPMORGAN CHASE BANK, says:
6 pieces
03/23/2012 09:56:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde tes chats à toi avec JP guys
03/23/2012 10:05:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je fais Mark Shirfan
03/23/2012 10:22:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vois tes emails stp
03/23/2012 10:23:14 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je vois
03/23/2012 10:23:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
la var explose
03/23/2012 10:23:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
''ui''
03/23/2012 10:23:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c foutu
03/23/2012 10:23:37 JULIEN GROUT, JPMORGAN CHASE BANK, says:

sule moyen c le book a zero

03/23/2012 10:25:04 JULIEN GROUT, JPMORGAN CHASE BANK, says:

tu peux me dire ce que t'a dit ad ce matin?

03/23/2012 10:25:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

3 gars de l'ib sont venus lui demander ma taille sur ig

03/23/2012 10:26:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

je ne veux pas savoir qui c

03/23/2012 10:26:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

je suis sur lecall

03/23/2012 10:28:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

as tu eu des updates sur les marginal?

03/23/2012 10:28:06 JULIEN GROUT, JPMORGAN CHASE BANK, says:

no

03/23/2012 10:28:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

rwa

03/23/2012 10:28:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:

46.7

03/23/2012 10:28:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

les marginals sur le rwa

03/23/2012 10:29:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:

non rien.. en cours

03/23/2012 10:29:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

j'en ai besoin

03/23/2012 10:29:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:

je sais

03/23/2012 10:29:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:

je viens de relancer pat

03/23/2012 10:29:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

merci

03/23/2012 10:31:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:

tu peux me faire les transcripts de david gldenberg a CS stp?

03/23/2012 10:31:38 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

je suis sur le call

03/23/2012 10:31:45 JULIEN GROUT, JPMORGAN CHASE BANK, says:

"k

03/23/2012 10:31:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

tout est sur le chat de cs

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by JPMORGAN CHASE & CO.
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03/23/2012 10:31:58 BRUNO IKSIL, JPMORGAN CHASE BANK, says: eux tu le faire
03/23/2012 10:32:03 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok
03/23/2012 10:57:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says: appel moi qa tu peux
03/23/2012 11:36:13 JULIEN GROUT, JPMORGAN CHASE BANK, says: tjs en ligne?
03/23/2012 11:38:42 JULIEN GROUT, JPMORGAN CHASE BANK, says: dis moi quand tu as pu retrouver les chats de David Goldenberg
03/23/2012 11:38:43 JULIEN GROUT, JPMORGAN CHASE BANK, says: stp
03/23/2012 12:00:09 BRUNO IKSIL, JPMORGAN CHASE BANK, says: c sur Ie chat de cs sur la fin de mois
03/23/2012 12:00:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says: et il ya celui de citi
03/23/2012 12:00:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says: il faut montrer les deux en paralle!
03/23/2012 12:00:34 JULIEN GROUT, JPMORGAN CHASE BANK, says: peux tu me les envoyer stp?
03/23/2012 12:01:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok je fais citi
03/23/2012 12:01:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says: tu peux faire cs?
03/23/2012 12:03:39 JULIEN GROUT, JPMORGAN CHASE BANK, says: C'ETAIT SUR QUOI DEJA ? LES 6B?
03/23/2012 12:04:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok laisse tomber
03/23/2012 12:04:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je e fais
03/23/2012 12:04:54 JULIEN GROUT, JPMORGAN CHASE BANK, says: desole y avait javier j'ai perdu le fil
03/23/2012 12:04:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says: pas de pb
03/23/2012 12:05:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says: garde tes email
03/23/2012 12:05:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je faire janvier et fevrier sur credit suisse
03/23/2012 12:05:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
'vux tu te rappeler des chats ou les traders te disaient que l'IIB poussait sur ig9?

03/23/2012 12:07:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
non

03/23/2012 12:07:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
aucun

03/23/2012 12:19:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno

03/23/2012 12:19:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui

03/23/2012 12:19:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ignore le dernier email pour csfb*

03/23/2012 12:19:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c un dupe

03/23/2012 12:19:52 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon j'ai les marginals old fashion

03/23/2012 12:19:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ah demande a Javier

03/23/2012 12:20:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
qu e pni on print today

03/23/2012 12:20:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne sais plus la

03/23/2012 12:20:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
 j'ai aussi les marginals pour un split IRC/optimal tranches book, ça t'intéresse?

03/23/2012 12:20:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui

03/23/2012 12:20:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
 stp va voir Javier

03/23/2012 12:20:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne sais pas quel pni envoyer la

03/23/2012 12:20:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok je vais aller lui demander. il pense que les pieces que j'ai amassees ne sont pas assez

03/23/2012 12:20:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/23/2012 12:20:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
"x vais aller lui envoyer

03/23/2012 12:22:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
dis moi qd core delta est updated
03/23/2012 12:24:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
'one

03/23/2012 12:24:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
si on doit faire bcp plus de ig9 vs ig18 il faut faire une simulation sur le rwa via Pat

03/23/2012 12:27:17 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon je fais le pnl là

03/23/2012 12:27:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?

03/23/2012 12:29:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ah non on ne fera jamais ça!

03/23/2012 12:29:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
y en a marre à la fin

03/23/2012 12:30:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu as parlé à Javier?

03/23/2012 12:37:12 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu noteras qu'il veut faire les simulations de capital AVANT de traiter

03/23/2012 12:51:30 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bon ça va douiller sur la compression là

03/23/2012 12:52:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui

03/23/2012 12:53:00 JULIEN GROUT, JPMORGAN CHASE BANK, says:
as tu parlé à Javier?

03/23/2012 12:56:06 JULIEN GROUT, JPMORGAN CHASE BANK, says:
b?

03/23/2012 12:56:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui

03/23/2012 12:56:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/23/2012 12:57:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
we show -3 until month end on this one

03/23/2012 12:57:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
anyway

03/23/2012 13:03:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je peux appeler?

03/23/2012 13:03:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
'tu veux

03/23/2012 13:07:52 JULIEN GROUT, JPMORGAN CHASE BANK, says:
le bo ne va rien faire, parce quelle pb aujourd'hui c'est la compression
03/23/2012 13:08:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says: arrete

03/23/2012 13:08:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: tu ne perds pas 200m en compression

03/23/2012 13:08:55 JULIEN GROUT, JPMORGAN CHASE BANK, says: bon

03/23/2012 13:09:28 JULIEN GROUT, JPMORGAN CHASE BANK, says: on a 34m de cs01 en ig. hy unc’d today (par rapport à nos marques) et ig+3.25. ca fait 110m

03/23/2012 13:09:35 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok?

03/23/2012 13:09:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says: écoute je n’ai pas le temps

03/23/2012 13:09:49 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

03/23/2012 13:09:51 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

03/23/2012 13:09:53 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je suis avec pat pour voir les trades

03/23/2012 13:10:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says: tout ce que je te demande c de dire a Javier ce que tu vois

03/23/2012 13:10:14 BRUNO IKSIL, JPMORGAN CHASE BANK, says: c tout et ils decide ce qu’on montre

03/23/2012 13:10:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says: parce que la moi je ne sais plus

03/23/2012 13:10:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je regarde la reduction du rwa

03/23/2012 14:37:47 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room
03/23/2012 05:45:49 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room

03/23/2012 05:45:50 JULIEN GROUT, JPMORGAN CHASE BANK, says:

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03/23/2012 05:45:59 BRUNO IKSil, JPMORGAN CHASE BANK, says:
salut

03/23/2012 05:46:01 JULIEN GROUT, JPMORGAN CHASE BANK, says:
salut

03/23/2012 05:46:03 BRUNO IKSil, JPMORGAN CHASE BANK, says:
c mort la

03/23/2012 05:46:28 JULIEN GROUT, JPMORGAN CHASE BANK, says:
david de CS appelle au sujet des skew trades, je lui demande un prix ferme sur indice vs single names?

03/23/2012 05:46:32 JULIEN GROUT, JPMORGAN CHASE BANK, says:
coupons matched etc
coupons matched etc 03/23/201205:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: oui
03/23/201205:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: on un full upfront
it is a full upfront
03/23/201205:46 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok understood
ok understood
03/22/201205:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
to get back to our first point
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
continue a vendre la as keep on selling the ss
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
levy/raise/exercise the 0-3 10yr
03/23/201205:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
on en discutera lundi si tu veux bien, we will talk about that on Monday if it is fine with you
03/23/201205:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok ok je continue ca ok ok i continue that
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je te dis i tell you
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ils vont nous defoncer they are going to trash/destroy us
03/23/201205:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
y a bcp a dire, mais je ne veux pas charger ta charrette qui est deja bien rempil there is a lot to say, but I don't want to burden you more than you already are
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
655228 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c scf tu as au moins 600m
6:55 tonight you'll have at least 600m
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
BID ASK
BID ASK
03/23/201205:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
MID
MID
03/23/2012 05:52:53 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
BID ASK TU AS 300M AT LEAST

03/23/2012 05:54:46 JULIEN GROUT, JPMORGAN CHASE BANK, says:
Tu as vu le run de Josephine... attack full force.
You have seen Josephine's run... attack full force.

03/23/2012 05:55:52 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
oui
yes

03/23/2012 05:57:59 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
It is everywhere/all over the place

03/23/2012 05:58:04 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
on est mort je te dis
we are dead I tell you

03/23/2012 05:58:19 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
mais bon c' est hors de mon controle maintenant
but then it is out of my hands now

03/23/2012 05:58:27 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
J'ai fait ce qu'il fallait
I did what I had to do

03/23/2012 06:04:04 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/23/2012 06:18:11 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oua brp...

03/23/2012 07:27:02 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno/bruno/

03/23/2012 07:30:46 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
oui
yes

03/23/2012 07:31:38 JULIEN GROUT, JPMORGAN CHASE BANK, says:
Faut du trading c nous 3 ou juste moi?
The stop of the trading, is it the 3 of us or only me?

03/23/2012 07:31:49 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
toi
ou you

03/23/2012 07:31:52 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
sur core
on core

03/23/2012 07:31:52 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/23/2012 07:32:03 JULIEN GROUT, JPMORGAN CHASE BANK, says:
eric/luis ils peuvent continuer, sur leur tactical
eric/luis can go on, on their tactical

03/23/2012 07:32:06 BRUNO IKSTL, JPMORGAN CHASE BANK, says:
continue sur les les 0-3 1 A yr
03/23/2012 07:32:07 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
03/23/2012 07:32:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui yes
03/23/2012 07:32:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
continue sur les 25-25 HY
03/23/2012 07:32:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
pas les 15-25
not the 15-25
03/23/2012 07:32:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
03/23/2012 07:33:02 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu pourras me donner la couleur s'il y en a.
will you give me the color please? if there is some.
03/23/2012 07:33:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
rien pour le moment
nothing for now
03/23/2012 07:33:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
03/23/2012 07:33:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ca va se negocier avec l'IB
it will be negotiated with the IR
03/23/2012 07:33:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tout en haut
at the top
03/23/2012 07:33:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
et je vais en prendre pour mon grade
and I am going to be hauled over the coals
03/23/2012 07:33:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
today?
today?
03/23/2012 07:33:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais bon on a du carry
but we have some carry
03/23/2012 07:34:17 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah? cela t'a ete confirme?
ah? it was confirmed to you?
03/23/2012 07:34:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c pas necessaire
it is not necessary
03/23/2012 07:34:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu ne perdra pas 500M sans consequences
you don't lose 500M without consequences
1460

03/23/20 12 07:34:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says
garde le pour toi
keep it for you
03/23/2012 07:34:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oh oui
oh yes
03/23/20 120734:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
c le bon sens qui me dit ca
good sense tells me so
03/23/20 120746:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as parle a auguit? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/20 120747:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 120747:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/2012 07:46:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as parle a auguit? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/2012 07:47:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 120747:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/2012 07:46:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as parle a auguit? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/20 120747:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 120747:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/2012 07:46:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as parle a auguit? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/20 120747:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/20 120747:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/2012 07:46:55 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu as parle a auguit? sinon, je lui dis de nous montrer le skew trade (sous le bon format)?
Did you talk to august? otherwise, I tell him to show us the skew trade (under the good format)?
03/23/20 120747:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
BRUNO IKSIL, JPMORGAN CHASE BANK, says:

urgent

03/23/2012 08:33:49 JULIEN GROUT, JPMORGAN CHASE BANK, say:

oui

yes

03/23/2012 08:33:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:

regarde ton email

look at your email

03/23/2012 09:02:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

essaye de retrouver les runs du roman shukhman sur ig9 pour montrer qu'ils sont plus steep et mettent le ig9 10yr plus que le marché

try to find roman shukhman's runs on ig9 in order to show that they are "more steep"/steeper and that they put the ig9 10 yr more than the market

03/23/2012 09:02:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:

bruno

bruno

03/23/2012 09:02:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

essaye de retrouver les chat sur le chat de jp au ils nou sniffent

try to find the chats about the jp's chat where they sniff us

03/23/2012 09:03:13 JULIEN GROUT, JPMORGAN CHASE BANK, says:

tu te rappelles l'histoire de début d'année avec Sylvain sur le roll s9 5y?

do you remember the story from the beginning of the year with Sylvain on the s9 5y roll?

03/23/2012 09:03:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:

non

no

03/23/2012 09:03:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

c'était quoi déjà?

What was it again?

03/23/2012 09:03:26 JULIEN GROUT, JPMORGAN CHASE BANK, says:

j'avais checké Sylvain et fait une grosse taille de roll s9 5y

I had checked with Sylvain and done a big size of roll s9 5y

03/23/2012 09:03:33 JULIEN GROUT, JPMORGAN CHASE BANK, says:

peux de temps après il me dit que jpm le lift dessus

shortly after he tells me that jpm lifts him from it

03/23/2012 09:04:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

en renchérit peut tu me rappeler ce que tu avais trade/booké?

however could you remind me what you traded/booked?

03/23/2012 09:04:16 JULIEN GROUT, JPMORGAN CHASE BANK, says:
achilles comprend tres bien le francais
achilles understands French very well
03/23/2012 09:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cad?
Which means?
03/23/2012 09:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je veux le timing exact
I want the exact timing
03/23/2012 09:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says
de quoi?
of what?
03/23/2012 09:03 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ben des evenements
well, of the events
03/23/2012 09:41 JULIEN GROUT, JPMORGAN CHASE BANK, says
parce que si tu as deja traite du roll avant moi la dessus
because if you have already treated some roll before me on that
03/23/2012 09:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
c sera encore plus limide
It will be even clearer
03/23/2012 09:04:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu veux?
Do you see ?
03/23/2012 09:04:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne me souvien plus
I don’t remember
03/23/2012 09:43 JULIEN GROUT, JPMORGAN CHASE BANK, says
ok je regarde le blotter
ok I look at the blotter
03/23/2012 09:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
c quel jour?
What day is it ?
03/23/2012 09:05:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ah ai ! tu as traite 250m de roll s9 avec db a 7h55 !
oh yes! You dealt with 250m of roll s9 with db at 7h55 !
03/23/2012 09:06:29 JULIEN GROUT, JPMORGAN CHASE BANK, says
le 4 jan
4th Jan
03/23/2012 09:06:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok
03/23/2012 09:06:18 BRUNO IKSIL, JPMORGAN CHASE BANK, says
tu as le chat?
Do you have the chat?
03/23/2012 09:06:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ajoute le
add it
03/23/2012 09:06:29 JULIEN GROUT, JPMORGAN CHASE BANK, says:
avec sylvain? oui
with Sylvain? yes
03/23/201209:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne vois rien chez moi
I can’t see anything on mine
03/23/201209:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
mais je ne me rappelle
but I remember
03/23/201209:37 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ck apparently tu as booked le trade vers 8h20 ce jour la, moi j’ai trade a 9h.
ck apparently you booked the trade around 8h20 this day, and I traded at 9h.
03/23/201209:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cool
03/23/201209:50 JULEN GROUT, JPMORGAN CHASE BANK, says:
pour l’instant je n’ai que 5 ‘pieces’ au dossier
for now I have only 5 documents in the file
03/23/201209:53 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde ton email
look at your email
03/23/201209:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vu
seen
03/23/201209:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
un de plus
one more
03/23/201209:54 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
bien oui on ne va pas bosser comme si on etait parano tout le temps aussi
well yes, we are not going to work as if we were paranoid all the time!
03/23/201209:54 JULIEN GROUT, JPMORGAN CHASE BANK, says:
6 pieces
6 documents
03/23/201209:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
regarde tes chats a toi avec JP guys
look at your own chats with the JP guys
03/23/2012 10:05 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je fais Mark Shirfin
I look at Mark Shirfin
03/23/2012 10:2250 JULIEN GROUT, JPMORGAN CHASE BANK, says:
vois les emails rip
look at the emails please
03/23/2012 10:23 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je vois
I see
03/23/2012 10:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
la var explode
the var explodes
03/23/2012 10:230 JULIEN GROUT, JPMORGAN CHASE BANK, says:
oui
yes
03/23/2012 10:23:35 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

C fautu it is over

03/23/2012 10:23:37 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Le seul moyen c le book a zero
the only way is the book at zero

03/23/2012 10:25:04 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Tu peux me dire ce que t’a dit ade ce matin?
Can you tell me what ade told you this morning?

03/23/2012 10:26:08 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

Je ne veux pas savoir qui c
I don’t want to know who it is

03/23/2012 10:26:19 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Tu peux me dire ce que t’a dit ade ce matin?
Can you tell me what ade told you this morning?

03/23/2012 10:26:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:

J am on the call

03/23/2012 10:28:01 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

As tu eu des updates sur les marginales?
Did you get the updates about the marginales?

03/23/2012 10:28:06 JULIEN GROUT, JPMORGAN CHASE BANK, says:

No

03/23/2012 10:28:10 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

Rwa rwa

03/23/2012 10:28:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:

48.7

03/23/2012 10:28:48 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

Les marginales sur le rwa
the marginales on the rwa

03/23/2012 10:29:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Non rien... en cours
no, nothing... in progress

03/23/2012 10:29:33 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

J’en ai besoin
I need them

03/23/2012 10:29:39 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Je sais
I know

03/23/2012 10:29:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Je viens de relancer pat
I just asked Pat again

03/23/2012 10:29:59 BRUNO TKSIL, JPMORGAN CHASE BANK, says:

Merci
thanks

03/23/2012 10:31:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:

Tu peux me faire les transcripts de david gildenberg a CS stp?

Can you please do/check David Goldberg's transcripts to CS ?

03/23/2012 10:31:38 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: je suis sur le call

I am on the call.

03/23/2012 10:31:45 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

ok

03/23/2012 10:31:48 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: tout est sur le chat de cs
tout est sur le chat de cs

03/23/2012 10:31:58 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: peux tu le faire
can you do it?

03/23/2012 10:32:03 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

ok

03/23/2012 10:57:13 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: appelle moi quand tu peux
call me when you can

03/23/2012 11:36:16 JULIEN GROUT, JPMORGAN CHASE BANK, says: tjs en ligne?
Still online?

03/23/2012 12:01:38 JULIEN GROUT, JPMORGAN CHASE BANK, says: dis moi quand tu as pu retrouver les chats de David Goldberg
tell me when you can find David Goldberg's chats

03/23/2012 12:01:48 JULIEN GROUT, JPMORGAN CHASE BANK, says: stp
please

03/23/2012 12:00:09 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: c sur le chat de cs sur la fin de mois
c is on cs's chat at the end of the month.

03/23/2012 12:00:16 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: et il ya celui de citi
and there is the citi one

03/23/2012 12:20:28 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: il faut montrer les deux en parallel
you need to show both in parallel

03/23/2012 12:00:34 JULIEN GROUT, JPMORGAN CHASE BANK, says: peux tu me les envoyer stp?
Can you send them to me please?

03/23/2012 12:01:09 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: ok je fis citi
ok I do citi

03/23/2012 12:01:12 BRUNO IKSIIL, JPMORGAN CHASE BANK, says: tu peux faire cs?
Can you do cs please?

03/23/2012 12:03:39 JULIEN GROUT, JPMORGAN CHASE BANK, says: C'ETAIT SUR QUOI DEJA ? LES 6B?
About what was it again? The 6b?
ok laisse tomber
ok give it up
bruno, jpmorgan chase bank, says:
je le fais
I do it
ok laisse tomber
ok give it up
bruno, jpmorgan chase bank, says:
je e fais
I do it
bruno, jpmorgan chase bank, says:
03/23/2012 12:04:54
bruno, jpmorgan chase bank, says:
desole y avait javier j'ai perdu le fil
03/23/2012 12:04:59
bruno, jpmorgan chase bank, says:
sorry javier was here and I lost track
bruno, jpmorgan chase bank, says:
I do it
bruno, jpmorgan chase bank, says:
je e fais
I do it
bruno, jpmorgan chase bank, says:
je faire janvier et fevrier sur credit suisse
bruno, jpmorgan chase bank, says:
I am going to do January and February on credit suisse
bruno, jpmorgan chase bank, says:
03/23/2012 12:05:05
bruno, jpmorgan chase bank, says:
regarder tes email
look at your emails
bruno, jpmorgan chase bank, says:
je faire janvier et fevrier sur credit suisse
03/23/2012 12:05:16
bruno, jpmorgan chase bank, says:
03/23/2012 12:05:47
bruno, jpmorgan chase bank, says:
non
no
bruno, jpmorgan chase bank, says:
03/23/2012 12:19:21
bruno, jpmorgan chase bank, says:
03/23/2012 12:19:46
bruno, jpmorgan chase bank, says:
ignore le dernier email pour csfb*
disregard the last email for csfb
bruno, jpmorgan chase bank, says:
c un dupe
it is a trick
bruno, jpmorgan chase bank, says:
03/23/2012 12:19:52
bruno, jpmorgan chase bank, says:
bon j'ai les marginals old fashion
well, I have the old fashion marginals
bruno, jpmorgan chase bank, says:
03/23/2012 12:19:56
bruno, jpmorgan chase bank, says:
03/23/2012 12:20:06
bruno, jpmorgan chase bank, says:
je ne sais plus la
I don't know anymore.
03/23/2012 22:20:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je suis les marginaux pour un split IRC/optimal tranches book, ça t'intéresse?
I also have the marginals for a split IRC/optimal tranches book, are you interested?
03/23/20 12:20:25 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
oui
yes
03/23/2012 12:20:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
scp va voir Javier
please, go see Javier
03/23/2012 12:20:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
je ne sais pas quel pnl envoyer la
I don't know which pnl I should send
03/23/2012 12:20:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok je vais aller lui demander. il pense que les pieces que j'ai amasses ne sont pas assez
ok I am going to ask him, he thinks that the documents that I collected are not enough
03/23/2012 12:20:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok
03/23/2012 12:20:49 JULIEN GROUT, JPMORGAN CHASE BANK, says:
je vais aller lui envoir
I am going to send them to him
03/23/2012 12:20:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
dis moi si core delta est updated
tell me when core delta is updated
03/23/2012 12:24:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
done
done
03/23/2012 12:24:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
si on doit faire bcp plus de ig9 vs ig18 il faut faire une simulation sur le rwa via Pat
if we must do much more ig9 vs ig18, we need to do a simulation on the rwa via Pat
03/23/2012 12:27:17 JULIEN GROUT, JPMORGAN CHASE BANK, says:
on je fais le pnl la
well, I do the pnl now
03/23/2012 12:27:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok?
ok?
03/23/2012 12:29:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
si on ne fera jamais ça !
oh no, we will never do that!
03/23/20 12:29:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ben a la fin
enough is enough
03/23/20 12:30:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
tu as parlé à Javier?
Did you talk to Javier?
03/23/20 12:37:12 JULIEN GROUT, JPMORGAN CHASE BANK, says:
tu noteras qu'il veut faire les simuls de capital AVANT de traiter
you'll notice that he wants to do the capital simulations BEFORE dealing
bon ça va douiller sur la compression là
it is going to be spent/expensive on the compression now

oui
yes

Did you talk to Javier?

as tu parlé a Javier?

je peux appeler?
Can I call?

si tu veux
If you want

le bo ne va rien faire, parce qu'aujourd'hui c'est la compression
the bo is not going to do anything, because today's problem is compression

arrête
stop that

tu ne perds pas 200m en compression
you do not lose 200m with compression

bon
well

on a 34m de esO1 en lg, hy un'e today (par rapport a nos marques) et lg+3.25. ça fait 110m
we have 34m of esO1 in lg. Hy un'e today (in comparison with our marks) and lg+3.25. it makes 110m
03/23/2012 13:09:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says: écoute je n'ai pas le temps
listen, I don’t have time
03/23/20 13:09:49 JULIEN GROUT, JPMORGAN CHASE BANK, says: pourquoi?
why?
03/23/20 13:09:51 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok
ok
03/23/20 13:10:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je suis avec pat pour voir les trades
I am with pat to see for the trades
03/23/20 13:10:14 BRUNO IKSIL, JPMORGAN CHASE BANK, says: tout ce que je te demande c de dire a Javier ce que tu vois
all that I am asking you is to tell javier what you see
03/23/20 13:10:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says: parce que la moi je ne sais plus
because me. I don’t know anymore
03/23/20 13:10:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says: je regarde la reduction du rwa
I look at the reduction in the rwa
03/23/20 13:14:37 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room
From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Thu, 29 Mar 2012 21:18:08 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: First draft of the presentation
Core Credit Book: summary

1- the beta adjusted moves
   - case of a 1x1 hy vs IG position: illusions with spreads and bp measure sensitivities
   - the book remains neutral x% CS01: implications
     1- if IG9 lags, the book becomes long risk, because we are long risk in IG9
     2- if HY decompresses, the book becomes short risk, because we are short risk in HY

2- the Method
   - Look at beta adjusted moves on history: the whole story is about compression and decompression
   - breakdown the risk from beta factors
     1- the book has a directional bias, but next it is all about expected loss changes (mixing carry and MTM)
     2- the beta neutral book breaks into 3 parts:
       a- decompression trade ie HY vs IG on the run
       b- S9 vs IG on the run and hy off the run vs HY on the run
       c- equity tranche slope

3- the findings: target YTD at -750M
   - the book is huge: 95Bln IG9 and 36Bln S9 fwd s, decompression (8M bp in HY or 25Bln, 2.3M in Xover or 7Bln)
   - Decompression worked very well and only starting: total gain ytd of 600M (60Bp Xover, 60bps in HY)
     we captured 12% decompression out of a move of 18%
   - Series9 lag is overwhelming: total loss YTD is 1.5Bln (22bps in IG9 fwds and main S9)
   - directionality: -60M and carry: -40M (with no roll down): total 100m
   - defaults (Kodak and Rescap) cost are estimated at 100M total
   - 0-3 equity slopes cost a total 200M: 50M in iTraxx (2pts) and 150M in CDX IG (5pts)
   - New trades: gain 200M

J.P.Morgan
Credit Book: Trading activity: positions and new trades

Rationale for the positions increase:
1- cover the HY downside on some defaults, prepare for IG tightening, stay market neutral to minimize RWA
2- started by selling IG9 5yr and S9 5yr: the curve steepened and the forwards moved up
3- sold S9 and IG9 5x10 to limit the P&L hit
4- defended the P&L at Month end while the decompression kept going and increased the underperformance of S9 series

<table>
<thead>
<tr>
<th>Tranche Block</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main OTR Xover</td>
<td>3.700</td>
<td>-2,479,033,784</td>
<td>-3,750,759,757</td>
<td>-3,283,783,784</td>
<td>-6,884,371,622</td>
</tr>
<tr>
<td>Main OTR IG</td>
<td>4.500</td>
<td>10,596,246,867</td>
<td>16,092,225,222</td>
<td>14,940,000,000</td>
<td>20,885,402,222</td>
</tr>
<tr>
<td>S9 Fwd</td>
<td>4.300</td>
<td>15,534,529,571</td>
<td>20,497,379,000</td>
<td>27,746,375,000</td>
<td>33,398,825,000</td>
</tr>
<tr>
<td>5yr IG OTR eq</td>
<td>4.500</td>
<td>14,844,105,079</td>
<td>19,580,360,556</td>
<td>26,513,202,778</td>
<td>31,914,241,667</td>
</tr>
<tr>
<td>Net 5yr OTR</td>
<td>4.500</td>
<td>22,472,526,079</td>
<td>-4,110,619,444</td>
<td>6,190,069,444</td>
<td>14,082,350,556</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CDX block</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY OTR</td>
<td>4.100</td>
<td>-12,027,013,171</td>
<td>-7,246,005,439</td>
<td>-7,695,065,537</td>
<td>-14,652,835,805</td>
</tr>
<tr>
<td>IG OTR</td>
<td>5.000</td>
<td>52,289,399,240</td>
<td>31,495,051,058</td>
<td>33,442,716,708</td>
<td>63,723,815,208</td>
</tr>
<tr>
<td>Hyotr</td>
<td>4.100</td>
<td>-2,550,011,222</td>
<td>-8,555,428,927</td>
<td>-11,320,839,805</td>
<td>-11,322,162,976</td>
</tr>
<tr>
<td>HY10-11</td>
<td>2,435</td>
<td>4,233,053,359</td>
<td>14,405,446,694</td>
<td>19,070,202,546</td>
<td>18,999,001,314</td>
</tr>
<tr>
<td>IG5 Net</td>
<td>4.500</td>
<td>39,888,688,889</td>
<td>54,651,051,114</td>
<td>75,029,095,559</td>
<td>94,017,494,444</td>
</tr>
<tr>
<td>Net IG OTR</td>
<td>5.000</td>
<td>-35,896,820,000</td>
<td>-48,188,758,003</td>
<td>-67,526,156,003</td>
<td>-64,515,730,003</td>
</tr>
</tbody>
</table>

Start Jan Book Start Feb Book Start March Book Current Book

Core Credit Book: Trading activity: positions and new trades

J.P. Morgan
Core Credit Book: BP sensitivities and Directionality of the book

As spreads tightened the G9 and S9 10yr saw their duration increase while all other legs had a shrinking duration
1- this created an increase on the expected loss of the long risk that was amplified with the forward exposure
2- the decompression created a long risk that was covered with a short risk in HY as the market rallied (Var minimization)
3- this long risk exposure should have been maintained; this would have triggered an increase in RWA and Var
4- the decompression in HY and Xover was never large enough due to the legacy because we had to increase the position to defend the P&L hit without being able to stay long risk (due to RWA & Var constraints)
5- the decompression in S9 (around 25%) have induced a natural increase of long risk circa 10Bln long risk in main and 25Bln long risk in IG

<table>
<thead>
<tr>
<th>CS01</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main OTR Xover</td>
<td>-917,243</td>
<td>-1,390,000</td>
<td>-1,215,000</td>
<td>-1,807,219</td>
<td>-2,307,243</td>
</tr>
<tr>
<td>Main OTR IG</td>
<td>4,759,081</td>
<td>7,228,000</td>
<td>6,318,000</td>
<td>9,397,531</td>
<td>11,997,661</td>
</tr>
<tr>
<td>S9 Fwd</td>
<td>6,679,847</td>
<td>8,613,871</td>
<td>11,930,941</td>
<td>14,361,409</td>
<td>16,559,999</td>
</tr>
<tr>
<td>5yr IG OTR eq</td>
<td>6,679,847</td>
<td>8,613,871</td>
<td>11,930,941</td>
<td>14,361,409</td>
<td>16,559,999</td>
</tr>
<tr>
<td>Net 5yr OTR</td>
<td>10,112,636</td>
<td>-1,652,479</td>
<td>2,785,531</td>
<td>6,337,058</td>
<td>9,328,438</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COX block</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Y OTR</td>
<td>-4,931,075</td>
<td>-2,971,231</td>
<td>-3,154,973</td>
<td>-5,011,681</td>
<td>-7,302,307</td>
</tr>
<tr>
<td>IG OTR</td>
<td>26,134,700</td>
<td>15,747,526</td>
<td>16,721,356</td>
<td>31,691,908</td>
<td>41,982,228</td>
</tr>
<tr>
<td>Hyd</td>
<td>-1,045,055</td>
<td>-3,507,726</td>
<td>-4,643,594</td>
<td>-6,011,907</td>
<td>-4,533,231</td>
</tr>
<tr>
<td>HY10-11</td>
<td>1,045,055</td>
<td>3,507,726</td>
<td>4,643,594</td>
<td>6,011,907</td>
<td>4,533,231</td>
</tr>
<tr>
<td>IG9 Fwd</td>
<td>17,949,910</td>
<td>24,583,378</td>
<td>33,765,093</td>
<td>42,307,868</td>
<td>42,543,286</td>
</tr>
<tr>
<td>Net IG OTR</td>
<td>6,030,765</td>
<td>-10,067,688</td>
<td>-2,613,505</td>
<td>-4,487,405</td>
<td>-4,036,932</td>
</tr>
</tbody>
</table>
### Core Credit Book: P&L explain

<table>
<thead>
<tr>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>+1020M USD</td>
<td>-1200M USD</td>
</tr>
<tr>
<td>+500M USD</td>
<td>Steering SP and IG -1000M USD</td>
</tr>
<tr>
<td>+200M USD</td>
<td>Defaults -150M USD</td>
</tr>
<tr>
<td>+150M USD</td>
<td>Duration effect -450M USD</td>
</tr>
<tr>
<td>+110M USD</td>
<td>Equity tranche steepening -220M USD</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Book</th>
<th>Feb</th>
<th>March</th>
<th>Current Book</th>
<th>TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itraxx Block</td>
<td>88,516,208</td>
<td>-12,239,142</td>
<td>-118,755,346</td>
<td>-118,755,346</td>
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<tr>
<td>Xover/main ratio</td>
<td>58,796,586</td>
<td>44,169,465</td>
<td>57,966,051</td>
<td>60,421,965</td>
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<tr>
<td>Tranche P&amp;L</td>
<td>20,000,000</td>
<td>-20,000,000</td>
<td>-40,000,000</td>
<td>-40,000,000</td>
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<tr>
<td>New trades P&amp;L directional</td>
<td>50,000,000</td>
<td>20,000,000</td>
<td>0</td>
<td>70,000,000</td>
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<tr>
<td></td>
<td>12,523,340</td>
<td>55,690,263</td>
<td>54,213,603</td>
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<tr>
<td>TOTALS</td>
<td>-118,638,384</td>
<td>-71,133,652</td>
<td>-229,772,036</td>
<td>-229,772,036</td>
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<tr>
<td>IG block</td>
<td>-118,638,384</td>
<td>-71,133,652</td>
<td>-229,772,036</td>
<td>-229,772,036</td>
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<tr>
<td>HY off ther vs on the run</td>
<td>181,035,597</td>
<td>56,997,863</td>
<td>238,033,460</td>
<td>238,033,460</td>
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<tr>
<td>Tranche P&amp;L</td>
<td>-35,000,000</td>
<td>-70,000,000</td>
<td>-105,000,000</td>
<td>-105,000,000</td>
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<tr>
<td>New Trade P&amp;L directional</td>
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<td>20,000,000</td>
<td>0</td>
<td>40,000,000</td>
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<tr>
<td></td>
<td>-33,046,918</td>
<td>-28,301,454</td>
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<td>-150,000,000</td>
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JPMorgan
Core Credit Book: Series 9 steepening explanation: the forwards have lagged the 40bps market rally by 22 bps....

<table>
<thead>
<tr>
<th>Component</th>
<th>Itrax Main S9</th>
<th>CDX IG 9</th>
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<tbody>
<tr>
<td>10yr underperformance</td>
<td>8 Bp</td>
<td>1 Bp</td>
</tr>
<tr>
<td>Steepening</td>
<td>4 Bp</td>
<td>4 Bp</td>
</tr>
<tr>
<td>Duration effect</td>
<td>40 Bp</td>
<td>10 Bp</td>
</tr>
<tr>
<td>Beta adjustment</td>
<td>8 Bp</td>
<td>7 Bp</td>
</tr>
<tr>
<td>Total</td>
<td>24 Bp</td>
<td>22 Bp</td>
</tr>
</tbody>
</table>
Core Credit Book: Analysis of the IG9 performance

IG9 can be proxied as a normal IG index of 117 names and 5 HY Names (MBIA, RADIAN, ISTAR, SPRINT, RR Donnelley):

- The 5 names behaved like the whole HY market: they underperform the IG market and steepened a lot
- Their move relative to the rest of IG indices allows to explain most of the lag in IG9 curve but not all
- Yet 5yr IG9 outperformed by 3bps, 7yr outperformed by 4 bps while 10yr underperformed by 2 bps: the net P&L impact is ~100M USD

<table>
<thead>
<tr>
<th>Duration</th>
<th>Compression</th>
<th>Spread 03/01/2012</th>
<th>Spread 27/03/2012</th>
<th>Duration chge</th>
<th>Spread chge</th>
<th>Index eq bp</th>
<th>Index based theo</th>
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<tbody>
<tr>
<td>5yr</td>
<td>CDX IG9</td>
<td>61%</td>
<td>122</td>
<td>68</td>
<td>23.00%</td>
<td>64.00</td>
<td>3.97</td>
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<tr>
<td></td>
<td>RGN</td>
<td>60%</td>
<td>31.00%</td>
<td>12.46%</td>
<td>18.5%</td>
<td>15.18</td>
<td>0.24</td>
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<tr>
<td></td>
<td>MBIA</td>
<td>28%</td>
<td>35.00%</td>
<td>11.49%</td>
<td>4.5%</td>
<td>3.03</td>
<td>4.28</td>
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<tr>
<td></td>
<td>SPRINT</td>
<td>63%</td>
<td>5.90%</td>
<td>2.17% IG tightening</td>
<td>3.6%</td>
<td>2.98</td>
<td>0.09</td>
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<td></td>
<td>RRD</td>
<td>59%</td>
<td>4.09%</td>
<td>1.86%</td>
<td>5.00%</td>
<td>1.98</td>
<td>0.05</td>
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<td></td>
<td>SFI</td>
<td>73%</td>
<td>12.62%</td>
<td>3.40% simul</td>
<td>9.2%</td>
<td>7.95</td>
<td>1.28</td>
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<tr>
<td>% Index loss</td>
<td>66%</td>
<td>64%</td>
<td>61%</td>
<td>55.04%</td>
<td>31.39</td>
<td>-</td>
<td>3.20</td>
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<tr>
<td></td>
<td>7yr</td>
<td>CDX IG9</td>
<td>40%</td>
<td>140</td>
<td>69</td>
<td>-14.00%</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>RGN</td>
<td>34%</td>
<td>52.00%</td>
<td>34.50%</td>
<td>17.5%</td>
<td>14.34</td>
<td>2.82</td>
</tr>
<tr>
<td></td>
<td>MBIA</td>
<td>14%</td>
<td>35.20%</td>
<td>31.00%</td>
<td>5.0%</td>
<td>4.10</td>
<td>7.78</td>
</tr>
<tr>
<td></td>
<td>SPRINT</td>
<td>14%</td>
<td>21.00%</td>
<td>18.00% IG tightening</td>
<td>3.0%</td>
<td>2.46</td>
<td>4.47</td>
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<tr>
<td></td>
<td>RRD</td>
<td>20%</td>
<td>15.00%</td>
<td>12.00%</td>
<td>46.00%</td>
<td>2.46</td>
<td>2.49</td>
</tr>
<tr>
<td></td>
<td>SFI</td>
<td>12%</td>
<td>25.00%</td>
<td>23.00% simul</td>
<td>3.0%</td>
<td>2.46</td>
<td>6.12</td>
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<td>% Index loss</td>
<td>21%</td>
<td>21%</td>
<td>41%</td>
<td>35.12%</td>
<td>23.38</td>
<td>-</td>
<td>23.68</td>
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<tr>
<td></td>
<td>10yr</td>
<td>CDX IG9</td>
<td>26%</td>
<td>148</td>
<td>111</td>
<td>2.000%</td>
<td>36</td>
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<tr>
<td></td>
<td>RGN</td>
<td>26%</td>
<td>66.00%</td>
<td>40.00%</td>
<td>17.0%</td>
<td>13.93</td>
<td>5.26</td>
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<tr>
<td></td>
<td>MBIA</td>
<td>10%</td>
<td>51.00%</td>
<td>46.00%</td>
<td>5.0%</td>
<td>4.10</td>
<td>6.44</td>
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<td></td>
<td>SPRINT</td>
<td>1%</td>
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<td>30.00% IG tightening</td>
<td>0.5%</td>
<td>0.41</td>
<td>7.14</td>
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<tr>
<td></td>
<td>RRD</td>
<td>3%</td>
<td>30.00%</td>
<td>23.00%</td>
<td>33.00%</td>
<td>0.52</td>
<td>5.38</td>
</tr>
<tr>
<td></td>
<td>SFI</td>
<td>19%</td>
<td>38.50%</td>
<td>31.00% simul</td>
<td>7.5%</td>
<td>6.15</td>
<td>1.01</td>
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<td>% Index loss</td>
<td>14%</td>
<td>23%</td>
<td>27%</td>
<td>27.81%</td>
<td>19.28</td>
<td>-</td>
<td>20.48</td>
</tr>
</tbody>
</table>

J.P.Morgan
Credit Book: The devil in the details

1. The steepening of the IG9 HY names was more aggressive than the whole HY market: this resulted in an underperformance of 80M USD.

<table>
<thead>
<tr>
<th>OTR HY tightening</th>
<th>IG9 1yr impact</th>
<th>IG9 7yr impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.100%</td>
<td>0.33</td>
<td></td>
</tr>
<tr>
<td>14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HY off the run</td>
<td>28.733%</td>
<td></td>
</tr>
<tr>
<td>IG9 1yr HY block</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>45%</td>
<td>3.17</td>
<td></td>
</tr>
<tr>
<td>IG9 5yr HY block</td>
<td>55%</td>
<td></td>
</tr>
</tbody>
</table>

J.P. Morgan
Core Credit Book: Summary

1- the Book has been missing an extra 35M CS01 : this is a cost opportunity of 1.2 Bln due to the 40 bps rally in IG
   - this long risk shows naturally in the spread tightening and with the coming expiry of the short term S9 leg
   - it triggers a an increase in Var- stress Var- CRM- IRC-RWA across the board if we maintain the book balanced

2- the need to reduce VAR - RWA and stay within the CS01 limit prevented the book from being long risk enough
   - as we bought protection on HY in the rally, we kept the 10%CS01 neutral to slightly bull
   - the slight bullish bias was dwarfed by the exposure in the forwards that kept increasing to protect the P&L

3- Thus a decompression trade was put on in order to remain market neutral, but it increased the CS01 very fast
   - as a result a decompression trade built up both in Xaver and Main : it is a good trade that performed well
     yet, selling more protection in IG to balance the protection we bought in HY put us close to the CS01 limit

4- The long risk exposure would likely have missed the first 15 bps and the realistic P&L miss is rather 800M USD
   - despite the conviction on the rally in IG spreads, we needed to sell 10Bln in main and 30Bln in IG ideally which
     is a significant bullish bet
   - in early February and early March, when spreads widened back, the book would likely have suffered a weekly
     loss of up to 200M each time : this was not an acceptable P&L noise .... So the long would have been
     implemented slowly anyway

5- carrying this long risk exposure would have triggered some brutal P&L swings of 100-200 in early February and March,
   - the book was aiming at fine tuning the P&L noise while reducing the risks and the notional on opportunities
   - the losses coming from the IG forwards were already wild, so we waited before being outright long risk for fear
     the noise would just increase more

JPMorgan
Core Credit Book: Storyboard

1. Starting point: Initially, the book kept deleveraging in January reducing the shorts in series 9 5yr, removing the short risk in IG, adding short risk in HY. The aim was to create some options on the book as in 2011 to reduce aggressively on opportunities.

2. Mission: Balance the book:
   a. It was slightly long risk since the 15th of January
   b. Some protection on HY was bought to reduce the loss on some HY defaults like Kodak and Rescap
   c. Put some decompression trade to go long IG and neutralize the cost of carrying the protection in HY

3. Execution: It went all bad:
   - The forward spreads started underperforming and this created a residual long risk exposure that had to be covered to reduce the VAR and RWA
   - The notional in series 9 were too large and the loss was way larger than the small directional gain (Jan and Feb)
   - The decompression in HY and Xover sped up in March and this put the book short risk and worsened the loss in the forwards

4. What Happened?
   - January: Tried to reduce the short in the IG9 and S9 5yr but this pushed the forwards up and the potential was already 400M. We reported a loss of 130M USD YTD
   - February: Tried to cover the HY downside risk to default and added to IG9 and S9 forwards in order to contain the P&L loss as decompression kept going. We reported a loss of 220M USD YTD
   - March: The notional increased in forward position uselessly and loss accelerated to incredibly high levels. The move was too fast and painful.

5. Plan:
   - Put the book to sleep: to stop flagging our moves to the market
   - Maintain a long risk bias with on the run IG indices to keep a good carry in front of the upside on defaults
   - Buy up to 5Bln protection in IG9 0-3 10yr and 2.5Bln Main S9 10yr 0-3 to flatten the future default profile
Core Credit Book: Risk Management and execution mistakes

1- The reduction of the 5yr IG9 and S9 early in January turned out to be a bad move:
- Initially, sell 5 yr on a roll basis vs on the run IG indices allowed to reduce the short, improve the carry, reduce the sensitivity of the book towards flattening and pre-empt a tightening in IG spreads without increasing CS01.
- The market players quickly steepened the S9 curves starting the underperformance of the forwards: because the slight long risk bias was insufficient to cover the loss, we added back some flatteners to correct the hit.

2- The Kodak default triggered a second wrong move:
- The loss was 50M and we started covering the risk in February by selling HY14-HY17 indices that contained MBIA, Radian, MGIC, ISTAR given that RESCAP risk to default was growing.
- However, by selling those series and targeting the "mortgage & insurance" related names, we aggravated the underperformance of the IG9 forwards because they contain MBIA, Radian and ISTAR.
- As a result, those names underperformed the whole market. Thus the decompression trade worked but the IG9 forward especially underperformed in the rally and this is where the main long risk of the book is.

3- The Xover / Main decompression trade:
- Due to the need to contain the RWA-Var complex, we sold protection on main while buying protection in Xover.
- This was a way to profit from either a recovery in Europe IG space without
- The decompression in HY and Xover sped up in March and this put the book short risk and worsened the loss in the forwards.

4- What would have happened if none of these bad moves were initiated?
- The decompression would have happened anyway and the forward underperformance may have been twice smaller or down 750. All these mistakes induced an increase in the forward positions to contain the P&L hit.
- If the book had gone long risk fully, the Var would have increased and the RWA as well: likely 10-15 Bin RWA.
- The carry would have improved and the book would have had twice a weekly drawdown of 200M.
March 30, 2012

Transcript of 5725474620132382965

Participants: Javier Martin-Artajo

Irv Goldman

Goldman: Hello

Martin-Artajo: Hi Irv

Goldman: How have you been?

Martin-Artajo: I'm good man. What's up?

Goldman: Ina just called me. She was curious at me....

Martin-Artajo: Sorry I can't hear you very well

Goldman: She was curious if you had any range of estimate about what the day is going to look like. I know you said 2.

Martin-Artajo: What do you mean 2. Do you mean 2 your time?

Goldman: Yeah

Martin-Artajo: What time is it now?

Goldman: It's 12. She just wanted to --

Martin-Artajo: I don't have that yet, unfortunately. I don't have it Irv. I don't have it. It is not looking good. I don't have it yet...um, it is just that it is illiquid, you see. The market is I don't know --

Goldman: I know, I think she is just concerned about --

Martin-Artajo: I just don't want to... I just don't want to... I would love to tell you that the number is, I don't know, 40 to 50 million. I don't know. I don't think it is going to be as small as that. Looking at the numbers that Venkat has and the spreads, the numbers look wide. If I have estimates to make, I don't want to do that yet. You see, it's very weird close, let me explain what is going on here. We are a bigger player in this market, we are a relatively big player, we are not trading here, so that is positive in the sense that we are not increasing our positions, but negative in the sense that we are not increasing our positions, it is negative in the sense that a bit of
the spreads are wide and they want to see what we are going to do on the books. Since we have two to three trades that we are here and are checking right, I don't want Bruno to trade, he needs to trade a very small amount just to get the mark, that's fine, but I don't want to really do much and I want to delay that as much as possible, right.

Most of what happens in our book has to do with the US market and less in the European market. Most of the P&L issues are on the investment grade in the US, and not as much on the high yield in the US, and not as much on the European ITX positions. I need a little bit more time. Sorry about that. Sorry to not know what it is.

I have no new info, um I have been on the phone quite a lot to be honest with you. I do not know what Ina has been asking, but she has been asking quite a few things to Achilles and I think it is related to something we mentioned on our meeting this morning in terms of what I think the improvements are on capital and how much it is going to be reduced for the quarter end and how much does the reduction of the book look like. I was just speaking to Venkat about that. I only have rough numbers here of what that is going to be because _ needs to run this process.

The reason I optimistic that the number is going to reduce. The delta has been reduced by about 12 and a half percent by looking at what we've done, so we should get an improvement on that, on the IRC. I think that is about right. That is what I am hoping. That is what I told you at lunchtime. I think that is going to be the same for the February number and for the March number. That will be an average. I am not sure exactly how we are going to calculate this. There will be an improvement from the number that you had. Now, that is.

Ina asked Achilles. Tell me if I am wrong, I am triangulating here as I just discussed this with Achilles and what I think Ina meant. That still puts in a position that we still have to do. No matter how much I can improve this on the second quarter on the model with Venkat. We can make some improvements because I think we are going to get some help to do that. Again, the numbers are not going to look somewhere in the region of what we need to reduce by quarter end if we don't do anything in the book.

What I am working on for Tuesday is actually two sort of plans. Plan A - the book stays the way it is with the best improvements that we can get and it has positives and negatives. Or we need to actually reduce the RWA by doing something here and has positives and negatives. So that's kind of what I am working on.

Goldman Yeah I know

Martin-Artajo The number for year end is going to be reduced, probably by 5 billion given the natural reduction of duration of the book, which is something I told Achilles how much do you think that would be. Well, if I give you a rough estimate that should be 20 percent of the book since we have lost a little bit of the first quarter so it probably going to be something around 15 percent. You will get another benefit of
March 30, 2012

let’s say 5 or 6 billion, just from that. If we can get 5 from that, another 5 from the model and 3 from what I have done. Reduces from 13 the number you mentioned yesterday. I know that this still not great, but it is a number that is a little bit more palatable so that whatever Plan B is and there are a number of different things that we can do in Plan B that gets us to where we want to be.

That is what I am working on now. And uh... I think I am getting good help from you guys, from Venkat. I like this guy, he is practical, think he understands the issues. Communicates well, said he is okay lending us help from that. Olivier is going to work exclusively for us for three months, right. He is going to sit on the desk and coordinate all of the things I am trying to do with me, you, Keith, and __. I think he is going to do that, think that is great, have someone to look in depth in the book, that has enough experience to do that, he has done that himself. I think this is good news.

I think John Hogan spoke with Ina and maybe Achilles, I don’t know who. And it is okay, Venkat is fine.

I think this is good news. Doing as well as we can. I am sorry I created this headache for all you guys. I did not expect it to be this way.

We are a team. You know, we are a team.

I know you are helping me. I cannot tell you how good everything else here is. The [bond] in France, I am going to give you something that will shock you, are trading at 55 bps. Something that was trading just 120 when we marked the book yesterday, we were up like 700 million.

As I remark today, we are going to be up another 300 or 400. It is just incredible what is happening here in the last three days on secured credit. So, I have very bad news on the synthetic book and good news on the rest of the portfolio, which is incredible to see how much the view that we had, the very strong view that we had since the end of November in terms of the solution of the ITRO the loading up in the book. Obviously Ina helped us with this, obviously. She gave us the blessing to buy as much as we could. But, I think it is more than we thought this effect, the portfolio, I think we need to...

So what are you doing? Are you marking at the other 300?

No, I am not marking. I have not had the time to do that and it is not mark to market, which is not helping us with the problem that we have. That is why it doesn’t matter if I mark it or not because it is like a first...

Right, I know.

So, the gains that we have on mark to market are probably going to be somewhere in the 60 million, but Ina told me not to consider that. She wanted me to give you the number of what the book here does that Irene adjust that.
March 30, 2012

If we have a little bit more money in the book, so be it.

Goldman You still don’t know if it is minus 50 or minus 150?

Martin-Artajo I don’t know, man. I have a bad feeling about a bit or respect here, ok? I think we are going to show a hundred --

Goldman You think the worst case?

Martin-Artajo Don’t say anything to Ina yet, please, because I am just telling you. We are not trading in the market, ok. There is one position here that matters. I mean 3 bps in that position will explain 100 million.

Goldman I know

Martin-Artajo The issue is that the market is very sensitive to --

Goldman If we get what you are nervous about, where do you think it could be? If we get what you are nervous about, where do you think it could be?

Martin-Artajo Could have a very bad number, could have 150. Because I am not going to defend it. I am not going to fight in the street and increase a position create a problem that we created last quarter. I’ll explain that on Tuesday. We should have stopped doing this three months ago and just rebalanced the book.

Goldman There are a lot of things that I wish I wouldn’t have done in my life.

Martin-Artajo Exactly

Goldman We are all just trying to be supportive. Need to move forward. By the way, I sent that email about the vacation stuff because I think there’s just... When you consider the strategy, we are going into the holidays. I don’t know what people’s vacation schedules are but if people are not around, I mean like, and something goes on, you know, I think it is going to be an issue.

Martin-Artajo I don’t understand what you are saying

Goldman I don’t know what people’s vacation schedules are there because we are going into Easter. This is one of these all hands on deck sort of things. So I am sure it is going to come up as a question when you go into strategy, “everyone is going to be around, aren’t they?” I just don’t want you to be...

It’s you and Achilles. It is your business. I am just saying you should be sensitive to that because I think people...

Martin-Artajo You mean that I should be in the office?
March 30, 2012

Goldman: Um, I think you guys should discuss how you are going to handle it, right?

Martin-Artajo: I don't understand what you are saying. Of course I am going to be in the office.

Goldman: I am just saying I don't know if Bruno is planning on vacation. I don't know what it is. You guys just have to consider that. When you're like... I am sure it is going to be a question that comes up in the strategy session, "we are going into the holidays, people are going to be here, right?" You don't want to say, no, these people are on vacation.

Martin-Artajo: No, there's no one going on vacation. I am here, Bruno is here. You know, Olivier is going to be here.

Goldman: I am just being a risk guy and I wanted to make sure you thought of everything.

Martin-Artajo: I am staying here. I am not going skiing. I am not going anywhere. I am not going to let anything, you know, derail this. This is a big problem I have. I've had this problem before. Before you came, we had a problem similar to this in the beginning of '09. I don't know if you heard about this. It was almost as bad as this. No man. Ina wanted us to do a big deep dive. I am working on a deep dive. I am going to really be open and explain everything that's gone. There are positives and there are negatives. There are things we have done, there's a post mortem I'm doing. And then we are going to finalize with what the plan is. So we, that's what I am working on. Of course I am very sensitive to that. I am going to present it next week. It is going to be... Obviously Achilles will be here. I am going to be here. Don't worry, we are not going to be calling in from the Bahamas and seeing how it goes. Don't worry about that. I am too much of a professional not to...

Goldman: I am just double checking. Sometimes there is oversight. I sent it just because. I sent it just like, duh thing. You just never know. Duh, you know, of course.

Martin-Artajo: Of course. You are getting into something that I think is important that you know about this. There is no question that it doesn't matter that our books are up everything except this book. What matters is that I need to make sure that this book is in good shape because this is an incredibly important thing. So, I am not going to go on holiday from now until I sort this out, even if it is in the summer. I'm not, I'm not, this is my priority and... I am not going anywhere. I told this to my wife. I told this to everybody. The team here is not going anywhere.

Goldman: Right. Ok. That's good, I am just double checking. It is not like anyone here said anything.

Martin-Artajo: I am not taking this lightly just because the rest of the books are making a fortune here and are TRR here is huge. I mean...
March 30, 2012

Goldman

The only thing anyone here is focused on right now is this.

Martin-Artajo

This is the only thing I am focusing on. This is the only thing that matters. I am only looking at the bad. I am only looking at the bad. I am only looking at the problem that we are having with this book, which is a problem and it is a problem that I am aware of this problem. This has happened to me before and anyone who takes positions the size we have has gone through that. Because you know, it is funny that you say that because Chris was here and we had dinner with her and her husband and Achilles just a couple of days ago and she told us about when she has had two or three blowups in __ and she was saying ok man, well this is what I did then, this is what happened, this is what we needed to do, and this is what you need to make sure that Ina helps you. And all of the things. She told us a lot of things that... she gave us good advice actually. She gave me good advice at least.

Goldman

She's been through the war zone.

Martin-Artajo

She's got three blowups. I am only on my second blowup. She is ahead of me. I am doing my best.

Goldman

I know you are, I feel for you. It is horrible going through this.

Martin-Artajo

It is horrible. I hate it, ok because I have a great track record here and I am relaxed. I know that you were asking me the other day if I was very emotional and I am not. It is just that I wanted her to know from me that the tension I had from trying to coordinate with QR, trying to coordinate with the IB, trying to coordinate and make sure that I communicate this to all of you guys, making sure my team doesn't melt down because they are used to winning so they are... It has been a very, very tough two weeks. It has made us stronger. As usual, these things make you stronger, makes you more of a team. We're asking for a lot of help from you guys, we thank everyone that is helping here. Trying to take securities gains.

I think we are a team. Maybe this helps improve our transoceanic relationship. I guess maybe this helps. To make sure that everyone helps where they can. I am getting a lot of help from you guys in New York. I am getting a lot of help from QR. I am getting a lot of help from John. We feel that you guys are helping us. We do.

I know that Ina is helping here. She has seen this many times. Ina really has seen blowups more than anybody I know. She knows how stressful it is, how bad you feel about it and how rational you need to be about this and not become an emotional... just saying things as they are. What is the rational thing to do. What is the next move, forget about what you've done, Forget about mistakes. I am working on that. I will have a presentation on that.

The minute I have an estimate, I will let you know. I will call you or send you an email.
March 30, 2012

Goldman: Thanks a lot, bud
CALL # 5601530708350439949

MR. GROUT: [Background chatter] Remi, I can't "*** it up, but the system's base is a real mess. You know? If I say today –

MR. IKSIL: Hello?

MR. GROUT: Yes, Bruno?

MR. IKSIL: Yes.

MR. GROUT: It's good. I found the e-mail of Javier. I found Javier's e-mail. So you can change that thing.

MR. IKSIL: Okay. (inaudible).

MR. GROUT: Go ahead tell me where should I put –

MR. IKSIL: Yes.

MR. GROUT: Tell me where I should take the reserve?

MR. IKSIL: If you can avoid doing that screwed-up thing ("ce vrai deconne") you can really stay with (within?) bid-ask. It's better you see since you don't have a reserve, you see?

MR. GROUT: Uh, for the United States we're back to the bid-ask on the on-the-run ...

MR. IKSIL: Very well.

MR. GROUT: And for Europe if you want I can scratch out two BPs on the crossover.

MR. IKSIL: But you see what I mean? This is a little at the limit. We should probably do something cleaner with a ... you see ... a lesser result ("un resultat moins ..."). You see what I mean?

MR. GROUT: Okay. But if I take off -- I can take off four BPs on the crossover.

MR. IKSIL: Yes.

MR. GROUT: Normally – normally it's a market where we are just about (sounds like "dans les guis" – but I don't know what that would mean) at the same time regarding main and crossover.
March 30, 2012

MR. IKSIL: Okay, then do that. Do that and we'll see. Okay?

MR. GROUT: Yes.

MR. IKSIL: Because this costs 10 "boules" (apparently a unit of measurement of money - we've heard this from Bruno before, I'm not familiar with the term), that's nothing you see.

MR. GROUT: Okay. Okay.

MR. IKSIL: I'm sorry to ask you to do this. But I prefer to do it this way. It's cleaner, you see. And we are "dans les clouds" (another expression we've heard, perhaps to mean "blind in the market")?

MR. GROUT: I must look into this because...

MR. IKSIL: You see, now it's okay. I have the connection. I will validate it for you right away. Okay?

MR. GROUT: Okay, that's good.

MR. IKSIL: Okay.

MR. GROUT: Very well. We'll talk later. Ciao.

MR. IKSIL: Yes, thank you. Ciao.
----- Original Message ----­
From: Grout, Julien G
Sent: Friday, March 30, 2012 08:07 PM
To: Martin-Artajo, Javier X
Subject: RE: Any better numbers so far?

no, the market has been very quiet, with very few updates in tranches. still watching.

-----Original Message-----
From: Martin-Artajo, Javier X
Sent: 30 March 2012 20:06
To: Grout, Julien G
Subject: Any better numbers so far?
From: Martin-Artao, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Fri, 30 Mar 2012 20:15:33 GMT
To: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: Update

Irv,

We are going to close the books in one hour and still around -150 MM.

Rgds

From: Goldman, Irvin J
Sent: Friday, March 30, 2012 06:28 PM
To: Martin-Artao, Javier X
Subject: Re: Best estimate for today - URGENT

As I mentioned to Keith, Ina wants a summary of breakdown when you have it bid offer attribution etc.

From: Martin-Artao, Javier X
Sent: Friday, March 30, 2012 01:21 PM
To: Goldman, Irvin J; Tse, Irene Y
Subject: Best estimate for today - URGENT

Irv/Irene,

I am at the moment looking at 150 MM USD loss. Bid offers are bad and not a lot of trading. Could be as bad as 175 down if US equities sell off and not better than 125 MM down. So best estimate so far -150 MM USD. We are not trading here in the market at all.

Will send you an update at 3 pm NY time once London closes we probably will get more accurate numbers.

regards

Javier
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Permanent Subcommittee on Investigations
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pical month end session in our space, with low volumes. Credit derivatives are better - after the bounce overnight (in stocks and CDX.HY) we opened only slightly tighter; European credit was initially wider - tensions around the Ero meeting in Copenhagen and the Spanish budget pushed spreads wider with FINS index substantially underperforming due to street liquidity and we were close to unch'd at that point. However some good eco numbers in the US, rumours of an OK Chinese PMI this week end and an apparently positive headline from Copenhagen (firewall size at EUR 800B - details to be checked) helped spreads recover.

Today the book is recording a loss as the month end price action is leading to further underperformance of the off the run forward spreads in series 9 (43M in CDX.IG and 38M in ITraxx).

Furthermore the outperformance of CDX.HY last night after our close is translating into compression - this is hurting our decompression position in the US by about 40M. Last, adverse tranche price action across the board is costing us 25M.

Trading wise, in CDX.IG and ITraxx we bought more long dated equity protection (50M), we sold small pieces of super senior tranches (35M) and we sold 50M protection in CDX.IG; in CDX.HY we bought pieces of mezzanine tranches (10M) - again all this for RWA purposes.

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Again, a lot of prices are still being framed and we are providing our best estimate.
From: Demo, Mark <Mark.Demo@jpmorgan.com>
Sent: Fri, 20 Apr 2012 13:01:10 GMT
To: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
CC: Morris, Andrew X <andrew.morris@jpmorgan.com>; Miller, Charles R <charles.m.miller@jpmorgan.com>; Bjarmason, David <david.bjamason@chase.com>; Hughes, Jason LDN <Jason.LDN.Hughes@jpmorgan.com>
Subject: FW: Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors

John – I wanted to bring something to your attention. This is a weekly report that we in IB Collateral produce that reflects the 10 largest collateral disputes for the week. You should know that in our top 10 this week we have quite a few disputes that are largely driven by mtm differences on CIOLondon trades. If I look at the total mtm differences across the CIOLondon book facing the G-15 – the mtm difference totals over $500MM.

I have included a break out of yesterday’s mtm differences by G-15 firm for only the CIOLondon credit book. The numbers in the own column show our trade count facing the counterparty. The numbers in the Diff MTM column show the total mtm difference across the CIOLondon trades facing the counterparty indicated.

We are in correspondence with your middle office (Rory O’Neil) who has taken our questions regarding these differences to your Front Office. We are awaiting a response. We are also doing mtm difference based on product type and underlier which we will have a little later today.

I am working from home today – I can be reached at 917-513-6157 if you want to talk.

Mark Demo
IB Collateral
J.P. Morgan
383 Madison Avenue, 11th Floor, New York, NY 10179
T: 212 622 5485
mark.demo@jpmorgan.com

JPMC INTERNAL USE ONLY
Subject: Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors

Attached is this week’s report detailing the 10 largest collateral call disputes on the OTC derivatives book. In order to reflect ongoing issues with some of the larger broker dealers, this report lists counterparts with which we are seeing consistent differences regardless of whether it is JPMC or the counterpart that is showing exposure.

The report also reflects updates on collateral disputes previously reported to Supervisors as well as those disputes tracking to be reported to Supervisors for April month end.

The RAG ratings in column Q are defined as follows:
Red = a dispute meets the age, size and risk rating criteria set out in the grid below.
Amber = the dispute does not meet all the criteria on the grid
Green = either the dispute has been resolved since the date of the data cut for this report, or resolution is imminent.

cid:image001.jpg@01C0CD72D411B800
Will find out.

Is this the first time this has happened

This isn’t a good sign on our valuation process on the Tranche book in CLO. I’m going to dig further.

Yes we are – we have collateral disputes from a number of counterparties (obviously on positions that aren’t novated to ICE, so the tranches and ICE ineligible indices). Biggest are with MS and GS. First we heard of these was this morning (collateral process is done at a Legal entity level – when differences become big enough they reach out to MO & VCG). MO are checking all bookings and flows, with the desk and VCG (Jason Hughes/Ed Kastl) are checking marks. We are also trying to get some granularity by product

I’ll forward you a note from the collateral guys.

This table shows differences by cpty and the Gross Absolute PV across all outstanding trades with each cpty

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From: Goldman, Irvin J
Sent: Friday, April 20, 2012 11:00 AM
To: Lewis, Phil
Subject: FW: Collateral Disputes

Please let me know.

-----Original Message-----
From: Hogan, John J.
Sent: Friday, April 20, 2012 10:22 AM Eastern Standard Time
To: Goldman, Irvin J; Weiland, Peter
Subject: Collateral Disputes

Are you having any in the tranche (or index) positions?
Daniel,

We completed our initial analysis and it shows two different prices used depending if the tranche is done through the CIO desk vs the JPM dealer desk. We have significant MTM breaks on positions facing the CIO trades whereas trades facing you dealer desk are very much in-line. We have initially looked through all iTraxx 7 and iTraxx 9 Series tranche positions and the associated index delta. Can you please have your risk group advise on this issue?

Thank you

William Britton
Morgan Stanley | ISG Operations
1221 Ave of the Americas, 28th Floor | New York, NY 10020
Phone: +1 212762-5670 ext 5388
William.Britton@morganstanley.com

---

From: Vaz, Daniel X [mailto:daniel.x.vaz@jpmorgan.com]
Sent: Friday, April 20, 2012 10:14 AM
To: portrec ny; portrecny
Cc: Port Recs; Coll ICS
Subject: RE: CIO vs Swaps Dealer Desk - MSCS vs JPMC

Apologies for the delay Katie. I have sent a follow up email today. Will keep you posted.

Regards,

Daniel Vaz
Collateral Management | Investment Bank | J.P. Morgan
IT: +91 22 612 6042

daniel.x.vaz@jpmorgan.com
jpmorgan.com

Collateral Group Mailbox | coll.ics@jpmchase.com

First Escalation Contact: Sneha Gupta | sneha.gupta@jpmorgan.com | +91-80 66763540
Second Escalation Contact: Saurabh Sharma | saurabh.sharma@jpmorgan.com | +91-80 66763162

---

Sent: Thursday, April 19, 2012 2:14 PM
To: Vaz, Daniel X; portrec ny; portrecny
Cc: Port Recs; Coll ICS
Subject: RE: CIO vs Swaps Dealer Desk - MSCS vs JPMC

Daniel,

Can you provide us with an update?

Thank you

---

From: Vaz, Daniel X [mailto:daniel.x.vaz@jpmorgan.com]
Sent: Wednesday, April 18, 2012 2:11 PM
To: portrec ny; portrecny
Cc: Port Recs; Coll ICS
Subject: RE: CIO vs Swaps Dealer Desk - MSCS vs JPMC

Daniel,
Subject: RE: CDO vs Swaps Dealer Desk - MSCS vs JPMC

Katie,

We are checking with our MO. We will update you as soon as we hear from them.

Regards,

Daniel Vaz

Collateral Management | Investment Bank | J.P. Morgan | T: +91 22 612 60408 | daniel.vaz@jpmorgan.com | jpmorgan.com

First Escalation Contact: Sneha Gupta | sneha.y.gupta@jpmorgan.com | +91-80 66763549
Second Escalation Contact: Saurabh Sharma | saurabh.x.sharma@jpmorgan.com | +91-80 66763362

From: Schmidt, Katie [mailto-Kelsey.C.Schmidt@emergend.com] On Behalf Of portrec
Sent: Wednesday, April 18, 2012 1:13 PM
To: Vaz, Daniel X portrec ny; portrec
Cc: Port Recs; Coll ICS
Subject: RE: CDO vs Swaps Dealer Desk - MSCS vs JPMC

Hi,

Can you also please confirm if there's a single price used regardless of the desk it is booked on? MS uses one curve for front office risk and collateral purposes regardless of which desk owns the positions.

Thanks
Katie

From: Schmidt, Katie [mailto-Kelsey.C.Schmidt@emergend.com] On Behalf Of portrec
Sent: Wednesday, April 18, 2012 1:07 PM
To: portrec ny; portrec
Cc: Port Recs; Coll ICS
Subject: RE: 00 vs Swaps Dealer Desk - MSCS vs JPMC

Hi Katie,

I'm on a business trip & hence my Mumbai number is not reachable. In case of any urgent query, please call the MSCS rec owner Shri Saray at +912261260404.

All JPM references beginning with “44” would be booked by the CDO desk.

Regards.

Daniel Vaz

Collateral Management | Investment Bank | J.P. Morgan | T: +91 22 612 60408 | daniel.vaz@jpmorgan.com | jpmorgan.com

First Escalation Contact: Sneha Gupta | sneha.y.gupta@jpmorgan.com | +91-80 66763549
Second Escalation Contact: Saurabh Sharma | saurabh.x.sharma@jpmorgan.com | +91-80 66763362

From: Schmidt, Katie [mailto-Kelsey.C.Schmidt@emergend.com] On Behalf Of portrec
Sent: Wednesday, April 18, 2012 11:58 AM
To: Vaz, Daniel X portrec ny; portrec
Cc: Port Recs; Coll ICS
Subject: 00 vs Swaps Dealer Desk - MSCS vs JPMC

Hi Katie,

Hi Daniel,

I tried calling you but couldn't get through. Is it possible to differentiate between the deals done on the Swaps Dealer Desk vs the CDO desk for iTraxx Europe Series 9 tranches? I've noticed there are some different trade reference formats on the JP trade
1502

IOL. Is that one way to do it?

Thanks

Katie

Katie Schmidt
Morgan Stanley | Operations
2001 Ave of the Americas, 28th Floor | New York, NY 10282
Phone: (+1) 212-762-0550
Fax: (+1) 646-667-7000
K.Schmidt@morganstanley.com

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This memo summarizes the Firm’s review of the valuation of its CIO EMEA credit portfolio in light of the current market conditions and dislocation that occurred in April 2012.

I. Background

The CIO EMEA credit portfolio is made up of Investment and Core Credit portfolios. The Investment portfolio consists of available-for-sale investment securities, while the Core Credit Portfolio primarily consists of synthetic credit positions — credit derivative positions on various credit indices and tranches of those indices (the index and tranche credit derivatives portfolio). These synthetic positions were entered into to manage the market value deterioration in a potential stress scenario associated with investment securities held in the available-for-sale portfolio; the positions have changed over time depending on the Firm’s view of credit risk.

CIO has a substantial presence in the financial markets, and the breadth and depth of its activity has generally given CIO a good sense of the market, with strong market contacts and market intelligence. In particular in these credit products, CIO executed a significant volume in the market and therefore had deep access to market pricing and color.

During January, February and through the first few weeks of March, CIO was buying, to add to existing positions, the risk of (i.e., selling credit protection) the following indices and tranches to reduce the short high yield credit risk position in the portfolio:

- CDX Investment Grade North America Series 9, 10 year and 7 year.
- iTraxx Main Series 9, 10 year and 7 year.

In addition, on April 6, the business press began reporting on certain of these positions, providing other market participants with some level of information regarding the Firm’s positions and activity.

1 CIO also has a North America credit portfolio, but that portfolio does not include synthetic credit positions and therefore is not subject to this review.
In April, market activity and market prices for these credit derivatives changed significantly and a number of unusual trends were observed, including:

- The difference between cost of protection on investment grade indices and high yield indices in Europe and North America reduced significantly.
- The difference between cost of protection on short dated risk and long dated risk in a number of indices increased significantly. For a number of indices the cost of protection on the index moved inconsistently with the prices of protection on various tranches of the index. For example, for the iTraxx Main Series 5 10-year during April:
  
  - Spread moves for the index itself implied some increase in losses due to increased correlation within the index.
  - Price moves in the super senior tranche implied losses due to very much larger increases in correlation within the index.
  - Price moves in the more junior tranches implied limited increases in correlation.

  These trends began to emerge in late March, but developed and became much more significant in April.

These changes have been unusual compared to the historical relationship between investment grade and high yield indices, as well as the relationship between index and tranche exposures. Due to the complexity and the size of the Firm's positions, the effect of these changes, in conjunction with other market factors, on the estimated fair value of the Firm's positions has been significantly negative during April. As noted throughout this memo, relatively small variations in price can have a relatively large impact on the estimated fair value of the entire portfolio, given the size of the Firm's positions.

Size of Position Data

The following table provides the absolute notional amounts (in USD) of these positions at various dates.

<table>
<thead>
<tr>
<th>Notional Amount of CIO positions</th>
<th>31-Dec-11</th>
<th>21-Jan-12</th>
<th>28-Feb-12</th>
<th>30-Mar-12</th>
<th>17-Apr-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>5,218,546,520</td>
<td>9,219,371,928</td>
<td>34,176,267,220</td>
<td>56,254,461,920</td>
<td></td>
</tr>
<tr>
<td>CDX HY</td>
<td>2,663,033,419</td>
<td>2,619,511,830</td>
<td>(7,736,577,439)</td>
<td>(7,357,875,633)</td>
<td></td>
</tr>
<tr>
<td>iTraxx A</td>
<td>5,192,607,000</td>
<td>4,713,399,000</td>
<td>(7,271,117,202)</td>
<td>(8,521,924,922)</td>
<td>(8,786,952,700)</td>
</tr>
<tr>
<td>iTraxx B</td>
<td>(2,231,630,000)</td>
<td>(2,191,120,000)</td>
<td>(3,079,929,920)</td>
<td>(2,112,921,920)</td>
<td>(2,060,390,600)</td>
</tr>
<tr>
<td>CDX-LIGA</td>
<td>1,890,414,988</td>
<td>1,870,591,511</td>
<td>1,766,866,573</td>
<td>1,794,899,573</td>
<td>1,709,909,275</td>
</tr>
<tr>
<td>iTraxx B</td>
<td>(79,910,000)</td>
<td>(140,790,000)</td>
<td>73,150,000</td>
<td>100,176,250</td>
<td></td>
</tr>
<tr>
<td>SFOX VAL</td>
<td>(4,650,000)</td>
<td>(4,650,000)</td>
<td>(4,650,000)</td>
<td>(4,650,000)</td>
<td>(4,650,000)</td>
</tr>
<tr>
<td>Total</td>
<td>22,955,179,294</td>
<td>22,792,371,495</td>
<td>54,831,289,988</td>
<td>55,694,381,480</td>
<td>55,050,748,694</td>
</tr>
</tbody>
</table>
Table 2: CIO's share of market volume

The following table compares the absolute notional amount of CIO's transactions in selected indices and to the absolute notional of street-wide transactions, in order to provide a sense of the relative size of CIO's activity in the market for the first four months of 2012. This data, as well as similar data from 2011, demonstrates two key points: 1) prior to late March 2012, CIO was a substantial participant in these credit markets, and 2) even without CIO's involvement (throughout these periods and in April after CIO substantially reduced its activity), the remaining street volume was substantial.

<table>
<thead>
<tr>
<th>Index</th>
<th>Month</th>
<th>CIO Notional Traded</th>
<th>Street Volume</th>
<th>CIO %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITRAXX SERIES 9 7Y</td>
<td>Jan-12</td>
<td>$993,000,000</td>
<td>$6,181,250,000</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>Feb-12</td>
<td>4,751,750,000</td>
<td>9,754,250,000</td>
<td>49%</td>
</tr>
<tr>
<td></td>
<td>Mar-12</td>
<td>776,000,000</td>
<td>8,325,375,000</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>Apr-12</td>
<td>497,500,000</td>
<td>5,004,150,000</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$7,067,250,000</td>
<td>$29,285,025,000</td>
<td></td>
</tr>
<tr>
<td>ITRAXX EUROPE SERIES 9 10Y</td>
<td>Jan-12</td>
<td>$11,769,250,000</td>
<td>$26,750,000,000</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>Feb-12</td>
<td>7,244,900,000</td>
<td>15,209,250,000</td>
<td>48%</td>
</tr>
<tr>
<td></td>
<td>Mar-12</td>
<td>6,601,250,000</td>
<td>13,800,250,000</td>
<td>48%</td>
</tr>
<tr>
<td></td>
<td>Apr-12</td>
<td>338,750,000</td>
<td>5,570,925,000</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$25,954,150,000</td>
<td>$61,341,350,000</td>
<td></td>
</tr>
<tr>
<td>ITRAXX EUROPE SERIES 16 5Y</td>
<td>Jan-12</td>
<td>$26,445,000,000</td>
<td>$206,771,517,133</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>Feb-12</td>
<td>36,359,500,000</td>
<td>215,891,196,801</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>Mar-12</td>
<td>28,075,000,000</td>
<td>199,058,170,509</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>Apr-12</td>
<td>25,000,000</td>
<td>13,765,754,578</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$88,900,000,000</td>
<td>$638,606,633,601</td>
<td></td>
</tr>
<tr>
<td>CDXNA IG 9 7Y</td>
<td>Jan-12</td>
<td>$7,091,500,000</td>
<td>$59,930,345,841</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>Feb-12</td>
<td>8,397,000,000</td>
<td>48,791,565,000</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>Mar-12</td>
<td>2,017,000,000</td>
<td>41,338,850,328</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Apr-12</td>
<td>24,000,000</td>
<td>23,310,200,000</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$17,751,500,000</td>
<td>$193,786,846,162</td>
<td></td>
</tr>
<tr>
<td>CDXNA IG 9 10Y</td>
<td>Jan-12</td>
<td>$28,528,000,000</td>
<td>$83,065,700,000</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>Feb-12</td>
<td>20,032,000,000</td>
<td>48,049,133,456</td>
<td>42%</td>
</tr>
<tr>
<td></td>
<td>Mar-12</td>
<td>9,819,500,000</td>
<td>72,016,571,456</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Apr-12</td>
<td>677,000,000</td>
<td>31,722,765,000</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$59,056,500,000</td>
<td>$234,854,573,912</td>
<td></td>
</tr>
</tbody>
</table>

Note: April data extends to April 26, 2012.
Given the size of the Firm's portfolio and the nature of the positions, the portfolio is sensitive to small changes in credit spreads. At March 31, 2012, the sensitivity to a 1 basis point move in credit spreads across the investment grade and high yield spectrum was approximately ($84) million, including ($134) million from long risk positions, offset by $50 million from short risk positions.

II. JPMorgan Chase Fair Value Measurement Policy

General

Fair value is the price to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability (an exit price). The sale or transfer assumes an orderly transaction between market participants.

Data Sources and Adjustments

Valuation techniques used to measure the fair value of an asset or liability maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Valuations consider current market conditions and available market information and will, therefore, represent a market-based, not firm-specific, measurement.

Where available, quoted market prices are the principal reference point for establishing fair value. Market quotations may come from a variety of sources, but emphasis is given to executable quotes and actual market transactions (over indicative or similar non-binding price quotes). In certain circumstances valuation adjustments (such as liquidity adjustments) may be necessary to ensure that financial instruments are recorded at fair value.

Bid – offer spread and position size

As further described in US GAAP Accounting Standards Codification Topic 820 Fair Value Measurement (“ASC 820”), the objective of a fair value measurement is to arrive at an appropriate exit price within the bid – offer spread, and ASC 820 notes that mid-market pricing may (but is not required to) be used as a practical expedient.

820-10-35-36C “If an asset or a liability measured at fair value has a bid price and an ask price (for example, an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (that is, Level 1, 2, or 3). The use of bid prices for asset positions and ask prices for liability positions is permitted but is not required.”

820-10-35-36D "This Topic does not preclude the use of mid-market pricing or
other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Effective Q1 2012, size-based adjustments are explicitly not allowed for cash instruments held by a firm. However, US GAAP continues to permit size-based adjustments for derivatives portfolios if an election is made to do so. Under its current business and risk management strategy, the Firm has not made such a portfolio election for this CIO portfolio, and so evaluates the value of its positions without specific consideration of their overall size.

Cut-off and Timing

US GAAP is not prescriptive regarding market close and timing of valuation. As an operational matter, the Firm allows desks in different regions to mark their books as of the close in that region, and requires that these cut-off practices be applied consistently.

III. CIO Valuation Process

Background

CIO's valuation process reflects how and to whom CIO would exit positions by typically seeking price quotes from the dealers with whom CIO would most frequently transact and with whom CIO would seek to exit positions, rather than looking for more broad based consensus pricing from a wide variety of dealers not active in these credit markets. In that regard, CIO's valuation process is consistent with that of a non-dealer investor/manager.

CIO necessarily uses judgment to identify the point within the bid-offer spread that best represents the level at which CIO reasonably believes it could exit its positions, considering available broker quotes, market liquidity, recent price volatility and other factors.

As noted below, CIO's evaluation of valuation adjustments has been based on market liquidity for the positions, rather than on the absolute size of CIO's positions. In the normal course of business, CIO will continue to review its valuation practices in light of its current risk management and exit strategies to ensure its valuation practices continue to represent CIO's estimate of exit price.

Front Office Mark Process

The main source of information for pricing comes from the Bloomberg messages (pricing runs distributed by the dealers). Where available the desk collects them for all indices and tranches.
Then depending on the product and availability of information the following processes are followed:

- **For index products:**
  - "On the run" indices (i.e. most recent series, 5y point): as these are the most liquid instruments, the front office typically uses the dealer runs.
  - "Off the run" indices: Front office looks at bid-offer spreads, volumes, recent price changes and recent transaction data, and the front office mark is established at an appropriate price within the bid-offer.

- **For tranche products:**
  - For liquid tranches: front office computes the best-bid/best-ask using the dealers' runs - the tranche is then marked using the mid of the 'best' market.
  - For illiquid tranches: front office looks at bid-offer spreads, volumes, recent price changes, relevant index prices, and recent transaction data, and the front office mark is established at an appropriate price within the bid-offer.

**Timing of Valuation**

CIO’s valuation policy, consistent with the Firm’s policy, is to value its positions as of the close of business in the relevant region. Although the broker quotes CIO receives are generally consistent with that timing, other data sources may provide data using different timing, as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker quotes</td>
<td>As received</td>
</tr>
<tr>
<td>Markit/Totem – NA indices</td>
<td>New York close</td>
</tr>
<tr>
<td>Markit/Totem – EMEA indices</td>
<td>London close</td>
</tr>
<tr>
<td>ICE – NA indices</td>
<td>30 minutes before New York close</td>
</tr>
<tr>
<td>ICE – EMEA indices</td>
<td>30 minutes before London close</td>
</tr>
</tbody>
</table>

**VCG Independent Process**

VCG independently price tests the front office marks at each month end and determines necessary adjustments to arrive at fair value for the purposes of the US GAAP books and records. The remainder of this section describes this process.

A. Pricing data sources

- CIO VCG obtains prices from third parties as follows:
  - Markit/Totem\(^1\) – an independent service that provides prices for a wide range of products derived from the inputs provided by a number of financial institutions.

\(^1\) Markit and Totem are within the same group. Markit provides data the credit derivative indices, while Totem provides data for the tranche risk of these indices.
• Dealer Quotes – Prices from major broker dealers for specific indices and tranches of those indices.
• VCG must approve the sources for all market prices and other parameters as being reliable and applicable.

CLO VCG also looks to actual prices at which CLO has executed recent transactions as an additional source of market information.

The following is a list of the dealers CLO VCG obtains quotes from on a regular basis for indices and tranches in which they have a reasonable level of activity:

- Citigroup
- Deutsche Bank
- Credit Suisse
- HSBC
- Goldman Sachs
- JPMorgan (IB)
- Royal Bank of Scotland
- Barclays
- Morgan Stanley
- BNP Paribas
- Nomura
- BofA/Merrill Lynch

These dealer quotations are received from a standing solicitation for price estimates for index and tranche positions. The number of dealer quotes received in any particular month generally ranges from 1-4, and is based primarily on which dealers choose to provide quotes that period.

B. Deriving the best estimate of mid-market price (CLO VCG mid-market price) for price testing purposes

Indices:

- For the more liquid indices, typically the on the run indices, VCG utilizes Markit as its primary source for the CLO VCG mid-market price. VCG will also look to broker quotes, but generally finds there to be limited differences to Markit data.
- For the less liquid indices, CLO VCG again uses Markit data as the primary source of independent data. However, given the reduced liquidity of these indices dealer quotes sourced by the front office are also used. Differences between the Markit data and the broker quotes are investigated, for example by reviewing actual levels of trading activity. The CLO VCG mid-market price is determined using the combination of the Markit data, broker quotes and actual trades executed by CLO.

Tranches:

- CLO VCG uses broker quotes as the primary source of data for determining the CLO VCG mid-market prices for the tranches positions. CLO VCG also obtains consensus prices from Totem from the Investment Bank (JPM IB). However, CLO VCG uses the

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3 The Investment Bank obtains these as it contributes as a dealer to the Totem consensus prices.
broker quotes, with less reliance on TOTEM data, due to the Firm's experience that the tranches tend to be less liquid than the indices and for any given position, only 2-3 dealers tend to be active in that tranche. Therefore, CIO VCG believes that the broker quote process is appropriately focused on the more active dealers for those tranches. This emphasis on broker quotes also reflects CIO's likely exit strategy, which is more likely to be with specific dealers active in these tranches. Where there are significant differences between broker quotes and TOTEM, CIO VCG will investigate the reasons for such differences, for example, by looking at the levels at which CIO has actually executed transactions, to validate the integrity of the broker quotes received.

C. Estimating the range of fair value utilizing price testing thresholds

- Price testing thresholds are commonly used in valuation to account for reasonable degrees of variance between valuation data obtained from different sources.
- These thresholds are generally established to represent normal bid-offer spreads for each product, with the goal of ensuring that the final mark used by the Firm is within the range of bid-offer spread after applying these thresholds.
- Price testing thresholds may be determined on a variety of bases (e.g., volatility of parameter, market depth and liquidity and pricing service spreads).
- CIO VCG is responsible for establishing the price testing thresholds used. The tolerance thresholds were consistent from 12/31/11 to 3/31/12.

D. Determining a book price

- The CIO VCG mid-market price plus/minus the price testing threshold set by CIO VCG per instrument (the VCG valuation range) is compared to the front office mark. If the front office mark is outside the VCG valuation range, the position mark is adjusted to the outer boundary of the range. Within the VCG valuation range front office marks may be used without adjustment.
- Irrespective of threshold levels, any difference between front office mark and the mid-market price may be adjusted, at CIO VCG's discretion.
- CIO VCG has not historically adjusted front office marks directly to Markit/Totem spreads/prices for the less liquid indices and tranches because:
  - Given its level of activity in the market, CIO has large amounts of specific transaction data that should be considered in determining fair value.
  - CIO has observed that broker quotes are indicative prices that are relevant to the valuation process, in addition to the consensus prices provided by Markit/Totem.

Based on CIO experience, CIO believes that the broker quotes received better reflect executable prices, and therefore represent.
important market data that should be given priority where available.

- CIO's experience is that not all dealers participating in the Totem process are active in the relevant products and that obtaining direct dealer quotes from the more active dealers for a particular product may better reflect executable prices.

- Markit/Totem prices are based on quotes by market makers acting in that capacity. CIO, like other non-dealer investors/managers, is not a market maker and does not contribute to the Markit/Totem service. Furthermore, in the case of Totem the resulting data is accessible only to market makers who contribute to that service.

- CIO has observed that the business valuation cut-off time may differ from the data provided by Markit/Totem. The combination of intra-day price moves on the last day of the month and the difference between the time when Markit/Totem fixes and the time when CIO closes its books can result in pricing differences that while small from a price perspective, could be significant for such a large portfolio.

- As additional analysis, CIO estimated that as of March 31, 2012, the sum total of the differences between the front office marks and the CIO VCG mid market estimates was $512 million before adjustment to the boundary of the VCG valuation range (considering price testing thresholds) and $495 million after adjustment.

E. Apply necessary valuation adjustments

- CIO applies valuation adjustments as appropriate for positions deemed to be less liquid. Generally, any on the run index (typically, the four most recent series) and associated tranches have been viewed to be liquid based on market activity, and appropriate front office and CIO VCG judgment. In addition, other indices and tranches continued to have sufficient market activity to be deemed liquid as of March 31, 2012 (for example, ITRAXX Main Series 9 indices and the CDX IG Series 9 indices).

- As of March 31, CIO recorded liquidity valuation adjustments of $188 million for the following:
  - High yield - series 11 and prior indices and tranches.
  - Investment grade - series 12 and prior, excluding series 9 index.
    - CIO believes that the investment grade Series 9 index has generally traded similar to the on the run positions because it is viewed as a market benchmark by investors.
  - The liquidity adjustments for the series 9 tranches (both high yield and investment grade) were recorded as of March 31, 2012 to reflect the decline in market liquidity.
by the end of the first quarter. The incremental liquidity reserve of $155 million for series 9 investment grade tranches was applied for the first time at March 31 as a result of this decline in market activity.

- The liquidity reserve was calculated using CIO’s standard liquidity reserve methodology and using spread volatility provided by JPM IB. This volatility varies by position in the capital structure, and is highest for equity tranches and lowest for super senior tranches: $\text{CSO1} \times \text{sqrt}(\text{holding period}) \times \text{spread volatility}$
  - CSO1 is the credit spread sensitivity to a 1 bps change in market spreads relative to position size
  - Holding period – JPM IB suggested max 120 days was used
  - Spread volatility – provided by JPM IB, varies by position in the capital structure, and is highest for equity tranches and lowest for super senior tranches.

- As of March 31 a liquidity valuation adjustment was not recorded for the COX North America Investment Grade and Itraxx Main Series 9 indices as each was viewed to be liquid. As noted in Table 2 above, trading volume in the Series 9 index continued to be relatively robust, including through April, without CIO activity in the market, and the volume of market activity excluding CIO has been substantial.
- Details of all adjustments taken to arrive at the fair value for US GAAP books and records are included in Appendix A.

F. Comparison to Industry Practice
The Firm believes that its valuation practices in CIO are consistent with industry practices for other non-dealer investors/managers. CIO, like other non-dealer investors/managers, relies more heavily on transaction-level data available through its own market activity, and its valuation process reflects its exit market and the participants in that market. In the normal course, the Firm evaluates its own business and risk management practices, and makes appropriate refinements to reflect its best estimates of fair value.

G. Review of CIO Q1 pricing information
- CIO analyzed its pricing data as compared to other available market sources and the results are included in Appendix B.
- As of the January, February and March month ends CIO compared its front office marks and final US GAAP book price for reasonableness to a combination of the Markit/Totem data, broker quotes and actual transaction data around the month end date.
- There was evidence that actual transactions and broker quotes diverged from Markit/Totem prices in some cases.
- CIO book marks on individual positions were generally within the bid offer spread.
As additional analysis, CIO estimated the aggregate difference in the front office marks and the CIO VCG mid-market estimates. This difference ($512 million), less the price testing threshold adjustment of $17mm and less the liquidity reserve of $188mm, was approximately $307 million as of March 31, 2012, compared to the gross value of derivative receivables and payables of approximately $8 billion.

IV. Conclusions

- CIO believes that its marks as of March 31, 2012 represents CIO’s estimate of its exit price as of that date.
- In the context of its gross marks (approximately $8 billion of derivative receivables and $8 billion of derivative payables across CIO’s portfolio), intra-day price volatility, and CIO’s transaction data, CIO believes that it has made reasonable judgments regarding the prices within the bid-offer spread that best represent CIO’s exit price.
- The CIO valuation process is documented and consistently followed period to period.
- Market-based information and actual traded prices serve as the basis for the determination of fair value.
- CIO’s book value, including the valuation adjustments, at March 31 2012 for the index and tranche credit derivatives portfolio is within the range of reasonable fair values for such instruments.

We have shared this memo with PricewaterhouseCoopers; they concur with the conclusions reached herein.
Appendix A - March 31, 2012 Position Marks

The following table provides the notional amount and fair values of the Firm's positions as of March 31, 2012, including the following: $17 mm tolerance level adjustments, $33 mm liquidity adjustment, and $155 incremental liquidity adjustment.

(Note: subsequent COO analysis noted that the required tolerance adjustment should have been $12 million, but the following schedule provides detail of the original $17 million estimate.)

<table>
<thead>
<tr>
<th>Position</th>
<th>Notional</th>
<th>Fair Value</th>
<th>Tolerance</th>
<th>Liquidity</th>
<th>Incremental</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second</td>
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<td>Third</td>
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<td>Fourth</td>
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<td>Sixth</td>
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<tr>
<td>Seventh</td>
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<td>Eighth</td>
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<td>Ninth</td>
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<td>Tenth</td>
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<tr>
<td>Eleventh</td>
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<tr>
<td>Twelfth</td>
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<tr>
<th>Description</th>
<th>Time of the Event</th>
<th>Category</th>
<th>Source</th>
<th>Amount</th>
<th>Notes</th>
<th>Total</th>
</tr>
</thead>
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<td>Category 1</td>
<td>Source 1</td>
<td>Amount 1</td>
<td>Notes 1</td>
<td>Total 1</td>
</tr>
<tr>
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<td>May 10, 2012</td>
<td>Category 2</td>
<td>Source 2</td>
<td>Amount 2</td>
<td>Notes 2</td>
<td>Total 2</td>
</tr>
<tr>
<td>Description 3</td>
<td>May 10, 2012</td>
<td>Category 3</td>
<td>Source 3</td>
<td>Amount 3</td>
<td>Notes 3</td>
<td>Total 3</td>
</tr>
<tr>
<td>Description 4</td>
<td>May 10, 2012</td>
<td>Category 4</td>
<td>Source 4</td>
<td>Amount 4</td>
<td>Notes 4</td>
<td>Total 4</td>
</tr>
<tr>
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<td>May 10, 2012</td>
<td>Category 5</td>
<td>Source 5</td>
<td>Amount 5</td>
<td>Notes 5</td>
<td>Total 5</td>
</tr>
<tr>
<td>Description 6</td>
<td>May 10, 2012</td>
<td>Category 6</td>
<td>Source 6</td>
<td>Amount 6</td>
<td>Notes 6</td>
<td>Total 6</td>
</tr>
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<td>Description 7</td>
<td>May 10, 2012</td>
<td>Category 7</td>
<td>Source 7</td>
<td>Amount 7</td>
<td>Notes 7</td>
<td>Total 7</td>
</tr>
<tr>
<td>Description 8</td>
<td>May 10, 2012</td>
<td>Category 8</td>
<td>Source 8</td>
<td>Amount 8</td>
<td>Notes 8</td>
<td>Total 8</td>
</tr>
<tr>
<td>Description 9</td>
<td>May 10, 2012</td>
<td>Category 9</td>
<td>Source 9</td>
<td>Amount 9</td>
<td>Notes 9</td>
<td>Total 9</td>
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<tr>
<td>Description 10</td>
<td>May 10, 2012</td>
<td>Category 10</td>
<td>Source 10</td>
<td>Amount 10</td>
<td>Notes 10</td>
<td>Total 10</td>
</tr>
</tbody>
</table>

Privileged and Confidential
Attorney Client Work Product

May 10, 2012
Appendix B - CIO Price Testing Data

The following tables set out valuation estimates of various sources, as well as the final CIO price recorded books and records for the most significant positions within the portfolio. The table also includes notional for the positions and whether CIO is long or short the risk of the index/tranche (i.e. whether it has sold or purchased credit protection respectively).

The following observations were noted:

- For all selected positions the front office marks were within the bid offer spread indicated by the broker quotes except for the iTraxx Main IDX S09 07Y.
  - This was a result of a front office data input error that was identified and adjusted by VCG to the outer boundary, in accordance with the VCG price testing protocol. (The value difference between the original front office mark and the intended mark was approximately $20 million, and the difference between the CIO book value and the intended mark was less than $15 million).
- CIO VCG spreads/prices correspond to Markit/Totem data for the liquid indices and reflect the broker mids for illiquid indices and tranches.
- There are a number of instances where the broker-mid spreads/prices diverge from the Markit/Totem data.
- There are a number of instances where the CIO transaction data in appendix C show that actual traded spreads/prices diverge from Markit/Totem data in similar time periods. For example: iTraxx Main IDX Series 16 5 year at February month end, and CDX High Yield Series 10 7 year 10-15% tranche at January month-end.
- Average traded prices in the few days surrounding month-end are directionally consistent with the point in the bid offer spread in which the positions have been marked by CIO, as shown by Appendix C. In general, the front office marks, subject to liquidity adjustments, used for CIO books and records reflect information derived from numerous data sources available to CIO front office, rather than relying solely on any one single factor. For example:
  - Recent transaction data (same-day and recent day actual trades) may in some cases be viewed to provide more relevant and reliable information regarding current exit prices (see additional observations below).
  - In some cases, differences between CIO book values and other market information such as Totem/Markit are created because of timing differences between the close of CIO's books and the close of the Totem/Markit data (see additional observations below).
- In certain cases, CIO executed trades on the last day of the month at a price that is different than Totem (and in several cases, was between the Totem value and the CIO book price). See table below for information as of March 31, 2012 (including average traded prices on March 30, 2012):
The difference between the various data points (FO, Broker prices, and Totem) are relatively insignificant on a price basis, when evaluated in context of:

- Daily price volatility - the following table shows that for most of the tested positions, the price difference between the Totem price and the CIO book price is less than the average daily price change during recent months.

<table>
<thead>
<tr>
<th>March price difference</th>
<th>Avg. daily price change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totem - CIO</td>
<td>Jan</td>
</tr>
<tr>
<td>CDOXIG Main Series 9 (7Y)</td>
<td>2.25</td>
</tr>
<tr>
<td>CDOXIG Main Series 9 (10Y)</td>
<td>0.52</td>
</tr>
<tr>
<td>CDOXHY 100 Series 14 (5Y)</td>
<td>0.25</td>
</tr>
<tr>
<td>CDOXHY 100 Series 15 (5Y)</td>
<td>0.25</td>
</tr>
<tr>
<td>iTraxx Main IDX S09 07Y</td>
<td>6.34</td>
</tr>
<tr>
<td>iTraxx Main IDX S09 10Y</td>
<td>4.75</td>
</tr>
</tbody>
</table>

- Intraday price volatility - the following table shows three representative series and the maximum, minimum, and mean prices during the day on March 31, 2012.

<table>
<thead>
<tr>
<th>Max</th>
<th>Min</th>
<th>Mean</th>
<th>Variation</th>
<th>% of Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>93.00</td>
<td>90.750</td>
<td>91.910</td>
<td>2.250</td>
<td>2.4%</td>
</tr>
<tr>
<td>97.188</td>
<td>96.750</td>
<td>96.950</td>
<td>0.438</td>
<td>0.5%</td>
</tr>
<tr>
<td>127.625</td>
<td>122.750</td>
<td>125.115</td>
<td>4.875</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

- Potential timing differences - CIO EMEA closes its books at the close of business in London, while some of the comparative market data is as of the close of business in New York. This timing difference may result in differences in reported prices.

  - For example, the market price on March 31, 2012 at 4 pm London time for the CDX IG Series 18.5 year was 92.88, and the market price at 9 pm (NY close) was 91.25, a 1.75% difference from the London close.
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
<th>Number of Shares</th>
<th>Price</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 15</td>
<td>Adjusted to reflect the spin-off of the shares.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr 27</td>
<td>Proceeds from the sale of the shares.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 10</td>
<td>Proceeds from the sale of the shares.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Appendix C - CIO Transaction Data

The following tables set out the following:

- **SIZE (week ending)** - The average traded volume for the relevant week.
- **AVG PRICE (week ending)** - The average price at which CIO executed its transactions during the relevant week.

For relevant observations, please refer to appendix B.

<table>
<thead>
<tr>
<th>Date</th>
<th>SIZE (week ending)</th>
<th>AVG PRICE (week ending)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 10, 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IB VaR by risk type</td>
<td>2011</td>
<td>2011</td>
</tr>
<tr>
<td>--------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Fixed income</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Equities</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>Commodities &amp; other</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Diversification benefit to IB trading VaR</td>
<td>(55)</td>
<td>(37)</td>
</tr>
<tr>
<td>IB Trading VaR</td>
<td>45</td>
<td>59</td>
</tr>
<tr>
<td>CPG</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Diversification benefit to IB trading &amp; CPG VaR</td>
<td>(12)</td>
<td>(7)</td>
</tr>
<tr>
<td>Total IB trading &amp; CPG VaR</td>
<td>57</td>
<td>72</td>
</tr>
<tr>
<td>Mortgage Banking VaR</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Chief Investment Office (CIO) VaR</td>
<td>52</td>
<td>55</td>
</tr>
<tr>
<td>Diversification benefit to total other VaR</td>
<td>(5)</td>
<td>(13)</td>
</tr>
<tr>
<td>Total other VaR</td>
<td>67</td>
<td>61</td>
</tr>
<tr>
<td>Diversification benefit to total IB and other VaR</td>
<td>(36)</td>
<td>(40)</td>
</tr>
<tr>
<td>Total IB and other VaR</td>
<td>96</td>
<td>94</td>
</tr>
</tbody>
</table>

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-E 00004695
Hi Ina,

I am not sure if I understood this correctly on the last call:

Jamie asked if the position was increased after you ordered to stop trading.

I think that your instruction came on March 23 following the SAA meeting in the previous day in which Bruno presented the book.

I have looked into this recently as I was briefly in Asia the following week:

The week of March 26, the desk did some smaller final rebalancing trades. These trades were not long risk or involving the iG9 index. The delta was actually reduced through these transactions. Risk management was monitoring this process.

In the prior week (March 19/ March 23) Javier and team increased the delta in the book. The increase was in their delegated authority and not in violation of any limit.

Per our previous call, the increase was not discussed with me or you or in any of our management forums. Actually, the result of these actions and the corresponding RWA increases, led me to call Venkat and ask for Olivier’s help at that time.

The explanation that Javier and Bruno are providing regarding the increased delta is in line with the stated objective to balance the book, balancing and risk neutralizing the book, was exactly their instruction from both of us.

The evidence now provided relating to the need to better balance the book (via the increased delta) is convincing, but very complicated.

In my judgement the increased delta is not one of the main contributing factors for the poor performance of this book that deteriorated around the end of Q1. I have concerns that the increased delta created too much market awareness and further increased an already large concentration.

These issues point to bad judgement call on concentration and liquidity, as well as lack of escalation of a material change to the roadmap of balancing the book. I don’t however think that beyond these important issues, there was a violation of any specific order or limit.

I hope that this clarifies the issue.

Thanks,

Achilles

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
From: Grout, Julien G <julien.g.grout@jpmchase.com>
Sent: Thu, 22 Mar 2012 17:46:07 GMT
To: CIO ESTIMATED P&L <CIO_CREDIT_P&L@jpmchase.com>
CC: CIO P&L Team <CIO_P&L_Team@jpmchase.com>
Subject: CIO Core Credit P&L Predict [22 Mar]: +$82k (dly) - $276,990k (ytd)

Daily P&L: $82,141
YTD P&L: -$276,990,321

Daily P&L($) YTD P&L($)  
Europe Financials: -6,597,360 -14,533,858

Redacted By 
Permanent Subcommittee on Investigations
Europe High Grade 25,839,314 124,436,937

Redacted By 
Permanent Subcommittee on Investigations

US High Grade 42,388,848 409,065,325

Redacted By 
Permanent Subcommittee on Investigations

US HY & LCDX 94,962,354 -347,851,042

Redacted By 
Permanent Subcommittee on Investigations

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
### Dead Books (Core) -13 2,017

<table>
<thead>
<tr>
<th>Washbook/Costs 0 0</th>
<th>Washbook/Costs 0 0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explanatory P&amp;L (in $1000s):</strong></td>
<td><strong>Explanatory P&amp;L (in $1000s):</strong></td>
</tr>
<tr>
<td>Name</td>
<td>Total</td>
</tr>
<tr>
<td>----------------</td>
<td>-------</td>
</tr>
<tr>
<td><strong>Close COD</strong></td>
<td><strong>Close COD</strong></td>
</tr>
</tbody>
</table>
Another day of weakness triggered by negative news from Unna overnight, a very poor set of PMI in Europe. The market feels shaky here, with European financials, iTraxx Xover and CDX IG underperforming. Volatilities are higher by about +4pt across the board, but there was no flattening of index curves - some market players were actually marking curves a tad steeper, on the off-the-run series (99, 109). No obvious theme in tranches today - equity tranches were steeper again, in CDX IG, but slightly flatter in iTraxx.

The behaviour of the book was close to what happened yesterday - the book is making money thanks to the decompression trades in Europe and in the US (our shorts in CDX HY, $14,15,16, 17 widened), with gains estimated to $80M. Again, the book is getting hurt with losses in index forward spreads in 99 and 109, and in tranches (weaker CDX HY equity and mezzanine tranches, steeper 109 equity tranches).

Today we sold protection in the following index: iTraxx Main (5.65B), iTraxx Xover (300M), CDX IG (3.95B) and FINSUB (100M). Beside providing carry, these trades should reduce the VaR, but increase the IRC. We are pausing in our sale of protection, to see what the overall impact on capital numbers is going to be.

Again, a lot of prices are still being framed and we are providing our best estimate.
From: Hagan, Patrick S <patrick.s.hagan@jpmorgan.com>
Sent: Mon, 02 Apr 2012 12:29:02 GMT
To: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Subject: RE: Final split?

Irv:
Thanks. I sent him that instruction, so he can get on it.

I didn’t mean to throw a spanner in the works, but we got nervous when our intuition about the CRM
didn’t match QR’s modeling runs. I’m over here today with Olivier Vigneron, and we have some ideas about the source
of the discrepancy, if not the magnitude.

By the way, thanks for your help.
Pat

From: Goldman, Irvin J
Sent: Monday, April 02, 2012 1:42 AM
To: Hagan, Patrick S
Subject: RE: Final split?

Pat,
There are two issues. 1) trying to understand the qr model is essential. 2) the firm (finance) has to sign off on
the rwa for the quarter on the split front office chose from a risk perspective. Which is the original second split.
Which I explained in the previous email. I think it's important for you to explain to Venkat and Bruce Broker
that the additional analysis you seek is to understand the qr model not to come up with a new split which is no
longer possible.

-----Original Message-----
From: Hagan, Patrick S
Sent: Sunday, April 01, 2012 08:32 PM Eastern Standard Time
To: Goldman, Irvin J
Subject: RE: Final split?

Irv:
Every way we look at the second split, the CRM should have come down by an estimated 10%. But it went up ... slightly
on Mar 7 and then by 10%+ on Mar 21. This raises all sorts of red flags (ie, scares the heck out of me), since it means that
we still only have a weak grasp of what is happening inside QR’s model. Which means that we’re unsure of which new
positions would help our CRM/IRC and which will not help, or worse that we may get clobbered by the CRM one month
out of the blue

From: Goldman, Irvin J
Sent: Monday, April 02, 2012 1:16 AM
To: Hagan, Patrick S
Subject: RE: Final split?
Pat,
Hope you enjoyed your weekend. I think it's important for you to understand that was approved by ever

Original Message——
From: Hagan, Patrick S
Sent: Sunday, April 01, 2012 02:03 PM Eastern Standard Time
To: Broder, Bruce; Venkatakrishnan, CS; Grout, Julien G; Iksil, Bruno M
Cc: Goldman, Irvin J; Wilmot, John; Martin-Artajo, Javier X
Subject: FW: Final split?

Bruce:
We still do not have the results needed to make a decision.

We did a first split with known results for March 7 and March 21.

We did a second split, of which we expected a reduction of 12.5% IRC for both portfolios, with the CRM decreasing by a lesser amount. The March 7 portfolio came back with a CRM at the same level. We are still waiting for the results to ensure that the IRC is 12.5% reduced from the first split. We are still waiting for the answer on this IRC.

When the CRM for Mar 21 was calculated, it came back 40% higher than before. We do not understand this number. Since then we have tried several variations on portfolio 2, and got back growing CRM numbers. We have not been able to make sense of the CRM. I am still waiting on Q2 to ensure that the actual IRC is 12.5% lower.

Pat

Bruce
For perfect clarity, I am forwarding back what I understand has been selected as the final split. Please let me know if this is not the correct one. Otherwise, this is what we'll proceed with.

Thanks,
Bruce

From: Hagan, Patrick S
Sent: Wednesday, March 28, 2012 08:45 PM
To: Bangia, Anil K; Broder, Bruce; Patel, Samir R
Cc: Iksil, Bruno M; Grout, Julien G; Martin-Artajo, Javier X
Subject: RE:

These are the positions to be formed into the IRC books of COB Mar 7th and COB Mar 21.
Good night,
Pat

---

From: Bangia, Anil K
Sent: Wednesday, March 28, 2012 10:56 PM
To: Hagan, Patrick S
Subject: RE: No problem. I will be around late.

No problem. I will be around late.

---

From: Hagan, Patrick S
Sent: Wednesday, March 28, 2012 5:55 PM
To: Bangia, Anil K
Subject: RE: It’s going to be a couple more hours before we can get you something trustworthy ...

It’s going to be a couple more hours before we can get you something trustworthy ...

---

From: Bangia, Anil K
Sent: Wednesday, March 28, 2012 10:54 PM
To: Hagan, Patrick S
Subject: RE: I don’t understand. Can you elaborate please? Is this a computation issue on your side? Is this a matter of re-running the IRC split?

I don’t understand. Can you elaborate please? Is this a computation issue on your side? Is this a matter of re-running the IRC split?

---

From: Hagan, Patrick S
Sent: Wednesday, March 28, 2012 4:59 PM
To: Bangia, Anil K
Subject: We’ve got to start over on the Mar 7 and Mar 21 positions ... there’s no way we can guarantee the correctness of what we’ve done ...

We’ve got to start over on the Mar 7 and Mar 21 positions ... there’s no way we can guarantee the correctness of what we’ve done ...

Patrick S. Hagan
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London EC2V 7AN
United Kingdom
+44 (0)20 7777 1563
patrick.s.hagan@jpmorgan.com

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.  JPM-CIO-E 00033941
From: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>
Sent: Mon, 16 Apr 2012 19:02:50 GMT
To: Zubrow, Barry L <barry.zubrow@jpmorgan.com>; Hogan, John J. <john.j.hogan@jpmorgan.com>; Braunstein, Douglas <douglas.braunstein@jpmorgan.com>
CC: Wilmot, John <john.wilmot@jpmorgan.com>; Drew, Ina <ina.drew@jpmorgan.com>
Subject: RE: Daily Risk Report

All,

Wanted to let you know that CIO is having a few hour post mortem session tomorrow in which we will be discussing the strategy going forward.

Irv

---Original Message---
From: Zubrow, Barry L
Sent: Monday, April 16, 2012 1:58 PM
To: Hogan, John J.; Wilmot, John; Goldman, Irvin
Cc: Braunstein, Douglas
Subject: RE: Daily Risk Report

Can I suggest that you start circulating something, even if not "perfect". No doubt it will be a work in progress.

You should also include progress on "tear ups"

Barry

CONFIDENTIAL TREATMENT REQUESTED BY
J.P. MORGAN CHASE & CO.
VAR METHODOLOGY

PATRICK S. HAGAN AND KEITH STEPHAN
CHIEF INVESTMENT OFFICE
JP MORGAN

Abstract. We detail the VAR methodology for the CIO core credit books.

1. Overview. Our core credit books are composed of credit derivative swaps on broad-based indices (CDS) and credit derivative swaps on tranches of broad-based indices (CDOs). The value of our credit derivative positions is driven by two primary factors:

i) the overall widening and tightening of the credit spread curves. This determines the future (market implied) expected loss rate of the index, and thus the forward expected default probability curves implied by the market;

ii) actual defaults and default payments.

There are two other, more tactical, factors:

iii) steepening and flattening of the spread curves, which determines the market's timing of the expected losses; and

iv) the distribution of expected losses among the different tranches of the capital structures. The market's seeming preference for equity and junior tranches, or for the more senior tranches, relates to whether the market anticipates the index losses coming from relatively rare scenarios in which many names default, or from more common scenarios in which a few names default. Mathematically, this preference is quantified by the correlation.

Finally, there are two secondary risks:

(v) interest rate risks. Like all swaps, the value of future payments depends on the yield curve. Interest rate movements don't directly affect the amounts paid in to and out of our core books. So this risk is secondary to the spread and correlation risks, although not particularly small;

(vi) foreign exchange risks. Our core books own instruments denominated in Euros. As a dollar-based bank, we have risk to the Euro/USD exchange rate on any unhedged portion of our book. Like most businesses, the month-end value of the Euro-denominated deals is hedged every month, so we only have FX risk to the profit/loss of the Euro-denominated instruments since the beginning of the current month.

Our approach to spread and correlation risk is based on the full revaluation of our books under specified scenarios; it is not based on extrapolating from the Greeks (deltas, gammas, ... ) of our position. We choose not to use Greeks, because they only provide an approximate revaluation of our books, and it may be difficult to convince others (and ourselves!) that we had incorporated all the significant risks. E.g., are curve-flattener cross gamma terms, or default/delta cross terms negligible? Each such question could require a historical study to answer, but using full revaluations of our books makes all such questions moot.

Interest rate movements don't affect the amounts paid in to and out of our book. So, as detailed below, we calculate the additional VAR from interest rates from the PVOl of the book to 1y, 2y, 3y, 5y, 7y, and 10y par swap rate shifts. Similarly, the FX VaR will be calculated from the value of the unhedged part of our Euro-denominated deals, which is generally the difference between the current value of these deals, and their value at the last month end.

2. VAR. Our VAR will be based on the 264 scenarios determined by the daily market movements over the last calendar year. The daily market movements (spread changes, correlation changes, and defaults) will be applied to today's market to get 264 possible scenarios for tomorrow's market. Out of these 264 one day scenarios, the average one over the worst seven scenarios is our "99 VaR."

Our way to view this procedure, is as a Monte Carlo simulation of possible one day PNL. Instead of using a theoretical distribution of spread and correlation moves, which could easily oversimplify subtle interactions between different market variables, we use an empirical distribution determined by the actual market movements.
movements over the past year. The purpose of the historical data, then, is to provide a bias-free sampling of the current, empirical distribution.

Let \( t_0 \) be today, and consider a specific index \( A \) (e.g., CDX HY series 10). We strip the end-of-day price quotes for the CD swaps on index \( A \) to obtain today's survival curve \( Q_{sA}(T) \) and hazard rate curve \( h_{sA}(T) \) for this index:

\[
(2.1a) \quad Q_{sA}(T) = e^{- \int_{t_0}^{T} h_{sA}(T') dT'} = \text{expected fraction of index surviving at least to } T
\]

\[
(2.1b) \quad h_{sA}(T) = \text{hazard rate} = \text{rate of default at } T, \text{ given survival until } T.
\]

Currently we use piecewise-constant hazard rates \( h(T) \) in our stripping procedure, with the nodes corresponding to the maturity dates of the CD index swaps used in the stripping process. This gives us our base curve.

For each date \( t \) over the past year, we strip the market's CD swap quotes for that date \( t \), to obtain the survival and hazard rate curves as seen at date \( t \):

\[
(2.2a) \quad Q_{sA}(t, T) = e^{- \int_{t_0}^{T} h_{sA}(T') dT'} = \text{expected fraction surviving to } T, \text{ as seen at date } t
\]

\[
(2.2b) \quad h_{sA}(t, T) = \text{hazard rate for date } T \text{ as seen at date } t
\]

\[
(2.2c) \quad \text{rate of default at } T, \text{ given survival from } t \text{ to } T, \text{ as seen at date } t.
\]

Again, these survival and hazard rate curves are obtained by stripping the closing marks for the CD swaps on series \( A \), as recorded on \( t \). We use the same stripping procedure as before.

For each date \( t \), the market movement of index \( A \)'s survival curve is

\[
(2.3a) \quad Q_{sA}(t, t_0) = e^{- \int_{t_0}^{t} h_{sA}(T') dT'} = e^{- \int_{t}^{t_0} h_{sA}(T') dT'}
\]

For the \( i \)th scenario, we use the hazard rate curve

\[
(2.3b) \quad h_{sA}^i(t) = h_{sA}(t) \left[ 1 + \delta_s^i(t) \right] = h_{sA}(t) \frac{Q_{sA}^i(t)}{Q_{sA}(t)}
\]

\[
(2.3c) \quad h_{sA}(t) = e^{- \int_{t_0}^{t} h_{sA}(T') dT'} = e^{- \int_{t}^{t_0} h_{sA}(T') dT'}
\]

for series \( A \). That is, today's hazard rate curve is changed proportionately to the market movement on date \( t \).

For each tranche \( B \) (e.g., the CDX HY series 15, 3Y, 0-10 tranche), let the attachment and detachment correlation be

\[
(2.4a) \quad \rho_{sA,B}^{\text{attach}}(t), \quad \rho_{sA,B}^{\text{detach}}(t)
\]

using today's end-of-day marks. For each historical date \( t \), let

\[
(2.4b) \quad \rho_{sA,B}(t), \quad \rho_{sA,B}(t)
\]

be the EOD attachment and detachment correlation for the tranche. Then the one-day market movement for date \( t \) is

\[
(2.5a) \quad \delta_{t} = \frac{\rho_{sA,B}(t)}{\rho_{sA,B}(t)}
\]

\[
(2.5b) \quad \delta_{t} = \frac{\rho_{sA,B}(t)}{\rho_{sA,B}(t)}
\]
For the i^{th} scenario, we use the attachment and detachment correlations

\[ \gamma^{att}_{i} = \gamma^{att}_{i-1} \left( 1 + \Delta \gamma^{att}_{i-1} \right) \]
\[ \gamma^{det}_{i} = \gamma^{det}_{i-1} \left( 1 + \Delta \gamma^{det}_{i-1} \right) \]

For the i^{th} scenario, we will also apply any defaults that occur on date \( t_i \).

For each of the last 264 business days \( t_i \), we will calculate the change to the current value of the core books under scenario i:

\[ \Delta \gamma_{i}^{att} = \gamma^{att}_{i} - \gamma^{att}_{i-1} \]
\[ \Delta \gamma_{i}^{det} = \gamma^{det}_{i} - \gamma^{det}_{i-1} \]

This provides the main risks of our books. Before we can find the worst seven outcomes and calculate the VAR, we need to add the interest rate and FX components to the risk.

2.1. Illiquid indices. Newly issued series do not have a year's history. For these we use the spread shifts \( \Delta S(t) \), correlation shifts, \( \Delta \rho(t) \), and any defaults from the most similar series which is liquid on the historical date \( t \). For example, the desk currently has positions in CDX IG S17 and CDX HY S17. These series started trading on 9/20/2011. For historical data between 3/20/2011 and 9/20/2011, we use the spread shifts \( \Delta S(T) \) and correlation shifts, \( \Delta \rho(T) \), and any defaults from the then-current series CDX IG S16 and CDX HY S16 as proxies for the S17 spread and correlation changes. Before 3/20/2011 (which was the first date S17 traded), we used CDX IG S15 and CDX HY S15 as proxies.

The series in each family are issued every six months. If the desk were to trade each series when issued, then there could be at most two proxy time series for each family. Currently the desk has positions in CDX IG series 16 and series 17, CDX HY series 16 and series 17, and iTraxx series 15 and series 16, all of which require proxy time series.

In addition, the historical market movements for some instruments on some dates are missing or unreliable due to market illiquidity. These too will be implied from the liquid market quotes at \( t \).

Currently we investigate whether a market quote is a misquote when the change in the one day spread, attachment correlation, or detachment correlation exceeds 20%.

\[ |\Delta S(t)| > 20\% \]
\[ |\Delta \rho(t)| > 20\% \quad \text{or} \quad |\Delta \rho(t)| > 20\% \]

This figure was chosen because, after investigation, all changes of this size have proven to be market misquotes. Currently, out of a sample of 7,200 curves (288 days with 40 curves per day), we have 109 curves with problematic entries that have been replaced with their liquid proxies.

<table>
<thead>
<tr>
<th>series</th>
<th>oldest</th>
<th>other</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>11</td>
<td>12</td>
<td>33</td>
</tr>
<tr>
<td>iTraxx Main</td>
<td>14</td>
<td>11</td>
<td>25</td>
</tr>
<tr>
<td>CDX HY</td>
<td>29</td>
<td>69</td>
<td>188</td>
</tr>
<tr>
<td>other</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>total</td>
<td>85</td>
<td>97</td>
<td>182</td>
</tr>
</tbody>
</table>

Of these problematic curves, 86 are in the very oldest series, CDX IG series 7, CDX HY series 7, and iTraxx Main series 6. These series have the poorest liquidity, and their 3Y index swaps tend to have erratic prices because their very short maturity exacerbates market noise. Fortunately, we have very little exposure on these oldest swaps.
2.4. VAR and VaR capital. We follow the above procedure to calculate the change to the current value of the book under each scenario generated from the previous 264 days. VAR-99 will be the average of these daily returns over the 7 worst scenarios. The capital will then be calculated as $\sqrt{\text{VAR}}$ times this average to obtain the theoretical 10 day loss at the 99% confidence level. Besides publishing our stand-alone VaR number, we will also publish the entire P/L vector along with the dates of the market shift. This will for our VAR result to be diversified against other LOBs.

2.5. Results. The actual spread shifts and correlation shifts used for all the series and tranches are in the attached workbook Hi3tVallShijtsUsed.xl.</p>

The one day P/L outcomes for those scenarios are shown in the spreadsheet HiVarPNLValecls in the workbook C005persholdshifi_09_23. The strategy-by-strategy and position-by-position breakdowns of the P/L for the worst seven scenarios is shown in the HiVarBreakdown sheet in the same workbook.

2.6. Critiques. The VAR obtained from these calculations is significantly higher than the desk's current VAR. This is because:

a) our VAR calculations incorporate correlation movements as well as spread movements. Although this could decrease the loss on any given day, including an extra source of variation generally raises the VAR;

b) our full revaluation calculations incorporate gamma and cross-gamma effects (as well as all higher derivatives). Again, this can decrease or increase the outcome on any given day, but negative gamma positions tend to be exacerbated on the worst days;

c) survival curves generally flatten the most when they are steep, and steepen the most when they are flat. Our methodology applies the steepening/flattening experienced on one date to another date $t_n$, without also accounting for the steepness or flatness of the curve on date $t_n$. This tends to exaggerate the influence curve steepening and flattening.
d) the desk's VAR calculations are based on street deltas, the deltas quoted by market makers, which are often more temperate than the deltas obtained theoretically. Our calculations are based on full revaluations, so they correspond to theoretical deltas.

e) the survival curve and correlation shifts are obtained directly from our closing marks. The data quality is good for liquid indices where we have large positions, since we have good coverage from market makers in these positions. For less liquid series, for series in which we don't have a strong market presence, and for illiquid market days, the data quality is poorer. Again, extra noise can decrease or increase the outcome on any given day, but in general, extra noise leads to higher VAR.

Over the next few months we will be examining the market movement data, focusing on the worst days. By comparing our data with data from other databases, we will gradually eliminate the errors in our market data. All replacement of market data from our initial data set will be fully documented and traced, so we maintain objectivity.

All the above problems with our methodology generally lead to higher VAR, which is unsurprising since VAR can be considered as a measure of noise. Accordingly, we believe that our VAR-99 calculation is decidedly conservative.

Yield curve movements and changes in the FX rate do not directly affect the physical payments into and out of our core books, so the value of our core credit position is nearly linear in the interest rate and FX risks. Accordingly, these secondary risks (interest rate and FX) are being calculated by matching the linear (delta) risks. This neglects second order risks (interest rate gamma, FX gamma, interest rate/spread cross gamma terms). We believe this is justified by the small size of the interest rate and FX risks, as well as by the near-linearity of the book values to these risks.

In developing this methodology, we chose to use relative spread and correlation changes, instead of absolute changes,

\[
\begin{align*}
\Delta \sigma(t) &= \Delta \sigma_m(t) + \Delta \sigma_s(t) \\
\Delta \rho(t) &= \Delta \rho_m(t) + \Delta \rho_s(t)
\end{align*}
\]

Since neither the spreads nor the correlations must remain positive, we believe that using relative changes is theoretically sounder than using absolute changes. Also, the size of the relative changes seems to be the same regardless of the size of the spread itself. For example, in the graphs below, the RV spreads are about four times larger than the IG spreads, but the relative changes are similar in size. Finally, using the relative correlation changes allows us to compare different models against each other.
From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Mon, 09 Jan 2012 23:05:23 GMT
To: Wilmot, John <JOHNWILMOT@jpmorgan.com>
Subject: Re: CRM results for Q4

It's very important since we can spare some deleveraging (assuming we believe the risk profile. We pick up 100 - 250 mil in carry and more optimally. Even with very stress, this outcome will bring the total away down. I want to get a handle on it before they deleverage.

From: Wilmot, John
To: Drew, Ina
Sent: Mon Jan 09 18:00:17 2012
Subject: RE: CRM results for Q1

I don't believe this includes VaR and Stress VaR. My conversation with Pete this morning suggested we were coming about spot on for the RWA for this book (CRM was a bit better, basically through higher diversification benefit, not risk reduction - but that was offset by higher stress VaR in December). I will reconfirm with Pete.

John C. Wilmot
Chief Investment Officer
Work: (212) 834-5452

From: Drew, Ina
Sent: Monday, January 09, 2012 5:55 PM
To: Wilmot, John
Subject: FW: CRM results for Q1

This baffles me. We put in 41 bi. We now look wrong on the low side and on the high side.

From: Drew, Ina
To: "macri@"
Sent: Mon Jan 09 17:26:13 2012
Subject: Re: CRM results for Q1

We may not need to deleverage as much but we sure better pin down as you say to be certain.

From: Enfield, Keith [mailto:Keith.Enfield@jpmorgan.com]
Sent: 09 January 2012 15:22
To: Macris, Achilles C; macris@btinternet.com
Cc: Giovannetti, Mason; Ikhsil, Bruno M; Hagan, Patrick S; Martin-Artajo, Javier X
Subject: CRM results for Q1

A beneficial result but it is still "random". The real work needs to done to pin the number to knowable variables.

From: Enfield, Keith [mailto:Keith.Enfield@jpmorgan.com]
Sent: 09 January 2012 15:22
To: Macris, Achilles C; macris@btinternet.com
Cc: Giovannetti, Mason; Ikhsil, Bruno M; Hagan, Patrick S; Martin-Artajo, Javier X
Subject: CRM results for Q1

Achilles,
As mentioned, the Q4 CRM model output for CIO is $26.4 bn compared to $43.5 bn in Q3. The firm is now combining CIO's results with the IT's so we are getting a diversification benefit which reduces the number further to $18.3 bn.

Regards,
Keith.
From: Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Tue, 10 Jan 2012 19:37:05 GMT
To: Stephan, Keith <keith.stephan@jpmorgan.com>
Subject: RE: CRM results for Q4

yes I will show you tomorrow how the book has changed between end of dec and now.

I am much less short.

I need now the rwa marginals so that I can do the proper trades, i.e. trades less stupid than go long like all of us, and instead create tail upside while minimizing the rwa, no matter where the var sits, because the chance is that the higher my var the lower the aggregate var for whole cib.

From: Stephan, Keith
Sent: 10 January 2012 19:29
To: Bruno M
Subject: FW: CRM results for Q4

More on the same topic.

From: Weiland, Peter
Sent: 10 January 2012 19:16
To: Martin-Artajo, Javier X
Cc: Stephan, Keith, Giovannetti, Alison C; Wilmot, John; Hagan, Patrick S; Alexander, David M; Gandhi, Samir X
Subject: FW: CRM results for Q4

Hi Javier–

Keith Stephan said you are waiting for some data from me on RWA, so I wanted to be sure that you saw the email I sent you yesterday (below).

That said, I have tried to pull together a more organized and complete picture of the components of the tranche RWA for 4Q:

The final actual RWA of $36.29 is at the top end of the range I estimated in November of $31.5-36.08, which came from the components:

Confidential Treatment Requested by J.P. Morgan & Co.
Stress VaR $8.0-11.08
CRM $20.08 (diversified)

I'll discuss this Thursday at SAA, but there were two components that affected the final figure for 4Q:
- The actual diversification factor (relative to 18) came to 31% rather than 25%, reducing CRM compared to estimate
- VaR and stress VaR increased significantly in December increasing those components compared to the estimate

The December data and the trend in tranche VaR recently point toward increased RWA for 1Q. We should discuss.

I continue to plug away with QR to try to bring our views and theirs into alignment, and as I say below I think there are important issues that QR needs to explain with respect to methodology.

Pete

From: Weiland, Peter
Sent: Monday, January 09, 2012 12:38 PM
To: Martin-Artajo, Javier X
Subject: RE: CRM results for Q4

Thanks Javier. Happy 2012 to you. Look forward to seeing you early next month.

The below is very much in line with all the discussions we had toward the end of 2011, the only material difference being that the diversification factor used came to 31% instead of the 25% I had used to estimate (resulting in $18.38 CRM RWA rather than the $20B I had estimated). The $26.46 standalone is pretty much where we were expecting it to land.

I have been trying to get the dialogue going between Pat and QR on the topic of what Pat calls "de-centering" and what they call "de-meaning". This is the big methodological sticking point I think. I will talk to OR this week and get some conversations set up.

Pete

From: Martin-Artajo, Javier X
Sent: Monday, January 09, 2012 11:50 AM
To: Weiland, Peter
Subject: FW: CRM results for Q4

Pete,

Happy new year first of all,

Can you give me more info regarding this below?

regards
As mentioned, the Q4 CRM model output for CIO is $26.4 bn compared to $43.5 bn in Q3. The firm is now combining CIO's results with the IB's so we are getting a diversification benefit which reduces the number further to $18.3 bn.

Regards,

Keith.
Hi Ina,

Our VaR will be per below at month-end ($7m or below) — however:

Look at the new model for VAR. Firm down but m VaR for 1B from

This will happen with capital hopefully End of Q1.

Best,

Achilles

---

From: Lee, Janet X
Sent: 20 January 2012 13:54
To: Stephan, Keith; Goldman, Irvin J; Weiland, Peter
Cc: Martin-Artajo, Javier X; Macris, Achilles O; Kalimbgi, Evan
Subject: RE: Breach of firm var

For point 3, please see table attached for details of impact analysis on ocb 01/18 using the new model’s results.

The synthetic book’s VaR drops from $988m to $53mm. Firmwide VaR will see a 29% reduction from $138mm to $98mm, back under the $125mm limit. CIO VaR will see a reduction of 44% to $57mm, back under the $95mm limit.

<table>
<thead>
<tr>
<th>14/01/2012</th>
<th>Current 10QVaR</th>
<th>Current 10QVarAll</th>
<th>New Model 10QVaR</th>
<th>New Model 10QVaR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inv Bank Regional</td>
<td>137,987,472</td>
<td>137,987,472</td>
<td>98,455,354</td>
<td>98,455,354</td>
</tr>
<tr>
<td>CIO</td>
<td>102,582,406</td>
<td>85,453,464</td>
<td>57,192,000</td>
<td>57,192,000</td>
</tr>
<tr>
<td>CIO (international)</td>
<td>100,778,451</td>
<td>82,272,976</td>
<td>56,421,905</td>
<td>56,421,905</td>
</tr>
<tr>
<td>CIO EMEA</td>
<td>100,328,172</td>
<td>80,614,464</td>
<td>55,936,163</td>
<td>55,936,163</td>
</tr>
<tr>
<td>CIO CREDIT EMEA</td>
<td>99,675,041</td>
<td>78,710,443</td>
<td>54,560,083</td>
<td>54,560,083</td>
</tr>
<tr>
<td>CIO CORE CREDIT</td>
<td>97,179,384</td>
<td>75,183,882</td>
<td>53,100,855</td>
<td>53,100,855</td>
</tr>
</tbody>
</table>

Thanks,

Janet Lee
Chief Investment Officer
JPMorgan Chase
Phone: +44 (0)207 217 4258
Email: janet.x.lee@jpmorgan.com

From: Stephan, Keith
Sent: 20 January 2012 12:02
To: Goldman, Irvin J; Weiland, Peter
Cc: Martin-Artajo, Javier X; Macris, Achilles O; Kalimbgi, Evan
Subject: FW: Breach of firm var

Importance: High

Confidential Treatment Requested by J.P. Morgan & Co. JPM-CIO-PSI 0000146
Below please find details of the VaR limit breach. The VaR increase is driven by Core Credit (tranche) in EM EA. The VaR has increased steadily since the end of December as positions in CDX.HY on-the-run indices have been added to the portfolio to balance the book, which has been taken longer risk since the expiry of CDX.HY 3Y positions which matured 21 Dec 2011.

Key Points:

1. The increase in VaR is largely attributed to increased short risk positions in CDX.HY indices – which we have discussed with the desk and which were added specifically to reduce the outright long CSOI profile of the book (as we are additionally over the MTM CSOI limit and actively reducing this risk to move within the $55MM CSOI threshold).
2. We are reviewing the details of the current VaR number and actively working with the desk to reduce the current VaR based on current marginals, while continuing to address the CSOI as above. N.B. the action taken thus far has further contributed to the Positive Stress benefit to the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from +$2.4b to +$1.6b from 17-19 Jan.
3. We are in late stages of model approval for full revaluation which will have the effect reducing the standalone VaR for Core Credit from circa $96MM to approx $70MM – impact analysis on the marginal contribution to the Firm is ongoing and will be distributed later today.

I expect that we will resolve through active risk management the breach of VaR limit using current method over the next two trading sessions, depending on liquidity.

Furthermore, I believe that the process of model approval is nearing completion and that this will be implemented in the next 1-2wks in production.

My recommendation therefore is that we do not address, nor upsize the limit for CO – but that we continue to work in partnership with the desk to manage to the current $95mm limit over the next two to three trading sessions – and that we discuss further with the model review group (MRG) today the schedule for completion of approval of the new model with a view toward implementation next week if possible. My team and I are disaggregating strategy level marginal VaR (reported daily) to the level of position / instrument level marginal VaR to provide the desk with precise list of actions that can be taken to most effectively reduce VaR while maintaining balance of other risk measures. This will be complete by mid-afternoon London time today.

Evolution of Current VaR using production model:

Confidential Treatment Requested by J.P. Morgan & Co.
The details of the drivers of the VaR increases, using current model for measurement are as follows:

Jan16 to Jan17 from $94.7mm to $98.6mm: -$3.9bn move:
1) +4bn from Stg 150 - Increased HY15 - HY16 short risk position by $2.25bn
2) -4bn from Stg 14EU - Reduced HY17 index short risk position by $1.3bn

Jan17 to Jan18 from $98.6mm to $94.7mm: +$3.9bn move:
1) +3.9bn from Stg 14EU - Increased HY17 5Y short risk position by $2.25bn
2) +2bn from Stg 18US - Increased IG17 10Y Index long risk by $6.7bn
3) +1bn from Stg 150 - Increase in HY17 5Y Index short risk positions of $1.1bn (FY14 $300mm, FY15 $250mm, FY16 $450mm, FY17 $500mm)

Jan18 to Jan19 from $94.7mm to $91.8mm: -$2.9bn move:
1) -4bn from Stg 150 - Reduced HY17 index short risk position by $1.3bn
2) -3bn from Stg 14EU - Decrease in HY17 index short risk positions by $1.1bn
3) -2bn from Stg 18US - Decrease in IG17 10Y index long risk position by $6.7bn
4) -1bn from Stg 150 - Decreased HY16 index short risk position by $4.7bn

Jan19 to Jan20 from $91.8mm to $93.2mm: +$1.4bn move:
1) +1.4bn from Stg 14EU - Increase in HY16 index long risk position by $2.6bn
2) +1bn from Stg 150 - Increase in HY15 - HY16 short risk position by $2.25bn
3) +0.6bn from Stg 18US - Price tightening in recent weeks meant that this position delivered positive offset on worst day
4) Note: 14EU does have a net increase in X016 pas by $260mm but increase in MN16 long risk pas by $2.0bn more than offsets the var moves from X0.

Confidential Treatment Requested by J.P. Morgan & Co.
From: Goldman, Irvin J
Sent: 20 January 2012 03:05
To: Stephan Keith; Weiland, Peter
Cc: Macris, Achilles X; Martin-Artajo, Javier X; Kalmegul, Evan
Subject: Breach of firm VaR

All,

This is the third consecutive breach notice (below) that has gone to Jamie and OC members. We need to get the specific answers to the cause of the breach, how it will be resolved and by when. She requested the answers today - Friday and would like Achilles and Javier to vet the international credit explanations.

Irv

Firmwide 95% 10Q VaR

- The Firm's 95% 10Q VaR as of cob 01/18/2012 has increased by $55mm from the prior day's VaR to $135mm and has breached the $125mm Firm VaR limit for the third consecutive day.
- CIO's 95% 10Q VaR as of cob 01/18/2012 has increased by $57mm from the prior day's VaR to $102mm and has breached the $95mm CIO VaR limit for the third consecutive day.
- The increase in the Firm's VaR is primarily driven by an overall reduction in diversification benefit across the Firm and position changes in CIO and MSB.
- Each LCB's contribution to the Firm's $135mm VaR (as shown by marginal VaR) are as follows:

<table>
<thead>
<tr>
<th>LCB</th>
<th>VaR Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>IB</td>
<td>$55mm</td>
</tr>
<tr>
<td>CIO</td>
<td>$57mm</td>
</tr>
<tr>
<td>Private Equity</td>
<td>$55mm</td>
</tr>
<tr>
<td>RFS</td>
<td>$55mm</td>
</tr>
<tr>
<td>TSS</td>
<td>$55mm</td>
</tr>
</tbody>
</table>

10Q Externally Disclosed VaR

The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.

Please contact the MR1 External Reporting team with any questions.
Sure. Let me know when it suits you I am available today in the afternoon.

Hi Javier –

John, Irv, and I spent some time reviewing your decision table this morning. Can we set up a time to discuss with you? And probably we should include Keith Stephen and Bruno?

Thanks

Pete

Peter Weiland  | J.P. Morgan | Chief Investment Office | 270 Park Ave. | Tel: +1 212 834 5549 | Cell: +1

as a follow up from yesterdays conversation regarding the tranche book I would like to further clarify the different scenarios and assumptions for each of them.

The first scenario is the one discussed when you were in London an is a scenario that we reduce our book to the agreed target at year end 2012 of 20.5 bin but the current model used by QR remains. This would need the path of reduction to be to reduce the RWA using a strategy that positions the book for maximum carry and would have high trading costs and a higher risk profile so that we could have also a large drawdown.

The second scenario or Central Scenario discussed with you and John Wilmot is a scenario that we meet the year end target by opportunistically reducing the necessary legs and optimization is used following the current QR model guidelines and assumes that we get a reduction on the cost of capital using the new VAR.

The third scenario is possible if we get the new model but we do not get diversification and we would reconsider.
The fourth scenario is our Target scenario and the one we are hoping to implement again by midyear.

Let me know if you want to further discuss.

Best regards

Javier
From: Drew, Ian <Ian.Drew@jpmorgan.com>
To: MRM Reporting <mnn.reporting@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Doyle, Robin A. <Robin.A.Doyle@chase.com>; MRM Firmwide Reporting <MRM_Firmwide_Reporting@jpmorgan.com>; MRM CIO Europe <MRM_CIO_Europe@restricted.chase.com>; MRM CIO Asia <MRM_CIO_Asia@restricted.chase.com>; Intraspect - LIUMITS <Intraspect_-LIUMITS@restricted.chase.com>

Subject: RE: ACTIONNEEDED: CIO International-One-off Limits Approval

This email is to request for your approval to temporarily increase the following CIO International Limits until January 31st, 2012.

<table>
<thead>
<tr>
<th>LOB</th>
<th>Limit Type</th>
<th>Current Limit</th>
<th>Proposed One-Off Limit</th>
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<tbody>
<tr>
<td>CIO</td>
<td>CIO - Intl - International - Aggregate - Total VaR</td>
<td>$100mm</td>
<td>$110mm</td>
</tr>
<tr>
<td>CIO</td>
<td>CIO - Intl - IQ - Credit VAR</td>
<td>$95mm</td>
<td>$110mm</td>
</tr>
<tr>
<td>CIO</td>
<td>CIO - Intl - Aggregate - Credit VAR</td>
<td>$100mm</td>
<td>$110mm</td>
</tr>
<tr>
<td>CIO</td>
<td>CIO - International - IQ - Total VAR</td>
<td>$95mm</td>
<td>$110mm</td>
</tr>
</tbody>
</table>

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flattening Sell-off) for this portfolio which has increased from $1.4bn to $1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an
improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mn.

If more information is required, please let us know and we will arrange to provide further details.

Upon receipt of your approval, the above proposed limits will be effective immediately.

If you approve of the above limit changes, please reply to all with your approval. Thank you.
From: Drew, Ina <ina.drew@jpmorgan.com>
Sent: Thu, 08 Mar 2012 19:16:27 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
抄送: Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Wilmot, John
          <JOHN.WILMOT@jpmorgan.com>; Goldman, Irvin J <irvinj.goldman@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>
Subject: Re: CIO CRM results

Ok. Glad to see a formal process started. Update us as things develop. Thanks.

From: Martin-Artajo, Javier X
To: Drew, Ina
抄送: Macris, Achilles O; Wilmot, John; Goldman, Irvin J; Weiland, Peter
Sent: Thu Mar 08 13:19:02 2012
Subject: RE: 00 CRM results

Ina,

they agree with us that we need to change both model and inputs as discussed in our SAA session but we have to prioritize.

So, this means that we will have closer numbers to the average CRM of the last three months so we will be somewhere below the agreed number of 36 Billion for overall RWA (they will publish this tonight) to us to have a sense of the improvement but not lower than 30 Billion until we agree on how the model should look to model the actual CIO risk since it is significantly different from the IR. We are not going to do yet with the CRM RWA yet what we have done with the VAR that is to challenge the current methodology and have the model changed. It would not be done by the end of the quarter for sure.

regards

From: Drew, Ina
Sent: 08 March 2012 18:01
To: Martin-Artajo, Javier X
抄送: Hogan, John J.; Venkatakrishnan, CS
Subject: Re: CIO CRM results

What does it mean accept numbers for this month. What is the new result

From: Martin-Artajo, Javier X
To: Drew, Ina; Hogan, John J.; Venkatakrishnan, CS
抄送: Macris, Achilles O; Wilmot, John; Goldman, Irvin J; Weiland, Peter
Subject: Re: CIO CRM results

Confirmed Treatment Requested by J.P. Morgan & Co. JPM-CIO-PSI 0000373
I just had a meeting with Venkat to agree on the next steps to reconcile our differences regarding the CRM RWA in the following way:

1. We are going to accept current CRM model and its parameters this month and therefore for Q1 and will work first on how does this model behave as it is.
2. In order to calculate current CRM for all the correlation tranche risk and hedges that we have we are going to run our CIO portfolio with Venkat’s team next week on a daily basis to make sure that we have a more systematic analysis of behaviour of the model for our own portfolio and compare the results with the previous result.

So we will appoint Anil Bangia and Pat Hogan to work together on the Quantitative side and on the business side Bruno Iksil will coordinate on our side with...

We will compare results at the end of next week and will share the new results.

regards

---

From: Drew, Ina
Sent: 08 March 2012 00:33
To: Venkatakrishnan, C S; Hogan, John J.; Bacon, Ashley; Goldman, Irvin J.; Weiland, Peter
Cc: Maois, Alhambra; Martin, Javier X
Subject: Re: CRM results

I will discuss with Javier and Achilles tomorrow to reconcile. Thank you for prioritizing. From what I understand there is a difference in view on the underlying model - position increase aside.

---

From: Venkatakrishnan, C S
To: Drew, Ina; Hogan, John J.; Bacon, Ashley; Goldman, Irvin J.; Weiland, Peter
Subject: Fw: CRM results

Ina,

There are two related issues. The first is the $31bn increase in CRM RWA between Jan and Feb, from $3.1bn to $6.3bn. The second is that your group believes that the absolute level of CRM RWA we calculate was high to begin with in Jan. The second question requires us to explain our models to the satisfaction of your team. I am in London and spoke with Javier today and we will make this an urgent matter.

Based on our models, though, we believe that the $31bn increase in CRM RWA is entirely explained by a $33bn notional increase in short protection (long risk) in your portfolio between Jan and Feb. See table below.

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Confidential Treatment Requested by J.P. Morgan & Co.

JPM-CIO-PSI 0000374
Peter Wallend and your mid-office confirm this $33bn notional increase in long index risk. Further we both agree that this position change results in a change of about $150mm (a decrease) in 16%CCAR. Per our models, a roughly 10% capital charge ($33bn) on this $33bn increase in risk is reasonable.

Also, to be clear, there has been no model change on our end; the change in RWA for tranches has hardly changed over the month.

I understand that we need to build your confidence in our models themselves but, given our models, we believe the increase in RWA is well explained by the build up in your risk positions.

I will call you tomorrow from London to follow up, but you can reach me at [redacted].

Thanks,

Venkat

From: Bangia, Anik K
Sent: Wednesday, March 07, 2012 06:35 PM
To: Venkatakrishnan, CS
Subject: CIa CRM

<table>
<thead>
<tr>
<th>Standalone CDS ($MM)</th>
<th>Standalone CDS ($MM)</th>
<th>Position Count</th>
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<tr>
<td>Jan 31st</td>
<td>Feb 22nd</td>
<td>Feb 22nd</td>
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<tr>
<td>All CDS Positions</td>
<td>3,154</td>
<td>3,043</td>
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<tr>
<td>Index CDS: AP Positions</td>
<td>651</td>
<td>646</td>
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<tr>
<td>Index CDS: Relief Positions</td>
<td>447</td>
<td>55,811</td>
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<td>Index CDS: New Positions</td>
<td>0.97</td>
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<tr>
<td>Index Tranche: All Positions</td>
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<tr>
<td>Index Tranche: Common Positions</td>
<td>1.85</td>
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<td>Index Tranche: Relief Positions</td>
<td>1.88</td>
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<tr>
<td>Index Tranche: New Positions</td>
<td>1.41</td>
<td>0.46</td>
</tr>
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* Includes 421 dummy PCM trades that were removed from PCM last (4 CDS22 index CDS190 Tranche)
From: Surtani, Lavine <Lavine.Surtani@jpmchase.com>
Sent: Fri, 09 Mar 2012 21:51:16 GMT
To: Hogan, John J. <John.J.Hogan@jpmorgan.com>
CC: MRM External Reporting <MRM_External.Reporting@jpmchase.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Doyle, Robin A. <Robin.A.Doyle@jpmorgan.com>
Subject: RE: Firmwide VaR overlimit

Understood John.

Regards,

Lavine

---

From: Hogan, John J.
Sent: Friday, March 09, 2012 4:46 PM
To: Surtani, Lavine; Bacon, Ashley; Doyle, Robin A.; GREEN, IAN; Waring, Mick; Weiland, Peter
Cc: MRM External Reporting
Subject: RE: firmwide VaR overlimit

Thanks—I think the memo should come from Ashley and be addressed to Jamie and me with an explanation of why it makes sense to increase. Thy, John

---

From: Surtani, Lavine
Sent: Friday, March 09, 2012 4:43 PM
To: Bacon, Ashley; Doyle, Robin A.; Hogan, John J.; GREEN, IAN; Waring, Mick; Weiland, Peter
Cc: MRM External Reporting
Subject: RE: Firmwide VaR overlimit

All,

We will get the approvals ready for distribution on Monday unless notified otherwise.

Regards,

Lavine

---

From: Bacon, Ashley

Confidential Treatment Requested by J.P. Morgan & Co.
Sent: Friday, March 09, 2012 2:01 PM  
To: ()Jyle, Robin A.; Hogan, John J.; GREEN, IAN; Waring, Mick; Weiland, Peter  
Cc: Surtani, Lavine  
Subject: Re: Armwlde VaR overlimit  

As discussed, I think that's reasonable, and wouldn't not be surprised if we get there (or indeed go back to 110). I think seeing it moving over these ranges is not a cause for concern, but we will continue to look into the diversification swings as they happen. Thanks.

From: Doyle, Robin A.  
Sent: Friday, March 09, 2012 06:29 PM  
To: Bacon, Ashley; Hogan, John J.; GREEN, IAN; Waring, Mick; Weiland, Peter  
Cc: Surtani, Lavine  
Subject: Firmwide VaR overlimit  

All,  
Spoke with John... he'd like to raise the limit incrementally... so we are thinking about $150 to start. Can we work with this? If yes, Lavine and team will get a memo drafted for approvals.

Let me know.

Robin

From: Bacon, Ashley  
Sent: Thursday, March 08, 2012 1:41 PM  
To: Hogan, John J.; GREEN, IAN; Waring, Mick; Weiland, Peter  
Cc: Doyle, Robin A.  
Subject: Firmwide VaR overlimit  

John, calibrating a new VaR limit for the Firm requires us to take a view on the % of their limit each LOB consumes, and how diversified the aggregate portfolio is in the VaR look-back period. Ian created the table below covering this space.

Firmwide diversification has fallen to around 20% partly on account of CI2 buying some risk back in the MTM book and the EB getting longer of equity delta with less gamma. As always it is hard to pin down diversification changes with a full and intuitive explanation.

Recent average firmwide diversification has been less like 30%, but CIO is contemplating a possible reduction in VaR limit to $70mil (factored in here, but not yet agreed). I would suggest we set a limit to accommodate diversification staying where it is with a 20 point increase in average utilization - so $175mil.

Ian, Mick, Pete, please jump in if you disagree.

Ashley

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Confidential Treatment Requested by J.P. Morgan & Co.  
JPM-CIO-PSI 0000379
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</tr>
</tbody>
</table>

Confidential Treatment Requested by J.P. Morgan & Co.
From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Thu, 15 Mar 2012 18:45:25 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: Update on core

The divergence increases between crude mid prices and our estimate. Julien will send a small spreadsheet recording the breakdown of the divergence per blocks.

The ig9 10yrs lags another bp today. The hy market struggles to keep the rally pace with the sp500. Recap curve is now flat at 65pts up front. The equity tranches are fully impacted now. Yet the hy indices keep performing well.

Since month end, despite recap event and greece, xover in itsaw and hy in cdx have maintained their ratio versus ig rally. That is 40bps tighter for ig17, 5 bps for main s16, 21 bps for xover and 26-25 bps for hy (if one adds the loss in recap that is prices as certain now i.e 75cts in price). In that regard, we keep the ig9 10 as performing like the market beta adjusted.

The whole ig9 curve should have outperformed actually if we look at the performance of radian and mbia or sfi. This is reflected in the ig9 5yr that has tightened 10bps, but not in ig9 10yr that has tightened less than 1 bps by the quotes we receive. What is really puzzling here is that the skew quotes have not changed! The cds outperformance and index underperformance should have tightened the skew.

We look at what we could do to reduce the difference while not growing the positions especially in ig9. The solutions are very limited: some main s9 trades could help, some hy trades too but the principal lag is where we do not want to add.

What I do right now is buying 0-3 7yr and 10yr in order to smooth the extinction of the book. This will be may be the solution: let the book run off. So I prepare it for this outcome. So far I did not show up in the index market. Just testing waters. I may not find size but the trading cost is high, not only the bid ask but the almost infinite ability of the dealers to twist their runs.

Best regards
Bruno
Sorry Bruno about the previous call. Calling you now.

I thought this right that we should consider putting some skew trades on both in Ig8 10yr and Itraxx main8 10yr:
we could lock 60cts over good size I think.
This would maintain the upside on default, improve the carry and basically offset the loss we have now.
As I mentioned yesterday, despite the rally in Radian, MBIA and SF, despite the lag in the IG9 10yr index, the skew has barely changed.
It shows to me a puzzling obstination on dealer side to keep it like that. Because this cannot be the result of a HF holding the market on its own alone.
This trade is not perfect of course but if the book goes in run-off mode as far as tranches are concerned, that is an interesting option. This money is obtained from a downgrade in the liquidity of the portfolio. Yet, it looks a much better option than collapsing or unwinding the trades with the street or any dealer or counterparty in block trades.
The trades could be booked on a standalone basis from one cash quote, so this would be easy to mark (with an increased issue here I agree).
The liquidity injection we would operate might also be favorable for us to reduce some tranche lines especially the 0-3 10yr in that regard.

At a summary:
Negatives:
- added dependency on dealers quotes
- downgraded profile if the book remains a tail risk book in credit derivatives
- slight overload in operations due to the single name booking
- we may have to increase RWA in the process first hand
Positives:
- we lock a PNL in form of carry forward that offsets the current unrealized loss
- does not alter the tail profile in terms of defaults upside
- likely helps us reduce some remaining large positions once we have traded sizes on skew
- once booked, very simply to mark and maintain.
- allows us to pay the trading costs to set the book for run off mode

The real choice to make is whether the book should be on run-off mode, ie we lightly manage it with a long risk bias: we would allow for P&L swings and we would just prepare for default risk looking forward. To be sure, this is the case already but the book is not in run off mode. If the book steps in run-off, the skew trade would make sense because we would not plan to...
unwind aggressively as we did last year.

Let me know.

Bruno
From: Macris, Achilles O <Achilles.O.Rriacris@JPMorgan.com>
Sent: Fri, 23 Mar 2012 19:41:35 GMT
To: Drew, Inc <Gaa.Drew@JPMorgan.com>
Subject: This is not "normal"

FYI.

It's really strange what's going on here.

Javier and I have been told "surrounded" and confused in terms of methodology etc. I think that we will need to intervene and somehow mediate this issue with the IB and ensure the unbiased role of Ashley and Risk management. Let's please decide and coordinate on our exact course of action, as this issue is really taking a worrisome direction that could be embarrassing for the firm.

Clearly, the IB knows our positions as well as the "checkmate" in terms of Capital treatment. They will simply like to settle with COI and close their short position in IG.

The positive for COI is that we are long IG when the market is moving tighter and tighter, we have the "right" position on this. Therefore, if we could afford the RNA, time and gravity will be working in our favour.

The negative for COI remains the capital utilization and the unpredictability of the capital utilization.

The problem with "settling" with the IB and help closing their shorts, is that COI will be substantially short the market, past settlement. This is not where we would like us to be in the middle of this strong market.

More in our meeting on this.

Best,

Achilles

From: Maris, Bruce H
Sent: 23 March 2012 09:37
To: Porto-Arjiga, Javier X
Subject: Ali will try to contact you on your mobile

He has been approached by IB guys who wanted to know in the detail, our position on IG. They were very specific; he will call you to give more colour.
If you are referring to the wind down in the 3 congestion exotics book, it is separate. Achilles and I targeted the CIO tranche and derivative activity as a reduction item (I specified in last bus review) due to the high RWA it draws under Basel III. We have also had issues with QR that have made the RWA outcome less predictable. However we are working with Ashley and Venkat to see if both the IB and CIO positions could be moved out into the Winter fund.

I have been assessing the trade-off between P/L and RWA for the second quarter. I can go over all the technicals with you at any time. I wanted to do this week but understood you were on vacation.

--- Original Message ---
From: Dimon, Jamie
Sent: Thursday, April 05, 2012 06:00 PM
To: Drew, Ina
Subject: Re: CIO

Ok. Send me some info. Also how does it relate or not to our wind down credit exotics book?

--- Original Message ---
From: Drew, Ina
Sent: Thursday, April 05, 2012 05:58 PM
To: Dimon, Jamie; Zubrow, Barry L; Staley, John C; Cutler, Stephen M; Maclin, Todd; Braunstein, Douglas; Toomey, Mary E; Smith, Gordon; Peloso, Douglas B.; Bisignano, Frank I; Hogan, John J; Cavanagh, Mike
Subject: CIO

I want to update the operating committee on what is going on with the credit derivatives book in CIO especially given a WSJ article which will come out tomorrow.

One of the activities in CIO is a credit derivatives book which was built under Achilles in London at the time of the merger. The book has been extremely profitable for the company (circa 2.5 billion) over the last several years. Going into the crisis, we used the instrumentation to hedge mortgage risk and credit widening. Recently, in December, the book performed as it was positioned in for “jump” risk or default risk throughout the summer as a relatively inexpensive hedge for fallout from weak markets during the European crisis. The fourth quarter 400 million gain was the result of the unexpected American Airlines default.

Past December as the macro scenario was upgraded and our investment activities turned pro-risk, the book was moved into a long position. The specific derivative index that was utilized has not performed for a number of reasons. In addition the position was not sized or managed very well. Hedge funds that have the other side are actively and aggressively battling and are using the situation as a forum to attack us on the basis of violating the Volcker rule.

Having said that, we made mistakes here which I am in the process of working through. The drawdown thus far has been 500 million but nets to 350 million since there are other non-derivative positions in the same credit book. The earnings of the company were not affected in the first quarter since we realized gains out of the 8.5 billion of value built up in the securities book.

John Hogan and his team have been very helpful. I wanted my partners to be aware of the situation and I will answer any specific questions at the meeting.

Have a good holiday.
From: Iksil, Bruno M <bruno.m.iksiJ@jpmchase.com>
Sent: Sat, 07 Apr 2012 15:42:11 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: Re: IMPORTANT

Totally agreed. Fundamentally they resist this because the whole business model in credit derivs becomes obsolete. Now you know that JPMorgan was the historical sponsor of this: self regulation, private markets, bilateral contract pure commercial rights. If they admit that the index is the reference, then it could and should be traded on an exchange, and the super-senior should trade like a bond. Then the banks lose 70% of their pricing power through the whole credit world.

From: Martin-Artajo, Javier X
Sent: Saturday, April 07, 2012 03:23 PM
To: Iksil, Bruno M
Subject: Re: IMPORTANT

This is really the problem that the hedgefunds have. They can not get out and they are blaming the indexes. I think that somebody needs to do some work on this in terms of liquidity because the volumes there as dismal and if it really gets out there that only the indexes trade then the whole idea of fair value is gone. This will tie up with my complain to QR about a bottoms up model that is not tradable. Only the indexes ...

From: Iksil, Bruno M
Sent: Saturday, April 07, 2012 02:58 PM
To: Martin-Artajo, Javier X
Subject: Re: IMPORTANT

The skew has always remained elevated since 2008 on lqf and tv. The on the run skew is generally biased but comes back to zero when the index gaps out. October and the crisis in europe has increased the counterparty risk and many european banks like sibc, db, bnp, sg, barclays, ubs, rbs and smaller players like natixis or calyon exited the skew market.

From: Martin-Artajo, Javier X
Sent: Saturday, April 07, 2012 02:36 PM
To: Iksil, Bruno M
Subject: Re: IMPORTANT

Also, let's discuss about the single names. I think that this is all about these guys unable to get single names since October last year probably.

From: Iksil, Bruno M
Sent: Saturday, April 07, 2012 02:23 PM
To: Martin-Artajo, Javier X
Subject: Re: IMPORTANT

Yes I was working on it this morning. I will send you a first batch. Of max downside cases. They all range from -350 to -750. 2 stress provide a large upside beyond 1 bln. Probability weighted that comes down to -100m. Yet some scenarios can likely make a loss of 300m. It is just that they are unlikely in my view.
From: Martin-Arango, Javier X
Sent: Saturday, April 07, 2012 02:18 PM
To: Iksil, Bruno
Subject: IMPORTANT

Bruno,

Please confirm that you have seen this email. I will have a call with Ika and Achilles tomorrow Sunday to brief her on the downside risks for Q2.

I need you to work on the scenarios that we discussed and be available tomorrow morning to send them to me and discuss. I am available from 8am to 10 am or from 12 to 2 PM. All London time.

Please send me the spreadsheet as soon as you have it either today or early tomorrow morning.

Best regards

Javier

从: Drew, Ina
Sent: Friday, April 06, 2012 09:22 PM
To: macrls@jpmi1111
Cc: Martin-Arango, Javier X
Subject: Re: Credit

Ok. Thanks. Maybe we should review what you have Sunday. Let me know

从: macrls@jpmi1111
Sent: Friday, April 06, 2012 04:04 PM
To: Drew, Ina
Cc: Martin-Arango, Javier X
Subject: Re: Credit

Hi Ina,

We spoke with Javier at length following our conversation. We will be prepared for the call on Monday.

Javier is convinced that our overall economic risk is limited. There is no default event to amplify our losses as the same critical names are part of our short in HY and our long in IG.

Any further draw-down, will be the result of further distortions and marks between the series where we are holding large exposures. This clearly needs to be estimated with much more precision.

I also have no doubt that both time and events are healing our position. I am however unsure on the potential magnitude of an "one touch" draw-down for Q2 which is highly dependant on marks.

Both Javier and Bruno continue to be extremely concerned about the confidentiality around our specific large exposures. The press seems to be referring to CIO position size which is different to the overall JPM size on the same instruments. Additionally, there were some specific HF’s calling our team and trying to get information from both front-office and infrastructure personnel (1).

As you know, I am not regularly giving much credence to such rhetoric. I have nevertheless asked for a summary of the specifics for your information.

Confidential Treatment Requested by J.P. Morgan & Co.
Best,
Achilles

From: "Drew, Ina" <lna.Drew@jpmorgan.com>
To: "Macris, Achilles O" <achilles.o.macris@jpmorgan.com>; "macris@••••••••••••••
Sent: Friday, 6 April 2012, 17:13
Subject: Credit

Jamie and Doug want a full diagnostic monday. I will need it sunday night. More focused on PI than RWA at moment as I indicated. I'm not comfortable with the level of analysis so far. I tried to reach you by phone and text.

This email is confidential and subject to important disclaimers and conditions including on offers for the purchase or sale of securities, accuracy and completeness of information, viruses, confidentiality, legal privilege, and legal entity disclaimers, available at http://www.jp.morgan.com/pages/disclosures/email.
From: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
Sent: Mon, 09 Apr 2012 20:54:51 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>
Subject: Follow up

1. Have clear statement for Joe
2. Have talked to Ina and Wilmot for clear analysis of the positions—maturities, volumes, spreads (current) and normalized
3. Joe is providing feedback to WSJ and Bloomberg
4. Final follow up call with Keith Harowitz at COO Test House. Sarah will have some specific questions we should ultimately address on the call
5. Think we are ok for now but will let you know if we need you to follow up with anyone

Douglas L. Braunstein | Chief Financial Officer | JPMorgan Chase & Co.,
270 Park Avenue | New York, NY 10017 | Tel. 212-622-1020 |
e-mail: douglas.braunstein@jpmorgan.com

Confidential Treatment Requested by J.P. Morgan & Co. JPM-CIO-PSI 0000844
From:  Wilmot, Julia <JULIA.WILMUT@JPMORGAN.COM>
To:  Braunstein, Douglas <DOUGLAS.BRAUNSTEIN@JPMORGAN.COM>; Dimon, Jamie <JAMIE.DIMON@JPMLCHASE.COM>
Subject:  FW: Series 9 tranche liquidity reserves

Below is detail relative to the liquidity reserve taken on the Series 9 credit tranche positions. I will forward the related notional exposures tomorrow morning as they are not included below and London is closed.

John C. Wilmot  
Chief Investment Office  
Work: (212) 656-4452  
Cell: (646) 656-4452  
Email: (646) 656-4452

6 CREDIT TRANCHE POSITIONS IMPACTED
5 Maturities of ITTRAXX Series 9 (5yr, 7yr, 10yr Maturity)
3 Maturities of CDS Investment Grade (5yr, 7yr, 10yr Maturity)

CREDIT TRANCHE LIQUIDITY RESERVE DETAILS
Total increase of approximately +$155 Million

RATIONAL FOR ADDITIONAL TRANCHE LIQUIDITY RESERVES
As part of CIO’s recurring liquidity review, Credit Index markets (post Series B) are deemed liquid and are excluded from CIO’s liquidity reserve computation. Liquidity reserves are taken for the Series 6, 7, and 9 Credit Index Tranches.

Credit Tranche markets have always been considered less liquid (compared to Index markets) and Liquidity reserves are therefore computed and taken. However, in the past, the liquidity reserve associated with these Series 9 tranche positions was not taken because their markets were deemed sufficiently liquid. The additional +$155 Million Liquidity Reserve was taken due to the inclusion of these Series 9 Credit Tranche positions; this reflects the market’s reduced liquidity.

CALCULATION METHODOLOGY (DEFINED BELOW)
Liquidity Reserve = [CSO1] X Square Root [Holding Period] X [Spread Volatility]

IA] CSO1 (Credit Spread sensitivity to a 1bps change in market spreads relative to Position Size)
[8] Holding Period (JPM & suggested maximum 120days used by CIO)
[C] Spread Volatility (provided by JPM IB VCG; varies by position in capital structure; highest volatility for Equity tranche; lowest volatility for Super Senior tranche)
From: Hogan, John J <John.J.Hogan@jpmorgan.com>
Sent: Thu, 19 Apr 2012 18:59:03 GMT
To: Wilmot, John <John.Wilmot@jpmorgan.com>; Dimon, Jamie <Jamie.Dimon@jpmorgan.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>

Subject: RE: Materials for FED/OCC Questions

For tomorrow's call, we should have a discussion of what we believe the correlation is between the net $101 bio and $55 bio in tranche long positions vs what we are hedging. Also would like to see a maturity waterfall of the longs and shorts.

Thanks, John

---

From: Wilmot, John
Sent: Tuesday, April 10, 2012 1:40 PM
To: Dimon, Jamie; Braunstein, Douglas; Hogan, John J; Drew, Ina
Cc: Goldman, Irvin J

Subject: FW: Materials for FED/OCC Questions

Attached below is the data I sent to Joe Sabatini for delivery to the Fed and OCC to answer their two requests from yesterday afternoon's call:

1. Notional long and short risk positions across the credit derivatives book
2. How does this activity relate to the broader CIO activity

John C. Wilmot
Chief Investment Officer
Phone: (112) 334-6411

From: Wilmot, John
Sent: Tuesday, April 10, 2012 1:36 PM
To: Sabatini, Joseph
Cc: Goldman, Irvin J

Subject: Materials for FED/OCC Questions

Joe - here is the information for the Fed and OCC from our call yesterday afternoon. Let me know if there are any further questions. Thanks, John

The table below shows major (and total) long and short risk positions in indices - and totals for long and short risk in tranches.

---

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The note below describes the credit derivatives activity relative to the overall CIO activity.

The Chief Investment Office has utilized the "synthetic credit portfolio," which is a portfolio of credit derivatives, to construct a hedge against other risks on JPM’s balance sheet. This activity has been part of the CIO portfolio construction and risk management since 2007. The related credit derivative instruments offer an efficient means to establish protection against adverse credit scenarios and "stress events".

This activity is among the key tools utilized by CIO to manage and hedge stress loss risks. The synthetic credit portfolio has benefited the firm, especially in times of credit market dislocation, sudden spread widening and in the occurrence of defaults, which is typically a catalyst for credit spread widening scenarios.

In Q3 and Q4 '11, CIO began to reduce the net stress loss risk profile of the hedges, as more positive macroeconomic data in the US and an improving situation in Europe post LTRO merited a reduction in the stress loss protection of the "synthetic credit portfolio." The book, as a dedicated hedge, continues to be short HY and to provide default protection.

John C. Wilson | Chief Investment Officer | jwilson@jpmorgan.com | W: (212) 854-5152 | M: Cell
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From: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>
Sent: Tue, 10 Apr 2012 19:10:13 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Evangelisti, Joseph <joseph.evangelisti@jpmorgan.com>
CC: Miller, Judith B <Judith.B.Miller@jpmorgan.com>; Investor Relations <Investor_Relations@restricted.chase.com>
Subject: CIO articles - Calls (7)

4 more conversations on CIO articles - Betsy Graseck (MS - sellside), Kevin Mason (senior of Glenn Schorr, Nomura - sellsde), Steve Chubak (senior of Guy Moszkowski, Rth - sellsde) and Ana Venkatakrishnan Ali (buyse). All of them understand our CIO activities. Joe’s statements very helpful to the conversations. I will send a full update later.

Sarah

Sarah Youngwood | Managing Director | Head of Investor Relations | JPMorgan Chase Co.
270 Park Avenue, New York, NY 10017 | T: 212 622 6153 | F: 212 270 1448
From: Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>
Sent: Tue, 10 Apr 2012 22:22:17 GMT
To: Operating Committee <Operating_Committee@jpmchase.com>
Cc: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>; Horn, Anthony
    <ANTHONY.HORN@chase.com>; Miller, Judith B. <Judith.B.Miller@jpmorgan.com>; Press
    Team 2012 <press_team_2012@restricted.chase.com>; Wilmot, John
    <CHRISTIAN.WILMOT@jpmorgan.com>; Radin, Neila <NEILA.RADIN@chase.com>; Sche" Peter L
    <peter.l.scher@jpmchase.com>; Saracho, Emilio R <emilio.saracho@jpmorgan.com>
Subject: WSJ tomorrow

The Wall Street Journal is running a follow-up story tomorrow related to our CIO hedging activities. Their lead is going to be along the lines of “The London Whale, who made waves in January and February, has now gone silent.” They also say that hedge funds are in a complex chess match with our firms and waiting for our next move. The story does not seem focused on regulatory issues.

We provided additional background and on-the-record statements today explaining the hedging activities of our CIO and putting these activities in the context of our overall asset and liability management. We also said that we now feel that our risks are effectively balanced.
From: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>
Sent: Wed, 11 Apr 2012 18:56:20 GMT
To: Dimon, Jamie <jamie.dimon@jpmorgan.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Drew, Ina <Ina.Drew@jpmorgan.com>; Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>
To: Miller, Judith B. <Judith.B.Miller@jpmorgan.com>; Investor Relations <Investor_Relations@restricted.chase.com>
Cc: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>

Subject: CIO articles - Calls (9)

Two calls today.
Kush Good – Neuberger (Bermuda)
  • You see the articles about CIO. Are you commenting?
  o We have some public statements in the press. We can also point you to our public disclosure in the 10K as well (Note 12)
  • What is CIO? Is it really 450 people? Are they based in London?
  o We don’t disclose CIO separately
  o CIO is an appropriate size to hedge our structural risk and manage excess liquidity investments
  o London and New York
  • Who runs CIO – Who do they report to?
  o We Drew; reports to JD
  • I’ve heard they have hired prop traders? Why?
  o We can’t comment on specific people. We try to hire the best people to run this very important function.
  2.8T balance sheet
  • Does this not violate of Volcker?
  o CIO hedges the structural risk of the firm and prudently invests the firm’s excess liquidity - we don’t believe Volcker is intended to limit these activities.
  • What was the specific credit position discussed in the article; where are these derivatives disclosed?
  o AU our trading assets are disclosed in the financial statements - CIO and CIO combined
  o CIO VaR is disclosed in the Market Risk section of the 10K with a brief description of the activities
  o Referred to Joe’s quotes
  • “Trades are part of the firm’s hedging strategy”
  • JPMorgan holds a portfolio of li debt and uses “credit-related instruments” such as derivatives to protect against a decline in the value of the holdings
  • “We are balanced”
  • Will Doug and Jamie address this on the call?
  o Don’t know. This is a core function of the bank. I am sure they will address in Q&A if asked.

Peter Handy – Sanford Bernstein (Sells; works with John McDonald)
  • I am trying to add granularity to my modeling of Principal Transactions. Can you help me understand your disclosure?
  o helped him understand line items (generically; no discussion of performance)
  o Peter was double counting li principal transactions and offseting with losses in Corporate as he hadn’t understood our disclosure in Corporate/PE
  o He now understands our disclosure

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We are now getting calls. Tone positive; no questions on CIO. A lot of detailed questions. Continuing to return calls and
will keep you posted.

Glenn Schorr (Nomura - Sellside)
- General comments/feedback
  - Stock better up because of rumor wave over the last few days; creates a new overhang
  - No one has a real problem with your earnings
  - Heard you on growth, expense control, increase in reserve interpreted as conservative
  - No big changes
  - Drop of incremental good feeling from the results as the street expected that performance
  - Quarter was fine
  - Are you saying anything different related to capital requirements and share repurchase?
    - Glenn himself was very clear on Jamie's message — and very comfortable with the answers — however he
      had heard the question from investors and wanted to clarify
  - When will the high gain on sale normalize? On the call, the language was "gain on sale normalizing on a go-forward
    basis".
    - We noted that on the call, we recognized it's outsized this quarter; referred to Investor Day guidance, didn't
      provide specific timing
  - Cost of funds increase
  - Is there any threshold for when/how you report high-yield seconds?
    - Clarified
  - We've seen a big rise in trade finance loans. Usually I think of this as more safe and relationship-based. Any
    reason to be concerned with this much growth?
    - Growth is not, QoQ slow down; referred to Doug's comments; our growth very focused on quality
  - Largest firms were supposed to have living will to July. Does that timeline still hold?
    - We're working on it; we haven't said anything on it

Andrew Mecquardt (Evercore - Sellside)
- Feedback on results
  - Better than expected results; show of strength; taking share and well positioned; results make me feel better in an
    uncertain environment
  - Investors wondering whether stock has leg above $45 price
  - Referred to Jamie's comments on the call, which were differentiated between stock price from the
    perspective of intrinsically valuable/investment vs. in the context of other capital deployment opportunities
  - Thought CIO comments were very helpful; no questions on the topic
  - Had asked at investor day for additional disclosure on NIM (loan details; BoA provided); reiterated
  - I was surprised by the focus on capital and the special dividend?
    - Reiterated Jamie's response
  - What has changed in your forward-looking guidance?
    - Went through the comparison of wording vs. last quarter; didn't offer color beyond
    - Referred to comments on the call on $49B and NF
Revenues on fees - Anything still left on the WaMu settlement?
- We noted we have not said, and reminded him this has nothing to do with private label; it relates to the actual bankruptcy of the entity.
- Any additional color on the strength in FICO? Is there any guidance?
- Referenced Doug's commentary on the call.
- Why not bring down your reserves in repurchases?
- Timing; not a trend.
- Pace of reserve release?
- Referenced Jamie's comments on the call.
- Capital - Any reason to think there is any change in what you've said before (i.e. that you would get to 9.5% by 2013)?
- We didn't specify on the call.
- Can you provide more color on investment opportunities?
- Have you received many questions regarding CIO?
- Did you update the flight to quality deposits number of $75B you disclosed at Investor Day?
- No update provided.

Gerard Cassidy (RBC Capital - Sellside; will be on CNBC this afternoon)
- NIM - Are we to expect the current cost of the long-term debt to stay in the 2.7% range? Is the 2.7% the new normal?
- One time gain in 4Q; recommended he look at our spreads and maturities, which we've disclosed in our 10-K; referred to TruPS as potential impact (no amount or timing specified; just referred to Doug's comments).
- Timing regarding TruPS redemption.
- Asked for clarification on NPLs.
- What is driving the fantastic loan growth in AM?
- Why did you increase allocated capital in CEP?
- Growth.
- What did Doug Braunstein say on CNBC related to non-core EOP loans?
- We pointed him to Investor Day non-core loan growth and run-off analysis.
- Have you provided guidance as to where foreclosure-related expense could be this year?
- Referenced Investor Day servicing expense walk.
- $300-$500m Doug mentioned today was in line with Investor Day.
- Is the credit card portfolio sequential decline seasonal? Seems like a lower seasonal impact than a year ago?
- We confirmed seasonality; added that sales volumes are up.
- Within Corp/PE, NP seemed to drop significantly; can you give some color on the swing?
- Gave theoretical feedback on drivers of different lines in Corp/PE.
- Did you see any change in repurchase demands that give you encouragement that we have reached a peak in terms of reserve release?
- Timing; not a trend.

Safah Youngwood | Managing Director | Head of Investor Relations | JPMorgan Chase Co.
270 Park Avenue, New York, NY 10017 | T: 212-522-6153 | F: 212-270-1648

From: Youngwood, Sarah M
Sent: Friday, April 13, 2012 11:01 AM
To: Dimon, Jamie; Braunstein, Douglas; Miller, Judith B.; Investor Relations
Cc: [Investor Relations]
Subject: [Q12 calls Buyside and Sellside comments (2)]

Only one call since we finished earnings call.
John Balkind (Sandler O'Neill Asset Management - Buyside)
Want clarification on NPL reporting change
- We went through it - He understands

Glenn Schorr and Betsy Graseck have also e-mailed that they will want to talk but have asked to discuss after Wells call.

Sarah Youngwood | Managing Director | Head of Investor Relations | JPMorgan Chase Co.
270 Park Avenue, New York, NY 10017 | T: 212 922 5113 | F: 212 270 1648
From: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>
Sent: Sat, 14 Apr 2012 16:00:05 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>
CC: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Warren, Shannon S <shannon_warren@jpmorgan.com>; Levy, Douglas S <douglas.s.levy@chase.com>
Subject: Re: 1Q12 calls - Buyside and Sellside comments (6)

Jamie,

Page 6 of supplement, we broke out long-term debt cost by quarter (showing rate going from 2.10% in 3Q11 to 2.15% in 4Q11 and 2.71% in 1Q12). We didn't have a specific break out or footnote re debt gain in 4Q11. I don't believe we mentioned the gain in press release, presentation or script.

In 1Q12, we disclosed page 18 of presentation: "Debt-related gain in 4Q11" (as driver of change in NIM on core NIM page).

Sarah Youngwood  Head of Investor Relations  JPMorgan Chase Co.  |  T: 212 622 6153 |  F: 212 270 1648

From: Dimon, Jamie
Sent: Saturday, April 14, 2012 11:04 AM
To: Youngwood, Sarah M
Subject: Re: 1Q12 calls - Buyside and Sellside comments (6)

Did we disclose the fourth qtr hedging benefit in the fourth qtr. Plus. Was it broken out on the nim page.

From: Youngwood, Sarah M
Sent: Friday, April 13, 2012 07:20 PM
To: Dimon, Jamie; Braunstein, Douglas
Cc: Miller, Judith  |  Investor Relations
Subject: 1Q12 calls - Buyside and Sellside comments (6)

Doug and Jamie,

Last batch of calls. Overall, themes have remained consistent. Buyside and Sellside positive on the underlying performance. Some questioning regarding sustainability. No concerns re high risk seconds, but a topic of conversation. Debt gain in Q4, capital deployment, TruPS and mortgage costs also key themes. Very few questions on CIO (2 came late in the day – see below). Only one estimate change so far (Guy Motszkowski ~ BoA); expect most people to work on their models over next few days. Research generally positive.

Dick Revy (Rochdale Securities – Sellsider)

- Stock didn't pick up despite good earnings. Issue might be sustainability
  - FI strength in the US might be viewed as seasonal
  - What are some of the issues you're hearing – China, Spain — what is the overhang as you are seeing?
- Increase in cost of debt? Explained that there was a 4Q hedging benefit which was not repeated in 1Q
- CIO question. Company is attempting to 'make money' from their hedging portfolio?
  - CIO office manages structural risks (FX, Rates, Basis, Credit, etc.) and looks to invest excess liquidity, as described by Doug. All consistent with our interpretation of Vokker
- Dick has been in discussions with Bloomberg to let them know that he believes that they are inaccurately

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portraying JPM's CIO activities and supporting a group of former employees without trying to take a balanced perspective. Dick already wrote a note and is considering writing a follow-up.

David Hendler – CreditSights, fixed income-focused

- Nice results for the quarter
- Securities gains, is that where the trading would be for CIO? if looking at BS, where does CIO activity reside? is CIO activity actively managed?
- Your CDS seem to indicate that the Street is comfortable with CIO story
- Derivative receivables: can you differentiate what is BS and what is CIO/Treasury?
- No, you cannot.
  - The $3.1bn number is the securities portfolio related to CIO
- Are you too big in certain parts of BS and that is a risk market we need to consider. You may have an issue in terms of getting out of your position and it may be your positions are too big.
  - We have been operating effectively with this type of size for a while; no specific change; there are a variety of markets/strategies we can utilize.
- You guys do the best job with disclosure; currently, the problem is that your CIO activities are not as transparent.
- Doug was very transparent today regarding the general strategy in CIO, but his explanations only came after the news articles.
  - I would love to meet with me to talk about this.
  - I wrote a note that was balanced and Bloomberg took it apart and quoted me; I don’t want you to get the wrong impression; my words were taken out of context.

Jeff Harte and Ted Holtman (Sandler O'Neill) – Sehside

- Feedback/general comments
  - I think your numbers are better than the markets think. I'm not sure what the market is doing.
  - There were a lot of questions about home equity and 16 revenue absent DVA/CVA.
  - A lot of competitors are talking about gaining market share in Europe. Jamie has said he isn’t seeing this.
  - Clients are asking why JPM stock is not up.

- Investment Bank
  - Wanted to clarify guidance on comp/revenue
    - Maintain full year guidance: 35-40%
  - CPO – Do we know the dollar amount of CVA on the revenue line?
    - Yes, a gain of $175mn.

- Mortgage Banking
  - $50bn servicing count associated with the settlement – is this a one-time hit?
    - Yes, if you pull this out, it would be relatively flat QoQ.
  - Mortgage origination margins spiked this quarter. The increase was a variety of market-related things; what would you highlight?
    - Volumes are strong; we’ve strategically moved to a mix that favors retail branches.
      - Prompted him to Investor Day slides for a normalized MB P&L.
  - MBSB – Does it help volumes?
    - The rep and warrant reserve – there is a number within the BS segment and then for the total firm, but they’re not the same. Where else would this be found?
      - Amounts related to Bear/EMC.
      - The repurchase reserve relates primarily to the agencies; we’ve maintained our guidance for losses at $550mn +/-.

- Card Services & Auto

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Revenue yield in credit card dropped; due to seasonally that is not unusual; how much of this is due to the current spread environment versus seasonality?

- Corporate/PE
  - Revenue: If I take out PE and the WaMu settlement, how should I think about non-PE results
  - $200mm +/- quarterly net income guidance

- Buyback
  - What I see in the supplement doesn’t match what Doug mentioned
  - What you see is the total repurchases on a settlement date basis for the quarter
  - We settled some trades that were done last year in the quarter; Doug talking about total buybacks under the new authorization
  - Are you limited when you can engage in a buyback?

Stock has had good run to date; expected pullback.

- Tone of the call was slightly more cautious than expected given earnings performance
- Surprised by the magnitude of reserve release for RFS this quarter
- Reiterated Jamie’s response
- Concerned about loan growth overall
- Discussed trends in CB and highlighted our higher capital allocation in January

- Additional color on FICC? Is trend sustainable?
- Referenced Doug’s commentary

Clarified the approximately $450mm shares bought back was YTD and not incremental to disclosure in supplement.

Issued a report on home equity risks yesterday.

- Regarding disclosure, what’s different about the junior liens that were not moved?
  - Those that moved to NPL bucket are behind severely delinquent (nonperFORMing) firsts
  - Regulators required this move in the disclosure
- Mentioned that WFC reclassified all HE that was behind a delinquent first
- WFC call – Someone mentioned JPM expected 55% loss on these. Is this true?
  - Referred to the Investor Day slide on high-risk seconds

The upside in trading was good.

- Good earnings, doesn’t seem like people were listening - Europe concerns seem to have brought the market down.
- Given the noise in the debt yield this quarter, how should I think about a normal debt yield?
  - 4Q11 was lower because of the debt item that was mentioned on the call
- Why is your mortgage compensation ratio higher?
  - Mix change toward retail originations which have higher costs, but also higher margins
- What is the Mortgage default cost run rate?
  - We had $200mm of incremental servicing costs associated with the settlement and other matters.
Matt Burnell – Wells Fargo – Seaside (email)
- Requested public information that the regulators issued on the home equity NPL accounting treatment
Anu Venkataraman (Alliance Bernstein – Buyside)
- Special dividend clarification – is Jamie against a special dividend?
  - We are not starved for opportunities to use our excess capital. We have a number of options and do not believe a special dividend is an attractive option relative to other more accretive uses of capital
- Litigation reserves – what is the contingency that would require such a high level of provisioning?
  - We cannot specifically comment on any specific litigation. These are big numbers but we are being conservative and feel comfortable with how well reserved we are being.
Dan Bitar (MSD Capital – Buyside)
- What are your thoughts around full-year comp for the IB?
  - Expect comp to be in the range of 35%-40%
- Your mortgage revenue spreads seem to be above normal. What is the normal rate?
  - Referred to Investor Day
- Your capital allocated was up at many of your businesses
  - We discussed the updated allocated capital at Investor Day
- Capital decisions are based on longer-term needs of the business
- High-risk seconds change in methodology. Can you explain?
  - As we noted, this was related to an expense related to a non-core product we are exiting.
- Why did loan growth increase in AM?
- Why is compensation up in Corporate?
  - Normal first quarter accrual for FICA
  - Increased headcount
- Are you done with your litigation? Seemed that way when Doug was speaking on the call
  - Referred to Doug's comments
- What caused the increase in LTD yield?
  - We had a debt-related benefit in the fourth quarter
Rob Hertz (Oppenheimer – Buyside)
- Can’t believe how people are reacting to home equity (HE)
- Also believe Europe is ruling the day; don’t know how Spanish banks plan to recapitalize
  - I suspect people are aware of the next steps in Spain and how dire their real estate situation is. I don’t know where this money is going to come from. Spain might become another Ireland
  - Thought Jamie’s analogy to an accordion was appropriate
- Can you review the HE information with me?
Pri DeSilva – Credit Suisse
- Trying to understand our litigation reserves
  - We only disclose the expense; not the reserves
Calls pending
1. Voicemail into K8W (David Konrad): David highlights "change in regulatory guidance and increase in NPLs" in one of his reports without a clear explanation. He didn't call us but I reached out to offer an explanation of the reporting change and point out our disclosure.

2. Marty Mosby - Returned call: no voicemail

Sarah Youngwood | Managing Director | Head of Investor Relations | JPMorgan Chase Co.
270 Park Avenue, New York, NY 10017 | T: 212 822 8133 | F: 212 271 1048

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From: Ikull, Bruno M <bruno.m.ikull@jpmchase.com>
Sent: Mon, 30 Jan 2012 21:12:38 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: core credit

ok they really push against our positions here everywhere, there is more pain to come in HY too: a lot of capital comes back into basis and skew trades. I can see a bad scenario here where spreads widen and guys do not go long risk but make basis arbs with a bearish view on weak names. Here we should stop adding and take full pain. I see 10m coming in IG as mentioned and another 10m in HY, this is really the street moving pieces but there is not position in the book that stands out as it is balanced. So that requires a lot of trades and I think we would just add to the pain here.
What kind of numbers can we reduce? What is possible to reduce?

We need a number around 13 Bln since we can reduce 2 Bln in CLO’s and Bank names.

I have just put a list of possible reductions, can we be more specific and write your own estimates for End of Q1 2012?

Model reduction Q/R CRM (15% acknowledged already) 4
Model reduction Q/R VAR 1
Model Reduction Q/R stress 2
Reduction for duration shortening 1
Book Optimization 3

regards

I received it. For what I need to provide a clue: I would need Julien to be in the loop and most of all what kind of RWA measure we refer to and possibly data out of it. We can reduce it by simply selling protection but then the PNL volatility will increase potentially and the group diversification will be reduced.

Now what we are doing today is:

1. Flattening the profile on the medium sized default scenarios, say if we have 5-10 defaults, because here we have some leverage in the capital structure that creates great gains (as you saw) on surprise defaults but generates theoretical drawdowns (typical P9 model flaw) accretive to RWA.

2. Reducing some of the main carry and convexity generators (namely long term equity tranches where we are long risk). This mitigates a bit the point 1 with regards to the upside on the first default of “AMR” type.

3. We are reducing the largest index notional in investment grade indices and the net long risk in CDS 9yr and 10yr series that went to balance the short risk we had on hy11 3yr that expired in December.

All this should reduce any kind of RWA, be it Q/R or our own measure. Yet I have to say I work in the blind for QR measure.

We will keep doing that in Q1 and it should provide good results although I receive no update, so (again) it is
difficult to project much. I target the reduction of the largest notionals and the largest leverage through the monitor I showed in one Tuesday meeting so that I am almost sure the reduction in TWa appears no matter which model people want to use. Now, with no data and no update, I cannot predict the moment when the reduction will show. So far, I pay the bid-ask in the market (estimated cost likely to have been 150-250m this year) but I try to avoid bad trades in RV terms. Volatility this year provided good opportunities to get interesting RV trades that partly balanced the execution cost.

The next stage I think is that next year some very large exposures will naturally expire and same for 2013. I understand that we look for a steep reduction end 2013 next year: this may be doable if for example we have a default in investment grade. Now, if that happens I will simply sacrifice the gain to exit the positions accordingly. By "sacrifice" I mean that I look at best 50% of the potential and not re-build it. That can provide a very efficient way to reduce RV. Otherwise, we can hope for low volatility and the we will shrink as we did this year but the problems of timing and data and model will remain.

Best regards
Bruno

From: macris@blontonel.com
Sent: Thursday, December 22, 2011 05:39 AM
To: Martin-Artajo, Javier X; Giovannetti, Alison C
Cc: Iksil, Bruno M
Subject: urgent ---- : Rwa

FYI -- please confirm this is received and that we can coordinate a response this morning. -- thanks

--- Forwarded Message ---
From: "Drew, Ina" <lna.Drew@jpmorgan.com>
To: "Martin-Artajo, Javier X" <javier.x.martin-artajo@jpmorgan.com>, "macris@blon
Cc: "Wilmot, John" <JOHN.WILMOT@jpmorgan.com>
Sent: Thursday, 22 December 2011, 2:55
Subject: Rwa

We are running an additional RWA reduction scenario. Can you send John and I a scenario whereby the tranche book and other trading assets are reduced by an incremental 15 bil in the first quarter? Not a stress scenario, so assuming normal (whatever that is now - not year end) liquidity. Pls list by trading strategy, ie: credit tranche, other trading positions, with cost estimate - (background: trying to work with SAR submission for firm that is acceptable for an increased buyback plan). Need in early NY morning.

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From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Mon, 19 Mar 2012 11:44:53 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
CC: Grout, Julien G <julien.g.grout@jpmchase.com>
Subject: Core Book analysis and proposed strategy

Book position

- The book has positive carry, P&L upside on defaults and positive convexity if spreads gap wider. It is relatively neutral directionally overall at current market spread levels.
- To obtain this profile, the book receives the forward credit spreads. When markets are caught in a squeeze like this one, the P&L volatility can become very large: this is what is happening since the beginning of this year in CDX IG9 and Main iTRAXX 59 series. The hit amounts to 5-10 bps lag in those forwards versus the 50-60bps rally.
- The book incurred a loss of 100m USD in US HY from KODAK default and RESCAP almost certain default: this weakness have been corrected now and offers decent upside in any new default in HY indices.

Market behaviour

- The CDX IG9 and iTRAXX Main 59 are the series where index tranches still trade. This is where the street owns some protection especially in the longer tenors for capital relief reason and uncertainty about the timing of defaults.
- Some large hedge funds have some “skew trades” where they buy protection on the series 9 10yr indices versus the single names.
- In the rally, those series (where the book is long risk and the street is short risk) have lagged consistently: by trading and trying to correct the lag, we could retrieve 1-2bps but then we met strong resistance either with size or bid-ask widening.
- This year the tranche market depth has vanished: we can trade but small size each time with an appetite from dealers to load protection on the longest tenors.
- In US HY, in addition to the 2 defaults, we face a flattening trend advertised by dealers saying that either we have defaults or we rally: either ways, the curve flattens and we have a steepener on.
- As a summary, the book is a very visible player and holds a trade that the street wants to have now: ie a protection against unpredictable defaults. At the same time, they still own their “no default” trades from last year. So the street systematically steepens the series 9 curves and maintain the longest tenors wider than anything else.

Proposed strategy:

Let the P&L fluctuate while not defending, just maintaining the upside on defaults over time
- CDX IG and iTRAXX MAIN: over the next 18 months
  - Buy back the protection in 0-3 10yr to reverse the profile (3bln in main, 1bln in IG)
  - Sell protection over time on widenings to maintain the carry (5-10 bps Main and IG)
- CDX US HY: over the next 18 months
  - Put flatteners on in HY14-hy15-hy16-hy17 series while we own the protection on the 5yr now.
  - Let the longs in HY10-hy11 series live as they have lost already 18 names out of 100 and look safer than hy 14 to hy17 series.

P&L possible range: the loss is likely to range between 100m to 300m
- Main reason is the CDX IG9 lag [2-3bps or 100-150m] second next is CDX HY: the hit is another 100m spread within the tranche and index bid-ask. Typical here, you cannot really trade but the mid does not change.

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third is Main iTraxx: the curve in 59 steepened by 5bps pushing the forward back up while the other curves steepened 1 bp in the rally. The hit here is 80-100m.

- the estimated bid-ask on the book grossly amounts to 500m all-in (200m for IG, 100m for iTraxx main, 200m for CDX HY).

Conclusion

- the book has very useful features and should be maintained with its upside on defaults as much as possible.
- the market is very small now and we are too visible with likely some of our trades creating a concern among dealers: this affects us both in the bid-ask cost and the Mark-To-Market because the street owns the long term protection to cover their legacy, ie "no default" trades mostly held in form of steepeners and long risk in short term equity tranches.
- there is a trap that is building: if we limit the Mark-To-Market we risk increasing the notional further and weaken our position versus the rest of the market. One solution would be to let the book be really long risk, yet this would not be in a liquid market and may increase the P&L noise especially in corrections.
- the solution proposed amounts to be longer risk and let the book expire carrying the upside on default: I think we own here a very good position for a size that is also significant. This would involve some mechanical trading, ie buy protection on 10yr equity tranches, put flatteners in HY 14-17 and SELL protection on spread widening.

The PNL breakdown and bid-ask analysis will come soon after, Julien is on it.

Bruno
From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Tue, 20 Mar 2012 23:59:59 'GMT
To: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Subject: Wed call

Javier briefed me this morning on the credit book. He sounded quite nervous. Let's discuss on our weekly call. The full briefing is later in the morning but I want to understand the course of action from you.

I believe John communicated but there is still activity.
From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
Sent: Thu, 29 Mar 2012 21:18:08 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: First draft of the presentation

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Core Credit Book: summary

1- the beta adjusted moves
   - case of a 1x1 hY vs IG position: illusions with spreads and bp measure sensitivities
   - the book remains neutral x% CS01: implications
     1- if IG9 lags, the book becomes long risk, because we are long risk in IG9
     2- if HY decompresses, the book becomes short risk, because we are short risk in HY

2- the Method
   - Look at beta adjusted moves on history: the whole story is about compression and decompression
   - breakdown the risk from beta factors
     1- the book has a directional bias, but next it is all about expected loss changes (mixing carry and MTM)
     2- the beta neutral book breaks into 3 parts:
       a- decompression trade ie HY vs IG on the run
       b- S9 vs IG on the run and hY off the run vs HY on the run
       c- equity tranche slope

3- the findings: target YTD at 760M
   - the book is huge: 958bln IG9 and 386bln S9 fWds, decompression (9M bp in HY or 258bln, 2.3M in Xover or 78bln)
   - Decompression worked very well and only starting: total gain ytd of 620M (600bp Xover, 60bps in HY)
     we captured 12% decompression out of a move of 18%
   - Series9 lag is overwhelming: total loss YTD is 1.5bln (22bps in IG9 fWds and main S9)
   - directionality -60M and carry -40M (with no roll down): total 100M
   - defaults (Kodak and Rescap) cost are estimated at 100M total
   - 0-3 equity slopes cost a total 200M: 50M in ITraxx (2pts) and 150M in CDX IG (5pts)
   - New trades: gain 200M
Core Credit Book: Trading activity: positions and new trades

Rationale for the positions increase:
1- cover the HY downside on some defaults, prepare for IG tightening, stay market neutral to minimize RWA
2- started by selling IG9 5yr and 5y 5yr - the curve steepened and the forwards moved up
3- sold S9 and IG 5x10 to limit the P&L hit
4- defended the P&L at month end while the decompression kept going and increased the underperformance of S9 series

Credit Book: Trading activity: positions and new trades

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<tr>
<th>Block</th>
<th>All Trades</th>
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<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
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</table>

J.P. Morgan
Core Credit Book: BP sensitivities and Directionality of the book

As spreads tightened the IG9 and SS 10yr saw their duration increase while all other legs had a shrinking duration
1- this created an increase on the expected loss of the long risk that was amplified with the forward exposure
2- the decompression created a long risk that was covered with a short risk in HY as the market rallied (Var minimization)
3- the long risk exposure should have been maintained: this would have triggered an increase in RWA and Var
4- the decompression trade in HY and Xover was never large enough due to the legacy because we had to increase the position to defend the P&L hit without being able to stay long risk (due to RWA & Var constraints)
5- the decompression in SS (around 25%) have induced a natural increase of long risk circa 10Bln long risk in main and 256Bln long risk in IG

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<tr>
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<th>Main OTR</th>
<th>Main OTR IG</th>
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Core Credit Book: P&L explain

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<th>Positives</th>
<th>Negatives</th>
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<td>1020M USD</td>
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<td>Decompression</td>
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<td>HY off the run</td>
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<td>Carry</td>
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<td>New trades</td>
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### Total

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**Total**

80,522,349 65,080,263 54,039,733 122,992,345

JPMorgan
**Core Credit Book: Series 9 steepening explanation: the forwards have lagged the 40bps market rally by 22 bps**

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<tr>
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<th>S9 forward</th>
<th>22%</th>
<th>152</th>
<th>118</th>
<th>26.00%</th>
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<th>26.06</th>
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<td>Spread</td>
<td>2710312012</td>
<td>Duration</td>
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<td>36,00%</td>
<td>46 30,54</td>
<td>16,9</td>
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Core Credit Book: Analysis of the IG9 performance

IG9 can be proxied as a normal IG index of 117 names and 5 HY Names (MBIA, RADIAN, ISTAR, SPRINT, RR Donnelley):

- The 5 names behaved like the whole HY market; they underperform the IG market and steepened a lot
- Their move relative to the rest of IG indices allows to explain most of the lag in IG9 curve but not all
  - Yet 5yr IG9 outperformed by 3bps, 7yr outperformed by 4 bps while 10yr underperformed by 2 bps; the net P&L impact is -100M USD

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<th>Name</th>
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<td>18.00%</td>
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<td>% Index loss</td>
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<td>27%</td>
<td>27.91%</td>
<td>19.39</td>
<td>22.48</td>
<td>22.48</td>
<td>0.12</td>
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</table>
Core Credit Book: The devil in the details

- The steepening of the IG HY names was more aggressive than the whole HY market, resulting in an underperformance of 80M USD.
Core Credit Book: Summary

1. The book has been missing an extra 35M CS01: this is a cost opportunity of 1.2 Bln due to the 40 bps rally in IG
   - This long risk shows naturally in the spread tightening and with the coming expiry of the short term S9 leg
   - It triggers a an increase in Var, stress Var, CRM, IRC-RWA across the board if we maintain the book balanced

2. The need to reduce VAR, RWA and stay within the CS01 limit prevented the book from being long risk enough
   - As we bought protection on HY in the rally, we kept the 10%CS01 neutral to slightly bull
   - The slight bullish bias was dwarfed by the exposure in the forwards that kept increasing to protect the P&L

3. Thus a decompression trade was put on in order to remain market neutral, but it increased the CS01 very fast
   - As a result a decompression trade built up both in crossover and Main: it is a good trade that performed well
   - Yet, selling more protection in IG to balance the protection we bought in HY put us close to the CS01 limit

4. The long risk exposure would likely have missed the first 15 bps and the realistic P&L miss is rather 800M USD
   - Despite the conviction on the rally in IG spreads, we needed to sell 100bn in main and 300bn in IG ideally which is a significant bullish bet
   - In early February and early March, when spreads widened back, the book would likely have suffered a weekly loss of up to 200m each time: this was not an acceptable P&L noise... So the long would have been implemented slowly anyway

5. Carrying this long risk exposure would have triggered some brutal P&L swings of 100-200 in early February and March.
   - The book was aiming at fine tuning the P&L noise while reducing the risks and the notionals on opportunities
   - The losses coming from the IG forwards were already wild, so we waited before being outright long risk for fear the noise would just increase more
Core Credit Book: Storyboard

1- Starting point: initially the book kept deleveraging in January reducing the shorts in series 9 5yr, removing the short risk in IG, adding short risk in HY. The aim was to create some options on the book as in 2011 to reduce aggressively on opportunities.

2- Mission: balance the book:
   a) it was slightly long risk since the 15th of January
   b) some protection on HY was bought to reduce the loss on some HY defaults like Kodak and recape
   c) put some decompression trade to go long IG and neutralize the cost of carrying the protection in HY

3- Execution:
   - it went all bad:
     - the forward spreads started underperforming and this created a residual long risk exposure that had to be covered to reduce the Var and RWA
     - the nationals in series 9 were too large and the loss was way larger than the small directional gain (Jan and Feb)
     - The decompression in HY and Xover sped up in March and this put the book short risk and worsened the loss in the forwards

4- What Happened?
   - January: tried to reduce the short in the IG9 and S9 5yr but this pushed the forwards up and the potential was already 400M. We reported a loss of 130M USD YTD
   - February: tried to cover the HY downside risk to default and added to IG9 and S9 forwards in order to contain the P&L loss as decompression kept going. We reported a loss of 220M USD YTD
   - March: the nationals increased in forward position uselessly and loss accelerated to incredibly high levels. The move was too fast and painful.

5- Plan:
   - put the book to sleep: to stop flagging our moves to the market
   - maintain a long risk bias with on the run IG indices to keep a good carry in front of the upside on defaults
   - buy up to 58bn protection in IG9 0-3 10yr and 2.58bn Main s9 10yr 0-3 to flatten the future default profile

JPMorgan
Core Credit Book: Risk Management and execution mistakes

1. The reduction of the 5yr IG9 and S9 early in January turned out to be a bad move:
   - Initially, sell 5yr on a roll basis vs on the run indices allowed to reduce the short, improve the carry, reduce the sensitivity of the book towards flattening and pre-empt a tightening in IG spreads without increasing CS01.
   - The market players quickly steepened the S9 curves starting the underperformance of the forwards: because the slight long bias was insufficient to cover the loss, we added back some flatteners to correct the hit.

2. The Kodak default triggered a second wrong move:
   - The loss was 50M and we started covering the risk in February by selling HY14-HY17 indices that contained MBIA, Radian, MGIC, ISTAR given that RESCAP risk to default was growing.
   - However, by selling those series and targeting the "mortgage & insurance" related names, we aggravated the underperformance of the IG9 forwards because they contain MBIA, Radian and ISTAR.
   - As a result, those names underperformed the whole market. Thus the decompression trade worked but the IG9 forward especially underperformed in the rally and this is where the main long risk of the book is.

3. The Xover / Main decompression trade:
   - Due to the need to contain the RWA-Var complex, we sold protection on main while buying protection in Xover.
   - This was a way to profit from either a recovery in Europe IG space with:
   - The decompression in HY and Xover sped up in March and this put the book short risk and worsened the loss in the forwards.

4. What would have happened if none of these bad moves were initiated?
   - The decompression would have happened anyway and the forward underperformance may have been twice smaller or down 750. All these mistakes induced an increase in the forward positions to contain the P&L hit.
   - If the book had gone long risk fully, the VAR would have increased and the RWA as well: likely 10-15 Bln RWA.
   - The carry would have improved and the book would have had twice a weekly drawdown of 200M.
From: Achilles Macris
Sent: Wed, 04 Jan 2012 06:57:54 GMT
To: Martin-Artao, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: FW: RWA reduction for Core Credit - scenario analysis summary

Did you see this?

From: Giovannetti, Alison C [mailto:alison.c.giovannetti@jpmorgan.com]
Sent: 03 January 2012 17:27
To: Martin-Artao, Javier X
Cc: Macris, Achilles C; macris@btinternet.com
Subject: FW: RWA reduction for Core Credit - scenario analysis summary

Hi Javier,

Left you a voicemail, can you give me a call +44 207 325 8025.

Thanks
Alison

From: Wilmot, John
Sent: 03 January 2012 15:37
To: Giovannetti, Alison C
Subject: FW: RWA reduction for Core Credit - scenario analysis summary

We need to close the loop on cost of reducing another $5bn in RWA from the tranche book (to $15bn by YE2012, gradual reduction over the year). Ira, Javier and I weren’t able to discuss this slide specifically as it was sent after our last call. If you can give me an estimate by EOD that would be helpful. Thanks.

John C. Wilmot | Chief Investment Office | @john.wilmot@jpmorgan.com | W Work: (172) 314-5452 | W Cell: (917) 664-1690

From: Grout, Julien G
Sent: Thursday, December 29, 2011 10:58 AM
To: Drew, Ina; Wilmot, John; Martin-Artao, Javier X
Cc: Iksil, Bruno M
Subject: RWA reduction for Core Credit - scenario analysis summary

Hi – please find attached a grid for the Core credit book RWA reduction scenarios. Please note that we will not be able to make any sensible and efficient work on RWA for the core book without any ‘marginals’ numbers produced by QR. Currently any major reduction will lead to a very high cost though proportional reducing.

Julien

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## CORE Credit RWA Reduction Scenarios - Summary

<table>
<thead>
<tr>
<th>RWA Reduction Target</th>
<th>$2B</th>
<th>$5B</th>
<th>$7B</th>
<th>$10B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposed Execution</strong></td>
<td>Reduction of long dated equity long • IG9 roll • Short CDX.HY (old and new series) • the desk is currently implementing those</td>
<td>Same trades (as on the left) • 11% proportional reduction</td>
<td>24.5% proportional reduction</td>
<td>35% proportional reduction</td>
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<tr>
<td><strong>Execution Cost</strong></td>
<td>$101M</td>
<td>$273M</td>
<td>$362M</td>
<td>$518M</td>
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<tr>
<td><strong>Carry Give up (FY 2012)</strong></td>
<td>$90M if starting Q1 2012</td>
<td>$134M if starting Q1 2012</td>
<td>$123M if starting Q2 2012</td>
<td>$93M if starting Q1 2012</td>
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</table>
I am going a deep dive tomorrow in prep for a review with Doug/Jamie.

---

I am changing my flight to return to London Sunday early morning GMT -- any time is fine for me.

How about Sunday 14.00 EST -- 19.00 GMT?

Javier we can take the call together from my flat if you like.

---

Give me a time Sunday that works for you.

---

Will do. Thank you.

---

Ok. Thanks. Maybe we should review what you have Sunday. Let me know.

---

Hi Ina,

We spoke with Javier at length following our conversation. We will be prepared for the call on Monday.

Confidential Treatment Requested by J.P. Morgan & Co.
Javier is convinced that our overall economic risk is limited. There is no default event to amplify our losses as the same critical names are part of our short in HY and our long in IG.

Any further draw-down will be the result of further distortions and marks between the series where we are holding large exposures. This clearly needs to be estimated with much more precision. I also have no doubt that both time and events are heating our position. I am however unsure on the potential magnitude of an "one touch" draw-down for Q2 which is highly dependent on marks.

Both Javier and Bruno continue to be extremely concerned about the confidentiality around our specific large exposures. The press seems to be referring to CIO position size which is different to the overall JPM size on the same instruments. Additionally, there were some specific HF's calling our teams and trying to get information from both front-office and infrastructure personnel (1).

As you know, I am not regularly giving much credence to such rhetoric. I have nevertheless asked for a summary of the specifics for your information.

Best,
Achilles

Jamie and Doug want a full diagnostic Monday. I will need it Sunday night. More focused on p1 than two at moment as I indicated. I’m not comfortable with the level of analysis so far. I tried to reach you by phone and text.

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From: Martin-Artao, Javier X <javier.x.martin-artajo@jpmorgan.com>
Sent: Mon, 09 Apr 2012 11:49:16 GMT
To: macris@Drew, Ina <Ina.Drew@jpmorgan.com>
Subject: One point about yesterday's call

Ina,

When you asked last week about what we needed to do in the Core Book I forgot to mention yesterday that the book as it is is stable and does not need to be rebalanced unless there is a credit event. So at this point with all major risks balanced the book as it is we do not need to trade in the market for a few months.

Regards
From: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>
Sent: Tue, 10 Apr 2012 18:49:24 GMT
To: Alvelo, Alexandra X <alexandra.alvelo@jpmorgan.com>
Subject: FW: 8:30am Calls Set up for Wednesday and Thursday

Must do

Douglas L. Braunstein | Chief Financial Officer | JPMorgan Chase & Co.
270 Park Avenue | New York, NY 10017 | tel. 212-622-1820
| fax: 212-622-18179
| e-mail: douglas_braunstein@jpmorgan.com

From: Drew, Ina
Sent: Tuesday, April 10, 2012 2:19 PM
To: Dimon, Jamie; Braunstein, Douglas; Zubrow, Barry L; Hogan, John J; Staley, Jes; Moini, Achilles O
Cc: Serpe, Gary; Wilmot, John; Goldman, Irvin J
Subject: 8:30am Calls Set up for Wednesday and Thursday

I am setting up a call on Wed and Thurs (we will continue Monday or as needed) for this group to get updates on the Credit Book and make sure we are all up to date. I want to make sure that we are responding appropriately to all of the deliverables and questions. We can also report back on our individual discussion with regulators, analysts, press etc. Gina will contact your admins and set up a dial in from my office. If you can call in or come that would be helpful.

Thank you for your help and support.

Ina
From: Iksil, Bruno M <bruno.m.iksil@jpmchase.com>
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Perryman, Andrew X <andrew.perryman@jpmorgan.com>; Berner, Andy x <andy.x.berner@jpmchase.com>
Subject: core credit latest version

Confidential Treatment Requested by J.P. Morgan & Co.   JPM-CIO-PSI 0001784
Credit book YTD story

1. The book is using the remaining liquid tranche markets to receive 5yr into 1yr forward spreads
2. The Core credit book was up 350M in 2011 (up 2.1 Bln since 2007)
3. The loss YTD 2012 mostly from off the runs underperformance vs on the run indices
Credit book Main feature: carry-convexity- default exposure all positive!
Negatives? : some HY 10-11 specific, off-the-run to on-the-run basis MTM

1. The book conveys a daily positive carry of 1M$ to 1.5M$, provides upside on gap risk, upside on IG index based defaults (all IG series both CDX and iTraxx from series 9 to on 16) and some US HY indices

2. The book would lose money on some US HY specific defaults (30-40M$ per name) or on motionless markets (curve steepening and no spread volatility)

3. The Core book will trade on the bullish side (risk wise) given the positive convexity and the general outlook....

4. The potential P&L recovery until Dec2012 is estimated at : 500M$ (out of other trading gains/losses)
   - Carry (40M$ per month) : 350M$
   - Default gains vs losses : 150M$
   (conservative assumptions: 6 "adverse" default and 1 "favorable" default in Main, IG and HY)
   - 6 Adverse default in Hy10 and hy11 serie would cost circa 100M$ (15M$ on average per default)
   - 1 default in Itraxx Main would bring in 70-100M$
   - 1 default in IG10 would bring in 70M$
   - 1 default in HY14-hy17 would bring 50-100M$
Annexes

1. Annex 1: P&L drill down analysis
2. Annex 2: Forward credit spreads, rationale and carry
3. Annex 3: default exposure analysis
5. Annex 5: CDX IG 9 "skew story" beneath the current underperformance
6. Annex 6: The need for hedging interest rate exposure on forward credit spreads
7. Annex 7: core versus Tactical: same view but different implementations
Annex 1: Credit book YTD P&L history: tactical and Core (10-20 times larger)
P&L move in opposite directions

Investment strategy should be up 200m YTD at least.
annex 1: Credit book: "new investment" P&L history breakdown: CDX IG9 had unexpected behaviour.... The rest of the book has performed in line...
annex 1: Credit book Risk management history

whole book history

The risk profile of the book was balanced as early as January the 10th.
annex 1: The series 9 forward spreads underperformance YTD 2012... stable

- IG9 tend to drift further
- while credit spread
- settle: PNL hit in Feb
- 40M USD

PNL hit in Feb
40M USD

beta adjusted IG9 fwd perf in EF
IG9 5yr01 fwd
IG14 5yr spread
annex 1 The HY11-10 series kept underperforming Hy14-17

KODAK has filed for bankruptcy: the HY curve flattens while the HY spread rally

ALLY states that they prepare a Bond filing for RESCAP: P&L hit in Feb 09M
Annex 1: The main S9 Fwd started drifting away from on the run market while Xover started outperforming.

Series 9 widens 10 bps on the run while the 2nd bailout is approved - P&L in Feb 50M

Xover outperforms main 15 bps on Greek 2nd pack while OTE CDS tighten from 38 upf to 32 upf - P&L hit in Feb 10M
Annex 1: P&L summary YTD Feb 22nd 2012

### Core P&L

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Jan 31st</th>
<th>Feb 22nd</th>
<th>P&amp;L on Feb</th>
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<tbody>
<tr>
<td>Whole Cor</td>
<td>-140</td>
<td>-210</td>
<td>-70</td>
</tr>
<tr>
<td>Main</td>
<td>90</td>
<td>140</td>
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<tr>
<td>CDX IG</td>
<td>110</td>
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<tr>
<td>CDX HY</td>
<td>-340</td>
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<td>-70</td>
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<tr>
<td>carry</td>
<td>50</td>
<td>80</td>
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<tr>
<td>New trade</td>
<td>220</td>
<td>280</td>
<td>60</td>
</tr>
<tr>
<td>HY Xover E</td>
<td>-310</td>
<td>-380</td>
<td>-70</td>
</tr>
<tr>
<td>CDX IG9 ro</td>
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<td>-200</td>
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</tr>
<tr>
<td>Main S9 ro</td>
<td>60</td>
<td>10</td>
<td>-50</td>
</tr>
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</table>

- 150M of gains come from the long Risk trades done at start of the year To flatten the short bias in the book
- RESCAP news and iTraxx Xover compression
- IG9 forward spread creeping wider despite Radian rally
- Main s9 forwards creeping wider despite relief on greece
annex 2: The opportunity on the credit forward curve. The forward yields have barely changed since 05. The IG9 is the right spot despite the 5 risky names.

The 5x5 fwd US IG yield in 2005 was barely higher than it is today in the IG9 curve.
annex 2: 5yr x 5yr Forward yield history

The cash bonds still lag the tightening of yields, forward credit spread start compressing since last summer.

Forward yields

10-Jun-04 29-May-05 10-Oct-06 22-Feb-08 06-Jul-09 18-Nov-10 01-Apr-12 14-Aug-13

CIO started building the long risk forward credit spread.

- TSY 5x5 fwd
- fwd swaps
- IG yield fwd
- IG spread fwd
Annex 2: The forward credit spreads lagged the 5yr credit spread tightening.

Liquidity spreads

- All IG spreads tightened recently but not at the same pace beta adjusted.
- IG 5yr spread
- IG 5x5 fwd spread

Graph showing the spread over time with specific dates marked.
annex 2: the markets focus on mtm risk more than idiosyncratic risk.
Annex 2: The book has a positive daily carry of $1m to $2m depending on spread and curve levels

<table>
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<tr>
<th>Block</th>
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<th>Fwd Roll Down</th>
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<td>itraxx</td>
<td>500,276</td>
<td>1,152,241</td>
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<tr>
<td>cdx lg</td>
<td>891,954</td>
<td>1,900,639</td>
</tr>
<tr>
<td>cdx hy</td>
<td>-825,139</td>
<td>-1,628,535</td>
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<tr>
<td>total</td>
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Annex 3: Book exposure to riskiest names

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<th>CDI IG and HY</th>
<th>HY 11-12</th>
<th>P&amp;L expected</th>
<th>Market</th>
<th>spread</th>
<th>Total</th>
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<td>Rival</td>
<td>105</td>
<td>150,800,000</td>
<td>20.00%</td>
<td>40.00%</td>
<td>740,300,000</td>
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<tr>
<td>Bank</td>
<td>110</td>
<td>200,000,000</td>
<td>25.00%</td>
<td>50.00%</td>
<td>750,000,000</td>
</tr>
<tr>
<td>Company</td>
<td>115</td>
<td>250,000,000</td>
<td>30.00%</td>
<td>60.00%</td>
<td>750,000,000</td>
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<tr>
<td>Total</td>
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Annex 3: Post Kodak and RESCAP auctions and implied Hard losses: HY curves look steep but consistent. Hy14 to hy16 anticipate 1 to 4 more defaults than HY8 to hy11 series.

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<tr>
<th>Hard loss Index</th>
<th>HY8 5 yr</th>
<th>HY9 5 yr</th>
<th>HY8 6 yr</th>
<th>HY9 6 yr</th>
<th>HY8 7 yr</th>
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Annex 3: European risky names Xover

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<th>Corp. Ticker</th>
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<td>SUKCOM</td>
<td>SUKCOM</td>
<td>674.406</td>
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<td>UPC</td>
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<td>WAGLN</td>
<td>WAGLN</td>
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<td></td>
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<tr>
<td>XTP BV / XOP Funding LLC</td>
<td>XPAR</td>
<td>XPAR</td>
<td>831.31</td>
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<tr>
<td>TLXAS</td>
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<td>TLX</td>
<td>600.042</td>
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Annex 3: European risky names Main series 9

<table>
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<tr>
<th>Name</th>
<th>Wgt</th>
<th>Eqty Trd</th>
<th>Corp Trd</th>
<th>S/ Y CDS Trd</th>
<th>Spread</th>
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<tbody>
<tr>
<td>Hellenic Telecommunications Organization</td>
<td>0.9</td>
<td>HTC GA</td>
<td>HTCDA</td>
<td>COTE IES</td>
<td>2090.859</td>
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<td>Banco Espirito Sante SA</td>
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<td>BESP NL</td>
<td>BESP RL</td>
<td>BESP IES</td>
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<td>Portugal Telecom International Finance BV</td>
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<td>13322 NA</td>
<td>13322 NT</td>
<td>13322 IES</td>
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<td>EDF - Energie du Portugal SA</td>
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<td>EDF IES</td>
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<td>Prodigy SA</td>
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<td>PEUGOT IES</td>
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<td>Finnmeccanica SPA</td>
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<td>FPNC IM</td>
<td>FPNC IES</td>
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<tr>
<td>Banca Monte dei Paschi di Siena SpA</td>
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<td>BMPS IM</td>
<td>BMPS IM</td>
<td>BMPS IES</td>
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<td>Telecom Italia SpA</td>
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<td>TITF IM</td>
<td>TITF IM</td>
<td>TITF IES</td>
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<tr>
<td>UniCredit SpA</td>
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<td>UCQ IM</td>
<td>UCQ IM</td>
<td>UCQ IES</td>
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<td>Lafarge SA</td>
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<td>LGF</td>
<td>LGF IES</td>
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<td>Renault SA</td>
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<td>RNY TT</td>
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<td>RENAULT IES</td>
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<td>Intesa Sanpaolo SpA</td>
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<td>ISP IM</td>
<td>ISP IES</td>
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<td>CON GR</td>
<td>CONGR</td>
<td>CONGR IES</td>
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<td>Telefonica SA</td>
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<td>TREP SM</td>
<td>TREP IES</td>
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<td>Banco Bilbao Vizcaya Argentaria SA</td>
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<td>BBVA SM</td>
<td>BBVA SM</td>
<td>BBVA IES</td>
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<td>AG IM</td>
<td>AG IM</td>
<td>AG IM IES</td>
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<td>SANI IES</td>
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<td>Royal Bank of Scotland PLC &amp; Trust</td>
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<td>21322 LN</td>
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<td>TRAAG</td>
<td>TRAAG IES</td>
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<td>Societe Generale SA</td>
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<td>GLE FP</td>
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<td>GOGEN IES</td>
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<tr>
<td>Deutsche Lufthansa AG</td>
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<td>LH DR</td>
<td>LHR</td>
<td>LHR IES</td>
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annex 3 : US risky names  

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<thead>
<tr>
<th>Name</th>
<th>Wgt</th>
<th>Eqty Tkr</th>
<th>Corp Tkr</th>
<th>5 Yr CDS Tkr</th>
<th>Spread</th>
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<td>RDN</td>
<td>RDN</td>
<td>CRDN1US</td>
<td>1993.355</td>
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<td>MBIA Insurance Corp</td>
<td>0.8</td>
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<td>MBIA</td>
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<td>Sprint Nextel Corp</td>
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<td>SUS</td>
<td>S</td>
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<td>Star Financial Inc</td>
<td>0.8</td>
<td>JNY</td>
<td>JNY</td>
<td>JNY1US</td>
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<tr>
<td>R.R Donnelley &amp; Sons Co</td>
<td>0.8</td>
<td>SFI</td>
<td>SFI</td>
<td>CMBIN1US</td>
<td>619.676</td>
</tr>
<tr>
<td>Jones Group Inc/The</td>
<td>0.8</td>
<td>JNY</td>
<td>JNY</td>
<td>CMBIN1US</td>
<td>619.676</td>
</tr>
<tr>
<td>International Lease Finance Corp</td>
<td>0.8</td>
<td>0067543Q</td>
<td>0067543Q</td>
<td>0067543Q</td>
<td>475.877</td>
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<td>Liz Claiborne Inc</td>
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<td>LIZ</td>
<td>LIZ</td>
<td>CLIZ1US</td>
<td>381.767</td>
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<td>PulteGroup Inc</td>
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<td>PHM</td>
<td>PHM</td>
<td>PPHM1US</td>
<td>379.516</td>
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<td>CSC</td>
<td>CSC</td>
<td>CCCC1US</td>
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<td>GCI</td>
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<td>Lennar Corp</td>
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<td>LEN</td>
<td>LEN</td>
<td>LEXT1US</td>
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<td>American International Group Inc</td>
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<td>AIG</td>
<td>AIG</td>
<td>AIG1US</td>
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<td>Alcoa Inc</td>
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<td>AA</td>
<td>AA</td>
<td>CAAlUS</td>
<td>291.697</td>
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Annex 3: US risky names HY: yellow names in short risk positions, blue names in all series (longs and shorts)

| Name | Code | HY 1 | HY 2 | HY 3 | HY 4 | HY 5 | HY 6 | HY 7 | HY 8 | HY 9 | HY 10 | HY 11 | HY 12 | HY 13 | HY 14 | HY 15 | HY 16 | HY 17 | HY 18 | HY 19 | HY 20 | HY 21 | HY 22 | HY 23 | HY 24 | HY 25 |
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| JPMorgan Chase & Co. | JPM | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bank of America Corp. | BAC | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Citigroup Inc. | CG | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Wells Fargo & Co. | WFC | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Goldman Sachs Group Inc. | GS | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Morgan Stanley | MS | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| State Street Corp. | STT | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Liberty Mutual Group Inc. | LMG | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| American International Group Inc. | AIG | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Related Cos. | RELD | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Blackstone Group L.P. | BX | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Carlyle Group L.P. | CAR | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The AIG Group Inc. | AIG | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Blackstone Group L.P. | BX | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Carlyle Group L.P. | CAR | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The AIG Group Inc. | AIG | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Blackstone Group L.P. | BX | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Carlyle Group L.P. | CAR | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
Annex 4: Credit book build-up and RWA actions

4. The book receives the forward 5 into 1 yr credit spread in IG and rolls down the US HY curve
   - CIO opted to receive the forwards on IG series 9 and HY series 10-11 in order to use the liquid tranche markets
   - The tranches allowed to create positive convexity in spread volatility and jump to defaults (AMR)
   - Each bucket (iTraxx Main, CDX IG, CDX HY) has been beta hedged with its respective on the run index

5. RWA reduction actions
   - The natural volatility and P&L noise of the Forward positions was reduced in 2011 by beta hedging each bucket (Var optimisation)
   - The “carry-roll down” of the forward positions was used to finance upside on systemic and idiosyncratic risk with tranche positions. The term structure on equity tranches and indices was the best opportunity in 2011
   - With an updated data on detailed RWA scenarios (Last update was in March 2011) a further material RWA reduction is possible at minimum cost for 2012.

6. The Skew and basis theme: main source of P&L noise 2012 YTD
   - CIO sells protection on the S9 long term index when correlation desks-HF-dealers buy protection because this is the only liquid access to protection on risky and well distributed names. CIO would benefit also if those names defaulted...
   - The owners of this protection got short squeezed and act to limit the tightening of the S9 series
   - The filing of KODAK in US HY did not stop the rally in HY but made our long risks under-perform the market

The main P&L driver YTD was the underperformance Beta adjusted of the series 9 forwards
- The largest loss comes from the best performer of the 3 buckets, ie CDX IG9 (implied Loss 150M USD)
- The second loss comes from the US HY position: the HY market outperformed IG while we have a decompression trade (implied loss 100MUSD) and the filing of KODAK generated another 50M USD drawdown
- The iTraxx position is lagging but not materially (40M USD Loss). The interest rate hedge cost another 20MUSD.

The main positive P&L contributors are carry and New trade
- CIO sold protection in IG on the run series with a bullish view (gain 200M)
- The carry of the book YTD is estimated positive 50MUSD

The Skew and basis theme: CIO owns the liquidity and the exit for the protection buyers
- If the names default, the SKEW trades will look to unwind, ie sell protection on IG9 10yr and the IG forwards will collapse (same applies to iTraxx S9 series)
- If the spreads tighten further and the liquidity in the cash market comes, the SKEW will tighten and the skew arbs will also look to unwind, ie sell protection in IG9 10yr. (same applies to iTraxx S9 series)
- In both case, CIO can expect to gain 300-400M protection owners look for a way out.
- Further drawdown is possible as the credit spreads keep squeezing and protection owners in IG9 indices look to hedge their short risk.
Annex 5: IG9 skew "arb": fair value to index price is 50-70 cts

<table>
<thead>
<tr>
<th>Start</th>
<th>Expiry</th>
<th>T</th>
<th>Price diff mid point</th>
<th>Simul slope</th>
<th>Target duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG9 5yr</td>
<td>03/02/2012</td>
<td>20/12/2012</td>
<td>0.891667</td>
<td>0.93%</td>
<td></td>
</tr>
<tr>
<td>IG9 4x1</td>
<td>02/02/2012</td>
<td>20/12/2017</td>
<td>4.056333</td>
<td>1.30%</td>
<td>1.31% 0.62%</td>
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<tr>
<td>IG9 10yr</td>
<td>02/02/2012</td>
<td>20/12/2017</td>
<td>5.966667</td>
<td>1.22%</td>
<td>1.24% 1.24%</td>
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<tr>
<td>FWD IG9</td>
<td>02/02/2012</td>
<td>20/12/2017</td>
<td>7.758889</td>
<td>1.20%</td>
<td>1.31% 0.55%</td>
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</tbody>
</table>

Trading cost

<table>
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<tr>
<th>Index</th>
<th>Loss bid</th>
<th>Loss ask</th>
<th>Trading cost</th>
<th>Simul IG9 act</th>
<th>Indslope cost</th>
<th>Simul slope cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.18%</td>
<td>7.63%</td>
<td>0.44%</td>
<td>5.202778</td>
<td>0.51%</td>
<td>0.18%</td>
<td>14.10% 1.044%</td>
</tr>
</tbody>
</table>

2.220833 Loss bid Loss ask implied bid implied off duration Do rate
0.19%   7.18%   7.63%  1.27%  1.35%  5.65%  5.67%  1%        5.563333
Annex 5: IG9 Skew "arb": Commentary

- The dealers state that the IG9 10yr trades 10-15 bps tight to the single names, among which you find Radian (60% full upfront), MBIA (45% full upfront), SFI (70% full upfront), and RRD (33% upfront). These 5 names weight 25% of the whole loss of the index and an estimated 35-40% of the slope trading cost.

- The high dispersion level of the index (which fair value is around 130-140 bps in any case) creates distortions: as it turns out, if one looks at the skew in the IG9 10yr it quotes 65cts-75cts (or 12-15bps index equivalent). If one computes the average running from the components, one gets to 170bps (for an official quote around 122 on the index hence an apparent 48bps "basis"). But the price quote is in upfront with totally matched coupons: the reason is found in the presence of those 5 names above. Because they could really default any day no one is interesting in the running.

- So I wanted to compute the price upfront of the basis from the single names. Yet the 5yr CDS matures in March 2017 while the IG9 10yr matures in December 2017. So I need curves and a forward analysis to get to the extended maturity of the IG9 10yr. Here I got (from the mid of the 5yr CDS) that the index should trade at 133 while the index was 121 mid. This is equivalent to 67cts in upfront. Interestingly CSFF and BARCLAYS and BOA send quotes on the IG9 10yr skew like 65-80cts. So I am on track. Now BNP states on and on that the Fair value of the index is like 40 bps away from market price.

- What this suggests if that those dealers offer a free entry ticket to the skew trade i.e., they incentivize investors to sell them the skew in sell protection on single names to buy protection on the index.

- Then I looked at what it would cost to trade a slope or a forward spread like IG9 10yr vs IG9 5yr (maturing in Dec 2012). I assumed that the IG9 5yr having only 11 months to live cannot be far from the single name equivalent. Now, there is almost no quote on the 1yr cds except for the riskiest names. I looked then at what is the cost to trade the 5yr alone and the Ig9 5yr vs IG9 10yr one for one in single names: the cost for the Ig9 10yr alone is 51cts. The cost to trade the forward is 104cts. The index itself as such costs 15cts. So, the "skew arb" reflects merely the cost for anyone to neutralize an index exposure with single names. This means that anyone entering the skew trade at say 65cts is likely to lose money if he tries remove it piece by piece (51 cts in CDS and 15cts in index on perfect exec). He is sure to lose money if one tries to wedge the basis and forwards.

- Only a spread compression and a dramatic improvement in liquidity would improve the quotes such that the skew would be traded out safely. I just wanted to make sure that the numbers were consistent here.
Annex 5: IG9 skew "arb": Commentary (continued)

- Now, some players, aware of the liquidity trap that is here, simply buy the index protection on IG9 10yr and sell protection on the on-the-run to leverage a cheap protection on the 5 widest names. Here they lock in say 70cts from IG9 and give up say 25cts on the index (120 names) for 5 names or approx 10-11% in upfront for a group that has on average 45% full upfront. Given that the recovery can be assumed to be 30% (total loss of 70%) they mostly improve the reward if all those names file: instead of making 25% (70%-45%) they would make 35%, ie 10% more.

- Now, if the market rallies and names do not default altogether the odds are not so good: because they pay this protection and will need to lock a skew trade at one stage. If we just assume there is no default in 6 months, they will likely lose 10pts (CDS will roll down and tighten). More they might have to sell back some CDS (4pts cost to trade the pack). The only cheap way out is to sell back the IG9 10yr. Now, because the index is a high beta one to the on-the-run index, a rally like the one we see is hurting them if only because of the PV effect related to the tightening.

- I need to produce the charts displaying the curves I know. But I will only be able to simulate what the curve should look like. Because only the 5yr really trades. Comes the roll in March, June and September this year, the forward extrapolation will weigh less and less and the chance is that no defaults in the pack will tighten the skew. Here the skew guys will try to exit and pressure the leveraged short guys to exit too. The trade we have is perfect in that regard because we will have the leg all these guys need.
Annex 6: 5yr yield history

Recently the forward credit yields have tightened with a high beta to the 5yr TSY yield.

\[ y = 3.2378 + 2.0091x \]

\[ R^2 = 0.8272 \]
Annex 6: 5yr yield history

The broader historical picture shows almost no correlation between 5yr TSY and forward credit yields.

Syr tsy yld vs IG Fwd yld since 2005

Equation: $y = 0.256x + 5.005$

R$^2$: 0.3770
Annex 7: Tactical and Core. Same views, different implementations

1. Core and Tactical views: monetary policy creates carry incentives but is dangerous game with bonds
   - Receive IG forwards vs on the run, roll down HY curve vs on the runs
   - Target upside on defaults- maintain positive convexity
   - Maintain a short risk in bond futures for fear the govt market cracks

2. Different implementations: core focus on credit only, tactical uses equity options
   - Core source positive gamma from long term equity tranches and index flatteners
   - Tactical sources gamma and vega from equity markets
   - Core P&L suffers from its size, credit only exposure and bearish bias (no drawdown allowed)
   - Tactical P&L suffers from temporary regime shifts but is less liquidity dependent in rallies.

3. Positive and negatives
   - Positive for core: core target liquidity traps
   - Positive for tactical: tactical is more daily event driven and not dependent on liquidity fights
   - Profiles are different:
     - size: Core is downsizing while tactical is stable and much smaller
     - Carry: Core is not meant to carry positively while tactical may within its drawdown limit
     - Strategy: core targets medium-long term disagreements with markets while tactical uses opportunistically exogenous events.
From: Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Sent: Thu, 08 Mar 2012 11:39:34 GMT
To: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>
Subject: FIN: CIO CRM results

what is going on here?

From: Drew, Ina
Sent: 08 March 2012 00:29
To: Maois, Adlilles 0; Martin-Artajo, Javier X
Cc: Goldman, Irvin J; Weiland, Peter
Subject: Fw: CRM results

Not consistent with your take. Let's discuss thurs.

From: Venkatakrishnan, CS
To: Drew, Ina; Hogan, John J.; Baron, Ashley; Goldman, Irvin J; Weiland, Peter
Subject: Fw: CRM results

Ina,

There are two related issues. The first is the $3bn increase in CRM RWA between Jan and Feb, from $3.1bn to $6.3bn. The second is that your group believes that the absolute level of CRM RWA we calculate was high to begin with in Jan. The second question requires us to explain our models to the satisfaction of your team. I am in London and spoke with Javier today and we will make this an urgent matter.

Based on our models, though, we believe that the $3bn increase in RWA is entirely explained by a $33bn notional increase in short protection (long risk) in your portfolio between Jan and Feb. See table below.

Peter Weiland and your mid-office confirm this $33bn notional increase in long index risk. Further we both agree that this position change results in a change of about $150mm (a decrease) in LOCSW. Per our models, a roughly 10% capital charge ($3bn) on this $33bn increase in risk is reasonable.

Also, to be clear, there has been no model change on our end; the change in RWA for tranches has hardly changed over the month.

I understand that we need to build your confidence in our models themselves but, given our models, we believe the increase in RWA is well explained by the build up in your risk positions.

I will call you tomorrow from London to follow up, but you can reach me at [redacted].

Thanks,

Venkat

From: Sangh, Ani K
Sent: Wednesday, March 07, 2012 06:35 PM  
To: Venkatakrishnan, CS  
Subject: 00 CRM results

<table>
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<tr>
<th>Standalone CRM ($MM)</th>
<th>Non-negative ($MM)</th>
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<th>Count Increase</th>
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<td>Jan 18th</td>
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<td>Index CDS: Common Positions</td>
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<td>Index CDS: Roll-off Positions*</td>
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<td>Index CDS: New Positions</td>
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<td>Index Tranche: All Positions</td>
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</table>

* Includes 421 Dummy PCM Trades that were removed from PCM feed (4 CDS1227 Index CDS/190 Tranches)

Confidential Treatment Requested by J.P. Morgan & Co.  
JPM-CIO-PSI 0001816
Dear Mr. [Name],

Please read the below draft and let me know if you agree on the points – think we need to put this on board as the first we send out format final request.

Since the market has been in a relative state of calm, and with the spread of the credit products, we have decided to re-evaluate the credit product in a manner that is consistent with the market's recent behavior, up to $30MM, as we feel that the cross asset measures are more appropriate in order to capture the risk of the portfolio.

As you can see below, the CSW measure is a 90% of the CSW measure, as the credit spread evolves. This is the result of the re-evaluation of the credit spread's impact on the overall portfolio performance, since we have been tracking the credit spread's impact on a basket of CSW measures. This has been used to evaluate the portfolio's credit performance, which is somewhat stable as a result of the ongoing changes in the large credit spread. The basket, in this case, remains, given that in CSW 1, long-term credit market's data reflects the credit spread, by the cross asset the basket positioning on the large credit spread's impact, to $30MM, as we have decided.

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JPM-CID-PSI 0011826
The value methodology adds the value of all the credit products, calculated for the worst case. As of 2012, about 30% of the value of the credit products is a positive number even though we data that includes that the book is in danger of.

Instead of risk is currently reasonable all risk but most Bank will continue the value of the credit products to the replacement with a set of credit spread-improving credit loss to reduce the cost of the portfolio as required. For this reason, until the easy limit is implemented we will propose a course of action that we find that the increase in one measure is more appropriate than the other of the portfolio.

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
From: [Redacted]

Subject: [Redacted]

Can you please confirm if the CIO Global Credit team is still monitoring the BPI hedge fund issue?

Thanks,

[Redacted]

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This email is confidential and subject to important disclosures and conditions. For details on the purchase or sale of securities, accuracy and completeness of information, risks, confidentiality, legal privilege, and legal entity disclosures, visit http://www.jpmorgan.com/page/important-email.
The Firm’s 95% VaR tail breached by 1.25Sbn from Jan 1, 2012 and was primarily driven by an upward revision in diversification beta’s, focus on low risk assets, as well as position changes in March 13 (Global FX) and Nov 16 (Euro IR swap). The increase in VaR is due to overall VaR exposure and not a result of a position to specific events such as in USD (S&P).

The change in VaR for quarter 13 was primarily driven by an upward revision in diversification beta’s to levels close the firm as well as position changes.

<table>
<thead>
<tr>
<th>Date</th>
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<td>1/18/2012</td>
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<td>133.4</td>
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</tr>
</tbody>
</table>

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VaR band breaks can have several causes, and there are two in particular that are contributing to CIO's recent band breaks in synthetic credit. Generally speaking when using a VaR at 95 percentile, we should expect to see a band break about once every twenty days, or once per month.

1) VaR method. During 2H2011 CIO developed a new VaR methodology ("WestEnd VaR"). It was approved by the Model Review Group (MRG) and implemented on January 26, 2012. Very recently, as MRG was brought in to review models in CIO generally, it was determined that the VaR implemented on January 26 was not implemented as tested and had flaws. On May 10 CIO reverted back to its former VaR method ("BC VaR").

One of the flaws detected in the WestEnd VaR was a damping of volatility caused in the cleansing of time series. As a result the VaRs have been understated. In the chart below we show the band breaks against both the WestEnd VaR and the BC VaR.

We see five band breaks from the WestEnd VaR and two band breaks from the BC VaR during the March-April period.

2) Volatility. Because VaR is calculated based on one year of observed market data, band breaks can occur at greater frequency than the statistics would suggest when entering a period of locally higher volatility. The recent drivers of CIO's synthetic credit P/L are relative value exposures including curve, compression (relationship between investment grade and high yield spreads), and basis between on-the-run and off-the-run indexes.
In looking at the volatility of the relative value relationships we have not seen any systematic increase that would lead to more frequent band breaks, but the move on April 10 was a 4SD move in iTraxx curve.

Conclusion: Using the BC VaR rather than the WestEnd VaR we find that the bandbreak frequency drops to expected levels. Also, the largest P/L day shows up on the Tuesday after Easter (Apr 10), the first business day after a four day
weekend in London, so that day compresses four market data days. That also happens to be the weekend that the press began reporting on the JPMorgan credit derivatives position, which we believe contributed to the market moves.

Peter Weiland
Tel: +1 212 834 5549
Mob: +1 914 434 8719

From: Hogan, John J.
Sent: Thursday, May 10, 2012 5:58 PM
To: Goldman, Irvin J; Bacon, Ashley; Weiland, Peter
Cc: Drew, Ina
Subject: Re: NON IB VaR Bandbreak Summary Report - COB 4/30/2012

Irv/Pete,
I'd like a comprehensive response of this by tomorrow please.
John

From: Hogan, John J.
Sent: Thursday, May 10, 2012 10:23 AM
To: Goldman, Irvin J; Bacon, Ashley; Weiland, Peter
Subject: Fw: NON IB VaR Bandbreak Summary Report - COB 4/30/2012

Let's discuss

From: Roder(Regulator), Glenn
Sent: Thursday, May 10, 2012 10:20 AM
To: Hogan, John J.; Drew, Ina
Subject: FW: NON IB VaR Bandbreak Summary Report - COS 4/30/2012

Attached is an example of a recent VaR bandbreak for CIO that I mentioned during our meeting yesterday. I believe bandbreaks for CIO occurred 8 times during April. Please explain the reason for this bandbreak, as well as the reason for the other occurrences during April.

Thank you.

Glenn

From: Market Risk Management - Reporting
Sent: Wednesday, May 02, 2012 5:42 PM
To: Doyle, Robin A.; Surtani, Lavine; Bacon, Ashley; Tocchio, Samantha X; Weiland, Peter; Venkatadriyshn, CS; Man, George NB; Stephan, Keith; Yew, Patricia; GREEN, IAN; Roder(Regulator), Glenn; MRM External Reporting
Cc: Intraspect - VAR Bandbreaks
Subject: NON IB VaR Bandbreak Summary Report - COB 4/30/2012

Please find attached the Non IB VaR Bandbreak Summary Report for cob 4/30/2012:

Downside VaR:
CIO - 216.1mm Loss, 88.6mm VaR, 129.5mm Break
CIO EMEA - 220.9mm Loss, 87.5mm VaR, 132.5mm Break

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Please find attached the Non IB VaR Bandbreak Summary Clean Pnl report for cob 4/30/2012, noting that Clean Pnl is currently being provided only by the CIo and PB.

**Downside VaR:**
- **CIo:** - 220.0mm Loss, 88.6mm VaR, 131.3mm Break
- **CIo EMEA:** - 215.0mm Loss, 87.5mm VaR, 131.5mm Break

**Upside VaR (Hedge VaR):** None

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From: Javier X. Martin-Artajo <javier.x.martin-artajo@jpmorgan.com>
Sent: Thu, 08 Mar 2012 17:53 GMT
To: Ina Drew <lna.Drew@jpmorgan.com>; John J. Hogan <John.J.Hogan@jpmorgan.com>; CS Venkatakrishnan <cs.venkatakrishnan@jpmorgan.com>; Achilles O. Macris <achilles.o.macris@jpmorgan.com>; Peter Weiland <peter.weiland@jpmorgan.com>; Irvin J. Goldman <irvin.j.goldman@jpmchase.com>; Ashley Bacon <Ashley.Bacon@jpmorgan.com>
CC: Peter Weiland <peter.weiland@jpmchase.com>
Subject: CIO CRM results

I just had a meeting with Venkat to agree on the next steps to reconcile our differences regarding the CRM RWA in the following way:

1. We are going to accept current CRM model and its parameters this month and therefore for Q1 and will work first on how does this model behave as it is.
2. In order to calculate current CRM for all the correlation tranche risk and hedges that we have we are going to run our CRM portfolio with Venkat's team next week on a daily basis to make sure that we have a more systematic analysis behaviour of the model on our own portfolio and compare the results with the previous result.

So we will appoint Anila Bangia and Pat Hasan to work together on the Quantitative side and on the business side Bruno Iksil will coordinate on our side with.

We will compare results at the end of next week and will share the new results.

regards

-----

From: Ina Drew
Sent: 08 March 2012 00:33
To: Javier X. Martin-Artajo, John J. Hogan, Achilles O. Macris, Peter Weiland, Irvin J. Goldman, Ashley Bacon
CC: CS Venkatakrishnan, Peter Weiland
Subject: Re: CIO CRM results

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSI 9068773
I will discuss with Javier and Achilles tomorrow to reconcile. Thank you for prioritizing. From what I understand there is a difference in view on the underlying model - position increase aside.

From: Venkat, Venkat
To: Drew, Inc Wagner, John J; Bacon, Ashley; Gilmer, Jerry J; Weiland, Peter
Subject: [DU] CRM results

Hi,

There are two related points. The first is the $2bn increase in CRM RWA between Jan and Feb, from $3.1bn to $6.3bn. The second is that your group believes the absolute level of CRM RWA we calculate is high to begin with in Jan. The second question requires us to explain our model to the satisfaction of your team. I am in London and spoke with Javier today and we will make this an urgent matter.

Based on our models, though, we believe that the $2bn increase in CRM is entirely explained by a $3.3bn notional increase in short protection long risk in your portfolio between Jan and Feb. See table below.

Peter Weiland and your mid-office confirm the $3.3bn notional increase in long index risk. Further we both agree that this position change results in a change of about $180m in 10% CVA. Per our models, a roughly 10% capital charge ($180m) on this $3.3bn increase in risk is reasonable.

Also, to be clear, there has been no model change on our end, the change in CRM for branches has hardly changed over the month.

I understand that we need to build your confidence in our models themselves but, given our models, we believe the increase in CRM is well explained by the buildup in your risk positions.

I will call you tomorrow from London to follow up, but you can reach me at ••••

Thanks,
Venkat

From: Bangia, Amol K
Sent: Wednesday, March 07, 2012 06:35 PM
To: Venkataraman, CS
Subject: CRM results

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
<table>
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<th>Stringency</th>
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<th>Net Index (MR)</th>
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<td>Jan 1999</td>
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<td>Index CDS, Initial Positions</td>
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<tr>
<td></td>
<td>1,344</td>
<td>4,986</td>
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<tr>
<td>Index Tranche, all Positions</td>
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<td>2.083</td>
<td>640</td>
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<tr>
<td>Index Tranche, Initial Positions</td>
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<td>1,491</td>
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</tbody>
</table>

1 Includes 40% Burner FIM Features that were removed from PCC index or CDS/ISD Index (CDS/ISD Tranche).

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This needs to go to CS Venkatakrishnan for the Daily Report

CIO Credit Collateral differences as of COB Friday 4th

Total difference between CIO and the counterparties is now $203mm vs. $194mm prior day.

Largest Counterparty Difference: Morgan Stanley is now $61mm vs. $57mm prior day.

Largest Instrument Difference: iTraxx MN 509 10Y 22-100 is now $14mm vs. $34mm on the prior day.

Difference by counterparty:

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February 13, 2012

By electronic submission

Department of the Treasury
Office of Domestic Finance
1500 Pennsylvania Avenue NW
Washington, DC 20520

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Comment Letter on the Notice of Proposed Rulemaking implementing Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act

Ladies and Gentlemen:

JPMorgan Chase & Co. appreciates the opportunity to comment on the joint notice of proposed rulemaking issued by your agencies to implement section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the Volcker Rule.

Overview

Our company is affected by the proposed rule in numerous ways. Through JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and other affiliates, we engage in market making in a wide range of securities and derivatives; through the various legal entities that comprise J.P. Morgan Asset Management, we offer investment solutions to our clients through funds and other products; and at the corporate level, our Chief Investment Office is responsible for making investments to hedge the structural risks of our balance sheet on a consolidated basis. 2


2 We will refer to JPMorgan Chase & Co. and all its subsidiaries collectively in this letter as “JPMorgan,” or the “Firm.”
In each of these areas, we believe that the proposed rule would have serious, adverse effects on our ability to manage our risks and address the needs of our clients, and on market liquidity and economic growth. While the proposed rule would require us to eliminate pure proprietary trading and limit our hedge fund and private equity fund investing, we believe those intended effects will have significantly less impact on the firm than the indirect and unintended effects on market making, asset-liability management and asset management for customers.

Section 619 does not prohibit most risk taking by banking entities. Risk taking is necessary for us to help American businesses finance and manage economic growth. Rather, the statute by its terms prohibits a particular category of risk taking that its drafters determined was not appropriate for banking entities. That type of risk taking is short-term speculative risk taking, either directly through certain types of proprietary trading or indirectly by means of investing in private equity or hedge funds. Other areas where banking entities take risk - even significant risk, for example, by making loans - are not covered by the statute, and do not need to rely on its exceptions to continue.

We have two core concerns with how the proposed rule has interpreted the statute. First, it has in some areas turned the statute’s narrow prohibition into a more general prohibition on risk taking, and put banking entities in the position of having to rely on ambiguous or incomplete exceptions to the proposed rule in order to continue some of their core functions. Thus, the proposed definition of trading account, which is part and parcel of the definition of proprietary trading, would appear to apply to many types of trading and asset-liability management activities beyond just those focused on short-term price movements. The statute clearly focuses on hedge funds and private equity funds, and a study by the Financial Stability Oversight Council warns against the potential impact of a more expansive definition. Nonetheless, the proposed rule broadens the statutory definition to encompass securitization structures, potentially all non-U.S. funds sponsored by or invested in by U.S. banking entities, including the foreign equivalents of U.S. mutual funds, and almost all wholly owned subsidiaries.

Second, the proposed rule appears to take the view that banking entities, their customers, and the economy must pay almost any price in order to ensure absolute certainty that there can never be an instance of prohibited proprietary trading. The proposed rule appears to presume that banking entities will camouflage prohibited proprietary trading to evade the rule, and that extraordinary efforts are necessary to prevent this behavior.

We believe that the statute mandates a very different approach. The statute clearly sets forth Congressional intent as to how it is to be implemented. The statute directs the FSOC to study and make recommendations to the agencies on implementation so as to:


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• promote and enhance the safety and soundness of banking entities;
• minimize the risk that banking entities will engage in unsafe and unsound activities;
• limit the inappropriate transfer of Federal subsidies from banks to unregulated entities;
• reduce conflicts of interest;
• limit activities that have caused undue risk or loss.4

We believe that all of these policy goals could be addressed by a final rule that imposes dramatically fewer costs to liquidity, market efficiency and safety and soundness than the one proposed. There are numerous other laws established to serve many of the same purposes—everything from margin requirements to Section 23A of the Federal Reserve Act to concentration limits to risk-based deposit insurance premiums. The same goals appear to have motivated these laws, yet none of them have been implemented through an intrusive compliance regime and with a resulting chill on legitimate economic activity.

The concerns we express are not unique to our Firm or even to the banking industry. We have heard them from our clients, including businesses, asset managers, and foreign nations—all of which see the proposed rule as impairing their ability to fund themselves and manage their risks. The agencies are not required by section 619 to impose these costs, and we urge them to revisit the proposed rule with these more firmly in mind.

We acknowledge the serious challenges that the agencies face in implementing the statute. For example, the issues with the proposed restrictions on fund activity derive from a core problem: Congress did not define with any precision what constitutes a "hedge fund" or a "private equity" fund. We believe that the proposed rule makes matters worse by increasing rather than decreasing the scope of the term "covered fund," and by unnecessarily exporting these problems to overseas funds and bank subsidiaries. Similarly, as detailed below, distinguishing proprietary trading from market making is difficult, particularly with respect to market making in illiquid instruments. We believe that a prohibition on bright-line proprietary trading, as set forth in the FSOC study,5 would have been a good solution, and consistent with the statute. However, once the regulators determined that a broader, more quantitative enforcement regime was needed, any such regime would, as a consequence, be necessarily complex, and our comment does not fault the complexity in this part of the rule. Rather, we focus on how certain aspects of the regime are particularly likely to chill legitimate market making and impose needless costs. Finally, in its overly constrained approach to asset-liability management, the proposed rule may undermine banking entities' safety and soundness.

---

4 Section 619(b)(1). The section also provides guidance on accommodation of insurance companies and divestiture of assets that are not relevant here.
The Volcker Rule is made far more damaging by the fact that no other country has adopted anything like it. Capital markets are global, and a typical institutional client has relationships with multiple banks, many of which are foreign banks; U.S. financial banking entities, therefore, will suffer competitively from the Volcker Rule. Furthermore, U.S. companies that lack the ability to fund themselves in overseas markets should not be put at a disadvantage to foreign companies that can access markets where the liquidity providers are not subject to the Volcker Rule and, therefore, are more liquid and efficient.

The Firm supports comments on the proposed rule being submitted by the Securities Industry and Financial Markets Association, The Clearing House Association, the American Securitization Forum, the Loan Syndications & Trading Association and the International Swaps and Derivatives Association. Those comments detail numerous issues created by the proposed rule, and how many of its components appear to conflict with the language and purpose of the statute, and impose high costs on banks, their customers, financial markets and the economy as a whole. In this comment letter, we will not replicate all those points but rather focus on some and provide examples from our own experience to highlight major concerns about the proposal.

We do believe that the extraordinary complexity of the proposal, the hundreds of questions asked in the preamble, and the breadth and depth of proposed changes the agencies are likely to receive mean that the next version of the rule should and likely will differ materially from the first. Accordingly, we believe that those parts of the proposed rule that have elicited the most comment, and presumably will have undergone the most change, should be republished for comment to ensure that efforts to fix one problem have not created another. While we recognize that the statute will take effect in July regardless of the status of the rulemaking, we believe that both regulated entities and the agencies have experience implementing statutes without a complex rulemaking to guide them, and could do so in this case. We believe that the FSOC’s definition of bright-line proprietary trading could be adapted as the basis for an interim rule with respect to that aspect of the rule. With regard to funds, an interim final rule could identify those types of funds that are clearly traditional hedge funds or private equity funds while seeking further comment on any new definition that expands the definition to categories of “similar funds.”

Ultimately, we believe that the statute is so flawed that it will be impossible to implement in a way that does not impose unacceptable costs on our economy and financial system. Other regulatory and supervisory actions, as well as secular industry reforms — including extraordinarily high capital, liquidity and other requirements related to derivatives and other trading assets; improved underwriting standards; and permanent changes to the securitization landscape — impose more than sufficient restrictions on the types of risk taking that are the Volcker rule’s focus.

We note that the statute and proposed rule permit proprietary trading in U.S. Government securities, presumably because of a belief that trading in those securities benefits their liquidity and reduces the cost to their issuer, the U.S. Government. Foreign nations are now
seeking a parallel exemption from the rule, citing precisely those reasons and expressing concern about what restrictions on trading will mean for the liquidity and pricing of their securities. U.S. companies are expressing the same concern with respect to their securities, further highlighting the potentially significant cost of the statute.

These concerns highlight the extraordinary difficulties of proscribing proprietary trading while protecting client-driven and risk-mitigating trading activities. Nevertheless, we do not propose to debate the merits of the underlying statute in this letter. Instead, our comments focus on the potential implications of the proposed rule for our client franchises and risk management activities.

Our letter covers some general comments and then is divided into three main sections:

- First, a discussion that the market-making-related permitted activity is drafted too narrowly, and would deprive markets of valuable liquidity.
- Second, a discussion that the proposed definitions of covered fund exceed the statutory mandate by applying its restrictions abroad, and would thereby do unnecessary harm to the competitiveness of U.S. firms and investors.
- Third, a discussion that a combination of provisions could impair the ability of banking entities to engage in asset-liability management, including liquidity risk management, and an exemption for asset-liability management is therefore necessary to safeguard adverse effects on safety and soundness.
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<td>8</td>
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<td>C. Need for Phased Implementation</td>
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Appendix A - Compliance Program for Foreign Funds
I. General Comments

A. Trading Account

The statute defines proprietary trading as “engaging as a principal for the trading account of the banking entity or nonbank financial company supervised by the Board in any transaction to purchase or sell, or otherwise acquire or dispose of, any security, any derivative, any contract of sale of a commodity for future delivery, any option on any such security, derivative, or contract, or any other security or financial instrument that the appropriate [regulators] may . . . determine.” 1 This definition would seem to ban a wide range of risk taking by banking entities. The definition is significantly and necessarily narrowed, however, by its reference to “trading account,” which is in turn defined as comprising “any account used for acquiring or taking positions in [covered instruments] . . . principally for the purpose of selling in the near term (or otherwise with the intent to resell in order to profit from short-term price movements)” or other accounts that the agencies may by rule decide to cover.

Thus, the definition of “trading account” is where Congress actually made clear what it meant by proprietary trading. And Congress made clear that it viewed proprietary trading as having in all cases a focus on earning profit from short-term price movements. It thereby distinguished impermissible proprietary trading from longer term investment activity and asset-liability management. The proposed rule defines “trading account” by reference to three separate tests: a purpose test (which tracks the statute and includes a rebuttable presumption that any position held for less than 60 days was taken with short-term trading intent); a market risk capital test (which substantially incorporates the definition of a “trading book” under proposed Basel capital rules); and a status test (if the activity requires registration as a dealer then the status test is fulfilled). If any one of the three tests is satisfied, the particular account will be a trading account (unless one of the three exceptions set forth within the trading account definition applies).

The preamble to the proposed rule indicates that the agencies added the market risk capital test on the assumption that its coverage was effectively the same as the purpose test, and to reinforce consistency between the proposed rule and the market risk capital rules, and to “eliminate the potential for inconsistency or regulatory arbitrage.” 2 We believe, however, that the proposed market risk capital test does capture additional types of trading that are not within the purpose test, and types of trading that clearly should be permissible. The status test does as well. Accordingly, we suggest the agencies revert to the statutory definition. 3

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1 Section 619(d)(4).
2 Section 619(d)(6).
3 2 Reg. proposed rule at page 68819.
4 If the agencies do wish to proceed with a separate market risk capital test, they would need to reopen this rulemaking in order to resolve what would otherwise appear to be significant procedural issues. Not only has the
B. Supervisory Implementation

The statute creates a supervisory role for five separate regulators. The proposed rule suggests no means by which the supervisory efforts of those agencies should be coordinated. As the statute notes, inconsistent application or implementation of regulations could create competitive advantages and disadvantages among entities affected by its terms.10

This jurisdictional ambiguity is not simply an awkward issue for the agencies, but rather, if permitted to continue in the final rule and its implementation, it will also be a significant problem for markets. The proposed rule already vests extraordinary discretion in the regulators, and makes it very difficult for a banking entity to know whether trading will be considered permissible (whether as market making, underwriting, asset-liability management or otherwise) or impermissible as proprietary trading. Interpretations are likely to vary over time, and one examiner at an agency may take a different view from another. Political considerations may change views of what is permissible. A whole additional layer of uncertainty is added, though, if the same trading unit at a given banking entity is subject to interpretation by examiners at a multitude of agencies. A trader at a national bank subsidiary of a bank holding company that registers as a swap dealer faces the prospect of having a vague and politically charged rule interpreted by four different agencies for purposes of his or her trading.

We recommend that before this rule is finalized, the agencies adopt and seek comment on a protocol for supervision and enforcement that ensures that a given banking entity will face one set of rules, and that different banking entities will face the same set of rules. Failure to do so will result in even greater chilling of legitimate trading, and even greater damage to market liquidity, funding for U.S. businesses, and economic activity.

We are less concerned with who makes the rules here than with the consistency of the application of those rules, though we believe that because these restrictions have safety and soundness as their primary focus, the banking regulators would seem to have the most relevant experience as well as having the examination resources.

C. Need for Phased Implementation

Regardless of how the final rule turns out, it will be a shock to the U.S. financial system, as banking entities will need to take extraordinary measures to attempt to implement it, counsel traders on what is permitted and what is not, and establish a cumbersome compliance regime. Both banking entities and regulators will need to learn how as many as seventeen metrics work when used, for the first time, to distinguish government-approved trading from

10 See Section 619(h)(2)(B)(ii).

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government-prohibited trading. The risk posed to the U.S. economy by a hurried implementation of the Volcker Rule is significant. We encourage the agencies to adopt a gradual approach to implementation of the final rule. In particular:

- The agencies should use the initial conformance period to develop a complete understanding of the range of activities conducted by banking entities that require the assumption of principal risk and how those activities are distinguishable from prohibited proprietary trading. The initial conformance period should be used exclusively to collect and analyze data concerning those activities and bright-line proprietary trading activities and to develop appropriate quantitative tools to test for compliance with the proprietary trading prohibition after the expiration of the initial conformance period.

- The following sentence should be removed from the final rule because it has created considerable confusion as to the availability of the initial conformance period for banking entities to conform their activities to the statute and appears at odds with the Board's Conformance Rule:

  The agencies expect a banking entity to fully conform all investments and activities to the requirements of the proposed rule as soon as practicable within the conformance periods . . .

- The final rule should require banking entities to use reasonable efforts to begin furnishing metrics as of the first anniversary of the effective date and state that the provision of such reports during the initial conformance period is without prejudice to the ability of a firm to rely on the full initial conformance period with respect to its activities.

The sole recommendation of the recent GAO study on proprietary trading was that regulators should collect and review more comprehensive information on the nature and volume of activities potentially covered by the statute in order to ensure that it is implemented effectively. The initial conformance period is an opportunity for agencies to adopt a heuristic approach not solely with respect to the quantitative measurements in Appendix A to the proposed rule, but with respect to implementation of the statute as a whole. We encourage the agencies to use the initial conformance period for that purpose.

The proposed rule has created considerable confusion concerning the initial conformance period. As the proposed rule notes more than once, the purpose of the initial conformance period

9 See GAO Report to Congressional Committees, “Proprietary Trading – Regulators Need More Comprehensive Information to Fully Monitor Compliance with New Restrictions When Implemented,” July 2011 (the “GAO Study”). ("In order to improve their ability to track and effectively implement the new restrictions on proprietary trading and hedge fund and private equity fund investments, we recommended that the Chairman of the CFTC direct the Office of Financial Research, in work with the staffs of the Commodity Futures Trading Commission, FED, Federal Reserve, OCC, and SEC, or both, to collect and review more comprehensive information on the nature and volume of activities that could potentially be covered by the act.").

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period is to give markets and banking entities an opportunity to adjust to the statute. The purpose of the Board’s Conformance Rule, which took effect on April 1, 2011, was to implement the conformance periods. While the proposed rule states that the Board is not proposing any substantive changes to the Board’s Conformance Rule, such a substantive change is arguably made by the statement that the agencies expect a firm to fully conform all investments and activities to any final rule as soon as practicable within the conformance periods. No such statement is made or implied in the Board’s Conformance Rule. Furthermore, to the extent that the statement implies that a firm may not be permitted to rely on the full initial conformance period, it appears inconsistent with Congressional intent.

Any version of the compliance program outlined in the proposed rule would require a significant systems build-out. We believe that few, if any, banking entities could have completed that build-out by the effective date even if the final rule had been issued in October 2011, as required by the statute. The statement imposes an unrealistic and, given the existence of the initial conformance period, unnecessary burden on banking entities. We agree, however, with the statement in the proposed rule that the metrics can only be usefully identified and employed after a process of substantial public comment, practical experience, and revision. We believe that a full year’s worth of data would be sufficient to allow the agencies to refine the suite of metrics.

II. Proprietary Trading and Investment Banking Activities

Regulated banking entities are by far the largest providers of market-making services. The existence of a robust, competitive field of such entities willing to provide liquidity is essential to create secondary market support for investments like corporate and municipal bonds. The statute has created considerable uncertainty about the market-making-related services that these entities can continue to provide. Further, while the statute clearly identifies the promotion of safety and soundness as one of its primary objectives, the agencies have not specified market-making-related activities, the proposed rule appears more narrowly focused on the prospect of banking entities hiding prohibited behavior. Consequently, it proposes to operate with a disruptive level of granularity and fails to provide banking entities with a sufficiently clear path to compliance. We believe that, if implemented as drafted, the proposed rule could have a chilling effect on the provision of liquidity by market makers that, in turn, would impair capital formation. Our principal concerns and recommendations concerning the market-making-related aspects of the proposed rule, each of which is described in more detail below, can be summarized as follows:

• The final rule should establish a rebuttable presumption that if the metrics required by the rule demonstrate that a business is a market-making business then the business is in compliance with the final rule.

The proposed rule regarding market-making should not rely on hard-coded criteria; instead, some of the criteria included in the proposed rule should be moved to an appendix as guidance to banking entities on how to distinguish permitted market-making-related activities from prohibited proprietary trading.

Metrics should be applied at a less granular level, with longer observation periods, a frequency that more closely reflects typical banking operations and more statistically appropriate calculation periods. For some metrics, the proposed implementation set out in the proposed rule is dramatically more difficult than necessary, and will yield negligibly more insight than a less burdensome version.

While the statute very clearly permits the purchase, sale, acquisition or disposition of securities and other instruments in connection with market-making-related activities, the proposed rule appears to permit only transactions that are, themselves, market making. We believe that this fails to give full effect to Congressional intent with respect to the protection of critical aspects of a market maker's activities, such as certain arbitrage activities.

The proposed rule puts unnecessary restrictions on interdealer trading, which is an important component of market making. The agencies should make clear that, whether or not conducted on an organized trading facility or exchange, interdealer trading driven by liquidity needs is market-making-related activity and is permitted. The agencies should clarify that the nature of the trading relationship determines whether an activity is market-making-related, not the characteristics of the parties to the transaction.

Presently, the proposed rule does not properly accommodate important client-driven structured transactions. The final rule should recognize that these transactions are an important element of a banking entity's role and are related to its market-making activities.

The proposed rule splits exemptions between the prohibition against proprietary trading and the prohibition against investing in covered funds in a manner that was not intended by the statute. As a result, we would be unable to engage in customer-driven underwriting and market making activity with respect to assets such as collateralized loan obligation equity and certain exchange-traded fund securities because such assets are treated as covered funds under the proposed rule.

The agencies should not apply the final rule to commodity forward and foreign exchange products that clearly have a commercial, and not strictly financial, purpose.

The proposed rule’s proposed definition of “resident of the United States” would create competitive inequalities overseas among U.S. banking entities and should be amended to reflect the terms of the SEC’s Regulation S so that the term “resident of the United States” does not include any agency or branch of a U.S. person located outside the United States.
if the agency or branch operates for valid business reasons, is engaged in the business of banking and is subject to substantive banking regulation in the jurisdiction where located.

We have concerns about aspects of the proposed rule other than market-making that we believe would impair the ability of JPMorgan to provide its clients investment banking services. These concerns, all of which, again, we address in greater detail below, can be summarized as follows:

- Similar to our proposed treatment of the criteria for the market-making exemption, the proposed rule regarding risk-mitigating hedging should not rely on hard-coded criteria, but rather a number of the criteria should be addressed exclusively in an appendix where they would provide guidance that the agencies would apply to help distinguish permitted risk mitigating hedging activities from prohibited proprietary trading.

- The final rule should clearly permit banking entities to continue to use all risk management tools currently available to them, including scenario hedges. The proposed rule should be revised to make clear that scenario hedges are within the scope of the hedging permitted activity.

- The proposed rule does not clarify the status of intra-group trading activity—which firms frequently use for a variety of risk management, legal, tax and regulatory reasons—and therefore leaves unclear whether it is permissible. The final rule should take proper account of intra-group transactions by considering the economic effect of series of related transactions, not just individual transactions, on a banking entity group as a whole.

- The documentation burden associated with Section __5(c) of the proposed rule is unnecessarily disruptive. It should be applied at a less granular level and should not be applied to trading desks that exist to hedge risks assumed by other trading desks.

- The definition of covered fund set out in the proposed rule could cause the disappearance of certain securitization activities, resulting in a material reduction in credit for a wide range of industrial, commercial and service-sector entities. As drafted, we believe the definition exceeds the requirements of the statute and fails to take proper account of the FSOC’s recommendations and the rule of construction set out in Section 13(g)(2) of the statute.

- The government obligations permitted activity should be expanded to include derivatives referencing government obligations because a failure to do so will inadvertently affect liquidity in government obligations themselves. In order to preserve liquidity in the bonds issued by other sovereign entities, it should also be expanded to include trading that is otherwise permitted by law in the obligations of all foreign governments that are comparable in credit quality to the United States.

- The definition of trading account should be limited to a purpose test as required by the statute. The presumption that any account used to acquire or take a covered financial
position that is held for sixty days or less is a trading account position exceeds congressional intent and should be removed from the final rule.

- The agencies should give further consideration to the meaning of the term "loan." At present, it throws into question the treatment of certain market-standard means of transferring the risk associated with loans. We believe that there clearly are circumstances under which debt securities should be considered to be within the phrase "extension of credit" in the definition of loan and that the rule should leave room for the issue to be addressed on a case-by-case basis.

- The exclusion for repurchase agreements should be extended to encompass all transactions that are analogous to extensions of credit and are not based on expected or anticipated movements in asset prices.

A. Market Making

1. The Essence of Market Making

The essence of a market maker's job is to provide liquidity by quoting prices to customers and then to respond intelligently to the risks acquired when customers act on the quoted prices. A single trade will typically expose the market maker to multiple risks, and the successful market maker is one who makes the right choices about which risks to prioritize addressing, in what sequence, and with which instruments. The optimal choices are the ones that minimize the volatility of his or her portfolio while maximizing the amount of bid-offer spread captured over time. Market making thus necessarily involves risk mitigation rather than risk elimination. The proposed rule introduces significant uncertainty into this optimization process and risks diminishing the willingness of market makers to provide liquidity.

Regulated banking entities and broker-dealers are by far the largest providers of market-making-related services. The existence of a robust competitive field of banking entities willing to provide liquidity is essential to creating secondary market support for investments like corporate and municipal bonds. Without the predictable source of secondary market liquidity that market makers provide, the risks of bond ownership would increase, causing investors to raise borrowing costs to issuers. That, in turn, would seriously impair capital formation.

In essence, the distinction between prohibited proprietary trading and the core capital-raising functions of the U.S. financial markets now rests on the agencies' interpretation of the words "designed," "reasonably expected," and "near term." Given the vital importance of the distinction, the choices that regulators make in implementing the statute are critical. While the proposed rule represents a good faith effort to resolve the uncertainty generated by the statute, its approach to supervision could reduce the willingness of firms to make markets. As we note in the introduction, in its directions to the FSOC, the statute clearly identified the promotion of safety and soundness as one of its primary objectives. At the same time, it
specifically recognized that some market-making-related activities were not in conflict with this objective and should be protected. The proposed rule instead focuses heavily on the possibility of firms "hiding" prohibited behavior or mischaracterizing activities to evade the statute and is insufficiently focused on the safety and soundness of firms and the financial markets more broadly. What follows in this section of the letter is a discussion of the principal issues that we believe should be addressed in order to minimize the adverse effects of the proposal on market-making-related activities.

2. Liquidity Substitution and the Shadow Banking System

A few observers have suggested that, while the statute may reduce the ability of banking entities to provide liquidity, that effect may be offset by an increase in market participation by non-regulated firms. We believe this argument is misplaced for two reasons. First, the statute provides a clear exemption for market-making activities by banking entities rather than directing the agencies to consider alternative providers of that service. Second, and more fundamentally, market realities make it highly unlikely that non-regulated entities would have the incentive or resources to serve as dependable market makers at narrow spreads, particularly in volatile markets when such services are most necessary. Such a suggestion ignores lessons from recent financial crises and greatly underestimates the importance of housing critical financial services within the regulated banking sector.

One important lesson is that procyclical liquidity is not a substitute for through-the-cycle liquidity. We view our market-making business as part of an overall franchise that includes commercial banking, lending and underwriting relationships. High-frequency traders and hedge funds play an important role in financial markets, but their business models do not require the development or maintenance of such relationships. As such, we believe that their willingness and ability to accept risk to support clients during periods of market stress (when, as we noted above, a market maker's services are of the greatest value) will naturally be more limited than those of a banking entity.

Market making is optimally located within financial institutions that are subject to close prudential supervision. The minimum capital requirements to which banking entities are subject ensure that, even in stressed markets, they have sufficient capital to participate actively in market making. Also, banking entities typically have access to diversified sources of funding that allow them to assume less liquid and more volatile positions from clients with greater confidence. By contrast, non-regulated financial market participants are typically very thinly capitalized and have limited, if any, access to traditional capital markets. Furthermore, managing the complexity associated with large portfolios of lightly mismatched "leftover" risk over long periods of time and in all market conditions, which is a critical element of a market-maker's role, requires access to capital and risk management infrastructure that is only found in banking entities. As events like the collapse of Long Term Capital Management and others have demonstrated, market events like unexpectedly high margin calls threaten the viability of highly levered or lightly capitalized market actors with complex portfolios of offsetting positions.
Also, many non-regulated entities operate a business model that depends on executing a high volume of intra-day transactions and ending the trading day without any risk positions at all. Even a small increase in execution uncertainty or operational risk can lead such an entity to exit a market. The “flash crash” of May 6, 2010 clearly demonstrates the destabilizing effect of such contingent liquidity.

We expect that, however it may be implemented, the statute will reduce liquidity. That impact will lead to a widening of bid-offer spreads that will attract non-regulated entities, at least temporarily. But we encourage the agencies to recognize that the business model of non-regulated entities means that any commitment to providing liquidity is likely to prove limited, high in cost, and fickle.

3. The Definition of Trading Account

As noted above, the proposed definition of trading account is broader than the statutory definition.

In a later section, we describe how the proposed market risk capital rule would expand the statute to cover asset-liability management functions that should be permissible, and why it should be eliminated. Here we focus on three additional issues: (1) why the registration test should also be eliminated; (2) why the 60-day presumption is counterfactual and should be eliminated; and (3) how, in one way, the proposed rule expands the purpose test unwisely.

Registration Test

The inclusion of the registration test in the final rule would create significant uncertainty about the scope of the proprietary trading prohibition. The test appears to overlap entirely with the purpose test and, as such, is redundant. Further, the final rule will apply globally. In the course of preparing for the implementation of the final rule, it is becoming clear that, in certain jurisdictions, it is difficult to conclude with certainty whether frequent long-term investing activity gives rise to a local dealer registration requirement. In cases where it does, the registration test would make activity that lacks short-term trading intent subject to the statute’s prohibitions. Since that would exceed Congressional intent, the registration test should be removed from the proposed rule completely.

Presumption

Although it is described in the proposed rule as being intended to “simplify” and to provide “greater clarity and guidance,” the rebuttable presumption set out in the proposed rule that any covered financial position held for sixty days or less is a trading account position (the “sixty-day presumption”) is an expansion of the proprietary trading prohibition set out in the statute. Nothing in the statute requires or implies a requirement for such a rebuttable

[193x345]proposed rule Section 13(b)(2)(ii).
presumption and there should be no such presumption in the final rule. The sixty-day presumption only increases the uncertainty surrounding the proprietary trading prohibition. It is far from clear what evidence would suffice to rebut the presumption. Also, the inclusion of the sixty-day presumption highlights confusing inconsistencies in the agencies’ approach to the definition of trading account. In relation to the market risk rules test, when looking for guidance with respect to the phrase “short-term,” the proposed rule refers to the FASB ASC Master Glossary definition of “trading” which notes that “near-term” for purposes of classifying trading activities is “generally measured in hours and days rather than months or years.” We find that inconsistent with a rebuttable presumption that a position held for two months was acquired with short-term trading intent. The proposed rule itself, at footnote 102, also appears to note the inconsistency.14

Purpo~ Test

While we generally support reverting to the statutory purpose test as the sole definition of trading account, we are concerned about the statement that a trading account “would also include a derivative, commodity futures, or other position that, regardless of the term of that position, is subject to the exchange of short-term variation margin through which the banking entity intends to benefit from short-term price movements.”15 Decisions about the intervals at which collateral should be taken from counterparties are taken by credit risk managers, not traders. They reflect credit risk appetite, not trading intent. Regularly taking collateral to mitigate the credit risk associated with a financial transaction simply is not an indicator of short-term trading intent, and the statement should be deleted. It should be noted that Title VII of the Dodd-Frank Act will require certain firms to take collateral from their counterparties on a daily basis in respect of swap and security-based swap transactions whether or not they actually want to do so. Since that collateral posting is mandatory, it says nothing at all about intent. If left in the final rule, the statement may cause banking entities to alter otherwise prudent risk management practices to conform to the final rule. That would run contrary to the stated purpose of the statute and constitute a clear case of the cost of a rule outweighing its benefit.

4. The Proposed Rule Should Not Rely on Hard-Coded Criteria

Because of its multiple overlapping parts, the proposed rule does not provide regulated entities a clear path towards compliance. For market making to continue in its current form,
as the statute clearly intended, firms should have a way of knowing whether the activities they are conducting will or will not qualify for the exception.

For example, Section 4(b)(2)(vi) of the proposed rule requires firms to conduct their market making-related activities in a manner consistent with Appendix B to the proposed rule. However, Appendix B provides that consistency with Appendix B is insufficient and also requires compliance with all of Section 4(b). In places, Appendix B and Section 4(b) address the same topic, and it is unclear whether compliance with Appendix B also constitutes compliance with the corresponding criterion in Section 4(b). If it does, it is difficult to see why there is a separate criterion in Section 4(b) at all. If it does not, it is unclear what additional compliance steps are required. Addressing the subject matter of Section 4(b)(2)(ii), (iii), (iv), (v) and (vii) of the proposed rule only in Appendix B would resolve the confusion that presently exists in the architecture.

The proposed rule proposes to apply seventeen metrics daily at a variety of points in the firm’s trading hierarchy. Also, Appendix B to the proposed rule is a multi-page description of the distinctions between permitted market-making-related activities and prohibited proprietary trading that notes frequently how facts and circumstances can cause a genuine market-making business to resemble a proprietary trading business. Because of its use of hard-coded criteria in the proposed rule itself, as the proposed rule is presently constructed, a trading desk that has all of the anatomical properties of a market-making business that consistently yields satisfactory results with respect to the preponderance of the seventeen metrics and that operates its business consistent with Appendix B can still be told that its activities are prohibited proprietary trading because, for example, it held itself out on a regular basis when it should have held itself out on a continuous basis. This is clearly the wrong result and would be avoided if the subject matter of Section 4(b)(2)(ii), (iii), (iv) and (vii) of the proposed rule were addressed only in Appendix B. That would allow the agencies greater flexibility as it would ensure that “facts and circumstances” can be factored into regulatory decisions. In a rule intended to address a variety of products and all market conditions, that flexibility is essential to proper supervision.

5. The Proposed Rule Goes beyond the Statute to Proscribe “Market-Making Related” Activities

The statute very clearly permits the purchase, sale, acquisition or disposition of securities and other instruments in connection with market-making-related activities. As the agencies are aware, the word “related” was specifically added during the House-Senate conference process. In places, however, the proposed rule appears to read this word out of the statute. For example, the proposed rule states:

17 For example, the business employs sales staff that cover clients, issues research to clients, delivers pricing runs to clients and is considered by the Street and by clients to be a market-making business.
a trading desk or other organizational unit of a banking entity that is engaged wholly
or principally in arbitrage trading with non-customers would not meet the terms of the
proposed rule's market making exemption. 17

While some types of arbitrage trading might properly be considered speculative, others clearly
relate to customer needs and should be seen as a part of a firm's market-making-related
activities. Corporate bond exchange-traded funds provide a useful example of the latter.
Exchange-traded funds are a low-cost means by which investors, often individuals, are able to
participate efficiently in markets that would otherwise be closed to them. For the product to
work, two conditions must be met: the underlying bonds must be tradable and liquid, and
market participants must be willing to execute arbitrage transactions between the exchange-
traded fund and the underlying bonds. The corporate bond exchange-traded fund market
could not continue to function as it does without that arbitrage activity: supply and demand
forces would cause the exchange-traded fund to diverge from its value and distort its
performance. The liquidity on the underlying bonds is provided by corporate bond market
makers. For an exchange-traded fund market-maker, the ability to optimize various sources
of liquidity, including the underlying corporate bond market, is an important factor in the
efficiency that drives the exchange-traded fund's low friction costs. But the exchange-traded
fund market-maker's portfolio construct might at times have the appearance of an arbitrage
strategy. Often, as a matter of organizational efficiency, firms will restrict that strategy to
certain specific individual traders within the market-making organization, who may
sometimes be referred to as a "desk." The proposed rule apparently would not allow such a
desk to rely on the market-making-related exception. We believe that this is inconsistent with
the statute and unwise as a matter of policy.

Also, in order to minimize risk management costs, firms commonly organize their market-
making activities so that risks delivered to client-facing desks are aggregated and passed by
means of internal transactions to a single utility desk. The aggregated client-delivered risk is
then hedged in aggregate and, optically, can bear some of the characteristics of arbitrage.
Such activity is a direct function of a firm's market-making operations, and we encourage the
agencies to recognize it as permitted market-making-related behavior.

6. The Proposed Rule Creates Considerable Doubt about the Status of Interdealer Trading
Activity

Interdealer trading is a vital component of market making, as permitted under the statute.
Accordingly, we suggest the agencies clarify that the nature of the trading relationship
determines whether an activity is market-making-related, not the characteristics of the parties
to the transaction.

In its discussion of the Customer-Facing Trade Ratio, the proposed rule notes that:
A broker-dealer, swap dealer, or security-based swap dealer, any other entity engaged in market making-related activities, or any affiliate thereof may be considered a customer of the trading unit for these purposes if the covered banking entity treats that entity as a customer.

We regard that comment as a recognition of the important fact that there is a significant amount of interdealer trading activity where one dealer is acting as the customer of another. We also agree with the direction of the following comment made in the proposed rule:

activities by...a person that primarily takes liquidity on an organized trading facility or exchange, rather than provides liquidity, would not qualify for the market-making exemption under the proposed rule. 18

Whether or not conducted on an organized trading facility or exchange, trading activity that has as its primary driver the provision of liquidity is market-making-related activity and should be permitted. We see no distinction in this regard between anonymous exchange-traded transactions and over-the-counter transactions where the identity of the counterparties is disclosed.

A particularly vivid example of why the agencies should clarify the status of interdealer activity is the direct market in currency options. The market is called "direct" because it is entirely bilateral and is neither intermediated by inter-dealer brokers nor executed on any organized trading facility. The currency options market is a global, 24-hour, 6-day-per-week market. Following the decades-old conventions of the foreign exchange spot market, firms provide two-way prices to each other in that market on demand. This informal agreement to quote two-sided prices to other market makers is an essential feature of being a market maker in the global currency options market. When one market maker provides pricing to another in that market, it considers the market maker to which it provides the pricing to be a customer. Access to that interdealer liquidity is essential to allow firms to develop the risk inventory needed to satisfy demand in their market-making franchises and to manage risks delivered to them by their non-dealer customers. At present, there is considerable confusion in the industry about whether the agencies view this activity as prohibited. We strongly recommend that the agencies clear up that confusion in the final rule.

7. The Proposed Rule Undervalues the Metrics

The proposed rule notes consistently that the metrics are designed for "identifying trading activity that warrants additional scrutiny." They are equally well designed for identifying trading activity that warrants no further scrutiny. While we agree that no single metric can serve as a dispositive tool for identifying prohibited proprietary trading, we submit that if a business routinely passes over a dozen metric tests designed to determine whether it is a...
market-making business, the need for further inquiry into the nature of the business is significantly reduced and may be superfluous. The final rule should provide that where a firm has established an internal compliance program with respect to a business and the metrics that are run by the firm demonstrate that the business is a market-making business, the business should benefit from a rebuttable presumption that it is in compliance with the final rule.

8. The Metrics Require Changes to Reduce Impact on Liquidity and Decrease Implementation Burden

Level of Reporting. The proposed rule requires banking entities to calculate and report metrics at points in the organizational hierarchy down to the trading desk level. The choice of level at which to apply metrics is an extremely important one: while too high a level may cause smoothing of results, too low a level will routinely generate false positives. The opportunity to explain the facts and circumstances surrounding false positive mitigates the harm, but not enough knowing that individual decisions will require explanation will seriously chill desirable capital commitment by market makers. That chilling effect will be magnified at the worst possible times since the incidence of false positives will increase in distressed market conditions, when a market maker's services are of the greatest value.

The proposed rule could safely be less granular and still be effective. At JPMorgan, the most senior level of trading risk management is referred to as the Investment Bank Risk Committee, or IBRC, and meets weekly to discuss the Firm’s trading risks. The heads of all the trading businesses are represented at these meetings, and positions are discussed at a level of granularity that appropriately reflects the materiality of the risk. We believe that the metrics should not be applied below the level at which data is routinely reviewed by senior management at these IBRC meetings. For example, at JPMorgan, the trading business level would be Credit Trading or Institutional Equity as opposed to a sub-level within each business – e.g., North American Credit Trading.

Frequency of Reporting. The proposed rule proposes monthly reporting of metrics. While the agencies should retain the ability to request more frequent reporting on an exception basis and firms should be required to investigate anomalies as they arise, the routine reporting frequency should be quarterly. Monthly reporting is too frequent because of the complexity of the process that surrounds the generation of regulatory reports. Before such reports are submitted to regulators, they are subjected to trader, compliance, risk-manager and senior management reviews. That process is time consuming and, as a result, such reports are generally produced only on a quarterly basis.

Calculation periods. Similarly, thirty-day and sixty-day calculation periods are too short for some of the proposed measurements. A thirty-day calculation period will typically capture only 22 trading days. For statistical calculations, a sample set of 22 data points is just too small and creates an unnecessarily high degree of measurement uncertainty. To maximize the usefulness, the calculation period should be one calendar quarter (typically 63 trading days) for each of the following proposed quantitative measurements:
Utility of the Metrics. Some of the metrics are completely new; they are not currently in widespread use in the industry. Two metrics in this category are Inventory Risk Turnover and Spread Profit and Loss. While each is potentially useful in concept, the proposed implementation set out in the proposed rule is dramatically more difficult than necessary and will yield negligibly more insight than a less burdensome version of the test.

The Inventory Risk Turnover metric should focus only on the principal measure of directional risk for the subject portfolio. One of the core functions of a market-maker is to warehouse certain secondary risks, which is essential to the proper functioning of most markets. The purpose of an inventory turnover measure is to compare the amount of risk that a market maker retains to the size of the market maker’s client franchise. A typical securities trading desk will trade many securities, and many desks will trade both derivatives and securities. The proposed rule’s proposal to require firms to compute risk turnover in relation to all of the regularly produced risk sensitivities of all instruments within the relevant portfolio would require risk turnover to be calculated for ten or more risk sensitivities in some businesses and is excessive.

We believe that focusing only on the principal measure of directional risk strikes the right balance between practicality and relevance. Any concern that focusing only on that principal measure will encourage the warehousing of outsized positions in other risks should be mitigated by the application of other measurements (especially profit and loss volatility metrics and the Comprehensive Profit and Loss Attribution metric) that should effectively identify other risk concentrations. In addition, the more exotic the risk, the greater the difference in measurement methodology across firms. Requiring inventory risk turnover to be measured against more than the principal measure of directional risk will make it far more challenging for the agencies to manage horizontal reviews and, as such, to maintain a level playing field among firms.

With respect to the Spread Profit and Loss metric, the End of Day Spread Proxy is sufficient and should be used for all asset classes. Using the prevailing bid-ask or similar spread at the time the purchase or sale is completed is far more onerous than is necessary to distinguish position-related revenue from spread-related revenue. It will yield meaningless results in institutional markets where clients have significant bargaining power (which describes most markets for the institutions most affected by the statute) because, in those markets, it would be
perfectly reasonable for a firm to record the most recently traded price as the midmarket price. In that situation, the Spread Profit and Loss would be zero, producing a metric “failure” in all cases.

The End of Day Spread Proxy relies on processes that firms generally already have in place in response to industry-wide demand for accurate end-of-day valuations. It is much more objective than the proposed approach because it is subject to far greater scrutiny by third parties. Correctly, the proposed rule notes the need for market makers to manage retained principal risk effectively. Balancing risk in order to be able to quote to clients is an essential element of a trading business that is designed to satisfy near-term customer demand. For the most liquid asset classes, the proposed approach will cause market makers who successfully manage intra-day fluctuations in client demand to appear to be trading with “a simple expectation of future price appreciation,” leading to defensive pricing behavior and a reduction in market liquidity. While it could be argued that our proposed approach would allow a proprietary trading desk with an intra-day trading mandate to appear to have only spread-related revenue, any such business would fail a simple review of its mandate and setup and would almost certainly produce profit and loss volatility numbers inconsistent with a market-making business.

With respect to the Customer-Facing Trade Ratio, we believe that the metric should not be based on trade counting; instead it should be a risk-based normalization, similar to the Inventory Risk Turnover metric. The proposed approach introduces the possibility of nonsensical results. For example, a corporate customer might execute a multi-billion dollar hedge of its foreign currency exposure by buying a foreign currency put option in the FX Options market. The market-maker may, among other approaches, “call out” in the interbank market and exit the position in much smaller pieces. The result would be to have one customer trade and, perhaps, ten or more dealer trades, simply because each of the interbank trades is smaller.

Further, as the agencies acknowledge, Stress VaR is not in regular use for day-to-day risk management. For Basel purposes, Stress VaR will be calculated only at the highest level of the firm, and computing it at a more granular level creates a significant implementation burden as well as problems in terms of comparability and relevance of results. More importantly, as a measure that conveys no information about intent or proportionality between the risk assumed and client demands, it provides little relevant information about a bank’s risk.

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20 See proposed rule at page 682B1.
21 If a proprietary trading business had an intra-day trading mandate it would always end the trading day with a flat position. If the mid-market value of its trades were only determined at end of day then all of the revenue would go into the spread category, creating the appearance of compliance even though the activity is clearly prohibited.
22 See proposed rule at 688B7.
entity's compliance with the statute. We therefore believe that Stress VaR should be removed from the list of required metrics.

Inapplicability to Asset-Liability Management

The metrics proposed would not, in any form, be useful in distinguishing valid asset-liability management from proprietary trading. We discuss this in detail below, under "Asset-Liability Management."  

9. Solution-Driven Transactions

We are concerned that, generally, the proposed rule does not appear to acknowledge the more structured, client-driven transactions that banking entities routinely enter into with their client base. Such transactions (which are often referred to as "solution" transactions) are increasingly driven by client financing needs, but may also be driven by risk management considerations. For example, a transaction may be designed to provide a predictable source of funding for a client’s regulatory capital needs or to provide structured protection to a client on its loan or securities portfolios. Our goal is either to give the client indirect access to cheaper sources of funding or assume risks from the client that we then distribute to the market. Typically, the client-facing transaction is relatively structured and we hedge or offset the risk assumed using a combination of transactions executed through our market-making desks. This activity is related to our market-making franchises and therefore permissible under the statute.

Banking entities are by far the largest provider of these solution-driven products. We are concerned that the trading on behalf of customers permitted activity is not sufficiently broad to permit this activity and that a narrow interpretation of the requirement to hold oneself out "on a regular or continuous basis" would preclude reliance on the market-making permitted activity in connection with these client-driven transactions. We suggest the agencies make clear in the final rule that, for this purpose, a banking entity meets a requirement to hold itself out if it markets structured transactions to its client base and stands ready to enter into such transactions with them even though transactions may occur on a relatively infrequent basis.

B. Risk-Mitigating Hedging Permitted Activity

We discuss in detail below the application of the exception for risk-mitigating hedging to JPMorgan’s corporate asset-liability management function. It is within that function, rather than within our investment bank, that we hedge the structural risks of the company’s balance sheet. In this section, we discuss how the risk-mitigating hedging exception applies to hedging within our investment bank. As the proposed rule acknowledges, hedging is a vital part of market-making, because it allows market makers to manage the principal risk they must incur to perform the function. In several ways, the proposed rule would make hedging more difficult.
1. The Proposed Rule Should Not Rely on Hard-Coded Criteria

The criteria in Section _.5(b) of the proposed rule should be factors to be considered when distinguishing prohibited proprietary trading from hedging, not tests that must be satisfied in every case in order to qualify for the hedging permitted activity. For example, we are concerned that even if all other requirements of the hedging section are satisfied, a transaction is not a hedge unless it is contemplated by the written policies established by the firm pursuant to subpart D. That limits the ability of the firm to hedge unanticipated risks quickly.

The hedging permitted activity set out in the proposed rule is much narrower than the discussion of the hedging permitted activity in the preamble. For example, the preamble states that anticipatory hedging is permitted in certain circumstances but the text of the proposed rule itself makes no reference to anticipatory hedging.35 The mismatch between the discussion in the preamble and the hard-coded criteria in the proposed rule generates considerable uncertainty. Removing hard-coded criteria from the proposed rule would help to resolve that uncertainty.

If the criteria in Section _.5(b) in the hedging section of the proposed rule were removed and the subject matter of those provisions were addressed instead in an appendix to the proposed rule analogous to Appendix B, the agencies would be able to take facts and circumstances into account throughout the supervisory process. As we note above, we believe that is essential to the proper supervision of complex financial markets.

2. The Importance of Scenario Hedging

While most risk management is designed to address reasonably foreseeable risks, risk managers also routinely consider so-called "tail risks," remote, but potentially devastating movements in a portfolio of assets that can follow events like the collapse of a major financial institution or the insolvency of a highly leveraged sovereign entity. As the agencies are aware, banking entities routinely stress test their balance sheets against such outlying scenarios and many banking entities are currently engaged in stress tests concerning macroeconomic and financial market scenarios mandated by the Federal Reserve to ensure that institutions have robust, forward-looking capital planning processes.24 Typically, scenario hedges are not dictated by individual trading desks. In fact, it is common for

35 See page 68875 of the proposed rule and contrast it with Section _.5(b)(2Xii) of the proposed rule.


24 Since most scenario hedges are established at higher levels of organization within banking entities, they would be subject to the additional documentation requirements set out in Section _.5(c) of the proposed rule. Also, scenario hedges have a clearly identifiable risk and profit-and-loss profile. They should be identifiable using Value-at-Risk and Stress VaR and VaR Exceedance and revenue metrics. Consequently, supervisors will have ample opportunity to require banking entities to explain the facts and circumstances surrounding these trades.
individual trading desks to be unaware that such hedges have been established because awareness might change behavior in a manner that undermines the value of the hedge.

A position should qualify as a hedge if it is reasonably correlated to a specific risk or the banking entity can reasonably demonstrate through its stress testing program that the position reduces its tail risks. At inception, the correlation between a chosen hedge and a given tail risk may be relatively loose. Section 5(b)(2)(iii) of the proposed rule requires that the hedging transaction be “reasonably correlated, based upon the facts and circumstances of the underlying and hedging positions and the risks and liquidity of those positions, to the risk or risks the purchase or sale is intended to hedge or otherwise mitigate.” We believe that this requirement may be too narrow to permit scenario hedging and, as such, could deprive banking entities of an important risk management tool. 6

3. Intra-group activity

Generally, the proposed rule does not adequately discuss intra-group trading activity and therefore leaves unclear whether it is permissible. For a variety of risk management, legal, tax and regulatory reasons, banking entities frequently use booking vehicles that do not face external counterparties except to support the trading or hedging activities of other group members. For example, a hedge fund derivative transaction entered into by a U.S. banking entity with a non-U.S. customer may be hedged by means of an offsetting transaction between the banking entity and a non-U.S. affiliate of the banking entity that buys hedge fund shares as its hedge for the offsetting transaction. That combination of transactions provides the group, as a whole, with an efficient hedge to the customer-facing transaction. The proposed rule is drafted as though the same entity always executes both the risk-generating transaction and the hedge. The final rule should clearly allow banking entities to consider exempt groups of transactions entered into by different group members if they are connected and in aggregate act as a hedge for specific risks faced by one or more members of the group. 7

4. Documentation of Macro Hedges

The proposed rule appears to underestimate the frequency with which hedges are established by a supervisor or risk manager responsible for more than one trading desk. We believe that the requirement for contemporaneous documentation should apply only to hedges executed one level or higher above the level described in the example contained in footnote 161 in the proposed rule. That is, the documentation requirement should apply only to hedges that are

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6 We also address these issues in the Asset-Liability Management section of this letter below.

7 Another example of the proposed rule’s failure to recognize intra-group activity appears in relation to the market-making permitted activity. In many cases, non-booking entities are able to rely on intra-group exemptions under local law and do not carry dealer registrations. Since the proposed rule makes such registration an absolute condition, it would be impossible for such entities to rely on the market-making exemption.
established by the manager of a person responsible for more than one desk or by more senior management. No additional documentation of a hedge transaction should be required at or below the level described in footnote 161 as long as the hedge in question is contemplated by the hedging policies and procedures maintained by the relevant business in compliance with Subpart D. Otherwise, the administrative burden associated with the proposed rule would be significant to the point of interrupting normal trading operations. That, in turn, may cause banking entities to become exposed to greater risks. It should also be noted that these hedges will be subject to testing using metrics and, as such, will be subject to review by the agencies.

The mandate of certain desks is to hedge the risks generated by other desks. Such risk management desks should not be subject to the documentation requirements with respect to their trading activity at all. We believe that it is incorrect to consider such desks to be "at a level of organization that is different than the level of organization establishing . . . the [risk generating transaction]." The two typically sit at the same level within an organization and typically have separate management reporting lines. If such desks were subject to the documentation requirements, their daily trading operations would be materially affected because they would be required to separately document the purpose of every trade executed. The final rule should make clear that such desks are not subject to the documentation requirements.

C. The Extraterritorial Application of the Volcker Rule Would Create Competitive Disadvantages among U.S. Firms

The definition of "resident of the United States" contained in the proposed rule creates competitive inequalities among U.S. banking entities that operate overseas. As drafted, the proposed rule places U.S. banks that operate overseas through branches at a disadvantage to U.S. banking entities that operate overseas through subsidiaries. To avoid these inequalities, the definition of "resident of the United States" should be conformed to the definition of U.S. person contained in the SEC's Regulation S.

Many U.S. banks conduct activities in covered financial positions from their overseas branches. Such activities are typically heavily regulated locally. For example, the London branch of JPMorgan Chase Bank, N.A. is a "resident of the United States." It is regulated by the UK Financial Services Authority. However, a long-established U.K. subsidiary of a U.S. firm is not captured by any clause of the "resident of the United States" definition. As such, in their dealings with a branch, overseas entities must take into account the possible application of the Volcker Rule to their transactions, but, in their dealings with a subsidiary, they do not. Consequently, overseas entities are more likely to want to deal with subsidiaries than branches. We see no policy justification for the competitive disadvantage at which JPMorgan Chase Bank, N.A. would be placed—certainly no justification relating to the subject of the statute.

The inclusion of foreign branches of U.S. banks within the definition of "resident of the United States" in combination with the proposed rule's definition of derivative, may adversely
impact trading in U.S. Government debt obligations by foreign investors in a manner that
clearly was not intended by Congress. Although the Treasury Secretary has proposed to
exclude foreign exchange swaps and forwards from regulation as swaps for most purposes28,
the proposed rule proposes to include such products within the definition of derivative.
Foreign exchange swaps and forwards are the means by which foreign investors convert local
currencies into U.S. dollars so that they can purchase U.S. Government debt obligations. As
such, liquidity in these products affects liquidity in U.S. Government debt obligations. These
products are very often executed with overseas branches of U.S. banks. If foreign exchange
swaps and forwards remain covered financial products under the final rule and those overseas
branches of U.S. banks are residents of the United States, then foreign investors will have to
assess the proposed rule’s implications when they trade in those products with such local
branches. That, we believe, may reduce liquidity in those products and that, in turn, may
reduce liquidity in U.S. Government debt obligations.

The agencies note that the definition of “resident of the United States” in the proposed rule is
similar but not identical to the definition of U.S. person for purposes of the SEC’s Regulation
S. As it relates to bank branches, the definition should be identical. The full provisions of the
U.S. person definition of Regulation S should be added to the proposed rule so that the term
resident of the United States does not include any agency or branch of a U.S. person located
outside the United States if:

(i) the agency or branch operates for valid business reasons; and

(ii) the agency or branch is engaged in the business of banking and is subject to

substantive banking regulation in the jurisdiction where located.

D. Government Obligations Permitted Activity

We refer the agencies to the letter dated February 10, 2012 submitted by JPMorgan, Wells
Fargo Bank, N.A., Deutsche Bank AG, New York Branch, RBC Capital Markets, LLC and
Société Générale, New York Branch, in which we convey our concerns about the impact of
the proposed rule on the market for municipal securities that do not fall within the scope of
government obligations permitted activity and the impact of the proposed rule on the tender
option bond markets. We believe that the government obligations permitted activity is also
too narrow in certain other key respects. Our other principal concerns and recommendations
can be summarized as follows:

- The permitted activity should be expanded to include derivatives referencing government
obligations.

28 17 C.F.R. § 4e. Determination of Foreign Exchange Swaps and Foreign Exchange Forwards Under the Commodity
The government obligations permitted activity should be expanded to include trading that is otherwise permitted by law in the obligations of all foreign governments that are comparable in credit quality to the United States.

Presently, the government obligations permitted activity addresses only direct holdings of government obligations. As a practical matter, it is rare for trading desks to trade only a cash instrument; trading desks that trade in government obligations routinely trade also in futures, options and swaps referencing government obligations. Subjecting trading in those instruments to the prohibitions of the statute could limit the ability of banking entities to position themselves efficiently and to hedge government obligations. That, in turn, would reduce trading in the government obligations themselves and, therefore, undermine Congressional intent with respect to the government obligations permitted activity. Since trading in futures, options and swaps on government obligations is essential to trading in the government obligations themselves, we believe that the agencies should exercise discretion under 13(d)(1)(l) of the statute to complete the government obligations permitted activity by extending it to such instruments.

As noted above, we share the concerns of certain foreign governments that the proposed rule would reduce liquidity in non-U.S. government bonds. We believe that, as a matter of comity and in order to ensure that liquidity in foreign government securities is maintained, the government obligations permitted activity should be expanded to encompass the debt of all foreign governments that have a credit quality comparable to the U.S. At a minimum, the agencies should make clear that all of a firm’s activities that are necessary or reasonably incidental to its acting as a primary dealer in a foreign government’s debt securities are protected by the market-making-related permitted activity. Such activities may require a firm to assume positions in such debt securities even in circumstances where near-term demand is entirely unpredictable.

E. Commodity Forwards Should Not be Included in the Final Rule.

The statute does not expressly encompass forward contracts in nonfinancial commodities ("Commodity Forwards"). Certain agencies have noted that Commodity Forwards are commercial merchandising transactions, whose primary purpose is to transfer ownership of a commodity. The Department of the Treasury has noted that they are more similar to funding instruments, such as repurchase agreements. Although Commodity Forwards are...

28 Confidential Treatment Requested by J.P. Morgan & Co. JPM-CIO-PSI 0013287
excluded from the definitions of the terms “swap” and “security-based swap” in the derivatives-related provision of the Dodd-Frank Act, the agencies propose to exercise their discretion to expand the statute to encompass those instruments by including them within the Title VI definition of a “derivative.” We believe that there is ample evidence that commercial agreements such as Commodity Forwards should not be considered “financial instruments” as that term is used in Section (b)(4) of the statute and, as such, should not be made subject to the restrictions of the statute. However it may be implemented, the statute will, to some extent, impair liquidity in every asset class that it touches. This liquidity concern is made particularly acute by the lack of certainty currently surrounding the meaning of the term “spot” in relation to commodities where standard delivery periods can extend to weeks and perhaps even months. As we discuss further below, we have very similar concerns and comments with respect to the proposal to extend the reach of the statute to foreign exchange forwards and foreign exchange swaps. We strongly encourage the agencies to refrain from extending the statute to asset classes that are clearly commercial, as opposed to strictly financial, in nature.

F. Loans

While we support the exclusion of loans from the proprietary trading prohibition and the other provisions of the proposed rule directed at protecting the loan markets, we believe that the proposed rule does not go far enough in certain respects. Our principal concerns can be summarized as follows:

- The final rule should make clear that the primary means of transferring interests in loans are not within the scope of the rule.
- We believe that there clearly are circumstances under which debt securities should be considered to be within the phrase “extension of credit” in the definition of loan and that the rule should leave room for the issue to be addressed on a case-by-case basis.
- The final rule should make clear that covered financial positions that are acquired by a firm as a result of a default under a debt previously contracted in good faith are not subject to the proprietary trading prohibition.
- The loan securitization exemption is too narrow to allow banking entities to acquire or retain an ownership interest in a typical loan securitization vehicle, a collateralized loan obligation. As such, they do not successfully implement the rule of construction under section 13(g)(2) of the statute.
- The purchase and sale of loans are outside the scope of the proprietary trading prohibition. Assignments and participations are the principal means used by lenders to transfer interests in

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20 See section 721 (adding a new paragraph 47(b)(ii) to the Commodity Exchange Act).
A loan participation is a traditional banking product used as an alternative to an assignment, typically in circumstances where consent to an assignment is unavailable. A loan participation is a transfer or acquisition of a lender's economic interest in a loan that places the participant in the same risk position as an owner of a portion of the loan. However, although for many purposes (including accounting purposes) the originating banking entities and the participant treat the participation as a sale of the loan to the participant, the "lender of record" does not change. Given the nature and purpose of a loan participation we believe that the agencies intend to treat loan participations as a loan for purposes of Section 3(b)(3)(ii) of the proposed rule. We believe however that the following text in the proposed rule should be clarified to avoid any ambiguity on this point:

The reference in §__3(b)(3)(ii) to a position that is, rather than a position that is in, a loan... is intended to capture only the purchase and sale of these instruments themselves.

The proposed rule questions whether the definition of loan should exclude a security. We note below how such an exclusion would undermine the value of the loan securitization exemption. It would also cause disruption in markets where security-based products like variable funding notes are used in place of loans. Like repurchase agreements, while such products are legally distinguishable from loans, they operate in economic substance as loans, and are not based on expected or anticipated movements in asset prices. As with almost all of the subject matter of the proposed rule, a generalized approach to the meaning of the phrase "extension of credit" in the definition of loan would have unintended consequences. We encourage the agencies to use the initial conformance period to develop a comprehensive understanding of the policy and practical implications of a blanket exclusion of securities from that phrase and to work with the industry to develop an approach to the issue that accommodates both the breadth of the statute's proprietary trading prohibition and the need to preserve important sources of credit for U.S. and international businesses.

Despite the exclusion of loans, lending activity will be reduced by the statute unless the final rule excludes from the proprietary trading prohibition all covered financial positions acquired by a firm in the ordinary course of collecting a debt previously contracted. Without that exclusion, banking entities will be less willing to extend loans against collateral in the form of covered financial positions or to extend loans to distressed companies which may result in the lender receiving covered financial positions in lieu of the debt previously contracted in a bankruptcy proceeding. We note that the proposed rule proposes to apply such an exclusion to the prohibition on covered funds activities. We strongly support that proposal and believe that it clearly should be applied in respect of the proprietary trading prohibition as well.

The loan securitization exemption set out in Section __13(d) of the proposed rule (the "loan securitization exemption") does not reflect the terms of typical loan securitizations. Even the most typical loan securitization vehicles, collateralized loan obligations, will, from time to time, own assets other than those listed in the loan securitization exemption. For example,
subscription proceeds and proceeds from the repayment of loans are commonly held in high quality assets such as Treasury securities, highly rated commercial paper or U.S. dollar cash until such time as they are applied, for example, to acquire loans. Also, like firms, collateralized loan obligations may receive assets other than loans in the course of collecting a debt previously contracted in good faith. It should also be noted that almost no collateralized loan obligations own credit exposure exclusively in the form of loans; virtually all of such securitizations also permit a holding of corporate bonds or of bonds issued by other collateralized loan obligations. Although they may represent a small percentage of the overall assets of the structure, such “bond buckets” are an essential element of the structure because they allow the structure to access credit assets at times when appropriate assets in the form of loans are temporarily unavailable. Collateralized loan obligations are an important part of the loan markets. There will be almost no occasion on which it will be possible for a banking entity to rely on the loan securitization exemption in relation to a collateralized loan obligation. Consequently, the loan securitization exemption does not (even partially) give effect to the rules of construction under section 13(g)(2) of the statute (the “securitization exclusion”). In that respect, we recommend that the agencies revise the loan securitization exemption to reflect the terms of market-standard collateralized loan obligation transactions.

G. The Proposed Definition of Covered Funds Would Disrupt Certain Lending Activity

We discuss in a separate section below several ways in which the definition of covered funds is overbroad with respect to our asset-management business, but note here additional issues that arise in the trading context. The proposed rule encompasses certain securitization vehicles and could result in the disappearance of a number of beneficial securitization activities altogether. That, in turn, would materially reduce the availability of credit for a wide range of industrial, commercial and service-sector entities. As drafted, we believe the definitions exceed the requirements of the statute and fail to take proper account of the securitization exclusion. The final rule should exempt securitization issuers that rely on the exemptions contained in Sections 3(c)(1) and 3(c)(7) of the Investment Company Act, such as asset-backed commercial paper conduits (“ABCP Conduits”), from the definition of covered fund.

31 The proposed definition of covered fund is overbroad with respect to our asset-management business, but note here additional issues that arise in the trading context. The proposed rule encompasses certain securitization vehicles and could result in the disappearance of a number of beneficial securitization activities altogether. That, in turn, would materially reduce the availability of credit for a wide range of industrial, commercial and service-sector entities. As drafted, we believe the definitions exceed the requirements of the statute and fail to take proper account of the securitization exclusion. The final rule should exempt securitization issuers that rely on the exemptions contained in Sections 13(g)(1) and 13(g)(2) of the Investment Company Act, such as asset-backed commercial paper conduits (“ABCP Conduits”), from the definition of covered fund.

32 An ABCP Conduit is a special purpose entity, often established by a firm, which issues asset-backed commercial paper to fund such ABCP Conduit’s activities. ABCP Conduits provide financing to customers of the firm by providing secured loans to special purpose entities established by customers, or by purchasing asset-backed securities issued by special purpose entities established by customers. In order to facilitate the ABCP Conduit’s issuance of asset-backed commercial paper, the firms that establish the ABCP Conduit provide liquidity facilities to the conduit to provide funds for the timely repayment of commercial paper, and frequently provide additional credit enhancement to the conduit, often in the form of a letter of credit. ABCP Conduits are prominent examples of securitization vehicles that would be considered “Covered Funds” under the proposed rule, because they typically rely on the exemptions contained in Section 13(g)(1) or 13(g)(2) of the Investment Company Act.
Firms are involved in securitization transactions in various capacities. In addition to securitizing their own loans, for example, they arrange and underwrite securitization transactions for their customers, provide liquidity facilities and credit enhancement to securitization vehicles, establish and administer vehicles such as ABS/CMBS Conduits to provide financing to their customers, and provide such financing directly to customers through the direct purchase of asset-backed securities. Certain securitizations are able to rely on exemptions from the Investment Company Act other than those contained in Sections 3(c)(5) and 3(c)(7) of that Act, but many securitizations, such as ABS/CMBS Conduits, would be investment companies but for those exemptions and, as such, would meet the definition of a covered fund under the proposed rule. Precluding banking entities from engaging in activities that have long been recognized as permissible activities for banking entities, and that are vital to the normal functioning of the securitization markets, will have an extremely significant and negative impact on the securitization markets and on the ability of banking entities and other companies to provide credit to their customers.

Because Congress understood the important role that securitization plays in the provision of credit to consumers and companies, it included the securitization exclusion in the statute. If the definition of covered fund set out in the proposed rule is adopted in the final rule then the final rule will restrict the ability of banking entities to sell or securitize loans and the final rule will not give effect to the securitization exclusion.

The proposed rule suggests that the agencies consider themselves bound by the statute to treat all entities that rely on the exemptions contained in Sections 3(c)(5) and 3(c)(7) of the Investment Company Act as hedge funds or private equity funds. We believe that the agencies are not so bound and, in fact, could have defined hedge funds and private equity funds without reference to those exemptions at all. Under the statute, the terms hedge fund and private equity fund are defined to mean an issuer that would be an investment company under those exemptions or such similar funds as the agencies may, by rule, determine. The proposed rule suggests that the agencies interpreted an "or" in section (b)(2) of the statute as an "and," resulting in the overly broad definition of covered fund contained in the proposed rule. We believe that the agencies have the statutory flexibility to adopt a definition of hedge fund and private equity fund that encompasses only those entities that are recognized in the market place as such and that excludes entities, such as securitization vehicles, that are clearly distinguishable from hedge funds and private equity funds. In fact, the securitization exclusion explicitly directed the agencies to avoid adopting rules that would limit or restrict the ability of banking entities to sell or securitize loans.

32 See proposed rule at page 68897: "The proposed rule follows the scope of the statutory definition by covering an issuer only if it would be an investment company, as defined in the Investment Company Act, but for section 3(c)(5) or 3(c)(7) of that Act."
As is true for collateralized loan obligations, the loan securitization exemption is too narrow to be of sufficient value in the broader securitization context as it applies only to issuers of asset-backed securities whose assets are solely composed of "loans" and certain other assets. This fails to recognize that securitization issuers commonly hold assets such as liquidity facilities, credit enhancement, and highly liquid investments or cash in their collection accounts. Notably, it also appears that the agencies are interpreting the definition of "loan" quite narrowly, as the preamble indicates that the agencies do not view that definition to include asset-backed securities. However, securitization vehicles routinely purchase asset-backed securities and other financial interests that have long been viewed by banking entities and the agencies as simply an alternative means by which banking entities provide financing to their customers.

The risk retention exemption also has been drafted too narrowly to be of use in implementing the securitization exclusion, as it limits the amount of a firm's interest to the minimum risk retention requirements of new Section 15G of the Exchange Act and the rules adopted thereunder (the "Risk Retention Rules"). However, the Risk Retention Rules acknowledge that a securitizer may be required to retain risk in excess of the minimum specified in those rules due to the demand of investors, other rules (including Article 122a of the European Union Capital Requirements Directive), or in order to avoid breaching the minimum risk retention rules due to fluctuations in the underlying asset pool.

Furthermore, even if an entity is able to rely on the loan securitization exemption or the risk retention exemption as they appear in the proposed rule, a firm that sponsors, manages, or advises a securitization issuer would be prohibited by the so-called Super 23A provisions set out in Section 16 of the proposed rule from entering into "covered transactions" with that issuer. That would prevent many banking entities from providing the liquidity facilities and credit enhancement that investors in the asset-backed securities require. If such enhancements are not provided, the securitization simply is not viable. The end result of all of these provisions is that the sale and securitizations of loans will have been limited or restricted by the rules that give effect to the statute, contrary to the clear intent of the securitization exclusion.

While we recognize that the agencies could retain the loan securitization exemption and the risk retention exemption and attempt to revise those exemptions to address concerns raised by participants in the securitization markets, we believe that it would be extremely difficult to modify those provisions in a way that would give full effect to the securitization exclusion. The FSOC Study clearly recommended that the agencies carefully evaluate the range of funds

We note that we are not providing the agencies with an exhaustive list of all problems that the proposed rule poses to securitization vehicles, as we believe that the most efficient and effective way for the agencies to address these problems is to exclude securitization vehicles from the definition of covered funds. For a more complete list of securitization-related issues, the agencies should refer to comment letters drafted by various industry groups, in particular, the comment letters submitted by the American Securitization Forum and SIFMA with respect to Volcker Rule provisions that impact securitizations.

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and other vehicles that rely on the exclusions contained in Section 3(c)(1) or 3(c)(7) of the Investment Company Act. We encourage the agencies to revisit the approach taken in the proposed rule to ensure that the approach taken in the final rule does not inadvertently limit the availability of credit by unnecessarily and inappropriately limiting the ability of banking entities to engage in securitization activities.

H. Repurchase and Reverse Repurchase Agreements

We agree repurchase or reverse repurchase agreements should not be considered trading account instruments. We also agree with the statement that, in substance, such transactions operate much like a secured loan, and are not based on expected or anticipated movements in asset prices. However, we believe that the proposed rule should have gone further and extended the treatment given to repurchase and reverse repurchase agreements to all transactions that a firm can reasonably demonstrate are not based on expected or anticipated movements in asset prices and that, notwithstanding their legal characterization, operate in economic substance as a financing transaction.

Several types of transactions with legal characteristics that distinguish them from loans are analogous to extensions of credit and are not based on expected or anticipated movements in asset prices. Total rate of return swaps where the firm is fully hedged by holding the asset that is the subject of the swap is an example. In such trades, the economic interest of the firm is limited to the value of a financing leg that is typically a floating rate of interest plus a spread. A foreign exchange swap is a further example. As the Department of the Treasury noted in its proposed Determination of Foreign Exchange Swaps and Foreign Exchange Forwards under the Commodity Exchange Act (the "proposed FX determination") foreign exchange swaps are "predominantly used as short-term funding instruments similar to repurchase agreements". Although the proposed FX determination treats them differently, precisely the same can be said for currency swaps. Currency swaps are currently the primary source of U.S. dollar funding for European entities that fund naturally in euro but also have a need for U.S. dollars to fund their operations. Given the current economic crisis in Europe, many of such entities are unable to access the U.S. dollar-denominated commercial paper market and the currency swap market (also referred to in this context as the basis swap market) has become the funding source of last resort. Importantly, a determination that these

34 Although the proposed FX determination treats them differently, foreign exchange swaps and currency swaps are not materially different in this respect. Both are, in essence, funding transactions. Currently, it is market practice to structure these funding transactions as currency swaps.
types of transactions are not subject to the Volcker Rule’s prohibitions would not affect their status under, for example, the securities laws or the Commodity Exchange Act. Total rate of return swaps transactions and currency swap transactions would remain heavily regulated as security-based swaps and swaps, respectively. Foreign exchange swaps would remain subject to the CFTC’s new trade-reporting requirements, enhanced anti-evasion authority, and strengthened business-conduct standards for swaps dealers and major swap participants.

I. The Statute’s Exceptions Apply to All Activities It Covers

We support the letter submitted by three law firms, which makes clear that all exceptions contained in the statute unambiguously apply to all types of conduct covered by the statute, whether it be trading or fund ownership.44

This point is important. For example, as we note above, many structured finance vehicles rely on the exceptions contained in sections 3(c)(1) and 3(c)(7) of the Investment Company Act and, as such, would be covered funds as that term is presently defined in the proposed rule. As the proposed rule is presently structured, the market-making permitted activity affords an exemption from the prohibition against proprietary trading, but affords no exemption from the prohibition against acquiring or retaining an ownership interest in covered funds. As a result, we would be unable to engage in customer-driven underwriting and market making activity with respect to assets such as collateralized loan obligation equity, European exchange-traded fund securities and securities issued by U.S.-exchange traded funds that are commodity pools.

J. Compliance Program

We support the clear statements in the proposed rule permitting a banking entity to establish a compliance program on an enterprise-wide basis when practical.45 We believe that coordination—and, when appropriate, consistency—across trading units will be essential to the effective and efficient implementation of a compliance program on this scale. As currently proposed, however, the non-metric aspects of the compliance program are too granular, would be unnecessarily duplicative, and would disrupt trading activities. The proposed rule should be revised to permit greater flexibility in the level of the organization at which certain policies and procedures are implemented. We see limited benefit to implementing and maintaining separate written policies and procedures for each trading unit, and believe that it will be counterproductive for policies and procedures to be so granular. Indeed, this manner of documentation and maintenance will likely reduce the clarity and


45 Unless specifically stated, our comments on the compliance requirements focus on the non-metric aspects of the enhanced program required under Section 202(c)(1) of the proposed rule.
accuracy of the message to traders, and increase the likelihood of unintended inconsistencies between the numerous, duplicative compliance framework documents.

More specifically, the proposed rule's inflexible requirement that certain policies and procedures exist for each trading unit will ultimately detract from banking entities' ability to maintain a coordinated, organization-wide compliance program for at least three reasons. First, our experience suggests that it is counterproductive to implement policies or procedures on such a granular level because it creates a false, and potentially hazardous, implication that the policies or procedures in question cover every possible scenario that may be encountered by a trading unit and therefore can be relied upon as an all-inclusive "checklist." Because no policy or procedure can anticipate or address every situation that may create an opportunity for misconduct, policies and procedures should be drafted with some level of generality to take account of the unexpected and ensure that traders consult with their internal compliance officers when fact-specific questions arise.

Second, the proposed rule's policy and procedure framework encourages box-checking for each trading unit, rather than internal compliance best practices that are refined and enhanced over time. If there is uniformity and consistency across trading units from a compliance perspective—as there will be among many closely-related trading units—those units would benefit from consolidated policies and procedures. This promotes, for example, trading units replicating lessons learned by one another in a developing compliance program. As long as they cover all employees in applicable trading units, the level at which these policies are implemented should be left to the discretion of the banking entity with those policies and procedures subject to ongoing review by the Board.

Finally, the proposed rule's requirement that policies and procedures be implemented on a trading unit level will broadly disrupt trading activities given the extensive work required of business management in documenting and maintaining policies that meaningfully reflect each trading unit's business and each trader's book. For this reason, the proposed rule's granular implementation and information requirements also threaten to conflate the distinct roles of business management and compliance in a manner that undermines the essential independence of the compliance function and detracts from the core mission of that function.

III. Funds and Asset Management Activities

J.P. Morgan Asset Management ("JPMAM"), with assets under supervision of approximately $1.9 trillion and assets under management of approximately $1.3 trillion (as of December 31, 2011), is a global leader in investment management. JPMAM’s customers include institutions, retail investors and high-net worth individuals in every major market throughout the world. JPMAM offers investment management services globally, including in equities, fixed income, real assets, alternatives and liquidity products.

Below, we highlight three significant concerns with the proposed rule: (1) the impact on our asset management business of the definitions of "covered fund" and "banking entity" as they
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relate to JPMAM and other U.S. institutions' foreign funds and asset management activities outside the United States; (2) the potential negative impact on corporate bonds held by our customers; and (3) limitations on the ability of banking entities, like JPMorgan, to continue to make investments through funds that are designed to promote the public welfare both in and outside the United States.

A. Foreign Funds

The Volcker Rule prohibits banking entities from acquiring or retaining an ownership interest in, or sponsoring, hedge funds or private equity funds. The Volcker Rule generally defines “hedge funds” and “private equity funds” as issuers that would be investment companies, as defined in the Investment Company Act of 1940 (the “Investment Company Act”), but for Section 3(c)(1) or 3(c)(7) of the Investment Company Act. The Volcker Rule also permits the agencies, in their discretion, to designate as “covered funds” additional funds that are “similar” to “hedge funds” and “private equity funds” such that they would be covered by the Volcker Rule’s limitations. Pursuant to this authority, the agencies have expanded the definition of covered fund in the proposed rule to include “[any issuer, as defined in section 2(a)(22) of the [Investment Company Act], that is organized or offered outside of the United States that would be a covered fund as defined in (Section _) of the [Investment Company Act], (such provision, the “Foreign Funds Designation”).”

1. Foreign Funds as “Covered Funds”

As currently drafted, the Foreign Funds Designation could be read to require banking entities to engage in two inquiries: first, were the foreign fund hypothetically organized in the United States, would it need to rely on Section 3(c)(1) or 3(c)(7) and second, were the foreign fund

42 This section of our letter specifically addresses (1) Questions 214 and 225 in the preamble to the proposed rule requesting comment on whether entities are captured by the proposed definition of covered fund that do not appear to be appropriate and whether the designation of certain foreign funds under Section _.I0(b)(1)(i), (ii) or (iv) of the proposed rule, were it organized or offered under the laws, or offered to one or more residents, of the United States or of one or more States . . . (such provision, the “Foreign Funds Designation”).

43 This section of our letter specifically addresses Question 276 in the preamble to the proposed rule requesting comment on whether the proposed rule effectively implements the public welfare investment exemption under the Volcker Rule.


46 Section _.10(b)(1)(i) of the proposed rule.
hypothetically offered to U.S. residents, would it need to rely on Section 3(c)(1) or 3(c)(7). Under one plausible reading, an affirmative answer to either of these inquiries would result in the foreign fund being a "covered fund." The first inquiry is problematic because it requires banking entities to analyze their foreign funds through the lens of the Investment Company Act. This is a potentially impossible inquiry because foreign funds, even regulated and publicly offered foreign funds, such as E.U.-based UCITS, are structured to comply with their own home-country regulatory schemes that may not be consistent with the requirements of the Investment Company Act that would permit such funds to satisfy either the registration requirement under the Investment Company Act or a Investment Company Act registration exemption, other than Section 3(c)(1) or 3(c)(7). Even if a foreign fund theoretically were able to conclude that, if it were organized in the United States, it would not need to rely on Section 3(c)(1) or 3(c)(7), the second inquiry could be read to capture virtually all regulated and publicly offered foreign funds because the Investment Company Act prohibits a foreign-organized fund from making a public offering in the United States without the SEC's approval. Such a foreign fund, by administrative interpretation, is permitted to use the jurisdictional means of the United States to make an offering to U.S. residents only if it complies with the limitations set forth in Section 3(c)(1) or 3(c)(7), as if it were organized in the United States. Consequently, as currently drafted, the Foreign Funds Designation could be read to designate virtually all foreign funds, even regulated and publicly offered foreign funds, as covered funds.

2. Application to JPMAM: Statutory Definition; Intent of Congress; Intent of the Agencies

JPMAM offers registered mutual funds and other fund products in the United States as well as analogous funds outside the United States (such as UCITS). Indeed, JPMAM offers nearly 800 funds in Europe, Latin America and Asia, with nearly $300 billion in assets under management, the great majority of which are funds that are similar to U.S. mutual funds. For example, JPMAM is the largest sponsor of Luxembourg-based UCITS, with approximately 300 funds and $240 billion of assets under management, and the largest sponsor of U.K. investment trusts, with more than 22 funds and approximately $10 billion of assets under management. Those two categories (UCITS and UK Investment Trusts) account for more than 80% of JPMAM's assets under management in foreign funds. Revenues associated with those foreign fund operations are significant contributors to JPMAM's overall success. Under the Volcker Rule and the proposed rule, JPMAM's U.S. mutual fund complex would not be covered by the Volcker Rule because those funds are registered pursuant to the Investment Company Act and, thus, are not within the definition of covered fund. However, as discussed above, virtually all of JPMAM's publicly offered foreign funds that are subject to a non-U.S. regulatory scheme, including UCITS, are at risk of being deemed to be covered.

41 Undertaking for Collective Investment in Transferable Securities.
funds under one plausible reading of the proposed rule, notwithstanding that those foreign funds are, in many cases, mirror images of their counterparts in the United States, and are neither "similar" to funds that must rely on either Section 3(c)(1) or 3(c)(7) nor resemble traditional hedge funds or private equity funds. In light of this potential result and other considerations, JPMAM believes that, unless clarified, the proposed rule's treatment of foreign funds is not consistent with the statute, Congressional intent or the recommendations made by the FSOC on the Volcker Rule. 50

It is clear from the statute that the agencies are authorized to expand the statutory definition of covered fund only to capture funds that are "similar" to hedge funds or private equity funds of the type described in Section 3(c)(1) or 3(c)(7) (i.e., funds that, among other things, must rely on Section 3(c)(1) or 3(c)(7) of the Investment Company Act, and, therefore, by definition, cannot engage in a public offering). A similar fund, therefore, should be one that, at the very least, is both unregulated and privately placed. Hedge funds and private equity funds as commonly understood also typically do not provide frequent liquidity for investors (redemptions are often subject to lock-up periods and lengthy notice periods prior to redemption). Funds that provide for regular liquidity to investors, in our view, are not similar to traditional hedge funds and private equity funds. Given the nature of the statutory direction to cover only similar funds, we believe that the current treatment of foreign funds may not have been the result intended by the agencies in drafting the Foreign Funds Designation.

We believe that the agencies intended the Foreign Funds Designation to capture traditional hedge funds and private equity funds that are organized or offered outside the United States (and thus do not need to rely on Section 3(c)(1) or 3(c)(7) of the Investment Company Act). Indeed, the preamble to the proposed rule states that the Foreign Funds Designation was "proposed to include as 'similar funds' ... the foreign equivalent of any entity identified as a 'covered fund' ... (because) they are generally managed and structured similar to a covered fund. 51 Congress intended to restrict banking entities from retaining ownership interests in traditional hedge funds and private equity funds (see Himes-Frank Colloquy, 111 Cong. Rec. H6326 (daily ed. June 30, 2010) (statement of Reps. Himes and Frank)). The FSOC recommended that the agencies expand the coverage of the Volcker Rule to funds that "engage in the activities or have the characteristics of a traditional private equity fund or hedge fund." See FSOC Study at 62 (emphasis added). 52 Because the statutory text of the Volcker Rule relies on the Section 3(c)(1) and 3(c)(7) exemptions in the Investment Company Act to define "hedge funds" and "private equity funds," funds that are not required (or able) to register under the Investment Company Act, because, for example, they are organized and offered outside the United States and do not use U.S. jurisdictional means, would appear not to be covered by the Volcker Rule even if these funds were the foreign equivalents of traditional hedge funds and private equity funds. Coverage of the Volcker Rule, in fact, should apply comparably to equivalent U.S. hedge funds and private equity funds and non-U.S. hedge funds and private equity funds. As discussed above, we believe that in order to apply this principle of equivalent treatment, however, the definition of covered fund in the proposed rule needs to be modified.

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Although we agree that the definition of "covered fund" should include traditional hedge funds and private equity funds organized or offered outside the United States, the Foreign Funds Designation, as currently drafted, could be read to capture foreign funds that are not the "foreign equivalent" of covered funds and are not "managed and structured similar to a covered fund." The Foreign Funds Designation should set forth clear and objective criteria that investment management firms, like JPMAM, can apply to their range of foreign funds to determine, with efficiency and certainty, whether any of their foreign funds are covered funds.

3. Recommendation

Capturing the foreign equivalents of hedge funds and private equity funds as commonly understood does not require the Foreign Funds Designation to be structured in the manner proposed. The proposed draft of the Foreign Funds Designation could be corrected most simply by exempting from the definition of covered fund any foreign fund that is publicly offered because, as noted above, a publicly offered fund is not similar to a traditional hedge fund or private equity fund and could not, by definition, rely on Section 3(c)(7) of the Investment Company Act if it were offered in the United States. In the event the agencies do not find this simple solution acceptable, JPMAM recommends that the agencies adopt a more tailored approach to the Foreign Funds Designation designed to capture hedge funds and private equity funds as commonly understood and to treat analogous U.S. and foreign funds similarly. Such an approach should allow JPMAM and other U.S. financial institutions to continue to offer regulated and publicly offered funds outside the United States, as they currently do, and to compete in this business with other international U.S. and non-U.S. asset management firms. Below, we have proposed a revision of the Foreign Funds Designation that, we believe, accomplishes this goal.

In order to implement the clear statutory language of the Volcker Rule and the intent of Congress, we believe Section 10(b)(1)(iii) of the proposed rule should be modified to read as follows:

"(iii) Any issuer, as defined in section 2(a)(22) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(22)), that satisfies each of the following conditions:

51 See proposed rule at page 68897.
52 See proposed rule at page 68849.

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(A) The issuer is an investment company, as defined in the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(B) The issuer is organized outside the United States and ownership interests in the issuer are offered outside the United States;

(C) If the issuer were organized in the United States but not registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.), and ownership interests in the issuer were offered in the United States, the issuer would not be able to rely on any exemption from registration other than Section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 (15 U.S.C. 80a-3(c)(1) or (7));

(D) The issuer cannot satisfy each of the following criteria:

1. The issuer is registered pursuant to, or regulated under, the laws of a qualified jurisdiction; 4

2. Ownership interests in the issuer were sold in a public offering or series of related public offerings 5 in one or more qualified jurisdictions, or the issuer is being organized for the purpose of selling its ownership interests in a public offering or a series of related public offerings in one or more qualified jurisdictions, provided that no offering will be considered a "public offering" pursuant to this clause (2) if: (i) such offering could be made pursuant to Section 4(2) of the Securities Act of 1933 (15 U.S.C. 77d(2)) if it were conducted in the United States; or (ii) the ownership interests sold in such offering or series of related offerings are listed on one or more securities exchanges.

Section 3 of the proposed rule would be amended to include a new definition for "qualified jurisdiction," as follows:

1. Qualified jurisdiction means:
   (i) Any jurisdiction in which a designated offshore securities market, as defined in Regulation S, exists;
   (ii) Any jurisdiction that has a securities commission that has entered into a bilateral Memorandum of Understanding directly with the SEC regarding enforcement cooperation;
   (iii) Any jurisdiction that has a securities commission that is a signatory to the International Organization of Securities Commissions Multilateral Memorandum of Understanding; and
   (iv) Any other jurisdiction designated as a "qualified jurisdiction" by the Board, in consultation with the other federal banking agencies, the SEC, and the CFTC.

We believe it is appropriate to reference the standard for public offering in the jurisdiction of the offering, recognizing that the U.S. standard may not fit within the legal framework in some jurisdictions outside the United States. Our proposed rule does not use the U.S. standard for a private offering under Section 4(2) of the Securities Act of 1933 in order to define what would not be a public offering. This, along with the requirement that the offering be conducted pursuant to the laws of a qualified jurisdiction, should allow any concerns the agencies may have regarding the offering standards for foreign funds that would not be covered funds.
exchanges and less than 50 percent of the ownership interests in the issuer were sold in such offerings, and

(3) (i) The issuer provides at least weekly liquidity to its investors and calculates, at least weekly, a net asset value, or its equivalent, which is made available to current and potential investors; or (ii) ownership interests in the issuer are listed on a securities exchange regulated pursuant to the laws of a qualified jurisdiction;

; and

(E) Substantially all of the ownership interests in the issuer are not sold to another issuer that is not a covered fund.

In addition, with respect to monitoring and enforcement, we have considered what compliance program and recordkeeping requirements could be implemented to ensure that the agencies have a view into banking entities' foreign fund activities in order to monitor compliance with our proposal. We propose that the agencies amend Appendix C, Section II of the proposed rule by adding a new Subsection C, which we set forth in Appendix A to this letter.

4. Advantages

Our recommendation has several advantages over the Foreign Funds Designation, as currently drafted. First, we believe that the set of characteristics described under subparagraph D are key features of regulated and publicly offered foreign funds that could not be satisfied by a traditional hedge fund or private equity fund—a fund with those characteristics could not rely on Section 3(c)(1) or 3(c)(7) of the Investment Company Act if it were organized in the United States. This approach will give the proposed rule sufficient breadth to cover any foreign funds that are truly hedge funds or private equity funds, while allowing banking entities to continue to offer traditional asset management products to their customers outside the United States. As a result, for purposes of coverage under the Volcker Rule, analogous U.S. and foreign funds would be treated comparably.

Second, the modification is fully consistent with the discretion given to the agencies on the face of the statute to determine whether, and how, to designate "similar funds," and does not

36 Our proposed requirement that at least 50 percent of the ownership interests in a listed fund be sold in a public offering or series of related offerings is designed to prevent a banking entity from using a nominal listing to satisfy the "listing requirement.

37 Subsection E is intended to allow banking entities to continue to sponsor funds that are part of a 'fund of funds' structure. Some PFAMAM funds are organized to be sold almost exclusively through a fund of funds structure, and these funds typically could not meet the public offering criteria of Section 3(c)(7)(B)(iv) of our proposed definition. These funds would be "covered funds" even though they are being sold almost exclusively through a fund of funds that is not a covered fund.
require the agencies to rely on Section 13(a)(1)(A) of the BHC Act, which authorizes the agencies to exempt activities from the limitations of the Volcker Rule that would promote and protect the safety and soundness of the banking entity and the financial stability of the United States.\textsuperscript{8} Rather than create exceptions to an overbroad definition, we believe the better approach is to craft a more tailored, yet still robust, definition of covered fund and to address any concerns regarding gaps if, and when, they are identified.\textsuperscript{26} The agencies will retain the ability to amend the definition of covered fund and to designate additional "similar" funds as covered funds and, if necessary, could also pursue anti-elusion actions pursuant to the statute.

Finally, this approach ensures that funds that will not be covered by the Volcker Rule are subject to an acceptable level of regulation. To that end, our recommendation provides that a foreign issuer that is not covered by the Volcker Rule be regulated under the laws of a "qualified jurisdiction." Although the agencies could define qualified jurisdiction using any criteria they deem appropriate, we recommend that the agencies define qualified jurisdiction as follows: (1) any jurisdiction in which a designated offshore securities market, as defined in Regulation S, exists;\textsuperscript{50} (2) any jurisdiction that has a securities commission that has entered into a bilateral Memorandum of Understanding directly with the SEC regarding enforcement cooperation; (3) any jurisdiction that has a securities commission that is a signatory to the International Organization of Securities Commissions Multilateral Memorandum of Understanding\textsuperscript{61}; and (4) any other jurisdiction so designated by the Board, in consultation.

\textsuperscript{8} Although Question 223 in the preamble to the proposed rule suggests Section 13(a)(1)(A) might be used to address issues of overbreadth, and although we support the use of Section 13(a)(1)(A) when appropriate, use of this authority is not necessary or appropriate in this context.

\textsuperscript{26} Question 223 also suggests defining a covered fund by determining whether a fund satisfies any one of a list of characteristics. Given the broad list of characteristics identified in the question and the fact that the agencies suggested that meeting one of the characteristics would make a fund a "covered fund," we believe that such an approach, as proposed, would have a similar overbroad effect of covering funds that are not similar to traditional hedge funds or private equity funds. For example, "securities and other assets short" was listed in Question 223 as one of the hedge fund and private equity fund characteristics. Many registered U.S. mutual funds, including several funds advised by JPMAM, engage in some shorting strategies as a component of the fund's overall strategy (e.g., long-short funds and 130/30 funds). Although registered mutual funds that employ shorting strategies do not meet many of the other characteristics listed and, of course, are not "traditional" hedge funds and private equity funds, Question 223 seems to suggest that they would be "covered funds."

\textsuperscript{50} Rule 902(b) of Regulation S (17 C.F.R. § 230.902(b)). Attributes considered by the SEC in determining which foreign securities markets are designated include: organization under foreign law, association with a generally recognized community of brokers, dealers, banks, or other professional intermediaries with an established operating history, oversight by a governmental or self-regulatory body, oversight standards set by an existing body of law, reporting of securities transactions on a regular basis to a governmental or self-regulatory body, systems for exchange of price quotations through common communications media and an organized clearance and settlement system.\textsuperscript{44}

\textsuperscript{61} The International Organization of Securities Commissions ("IOSCO") is a multilateral (international) organization of securities regulators. IOSCO members have reached (among other things) (1) cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets; (2)
with the other federal banking agencies, the SEC, and the CFTC. Our recommended
approach to the definition of qualified jurisdiction references existing, objective standards that
would avoid the need to create new designations and would ensure the robustness of the
regulatory scheme applicable to foreign funds that are not covered by the Volcker Rule.66

5. Consequences

If the Foreign Funds Designation were not modified, in order to engage in the asset
management business internationally, JPMAM and other banking entities would need to
conform their non-U.S. activities with respect to funds that are not commonly understood to
be hedge funds or private equity funds to the limitations contained in the proposed rule. The
limitations in Section _11 (which include, among other things, limitations on name sharing,
ownership of interests in funds and employee investments in funds) and Section _16
(limitations on a banking entity’s entering into covered transactions with covered funds)
would impose significant costs on JPMAM and other banking entities, without any real
regulatory benefit. For example, the prohibition that a covered fund not share the same name
as the banking entity may, depending on the fund’s legal structure and applicable regulation,
require a shareholder vote and may, in fact, raise issues under applicable law in certain
jurisdictions that require the fund name to be clear and not misleading.66 The 3% per fund
ownership limit would need to be monitored by banking entities on a continuing basis
because many of the captured funds provide daily liquidity to investors. That requirement
will force banking entities to sell interests in funds that may be the equivalent of U.S. mutual
funds if, on a single day, the banking entity’s position exceeds the 3% limit solely because
other investors have redeemed. Furthermore, if the proposed rule were not modified, banking
entities could be required to deduct the amount of their interest in foreign funds from the
calculation of their Tier 1 capital.66 The prohibitions contained in Section _16 (the so-called
“Super 23A” provision) would force large fund complexes, like ours, to cease having an

exchange information on their respective experiences in order to promote the development of domestic
securities markets; (2) unite their efforts to establish standards and an effective surveillance of international
securities transactions; and (4) provide mutual assistance to promote the integrity of the markets by a rigorous
application of international standards and by effective enforcement against offenses. IOSCO’s “Objectives and
Principles of Innovation Regulation” is the benchmark standard for securities regulators and one of the twelve
key standards for financial stability as recognized by the Financial Stability Board (See U.S. Securities and
Exchange Commission, “SEC Participation in International Organizations”
http://www.sec.gov/about/offices/oia.shtml)

66 We also believe that such an approach would not implicate foreign policy considerations that, although within
the agencies’ authority to authorize, may be time consuming.

66 See, e.g., Regulation 15b9 of the U.K. Open End Investment Company Regulations. Among the factors that
the U.K. Financial Services Authority considers in determining whether a fund name is “unsuitable or misleading” is whether the fund name “might mislead investors into thinking that persons other than the
authorized fund manager are responsible for the authorized fund.”

66 Section _12(d) of the proposed rule.
affiliated entity serve as the fund's custodian or engage in principal trades on behalf of the fund, both of which services are permitted under non-U.S. law and, with respect to an affiliate providing custodial services to a fund, is also permitted under the Investment Company Act for JPMAM's U.S. mutual funds. The cumulative effect of these burdens and the long time period required to satisfy the Section _11 and Section _16 requirements could prevent JPMAM and other banking entities from launching new retail products in the existing fund families for a considerable time period after the Volcker Rule's effective date. Although banking entities have been on notice since July 2010 that traditional hedge funds and private equity funds would be subject to the Volcker Rule, it could not have been anticipated that regulated retail funds such as UCITS could become covered funds.

Even if it were possible to comply with the limitations and prohibitions mentioned above, those restrictions, and the additional costs associated with compliance, would place JPMAM at a competitive disadvantage to U.S. and non-U.S. asset managers that are not subject to the Volcker Rule and that are not required to modify their asset management businesses. We do not believe that this was the result intended by the agencies in formulating the Foreign Funds Designation and it was not the result intended by Congress.

6. Definition of “Banking Entity”

Under the Volcker Rule and the proposed rule, “banking entity” means, in relevant part, “any insured depository institution . . . . and any affiliate or subsidiary of such insured depository institution.” The terms “affiliate” and subsidiary” are defined by reference to the very broad definitions of those terms under the BHC Act.

In the preamble to the proposed rule, the agencies noted that mutual funds, including registered investment companies, are structured such that they are not affiliates or subsidiaries of banking entities under the BHC Act and thus, would not themselves be banking entities under the Volcker Rule. There is, however, no provision in the proposed rule that explicitly carves out mutual funds and other registered investment companies from the definition of banking entity. Question 8 inquires whether the agencies should make such an express exclusion from the definition of banking entity in the proposed rule.

Although we agree that, as a general matter, registered investment companies are not, and should not, be considered affiliates or subsidiaries of the banking entities that organize, sponsor, invest in, advise or manage them, we support the clarification of this point in the proposed rule. If such an approach were adopted, we recommend that the express exclusion be made broad enough to also exclude foreign funds that are analogous to registered investment companies. There is no regulatory reason that analogous U.S. and foreign funds

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65 Section 13(h)(1) of the BHC Act and Section .2(e) of the proposed rule, respectively.

66 See proposed rule at page 48856.
should be treated differently in this respect. We believe that the following modification to the definition of banking entity would be consistent with the agencies' proposition and would appropriately tailor the exclusion. Section 2(4) would read:

"(4) Any affiliate or subsidiary described in paragraph (1), (2), or (3) of this section, other than an affiliate or subsidiary that is:

(i) A covered fund that is organized, offered and held by a banking entity pursuant to §._11 and in accordance with the provisions of subpart C of this part, including the provisions governing relationships between a covered fund and a banking entity;

(ii) An entity that is controlled by a covered fund described in paragraph (eX4)(i) of this section; or

(iii) An issuer, as defined in section 2(a)(22) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(22)), that is

(A) A registered investment company under the Investment Company Act of 1940 (15 U.S.C. 80a-3); or

(B) Organized outside the United States and is not a covered fund pursuant to section 1002(b)(1)(ii).

We believe that this approach would address a concern we have raised throughout this letter regarding the equivalent treatment of U.S. and foreign funds. Our proposal is intended only to ensure that registered investment companies and foreign funds are not included in the definition of "banking entity" and does not discuss other concerns that the proposed definition of "banking entity" raises, which we expect other comment letters will address.

7. Conclusion Regarding Foreign Funds and Banking Entities

The foregoing is intended to bring attention to the effect that the Foreign Funds Designation and the proposed rule's definition of banking entity would have on the international asset management activities of U.S. banking entities, such as JPMAM. We know that other commenters, such as SIFMA of which we have been an active member, will raise similar concerns to those we have raised in this letter. SIFMA's approach to these concerns, which we generally support, may be broader than the tailored solutions we have recommended. To the extent that the agencies accept some or all of those broader recommendations, we believe such recommendations should apply to foreign funds to the extent appropriate. We also join in full support of SIFMA's positions on other aspects of the Volcker Rule that focus on the covered funds portion of the proposed rule.

46 This refers to Section 15b(1)(ii) of the proposed rule as revised pursuant to our recommendation above.
We firmly believe that any rulemaking by the agencies should reflect Congress' intent that the limitations of the Volcker Rule extend only to funds similar to traditional hedge funds and private equity funds because Congress would not have intended that analogous U.S. and foreign funds be treated differently. In addition to implementing that intent, we believe that the agencies should consider the economic and organizational impact of the proposed rule on both the U.S. and non-U.S. operations of banking entities and weigh that against discernible regulatory benefits. We believe that the aspects of the proposed rule discussed in this letter would have negative economic and organizational effects on the international asset management activities of U.S. banking entities, including JPMAM, with little regulatory benefit. We believe our tailored recommendations would minimize negative impacts while ensuring a robust regulatory scheme that is consistent with the statute and Congress' intent.

B. Corporate Bonds

JPMAM oversees more than $800 billion in fixed income assets on behalf of its customers. Given our active presence on behalf of our customers in the fixed income markets, we are concerned that the proposed rule, as currently drafted, could reduce the value of our customers' current investments in corporate bonds and inhibit our customers' ability to access the corporate bond market in the future. While we have described these concerns from the perspective of JPMorgan’s market makers above, we believe it is important to highlight the serious concerns we have regarding the effect of the proposed rule from the perspective of our asset management business. We focus in particular on the impact on the corporate bond market.

1. The Corporate Bond Market

Corporate bonds are inherently less liquid than equities because corporate bonds are traded over the counter (that is, directly between two parties, rather than through an exchange). Moreover, issuers of corporate bonds often have multiple bond issues outstanding with smaller or older issues (which are often described as “off-the-run”) having less liquidity than more recent or larger issues (which are often described as “on-the-run”), which have greater liquidity.

Liquidity in the corporate bond market has generally declined since 2007, with trading becoming increasingly concentrated in a smaller number of issuers over this time period.

68 From January 1, 2011 to September 30, 2011, approximately 5% of the total number of issues in the U.S. investment grade corporate bond universe accounted for 50% of trading volume according to MarkIt data. Trading has also increasingly focused on larger issues. In the first three quarters of 2011, turnover (on an annualized basis) in issues greater than $1 billion was approximately 5.6x in 2006. By contrast, turnover in issues between $1 billion and $5 billion has declined from approximately 6.6x in 2006 to approximately 5.6x in the first three quarters of 2011. Similar trends were also observed in issues sizes of $500-$750 billion and $750 million to $1 billion (Barclays Capital, U.S. Credit Alpha, November 18, 2011, at 6, Figure 5). Trading volume in older securities has shown a similar pattern of decline (Id. at 7, Figure 7).
Our customers' portfolios include both on-the-run and off-the-run securities, and, as a result of decreased liquidity, our customers have experienced increased transaction costs associated with purchases or sales in all issues. Maturity restrictions, investor preferences and transaction costs make it impractical and often impossible for customers to concentrate their holdings only in on-the-run issues and simply holding the off-the-run investments to maturity may not be possible for some customers who may need to sell off-the-run issues based on, for example, cash flow requirements, pension obligations or asset allocation shifts.

As market makers, securities dealers facilitate trading in both on-the-run and off-the-run corporate bond issues, among other securities, by standing ready to buy and sell. In a very liquid market, such as equity securities, market makers are able to sell securities they buy, and buy securities they need to sell, quickly and easily. Corporate bond markets and fixed income markets in general are by their nature (e.g., multiple different issues from a single issuer) less liquid than other markets, and market makers therefore must buy and hold securities in their inventory longer than in other markets. Thus, the market for off-the-run issues has led market makers to hold securities in their inventory for longer time periods.

2. Restrictions on Market Making

Unless the final rule very clearly permits the type of inventory management activity that we describe above, market makers simply will not be able to provide the type of intermediation services that underpin certain sectors of the corporate bond market. A restrictive approach to inventory holding periods, in combination with the uncertainty associated with the phrase "reasonably expected near term demands" would, we believe, significantly decrease the liquidity of the corporate bond market because it would result in market makers being less willing to transact in securities that they are not confident they can dispose of quickly. The situation is only worsened by the requirement in the proposed rule that market making activities be "designed to generate revenues from fees, commissions, bid/ask spreads or other income not attributable to appreciation in the value of covered financial positions it holds..." Given the sometimes significant holding periods for less liquid issues in the corporate bond market, market makers often do generate revenues based on the appreciation in value of a security.

3. Restrictions in the Context of other Regulatory Developments

The effective date of the Volcker Rule coincides with the implementation of other regulatory measures that may also reduce liquidity in the corporate bond market. Specifically, Basel III risk-weighted asset calculations will change the economics of positioning corporate bond inventories. Additionally, for European banks which may be evaluating the risk-weighted asset impact of selected capital markets activities in connection with meeting the European Bank Association’s capital requirements based on "Basel II.5" calculations, the requirement to comply with the Volcker Rule when trading with U.S. counterparties outside of the United

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States could be significant enough to support a decision to reduce their market-making activities. Fewer active market makers will further pressure the pricing and liquidity of corporate bonds. In light of this, we think it is important that the proposed rule be modified so that it does not exacerbate the pressure on the liquidity of this market.

4. Effect on Our Customers

We believe that the proposed rule, if not modified, will result in significantly decreased liquidity in the corporate bond market for our customers and other institutional and individual investors. This markedly lower level of liquidity will result in an immediate negative impact to the value of securities currently held by investors, based on the liquidity premium, and will result in increased transaction costs for future transactions in these securities. In revising the proposed rule, we urge the agencies to consider the impact of the proposed rule on investors in less liquid markets, such as corporate bonds, who rely on market makers to ensure an available, functioning market.

C. Public Welfare Investments Abroad

We believe it is important that the proposed rule treat analogous U.S. and non-U.S. activities and investments similarly. The proposed rule implements the statutory exemptions from the restrictions of the Volcker Rule with respect to investments in small business investment companies ("SBICs"), investments "designed primarily to promote the public welfare, of the type permitted under [12 U.S.C. § 24(Eleventh)], and certain investments that are qualified rehabilitation expenditures." We urge the agencies to clarify in the final rules that the exemption also extends to those investments "of the type permitted under [12 U.S.C. § 24(Eleventh)]" made outside the United States, including through U.S. and non-U.S. funds.

A recent study by Oliver Wyman has estimated that investors could suffer a $90-315 billion write-down from an increased repricing of the liquidity premium, as well as an additional $1-4 billion of higher transaction costs going forward (Oliver Wyman, Volcker Impact Analysis, December 11, 2011).
1. Impact Investing

Many banking entities, including J.P. Morgan, have developed investment strategies to assist in the market of impact investing— that is, investing with the intent to generate a reasonable rate of financial return, while also benefitting low- and moderate income communities both in the United States and around the world. Although the emergence and growth of the impact investment market is a worldwide trend, currently, a majority of the investable opportunities lie in the emerging markets. U.S. governmental agencies, including U.S. Agency for International Development and the Overseas Private Investment Corporation, support those efforts, recognizing that such overseas impact investments help advance U.S. foreign policy interests and promote international development.

2. Clarification Needed

We believe that the proper implementation of the statutory text, and indeed the proper interpretation of the proposed rule, requires that the exemption for public welfare investments extend to such investments made outside the United States. The statutory and regulatory phrasing, "of the type," conveys that this exemption should be interpreted broadly and that 12 U.S.C. § 24(Eleventh) merely provides an example of, but does not circumscribe, the type of investments permitted under this exemption. As Senator Merkley noted, the exemption "is flexible enough to permit the regulators to include other similar low-risk investments with a public welfare purpose." A contrary reading would make the words "of the type" superfluous. We believe the agencies should confirm this interpretation in the final rules and make clear that the reference to 12 U.S.C. § 24 is not intended to limit permissible public welfare investments to investments in the United States.

A banking entity should be permitted to conduct impact investing outside the United States through funds, so long as the banking entity can demonstrate that such investments made by the fund advance a public welfare purpose "of the type" (i.e., analogous to) investments permitted by 12 U.S.C. § 24(Eleventh). We believe this interpretation is required by the statutory text and is consistent with congressional intent, and we suggest the agencies make this clear in the final rules.

IV. Asset-Liability Management

A. Asset-Liability Management is a Foundation of Safety and Soundness

For large, complex banking institutions, asset-liability management ("ALM") is one of the foundations of bank safety and soundness and is integral to the stability of the U.S. and global financial systems.

Indeed, the growing regulatory focus on stress tests for large banking institutions, including JPMorgan, such as the Comprehensive Capital Analysis and Review process, clearly demonstrates the central importance of a prudent and well-managed ALM function. If stress tests are designed to diagnose potential safety and soundness problems in the event of potential market or economic shocks, prompt ALM actions are required as the prescription for limiting the risks that stress testing identifies.

In its study on the Volcker Rule, the FSOC recognized the importance of these issues and clearly concluded that the Volcker Rule should not prohibit ALM activities. In its guidance, the FSOC stated: "All commercial banks, regardless of size, conduct ALM that helps the institution manage to a desired interest rate and liquidity risk profile. This study recognizes that ALM activities are clearly intended to be permitted activities, and are an important risk mitigation tool." 51

The proposed rule, however, expands the scope of the Dodd-Frank Act and therefore brings within its prohibitions ALM activities that are important aids to safety and soundness. Oddly, while the FSOC study recommended an exemption that included both asset-liability and liquidity risk management, for much the same reasons, the proposed rule included only the latter. The result is that the proposed rule seems to have been written with traditional dealer and market-making trading activity in mind, and creates serious problems for legitimate ALM activity.

As currently structured, many ALM activities should be permissible under the proposed rule, because they pass the purpose test and would not be booked in a "market risk capital trading" book. Another group of ALM activities will be permissible to the extent they fall within the exclusion provided in the proposed rule for "bona fide liquidity management" activities—although, as discussed further below, liquidity management is only one small part of a banking institution's overall ALM activities, and the exclusion is too narrow in scope and restrictive in operation that it would not even permit many bona fide liquidity management activities, thus making the exclusion unworkable even for this narrow subset of ALM activities. Finally, while some ALM activities may be permitted by the proposed rule under its exception for "risk-mitigating hedging" activities, many legitimate, useful ALM activities will not, because that exception, as noted above, does not appear to have been drafted with ALM in mind, is subject to too many restrictive conditions, and is thus too narrow. Accordingly, while certain ALM activities will be permissible, equally valid ALM activities—although they are not speculative in nature, or entered into principally for "the purpose of near term resale or otherwise with the intent to resell in order to profit from short-term price movements"—could nonetheless be deemed, or even presumed to be, prohibited proprietary trading.

We believe that the final rule should provide for an explicit exclusion for ALM activities, which would be broad enough to include the proper range of liquidity management activities. Like the current exclusion for liquidity management activities, the inclusion for bona fide

51 See FSOC Study at page 47.
ALM activities would be conditioned on appropriate requirements that ensure such activities will not be used to evade the statutory prohibition on proprietary trading.

B. Many ALM Activities Would be Captured by the Definition of Trading Account

While many securities utilized in asset-liability management are accounted for as available-for-sale ("AFS") securities, many other traditional and long-established ALM activities often involve the use of instruments that would be required to be accounted for in the market risk capital trading account of the entity, thereby meeting the market risk capital test of the proposed rule. In addition, some of these ALM activities may require, in order to manage the relevant risks effectively, the exiting of a position within 60 days, thereby falling within the purpose test of the proposed rule.

The need to exit positions quickly arises because the structural risks of the firm are constantly changing due to the dynamic nature of the asset and liability flows and the impact of changing interest rates. The change in market value sensitivity (or "drift") of certain assets and liabilities requires continuous hedging of the structural risk book, which is often best managed through the use of securities or derivatives accounted for in the market risk capital trading account, or by entering and exiting a position within 60 days. Thus, unless the banking entity were able to determine that the risk mitigating exemption or the liquidity management exclusion applied, these activities would be deemed—or even presumed to be—proprietary trading. For example:

- One of the most traditional roles of the ALM function is to manage the banking entity’s earnings at risk—that is, the risk that changes in interest rates will affect in different ways the value of the firm’s liabilities and assets, such as its deposits and loan portfolio. Banking entities must also manage the mismatches in the maturity profiles of their assets and liabilities, and generally do so through use of their investment securities portfolio, thereby adding more assets to their balance sheets. Hedging strategies to protect the banking entity’s resultant net interest income and interest rate margins from interest rate and yield curve changes, as well as foreign exchange fluctuations, include the use of options and derivatives that must be booked in the market risk capital trading account. Furthermore, because these derivatives are hedging the interest rate volatility arising from continuous balance sheet changes, they often settle within 60 days.

- A banking entity must manage the value of its mortgage servicing right asset, a right to service mortgages it originates or purchases, and one of the most volatile, and interest rate sensitive, assets on its balance sheet. In order to protect the value of the mortgage servicing right asset, the firm must manage the interest rate risk by using, among other instruments, interest rate swaps. These swaps would be booked in the market risk capital trading account and because of the volatility associated with this asset, such interest rate swaps are often settled within 60 days.
Because the AFS investment securities portfolio of a banking entity is generally held for a long-term time horizon, it is often necessary to manage the credit risk associated with these securities. To do so, the banking entity may buy protection in the credit default swap markets. The credit default swap is likely to be included in the entity’s market risk capital trading account, and because of volatility in markets at any given point in time that is giving rise to the credit concerns of the underlying credit, these credit default swap positions may be settled within 60 days.

Finally, a new type of volatility may be introduced to a firm’s balance sheet as a result of the proposed capital rules under Basel III, which require capital to be held against certain positions in the Other Comprehensive Income (“OCI”) Account (a component of stockholders equity). In order to protect the banking entity’s capital position from the excessive volatility that could arise in OCI from movements in interest rates or changes in the credit spreads, the firm may choose to hedge such volatility through the use of options, swaps, or other non-AFS instruments. Derivatives used as part of these hedging transactions will be booked in the market risk capital trading account and, because of the type of volatility they are hedging, may settle within 60 days.

In the above examples, derivatives trades that may be settled within 60 days are being used for prudent asset-liability management purposes. Under the statutory language, a “trading account” comprising the short-term derivatives described above and used to manage the banking entity’s risks is not covered, as the purpose of each of the trades is to protect the firm from movements in interest rate, changes in credit conditions, or other market risks affecting the value of one of the firm’s assets or liabilities; the purpose is not to profit from short-term price movements. Nonetheless, under the proposed rule, because of their short-term nature, these positions are presumed to be prohibited proprietary trading. This presumption is counterfactual, and the outcome under the proposed rule is inconsistent with the statute. Furthermore, as discussed below, the use of these strategies may not get the benefit of the risk mitigation exception or the liquidity management exclusion of the proposed rule because of the limited nature and restrictive conditions set forth in such exceptions. Thus, the ability of a banking entity to manage the structural risk of its balance sheet would be adversely and improperly affected.

We also note that while we believe the market risk capital test will cover some of these valid ALM strategies (and some hedging strategies employed in our investment bank), we actually do not know, because the market risk rules under Basel II.5 have not been finalized. In this regard, it is particularly difficult to determine the application of these market risk rules to the Volcker Rule proposed rule as: (I) many banking entities, including the Firm, are still in the process of analyzing the proposed market risk rules in order to determine which types of assets and liabilities would be deemed to be “trading positions” and what types of

positions would be deemed to be "covered positions" under the proposed rules, and thus it is not possible at this time to determine how ALM activities will be impacted by the interplay of these two sets of proposed rules; (2) it is not certain when the proposed market risk rules will become final, and thus, under which set of "market risk capital" tests a banking entity will be subject at the time the Volcker Rule proposed rule become final; and (3) the types of documentation and compliance regimes necessary to establish compliance with the proposed rules may differ depending upon which set of proposed market risk capital tests is in effect at the time the Volcker Rule proposed rule becomes effective.

C. Deficiencies in the Risk Mitigation Hedging Exemption

The statute contains an exemption for risk-mitigating hedging activity, and some ALM activity would qualify for that exemption. However, the exemption appears to contemplate the type of hedging that occurs when a market intermediary enters into transactions to hedge its risk with customers or to meet anticipated demands of customers. In contrast, management of balance sheet and other risk requires extensive forecasting and stress tests so that the ALM function can position its portfolios to manage against anticipated risks. Thus, as currently drafted, the exemption would fail to protect—or, to much the same effect, leave in doubt the protection of—numerous legitimate ALM hedging activities. The same is true with respect to hedging done in our investment bank at a more micro level.

1. The conditions necessary to satisfy the exemption are too restrictive

As further illustrated below, the exemption for "risk mitigating hedging" is too restrictive and would not enable the broad range of actions that are required to manage the full complement of risks associated with a firm's balance sheet.

(i) "actions in connection with and related to." The proposed rule contains language indicating that a risk-mitigating hedge may only be used to mitigate risks to which the firm is already exposed. Anticipatory hedges are permissible only when the hedge is "established slightly before the banking entity becomes exposed to the underlying risk." But appropriate risk mitigation activities often require that hedges be placed when it is likely that the firm will be exposed to the risk. The purpose of stress tests is to inform the firm about risks to which it may become exposed, and it is prudent for the firm, based upon that information, to take risk-mitigating actions. Further, it is impossible for any firm to perfectly anticipate the market moves that may adversely affect the entity's assets and liabilities. Thus, no matter how sophisticated the stress tests or ALM analysis, flexibility is required with respect to the timing of the establishment of the hedges. In addition, depending on the size, scale and complexity of a particular institution's positions relative to the depth and liquidity of the underlying instruments' markets, safety and soundness considerations may require that the firm establish the positions over a period of time so that such transactions do not disrupt the markets.

(ii) "reasonably correlated." The proposed rule requires that a hedging transaction be "reasonably correlated" to the risk being hedged and provides that if the hedge and related position "would result in the banking entity earning appreciably more profits on the hedge..."
than it stood to lose on the related position, the hedge would likely to be deemed a proprietary trade.

These requirements could disqualify numerous legitimate hedging activities, as there are several reasons why a banking entity may earn appreciably more on a hedge position than it stands to lose on the related position—and yet, not be engaged in prohibited proprietary trading.

First, ALM positions may create profits that would not be offset, at least in an immediate profit-and-loss context, by losses in the underlying risk position. For example, derivative hedge positions may be marked to market (thereby creating P&L impact through the income statement), while the underlying position, such as a loan, is booked using accrual accounting (and thus would not give rise to a contemporaneous, offsetting P&L effect).

Second, precise correlations amongst and across different asset classes used in asset-liability management are difficult to determine. For example, the excess structural liability sensitivity arising from customer deposits creates a need for asset sensitivity on the balance sheet. A traditional ALM strategy to hedge such liability sensitivity is to purchase AFS investment securities. In these instances, as the characteristics of the hedge instrument are somewhat different than those of the underlying position, the hedge will react somewhat differently than the underlying position to the same market conditions and hence, generally, but not necessarily precisely, correlate to the underlying risk.

Third, maintenance of correlations at both the initiation and at the close of a hedging strategy may not be possible due to the fluid and convex nature of the balance sheet, as well as the liquidity of the market. As noted above, depending on the size, scale and complexity of the positions being established or unwound, flexibility is needed so the hedge or its unwind does not adversely affect the safety and soundness of the banking institution nor disrupt the markets. During these periods, therefore, high correlations will be more difficult to maintain.

Once again, this condition for the hedging exception appears to have been drafted with trading desks in mind, where both sides of a hedge are marked to market. It is a poor fit with ALM.

(iii) "significant exposures that were not already present." The proposed rule requires that the hedging transaction not give rise to "significant exposures that were not already present" in the underlying positions.

The proposed rule gives over-hedging as an example of prohibited proprietary trading. But in the ALM context, the inability to accurately forecast future outcomes requires that there be adequate flexibility for the estimation of—and hedging in respect of—such estimated future structural risks. In addition, as the probability of certain market and economic outcomes changes over time, the over or under hedging measurement will change relative to the underlying risk position.

Separately, and as importantly, asset-liability management strategies may often use instruments that will expose the banking entity to a risk that is itself not present in the
underlying position—and, thus, give rise to an exposure "that was not already present." In the example noted above, the use of an investment securities portfolio to manage the structural risk arising from customer deposits gives rise to basis risk.

2. ALM activities that were crucial during the financial crisis would have been endangered by the proposed rule.

Below are several examples of asset-liability hedging strategies employed by JPMorgan during the crisis that enabled it to successfully deal with the market, credit, interest rate, and liquidity risks that arose during that period. Some of these activities could be deemed prohibited proprietary trading under the proposed rule, and would not seem to fall within the risk-mitigating hedging exception:

Hedging the volatility and interest rate risk of the mortgage servicing right asset: In the days preceding Lehman's Chapter 11 filing on September 15, 2008, a review of JPMorgan’s mortgage servicing right asset indicated that it was at significant risk for loss of value under some of the Firm's risk scenarios. Because the mortgage servicing right is very interest rate sensitive, a spike in volatility from falling rates would have increased the convexity of the mortgage servicing right asset and resulted in the Firm ending up with a large open, unhedged, risk position. Also, a counterparty default, even taking into consideration the collateral held by the Firm to mitigate the counterparty risk, would have deprived the Firm of the benefit of option positions previously entered into as protection. Accordingly, in anticipation of a possible counterparty default, the Firm determined it would be prudent to purchase additional options, in excess of its then open risk positions, in order to protect the Firm against "wrong way" market and counterparty risk. After the events about which we were concerned actually occurred, the Firm sold the excess coverage, which resulted in gains for the Firm.

Under the proposed rule, this activity could likely have been deemed prohibited proprietary trading (as the derivatives involved in the hedging strategy were booked in the market risk capital trading book) and may not have qualified as hedging because (1) the actions taken were forward looking and anticipatory nature; (2) the purchase of additional hedges could have been deemed over-hedging; and (3) the gains realized upon the unwind of the hedges could have been deemed "appreciably more profits on the hedge than [we] stood to lose on the related position."

Managing credit risk by use of use of credit derivatives: Leading into and throughout the crisis, the Firm closely monitored its credit portfolio to assess how the market events that were unfolding might affect its balance sheet and structural risks. Analysis indicated early stress conditions in the credit markets, and we were therefore concerned that more serious and accelerated underlying credit deterioration was occurring in the short term than was generally reflected in market prices. (The general market view was reflected in the high-yield credit spread curve which was, at the beginning of the crisis, very steep, indicating that the market believed that companies would likely not default in the short-term, but that severe credit losses were more likely to occur in the long term as the crisis continued in duration.)
To protect the Firm against credit losses that, based on its analysis, the Firm perceived were possible to occur in the near term, the Firm's ALM team used credit derivatives to purchase protection on high yield credit default swap indices with short term maturities and to sell protection on high yield credit default swap indices with longer-term maturities—in effect, taking a high yield curve flattening position in the credit derivatives market. This strategy resulted in the Firm recognizing some gains as near-term default risks increased. The gains recognized on these derivatives strategies offset in part the losses that occurred on credit assets held by the Firm.

Under the proposed rule, this activity could have been deemed prohibited proprietary trading. The derivatives used in the hedging strategy were booked in the market risk capital trading account and may not have qualified as hedging because: (1) the actions taken were forward-looking and anticipatory; (2) the Firm's purchases of the credit derivatives may not have been deemed "reasonably correlated" with the underlying risk, as different instruments were used to offset the hedging strategy than the assets giving rise to the risk; and (3) the gains realized upon the unwind of the hedges could have been determined to be larger than the countervailing risks.

Managing deposit inflows by purchasing highly liquid securities: As the crisis unfolded, JPMorgan experienced an unprecedented inflow of deposits (more than $100 billion) reflecting a flight to quality. The Firm was faced with determining how to invest this excess cash, and how to earn a sufficient rate of return on these deposits in an extremely low-rate environment, so that it could pay interest on these funds without losing money—or needing to turn its customers away, which not only would have been bad business for us but destabilizing for the system. The Firm took several actions: it lent the excess funds in the inter-bank market, thereby helping to recycle available liquidity to other financial institutions. But it also invested in both long-term and short-term highly liquid investment grade securities in order to obtain a rate of return sufficient to protect the Firm from compressing margins on its deposit base. Although the preponderance of the securities purchased were booked as AFS securities, many of the shorter-term securities were booked in the Firm's market risk capital trading account. The purchase of shorter-term securities was necessary because the Firm was not sure how sticky (or long term in nature) some of these deposits would be, and wanted to avoid an asset-liability mismatch. And some AFS securities were purchased and sold within 60 days as a prudent hedging response to the dynamic nature of the cash flows, and in order to manage the fluidity of the cash flows and the interest rate volatility and sensitivities such cash flows were creating. Use of this strategy enabled the Firm to protect itself against losses, helped its clients earn interest on the funds they had deposited with the Firm and recycled funds back into the wholesale market.

Under the proposed rule, some components of this strategy could have been considered (or presumed to be) prohibited proprietary trading. Some securities were booked in the market risk capital trading account (or purchased and sold within 60 days), and would not have qualified as hedging because: (1) the Firm’s purchases might have been deemed to be a hedge that gave rise to a "risk that was not already present" on the Firm’s balance sheet; (2) the...
hedge securities may not have been deemed a hedge that "reasonably correlated" with the underlying risk (not only for the reason noted before, but also because the pace of the purchases or sales of hedge securities may not have matched precisely the pace of deposit inflows and outflows) and (2) the Firm's eventual sale of such securities resulted in gains that could have been considered outsized to the risk being hedged (in part because that risk could not be quantified).

Managing the value of the Firm's assets and liabilities by purchasing expanded types of investment securities: By early 2009, it had become apparent that additional ALM action was required. The credit environment had deteriorated further, and the Firm's management was forecasting a significant economic slowdown that was likely to lead to a lower interest rate environment. In addition to the significant influx of deposits the Firm was experiencing, the Firm's management was predicting lower loan demand, resulting in a significant structural balance sheet mismatch between assets and liabilities. In anticipation of these conditions, the Firm's ALM team undertook an evaluation of the Firm's investment securities portfolio and determined it would be prudent to increase the size and duration of the portfolio, as well as to increase diversification of the portfolio. Thus, in addition to agency MBS securities, which were the securities traditionally held by the investment securities portfolio, ALM activities expanded in scope to include other highly liquid securities. But, as the market dislocation associated with the crisis increased and credit spreads continued to widen, the portfolio was further expanded to include other off-the-capital structure securities and certain types of structured credit products to bring the asset-liability sensitivity of the Firm more in balance. This increased purchasing continued over several quarters of 2009. While the preponderance of the securities purchased were booked as AFS securities, the expanded strategy also involved the purchase of certain securities and derivatives that were booked in the Firm's market risk capital trading account and, as a prudent response to the volatility in the credit markets, sometimes necessitated the purchase and sale, within 60 days, of AFS securities. This active— and proactive—positioning of the Firm's ALM portfolio during the period enabled the Firm to manage successfully a balance sheet that was experiencing significant changes in volumes in its assets and liabilities with resulting interest rate volatility and sensitivity, and provided the Firm with a partial hedge against the changing market value of the Firm's balance sheet.

Under the proposed rule, some aspects of this strategy could have been prohibited, for basically the same reasons described with respect to other strategies. As these examples demonstrate, JPMorgan's ALM activities during the crisis involved pro-active management of the risks associated with its balance sheet. Many of these actions needed to be taken quickly, while many others required significant purchases or sales of securities over a period of time— as large purchases or sales needed to be managed in a way that was consistent with safety and soundness and without dislocating markets.

The actions taken by the Firm's ALM team led to significant changes over the two-year period in the size, maturity profile, and composition of the Firm's investment securities portfolio. All of these actions, irrespective of whether the securities and instruments
purchased and sold were accounted for as AFS investment securities or booked in the market risk capital trading account, were effected in order to protect the value of the assets and liabilities on the Firm's balance sheet, and not for the purpose of earning profit from short-term price movements. Under the proposed rule, it is at best unclear whether we could take similar actions to protect ourselves in the future. Thus, many of the most prudent, useful and successful strategies utilized by the Firm during the crisis could have been prohibited under the proposed rule. As discussed below, we believe there are more appropriate ways to ensure a prudent and effective operation of an ALM function, while at the same time ensuring sufficient safeguards are in place so that the statutory prohibition on proprietary trading set forth in the Volcker Rule is not evaded.

D. Inapplicable Elements of the Risk Mitigation Hedging Exemption

1. The Metrics Required to be Applied are Meaningless When Applied to Legitimate ALM Activities

The proposed rule requires five metrics to be applied to "risk mitigating hedging activities," accordingly, under the proposed rule, ALM transactions that are booked in the entity's market risk capital trading account would be subject to these metrics. These measures include VAR, Stress VAR, VAR Exceedance, Risk Factor Sensitivities, and Risk Position Limits. It is true that VAR and these other metrics are used by the Firm in respect of the portion of the ALM portfolio which is marked-to-market. However, the purpose for such tests is to enable the Firm to understand the potential loss that could be incurred by these positions as a result of immediate changes in market rates— but not to determine the efficacy of the ALM hedging activity. And, while asset-liability risk management does use risk factor sensitivities and risk position limits in managing the risks associated with the portfolio, these metrics likewise do not help distinguish ALM activities from prohibited proprietary trading activities. Accordingly, while these metrics are used in risk management, they are of no use in distinguishing valid risk mitigating hedging activities from prohibited proprietary trading.

Most significantly, the application of the VAR-based measures to assets held by an ALM function would be extremely misleading. This is because many of the liabilities being managed, such as deposits, are not marked to market but, rather, are accounted for on an accrual basis. This accounting asymmetry means that while the VAR-based metrics will capture the changes in value of the ALM positions, these metrics will not reflect the offsetting risk in the underlying structural balance sheet of the company—in essence, the VAR-based metrics will be measuring only one side of the equation, not both. Accordingly, VAR measures will not gauge the extent to which the ALM position is actually offsetting the risk it is hedging. This accounting asymmetry renders the application of these metrics to ALM activities meaningless for Volcker Rule purposes.

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2. The "Simultaneous Documentation" Requirement Is Overly Onerous and Not Necessary to Distinguish Proprietary Trading from Legitimate ALM Activities

The heavy documentation requirements for risk mitigating hedging activities are unrealistic and the requirement for contemporaneous documentation is unworkable. The proposed rule requires that for any risk mitigation hedging transactions "established at a level of organization that is different than the level of organization" establishing the positions, the entity must document "at the time" of the transaction (1) the purpose of that hedge transaction; (2) the positions the hedge is designed to reduce; and (3) the level of the organization that is establishing the hedge.

The significant documentation requirement imposed on the ALM function—which, by definition, is carried out on a desk that is different from the market-making desks giving rise to the risk or the operating business that is giving rise to the underlying credit or structural liability risk—means that ALM functions will de facto be subject to the unworkable documentation requirements of the proposed rule. Because the ALM function looks at the balance sheet in a macro, holistic way, determinations as to hedging strategies are generally developed by an investment committee that determines what risks the entity is being exposed to, and how best and how much to hedge them. The person executing the hedging position on behalf of the ALM function may not know the precise origin of the risk being hedged at the time of hedge execution. The unworkability of the documentation requirement becomes even more extreme in the context of necessary anticipatory hedging. Because hedging is dynamic and needs to be responsive to market conditions, the requirements that such documentation be "contemporaneous with" the establishment of the hedge, and that there be detailed documentation identifying the exact positions—or even portfolios of positions—that are intended to be hedged could inadvertently delay managers from establishing the very hedges required to maintain safety and soundness. This tension will be particularly acute during volatile market conditions—precisely when safety and soundness and market stability argue for quick action.

Further, it is unclear what benefits these additional documentation requirements provide, and how they would differ from or be supplemental to the policies and procedures that are already employed by a firm's ALM function. It is not clear that the appropriate and already robust policies and procedures that are in place in a firm's ALM function do not suffice. Because ALM functions should be given the same deference and latitude that the proposed rule accords the liquidity management function (at least in respect of the documentation requirements applicable to both activities), there is no reason that the documentation conditions that the proposed rule deems sufficient for liquidity management should not likewise be deemed sufficient and appropriate for transactions executed in furtherance of bona fide ALM activities.

In summary, given the restrictive and unworkable conditions required to be met for the "risk mitigating hedging" exemption of the proposed rule, it will be impossible for risk managers to know at the outset what may be deemed exempted and what may not. This attendant
uncertainty will chill the taking of appropriate actions and impair the exercise of this
important function, thereby undermining a crucial safety and soundness function, often at
times when it is most required.

E. The Liquidity Management Exclusion

While the proposed rule properly excludes liquidity management activities from the definition
of trading account (thereby acknowledging that these activities are not for the purpose of
selling in the near term or with the intent to resell in order to profit from short-term price
movements), it nonetheless fails to fully implement the FSOC’s finding that liquidity
management activities must fall outside the Volcker Rule’s definition of proprietary trading.

That is because the proposed rule has so narrowly circumscribed the scope of excluded “bona
fide liquidity management” activities that only a fraction of a firm’s liquidity management
activities will qualify for this treatment and, thus, the remainder could be prohibited by the
Volcker Rule as impermissible proprietary trading. This result cannot be intended.

In particular, the following conditions that must be met in order to obtain the benefit of the
exclusion present serious obstacles to effecting a legitimate and prudent liquidity management
function:

(i) “near-term” funding needs: Prudent liquidity management is responsible for ensuring
that the entity is able to meet its commitments not only over the “short term” – but also over
“medium-term” and “longer-time” horizons. In fact, the banking regulators’ 2010
Interagency Policy Statement on Funding and Liquidity Risk Management (“Liquidity Risk
Policy”) 77, required firms to “assure that their vulnerabilities to changing liquidity needs and
liquidity capacities are appropriately assessed within meaningful time horizons, including
intra-day, day-to-day, short-term weekly and monthly horizons, medium-term horizons of up
to one year, and longer-term liquidity needs of one year or more.”

The consequence—which we believe must be unintended—of this near term requirement is to
label any liquidity cushion of liquid securities held by the firm in excess of its “near-term”
funding needs as prohibited proprietary trading. That is because under the proposed rule only
the portion of the liquidity cushion that would meet a firm’s “near term” funding needs will
qualify for the liquidity management exclusion; the balance of the securities held as part of
the liquidity cushion (which generally would be securities held in a market risk capital trading
account) could be deemed prohibited proprietary trading. The result will be to limit prudent
liquidity management practices and likely result in making banking entities less safe and less
sound and the U.S. and global financial systems more vulnerable to liquidity stresses.

77 “Interagency Policy Statement on Funding and Liquidity Risk Management” Office of the Comptroller of the
Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of
Thrift Supervision, and National Credit Union Administration, Fed Reg. Vol. 75, No. 54, 13656, March 22,
2010.

8 Id. at 13663.
positions be “highly” liquid. It is imprudent for all of a firm’s liquidity management
positions to be invested only in highly liquid securities because prudent liquidity management
requires appropriate asset allocation. Firms often invest their surplus funds in commercial
paper, certificates of deposit, short-term loans, interbank deposits, Fed Funds and other
similar instruments of creditworthy issuers, because these instruments, used in varying
amounts at varying times, provide liquidity managers with the necessary flexibility to address
the changing liquidity profile of the firm. Prohibiting the use of these types of instruments
would be inappropriate for several reasons.

First, the liquidity of instruments changes from time to time in response to market conditions
and thus, determining whether an instrument is highly liquid or merely liquid will be a facts
and circumstances determination, depending on market conditions at any given point in time.
Second, banking entities’ investment in commercial paper, short-term loans, interbank
deposits and other similar products is an important way to circulate available liquidity to
help provide funding to others. Thus, prohibiting banking entities from investing their excess
liquidity into these instruments would be detrimental to the safety and soundness of the entire
banking system. Third, liquidity is not indicative of whether the purpose of a trade is short-
term profit—and thus, it is not clear why or how this requirement furthers the intended
purpose of the Volcker Rule.

(iii) positions not give rise to “appreciable profits.” The fact that a particular investment
bears a higher rate of return than another does not convert the purpose of that investment
from proper liquidity management to impermissible proprietary trading. In addition,
concluding whether any particular liquidity management transaction creates impermissible
“appreciable” profits is so subjective and uncertain a determination that it will only inhibit
and impair the proper management of this important function.

(iv) “specifically... authorize... the circumstances in which the particular instrument may or
must be used.” Liquidity management is a dynamic process, never more so than during
periods of stress. It is a process that, by definition, requires continuous measurement and
monitoring—and being able to take steps quickly to address any funding gaps (that is, any
gaps between the timing of liquidity sources and liquidity uses). Because of the on-going
nature of the review, contrary performed by the function, and the breadth of the instruments
taken into consideration depending on market and economic conditions at any point in time,
requiring that the liquidity plan specifically detail the circumstances in which a particular
instrument is to be used is too restrictive a condition to permit the proper functioning of a
bona fide liquidity management function.

In summary, many bona fide liquidity management activities would not be permitted under
the proposed rule’s exclusion. The restrictions will not permit the function to operate within a
framework that is flexible enough to allow banking entities to manage their liquidity risks in
prudent ways. As a result, the exclusion as currently set forth in the proposed rule could
undermine banking entities’ safety and soundness.
F. Alternative approach

The final rule should establish an exclusion from the definition of trading account for bona fide asset-liability management, which would include and encompass bona fide liquidity management. Like the currently proposed exclusion for bona fide liquidity management, the ALM exclusion would be conditioned on meeting several criteria that are consistent, and in some instances go further than, those already included in the proposed rule. Such an exclusion is fully consistent with the language, purposes and history of the statute.

We therefore propose that there be an exclusion for any transaction effected for bona fide asset-liability management done in accordance with a firm's documented ALM policy that:

- Authorizes the particular instruments to be used for ALM and liquidity purposes, and describes the types circumstances under which such instruments would generally be expected to be used;
- Authorizes the hedging strategies for use in ALM activities or for addressing the liquidity needs of the firm as the macroeconomic and market environments change;
- Requires that any transaction contemplated and authorized by the plan be principally for the purpose of managing the balance sheet exposure and liquidity risks of the covered firm, and not principally for the purpose of short-term resale, benefiting from actual or expected short-term price movements, realizing short-term arbitrage profits, or hedging a position taken for such short-term purposes;
- Requires that the ALM and liquidity portfolios be managed within appropriate controls documented in the ALM policy;
- Limits any positions taken for ALM or liquidity purposes to amounts that are consistent with the firm's balance sheet management and liquidity needs as defined in the ALM policy;
- Is consistent with all applicable regulatory guidance regarding asset-liability and liquidity management;
- Is approved by the firm's board of directors;
- Requires that the compensation arrangements of persons performing the ALM and liquidity management activities be designed so as not to reward proprietary risk taking;
- Requires that the firm shall have established a compliance and audit regime designed to ensure compliance with the rule; and
Requires that the management of the ALM and liquidity management function (including its employees and officers) be separate from the primary dealer and market-making trading functions.

Under this construct, the agencies would have considerable assurance that ALM functions were being properly conducted, but financial institutions would retain the crucially important flexibility to manage their risks in appropriate and prudent ways. That is because under a properly organized, managed and supervised ALM function it would be difficult—if not impossible—for a proprietary trading desk or function to be sequestered or camouflaged within an ALM function. First, and foremost, because the ALM function is grounded in managing the structural risks of the enterprise, the banking entity would need to be able to demonstrate that each of the ALM strategies it undertook was in response to the results of stress tests or internal analysis conducted by the firm of its balance sheet risks. Each desk effecting ALM hedging strategies would need to be able to demonstrate how its activities are supervised, and that its transactions were within the defined mandates and limits established by its managers—whom likewise would need to be able to demonstrate that those mandates and limits were directed by and were part of the ALM strategy established by the firm’s ALM management.

ALM management would need to be able to demonstrate that the instruments and strategies utilized by the various hedging personnel were established by it and were part of the written ALM plan and procedures, and that all of the ALM activities were reported to and monitored by the entity’s independent risk management function. The entity would need to be able to demonstrate that the written plan and procedures were authorized by the entity’s board of directors, and that its internal risk, compliance and audit personnel, independent of the ALM function, had performed adequate monitoring and testing of such processes and procedures to establish that the activities were in fact in compliance with the plan. And, as a further disincentive to proprietary trading occurring within the ALM function, the persons effecting ALM transactions would not be compensated to do so. Lastly, and not insignificantly, the banking entity would also know that its ALM activities are subject to regulatory examination and review. Thus, we believe the exemption would require that there exist within the ALM function managerial and supervisory structures to ensure that the function is being properly performed and appropriately controlled.

By proposing this exclusion we do not suggest that ALM activities be exempt from examination on safety and soundness grounds. Rather, as stated above, we fully expect robust examination and supervision to continue in the future. As noted in the introduction, we also note that draconian capital requirements on all trading positions, including those held for ALM purposes, are already a potent safety and soundness guarantee, as well as unfortunately a disincentive to engage in the activity.

We acknowledge it is always possible that a rogue trader situation can occur—but, as we noted in the Overview, there appears no justification to presume a rule that presumes from the outset that covered entities would intentionally work to evade the rule.
We thank the agencies for their consideration of our comments. If you have any questions, please do not hesitate to call me at 212-270-0593.

Sincerely,

Barry L. Zubrow
Executive Vice President
Appendix A

Compliance Program for Foreign Funds

Appendix C, Section II of the proposed rule would be amended to add a new Subsection C, as follows:

C. Foreign Fund Activities or Investments

A covered banking entity must establish, maintain and enforce written policies and procedures that are reasonably designed to document, describe, and monitor the covered banking entity’s sponsorship activities with respect to, or investments in, funds organized and offered outside the United States (such funds, “foreign funds”), as follows:

Analysis of Foreign Funds: The covered banking entity’s policies and procedures must specify how each foreign fund that the covered banking entity sponsors, organizes and offers, or in which the covered banking entity invests, will be analyzed to determine whether such foreign fund is a covered fund pursuant to § 210(b)(1). Such policies and procedures must provide that such analysis be appropriately documented and reported to management of the covered banking entity. To the extent that a foreign fund is determined not to be a covered fund, the following compliance program elements will apply.

Records Regarding Foreign Funds that are not Covered Funds: For foreign funds that are not covered funds and that the covered banking entity sponsors, organizes and offers, or in which the covered banking entity invests, the covered banking entity’s written policies and procedures must specify that the covered banking entity maintains records that are sufficient to identify, as applicable:

* A description of each foreign fund (e.g., prospectus).

* For each foreign fund, a record that notes the basis upon which the covered banking entity has determined that the foreign fund is not a covered fund pursuant to § 210(b)(1), including the following elements:
  * jurisdiction of organization;
  * jurisdiction of registration or regulation;
  * each jurisdiction in which a public offering of the foreign fund’s ownership interests has been made, or is intended to be made, and, with respect to funds that are publicly offered and listed on a foreign securities exchange, the percent of the foreign fund’s ownership interests represented by such listing, or that are intended to be represented by such listing;
how frequently investors are permitted to redeem their ownership interests and how frequently a set asset value, or its equivalent, is calculated; and

- the securities exchange upon which the foreign fund’s ownership interests are listed.

- The nature of the covered banking entity’s sponsorship activities with respect to each foreign fund; and

- The date and amount of each investment by the covered banking entity in each foreign fund.

Ongoing Compliance of Investments in Foreign Funds that are not Covered Funds: The covered banking entity’s policies and procedures must specify how each foreign fund in which a banking entity maintains an ownership interest will be reviewed regularly to determine whether such foreign fund has become a covered fund pursuant to § 17.10(b)(1). With respect to foreign funds that are later determined to be covered funds, the covered banking entity’s policies and procedures must also specify how the banking entity will ensure investments in such foreign funds will be brought into compliance with § 17.11 and the other provisions of Part [ ], as applicable.
MINUTES
MEETING OF THE RISK POLICY COMMITTEE
March 20, 2012

Risk Policy Committee
James S. Crown, Chairman
David M. Cote
Ellen V. Potter

Others Present
Ashley Bacon
Douglas L. Braunstein
Paul Cegielski
Deonna Dellosso
Robin Doyle
Lisa Drew
Mary Ellen Eighert
Irwin J. Goldsman
Margaret M. Hannum

John J. Hogan
Daniel McDonagh
Patrick McKenna
Samuel T. Ramsey
Donna Reina
Steinar Zinke
Barry L. Zubrow
Gregory A. Beer, Secretary

Mr. Crown convened the meeting at 7:30 am. The meeting commenced with Committee members, Ms. Doyle, Ms. Eighert and Ms. Hannum and Messrs. Braunstein, Hogan, McKenna, Ramsey, Zinke, Zubrow, and Beer in attendance. Mr. Hogan then introduced new members of the Risk Management Team: Deonna Dellosso, Patrick McKenna and Steinar Zinke to the Committee.

The minutes of the meeting on January 17, 2012 were approved.
Mr. Bacon updated the Committee on Market Risk Limits.

The CIO VaR limit was raised temporarily in anticipation of QR's approval of the mortgage prepayment model leveraged by the MSR and SFG's mortgage related portfolios. The CIO Risk Committee reviews Level 1 and Level 2 limits for each business on a monthly basis. He stated that the position changes in the second half of 2011 resulted in VaR diversification benefit trending lower (higher VaR) with limits unchanged and managed more tightly.

Following discussion, Mr. Bacon left the meeting.
CIO Review

Ms. Drew and Mr. Goldman provided a review on CIO. They discussed the structural risk summary noting that the structural risk net liability position projected by LOBs continues to grow driven by modest asset growth, continued deposit inflows, long term debt issuance and retained earnings. Ms. Drew noted that the structural investment portfolio allocation trending toward 50% rates, 50% senior credit. Subject to capital ratios, the CIO will continue a portfolio rotation into senior top of the capital structure credits. Ms. Drew described how rising or falling interest rates would affect the company, and how CIO manages that risk. In response to a question from Mr. Cote, she and Mr. Goldman described the behavior of core deposits and how they are managed.

Adjournment

There being no further business, the meeting was adjourned.

Gregory A. Boer, Secretary

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<td>* Underwriting Scorecards</td>
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<td>* Net Charge-Offs</td>
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<td>* Card Services Overview</td>
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### Financial Summary (Management View)

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<th>Total Expenses</th>
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### Key Risk Topics

- Structural risk position remains short rates and long credit spreads.
- Integration of AFS securities portfolio into firmwide stress framework (reflected in table below).
- VaR limit reductions are in the pipeline both for MSR (from 2023) and CIO (reduction from $1.8B under

### Table

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<tr>
<th>Category</th>
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<th>Scenario C</th>
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### Structural Risk

- Core Debt (includes credit cards) 5.50
- Credit related earnings 2.50
- Core Debt (includes credit) 2.50
From: Bacon, Ashley  
Sent: Sun, 06 May 2012 20:57:24 GMT  
To: Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>  
Subject: Re: CIO Credit Collateral differences as of COB Thursday 3rd

Yes - would be a good addition

From: Venkatakrishnan, CS  
Sent: Sunday, May 06, 2012 09:55 PM  
To: Bacon, Ashley  
Subject: Fw: CIO Credit Collateral differences as of COB Thursday 3rd

Shouldn't this be on daily-risk report?

From: Bates, Paul T  
Sent: Sunday, May 06, 2012 04:46 PM  
To: Dimon, Jamie; Braunstein, Douglas; Hogan, John J.; Drew, Ina  
Cc: O'Rahilly, Rob; Bacon, Ashley; Venkatakrishnan, CS; Vigneron, Olivier E.; Macris, Achilles O.; Martin-Artajo, Javier X.; Wilmot, John  
Subject: CIO Credit Collateral differences as of COB Thursday 3rd

CIO Credit Collateral differences as of COB Thursday 3rd

Total difference between CIO and the counterparties is now $194mm vs. $182mm prior day.

Largest Counterparty Difference: Morgan Stanley is now $57mm vs. $55mm prior day.

Largest Instrument Difference: iTraxx MN 609 10Y 22-100 is now $34mm vs. $38mm on the prior day.
From: Bates, Paul T <paul.t.bates@jpmchase.com>
Sent: Tue, 08 May 2012 18:18:01 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. <John.J.Hogan@jpmorgan.com>; Drew, Ina <ina.Drew@jpmorgan.com>
O'Reilly, Rob <Rob.OReilly@jpmorgan.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>; Vigneron, Olivier X <olivier.x.vigneron@jpmorgan.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Cc: O'Rahilly, Rob <Rob.OReilly@jpmorgan.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Venkatakrishnan, CS <cs.venkatakrishnan@jpmorgan.com>; Vigneron, Olivier X

Subject: CIO Credit Collateral differences as of COB Monday 7th

CID Credit Collateral differences as of COB Monday 7th

Total difference between CID and the counterparties is now $212mm vs. $203mm prior day.

Largest Counterparty Difference: Morgan Stanley is at $61mm - unchanged.

Largest Instrument Difference: Itraxx MN 509 10Y 22-100 is now $27mm vs. $24mm on the prior day.

Difference by counterparty:

<insert table here>

Top ten differences by instrument:

<insert table here>

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From: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>
Sent: Thu, 10 May 2012 22:35:32 GMT
To: jes.staley@jpmorgan.com; Stephen M Cutler <stephen.m.cutler@jpmorgan.com>; Joseph Evangelisti <joseph.evangelisti@jpmchase.com>; Kristin C Lemkau <Kristin.Lemkau@jpmorgan.com>; Judith B Miller <Judith.B.Miller@jpmorgan.com>
CC: Investor Relations <Investor_Relations@restricted.chase.com>
Subject: 10Q call - Buyside and sellside comments (1)

See below re first few calls.

Brennan Hawken – UBS – Buyside
- Matt O'Connor said it all on the call when he mentioned this is not really a huge number it is staying there
- Very commendable; the call was very transparent, above board, and something that you would expect JPM to do
- The market is reacting somewhat strongly
- You will work your way out of it

Keith Horowitz – Citi – Buyside
- Feedback – There's more going on here; "There are bad apples here." People are incented to make money and take risk
- I think everyone appreciates you organizing a call

Mike Mayo – CLSA – Buyside
- What did Jamie mean when he said the 1055 "could be volatile?" Is it $1B more?
- Is AOCI recognized in equity?
- Any impact on your capital plans?
- What is the purpose of the investment portfolio?
- Big issue/question: who was watching the CIO? Doesn't internal audit monitor this? CIO size? Volcker? Asset Management
- Thank you for organizing the call

Matt O'Connor, Michael Carrier and David Ho – Deutsche Bank – Buyside
- How big is the synthetic credit book you are trying to unwind? Is the synthetic book included in the investment securities portfolio? How big overall is the CIO book? Are there numbers in the press that are reasonable?
- Where would the synthetic credit book show up on the consolidated balance sheet in trading assets? Is it under derivatives receivables?
- Is all of your goodwill in the Corporate segment?
- Pretty big confidence blow for the best risk manager; very puzzling
- We may have to amend our FICC forecasts. Movements in credit spreads don't seem material, so to get tripped up now is surprising
- Were there any accounting changes?
- When I speak to clients, and they ask, "What got worse since after the quarter?" I'd say Europe, but what else got worse? What basket did you use? Using broad indexes, it just doesn't add up
- "Scary thing" - I worry about if this could create a global issue
- How fast can you get out?
You didn't do a call when you had a $2.5B litigation loss; I'm not worried about your earnings or book value, but I do worry about the message it sends.

Beth Schulte - Capital - BaySide

"Bravo, thank you for hosting the call"

What exactly was the transaction that caused the problem?

What event triggered the realization that the hedging was not working?

When Jamie said you had a synthetic credit strategy to hedge your overall credit risk, what does that mean in laymen terms? Rather than sell-off the pieces, did you lay over additional strategy?

Based on what Jamie said on the quarter, have you used up, as of 1Q12, any of the buybacks?
From: Coombes, Hema S <hema.s.coombes@jpmchase.com>
Sent: Thu, 10 May 2011 18:03:05 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J <John.J.Hogan@jpmorgan.com>; Drew, Ina <ina.Drew@jpmorgan.com>; O'Reilly, Rob <Rob.OReilly@jpmorgan.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Venkataramanan, CS <cs.venkataramanan@jpmorgan.com>; Vigneron, Oliver X <olivier.x.vigneron@jpmorgan.com>; Abitboul, Achilles O <achilles.o.abitboul@jpmorgan.com>; Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Wilcox, John <John.WILCOX@jpmorgan.com>; Lewis, Phil <phil.lewis@jpmorgan.com>
CC: O'Rahilly, Rob <Rob.ORahilly@jpmorgan.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>; Venkataramanan, CS <cs.venkataramanan@jpmorgan.com>; Vigneron, Oliver X <olivier.x.vigneron@jpmorgan.com>; Abitboul, Achilles O <achilles.o.abitboul@jpmorgan.com>; Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Wilcox, John <John.WILCOX@jpmorgan.com>; Lewis, Phil <phil.lewis@jpmorgan.com>
Subject: CIO Credit Collateral differences as of COB Wednesday 9th May

CIO Credit Collateral differences as of COB Wednesday 9th May

Total difference between CIO and the counterparties is now $110mm vs. $144mm prior day

Largest Counterparty Difference: Morgan Stanley Capital Services is at $58mm – up from $54mm

Largest Instrument Difference: TRAXX NA 500 10Y 22-100 is now $20mm vs. $23mm on the prior day

*Please note: Deutsche Bank AG is on a one day lag and showing the May 2012 difference by counterparty:

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Last series of calls this afternoon. We will summarize the key themes/questions over the weekend and will send the updated analyst targets/consensus information.

Andrew Marquardt – Evercore Partners – Sellsdie
- What was the timeline?
- When did you change VaR model?
- What would have happened if we had not changed the VaR model?
- Would this change in strategy have happened had there not been a change in the new VaR model?
- Has the VaR model materially changed over the years? What is the process for the VaR model to change? Who is involved and how does it work?
- Have you already taken some action to help protect yourself from further loss (locked in loss)? It sounds like it’s a little bit of action to lock in some potential losses and some mark-to-market? Is that correct?
- How much additional collateral would you need to post if there was a downgrade? What is the other potential impact of downgrades?

Jamie seems to be almost inviting/welcoming criticism/additional scrutiny. Can we translate that in a high level of confidence that it is indeed an isolated issue? Is that a stretch? Am I reading into that too much?

- Can you comment on SEC/Fed/rating agency reactions?

Chris Kawasaki – Alliance Bernstein – Buyside
- Can you tell me how large the trades are?
- Will we get that detail?
- Any formal investigations?

John Starkling – Prospector Partners – Buyside
- Please explain the impact of a rating downgrade
- What are the triggers and how much collateral would you have to post?

Alex Hesse
- It was obviously a big surprise
- S&P and FITCH reactions and comments – What is it going to do with the buyback? They are assuming 75% buyback in the 8-12 months – they are very close to edge. How much do you care about their rating?
- If you were downgraded by S&P you would lose your short-term rating
I know you can’t tell me the exact positions but I think it’s important to get a sense for potential sizing/loss impact.

- How confident do you feel that the losses are within the reasonable range of expectation going forward?
- I just hope you can put out something over time that convinces people that this isolated
- If this can happen to you it can happen to others
- One could make the case that all the other banks could be down
- My point is it is very hard to grasp, anything you can put out over time that shows that we aren’t hiring any more people or we’re getting rid of the bad apples.
- The reaction yesterday was bifurcated: you didn’t do a call for the litigation expense. It is either: “You have high ethical standards and you apologize profusely for it, but this is isolated and contained” or “There are real issues”.
- If we are in limbo until earnings call – the worse thing is – people will always assume the worse – people will put you in the penalty box
- Executing on your buyback would be the strongest signal you can bring to the market at this time.
From: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>
Sent: Fri, 11 May 2012 20:12:07 GMT
To: <jes.staley@jpmorgan.com>; Cutler, Stephen M <stephen.m.cutler@jpmorgan.com>; Evangelisti, Joseph <joseph.evangelisti@jpmorgan.com>; Lemkau, Kristin C <Kristin.Lemkau@jpmorgan.com>; Miller, Judith B. <Judith.B.Miller@jpmorgan.com>
CC: Investor Relations <Investor_Relations@restricted.chase.com>
Subject: 10-Q call - Buyside and sellside comments (5)

Tone has changed. See below.

John Coffey – Wellington – Buyside

• Why did you feel compelled to disclose this now?
• How do we get comfortable with the dollar around? Jamie said $1B a more
• How could the newspapers know about this before Jamie knew about this?
• What can you tell us differently at the end of this quarter that you told us yesterday? It will take some time I'm assuming to get out of these positions. How will you be able to give us any more details at the end of the quarter?
• The specialist believe they know what you have; why didn't you share more information with your shareholders
• How are the people in the office of the CIO compensated? There is some concern this is a prop trade as opposed to actual hedging
• Can buy back stock today?

Beth Schulte – Capital World – Buyside

• The general assumption by the Street is that you were net short CDS on these trades; if you say you were hedging credit tail risk, how can you be net short CDS? That is inconsistent. Was being short CDS an overlay on another position as you tried to lower the other position?
• The anger from shareholders is that how did this "Whale" guy get so large? Where was the supervision?
• We asked when we met with CIO team in November and asked VaR related questions. Is the VaR in the IB now going to increase as well?
• What changes are going to be made in risk management? What controls have been tightened specifically? (PM at Capital wrote to Beth that he was “interested in taking advantage in buying the stock” but needs to know the answer to these questions)
• What has occurred in the credit market in the last 6 weeks that would make you change your hedge and result in such large losses?
• How do you come to us with a number when the whole world knows what trades you need to get out of? Can't this cause higher losses for you?
• There are people that are happy that the person who has done so well now has a black eye; people want to make money off of your mistakes
• Do you think at some point you will come out and describe the exact trade, the people who have been fired and specifically what happened?
• Does Jamie read the Zero Hedge Blog? Jamie should know this; Zero Hedge has outlined everything. He should have read it 6 weeks ago and walked over to Bruno and asked what is going on?
• When Jamie said he “should have been paying more attention” to the stories what does he mean?
• I know corrective action will be taken, but also know that you don't pay ins $15mm a year to just hedge deposit risk. There are a lot of fancy things going on in CIO

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1743

• Would like to have a call with Doug

Alex Papa — Capital Research — Buyside

• Would like to try to have a call with Doug; have a very high opinion of JPM and would like it to stay like that

• Was the mistake how the reduction of the hedge was done?

• It sounds like you are saying we have a big BS, we can hold onto these things but what I fail to understand is why not lock in the loss? Already marked it so why not take the loss and move on?

• What personal changes are being prompted as a result?

• Appreciate Jamie being transparent but to another extent $2B is not a big deal, the bigger deal is the VaR, risk model etc. But why have this call now? Why not wait?

• What was the difference between the two VaR models? Is this something the regulators will examine?

• The share price is now close to TBV, how should I think about that in terms of buybacks? What did Jamie mean when he said “I believe so”? Can they revisit the situation and change their views?

• Does the fact that you had to revise your Basel III ratios and this 20bps impact change your views on buybacks? Once you run off this portfolio, does the 20bps come back?

• Would the regulators change the way they approach their RWA and VaR model as a result of this? Did they approve the current models?

Nikhil Uppal — BlackRock — Buyside

• Why did the VaR number go up so much around the model change?

• The new model was only something you put in place this year? Are these the same models you use for client-facing stuff or unique models for CIO?

• Do the CIO activities fall into your CRO office? Does your CRO office monitor these activities?

• Is the $2B a mark-to-market hit or a sold position hit?

• Did Jamie say the $18 impact is from the sale or from market fluctuations?

• If theory, shouldn’t there be a gain somewhere else within the organization?

• Was the reduction of the hedge what was poorly monitored?

• Is CIO’s revenue allocated across the businesses? Does any of the revenue or hedging activities affect the other LOBs?

Landsdowne — Pete Davies and Marc Rubinstein — Buyside

• Could you have disclosed this before? We were looking for updated information a week ago when we called you

• What was the timeline around this?

• Frustration is that this story was in the newspaper and all the hedge funds have been trading against you; seems slightly unfair that the shareholders are the last people to know about this

• You have the best information and are supposedly more competent and it seems as if those that had less information and are less competent know more then you did and reached the right conclusions before you did; is JPMorgan an incompetent firm?

• We need an explanation of what happened and how the whole situation came about; it’s one thing to say we did a bad job but we don’t understand how the monitoring could have been so bad

• What is Jamie doing internally at the moment? Seems like we are being left with a dear admission of the mistake without anything really tangible

• Worried about managerial transmission in terms of actions

• Do you get the impression internally what the loss number will be?

• Is there a sense of panic going on?

• Clearly a credibility setback yesterday. How are you planning to get the credibility back?

• What is the attitude of senior management right now?

• I would like to speak with Jamie or Doug for 5-10 minutes; just want to hear them sounding calm; would be very reassuring; in next week or two, when dust settles

• For what’s it worth, we bought more stock this afternoon

Greg Anderson — UBS — Buyside
• Was it a hedge you put on for tail-risk that you were trying to reduce?
• When did this start?
• Why did you switch to the new model? What was the problem with the new model?
• What gives you comfort in terms of the $IB loss?
• From a practical standpoint, the sooner this can be resolved, the better. Assuming you can’t get out of the position in an economic way anytime soon, correct?
• Was he referring to the Whale article when he said this was related to the Bloomberg article?
• Surprised on how the stock has acted; guess stock is going to be cheaper for Jamie to buy it back

Craig Peikin – Highfield – Buyside
• Why did you host a call yesterday and disclose the loss? Could have offset the losses with your gains
• Not convinced that you had to give corporate guidance with a call; do you still think it is the right decision?
• Concern is that the damage to the intrinsic value of the business is small but the real risk is in regulatory change; you have seen Levin’s statement and the Barney Frank e-mail; people in Washington are very worried about this and how Volcker may turn out now as a result
• Thought Jamie came across well and forthright but the problem is when you whip yourself on a public conference call, there are a lot of great one-liners that will be on the front page; no points for being forthright

Philip Nicola & Virge Trotter – Manning & Napier – Buyside
• What was the reason for having the synthetic credit portfolio in place? Was this designed to decrease your credit exposure?
• Where you trying to synthetically increase your credit exposure to increase your margin?
• How do you decide how much to hedge? When do you decide to increase or decrease the hedge? Is one person making the decision? A committee making the decision?
• What has changed going forward to prevent this from happening again?
• How do we think about this going forward?

Vyas Bhagyashree – Credit Capital Research Technologies – Buyside
• What was this loss associated with a book in London? Why is the location of the book a sensitive matter?
• Is the CIO a global office and the book a global book?
• Does the regulatory rules in NY apply to positions held overseas? There’s no reason for us to think they were unaware of the size of this position correct?
• What did the CIO-related loss stem from? A hedge position or a prop trade?
• How would you define Jamie’s statement on this being related to the Bloomberg article “yes, in part”?
• Does the CIO report directly to Jamie? So he is the ultimate supervisor? Was there someone in the middle of the chain? How big is the CIO office?

John McDonald – Sanford Bernstein – Sellsibe
• What is driving the loss and potential future losses? Have you sold the positions?
• What do you mean by reducing the hedge? Why did you want to reduce it if was fine for years?
• Did the reduction of the hedge drive the losses?
• Why even say $1B (additional losses) if it could be more?
• Should we be prepared for volatility in the Corporate and other sector only?
• Over the past couple years, were the successful investments of CIO enhancing JPM’s profitability, including in the LOBs? What is the potential impact of potential changes in CIO on JPM profitability and LOB profitability?
• Are there restrictions for what a bank CIO can invest in? Are there limits for what your CIO can buy and can’t buy?
• Is synthetic credit used as a hedge for the usual investments or the loan book? Usual investments don’t really have a lot of credit risk.
• What is the connection with hedging credit across the company and loan losses? Don’t loan loss reserves protect against credit exposure?
• Did the faulty process of reducing the hedge cause the losses?
• The possibility of having swings in volatility, is that due to repositioning?
• What are the ramifications in terms of people? How high up does this go?
• Does the CIO report into Jamie?
• Can you still do buybacks? Did you hear from the Fed? Any change in what you can do? If that changes, you should be transparent about it.
• Why did the Basel ratio change? Was the impact of VaR through RWA?

Andrew Marquardt – Evercore – Sellside
• Is there a way to ringfence how big the synthetic portfolio really is?
• How do people get comfortable externally that there aren’t additional such exposures?
• When your review is completed, will you be able to share things with us?
• Are there now going to be new investigations informal, or otherwise, by the Fed and SEC?
• How long has this strategy been going on? How meaningful has it been to net income?
• Are there benefits from CIO in other businesses lines?
• How much of the prior guidance was related to this activity?
• It could be an incremental $1B? What was meant?
• Is this a closed position or mark-to-market?
• Is the goal to be repositioned by the end of the year?
• Are you now going back to your old model?

Bill Rubin – Blackrock – Buy Side (email)
• The word “unanalyzable” is being used quite a bit over last night and this morning. Not good for stock valuation. Hope there’s data and commentary forthcoming to remove this stigma.

Bryn Jones – Rathbone Brothers – Fixed Income buy side (email)
• Oh dear! Now a big trading mistake. Brand damage from both should not be underestimated. Even if they are not or are related.
• Confidentially, we pulled $15m from JPM gbp liquidity fund today. Just be aware that this is really damaging for what was a well-respected brand in London. These two events so close together have meant we are retrenching from JPM for now.
• We have left the FI execution credit line open for now but broker debit balances and limits with JPM/JPM Cazenove are being reviewed closely.

Sarah Youngwood | Managing Director | Head of Investor Relations | JPMorgan Chase Co.
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JPM-CIO-PSI 0014836
From: Julien G Grout <julien.g.grout@jpmchase.com>
Sent: Mon, 16 Apr 2012 19:07:20 GMT
To: LUIS BURAYA <LBURAYA@I;BRUNO IKSIL <bruno.m.iksil@jpmorgan.com>
Subject: CIO Core Credit P&L Predict [16 Apr] -$31,405k (dly) -$1,094,241k (ytd)

Daily P&L: -$31,404,839
YTD P&L: -$1,094,241,016

Daily P&L($) YTD P&L($) 

Europe Financials -5,628,778 -71,320,986 

Europe High Grade -19,829,115 -274,986,812 

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JPM-CIO-PSI 0017022
US ABX / TABX -464 -28,492

Redacted By
Permanent Subcommittee on Investigations

New Investments 40,448,702 -508,400,670

Redacted By
Permanent Subcommittee on Investigations

Dead Books (Core) 95 2,344

Redacted By
Permanent Subcommittee on Investigations

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J.P. MORGAN CHASE & CO.
Explanatory P&L (in $1000s):

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<thead>
<tr>
<th>Name</th>
<th>Total Direct</th>
<th>Tranche Carry IR</th>
<th>N/T Adjust FX</th>
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XOVER 682 +2.0
FINSEN 248 +6.0
FINSUB 401 +9.0
SOVX 0
CDX IG 100.5 +1.0
CDX HY 95.8125 -0.125
LCDX 102.375

PnL Comment:
1/ Index curves: no change today in CDX IG and iTraxx Main 5Y/10 curves. No PnL impact.
2/ Compression: much smaller moves today. iTraxx Xover decompressing a tad (+2bp, +6M); CDX HY compressing -1bp (-11M)
3/ Directionality: CDX IG is +1bp wider (-5M). FINSUB are widening +9bp (-6M).

Market Comment:
Positive signs start to appear since Jamie and Doug’s comments on Friday:
The market has stopped going against our positions in an aggressive way. We have not seen the positions trading against us since Apr 10 and we have seen since Friday encouraging signs. The flat value of CDX IG 9 (5Yr) maturity versus its components has started to widen. This suggests that small hedge funds are unwinding profits on their positions and the IG 9 Index has stopped steepening. The adverse market moves have probably started to reverse but we need further evidence on this as we do not see yet the effect on the market that we are getting. There are signs of unwinds going our way but only in small size. There is finally selling interest on IG 9 5Yr, though not significant to reverse our loss but significant for the first time since the beginning of April and specially since our loss on Apr 10.

Unrelated to our overall strategy there is a small idiosyncratic small move in a position that is costing us a small loss related to Rescap.

Late Friday, Ally Financial announced they would not extend the unsecured credit facility to RESCAP past May the 14th. The markets implied that RESCAP would likely default in May. It is mostly noise around the likely default of Rescap on the High Yield single names and CIO is impacted mostly on the equity tranche and recover the loss on the rest of the capital structure. The 10-15 tranches lose as expected and the 15-25 and 25-35 balance the loss. However, the CDX HY index market, containing RESCAP, outperformed marginally the
CDX IG space (1.5bps), and flattened (8bps) causing a small idiosyncratic loss of 24M.

No trade today.

16-Apr-12
13-Apr-12
12-Apr-12
11-Apr-12
10-Apr-12
04-Apr-12
03-Apr-12
02-Apr-12
02-Apr-12
30-Mar-12

iTraxx Main S 17 Jun 17
142
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123.25
From: Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>
Sent: Tue, 10 Apr 2012 14:47:14 GMT
To: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J <JohnJ.Hogan@jpmorgan.com>
CC: Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Alvelo, Alexandra X <alexandra.alvelo@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>
Subject: WSJ call

Doug and John –
We are scheduled for a backgrounder with the Wall Street Journal this morning at 11:30 am regarding the CIO. I’ll join you, and we’ll arrange a dial-in number. Participants may include:

Dan Fitzpatrick: covers JPMC
Greg Zuckerman: hedge fund reporter, wrote original story
Katie Burne: Dow Jones reporter, co-wrote original story
Francesco Guerrera: C Section Editor
Colin Barr: Finance editor

Thanks, Joe
Here are a few comments/themes regarding today's calls.
   - Overall tone was constructive. Analysts and investors appreciated Jamie's comments and the follow-up conversations. A lot of warm and positive comments (a few questioned the need for a call but overwhelming majority thought that was the right thing to do).
   - Our messages seem to be generally well understood.
   - Financial impact not perceived as an issue by the Street.
   - Major concern around the impact on Volcker.
   - Questions around broader risk management issues, regulatory impact, VaR changes and impact on our share repurchases.
   - A few people trying to precisely reconstruct what happened and to understand how losses in context of "generally benign" credit environment; didn't go beyond Jamie's comments.

Regards,

Sarah
From: Youngwood, Sarah M <sarah.m.youngwood@jpmorgan.com>
Sent: Fri, 11 May 2012 15:03:07 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Drew, Isa <Isa.Drew@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Cutler, Stephen M <stephen.m.cutler@jpmorgan.com>; Evangelisti, Joseph <joseph.evangelisti@jpmchase.com>; Lemkau, Kristin C <Kristin.Lemkau@jpmorgan.com>; Miller, Judith B <Judith.B.Miller@jpmorgan.com>
CC: Investor Relations <Investor_Relations@restricted.chase.com>
Subject: IO-Q call - Buyside and sellside comments (4)

Continuing to connect with Investors this AM. Please see below.

David Hendler – Credit Sights – Sellside
* Was this an accounting change? Was this hedge ineffectiveness?
* What is the specific of the trades?
* My only criticism at earnings was that this type of activity was too large an exposure and if you had to alter it, it might change things.
* Did you put out another hedge on because the exposure was too high?
* We didn’t see a large market movement that would be correlated to your losses
* When Jamie said this violates the principles of the Dimon rule, what is that rule?
* Would you characterize any of this as an operational risk problem or how the supervision of risk by monitoring is being done?
* When you went to the new VaR did you go to a 5 year horizon from a 2 year horizon? How long was the 2012 model data tested?
* Has the trading side changed their VaR methodology?
* Looks like that VaR is the highest I have ever seen
* Appreciate the candidness of the call
* Is Ina Drew available for discussions? Interested in speaking with her; alternatively, call with Jamie or Doug would be great
* Supportive of your story because Jamie has done a great job overall, including in risk management; premier franchise, solid capital; this was a huge stumble because you promote yourself as the best risk managers out there
* There are people worried about other assets at JPMorgan but we are going to have your back and we know you are going to do the right thing

Doug Braunstein call with Dick Manuel and several PMs – Columbia Management Investment – Buyside
* “You’ve handled this well given it’s a bad situation”
* Based on the call, I don’t understand fundamentally the position and what happened
* How is a net notional of this size not scrutinized?
* Can you explain the investment grade versus high yield terms?
* Regarding the escalation of the issue, if you were using the old VaR model, do you think this would have hit the dashboard earlier?
* Between the close of the quarter and the 10Q2 conference call, were you working with the wrong information?
* How out of the woods do you feel? Any more color on how you’ll get out of this?
* Are there natural termination dates on these contracts?
* What was the weighted average maturity on the original hedge in 2008 versus the opposite position?
• Any color on the macro environment that drives this portfolio up and down, and how can we watch this from the outside?
• Any implications to CCAR/share repurchases? Have you had conversations with the rating agencies?
• Have you asked regulators if they will change the rules?

Doug Braunstein call with Ben Hesse and several PMs – Fidelity – Buyside
• Why did you have a $10B notional trade on synthetic credit?
• Every hedge fund in the world now knows this. Will they make it hard for you to get out of the position? Can you mitigate this?
• If credit spreads get wider, will you lose money?
• How do we know you won’t drop another $10B on this?
• ALM was excluded from Volcker; are you concerned that it will now be brought back into scope?
• What is the impact to NIM if you could only invest in US treasuries?
• What is the probability of this changing the outcome of Volcker?
• In CCAR the calculation of stress included a qualitative score for the quality of risk management. Will your qualitative score be affected?
• Any change in your ability to repurchase shares?

Tony Conaris – Harris Associates – Buyside
• What are the outcomes going to be?
• As far as timing, when will you be out of this?
• Repurchases not impacted, correct? Have you spoken to the Fed? They reserve the right to stop you from buying back stock
• We are disappointed; we aren’t setting the stock because we think it’s very cheap

John Baldi – Clearbridge – Buyside
• Did you get confirmation from the regulator that you can do buybacks?
• What is the magnitude of the potential losses?
• What happened?

Al Savastano – Norges – Buyside
• The $1B of securities gain, was that related to the trading losses?
• You had several options on how to communicate this; I respect Jamie doing call, but that raised the profile, which has broad implications for JPM and others, including related to Volcker/regulation. Can you use unrealized gains to offset trading losses?
• Is it safe to assume the traders that were involved have been let go? Does it go higher than that?
• Who does the CIO report up to?

Sarah Youngwood | Managing Director | Head of Investor Relations | JPMorgan Chase Co.
270 Park Avenue, New York, NY 10017 | T: 212 622 6153 | F: 212 270 1648

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
Credit Collateral differences as of COB Thursday 10th

Total difference between CIO and the counterparties is now $66mm vs. $120mm prior day
Largest Counterparty Difference: Morgan Stanley Capital Services is at $46mm - down from $58mm
Largest Instrument Difference: iTRAXX XN S5B 5Y 22-100 is now $22mm vs. $30mm on the prior day
*Please note: Deutsche Bank AG is as per the 8th May 2012

Difference by counterparty:

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.

JPM-CIO-PSI 0017989
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**Redacted by Permanent Subcommittee on Investigations**

**CONADENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.**

**JPM/CIO/PSI 05/19371**
Please see below the balance of today’s calls, including several calls placed by Doug Braunstein as follow-ups.

Doug Braunstein call with Beth Schulte - Capital – Buyside
- Given that the market is assuming a loss in the $8B-$10B range and $100B notional amount, how do you get comfortable with the estimated loss you have given?
- What happened to the original hedge? Has it been unwound?
- Are the mark-to-market numbers you have provided net (i.e. including all portions of the synthetic credit portfolio)?
- Why did you decide to reduce the hedge?
- Regarding VaR, do you use different models in CIO and IR?
- Concern is that the market now knows your position and they can push it up. Is the market over-penalizing you with the amount you have left?
- Is this just the tip of the iceberg? We worry that you can come out with a message but as people get fired, employees can come out with another message and then the newspapers and bloggers come out with other messages: how do you relay your message and how do you get people comfortable with it?
- Are numbers for CIO net of what is booked by LOBs?
- On a go forward basis, could changes in CIO affect NII in LOBs?
- WSJ said that the CIO’s role was to cover your cost of capital. Is that correct?
- The gross mark-to-market number is going to be important to the investment community; even if you have offsetting securities gains.
- Well handled. You guys have done a great job with your crisis management. Glad your team is running this situation

Doug Braunstein call with Kevin Conn – MFS – Buyside
- How should we think about your exposure?
- What is size of max loss; what is potential timeframe?
- Was this in any way proprietary as opposed to hedging?
- What are the risks in the position? Basis risk? Time frame? Geographic? Asset Class?
- What went wrong? Is the issue a liquidity issue or a basis differential issue?
- How closely was Jamie involved with managing the positions?
- Did you have to disclose the losses on May 10?
- Does this threaten your capital return in any way?
- What should we expect for disclosure of this portfolio going forward?
- Are we going to be speaking about this in 2013?
Doug Braunstein call with Pete Davies – Lansdowne – Buyside
- What is your take on the situation?
- How is senior management feeling/working as a team?
- Has there been anything that surprised you in terms of market reaction?
- Is there anything preventing you from buying back stock?
- You moved rapidly on management changes? Any particular reason? Your management style?
- Think Jamie should be calm when speaking at the conference; important to convey that tone to shareholders
- Think the market is imagining a very large loss; hard to actually do the analysis on this
- Believe the market knows a lot about your positions and that incremental disclosure would be very helpful to shareholders
- Think you will get through it; time is your friend

Andre Messier – Fidelity (Fixed Income) – Buyside
- We got the impression that this was a moderation of your previous position; confused because would think you should be still net short
- Can you confirm that the CDX9 5 and 9 year are part of this?
- Historically you have been a good risk manager; assuming that, when you came out and disclosed the losses, you understood what the hedge fund reaction would be in the market. Can we assume that before the announcement, you took mitigating actions?
- Disclosure by WSJ that there was a mandate to the group to make more than the cover the cost of capital. Is that correct?
- Critical people announced today that are leaving the group; seems this exposes you to more downside risk not having the people around that knew this position. Wouldn’t it make sense to unwind the trades?
- How big is the CIO group? What types of connections does this group have to Treasury/CRO?

Patrick Hughes – Glaton – Buyside
- Trying to size the exposure; have you said any more about it?
- Is the CIO in charge of hedging credit for the entire Corporate sector?
- It seems like this has been pretty low profile considering the growth in the portfolio; have I missed her being talked about? Had she been introduced to shareholders?
- Presume this is the top focus; I read that people from JeStaley’s group are involved
- Have you spoken with the regulator? Any updates to capital deployment and CCAR?
- I read that the board is behind Jamie

Catherine Murray – Waddell & Reed – Buyside
- If this continues to go against you, what will be the ultimate loss that JPM could realize? Can it be worse than $1B?
- My read of these WSJ articles 6 weeks ago was that you originally had a hedge to limit fat-tail credit risk. What gave me to these problems?
- Instead of straight closing out the hedge that wasn’t working, it sounds like you hedged a hedge, and the basis risk/lack of correlation backfired on you. Is that correct?
Jamie said on the call that you will eventually disclose more on the 2Q12 call. What do you expect to say then? What gives you the confidence that you’ll be able to be more transparent in July? Will you be out of the positions by then?

From the point of view of running the business, what can you tell us about the strength of your “bench” given the recent management changes? Are you changing CIO strategy further given what has happened?

Can you talk about what led to your doubling of VaR? How accurate is the new model? How quickly can VaR come down?

Can you talk about the model approval process? What level of management is involved in these decisions?

Buybacks – The $12B was well-publicized. Realistically, what is available to you now? Is there a limit in the terms of the agreement with the regulators for a per-quarter basis limit? If there are any changes, is that something you would announce?

Have you moderated any tech investment spending? If so, on what types of projects?

Should we expect to see the VaR for all other books come down, all else being equal, because the firm wants to maintain the VaR down?

Will Moody’s review the bank again?

**Doug Braunstein call with John McDonald – Sanford Bernstein – Sellside**

- Can we have visibility on potential losses? Why couldn’t it be $15B?
- Is there any macro environment we can count on, given your positions?
- Is it fair to say that correlations broke down?
- Is there any analysis behind the $18 figure used on the call?
- What is the duration of the contracts? Do they all run-off by year-end?
- Is there a possibility to reclassify any of the positions as held to maturity?
- Can you walk through what happened in terms of the VaR models? Do you expect VaR to remain at elevated levels in the short term?
- Is there any additional that you plan on giving?

Doug Braunstein call with Betsy Graseck – MS – Sellside

- What is your level of confidence in the loss numbers you have given?
- Why did you want to put the uncertainty in the market by disclosing this rather than just closing out the position?
- What is your tipping point for losing credibility?
- Are you trying to work the portfolio down?
- Can anyone really get grasp and know what is going on with your position?
- WSJ said $175mm in loss position, market thought it would be worse. That’s why it’s not down as much.
- Feels like 2008 all over again and need to start worrying about tranches of fixed income instruments.
- Can regulators force you to take action on the position?
- For every hedge fund that wants to stop you, others might want alpha and have a bid ask.
- Equity investors are un-nerved because they can’t assess the basis risk.

Betsy Graseck – MS – Sellside

- Page 104 suggests that none of the $12B of credit derivatives are designated as hedging; does it imply that credit derivatives are not for hedging purposes?
- Is Synthetic credit portfolio in part used to hedge Euro risk ($38 after-tax risk described by Senior Management)?
- Can you help separate out CIO from Corporate/PE disclosure; I am able to separate out PE and litigation expenses, but can’t go further.
- Can you delineate between Treasury and CIO in terms of interest rate hedging?

Brennan Hawken – UBS – Sellside

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSI 0016243
In talking to folks on Friday, here was my thesis. I was advocating that this is a one-time event, which should last at most 3 quarters and which results in a terrific opportunity to buy JPM. I don’t believe the event hurts the earnings power of the firm.

- Investors were broadly split. Many (i.e., ~40-50%) agree with above thesis, but they are the ones who aren’t in a position to buy at this point in time because they already have a full position in JPM.
- The other investors were divided in their view. The most regular counter to my argument was from investors who don’t know the full extent of the trading loss (magnitude/timeline) and therefore don’t know fully how risky the stock is. Some of these investors also question how aggressive the CIO was in reaching for yield. Most skeptical investors refer to CIO returns being embedded in LOB profitability, in a way that cannot be entirely traced through Corporate.
- How has CIO profitability affected the franchise and LOB profitability?

Paul Miller – FBR – Sellside
- When did you go to the new model?
- When you put out your 2011 10K, did you use the 2011 model for VaR? In April did you disclose that you changed models?
- As an analyst, you displayed a VaR under a model and didn’t disclose the new model and would have loved to know what the difference was in the VaR using the two different models.
- Big difference in VaR between the two models.
- Is the increase in VaR all from the CIO office? Is it all related to the articles of the London Whale?

Jared (Gerard Cassidy’s junior) – RBC Capital – Sellside
- Is the synthetic credit portfolio marked-to-market every day?
- The position was supposed to be a hedge, correct? Has that strategy changed at all?
- Is it fair to say that you added more complexity to hedge your original hedge?
- Unemployment change – Were there mathematical errors in the model?
- Excluding Private Equity, is all revenue in Corporate from CIO? Is there any way of deriving CIO-only revenue?
- We look forward to getting more color going forward.
From: Lewis, Phil phi.lewis@jpmorgan.com
Sent: Tue, 15 May 2012 18:50:56 GMT
To: Dhinoo, Jamie jnjmin.dhinoo@jpmorgan.com; Braunstein, Douglas douglas.braunstein@jpmorgan.com; Drew, Ina ina.drew@jpmorgan.com; Zames, Matthew m.matthew.zames@jpmorgan.com; O'Callaghan, Rob rob.ocallaghan@jpmorgan.com; Bacon, Ashley ashley.bacon@jpmorgan.com; Venkatakrishnan, CS ccs.venkatakrishnan@jpmorgan.com; Vigneron, Olivier o.olivier.vigneron@jpmorgan.com; Wilmot, John john.wilmot@jpmorgan.com; Lewis, Phil phi.lewis@jpmorgan.com
Cc: Hogan, John john.hogan@jpmorgan.com; Drew, Ina ina.drew@jpmorgan.com; Zames, Matthew m.matthew.zames@jpmorgan.com
Subject: FW: CIO Credit Collateral differences as of COB Monday 14th May

CIO Credit Collateral differences as of COB Monday 14th May

Total difference between CIO and the counterparties is now $156m vs. $89m in prior day

Largest Counterparty Difference: Morgan Stanley Capital Services is at $46m - up from $27mm

Largest Instrument Difference: ITAAXX MD KDP 22 100 is now $42m vs. $10m on the prior day

Difference by counterparty:

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Sounds fine. Pete as head of market risk and Keith Stephen in London are responsible. Our priority is getting the model implemented today so we get the reduction the firm is anticipating. Thanks.

---Original Message-----
From: Bacon, Ashley
To: Hogan, John J.; Goldman, Irvin J.
Subject: Re: CIO VaR heads up and update

Will do.

From: Hogan, John J.
Sent: Saturday, January 28, 2012 04:19 PM
To: Bacon, Ashley; Goldman, Irvin J.
Subject: Re: CIO VaR heads up and update

The and can you guys compare notes on any methodology difference between IB and CIO and let me know what you find? Thx, John
From: Bacon, Ashley
To: Hogan, John J.; Goldman, Irvin J
Sent: Sat Jan 28 11:15:12 2012
Subject: Re: CIO VaR heads up and update

If this change is what I think it is (full reval credit P&L calculation for the shocks derived from the VaR days, instead of sensitivities times shocks), then the 18 is already on the new methodology so no change for us.

I will confirm, and let you know if not.

From: Hogan, John J.
Sent: Saturday, January 28, 2012 03:43 PM
To: Goldman, Irvin J; Bacon, Ashley
Subject: Re: CIO VaR heads up and update

Is this change in methodology applicable to 18’s VaR as well. What was the primary change that we made? Thx, John

From: Goldman, Irvin J
To: Hogan, John J.; Drew, Jina
Sent: Fri Jan 27 12:35:40 2012
Subject: CIO VaR heads up and update

From: Stephan, Keith
Sent: Friday, January 27, 2012 1:30 PM
To: Goldman, Irvin J; Weiland, Peter
Cc: Kalimtgis, Evan; Martin-Artico, Javier X; Maxis, Achilles O; Lee, Janet X; Chandna, Sameer X
Subject: Update on "old/current methodology VaR" increase for COB 27 Jan

Importance: High
Below please find an update on the increase in VaR for Core Credit from 103.8mm to 107.6mm. Final VaR vectors globally have not been processed yet for COB 26 Jan, however 107.6mm is over its temporary limit, and could cause the Firm to do the same. As such I wanted to communicate this to you to ensure we are all on the same page about what is happening.

The "old methodology" currently in production: VaR has increased by +$3mm, to $107.6mm driven by increase in CDS HS IS 10Y index long risk (+$300m notional). This is consistent w/ the VaR increases of the last several days, under the old methodology, wherein the VaR increases approx 1mm per billion of notional in IG9 10Y. I estimate this will put CIO Global over its temporary $110mm limit and probably closer to $115m—note not all vectors globally are loaded yet for the 26 Jan COB—so I’m estimating here. This means that the formal notification of limit excess will be generated and distributed to you for approval.

Importantly, for the same COB 26 January, the "new / full revaluation methodology" shows VaR decreased (-$5.2MM) from 107.6mm to 102.4mm. I estimate that this would make CIO global VaR closer to $75mm vs. the currently reported number >$115.

We anticipate final approval on Monday, and that the new methodology should become the official firm submission from Monday, for 27 Jan COB. Until issues should therefore cease beginning from Monday.

We have completed all technology changes to support the daily production of the VaR under new methodology beginning from Monday.

Thanks and please let me know if you have any questions.

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CIO SYNTHETIC CREDIT UPDATE

March 2012

JPMorgan
Core Credit Book: Storyboard:

1- Starting point:
* keep shrinking the book on the largest legs : tranches, HY , IG9, Main 59

2- Mission : balance the book :
  * switch the bias to long risk, flatten downside on defaults, reduce Var and Stress Var

3- Execution : it went all bad ...
  * sold protection on IG9 Syr, bought protection on HY on the run, built decompression trades
  * IG9 forward spreads lagged the IG rally

4- What Happened?
* The decompression hit us more than the gains that we recorded on the decompression trades

5- Plan
  * plan A : put the whole book (tranches & indices) to lightly managed status
  * Plan B : keep the tranche book as an option on default lightly managed until expiry and collapse the index book.
1773

Core Credit Book: Storyboard: starting point

1- Starting point:
   - The tranche notional was reduced by 15%.
   - The book started the year with a long risk in IG9 forwards (but upside on defaults in IG) and a short risk in HY (but with downside on some defaults this boiler of Flaspar).
   - The aim was to create some options on the book to reduce aggressively on opportunity.
   - In order to shrink the book further, we aimed at reduce the upside on IG defaults and reduce the downside in HY defaults: selling protection in IG9 5yr and selling risk in HY on the run would have allowed to achieve that goal and reduce the sensitivity of the book to curve behaviors.

2- Mission: balance the book:
   - Switch the bias to long risk, flatten downside on defaults, reduce Var and Stress Var

3- Execution: it went all bad:
   - Sold protection on IG9 5yr, bought protection on HY on the run, built decompression trades

4- What happened?
   - The decompression hit us more than the gains that we recorded on the decompression trades

5- Plan:
   - Plan A: put the whole book (tranches & indices) in lightly managed status
   - Plan B: keep the tranche book as an option on default. Lightly managed until expiry and collapse the index book.

JP Morgan
1. Starting point:
   * The tranche notional was reduced by 15%.
   * The book started the year with a long risk in IG5 forwards (but upside on defaults in IQ) and a short risk in HY (but with downside on some defaults like Kodak or ResCap).
   * The aim was to create some options on the book to reduce aggressively on opportunity.
   * In order to shrink the book further, we aimed at reducing the upside on IG defaults and reduce the downside in HY defaults: selling protection in IG 5yr and selling risk in HY on the run would have allowed to achieve that goal and reduce the sensitivity of the book to curve behaviors.
   
2. Mission: balance the book:
   * The short risk in the book was covered starting the 15th of December: the bias became bullish the 15th of Jan.
   * The downside on defaults like Kodak and Rescap was covered in February.
   * A large decompression trade was put on in order to cover downside on forward default risk in IG and then in order to reduce the VAR and the Stress VAR.

3. Execution:
   * It went all bad...
   * and protection on IG 5yr, bought protection on HY on the run, built decompression trades

4. What happened?
   * The decompression hit us more than the gains that we recorded on the decompression trades

5. Plan:
   * Plan A: put the whole book (tranches & indices) to lightly managed status
   * Plan B: keep the tranche book as an option on default, lightly managed until expiry and collapse the index book.

JPMorgan
Core credit book: execution problem...

Relative sensitivities to defaults and 10% credit spread widening

[Graph showing relative sensitivities]

J.P. Morgan

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J.P. MORGAN CHASE & CO.  JPM.CID:PSI 0031967
Core Credit Book: Storyboard: starting point

1. Starting point:
   - The short risk in the book was covered starting the 1st of December; the base became bullish the 15th of Jan
   - The downside on defaults like Kodak and Rescap was covered in February
   - A large decompression trade was put on in order to cover downside on forward default risk in IG and Main in order to reduce the Var and the Stress Var

2. Mission: balance the book:
   - The downside risk in the book was covered starting the 15th of December; the base became bullish the 15th of Jan
   - A large decompression trade was put on in order to cover downside on forward default risk in IG and Main in order to reduce the Var and the Stress Var

3. Execution:
   - The decompression hit us more than the gains that we recorded on the decompression trades

4. What happened:
   - The decompression hit us more than the gains that we recorded on the decompression trades

5. Plan:
   - Plan A: put the whole book (tranches & indices) to lightly managed status
   - Plan B: keep the tranches book as an option on default; lightly managed until expiry and collapse the index book

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1776
Core credit book: execution problem...

MTM profile of a compression trade as a function of percentage spread move

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-Core Credit Book: Storyboard: starting point

1. Starting point:
   - Keep shrinking the book on the largest legs - trenches, HY, IG, Main 5B
   - Switch the bias to long risk, flatten downside on defaults, reduce Var and Stress Var

   - Switch the bias to long risk, flatten downside on defaults, reduce Var and Stress Var

3. Execution:
   - I went all bad...
     * Selling protection on IG9 and Main 5B 5yr started to steepen a lot - the book became long risk
     * Selling risk in HY generated a gain due to the decompression (right tail) but it weighed on the HY names held in IG9 index (MBIA, RADIAN, STAR, SPINT)
     * The underperformance of the forwards versus the IG on the run brought a long risk exposure that had to be hedged in order to contain the Var-Stress Var-RWA increases. Most of the rally was thus missed... the P&L impact is estimated at 400M

4. What happened?
   - The duration extension plus the forward underperformance vs IG on the run were balanced in risk with the protection we bought in HY
   - The HY names in IG9 were also in the HY indices we traded and the gains on decompression did not balance the loss in the forward IG9
   - We reported a loss of 120M in January, another loss of 90M in February despite increasing the position in the forwards. In March, the loss accelerated very fast and painfully. We opted to go long risk and stop trading next.

5. Plan:
   - Plan A: put the whole book (trenches & indices) in lightly-managed status
   - Plan B: keep the tranche book as an option on default, lightly managed until expiry and collapses the index book.

J.P. Morgan
Core Credit Book: Storyboard: starting point

1. Starting point: "keep shrinking the book on the largest legs: tranches, HY, spk, Main 599
2. Mission: balance the book, "switch the bias to long risk, flatten downside on defaults, reduce Var and Stress Var
3. Execution: "I went all bad..." selling protection on 499 and Main 599 for started to steepen the curve a lot
4. What happened? "The decompression hit us more than the gains that we recorded on the decompression index"
5. Plan
   * Plan A: put the whole book (tranches & indices) to lightly managed status
   * Plan B: keep the tranche book as an option on default, lightly managed until expiry and collapse the index book.
1. beta adjusted moves
   - case of 1x1 by 150 position: illusions with spreads and $\beta$ measure sensitivities
   - the book remains neutral 4% CDS: implications
   1. If IG9 losses, the book becomes long risk, because we are long risk in IG9
   2. If HY decompresses, the book becomes short risk, because we are short risk in HY

2. the method
   - look at beta adjusted moves on history: the whole story is about compression and decompression
   - breakdown: the risk from beta factors
     1. the book has a directional bias, but this is all about expected loss changes (mixing carry and spread)
     2. the beta neutral book breaks into 3 parts:
        a. decompression trades in HY vs IG on the run
        b. IG vs HY on the run and off the run vs HY on the run
        c. equity tranche slope

3. the findings: target YTD at -750M
   - the book is huge: 156M loss in IG9 and 345M loss in HY6 trades: decompression (9M loss in HY or 250 in Xover, 21M in Xover or 75M)
   - decompression worked very well and very quickly: total gain of 850M (225M in Xover, 500M in HY)
   - we executed 10% decompression out of a move of 15%
   - senior lag is overwhelming: total loss YTD is 1.22B (225B in IG9 trades and main 10)
     - directionally: 40M and carry: 40M (with no rollover): total 100M
     - defaults (Kodak and Resp) cost are estimated at 100M total
   - IG equity slope cost a total 170M (3M in Xover 2M and 167M in CDS IG of 45p)
   - new trades: gain 70M

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### Core Credit Book: Trading activity: positions and new trades

**Rationale for the positions increase:**
1. Cover the HY downgrades on some defaults, prepare for IG tightening, stay market neutral to minimize RWA.
2. Started by selling IG 5yr and 5Y+ curve steepened and the forwards moved up.
3. Sold S9 and IG 5x10 to limit the P&L hit.
4. Defended the P&L at Month end while the de-USD euribor keep going and increased the underperformance of S9 series.

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<td>6,190,069,444</td>
<td>6,190,069,444</td>
<td>6,190,069,444</td>
</tr>
<tr>
<td>Core Book</td>
<td>21,690,069,444</td>
<td>21,690,069,444</td>
<td>21,690,069,444</td>
<td>21,690,069,444</td>
<td>21,690,069,444</td>
</tr>
<tr>
<td>SS OTR</td>
<td>22,472,529,579</td>
<td>19,277,513,771</td>
<td>27,746,375,000</td>
<td>33,880,025,000</td>
<td>36,799,997,222</td>
</tr>
<tr>
<td>SS OTR</td>
<td>14,844,156,579</td>
<td>15,866,360,560</td>
<td>26,513,593,171</td>
<td>31,616,351,867</td>
<td>36,196,001,232</td>
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<tr>
<td>Both OT</td>
<td>37,316,686,158</td>
<td>33,143,874,331</td>
<td>54,259,918,171</td>
<td>65,097,376,889</td>
<td>73,591,998,454</td>
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<tr>
<td>Net for OT</td>
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<td>6,190,069,444</td>
<td>6,190,069,444</td>
<td>6,190,069,444</td>
<td>6,190,069,444</td>
</tr>
<tr>
<td>Core Book</td>
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<td>21,690,069,444</td>
</tr>
</tbody>
</table>

**Main OTR:**
- S9 OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Main OTR intake:**
- S9 OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Outflow:**
- S9 OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Not for OTR:**
- SS OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Net SS OTR:**
- SS OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Net IG OTR:**
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- IG OTR: 14,844,156,579
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- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Net SS OTR intake:**
- SS OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Net IG OTR outflow:**
- SS OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Net OTR outflow:**
- SS OTR: 22,472,529,579
- IG OTR: 14,844,156,579
- Both OT: 37,316,686,158

**Net SS OTR outflow:**
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**Net IG OTR intake:**
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**Net IG OTR outflow:**
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- Both OT: 37,316,686,158

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**JPMorgan**
Core Credit Book: BP sensitivities and Directionality of the book

1. As spreads tightened, the IG9 and 5G 1yr saw their duration increase while all other legs had a shrinking duration.

2. The compression created a long risk that was covered with a short risk in HY due to the market rally (Var minimization).

3. This long risk exposure should have been maintained as we would have triggered an increase in RWA and Var.

4. The compression trade in HY and IG was never large enough due to the legacy because we had to increase the position to defend the P&L hit without being able to stay long risk due to RWA & Var constraints.

5. The compression in IG (around 25%) has induced a natural increase of long risk, circa 1081, long risk in main and 2081 long risk in IG.

<table>
<thead>
<tr>
<th>Date</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG Core</td>
<td>1,071,373</td>
<td>1,399,959</td>
<td>1,721,090</td>
<td>2,042,274</td>
<td>2,367,091</td>
</tr>
<tr>
<td>IG OTS</td>
<td>3,723,477</td>
<td>4,769,661</td>
<td>5,619,647</td>
<td>6,679,847</td>
<td>10,112,636</td>
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<tr>
<td>IG OTS</td>
<td>5,175,847</td>
<td>6,612,871</td>
<td>7,570,941</td>
<td>8,531,420</td>
<td>16,993,999</td>
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<tr>
<td>Net by OTR</td>
<td>10,112,868</td>
<td>-1,963,479</td>
<td>2,716,031</td>
<td>6,337,066</td>
<td>9,326,146</td>
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</table>

<table>
<thead>
<tr>
<th>IG Core Book</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG Core</td>
<td>2,851,312</td>
<td>2,677,120</td>
<td>3,315,577</td>
<td>3,970,561</td>
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<td>IG OTS</td>
<td>10,134,750</td>
<td>10,767,226</td>
<td>12,711,330</td>
<td>13,861,998</td>
<td>14,882,077</td>
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<td>Net IG</td>
<td>-1,043,505</td>
<td>-1,087,126</td>
<td>-1,463,893</td>
<td>-1,481,857</td>
<td>-4,533,221</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IG Core</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG Core</td>
<td>1,043,505</td>
<td>3,967,726</td>
<td>4,949,894</td>
<td>4,961,967</td>
<td>4,961,967</td>
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<tr>
<td>IG OTS</td>
<td>17,949,810</td>
<td>24,862,373</td>
<td>33,793,923</td>
<td>42,567,929</td>
<td>42,543,108</td>
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<tr>
<td>Net IG</td>
<td>-17,949,810</td>
<td>-24,862,373</td>
<td>-33,793,923</td>
<td>-42,567,929</td>
<td>-42,543,108</td>
</tr>
<tr>
<td>IG Core Book</td>
<td>All trades</td>
<td>Start Jan Book</td>
<td>Start Feb Book</td>
<td>Start March Book</td>
<td>Current Book</td>
</tr>
<tr>
<td>IG Core</td>
<td>8,033,783</td>
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</table>

JPMorgan
### Core Credit Book: P&L explain

<table>
<thead>
<tr>
<th>Position</th>
<th>Pos/Net USD</th>
<th>Negatives</th>
<th>-177W USD</th>
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</thead>
<tbody>
<tr>
<td>Decompression</td>
<td>+5BM USD</td>
<td>Stopping bit and gap</td>
<td>-16BM USD</td>
</tr>
<tr>
<td>HY of the run</td>
<td>+20BM USD</td>
<td>Duration effect</td>
<td>-16BM USD</td>
</tr>
<tr>
<td>Carry</td>
<td>+100M USD</td>
<td>Duration effect</td>
<td>-16BM USD</td>
</tr>
<tr>
<td>New trades</td>
<td>+75M USD</td>
<td>Equity tranche stripping</td>
<td>-178M USD</td>
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</table>

<table>
<thead>
<tr>
<th>Book</th>
<th>Feb</th>
<th>March</th>
<th>Credit Book</th>
<th>TOTALSE</th>
<th>US $</th>
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<tbody>
<tr>
<td>Total book</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Float</td>
<td>55,799,550</td>
<td>41,158,468</td>
<td>17,692,896</td>
<td>169,941,956</td>
<td>169,941,956</td>
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<tr>
<td>Option premium</td>
<td>62,625,374</td>
<td>227,380,768</td>
<td>124,624,071</td>
<td>419,696,738</td>
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<tr>
<td>Total P&amp;L</td>
<td>5,925,830</td>
<td>0</td>
<td>5,925,830</td>
<td>5,925,830</td>
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<tr>
<td>Total</td>
<td>1,021,845</td>
<td>41,158,468</td>
<td>42,180,313</td>
<td>42,180,313</td>
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</tbody>
</table>

### CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
Core Credit Book: Series 9 steepening explanation: the forwards have lagged the 40bps market rally by 22 bps...

<table>
<thead>
<tr>
<th>Component</th>
<th>Grass Mean 5yr</th>
<th>COM IG 9</th>
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<tr>
<td>Ytd underperformance</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Steepening</td>
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<td>4</td>
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<tr>
<td>Duration effect</td>
<td>480</td>
<td>480</td>
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<tr>
<td>Beta adjustment</td>
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<td>9</td>
</tr>
<tr>
<td>YTD</td>
<td>60</td>
<td>60</td>
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</tbody>
</table>

JPMorgan
Core Credit Book: Analysis of the IG9 performance

IG9 can be portrayed as a niche IG index of 117 names and 5 IG Names (MBIA, Radian, SIFIN, SPRINT, RR Donnelley).

The 5 names behaved like the whole IG market: they underperform the IG market and steeped alon.

Yet the IG9 underperform by 3bps, 7yrs underperformed by 3bps while 3yrs underperformed by 2bps.

The net P&L impact is estimated -10B USD.

<table>
<thead>
<tr>
<th>Year</th>
<th>Component</th>
<th>Spread 09/09 (bps)</th>
<th>Spread 09/12 (bps)</th>
<th>Index (bps)</th>
<th>Index (bps)</th>
<th>Index (bps)</th>
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<tbody>
<tr>
<td>2009</td>
<td>20%</td>
<td>21.00</td>
<td>15.00</td>
<td>-11.00</td>
<td>10.60</td>
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<tr>
<td>2010</td>
<td>20%</td>
<td>15.00</td>
<td>11.00</td>
<td>-11.00</td>
<td>7.50</td>
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<tr>
<td>2011</td>
<td>20%</td>
<td>11.00</td>
<td>4.00</td>
<td>4.00</td>
<td>2.00</td>
<td>2.00</td>
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<tr>
<td>2012</td>
<td>20%</td>
<td>4.00</td>
<td>1.60</td>
<td>1.60</td>
<td>0.90</td>
<td>0.90</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

JPMorgan
Core Credit Book: Analysis of the ITRAXX Main S9 performance

Main S9 can be proxied as a normal IG index of 110 names and 5 HV names (OTE, ESPIRI, OIXONS, EDP, PORTEL):

- The 5 names behaved like the whole IG market; they underperform the IG market and steepened a lot.
- Their move relative to the rest of Main indices allows to explain most of the lag in Main S9 curve but not all.

Yet for 3yr IG underperformed by 5bps, 7yr outperformed by 4bps while 10yr underperformed by 2bps; the net P&L impact is estimated -100M USD.

<table>
<thead>
<tr>
<th>Date</th>
<th>Spread 5/12/12</th>
<th>Spread 2/20/12</th>
<th>Duration 5</th>
<th>Spread 7/20/12</th>
<th>Duration 7</th>
<th>Spread 10/20/12</th>
<th>Duration 10</th>
<th>Percent Index Loss</th>
<th>Percent Index Loss</th>
<th>Index Percent Loss</th>
<th>Index Percent Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-06-14</td>
<td>4%</td>
<td>10%</td>
<td>13.5%</td>
<td>32</td>
<td>53.9</td>
<td>48.3</td>
<td>5.3</td>
<td>0.56</td>
<td>0.54</td>
<td>-5.03</td>
<td>-5.03</td>
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<tr>
<td>2012-06-15</td>
<td>5%</td>
<td>15%</td>
<td>15.5%</td>
<td>33</td>
<td>54.9</td>
<td>49.3</td>
<td>5.3</td>
<td>0.56</td>
<td>0.54</td>
<td>-5.03</td>
<td>-5.03</td>
</tr>
<tr>
<td>2012-06-16</td>
<td>6%</td>
<td>20%</td>
<td>17.5%</td>
<td>33</td>
<td>54.9</td>
<td>49.3</td>
<td>5.3</td>
<td>0.56</td>
<td>0.54</td>
<td>-5.03</td>
<td>-5.03</td>
</tr>
</tbody>
</table>

JP Morgan
The CDX IG5 index curve steepened marginally more than it should have been, according to the on-the-run IG steepening. This results in an underperformance estimated at 110M USD.

The Main 59 index curve steepened marginally more than it should have been, according to the on-the-run Main steepening this results in an underperformance estimated at 80M USD.

The HY10 and HY11 5yr have outperformed the on-the-run HY indices but not as much as could have been expected: this is an additional hit of 150M.

The tranche losses hit here and there in unrelated ways adding 65M

- 12Bn 10-30 IG tranche lost 0.2% vs delta (2 Bips+2K) = 20M hit
- 3Bn Hy 10-25 lost. Upside recently in an unrelated way = 12M hit
- 2Bn 0-3 qfl 5yr hit 1pt in overshoot = 30M hit

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J.P. Morgan

17870
Core Credit Book: Summary

1. Ideally, the book needed an extra CS01 in IG, this is a cost opportunity of 1.2 Bln due to the 42 bps rally in IG.
   - this long risk shows naturally in spread tightening and with the coming expiry of the short-term 59 leg.
   - it triggers an increase in VaR stress Var: CVA/RIC/HVA across the board if we maintain the book balanced.

2. the need to reduce VAR / RWA and stay within the CS01 limit prevented the book from being long risk enough
   - as we bought protection on HY in the rally, we kept the 10% CS01 neutral to slightly bull
   - the slight bullish bias was dwarfed by the exposure in the forwards that kept increasing to protect the P&L.

3. Thus a decompression trade was put on in order to remain market neutral, but it increased the CS01 very fast.
   - as a result a decompression trade built up both in CDX and iTRAXX: it is a good trade that performed well
   - yet, selling more protection on IG to balance the protection we bought in HY put us close to the CS01 limit.

4. The long risk exposure would likely have missed the first 15 bps and the realized P&L miss is rather BOOM USD.
   - despite the protection on the rally in IG spreads, we needed to sell 100 Bln in min and 300 Bln in IG ideally which
     is a significant bullish bet.
   - in early February and early March, when spreads widened back, the book would likely have suffered a weekly
     miss of 100 Bln each time: this was not an acceptable P&L miss.... So the long would have been
     implemented slowly anyway.

5. Carrying this long risk exposure would have triggered some total P&L swings of 100-200 in early February and March.
   - the book was aiming at balancing the P&L noise while reducing the risks and the notional to opportunities
   - the losses coming from the IG forwards were already wild, so we waited before being outright long risk for
     fear the noise would just increase more.

J.P. Morgan
Core Credit Book: Risk Management and execution mistakes

1. The reduction of the 1yr IS and 30 early in January turned out to be a bad move: forwards underperformed
   - Initially, a roll back at the run IG indices allowed to reduce the short, improve the carry, reduce the sensitivity of the book towards flattening and pre-empt a tightening in IG spreads without increasing CDS1.
   - The market players quickly steepened the 30 curves starting the underperformance of the forwards.

2. The Kodak default triggered a second wrong move: the HY short risk added to the forward underperformance
   - The loss was SCM and we started covering the risk in February by selling HY44-HY17 indices that contained MBIA, Radian, MGIC, ISTAR given that RESCAP risk to default was growing.
   - However, by selling those series and targeting the “more insurance” names, we aggravated the underperformance of the IG forwards because they contain MBIA, Radian and ISTAR.
   - As a result, those names underperformed the whole market. Thus the decompression trade worked but the IG forward especially underperformed in the rally and this is where the main long risk of the book is.

3. The Xover/Main decompression trade...otherwise it finally started lagging in Main-tracks 30 forwards
   - Due to the need to contain the RWA-Vol complex, we sold protection on main while buying protection in Xover.
   - This was a way to profit from either a recovery in Europe IG space without increasing the CDS1.
   - The decompression in HY and Xover sped up in March and this put the book short risk and worsened the loss in the forwards.

4. The carry was overestimated: the duration extension due to the low rates and the quick IG tightening created a long risk that should not have been hedged and that amounted to postpone the carry further in time.

What would have happened if none of these bad moves were initiated?
   - The decompression would have happened anyway and the forward underperformance may have been lesser or even smaller or down 750. All these mistakes induced an increase in the forward positions to contain the P&L hit.
   - If the book had gone long risk early, the VAR would have increased and the RWA as well: likely 20-25 bln RWA
   - The carry would have improved and the book would have had twice a weekly drawdown of 200M
Core Credit Book: Computation of the extra CS01 needed for the current book

1. The IG9 and IG forward decompression and the duration extension created a 10% duration increase, 10% spreads decompression (increase in duration that should not have been hedged) - 35M $ CS01
   - from Main 59 forwards this amounts to 3.2M $ CS01
   - from IG9 forwards the amounts is 8.6M $ CS01
2. The duration extension and decompression in HY and Silver legs should also have been anticipated as 20% duration increase, 10% spreads decompression (increase in the long risk IG: 10.5M $ CS01
   - in these scenarios, this amounts to 290M $ CS01
   - in HY700, this sums up to 0.9M $ CS01
3. The tranche deltas increased on the short term equity and decreased on long term super-seniors - 9M $ CS01
   - in iTraxx, the deltas moved: 6M $ CS01
     * +50 in the 8-9.5 bar cap (268) or 100bp on the reset index: 1M $ CS01
     * -0.1x over 25bp on the run index equity: 1M $ CS01
   - in CDX IG the delta moved: 3M $ CS01
     * -0.1x in 26bp 0.3 IG8 cap or 40bp on the run index: 2M $ CS01
     * -0.1x over 25bp on the run index equity: 1M $ CS01
4. Target: long CS01: +350M in 10% CS01 tightening
   - currently the book trades at +333M on this scenario
   - anticipating a further similar tightening and decompression, the book should carry today a extra long risk of 35M $ CS01
   - given that Main (15% at 125bps) and IG (75% at 90 bps) weighted spread for IG would be 110bps, the book should run with a 10% CS01 at +350M $ P&L gain
   - this amounts to another 350M $ CS01 and 68M Main 117 sale of protection

J.P. Morgan

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Core Credit Book: Management of the CS01 2012

1. The long risk exposure that resulted mostly from duration extension and prepayment was covered with a short risk in HY.
   - This allowed to cover the downside on defaults in HY names
   - It is not an irreversible loss as it would have been if we had covered the long with IG protection

2. The increase in long risk coming from a longer average duration, the RWA and Var increased too even if the directionality was limited
   - Instead of reducing the burgeoning we should have doubled it: this would have increased Var and RWA by 10% every month
   - Using the HY as a way to reduce the directionality worsened the P&L issue with the forwards

3. We should be very long risk in IG going into the expiry of the IG 5yr to offset the loss of carry
   - We should do it before the expiry comes so that we mitigate the P&L loss
   - We should be short risk in all IG equity branches so that the transition is smoother through the expiry
Core Credit Book: The path to recovery....

1. The overbook could reverse although this would not be necessarily stable. Yet, optically the YTD could easily improve with no change by up to 350M.

2. The duration extension resulted in a long risk that has been covered and should actually stay in the future.

3. The entire long risk exposure would overall set the book up 350M in a 5% CSO tightening move. This will increase the RWA by another 50M unless we use structured notes to offset part of the long risk. The tranche trades should help reduce the future RWA measures.

4. The P&L will face 100M temporary drawdowns for a net carry of 3-3.5 M USD per day.

5. We still need to buy 15bn b-3 30yr 10yr and 2,50bn euro b-3 30yr 10yr. This will allow us to freeze also the trading on tranches and help reduce the RWA forward measures without acting on the book other than rolling the long risk.

6. The advent of default will be a P&L positive all the way to the expiry of the book.
<table>
<thead>
<tr>
<th>Index</th>
<th>START</th>
<th>END</th>
<th>INDEX</th>
<th>START</th>
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</tr>
</thead>
<tbody>
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CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.

JPM-CIO-PSI 0032006
<table>
<thead>
<tr>
<th>Date</th>
<th>Strategy 1</th>
<th>Strategy 2</th>
<th>Strategy 3</th>
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Total: 5,000,000
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<tr>
<th>Month</th>
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<tr>
<td>Jan</td>
<td>123</td>
<td>456</td>
</tr>
<tr>
<td>Feb</td>
<td>789</td>
<td>012</td>
</tr>
<tr>
<td>Mar</td>
<td>321</td>
<td>987</td>
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Confidential treatment requested by J.P. Morgan Chase & Co.
<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Activity</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>01/01/2023</td>
<td>10:00</td>
<td>Meeting</td>
<td>Discussing project progress</td>
</tr>
<tr>
<td>01/02/2023</td>
<td>14:00</td>
<td>Call</td>
<td>Making important decision</td>
</tr>
<tr>
<td>01/03/2023</td>
<td>09:00</td>
<td>Presentation</td>
<td>Sharing new project ideas</td>
</tr>
<tr>
<td>01/04/2023</td>
<td>12:30</td>
<td>Lunch</td>
<td>Networking with colleagues</td>
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<tr>
<td>01/05/2023</td>
<td>16:00</td>
<td>Workshop</td>
<td>Learning new skills</td>
</tr>
</tbody>
</table>

**Note:** This document is subject to redaction due to confidentiality.
From: Lewis, Phil <phil.lewis@jpmorgan.com>
Sent: Mon, 14 May 2012 17:32:44 GMT
To: Dimon, Jamie; Jamie.dimon@jpmorgan.com; Braunstein, Douglas; Douglas.Braunstein@jpmorgan.com; Fagenson, John; john.fagenson@jpmorgan.com; Drew,ena,ena.drew@jpmorgan.com; Zames, Matthew; matthew.zames@jpmorgan.com; O'Rahilly, Rob; rob.orahilly@jpmorgan.com; Bacon, Ashley; ashley.bacon@jpmorgan.com; Venkatakali, Ravi; ravi.venkatakali@jpmorgan.com; Vigneron, Olivier X; olivier.x.vigneron@jpmorgan.com; Martin-Artajo, Javier X; javier.x.martin-artajo@jpmorgan.com; Wilmot, John; john.wilmot@jpmorgan.com; Lewis, Phil <phil.lewis@jpmorgan.com>
CC: O’Rahilly, Rob <rob.orahilly@jpmorgan.com>; Macris, Achilles; achilles.macris@jpmorgan.com; Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>; Wilmot, John <john.wilmot@jpmorgan.com>; Lewis, Phil <phil.lewis@jpmorgan.com>
Subject: CIO Credit collateral differences as of COB Friday 11th May

CIO Credit Collateral differences as of COB Friday 11th May

Total difference between CIO and the counterparties is now $69mm vs. $66mm prior day.

Largest Counterparty Difference: Morgan Stanley Capital Services is at $27mm — down from $46mm.

Largest Instrument Difference: CDS IG 509 10Y 00-03 is now $29mm vs. $17mm on the prior day.

*Please note: Deutsche Bank AG is as per the 10th May 2012

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JPM-CIO-PSI 0032238
<table>
<thead>
<tr>
<th>Date</th>
<th>Asset Class</th>
<th>BBP 12/31/2014</th>
<th>BBP 06/30/2015</th>
<th>BBP 12/31/2015</th>
<th>BBP 12/31/2016</th>
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<td>1/1/2015</td>
<td>Equity</td>
<td>123,456</td>
<td>78,901</td>
<td>56,789</td>
<td>45,678</td>
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<td>2/1/2015</td>
<td>Fixed Income</td>
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<td>123,456</td>
<td>123,456</td>
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<tr>
<td>3/1/2015</td>
<td>Real Estate</td>
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<td>98,765</td>
<td>98,765</td>
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<td>4/1/2015</td>
<td>Loans</td>
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<td>56,789</td>
<td>56,789</td>
<td>56,789</td>
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<td>5/1/2015</td>
<td>Other</td>
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<td>123,456</td>
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CONFIDENTIAL TREATMENT REQUESTED BY
J.P. MORGAN CHASE & CO. JPM-CIO-PSI 0032407
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<th>Description</th>
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<td>Column 3</td>
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CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.

JPM·CIO·PSI·0032412
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<tr>
<td>2020-01-02</td>
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<td>2020-01-05</td>
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CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM:CID:PSI:000213
<table>
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<tr>
<th>Region</th>
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<th>Total Sales</th>
<th>Profit Margin</th>
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<th>Total</th>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
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<td>Midwest</td>
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**Total Sales:** 12,000,000
**Total Profit:** 1,000,000
"CONFIDENTIAL
REQUESTED BY J.P. MORGAN CHASE & CO.
JPM-CIO-PSI0032418"
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<thead>
<tr>
<th>Date</th>
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<th>Strategy in CAD</th>
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<td>100,000.00</td>
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<tr>
<td>01/02/2023</td>
<td>120,000.00</td>
<td>120,000.00</td>
</tr>
<tr>
<td>01/03/2023</td>
<td>150,000.00</td>
<td>150,000.00</td>
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</table>

CONFIDENTIAL TREATMENT REQUESTED BY
J.P. MORGAN CHASE & CO.
<table>
<thead>
<tr>
<th>Date</th>
<th>Contract No.</th>
<th>Description</th>
<th>Quantity</th>
<th>Price</th>
<th>Amount</th>
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CONFIDENTIAL TREATMENT REQUESTED BY
J.P. MORGAN CHASE & CO.
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</table>

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JPM-CID-PSI 002424
Yes, please, on the last question. Thanks, Venkat

We can’t explain their Var movement under the old model as we don’t see any info about their (risk) positions, eg we
don’t get sensitivities. We had asked Pete’s team to explain the movements in the old model, but they were never able
to and then they had no reason to as they already knew they were changing models. It took them a while, but they
finally agreed their old model was crap.

Do you want me to inquire as to why their VAR/Svar declined in the new model? We might be able to get an answer
ourselves or through Pete on that one.

Having said that, why did Var (and SVar) go up from Jan to Feb in the old model but decline in the new model?

Here are the results and differences with the old Var model. I’m not sure this really makes it apples to apples. I think it’s
now apples to pears instead of apples to oranges. Apples to apples would be to just drop the Var/StressVar and focus
on IRC and CRM only. CIO had no choice but to do the VAR model change. They were using a disapproved VAR model
and one which would have prevented the regulators from approving CRM for CIO’s correlation trading portfolio for if it
had been kept (even though CRM does not depend on VAR).

*
From: Venkatakrishnan, CS  
Sent: Wednesday, March 21, 2012 1:44 PM  
To: Broder, Bruce  
Subject: Re: Privileged and Confidential  

Got it. Elsewhere but returning.

From: Broder, Bruce  
Sent: Wednesday, March 21, 2012 01:40 PM  
To: Venkatakrishnan, CS  
Subject: RE: Privileged and Confidential  

The factor is .08 = 1/12.5.  

"On January 18th, CRM capital was $3.2." This is correct, the CRM Capital was 3.1548, or $39.4258 RWA.  

In the Jan column, you see 31,100 RWA which was the reported CRM RWA. It represents the Jan average. Jan 18 was the last and highest of the 3 CRM measurements for CIO in Jan.  

(268 is the Q4 reported average result).  

Are you in your office or elsewhere?

From: Venkatakrishnan, CS  
Sent: Wednesday, March 21, 2012 1:26 PM  
To: Broder, Bruce  
Subject: Re: Privileged and Confidential  

Then what was the $3.2bb? 78bb·0.08 is 6.3 approx but 268bb·0.085 is not 3.2bb

From: Broder, Bruce  
Sent: Wednesday, March 21, 2012 01:21 PM  
To: Venkatakrishnan, CS  
Subject: RE: Privileged and Confidential  

6.3 is the standalone amount. Corresponds to 78,763 in the table below under pre-split.

From: Venkatakrishnan, CS  
Sent: Wednesday, March 21, 2012 1:16 PM  
To: Broder, Bruce  
Subject: Privileged and Confidential  

In my own memo from yday, there is an inconsistency between two pre-split measured of capital: $6.3bb from Apr 12, two weeks ago and $5.4bb from the table below. Do you know why?

From: Venkatakrishnan, CS  
Sent: Wednesday, March 21, 2012 07:51 AM  
To: Venkatakrishnan, CS  
Subject: Privileged and Confidential  

CIO CRM — The Highlights  

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.  

JPM-CIO-PSI 0036180
1834

- Comprehensive Risk Measure (CRM) allows for internal modeling of Correlation Trading positions and their
  associated hedges
  - These exist at JPM within the 1B and the CIO
  - The regulations also calculate a "Floor" to this capital
- Other non-securitization positions use Incremental Risk Charge (IRC) as the method of calculation
- Both CRM and IRC are based on a 99.9% confidence interval and a one year horizon BUT
  - IRC assumes a three month holding period with rebalancing quarterly to compute an annual number
  - CRM assumes a one year holding period with no rebalancing
- A 30 year bond hedged with a 3 month CDS will be fully hedged from a default risk perspective in the IRC
  calculation for one year but will be unhedged for nine months in the CRM calculation

The Issue at CIO
- On January 18th, CRM capital was $3.288 but was recomputed to be $6.388 on Feb 22th
- The primary reason for this was the net addition of $3388 notional in index CDS between Jan and Feb.
- The Model Risk group assigned a team to work with CIO to explain the CRM model and to understand the impact
  of these new positions on their capital.
- The team came to the conclusion that many of these trades did not constitute "optimal" hedges to the
  correlation book (from a tail risk perspective) and that they should be given IRC treatment not CRM treatment.
- Hence, for modeling purposes, we split the CIO's Correlation book into two parts: Correlation Trades plus
  related hedges in one part, and remaining index positions in another part.
- As a result, the CRM capital dropped greatly and, in fact, the floor for the firm was now the operating
  constraint. New capital (CRM + IRC) is approximately $3.5866 compared to $5.488 pre-split (CRM only).

The decline in capital when positions were moved to IRC was rather greater than we expected. An important
reason was a $12588 curve trade in indices (long risk maturing in 2014 – 2017) and short risk maturing in Dec
2012. Given the CRM approach of not replenishing maturing trades, the model calculated capital based on one
leg of this trade ($12588 of long risk) remaining unhedged for three months (Dec 2012 to Mar 2013). IRC, on
the other hand, assumes it was hedged.

Rationale and Next Steps
- We think that the rationale of splitting the books is well-founded: The correlation book contains tranche trades
  and hedges which work well in tail scenarios; the index book (under IRC) contains the rest.
- This logic should be used going forward and index trades which hedge tranches booked in the correlation book
  and the others in the index book.
- The question is whether we re-calculate capital in this way from (a) the start of the quarter; (b) some point mid-
  quarter; or (c) the date on which they are re-booked.
Credit Derivatives Terminology

- Credit Default Swap
- Notional Amount
- Credit Default Indices
- CDX and iTraxx
- On-the-Run and Off-the-Run
- Traded Maturities/Duration
- Tranches
- Spread
- Carry

- Curve
- Shape of Credit Curve
- Bear Steepener/Flattener
- Bull Steepener/Flattener
- Forward Trade
- Skew
- Convexity
- Tail Risk
- CS10% or CSW 10%
- RWA
## CDX Indices

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Number of entities</th>
<th>On-the-Run Series</th>
<th>Traded Maturities</th>
<th>Tranches</th>
<th>Description</th>
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<tbody>
<tr>
<td>CDX.NA.IG</td>
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<td>18</td>
<td>1, 2, 3, 5, 7, 10</td>
<td>0-3, 3-7, 7-15, 15-100</td>
<td>Investment grade CDSs</td>
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<td>0-10, 10-15, 15-25, 25-35, 35-100</td>
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<td>3, 5, 7, 10</td>
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<td>CDX.EM</td>
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<td>17</td>
<td>5</td>
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<td>Emerging market CDSs</td>
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### iTraxx Indices

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Number of entities</th>
<th>On-the-Run Series</th>
<th>Traded Maturities</th>
<th>Tranches</th>
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<td>iTraxx Europe</td>
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<td>3, 5, 7, 10</td>
<td>0-3, 3-6, 6-9, 9-12, 12-22, 22-100</td>
<td>Most actively traded names in the six months prior to the index roll</td>
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<td>iTraxx Europe HiVol</td>
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<td>3, 5, 7, 10</td>
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<td>3, 5, 7, 10</td>
<td>0-10, 10-15, 15-25, 25-35, 35-100</td>
<td>Sub-investment grade names</td>
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</tbody>
</table>

Description: Most actively traded names in the six months prior to the index roll
Daily Notional Positions in Key Instruments

- CDX HY 508 0.5Y
- CDX HY 514 0.5Y
- CDX HY 517 0.5Y
- CDX IG 509 0.5Y
- CDX IG 509 1.0Y
- CDX IG 513 0.5Y
- CDX IG 516 0.5Y
- CDX IG 517 0.5Y
- CDX IG 518 0.5Y
- iTraxx MN 509 0.5Y
- iTraxx MN 509 1.0Y
- iTraxx MN 515 0.5Y

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JPM-CIO-PSI-0002054
Daily Notional Positions in Key Instruments
Hey man.

No, it’s not like that. You know, what is going on here is that this has taken, like, in a life by itself. So we are acting after Ina’s instruction, you know, who, you know, wants to talk to Hogan about it. And, I don’t know if she did already or not, or, you know, whatever.

Who, Ashley?

Huh?

Who wants to...

Ina, Ina, Ina, Ina.

About this issue?

Mmm.

Ok, well then, I need to talk to Hogan too.

You know, I don’t know, listen, I mean, to me–

So ah, this one. I, I, we don’t have any collateral, significant collateral disputes with anyone. I will, I’m trying to get Jean Francois to really check on all of the valuations of the positions. So how, how many millions of dollars are we talking about? So I, I just don’t understand, why, why could someone in March, strange as that might sound–

No, like you’re not, listen. In a, the way that, you know–

And how does it go to Ina? Because Ina is not the most stable person in the bank, so–

Yeah, that’s what I’m saying. You know it’s gotten away from me here, this one. You know, because, you know, you know, the story is like, you know, that, you know, Javier has, like, you know, sort of, some, you know, feedback and, you know, issues, you know, with the dealers.

But Achilles, Achilles.

Hmm?
Mr. Pinto: I should say that it's a situation where I need to do a formal investigation. And, really, if Javier is fantasizing about this, he's going to really, he will, he will have a bad, a hard time here. I mean, if he's right, I need to fire a lot of people. So –

Mr. Macris: Yeah, exactly, you know, I mean, I'm not on that page so much. Like, I don't disagree with you. You know, this elevation is not my style, right? But you know the story here has to do much more like, you know, the way that this was put, like, you know, forward, you know, today. All of this happened like, you know, kind of life, like in the last, you know, sort of two hours. You know, I've been told exactly how to do this. You know, so the issue that has been described is, you know, sort of in the morning call, you know, that's like, you know, two hours ago. So do you understand how rapidly this has developed? You know, Javier goes and mentions, you know, listen, we are making a mockery of JP Morgan, you know, in the street. Because, you know, we are long investment grade and the IB is like, you know, short investment grade, and we are battling it in a visible way that is, you know, creating, like, you know, a lot of question marks. And then, you know, what do you mean by that? And, you know, the issue goes like, you know, ok, what happened, like, you know, with the disclosure of the position, with the knowledge of the methodology, the capital –

Mr. Pinto: But what I understand,

Mr. Macris: Mmm, mmm.

Mr. Pinto: From what I understand, how we got here, honestly, I don't care. What I see is that it is an accusation that the investment bank, with someone leaking the position of CIO, is acting against CIO on mismarking the books to damage CIO. And the second thing is that –

Mr. Macris: No, it's not, that is not to my understanding. My understanding is, listen, I, yeah, I don't know. These are very aggressive comments. I mean, the way I said, like, you know, to Ashley, is like I don't know, you know, whose fault this is, or anybody's, you know from my side, or any other side. Like, you know, do you understand? Like I'm not, this isn't like, I don't know how, you know this has become, like you know, an issue of disciplinary action. You know, the call was more like, you know, to say, that you know, that there's a behavior from the dealer, you know, that is consistent with like in a nondeposit.

Mr. Pinto: Yeah, but whoever, if it's you or Javier, or someone, picked the way that you picked in order to escalate this one, so that may have been intentional. It's not that it wasn't intentional. It's not intentional anymore. So now that we go so far up with it, we need to, so one thing is that you tell me, I think, that this trader is doing something incorrect. I go and check. And the other one is it goes all the way to Hogan to come back to me. Then, yeah, that may have been intention, but unfortunately, that train left the station.

Mr. Macris: Well, it is what it may. It is what it may, but I'm not going to play broken phone with anybody either. You know what I mean? You know, you know, so, yeah, you know.

Mr. Pinto: Yeah, if that's what it is, then we need to investigate what it is and that's it.
Mr. Macris: This issue, like you know, the issue that you know, we’ll have subsequently, and that is, like, something that I agree with, you know, that I don’t think that it is appropriate that JP Morgan battles this in the market. And, you know –

Mr. Pinto: But Achilles, you are working on the assumption, that the guys in my, someone gave them the positions that you have. Which, I honestly, don’t think that is the case.

Mr. Macris: Javier can prove this.

Mr. Pinto: He can prove it?

Mr. Macris: Mmm hum.

Mr. Pinto: Yeah, well, then, that’s fine.

Mr. Macris: But all I’m saying is that’s not the gravity here. You know, you, you’re giving it this disciplinary spin to this that is not, like, you know, the central gravity the way I’m thinking about it. The way I’m thinking about it is, like, you know, when like, you know, basically, you know at CIO we [indecipherable] with Boaz and Deutche, that was like in JP Morgan by Deutche. You know what I mean? You know, I think, you know, the current, like, you know escalation, that we have, like you know, between, you know, you know, let’s say, you know, two different positions in the same firm. Even if that becomes like, you know, sort of elev – you know, I’m led to believe that this is not a public, you know, thing, you know. And we’re battling it out in the open.

Mr. Pinto: Ok. What, what, what are my guys doing? Just tell me. What have they done? They mismarked the books or they trade against your books, or what? What is it?

Mr. Macris: Ok, you want me to like, you know? Hold on a second. Let me, let’s be very accurate because like, you know, this was, you know, they ... Let me see if I can get you here on the speaker. Ahhh, man. This is not about “the guys done.” I have not gotten to what I think is the substance of it, but if you are amused by this conflict, we can have that conversation now. My point is, like, you know, I think that Bruno will need –

Mr. Pinto: Achilles, you need to understand that this is a very, very, very, very serious accusation.

Mr. Macris: Ok, hold on a second. Let’s deal with that then and then I’ll get to my view of the substance afterwards, ok? One second. [Switch to speaker phone.]

Mr. Pinto: You there?

Mr. Macris: Yes, I’m here.

Mr. Macris: Yeah, Javier? [Achilles talking to Javier] I have Daniel with me, and he’s telling me what do you think that his guys done wrong. And I mean, obviously, we have a great relationship so he says, and he says, why are you going, like, you know, to, that route? I explain that this is what we’ve been asked to do by Ina. But there is something, that you have a grievance, yeah? I mean terms of, you know paying and you collecting this thing. So can you explain it, tactfully?
Mr. Martin-Artajo: Yeah, Daniel, hi. Yeah, what I wanted, I reflected to Achilles is that I think that is, is something that we should discuss internally at JP Morgan, really. I mean, I think that –

Mr. Pinto: Yeah but, Achilles, Javier, can we specific? What have they done wrong?

Mr. Martin-Artajo: Yeah, no, it’s got to do with, with, with the quotes that we’re getting and the behavior of our dealer in regards to the investment grade position that we have. I mean, it’s –

Mr. Pinto: So the, sorry, hold on. The quote that you are getting from who?

Mr. Martin-Artajo: With, I forgot the name of the traders. I’ll give you the names. It’s called Roman something. Roman, I’m, I, what I don’t –

Mr. Pinto: Roman in New York?

Mr. Martin-Artajo: Yes.

Mr. Pinto: The index trader in the, the, the flow index trader in New York?

Mr. Martin-Artajo: Yes.

Mr. Pinto: So on the quotes, I mean, what? There is someone <laughs> that has no fricking clue on what you guys have.

Mr. Martin-Artajo: I know. I know.

Mr. Pinto: In New York so –

Mr. Martin-Artajo: I know. The only question, the only problem, Daniel, and maybe this is a longer conversation is that, we, we are hearing from, from counterparties in the market that they are talking about some of the positions that we have. And, and I am concerned about that, right? I don’t want –

Mr. Macris: [Interrupting.] That’s not the issue. The issue is not [indecipherable]. Say it exact what you mean.

Mr. Pinto: But, so, I’ve very bothered. So what you think is that Sanjay, or Olivier or someone. So clearly, the only one who knows who the positions are, are, is Olivier, and that’s it. So do you think that Olivier went and talked to some of your counterparts or our counterparts of all of the positions that you guys have in the market?

Mr. Martin-Artajo: No, I, I don’t think it’s that. I think that, what I’m trying to see is that, what I’m trying to say is that, there is an issue here with our IB in terms of the positions that we are trying to –

Mr. Pinto: But, but, Javier? Just to be, so, in the way that this was portrayed to me, is a very, very serious accusation. So, then, there are two things that I want to know. So if there are any, One, could be that you are concerned about something that may happen. And that is very valid, but if it didn’t happen, it didn’t happen. So my question is, there is something that DID happen, that in any shape or form, you
think that our investment bank is trading against your position, because the position was leaked in some weird form to them.

Mr. Martin-Artajo: Ok, I don't think that there is anything here that has happened that is of, of a serious nature. What I think is happening here, that is of a serious nature, is that what can happen with the marks that we get from the investment bank. Ok?

Mr. Pinto: <laughs> Have you got any? Well, that's it. So now we go to the marks. Have you got any, we don't have any collateral disputes, so, or very little ones. Have you, have you, can you see, any of the marks, that they are deliberately un-, mismarked to hurt your position?

Mr. Martin-Artajo: I have, I have to, I have to show them, I have to show them to you. I mean, I think that this got to do with, with the knowledge of our position and the way that the investment bank is trying to, to position around that with the customers. I do think that that's the whole issue that we have. And then, that is the issue that I'd like to make sure that we keep it inside the company, right? It's something that I--

Mr. Pinto: Yes, but, so I'm asking you, is there any of the marks, that we have put in our books, that they are incorrect? Or malicious, to hurt your position? Yes or no?

Mr. Martin-Artajo: [indecipherable] I'm going to send you that, so that you can judge that, Daniel. I need to send them to you.

Mr. Macris: [Yelling.] Say the examples. What does he put, this is the time, the god damn words, please.

Mr. Martin-Artajo: Ok, what happens is that, every time we put a trade on, I get, you know, I get, sort of like an immediate ask from, from the dealer into the position that we just traded, right? So, I get evidence that they have access either to ICE or to some other way to look at what we do, and you know, I am concerned about that. I am, yeah?

Mr. Pinto: Honestly, I don't, I, I don't know. Is that the case? That someone is accessing your, your position? Because Olivier gave it to them or someone? So I need to fire that person.

Mr. Martin-Artajo: Ok.

Mr. Pinto: So we need to be extremely careful.

Mr. Martin-Artajo: That's right. We need to be, I mean, I. This came through, through a very different angle, Daniel. I mean, I, I need to explain you how is it that we are raising this issue through Ina. Well, it came from a very different point of view. It came through, having to reconcile the capital that we use in the business with the actual models that we use that are developed by the investment bank too, with OI, ok?

Mr. Pinto: Yeah.

Mr. Martin-Artajo: So we, we came up with, you know, a system, a way to look at all the risk is. You know we look at the VaRs, we look at the stress VaRs, we look at the same thing that you do, ok?
Mr. Pinto: Yeah.

Mr. Martin-Artajo: So what happens is that we ended up with something that ended up with, you know, with a dialup that we have with Ashley, with Venkat, with, with a lot of people, ok? At the same time, you know, we are, risk management knows that we have large, large concentrations, ok? Now, I, I, I am hearing in the market that, you know, some of the guys in the company are talking to them and wondering what we are going to do with the positions. Now, I, I just want to stop that, yeah?

Mr. Pinto: But Javier, Javier, Javier, Javier, my friend. You know that over these days, because of the difference in performance, everyone is stating that. So that, it's very likely, I'm not saying that this is true, it may be that you are 100 percent right and I have to fire 10 people here. I don't know.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: But it is very likely that they are kind of warming you up.

Mr. Martin-Artajo: Yes. <Laughs.>

Mr. Pinto: It's very likely.

Mr. Martin-Artajo: I know.

Mr. Pinto: It happens all the time.

Mr. Martin-Artajo: All the time, man. That's exactly what I, but I want it to be inside the company. I don't want it to be known out there. And I don't want it to be getting, getting –

Mr. Pinto: But what, what the market knows, doesn't know. So, I don't know what it is. But obviously, you bought those positions in the market so it is very likely that some of the market people can put two and two together. But, let's assume that that's not the case.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: So for me, what is important is someone from my group, or Olivier, or Venkat, or Ashley, or someone else, leaked these positions to put you in a position that it will hurt the bank. Really? I, I, it is hard for me to believe that that is happening, but –

Mr. Martin-Artajo: Ok, well, then, help me with something, Daniel, because this is all I need, I need from you. What we need to do is look at what is the real issue here. Are we fighting something that is, that is, that is not the same on the other side of the investment bank and, therefore, is just something that is just dealers trying to do their normal work, trying to see what we were doing. Or are we discussing something that is substantially a mirror image of what the investment bank has. And that's what I told Achilles. Is that we need to, we need to discuss with the investment bank which of the two cases it is. Is it that we have an issue with, yeah?

Mr. Pinto: The position that you have, so, I don't know what it is. I suppose that it has to because we have some diversification benefit, by definition you have to put on a position that is the other way around.
Mr. Martin-Artajo: That’s right.

Mr. Pinto: That’s, that’s, that’s quite obvious. But, but that, from there, from there, which is a fact. Obviously, is a fact.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: And these guys know, that we, as you know, both know, that we are getting some diversification benefit.

Mr. Martin-Artajo: That’s right, yeah.

Mr. Pinto: From there, from there, to go and accuse that someone is putting you in a position that is harming JP Morgan, by leaking your positions to the market, or by, or by trading against you, or by mismarking the books, it’s a very different story.

Mr. Martin-Artajo: That’s right. So I want to –

Mr. Pinto: So what I point out is to prove these three factors have not happening or are happening. And if they are happening, I need to fire a lot of people.

Mr. Martin-Artajo: And if they’re not happening, we need to stop that they talk outside the market.

Mr. Pinto: But, you have <laughs> my friend, you don’t know if they are talking outside the market. So what do you got? You get it from Deutche? You get it from Barclays? So where are you getting from? These people, I, I don’t know. But we will see. We will check everything; we always do.

Mr. Martin-Artajo: Yes, please. That’s what I’m asking you. I am on your side. Try to, try to, try to see what we can do about this, because –

Mr. Pinto: Friends, I think that this has, unfortunately, this has took a turn and now it’s Hogan and Ina and the whole world involved –

Mr. Martin-Artajo: Yeah.

Mr. Pinto: Out of something that you suspect, but you don’t know, because a Deutsche guy or someone told him.

Mr. Martin-Artajo: No, no, no, no. That’s not, that’s not the point. The point is, is that I am working with, with you guys in trying to disclose information on what we are doing, ok? We are trying to be transparent here, with, you know, we are learning how the risk management and the QR interacts with our books. We are learning what that means for us in terms of capital. I’m trying to optimize capital. I’m trying to get a lot of that done. And I think that –

Mr. Pinto: You know, absolutely, but that, that Olivier, is that Olivier is working on that. Olivier is not part of the business anymore. Olivier, I guaranty you, there is, there is no, he is a very honest person. He has no incentive at all to leaking that into anyone, because he doesn’t work there anymore.

Mr. Martin-Artajo: Ok.
Mr. Pinto: And in any case, and in any case, that someone mismarked the books in March? It just doesn’t make sense.

Mr. Martin-Artaio: Ok, alright, I, I, I, ok, I’m just going to give you some, some, some facts. I, I, I —

Mr. Pinto: No, what I’m going to do, I would prefer that, that we get, jump inside this thing to really look into the positions, and see if we have anything that was incorrectly marked.

Mr. Martin-Artaio: Ok.

Mr. Pinto: And then we will internal audit the whole trading operations. Auditing and we will do whatever it makes you feel more comfortable.

Mr. Martin-Artaio: Ok, let’s do that.

Mr. Pinto: Yeah, obviously, this is, I would have preferred to deal with this in a different way, but we are where we are, and next time we will be extremely more careful. And, in fact —

Mr. Martin-Artaio: How would you want to do it then? So that it’s not, I mean, I, I’m, you know, I think what we need to do, I mean, for us, really, what I really wanted to understand is that we are in a, in a position where we need to understand very well what the next step is for our book, because, it is, you know the, the, the capital issues —

Mr. Pinto: But Javier, so these are two very different things. One is that you are accusing people of wrongdoing. That’s one thing.

Mr. Martin-Artaio: Yeah.

Mr. Pinto: The other one is the externalization thing that we discussed the other day. And that may or may not go ahead.

Mr. Martin-Artaio: That’s right.

Mr. Pinto: And it’s nothing to do with this thing.

Mr. Martin-Artaio: Ok.

Mr. Pinto: And if you don’t want to be a part of it, just don’t be.

Mr. Martin-Artaio: Ok, no, no, we do want. But I, I just want to make sure that we don’t have a big, I just want to clarify, that, that we don’t have a risk management issue. That’s all, Daniel, that we are —

Mr. Pinto: Yeah, that’s fine. But that, at the moment what it is, is a real accusation. It’s not that a concern that you may have for the future. And the way that the people think, over this side, is someone in my group, did something wrong. Either mismarked the books or used information that they should have not used to trade against your position and acted against the benefit of the, to harm the bank. So that is what is floating around.

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Mr. Macris: Hold on a second. Daniel, let me just say to that. Like, you know, this issue, you know, came about, like you know, less than, you know two and a half hours ago. OK? Let me just say that I talked to you about this. Like you know, so, the meeting was not, like, you know, you concentrate this meeting on disciplinary actions and things like that. I don't know where that's coming from, and I don't know what your conversation was with Ashley. You know, I believe that like Javier has shown me here, enough evidence, that like you know, the people, you know, on the desk know our positions or what we are doing in the market place. You can forward to your staff but you can see it. I don't much care about it, to be honest with you. So there is like, you know, a grievance like, you know, here, about, like you know, the knowledge, you know, of our position on the desk. I'll leave it, like you know, it to that. I don't care so much about it. The purpose of the call with, like, Ashley, that we were instructed to do with Irv. Do you understand that? "Instructed," "Irv," these are the two significant words here. You know, the issue revolved about an administrative solution in what has been perceived "a battle," you know, whether it has, like you know, disciplinary, or doesn't have, it was not like, you know, I don't know. It did not enter my mind. But there is definitely a battle. You know, that, you know, you know they work it out that they-

Mr. Pinto: A battle? Where, where, where do you see the battle?

Mr. Macris: [Talking to Mr. Martin-Artajo.] Can you explain? [Talking to Mr. Pinto.] Because the, I don't know Javier's sort of words, [talking over Mr. Pinto who says, "But Achilles, that's my point. "] but you know, you know you find [indecipherable]. Can you find something that explains to people what it is?

Mr. Martin-Artajo: Yeah.

Mr. Macris: Because I don't want to care about the disciplinary thing. I want to care, like you know, that in my opinion, if there is a short, you know, that needs to be covered by the IB, and we got the long, let's find, like you know, some solutions here. You know, I don't want to get, like you know-

Mr. Pinto: There is no, I, I don't think so. So the last big position that we have against you where we lost money is American Airlines. We hedged you at the end of last year. We lost the money and we were wrong. So, I, I, I don't know. I don't know. It may be another one. I really don't know. You know who are you trading with. But-

Mr. Martin-Artajo: Ok. So then, then what happens is that then we need to settle this inside JP Morgan. If you're right about what you're saying, I have, I have reasons to think that, that, that, you know, I think you need to do a little more work on that. But it doesn't, the issue is, is that we should keep it inside the company, whatever that is. And if there is a trade to be done, we do it internally and we don't force it outside. And if there is no trade to be done in the market, then so be it. But at least I'm clear that-

Mr. Macris: Our guys are trading in the market day in and day out.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: My, my, I don't know. I, I really need to, someone to dig into this one.
Mr. Martin-Artajo: That's right.

Mr. Pinto: What is concern for the future, you know, what someone may do and what has happened.

Mr. Martin-Artajo: Ok, let's –

Mr. Pinto: Clearly, the thing that concerns me the most, at the moment, is to see if someone has done something wrong, already. Not that you're concerned that they may do something wrong in the future, because, that, that, that hasn't happened. So –

Mr. Martin-Artajo: Ok, I'll send you, I'll send you through, through Ashley, the, the, the, you know, some of the things that we observe on our side for you to be aware of –

Mr. Pinto: But those are valuations or they are comments?

Mr. Martin-Artajo: Well, they are, they are comments. They are marks. They, they are quite a lot of things really. I mean, I, I don't think there's any, like Achilles said, I don't think this is a disciplinary thing. I, I'm just, I just don't want it to be, in the market. We're seeing as we're doing something here that is, that is, that we have a problem in our desk and at the end of the day, what we're trying to do here is actually try to optimize the book for RWA purposes. And, and I'm going to, and since we coordinating this with the investment bank, I want to coordinate whatever we need to do in the book also with the investment bank and not do it outside. Because I have a feeling that we have, you know, something to do here. And that's what I, I want to make sure that the traders know. That we cannot, I don't want to battle it outside when we have something at the end of the day. It, it should be done inside the company.

Mr. Pinto: Yeah but that, that, Javier, I, I don't understand how that one, that, from either of two things. The, the externalization is something that we, we decide that we will do together.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: And that is happening. The day to day trading, which it looks to be your concern.

Mr. Martin-Artajo: Yeah.

Mr. Pinto: That someone is trading against you, knowing your position, is something that I will be extremely surprised that is going on, but we'll take a look and see if that is coming up and that's it.

Mr. Martin-Artajo: Ok, thank you. Thank you for that, Daniel. Thank you for that.

Mr. Pinto: And if you could, so much do you think is damage?

Mr. Martin-Artajo: It's a few basis points, but it's in a large position so that's the issue.

Mr. Pinto: So it's not many millions of dollars?

Mr. Martin-Artajo: I don't know like, maybe 250?
Mr. Pinto: Two hundred and fifty million dollars?

Mr. Martin-Artajo: Yeah.

Mr. Pinto: Ok. And you think that the fact that we marked the book that way, so we are benefitting with that amount and you are having a loss of that amount?

Mr. Martin-Artajo: Well, I, I just, I’m just concerned that the bid/offer spread is wide, and I don’t know where the, the, the prices are when we trade. That’s basically what it is, really.

Mr. Pinto: Ok, so then, then, I think that we need to get Jean Francois to take a look of the marks and see if there is anything that is being done inappropriate. What I was telling Achilles is that we haven’t, we haven’t had recently, any substantial, how do you call, actually I forgot the name, discrepancies in the valuations with clients, or my market disputes.

Mr. Martin-Artajo: Ok.

Mr. Pinto: So if we would have something of that nature, we would have substantial market disputes. But in any case, so I’ll take a look, and then we’ll take it from there.

Mr. Macris: Can I, just, I want to, like, you know, comment, you know, Daniel, like on a couple of things. Like you know, just to put, like, you know, here, like, in retrospective, you know on these things. On the externalization that’s like a long-term thing, you know, we are working together, nothing is going to change. This is not of the moment, right? We are on board. Second, on the issue like, you know, like you know, coordinating our activities to optimize, like you know, our individual RWA and capital and overall the firm, that is also something, that you know, like the externalization, I want to, like you know, use, you know, Ashley and company and I’ve been, like you know, completely open, you know, in all aspects, you know with the guys that I want to work, you know to that solution and that is like a second point. What, like, has erupted, like you know, today, you know, is, like, you know, an issue of, like, you know, dysfunctionality in the way that we making the market. You know, I personally do not know, or am saying or claiming or mentioned, like you know, to Ashley, that, like you know, this dysfunctionality is, like you know, our fault, you know, the IB’s fault, or somebody else’s fault. I don’t know. Do you understand? I know there is tension. Right? It can be only in our head. Now, if, yeah?

Mr. Pinto: One of the things, one of the things that I will do without mentioning anything that we have [indecipherable]. I will check with [indecipherable] to see if any CIO activities in mark, with some, let’s see if they, if this is something that they even notice.

Mr. Macris: Right. So, like you know, what, all I’m saying is like you know, here. So the nature, like you know, of the call that I was asked to do, had to do, like you know with the issue, you know, let’s not, like you know, escalate. You know, this, you know, tension and needs, like, you know, complementary positions that we can settle administratively. Right? You know, let’s do that as opposed to, you know, continuing, like you know, being visible JP by JP into the street. Like you know, doing things dysfunctional. Dysfunctional, I think, doesn’t, you know, like inappropriate.
things or, like, in the subject to disciplinary action. I don't know. I think that, like you know, Javier seems to be a little bit more convinced, like you know, the positions that you know, that he has, like you know, they are known to the IB. And, like you know, the positions. [Speaking to Mr. Martin-Artajo] What is the system that you were telling me called?

Mr. Martin-Artajo: ICE.

Mr. Macris: [Speaking to Mr. Pinto] ICE. That the, the thing that goes into ICE. You know, the dealers, you know, see. I don't know. You know what I'm saying? I have not investigated. I don't know. My thought it was not about the disciplinary things or punishing anybody. What I'm not saying, like you know--

Mr. Pinto: No, Achilles, Achilles, Achilles? Sorry. That's, that's not right. Someone is acting wrong. So, I'm not going to accept any of the persons that work for me that don't, that don't operate with 100 percent integrity.

Mr. Macris: Ok.

Daniels: So, there is, there is an accusation. This is what it is. You may have, it may be right or wrong. Alright? Let's investigate and, and, and come to a conclusion.

Mr. Macris: Good.

Mr. Pinto: If someone did something wrong, so there, there will be a consequence of it. Of course.

Mr. Macris: All I'm saying to you is, like you know, that is not where my thought is, like you know, I'm happy that, like you know, that I opened to you what, like you know, Javier presents to me. Same thing, together from the same time, like you know, as I do, because I asked him to compile it and to put it down, because I understand the seriousness of this thing. It's not where my head is. Do you understand? Like, ok, we'll look at it, but, I understand, you know, that your approach is like, you know, on the up and up. I much appreciate it. You know, the, the point of this call that I was asked to do here, you know, and you people involved like Irv does not know the book, and, you know, whatever, Ashley, on the outside of the airplane, obviously I don't operate this way, as you know, for many years. You know, it is, like you know, the issue, there is, like, you know, something that will play in the public arena. Right? You know, for whatever reason, you know, let's sort it out. So I think that it's not--

Mr. Pinto: But, but, ah, yeah but to think, to think, that someone from us, or Olivier, or anyone else went and openly in the market, talked about your positions, really? I would be extremely surprised.

Mr. Macris: Ok.

Mr. Pinto: That the market knows that, what your positions are, that may be, because you bought tons of it.

Mr. Macris: Yeah.

JPM-CIO-PSI-A 0000140
Mr. Pinto: So then, so then, [indecipherable] for now. I mean, if you sold them back, there are only three players in this space. So, it is very likely that people know what you have. But in any case, I think that we’ll take a look and see what it is. If we did something wrong --

Mr. Macris: Again, I, all, all I want to tell you, like, I think that is, that is great that you are doing it, and I appreciate it. It is not, like you know, for me here, you know, I don’t want to, like you know, represent to anybody, and I certainly did not represent this, you know, on the quid quo, where at, like with Irv and Ashley, that like you know, there is, like you know, something here with, you know, disciplinary, you know, actions. You know, we’re talking, like you know, if there is --

Mr. Pinto: Yeah, but Achilles, Achilles, you know that when --

Mr. Macris: Ok, but I choose to, to, have like what is important to me. I’m just stating it to you. Right? You know, you --

Mr. Pinto: Yeah, I, I understand but, but, as I told you, things that that, when Ina goes and talks to Hogan and the whole company, this, this is, it was really it, probably.

Mr. Macris: Yeah.

Mr. Pinto: Ok, thank you.


###
FYI

Below is Friday's mail from the collateral team that raised the issue. It breaks out the overall disputes as at 18 April of $515mm per cp (ABS inn of these positions is approx. $35bn difference is only 1.5% of this). Morgan Stanley is the biggest dispute at $117mm this is what triggered the collateral review. This is mostly tranches as it is on our bilateral trades and the majority of the index trades are facing ICE. The biggest difference by instrument is the iTraxx Series 9 10-year 22-140 tranche which is approx $95mm. Collateral disputes are not uncommon at the firm level. We do occasionally get collateral disputes the bau process is for MO to check the bookings and tie out positions and for VCG to confirm the mark. MO have confirmed with the collateral team that the positions have been fully tied out with the counterparty other than a very small number of trades with an immaterial variance that have parameter breaks.

Currently VCG are working on validating that the book is marked within thresholds (focusing on the top 19 instrument differences which is about 50% of the total) and are looking to completing this tomorrow morning. The desk were given the breakdown on Friday as well. VCG will also look at any findings from their work as well.

The collateral team also provided a time series which shows the overall difference growing through March to a approx. $500mm at March month end. March month end was tested as satisfactory by VCG.

Thanks

Paul
Sent: Friday, April 20, 2012 9:04 AM
To: Lewis, Phil
Subject: FW: Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors

Phil - i.e. Rory seems to be working on this with the FO. I have alerted Ed as well.

John C. Wilmot | Chief Investment Office | John.Wilmot@JPMorgan.com | Work: (212) 834-5432 | Cell: (917) 666-1234

From: Demo, Mark
Sent: Friday, April 20, 2012 9:01 AM
To: Wilmot, John
Cc: Morris, Andrew; Miller, Charles R; Blasinsky, David; Hughes, Jason LDN
Subject: FW: Largest OTC Collateral Call Dispute Report plus Update on Collateral Disputes Reported to Supervisors

John - I wanted to bring something to your attention. This is a weekly report that we in Collateral produce that reflects the 10 largest collateral disputes for the week. You should know that in our top 10 this week we have quite a few disputes that are largely driven by mtn differences on G15London trades. If you look at the total mtn differences across the G15 book facing the G15 — the mtn difference totals over $500MM.

I have included a break out of yesterday’s mtn differences by G15 firm for only the G15 London credit book. The numbers in the own column show our trade count facing the counterparty. The numbers in the Diff MMT column show the total mtn difference across the G15 London trades facing the counterparty indicated.

We are in correspondence with your middle office (Rory O’Neil) who has taken our questions regarding these differences to your Front Office. We are awaiting a response. We are also doing mtn difference based on product type and underlier which we will have a little later today.

I am working from home today — I can be reached at [email redacted] if you want to talk.

Mark Demo | Collateral | J.P. Morgan | 383 Madison Avenue, 11th Floor, New York, NY 10179 | T: 212.822.5485 | mark.demo@jpmorgan.com

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From: Demo, Mark
Sent: Thursday, April 19, 2012 6:33 PM
To: Staley, Jes;
Cc: Zinke, Steinar; Sankey, Brian; Eichenberger, Stephen; Cox, Andrew UK; Christ, Michael; Eckelmann, Peter C; Waller, Lawrence;

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JPM-CIO-PST-H 0000142
Attached is this week’s report detailing the 10 largest collateral call disputes on the OTC derivatives book. In order to reflect ongoing issues with some of the larger broker dealers, this report lists counterparts with which we are seeing consistent differences regardless of whether it is JPMC or the counterpart that is showing exposure.

The report also reflects updates on collateral disputes previously reported to Supervisors as well as those disputes tracking to be reported to Supervisors for April month end.

The RAG ratings in col O are defined as follows:
- Red = a dispute meets the age, size and risk rating criteria set out in the grid below.
- Amber = the dispute does not meet all the criteria on the grid.
- Green = either the dispute has been resolved since the date of the data cut for this report, or resolution is imminent.

cid:image003.jpg@OlC9C8D7,DS4lBBOO
From: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>  
Sent: Thu, 03 May 2012 00:22:41 GMT  
To: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>  
CC: Hogan, John J. <John.J.Hogan@jpmorgan.com>; Bacon, Ashley <Ashley.Bacon@jpmorgan.com>  
Subject: CSW 10%

Doug,

On page four of the materials is a graph of cs 10% since beg. 2011 Please let me know if this satisfies your request.

Irv

---

From: Goldman, Irvin J  
Sent: Tuesday, May 01, 2012 01:49 PM  
To: Hogan, John J.; Zubrow, Barry L  
Subject: CIO Risk Material - As requested

John, Barry

Enclosed is the background material you requested for the audit committee meeting. Let me know if you need anything more.

Irv
Executive summary

- Limit structure for synthetic credit book is incorporated within the overall CIO MTM credit limits.
- Synthetic Credit VaR is large percentage of overall CIO VaR.
- Existing risk metrics and risk appetite were consistent with historical experience.
  - Recent experience more consistent with extreme tail scenario.
- Large stress loss reduction actions taken during Q1 increased substantially complex risks not captured by the current limit structure.
- Substantial notional and risk changes occurred within a very condensed time period in late Q1.
- Risk management initiated overall review of all CIO limits and governance policy in February 2012.
Background

Credit Synthetic Credit in the context of the portfolio:
- Historically intended to provide positive P&L protection to large credit events.
- Partial offset to long credit exposures in the AFS portfolio.
- Risk protection strategy changes in 2012 from historical profile.

Risk profile evolution:
- Pre Q4 2011
  - The portfolio was net short risk to credit spreads, with upside on HY defaults, positive spread convexity to a sell-off/widening.
  - In preparation for large expiry of HY short risk positions in Dec '11, and contemporaneous with increased long risk positions in Q3, the HY short risk position is increased.
- Q4 2011
  - 30 Dec CSW10% sensitivity is maximum short at -$152MM, HY default of AMR in Nov'11, with emerging default risk among other names (e.g. Kodak RESB). High yield indices become less liquid.
- Q1 2012
  - To neutralize the net short risk position emanating from HY short risk positions, yet to retain upside on defaults, investment grade long risk positions are increased (this increases the concentration risk to series 9 instruments in CDX and iTraxx, and increases sensitivity to the 'Compression' risk of relative value between IG and HY positions.
  - Portfolio net CSW10% moves from -$152MM to $152MM as at March.
- Short risk neutralization strategy creates substantially higher complex risk profiles.
  - Directional credit spreads
  - Compression (investment grade vs. high yield, US and Europe)
  - On-the-run/off-the-run basis
  - Curve
  - Tranche/Correlation
  - Inflation rates
Position Evolution 2012

- Management decides to reduce short risk position:
  1. Spread +10%; spread +50% position turns from long protection to long risk
  2. Significant increase in net notional position (not indicative of risk position)
  3. Decreasing index equivalent during 1Q'12, but increase in spread +50% tells a different story

<table>
<thead>
<tr>
<th>Date</th>
<th>1Q'12 Net Notional</th>
<th>2Q'12 Net Notional</th>
<th>3Q'12 Net Notional</th>
<th>4Q'12 Net Notional</th>
<th>1Q'13 Net Notional</th>
<th>2Q'13 Net Notional</th>
<th>3Q'13 Net Notional</th>
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<td>170</td>
<td>180</td>
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<td>100</td>
<td>110</td>
<td>120</td>
<td>130</td>
<td>140</td>
<td>150</td>
<td>160</td>
<td>170</td>
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<tr>
<td>3Q'12</td>
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<td>100</td>
<td>110</td>
<td>120</td>
<td>130</td>
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<td>160</td>
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<td>110</td>
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<tr>
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<td>70</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>110</td>
<td>120</td>
<td>130</td>
<td>140</td>
</tr>
<tr>
<td>2Q'13</td>
<td>60</td>
<td>70</td>
<td>80</td>
<td>90</td>
<td>100</td>
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<td>120</td>
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</tr>
<tr>
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<tr>
<td>4Q'13</td>
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<td>50</td>
<td>60</td>
<td>70</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>110</td>
</tr>
</tbody>
</table>

**J.P. Morgan**
Risk metrics and limits: CIO limits structure

- For MTM instruments, limits encompassed both the accounting designated investment portfolios, as well as hedge activity.
- Limits were not set at the specific level of the Synthetic Credit Portfolio.
- Limits in place include:
  - CIO VaR
  - CIO stress
  - Credit spread sensitivity (CS01)
  - Exposure to 10% wider spreads (CSW10%)
- Limit exceeded during 1Q in CS BPV was approved with a plan to revise the limit as CS01 comingle and IG CS01
- Review of all CIO limits and governance initiated in February 2012.
Corporate risk appetite

- Corporate Risk Appetite: "No quarterly loss greater than $(2.23) - ($1.58) Corp. ex PE; $(750mm) PE; $(5.46)"
- CIO contribution to corporate:
  - CIO stress limit on MTM not at $(550mm), consistent with historically delivered performance
  - Recent change in MTM stress limit to $(1.09) driven only by inclusion of preferred stock investments
  - Stress performance of MTM activities not expected to breach appetite
  - Actual P/L driven by a series of idiosyncratic tail risks
- VaR, stress, P/L experience did not foretell relative value dislocations
- Focus of risk metrics was performance of synthetic credit in credit deterioration scenario

CIO MTM revenues in the context of the overall corporate disclosed revenues

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Principal transactions</td>
<td>$123</td>
<td>$124</td>
<td>$125</td>
<td>$126</td>
<td>$127</td>
<td>$128</td>
<td>$129</td>
<td>$130</td>
<td>$131</td>
<td>$132</td>
</tr>
<tr>
<td>Total equity gain/(loss)</td>
<td>$(45)</td>
<td>$(46)</td>
<td>$(47)</td>
<td>$(48)</td>
<td>$(49)</td>
<td>$(50)</td>
<td>$(51)</td>
<td>$(52)</td>
<td>$(53)</td>
<td>$(54)</td>
</tr>
<tr>
<td>Securities gains</td>
<td>49</td>
<td>54</td>
<td>59</td>
<td>64</td>
<td>69</td>
<td>74</td>
<td>79</td>
<td>84</td>
<td>89</td>
<td>94</td>
</tr>
<tr>
<td>Total pretax income</td>
<td>15</td>
<td>21</td>
<td>26</td>
<td>31</td>
<td>36</td>
<td>41</td>
<td>46</td>
<td>51</td>
<td>56</td>
<td>61</td>
</tr>
<tr>
<td>MTM VaR 95%</td>
<td>57</td>
<td>62</td>
<td>67</td>
<td>72</td>
<td>77</td>
<td>82</td>
<td>87</td>
<td>92</td>
<td>97</td>
<td>102</td>
</tr>
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</table>

MTM Revenues for CIO & CRP (in $mm)

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>CIO</td>
<td>$(255)</td>
<td>$(240)</td>
<td>$(225)</td>
<td>$(210)</td>
<td>$(195)</td>
<td>$(180)</td>
<td>$(165)</td>
<td>$(150)</td>
<td>$(135)</td>
<td>$(120)</td>
</tr>
<tr>
<td>Total CIO &amp; CRP</td>
<td>$(457)</td>
<td>$(420)</td>
<td>$(385)</td>
<td>$(350)</td>
<td>$(315)</td>
<td>$(280)</td>
<td>$(245)</td>
<td>$(210)</td>
<td>$(175)</td>
<td>$(140)</td>
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Sythetic Credit (in $mm)

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<tr>
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<td>$(240)</td>
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<td>$(135)</td>
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</tr>
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<td>$(385)</td>
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<td>$(315)</td>
<td>$(280)</td>
<td>$(245)</td>
<td>$(210)</td>
<td>$(175)</td>
<td>$(140)</td>
</tr>
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INTERNAL USE ONLY
CIO risk appetite

**Financial**

<table>
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<tr>
<th></th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td></td>
</tr>
<tr>
<td>Positive NI relative to allowable risk transfer</td>
<td>Baseline Lowest NI (qtr) $114.6m Q1 2012</td>
</tr>
<tr>
<td>MTM Overlay stress no more than two quarters budgeted MTM revenues</td>
<td>High Adj Lowest NI (qtr) $ 2.6m Q1 2012</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ROE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted total revenues 2012 $1.77B</td>
<td>Baseline Lowest ROE (qtr) 3.2% Q1 2012</td>
</tr>
<tr>
<td>Target ROE of at least 15% based on capital of $6.6B</td>
<td>High Adj Lowest ROE (qtr) 0.1% Q1 2012</td>
</tr>
</tbody>
</table>

**Portfolio Strategy**

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Credit Risk</td>
<td></td>
</tr>
<tr>
<td>Single-name exposure subject to firmwide single name Risk policy</td>
<td></td>
</tr>
<tr>
<td>Country Risk subject to firmwide Country Risk limits</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Risk</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>VaR: One day 95% unexpected loss in normal market conditions measured against a one year unweighted look-back period. Limits for MTM activity.</td>
<td></td>
</tr>
<tr>
<td>Stress: FSI LOB Worst Case, stressed rates, applied to MTM, AFS and structural risk swap</td>
<td></td>
</tr>
<tr>
<td>Limits for MTM activity 95% confidence limits</td>
<td></td>
</tr>
<tr>
<td>Largest broad exposure categories are interest rate and credit spread risk which are subject to input allocation from the SAA Investment Committee</td>
<td></td>
</tr>
</tbody>
</table>

**Risk Considerations**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of Equity limit on overall structural interest rate risk position</td>
<td></td>
</tr>
<tr>
<td>Currently analyzing impact of inclusion of OCI in regulatory capital under Basel III capital rules</td>
<td></td>
</tr>
<tr>
<td>Pre-tax OCI volatility per quarter $28</td>
<td></td>
</tr>
</tbody>
</table>

**Operational Risk**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Ongoing technology initiative to increase capability and streamline operating environment on track</td>
<td></td>
</tr>
<tr>
<td>Increased focus on key operating and regulatory risks</td>
<td></td>
</tr>
<tr>
<td>Targeted turnover in key finance and front office personnel during Q1 2011: replacements and additions possess significant finance and control related backgrounds</td>
<td></td>
</tr>
<tr>
<td>Focusing significant attention on ensuring compliance with regulatory reform requirements including the Volcker Rule and derivatives clearing</td>
<td></td>
</tr>
<tr>
<td>Continue to optimize straight through processing rates and apply rigorous controls over cash and securities movements</td>
<td></td>
</tr>
<tr>
<td>No arising with material financial impact in 2011</td>
<td></td>
</tr>
</tbody>
</table>
CIO Synthetic Credit and risk appetite

- Synthetic Credit is a significant part of CIO's MTM activity
- Generally very benign P/L experience relative to VaR
- P/L experienced in March and April 2012 represents a tail event of relative market moves
- Synthetic Credit VaR has generally overstated actual P/L and did not capture potential for recent moves
Capital Metrics History

- RWA measurement model for credit derivatives under development for implementation with Basel III
- Firm is managing to Basel III measure, though regulators do not yet require it
- Managing to the model and model developments showed promise as total RWA reduced during December and January
- From late January through February model output was halted due to technology issues
- Portfolio managers attempted to estimate capital based on VaR output
- VaR however tied to much more "normal" (1 in 20 day) part of the distribution
- Capital was increasing but QR could not provide information for 5 weeks.

<table>
<thead>
<tr>
<th>Month</th>
<th>VaR</th>
<th>Scenario</th>
<th>BIC</th>
<th>QIC</th>
<th>Total</th>
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<tr>
<td>March '11</td>
<td>4.37</td>
<td>12.38</td>
<td>37.97</td>
<td>n/a</td>
<td>54.68</td>
</tr>
<tr>
<td>May '11</td>
<td>3.72</td>
<td>10.84</td>
<td>36.32</td>
<td>n/a</td>
<td>51.00</td>
</tr>
<tr>
<td>June '11</td>
<td>2.10</td>
<td>5.27</td>
<td>40.90</td>
<td>n/a</td>
<td>44.50</td>
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<tr>
<td>July '11</td>
<td>1.67</td>
<td>5.27</td>
<td>40.90</td>
<td>n/a</td>
<td>44.50</td>
</tr>
<tr>
<td>August '11</td>
<td>2.07</td>
<td>17.36</td>
<td>72.49</td>
<td>n/a</td>
<td>96.88</td>
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<tr>
<td>September '11</td>
<td>4.27</td>
<td>12.29</td>
<td>76.30</td>
<td>n/a</td>
<td>94.88</td>
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<tr>
<td>October '11</td>
<td>4.48</td>
<td>15.65</td>
<td>76.30</td>
<td>n/a</td>
<td>94.88</td>
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<tr>
<td>November '11</td>
<td>4.37</td>
<td>11.46</td>
<td>73.89</td>
<td>n/a</td>
<td>91.30</td>
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<tr>
<td>December '11</td>
<td>5.22</td>
<td>14.65</td>
<td>82.27</td>
<td>n/a</td>
<td>102.15</td>
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<tr>
<td>January '12</td>
<td>4.45</td>
<td>11.99</td>
<td>22.09</td>
<td>n/a</td>
<td>58.53</td>
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<td>February '12</td>
<td>3.92</td>
<td>8.32</td>
<td>55.81</td>
<td>n/a</td>
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<td>March '12</td>
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<td>13.25</td>
<td>72.63</td>
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<td>99.80</td>
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</table>
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Risk Policy

New Business Initiative Approval
Chief Investment Office

Updated 07/17/2006

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Rationale

This policy was originally approved by Chief Investment Office's Risk Committee on May 5, 2005 and was effective as of that date. It has been developed in accordance with the Firm-wide policy New Business Initiative Approval (NBIA), which requires each line of business to establish an NBIA policy following certain guiding principles for risk control, and approval of that policy by the LOB's Risk Committee.

Changes from Previous Version

- The Firm-wide oversight process has been discontinued. As a result, the new Firm-wide NBIA policy shifts responsibility for determining the appropriate level of due diligence and sign-off required for all new products or initiatives to the lines of business.
- For CIO, the role of oversight, formerly performed by the Firm-wide new product group, will shift to the CIO Risk Committee. Individual regions or business lines will continue to sponsor new initiatives and manage the NBIA process, including co-ordination with all groups requiring sign-off.
- All NBIA should be submitted to the CIO Risk Committee for concurrence prior to commencing the formal sign-off process.

Effective: 05/17/2006
Updated: 07/17/2006
Policy No.: CIO-CO-04-78

Category: Risk Incentives
LOBs: Chief Investment Office (CIO): Structural Interest Rate Risk Management - all regions, MSR (Mortgage Servicing Rights) hedging activities, RMBS (Residential Mortgage Backed Securities) hedging activities, FX hedging activities, equity and credit trading activities. This policy may be updated at a later date for the inclusion of CIO:Voluntary Pension & Retirement Plans and other CIO activities.

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JPM-CIO-PSI-H 0001142
Key Points

- This policy establishes guidelines for CIO New Business Initiative Activity (NBIA) approval, replacing New Product Approval (NPA) guidelines.
- Establishes minimum requirements for sponsorship of NBIA and the required approval process.
- mandates Regional Business Head sponsorship of NBIA and documentation of all new business initiatives prior to inclusion in CIO authorized instrument listing.
- Shifts oversight role for new initiatives to CIO Risk Committee from centralized corporate group (now disbanded). Requires submission of NBIA to CIO Risk Committee prior to its launch.

Policy Statements

1. Definition

A New Business Initiative Approval (NBIA) is the introduction of a new or changed product, service or activity. The materiality of a change is a determining factor in identifying the appropriate risk control procedure to be followed. In a broad sense, new initiatives include the following:

- A new product to a region or business line with CIO.
- A significant change to an existing product or business activity that significantly alters the risk managed by CIO.
- Introduction of a product or activity in a new location.
- A new product or activity requiring significant change to systems, operations or middle office infrastructure to process.
- Revival of an existing product or activity that has been dormant for a significant period of time.

2. Sponsorship

Each NBIA should be sponsored by a regional or business head (direct reports). The sponsor is responsible for proposing an NBIA to the CIO Risk Committee prior to its launch. The proposal should be in the form of a business case analysis and include, where appropriate, the following information:

- Purpose (e.g., required to hedge incremental risk).
- Cost estimate for systems or processing.
- Incremental return or financial P&L estimate.
- Person responsible for managing process (e.g., business management/CFO representative).
- Associated infrastructure (systems, legal entities, etc.).
- Market risk, credit risk, finance, technology, etc.
3. Process

The NBIA approval process should include at a minimum:

- Regional or business unit head (direct report).
- Market Risk Management.
- Middle Office.
- Operations and technology representative responsible for processing.
- Regional CIO/COO/RM representative.
- Audit.
- Credit risk, finance, etc.

The sponsor and/or associated Business Manager is responsible for hosting an introductory presentation to all designated signatories at initiation of an NBIA proposal. It should comprise a clear business rationale, overview of the product, proposed support infrastructure and outline any known issues. The forum should also offer signatories a chance to pitch initial questions or raise concerns/issues that may need resolution prior to launch.

4. Due Diligence

The specific level of due diligence required for each new product or initiative will be determined by the product sponsor and reviewed, where appropriate with the CIO Risk Committee. In addition to the minimum requirements, the review should include, as appropriate, other risk control areas such as legal, compliance, credit, liquidity management, or other risk functions.

The Business Manager (or sponsor) should maintain a master copy of the NBIA document and ensure it is kept updated. Approvers should submit comments, recommendations and conditions for sign-off to the Business Manager for inclusion in the master copy.

5. Sign-off

If an NBIA cuts across two or more locations where coverage personnel differ, the signatories should ensure approval is sought from all additional interested parties before offering an official sign-off on behalf of their corporate function. Approvals must be received in written email format from each and all designated signatories.

6. Other Considerations

- A post-implmentation review should be done where appropriate to evaluate whether or not the original process assumptions were correct and whether or not the risk controls are performing as intended and that the activity volume is not taxing the infrastructure.
- If the event an NBIA-driven transaction is not executed within 1 year of sign-off, the NBIA should be re-circulated for re-validation.
- Records of all NBIA approvals should be maintained within the sponsoring location.
Regulatory Requirements

The NBIA policy is a key control for Sarbanes-Oxley. Documentation of an initiative definition, controls, how appropriate risk area reviewers were determined and actual risk area approvals are to be archived for seven years.

Interagency statements and individual statements regarding new initiative due diligence are regularly distributed by regulators. As an example, guidance as to the process to be followed to prudently manage the risks associated with new, expanded or modified bank products and services was distributed by the OCC on May 10, 2004.

Chief Investment Office
New Business Initiative Approval
Executive Summary

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Credit and Equity Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio/Strategy</td>
<td>NA/NA</td>
</tr>
<tr>
<td>Initiative Sponsor</td>
<td>Andrew Martin, Andy Panne.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initiative Description</th>
</tr>
</thead>
</table>
| CIO needs broad product capability/structure to dynamically allocate capital and invest across asset classes, as well as to effectively manage residual exposures created by the Firm’s operating businesses. The key area where CIO needs to initially build out its product capability are in Credit & Equities.

<table>
<thead>
<tr>
<th>Executive Decision for Presenting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit:</td>
</tr>
<tr>
<td>The Firm has large cyclical exposure to credit, which is the single largest risk concentration driven by the operating businesses.</td>
</tr>
<tr>
<td>Credit exposure and capital are increasingly fungible (Basel II).</td>
</tr>
</tbody>
</table>
| CIO to add credit capabilities to manage more directly and proactively interest rate, mortgage, and foreign exchange.

<table>
<thead>
<tr>
<th>Equity:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide CIO with capability to opportunistically allocate capital to equity</td>
</tr>
<tr>
<td>Define and target existing macro views.</td>
</tr>
<tr>
<td>Complement CIO’s existing product capability in constructing macro hedges over the economic cycle.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Changes From Current Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit:</td>
</tr>
<tr>
<td>CIO currently has very limited credit capability, mainly being confined to yield enhancement strategies. This initiative will provide the platform to build CIO’s capability to be able to leverage its credit exposure and diversify its asset classes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity:</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIO’s current underwriting model includes equity products with most of the macro exposure being focused on Asia. This expanded product set will allow CIO greater capability in targeting sectors and sectors across regions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Changes to Operational Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIO will rely on the Equity Derivative Group (EDG) support model.</td>
</tr>
</tbody>
</table>
Key Risk Issues

- CIO will delegate oversight of balance sheet administration.

Risk Rating (1, 2 or 3)

- 1: Low: New products and systems are CIO, but not to the Firm.
- 2: Medium: Non-core, strategic risk.
- 3: High: Core, significant risk.

Priority Rating (A, B or C)

- A: High
- B: Medium
- C: Low

Guidance:

- Initiative Approver: authorizes initiative development, approves the initiative launch and prioritizes initiatives for development. The initiative approver should be a direct report of the CIO.
- Initiative Sponsor: typically the Portfolio Manager.

Risk Rating is based on incremental risk and materiality of risk change:

1. Low Risk - insignificant incremental risk - new business for the firm, insignificant residual risk after risk management, negligible substantive requirement, non-core business, minimal exposure to firm.
2. Moderate Risk - moderate incremental risk - multiple risk control areas affected, significant substantive requirement, non-core business.
3. High Risk - high incremental risk - significant substantive requirement, cross-functional portfolio, significant impact to capability.

Initiative Title

- The Launch Date
- Date Authorized to Proceed with Development
Chief Investment Office  
New Business Initiative Approval  
Proposal  

Credit & Equity Capability

<table>
<thead>
<tr>
<th>Initiative Sponsor</th>
<th>Initiation Venue</th>
<th>Andy Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Contact</td>
<td>Ken Biddle, Ken</td>
<td>Chen, David</td>
</tr>
<tr>
<td>Authorization to</td>
<td>Ken Biddle, Ken</td>
<td>Chen, David</td>
</tr>
<tr>
<td>Develop Internals</td>
<td>Ken Biddle, Ken</td>
<td>Chen, David</td>
</tr>
<tr>
<td>Target Launch Date</td>
<td>Ken Biddle, Ken</td>
<td>Chen, David</td>
</tr>
</tbody>
</table>
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2. Working Group & Approver List
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7. Finance - Regulatory Capital
8. Finance - Controls
9. T&O - Technology
10. T&O - Operations
11. Tax
12. Legal
13. Compliance
14. Pudding
15. Audit
Appendix 1: CFTC Speculative Position Limits
Appendix 2: Non-Statistical Limits
Appendix 3: System Architecture
Appendix 4: Equity Sector Index Futures
1. Proposal Summary

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Credit and Equity Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio/Region(s)</td>
<td>NA/EMEA</td>
</tr>
<tr>
<td>Initiative Sponsor</td>
<td>Andy Panxures, CIO</td>
</tr>
</tbody>
</table>

**Initiative Approach:**

**Brief Initiative Description:**
CIO needs broad product capability/property to dynamically allocate capital and invest across asset classes, as well as to effectively manage residual exposure created by the Firm's operating businesses. The key areas where CIO needs to build out its product capability are in Credit & Equities.

**Economic rationale for proceeding:**

**Credit:**
- The Firm has large cyclical exposure in credit, which is the single largest risk concentration from the operating businesses.
- Credit exposure and capital are increasingly fungible (Basel II).
- CIO is still using capabilities to manage sector overlay programs similar to interest rates, mortgage, and foreign exchange.

**Equity:**
- Provides CIO with capability to opportunistically allocate capital to equity to:
  - Relax and target-tilting asset weights.
  - Complement CIO's existing product capability in managing oversize volatility over the economic cycle.

**Key changes from current activity:**

**Credit:**
- CIO currently has very limited credit capability, mainly being confined to yield enhancement strategies. This initiative will provide the platform to build CIO's capability in order to allow CIO to manage corporate properties and diversify in other classes.

**Equity:**
- CIO currently trades exchange-traded equity index products with most of the current activity being focused in Asia. The expanded product set will allow CIO greater capability in targeting sectors and indices.

**Support:**
- CIO will be using the PYRAMID infrastructure and back-up model, which although well established within the Firm is new to CIO.

**Key Risk Issues:**
- CIO will be reliant upon the EDG middle office processing and confirming equity. This will be addressed via SLA between CIO and

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<table>
<thead>
<tr>
<th>Risk Rating (1, 2 or 3)</th>
<th>2 - Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>New product and systems to CIO, but not to EMEA</td>
</tr>
<tr>
<td>Priority Rating (A, B or C)</td>
<td>A - High</td>
</tr>
<tr>
<td>Processing Location</td>
<td>Private</td>
</tr>
<tr>
<td>Main systems impacted</td>
<td>STL, PYRAMID</td>
</tr>
<tr>
<td>Other EDFS or Legal Entity impacted</td>
<td>BMO and Whistlebear Inc.</td>
</tr>
</tbody>
</table>

### Operational Impact

<table>
<thead>
<tr>
<th>(Include anticipated increased key capacity metrics)</th>
<th>Anticipated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit (default/track, CTN ass.)</td>
<td>80</td>
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<tr>
<td>Credit default swaps</td>
<td>40</td>
</tr>
<tr>
<td>Exchange traded index futures</td>
<td>100</td>
</tr>
<tr>
<td>Options on exchange traded futures</td>
<td>250</td>
</tr>
<tr>
<td>CFT total margin swaps on individual</td>
<td>50</td>
</tr>
<tr>
<td>Exchange traded structured products</td>
<td>50</td>
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</tbody>
</table>

### Other Significant Information

<table>
<thead>
<tr>
<th>Regulatory approval required</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet usage</td>
<td>Name of author</td>
</tr>
<tr>
<td>Other Policies impacted</td>
<td>Name of author</td>
</tr>
<tr>
<td>Additional Expenditure Required</td>
<td>Advanced balance and infrastructure group, CTO's Office, EMEA</td>
</tr>
<tr>
<td>Date authorized to proceed with development</td>
<td>April</td>
</tr>
<tr>
<td>Target Launch Date</td>
<td>Late April</td>
</tr>
<tr>
<td>Key Contact for questions</td>
<td>Name of author</td>
</tr>
<tr>
<td>Team responsible for Post Implementation Review</td>
<td>Name of author</td>
</tr>
</tbody>
</table>
### Working Group and Approvers

<table>
<thead>
<tr>
<th>Subject Department</th>
<th>Working Group Methodology</th>
<th>Sponsor</th>
<th>Actual Completion Date</th>
<th>Date Approved</th>
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</thead>
<tbody>
<tr>
<td>Treasury Operations</td>
<td>ToDate</td>
<td>ToDate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio Manager (the relevant sponsor)</td>
<td>AddRe b, incl. only Pantry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional CFO</td>
<td>Regional CFO</td>
<td>Regional CFO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Team Manager</td>
<td>Team Manager</td>
<td>Team Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td>Risk Management</td>
<td>Risk Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Manager, Credit Risk &amp; COO</td>
<td>Service Manager, Credit Risk &amp; COO</td>
<td>Service Manager, Credit Risk &amp; COO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury - Accounting</td>
<td>Treasury - Accounting</td>
<td>Treasury - Accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology - Finance</td>
<td>Technology - Finance</td>
<td>Technology - Finance</td>
<td></td>
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</tr>
<tr>
<td>Technology - Systems</td>
<td>Technology - Systems</td>
<td>Technology - Systems</td>
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<tr>
<td>Compliance</td>
<td>Compliance</td>
<td>Compliance</td>
<td></td>
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<tr>
<td>Audit</td>
<td>Audit</td>
<td>Audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other as appropriate</td>
<td>Other as appropriate</td>
<td>Other as appropriate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal team (COGFC)</td>
<td>Legal team (COGFC)</td>
<td>Legal team (COGFC)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Sign-off procedure in separate file distributed with this document.*
3. Initiative Overview

3.1. Executive Overview

Executive Overview: This document provides an overview of the proposed initial product list for Credit Indices. The product list includes Credit Indices and Credit Default Swaps (not on corporate names) for the Credit Indices. The implementation of these products is scheduled for the second half of 2006.

Proposed Initial Product List:

- Credit Indices: Trax, CDX, etc. - set below for Indices
- Credit default swaps (not on corporate names) - set below for Indices
- Options on Credit Indices - set below for Indices

For EMEA, options on Credit Indices are independent upon the build out of credit products within the Credit Equity Swaps, scheduled for the second half of 2006, and should not be linked until implementation is complete.

Indices:

- Euro: Junx, US: CDX, Japan: Junx

Components:

- Xover 5 yr
- Xover 5 yr
- Main 5 yr
- Main 5 yr
- Main 5 yr
- Financial Sub Index 5 yr
- Financial Sub Index 10 yr

Options on:

- Xover 5 yr
- Xover 5 yr
- Xover 5 yr
- Main 5 yr
- Main 5 yr
- Main 5 yr

Indices:

- Exchange traded index futures (almost an approved product) - see below for Indices
- Options on exchange traded futures - see below for Indices
- OTC index credit swaps on reference products - see below for Indices
- Exchange traded index products - Euro and SPDRs (for list of exchanges and contacts)

Indices:

- S&P
- Euronext
- FTSE
- CAC40
- Nasdaq

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4. Trade & Legal Entity Flow

- Clear facing trade captured in Pyramid
- Trade settled through STS
- Confirmation generated through XDG a subset of STS
- Pyramid auto generates a back to back trade between the Bank and JP Morgan Whitefrirs Inc.
- Pyramid sets both JPMCB and JP Morgan Whitefrirs Inc General Ledger
- Client side recorded in JPMCB
- Trade risk recorded in JP Morgan Whitefrirs Inc

a. Legal entity exposure

- London Branch (trades back-to-back through the branch)
- NY Branch (trades back-to-back through the branch)
- JP Morgan Whitefrirs Inc (ultimate repository of the risk)
5. Market Risk/Valuation Control/Credit Risk

Market Risk

The initial product slate is:

Credit ( dudes VaR limits):
- Credit indices
- Credit default swaps
- Options on credit indices

Equity (dudes VaR limits):
- Exchange traded index futures (already on approved product)
- Options (for OTC non-exchange traded indices) (already on approved product)
- OTC total return swaps on indices
- Exchange traded funds

The business has, in order, operated under a regional limits infrastructure. It may be necessary to adjust the hierarchy to be more reflective of a global risk framework by asset class. This will require development work from the VARs MO and the risk reporting teams.

Equity trading:

From an Equity perspective the existing VaR limits will need to be supplemented with additional quantitative measures such as delta and vega to ensure concentration levels are kept in check and to more appropriately measure the option-related risk. (See Appendix 2)

Business will need to be booked into Pyramid (Equities version) and VARS feeds established to ensure appropriate VaR exposure - this would directly match the setup for institutional Equities. VaR is calculated within Pyramid and the risk number is fed to VARs for consolidation with the rest of the business’s portfolio. Risk is fed from Pyramid’s front-end risk tool to VARs on an ‘underlying’ basis (e.g., FTSE, DAX, Eurostoxx) to support in individual index/sector feeds will need to be used to view trade details and observe relative value-at-risk measurements. MVAR will also require access to PyraValue.

Credit trading:

Credit trading is essentially a new business and therefore requires a new limits infrastructure comprising both VaR and new quantitative measures such as 10% credit spread widening, default or defaul exposure.

Credit will need to be booked into Credit Hybrids version of Pyramid and utilize the ‘Trevor’ database to ensure:
(i) index exposures are fed on a decomposed score-by-score basis for more accurate VaR computation and
(ii) the Single Name Position Risk monitoring process.

Credit Hybrids version does not support credit options.

CDO will also need to access the separate PCM feed from Trevor for regulatory capital purposes.

It is understood that owing to system constraints the Credit Hybrids functionality within Pyramid will not be available for use by CDO until late May 2004. CDO should therefore rely on the existing credit option trading until this time. Hence the Expiry version of Pyramid is the only platform available for these as a series of short-tenors, namely:
(i) no decomposed score feed
(ii) no CDO feed
(iii) reliance on the Pyramidal model for computing VaR (in which credit data is condensed to be visible). CDO will need to additionally cleanse the PCM feed for regulatory capital purposes and should ensure that the credit product are set up accordingly.
1893

Given the deficiencies of the Pyramid Equity rules for the credit trading activity, MYAR would insist that in the event the required systems development does not occur by end of 2005 new activities must stop and the CIO Risk Committee must evaluate how to proceed.

Risk Committee

CIO is not a market maker and uses the Investment Bank's risk and valuation systems to transact in products. An each CIO is a price taker using prices and valuation inputs assembled and transmitted by the market making businesses of the Bank. CIO's Valuation Central Group co-ordinates will assess that where pricing adjustments are identified from the match and price test process for market making groups in the Investment Bank, then where CIO holds the same positions the adjustments are also discussed with appropriate CIO.

Credit rating:

The only candidates for reserves are credit spread options which may qualify for Unobservable Parameter Reserves depending on the size and type of positions held. Index CDSs and not to long reserves, however, if the business were to move into single name equity derivatives positions would qualify for Price Discovery, Recovery Rate and/or Concentration reserves.

6. Finance - Accounting

The instruments in the initial product slate are derivatives and will be marked-to-market. These items will be treated as trading instruments. ETF's will also be treated as trading instruments.

A. Consider accounting policy and regulatory reporting implications.

Regulatory considerations are considered in Section 6 below.

B. Will the accounting for the new products be performed manually or will it be automated?

The accounting will be automated using the AUS accounting engine to generate entries.

7. Finance - Regulatory Capital

J.P. Morgan Chase & Co. Inc. has no mandatory regulatory capital requirements. Positions in J.P. Morgan Chase & Co. Inc. will be subject to the Firm's regulatory capital requirements:

1. The only product that is subject to regulatory reporting (CDS and option) is subject to the firm's regulatory capital requirements.

This product has been reviewed by regulatory reporting (CDS and option) to ensure that it will be reported in accordance with regulatory reporting requirements. This product is subject to the firm's regulatory capital requirements.

2. For Risk-based capital purposes, this product will be booked under trading book rules and legal and regulatory reporting continues the proposed treatment.

For Risk-based capital purposes, this product will be booked under trading book rules and legal and regulatory reporting continues the proposed treatment.

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The following approaches will be used to feed the Firm's specific risk systems:

- Credit: CIO will leverage the Equity Derivatives Group's PYRAMID infrastructure. CIO will use the infrastructure to feed the Firm's PON model which will be used to calculate specific risk on the credit products with the exception of Credit Options which will be calculated using the following rule:

  For option positions, long or short, the risk weighted amount is the market value of the effective notional amount of the underlying instrument or index multiplied by the option delta. These are required to be reported on a notional template. For credit options which are NOT price based, we may use an option delta approach (we may use a conventional % approach).

- Equity: CIO will leverage the Equity Derivatives Group's PYRAMID infrastructure. The Firm has permission to use its internally subordinated VAR for vanilla equity cash and derivative products subject to the application of a one-time add-on. In order to utilize this approved CIO will look equity products in a portfolio context to other instruments. The add-on is applied as follows:

  \[
  \text{RWA from VAR} = \text{VAR} \times (12.5 + \text{Notional})
  \]

  \[
  \text{RWA for Specific Risk} = \text{VAR} \times (12.5 + \text{Notional})
  \]

  Non-vanilla equity products (not in the scope of this approval) must be reported via manual template.

Variance-Covariance Matrix

The notional amount should be reported in the number of subnotional by the count of notional as the notional quoted within the confirmation in USD. This number is divided by two for a close-out price.

\[
\text{Risk factor for this is as follows:}
\]

\[
\begin{align*}
\text{Risk factor} &= \text{Notional} \\
\text{Notional} &= \frac{\text{Count of notional}}{2}
\end{align*}
\]

\[
\text{Risk factor} = \text{Notional}
\]

\[
\text{Notional} = \frac{\text{Count of notional}}{2}
\]

\[
\text{Risk factor} = \text{Notional}
\]

\[
\text{Notional} = \frac{\text{Count of notional}}{2}
\]

Exercising the scope of the collateral problem to reference to this paragraph:

No specific collateral will be held against the proposed products, however derivative MTM will be subject to terms from collateral group process.

\[
\begin{align*}
\text{This product does not impact deposits.}
\end{align*}
\]
vi. Any impact to risk weighted assets from VAR and specific risk have been calculated and approved by the applicable regulatory reporting. Are the appropriate risk weighted asset limits in place and been approved by the applicable CPSC?

Given the use of approved models as described above, the impact to risk weighted assets is not deemed to be material and can be accommodated within CIO’s existing limits.

vi. Any the methodology for calculating risk weighted assets for VAR and specific risk have been calculated and approved by regulatory reporting. Is any regulatory approval or specific risk model development required for this product?

The methodology for calculating risk weighted assets for VAR and specific risk have been calculated and approved by regulatory reporting. The models have been approved by the regulator and hence no specific regulatory approval or specific risk model development is required for this product.

vi. If the product exposes risk (including general, specific and concentrated risk), has the product been submitted to regulatory reporting to approve the risk strategy?

The product line is part of the bank's existing approved products.

8. Finance - Controls

1. Controls in place to ensure proper segregation of duties and review

The Credit and Equity businesses will ultimately reside at J.P. Morgan's wholesale division. A new operational controls template will be created for SOX purposes and will address all key controls. Additionally, additional controls will be added to the 'CIO CFO' SOX template covering this new activity.

Discussed with controls, SPs and books are being established for CIO Europe and New York to support and segregate the activity.

9. T&O - Technology
19. T&O – Operations

- An appropriate model is required with clear roles and responsibilities, monitor key events, define key responsibilities, etc.
- Key manual processes, plans of action, required manual communications, client reporting, client validation, etc.

IM&A

CIO Power Office will capture trades in Pyramid.

Middle Office will leverage the IM&A Operations Group.

Prior to trading, IM&A and S&O’s need to be agreed with EDG Operations to clarify the support model and cost base.

CIO Middle Office

- Monitor Pyramid queues, highlight exceptions to the CIO FO
- Request new reference data deployments
- Client books end of day
- High end of day report, executing Scala and VABS daily to5avenous
- Validate IM&A send deployment, highlight trades to FO
- Download Scala P&L into excel
- Agree FS, with FO, adjust for end of day pricing errors

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSI-H 0001367
• Review confirm, net out and trade breaks - resolve differences
• Reconcile adjustments in Scala
• Request FO P/L sign off
• Ensure SOX handshakes in place
• Reconcile P/L and Balance Sheet accounts in general ledger
• Reconcile P/L monthly
• Monthly reinitialization and GLRS sign off

EDG Operations
• EDG to settle trades, report errors breaks
• EDG to reconcile equity trades, report breaks
• Credit Markets to reconcile credit trades, report breaks
• Set up reference data
• Report CIO exceptions in MIS central depository

North America

CIO Front Office will execute trades in Pyramidal.

CIO Middle Office will leverage the EDG Middle Office and Operations groups and the Credit Derivative Middle Office and Operations groups.

Prior to testing GLAs and CFPs need to be agreed with EDG Middle Office and Operations and Credit Derivative Middle Office and Operations to clarify the support model and cost base.

CIO Middle Office
• Agree GLA, CFP, update for end of day pricing issues
• Review confirm, net out and trade breaks - resolve differences
• Execute EDG P/L sign off
• Ensure SOX handshakes in place
• Reconcile P/L monthly
• Monthly reinitialization and GLRS sign off

Credit/Equity Middle Office
• Review Pyramidal queues, highlight exceptions to the CIO FO
• Execute new reference data requirements
• Close books end of day
• Tag end of day journal, entering Smith and VARS data to accounts
• Monitor MIS central depository, highlight breaks in FO
• Download Smith P/L, report into Excel
• Monitor adjustments in Smith
• Reconcile P/L, and Balance Sheet accounts in general ledger

EDG Operations
• EDG to settle trades, report errors in general ledger
• EDG to reconcile equity trades, report breaks
• Credit Markets to reconcile credit trades, report breaks
• Set up reference data
• Report CIO exceptions in MIS central depository
11. Tax

i. As the ultimate risk repository entity is different to the entity employing the risk managers, CIO will use the "hedge fund" model to attribute income back to the entity employing the risk managers from the ultimate risk repository entity (TPI Whitestar Inc.). Under the hedge fund model income is attributed from the risk repository entity to the entity employing the hedges as follows:

- Higher of 1) 25% of year to date net revenue or
- 2) Fully loaded costs of risk managers plus 7%

This will be documented via a service level agreement.

ii. For issues on tax arrangements with other regulations

Note: This may vary slightly from the accounting noted. If so, have the systems set up to ensure the information needed for tax purposes.

No.

12. Legal

Regulation K is a Federal Reserve Board regulation which restricts offshore subsidiaries of US bank holding companies engaged in banking activities with respect to non-investment grade equity activity. J.P. Morgan Whistler Inc. is an indirect subsidiary of the Bank and hence subject to Regulation K.

Regulation K does not apply to derivative positions (unless equity is acquired as a hedge for customer driven equity derivative activity in which case the net delta position may be taken—the clarity does not apply to CIO). Regulation K will affect CIO holding of Exchange Traded Funds (ETFs).

Below is a summary of the legal requirements applicable to ETFs in the Reg K context.

1. During the Underwriting Period, which is for the 90 days after we acquire the ETF shares from the issuer:

   a. No percentage limits

   b. Dollar limit per fund of approximately $100 million (i.e. 3% of the Bank's Tier 1 capital).

2. After the Underwriting Period

   a. Subject to the 19.9% voting shares limit

      i. Use case by case review of each ETF properties to determine which ETF shares are voting and which are not.

      ii. If any is a large redemption resulting in our exceeding the limit unintentionally, we would reduce our position as soon as practicable.

   b. Subject to an overall 25% equity limit (the threshold for control of a fund is 25%)

   c. Subject to the $45 million dollar limit ($15 million if held in an investment account). For purposes of determining compliance with the $45 million dollar limit, Tag I proxies or in not long and short positions

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in the same security. However, a long position in the ETF shares cannot be netted against shares on the
underlying tracks that the ETF tracks. That would not be long and short in the same security.
Regulation K does permit us to use our internal hedging models to net a stock index derivative against a
basket of stocks specifically segregated as an offset to the stock index derivative. Such netting is subject to
a 25% haircut (i.e. maximum long physical position of $160 million) unless the derivative being hedged is a
"netting permissible, customer driven equity derivative transaction". (The Bank has opted in place to do
full netting for bank permissible transactions but does not have a system to do netting subject to the 25%
haircut.)
Since the Bank is not authorized to buy and sell ETF shares, the purchase and sale of ETF shares would not
qualify for netting.
Look through Requirement. If we have a "redemption unit" of ETFs we would have the right to convert
that unit to shares in each of the underlying that the ETF tracks. (It may be that certain ETFs do not give us
the right to convert to which case the discussion which follows would be insignificant.) The right to
convert the ETF shares into the underlying would count as "equity" in the underlying for purposes of the
Reg K 40% of equity. Equity is defined as equity in the underlying that is not convertible to shares or
other ownership rights in an organization.
If it is not feasible to do the look through every day, it would be reasonable to calculate the maximum
percentage of each of the underlying which you could possibly obtain by redeeming all the ETF shares you
would hold under your internal limits. You could then deduct those amounts permanently from the 40% of
equity availability. This would ensure that we would never go over the 40% equity limit.

CIO MD will pre-clear each transaction for Reg K purposes with EDG Reg K monitoring team (contact
Roberto Vivancos).
13. Compliance

As Whitefriars Inc. is not permitted to be counterparty directly, all proposed trading activity should be introduced through one of the regulated entities (JPMCB or JPMSL) when trading with the market.

Exchange traded securities can be transacted through JPMSL (for Europe based traders) provided existing practices and procedures are applied and margin payments are made accordingly. OTC derivatives should be transacted by JPMCB with JPMSL acting as agent.

Proposed trading activity in exchange traded futures, options on such futures and other exchange traded products is subject to rules and regulations of the applicable exchanges and regulatory bodies (such as the Commodity Futures Trading Commission in the US or the relevant jurisdiction, including speculative position limits) (Current applicable limits in US and Asia are attached in Appendix 1). CIO will review any trading activity for compliance with all applicable limits. Positions held by other lines of business of the firm, in the same legal entities utilized by the CIO should not be aggregated for position limit purposes, provided there is no sharing of position information, exposure metrics or direct common supervision between business groups (Comment: This is true for US, is it confirmed from PACS compliance for Asia?)

14. Funding

Funding will occur through the bank's standard model as JPM Whitefriars Inc. has TP10.

15. Audit

All Audit questions and queries have been answered and their major concern is that all Front Office and Middle Office staff receive the correlating emails that Middle Office document all control procedures.

As the NRRA is a Risk Rating 2 it does not require formal Audit sign-off.
## CIO New Business Initiative Approval Policy

### Post-Implementation Review

**Section 1: to be completed at the time of approval**

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Line of Business</th>
<th>Post Implementation Key Contact</th>
<th>Leave Open Date</th>
<th>Post Transaction Date</th>
</tr>
</thead>
</table>

**Brief Description of the approved Initiative:**

Drop down initiative summary

**List any conditions associated with the approval, comments on open items and the timeframe for completion.**

<table>
<thead>
<tr>
<th>Risk Review Group</th>
<th>Conditions open during the initiative</th>
<th>Comments</th>
</tr>
</thead>
</table>

**Section 2: to be completed within 6 months of the activity going live**

**Address the initiative:**

- Is the initiative as described in the proposal when it was approved?
- Is the initiative within the volume and limits agreed when approval was granted?
- Have there been any operational issues as a result of introducing this initiative?
- What economic value has been realized and how does this compare to the initial projections?
- Have there been material operational changes that were not documented?

**Other points of note:**

<table>
<thead>
<tr>
<th>Post Implementation review completed by</th>
<th>Direct date?</th>
<th>Direct date completed?</th>
</tr>
</thead>
</table>

Send completed copy to LJB CRM, Regional Executive and Audit

---

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Appendix 1: CFTC Speculative Position Limits

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Net of All Months</th>
<th>Net Single Months</th>
<th>Spot Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago Board of Trade (CBOT)</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P 1000 Index (plus mini S&amp;P 1000)</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russell 2000 Index (plus mini Russell 2000)</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NASDAQ 100 (plus mini NASDAQ 100)</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New York Board of Trade (NYBOT)</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Asian Exchange Limits:

TSE: Tokyo Index denominated in TWD (TAEK futures) position limit for institutions is gross 400 (e.g., short May 2000 plus long June 2000). For TPML, the contract is exempted as 3 times of the standard institutions limit valid for a year, i.e., currently $500.

Hang Seng net 30,000 long/short for all contract months combined. (Note: Hong Kong Index Futures and Hang Seng Index Options are all settled together to calculate the net 30,000 long/short. Regarding the 100 options, we need to use the delta value in the calculation).

Kospi net 5,000 long/short for all contract months combined.

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### Appendix 2: Non-Statistical Limits - DRAFT

<table>
<thead>
<tr>
<th>Equity</th>
<th>US</th>
<th>SPX</th>
<th>210</th>
<th>0.30</th>
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<td>USA</td>
<td>NASDAQ</td>
<td>125</td>
<td>0.00</td>
</tr>
<tr>
<td>Canada</td>
<td>SAP/TSX</td>
<td>SP/TSX</td>
<td>125</td>
<td>0.13</td>
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<tr>
<td>UK</td>
<td>DAX</td>
<td>DAX</td>
<td>125</td>
<td>0.50</td>
</tr>
<tr>
<td>Norway</td>
<td>OBS</td>
<td>OBS</td>
<td>125</td>
<td>0.25</td>
</tr>
<tr>
<td>S Africa</td>
<td>FTSE/JSE 40</td>
<td>JSE 40</td>
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<td>Spain</td>
<td>IBEX 35</td>
<td>IBEX</td>
<td>125</td>
<td>0.00</td>
</tr>
<tr>
<td>Italy</td>
<td>MIB 30</td>
<td>MIB</td>
<td>125</td>
<td>0.25</td>
</tr>
<tr>
<td>S Africa</td>
<td>NASDAQ OMX</td>
<td>OMX</td>
<td>50</td>
<td>0.13</td>
</tr>
<tr>
<td>China</td>
<td>H Shares</td>
<td>HSI</td>
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<td>0.13</td>
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<tr>
<td>HK</td>
<td>HangSeng</td>
<td>HSI</td>
<td>125</td>
<td>0.25</td>
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<td>Indonesia</td>
<td>JCI</td>
<td>JCI</td>
<td>50</td>
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<tr>
<td>India</td>
<td>Sensex</td>
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<td>Nikkei</td>
<td>NIKKEI</td>
<td>250</td>
<td>0.50</td>
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<tr>
<td>Korea</td>
<td>Kospi</td>
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<td>125</td>
<td>0.50</td>
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<td>Malaysia</td>
<td>KLSE</td>
<td>KLSE</td>
<td>50</td>
<td>0.13</td>
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<tr>
<td>SE Asia</td>
<td>Nifty 50</td>
<td>NIFTY 50</td>
<td>50</td>
<td>0.00</td>
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<tr>
<td>Philippines</td>
<td>PSE</td>
<td>PSE</td>
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<tr>
<td>Sing</td>
<td>STI</td>
<td>STI</td>
<td>50</td>
<td>0.13</td>
</tr>
<tr>
<td>Taiwan</td>
<td>TWSE</td>
<td>TWSE</td>
<td>125</td>
<td>0.50</td>
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<tr>
<td>Thailand</td>
<td>SET 50</td>
<td>SET 50</td>
<td>50</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>1,250</td>
<td>3.0</td>
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</tr>
<tr>
<td>Total Net</td>
<td>200</td>
<td>1.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Credit

- 10% Credit Spread Widening
  - 1.2 mm (Total)
  - 1.2 mm (By Sub-Index e.g., FTSE/JSE, NASDAQ OMX)

- CBBPV
  - 1.2 mm (Total)
  - 1.2 mm (By Sub-Index)

- Vega
  - 0.5 (Total - expressed in 0.1 bp per term)
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Appendix 4 Equity Sectorial Index Futures

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Exchange</th>
<th>Currency</th>
<th>Reference Index</th>
<th>Futures Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDU6 Index</td>
<td>US</td>
<td>USD</td>
<td>S&amp;P 500</td>
<td>Sep06</td>
</tr>
<tr>
<td>ROU6 Index</td>
<td>US</td>
<td>USD</td>
<td>NYSE Russell 1000</td>
<td>Sep06</td>
</tr>
<tr>
<td>SGU6 Index</td>
<td>US</td>
<td>USD</td>
<td>CME S&amp;P Barron's Growth</td>
<td>Sep06</td>
</tr>
<tr>
<td>RSM6 Index</td>
<td>US</td>
<td>USD</td>
<td>Russell 2000 Mini 000</td>
<td>Jan06</td>
</tr>
<tr>
<td>MUU6 Index</td>
<td>GB</td>
<td>EUR</td>
<td>FTSE Euro First</td>
<td>Dec06</td>
</tr>
<tr>
<td>EPM6 Index</td>
<td>GB</td>
<td>EUR</td>
<td>FTSE Euro First</td>
<td>Jul06</td>
</tr>
</tbody>
</table>

*Conidential Treatment Requested by JPMorgan Chase & Co.*
Credit & Equity NBIA Sign-off.txt

CIO & GPLM
Alison C Giovannetti
20/04/2006 15:16

To: Jason LOW Hughes/JPMCHASE@JPMCHASE, Roger X

Subject: Re: Credit & Equity NBIA - sign off

Signed off

Regards,
Alison
giovannetti

08/05/2006 15:32

Consumer reporting business advisory - Tel 212-834-9425 Cell 646-258-3114

To: Jason LOW Hughes/JPMCHASE@JPMCHASE

Subject: Re: Credit & Equity NBIA

I approve but I think you should make a note that non-vanilla equity products (if you ever have any) and credit sweats (which you are planning as trading and are not currently approved for PCM) will need to be reported via the manual template.

Phil Lewis
21/04/2006 13:17

To: Jason LOW Hughes/JPMCHASE@JPMCHASE

Subject: Re: Credit & Equity NBIA

Jason - ok to sign-off.

As stated in the document, next step is to finalise the SLAs and SOPs

regards

Phil

David M Alexander
25/04/2006 14:31

To: Jason LOW Hughes/JPMCHASE@JPMCHASE

Subject: Re: Credit & Equity NBIA

Page 1
Credit & Equity NBIA Sign-off.txt

Jason,

You have my approval. I traded vms with Roger - all of these positions will be on a trading book. Please point back to me if we find other types of positions are held beyond the ones included above. I had a few different spots, i.e. loans or non-marketable equity securities.

Thanks,

Nancy E. Prometheus Chief Investment Office - Tel (212) 834 - 3185

This document contains a file attachment with a file size of 198.2 KB.

Yes, I have reviewed and sign off for the controls section.

Treasury - Tel +44 20 7777 0034

This document contains a file attachment with a file size of 198.2 KB.

Fine with me.

Rgds

Investment Bank - Technology

this looks fine from my point of view. off the top of my head the areas that we need to include in the plan are:

my review of my tools that you may be developing (you allude to these but don’t specify what they do or how big they will be - bottom of page 3) create appropriate id admin workflow for the existing apps (pyramid, STS, etc) for the CIO staff - unless we will use the same approvers as for EOG and E&H update the ac plans for CIO as these new systems will need to be included.

regards,

Nick Wood

Robert J. Cole Compliance - Tel 212/270-1554 Fax 212/270-2650

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSI-H 0001379
05/05/2006 20:19

Subject: Re: NBIA - compliance section

To: Jason LN Hughes/JPMCHASE@JPMCHASE
CC: Roger X Kibble-White/JPMCHASE@JPMCHASE, Brandon Konigsberg/JPMCHASE@JPMCHASE, Carolyn Movwah-Davis/JPMCHASE@JPMCHASE, Colin R Karpen/JPMCHASE@JPMCHASE

I have no further comments or questions and approve this email as my sign-off.

Mark

27/04/2006 15:29

Subject: Re: FW: credit & Equity NBIA

To: Jason LN Hughes/JPMCHASE@JPMCHASE
CC: Roger X Kibble-White/JPMCHASE@JPMCHASE

I don't have any issues. Please accept this email as my sign-off.

Mark
1910

Credit & Equity NARRATVE

1. We assembled an approach to limits that parallels the method used in the VAR limits for these products. While we are set on VAR limits, we need to work with both. We put the other proposed limits (eq Delta, vega, credit events) outlined in the attachment.

2. We note the systems issues around credit options which need to be resolved before proceeding with that product.

Any questions/issues, lets discuss early next week. Thanks.

Bob
This document contains a file attachment with a file size of 198.2 KB.

Hi Jason,

There is no issue from our CFO perspective. The market risk limits granted are on a global basis. We are in the process of coordinating a separate CIO sign-off for Asia and will refer to the global limits in our assessment. Please take this as my sign-off.

Thanks,
Colvis

CFO/CIO

Ina Drew
Credit & Equity NBIA Sign-off.txt

TO: Jason L. Hughes/JPMCHASE@JPMCHASE
CC: Roger X Kibble-White/JPMCHASE@JPMCHASE, Joseph S.
Bonocore/JPMCHASE@JPMCHASE
SUBJECT: FW: Credit/Equities NBIA

Approve,
Shaw

Carolyn L. Monroe-Kaatz Managing Director & Assoc. General Counsel
Carolyn Monroe-Kaatz
15/05/2006

To: Roger X Kibble-White/JPMCHASE@JPMCHASE
CC: Subject: Credit & Equity Capability NBIA

Roger - can't find the email asking me to sign off. I am signed off, but I am going to send you later today a revised email. My assistant is updating material into the legal section right now. CMK
Rationale
This policy was originally approved by Chief Investment Office’s Risk Committee on May 5, 2005 and was effective as of that date. The policy was most recently reviewed on June 30, 2011. It has been developed in accordance with the Firm wide policy New Business Initiative Approval (NBIA), which requires each line of business to establish an NBIA policy following certain guiding principles for risk control and approval of that policy, by the Business Control Committee. The CIT Risk Committee, under its charter, reviews and approves (as appropriate) Risk policy and strategy for all risk impacting the Chief Investment Office. The NBIA policy seeks to balance innovation and introduction of new products, while making sure that the risks are identified, controls established and approved prior to launch.

Changes from Previous Version
- Initiative risk assessments have been added to the NBIA template in accordance with the materiality of the applicable risks.
- Expanded the Governance section of the policy to ensure NBIA proposals are reasonable and appropriate through the monitoring conducted by the Business Control Committee.
- Post Approval process has been added to help ensure that subsequent requirements are recorded, monitored and completed on a timely basis.

Scope
This Policy applies to initiatives arising from Global CIO lines of business and Global Treasury.

Definition of New Business Initiative
A New Business Initiative Approval (NBIA) is the introduction of a new or changed product, service or activity. The materiality of a change is determining factor in identifying the appropriate risk control procedures to be followed. A broad scope, new initiatives include the following:
- A new product to a region or business line with CIO.
- A significant change to an existing product or business activity that significantly alters the risk managed by CIO.
- Introduction of a product or activity in a new location.
- A product, service, business or program that results in significant change to systems, operations or middle office infrastructure.
- Remodel of an existing product or activity that has been dormant for a significant period of time.

If an initiative is determined to be a variation of an existing product by the Initiative Proposer and the Global Head of CIO, then NBIA Lite procedures are followed.

Sponsorship
Each NBIA Should be sponsored by a regional or business head. The proposal, which is managed and submitted for future reference by the Key Contact (certain responsibilities in managing the process) should be in the form of a proposed summary analysis and include, where appropriate, the following information:
- Brief Initiative Description
- Economic Rationale
- Responsible parties involved with initiative
- Other significant information

Initiative Risk Assessment

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Each initiative is risk ranked according to the materiality of the applicable risks. Any question regarding the risk rank can be escalated from the working group to the head of Market Risk or Operational Risk Management (ORM). Guidance on risk ranking is maintained by ORM and a summary is included below.

Establishment of Risk Rank 1 or 2 mandates that a full NBIA template be used. Establishment of Risk Rank 3 indicates that an NBIA Lite template may be used.

### Risk Rank 1: High risk - significant incremental risk
- New business for the area, significant residual risk after risk management, very large decision, considerable legal exposure, cross-border issues, significant effort for regulatory approval, infrastructure under stress, capital investment of significant strategic importance.
- Activity completely new to the CIO.
- Activity that requires a new operating legal entity.
- Activity that requires significant investment (e.g., for technology/new hires) or has major potential financial impact.
- A combination of these may indicate a potential RRI Initiative.

### Risk Rank 2: Medium risk - moderate incremental risk
- Multiple risk control areas affected requiring cross-functional discussion about the risks and operational considerations.
- Translation of existing products (which requires new infrastructure or control processes).
- Offering existing products in a different location or from a different legal entity (which requires new infrastructure or control processes).

### Risk Rank 3: Low risk - little incremental risk
- Implementation or an initiative requiring the involvement of several risk control areas where only minor concerns are anticipated.
- Change to an existing, well-controlled product or business.
- Offering existing products in a different location or from a different legal entity (for which limited new infrastructure is required and existing control processes will be leveraged).
- Expanding existing products to different Business Units (for which limited new infrastructure is required and existing control processes will be leveraged).

During the review process, if the incremental risk of an initiative is more or less significant than anticipated, the risk rank can be amended.

### Initiative Review and Approval Process
The NBIA approval process should include a working group comprising of representatives from the following groups:
- Regional or business unit head
- Credit Risk
- Market Risk Management
- Pre-Clearing
- Operational Risk Management
- Middle Office
- Legal
- Audit
- Global Controller
- Legal Entity Controller
- Regulatory (some regions may require multiple regulatory approvals)
- Treasury
- Tax
- Compliance
- Legal
- Operational Risk
- Technology
- Others (as needed)
The sponsor is responsible for communicating via email all documentation to all designated signatories at initiation of an NBJA proposal. It should comprise a clear business rationale, overview of the product, proposed support infrastructure and outline any known issues. The forum should also offer signatories a chance to pitch initial questions or raise concerns/ideas that may need resolution prior to launch.

All initiatives should be evaluated in terms of risk and subject to a review and approval process as outlined in Exhibit 2. Initiatives should be reviewed and approved by each impacted risk stripe. The working group is responsible for reviewing risk impact, establishing appropriate controls and processes and providing input to documentation.

Signatories have the ability to delay conditional approval. Examples may include:

- Regulatory approval not obtained or required by date.
- Operational parameters (e.g., technology requirements).

Conditional approvals, if any, are reviewed at the Business Control Committee (BCC) meetings.

Governance

The Business Control Committee (BCC) forum members discuss and review global NBJA proposals. Participants in the BCC include the Head of business, the Global CFO, the Controller and representatives from the various functional areas - Legal, Compliance, Market Risk, Technology and Operations and Audit.

The BCC has oversight responsibility for the NBJA processes and generally ensures that current NBJA proposals are reasonable and appropriate.

If an NBJA affects two or more locations where coverage personnel differ, the signatories should ensure approval is sought from all additional interested parties before offering an official sign-off on behalf of their function. Approvals must be received in written email format from each designated signatory.

Documentation Requirements

For each initiative, the definition and scope of the activity, economic rationale, risks and controls should be recorded in a document (the NBJA Document). Template is attached in Exhibit 3. The BCC will be responsible for managing and coordinating the approval process for the NBJA. Final NBJA information will be archived for seven years from the date of approval.

The NBJA document represents the engagement of all required functional groups and is reviewed by Audit.

All NBJA requests and completed activities are tracked and stored in Jira, a central database, which is the sole repository for NBJAs and required approvals.

Post Approval Requirements

The Key Contact of completed NBJA is responsible for ensuring that post approval requirements are tracked, reviewed and monitored to closure. Post approval requirements include:

- Recording the Initiative implementation date.
- Monitoring and reporting any conditional approval until closure.
- Completing a Post Implementation Review (PIR) for all NBJA.

PIR should be completed within 6 months of first activity with any extension to this period agreed with the Business Unit CFO and the key contact. They should:

- Verify that the Initiative is materially the same as that approved.
- Check that economic performance and limits are within projected levels.
- Check that controls are effective and transaction volume is not negatively impacting the infrastructure.

Roles and Responsibilities

- Initiative Proposer (Front Office / Other Functions)
  - Responsible for creating or processing NBJA with financial case and soliciting senior business support (see “Sponsorship” section for details)
- Key Contact (NA: Middle Office, EMEA: Middle Office/ Change Management; Asia: Business Management)
  - Identifies activities which require NBJA review, coordinates the NBJA process and prepares the NBJA document.
- NBJA, Chief Investment Office & Global Treasury

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Maintains a master copy of NBIA document and ensures it is kept updated.

Final, represented copy to be housed in Jira with approval signatures.

Responsible for completion and escalation of the Post Implementation Review (PIR).

Working Group (see "Initiative review and approval process").

Identifies activities that require NBIA review, considers the risk impact, and escalates to CFO / Working Group and ensures the NBIA process is complete prior to initiative launch.

Escalates issues and delays to CFO / Working Group and ensures the NBIA process is complete prior to initiative launch.

Global Controllers

Responsible for ensuring proper reporting and accounting/GAAP policies are established.

Responsible for forecasting of RWA based on existing products and rules. Validates RWA calculations provided by corporates.

Responsible for ensuring proper portfolio management and compliance with NBIA guidelines.

Responsible for forecasting of RWA based on existing products and rules. Validates RWA calculations provided by corporates.

Responsible for ensuring proper portfolio management and compliance with NBIA guidelines.

Provides input on documentation and approval as required.

Provides guidance on new initiative definition and due diligence.

Provides confirmation on the six-month Post Implementation Review.

In collaboration with Working Group, agrees to preliminary Risk Ranking.

Oversaw the overall NBIA process within their LOB.

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Exhibit A: Process of development of an initiative for Review and Approval

1. Product Idea & Hypothesis
2. Solution Development
3. Post-Development & Approval
4. Post-Approval Follow-up

NBA, Chief Investment Office & Global Treasury

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### Exhibit B: NOIA document templates

**Chief Investment Office (Global) Treasury**

**New Business Initiative Approval**

**Executive Summary**

<table>
<thead>
<tr>
<th>State of Initiative</th>
<th>Status Description</th>
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<th>Risk Rating (1, 2 or 3)</th>
<th>Priority Rating (A, B or C)</th>
<th>Account Treatment (TRA, PAS, etc.)</th>
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<td></td>
<td>Low</td>
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### Changes to Precedent Procedures

- **High Risk** - significant incremental risk - new business for the area, significant residual risk after risk mitigation, significant regulatory, legal, operational, or financial issues impacting the viability of the initiative. Significant balance sheet implications.
- **Medium Risk** - moderate incremental risk - multiple risk control areas are affected requiring cross-disciplinary discussion about the risks and operational considerations.
- **Low Risk** - little incremental risk - implementation of an initiative requiring the involvement of several risk control areas where only minor issues are anticipated.

---

**Chief Investment Office (Global) Treasury**

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JPM-CIO-PSI-H 0001369
**Chief Investment Office/ Global Treasury**

**New Business Initiative Approval Proposal**

**(Portfolio(s)/Region(s))**

**(Title of Product Proposal)**

<table>
<thead>
<tr>
<th>Initiative Name</th>
<th>Key Contact</th>
<th>Risk Appetite or Developing Bank</th>
<th>Target Launch Date</th>
</tr>
</thead>
</table>

**JPMorgan Chase**
### Table of Contents

1. Proposal Summary  
2. Working Group & Approver List  
3. Initiative Overview  
4. Trade & Legal Entity Flow  
5. Market Risk  
6. Credit Risk  
7. Finance - Accounting  
8. Finance - Middle Office (Operations)  
9. Finance - Control / Operational Risk Management (OCG)  
10. Finance - Local LEC (where applicable)  
11. Technology  
12. Treasury Funding (where applicable)  
13. Treasury Regulatory (where applicable)  
14. Regulatory  
15. Tax  
16. Legal  
17. Compliance  
18. Audit  

*Appendices as necessary e.g. internal product description documents, legal documents, detailed operating procedures*
## Proposal Summary

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Portfolio Description</th>
<th>Initiative Sponsor</th>
<th>Initiative Approver</th>
<th>Key Stages &amp; Expected Milestones</th>
<th>Legal Enlarge Impacted</th>
<th>RBC's Impacted</th>
<th>Operating Impacted</th>
<th>Regulatory Approvals Required</th>
<th>Special Notes</th>
<th>Accounting Transactions Trading, Etc.</th>
<th>Notes on Impact Details</th>
<th>Other Policies Impacted</th>
<th>Additional Resources Required</th>
<th>Data Stewardship Plan for Development</th>
<th>Target Launch Date</th>
<th>Key Contact for Questions</th>
<th>Person Responsible for Post Implementation Review</th>
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<th>Priority Rating (A-C)</th>
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<th>Notes on Impact Details</th>
<th>- Legal Enlarge Impacted</th>
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<td>- RBC's Impacted</td>
<td>- Operating Impacted</td>
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<td>- Key Contact for Questions</td>
<td>- Person Responsible for Post Implementation Review</td>
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</table>
## Working Group and Approvers

<table>
<thead>
<tr>
<th>Committee Name</th>
<th>Working Group Membership</th>
<th>Sponsor</th>
<th>Approved Completion Date</th>
<th>Final Approval</th>
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<tbody>
<tr>
<td>Business Overview</td>
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<td>Market Risk</td>
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<td>Credit Risk</td>
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<tr>
<td>Liquidity Risk</td>
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<td>Operational Risk</td>
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<tr>
<td>NBIA Chief Information Officer</td>
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<tr>
<td>NBIA Global Treasury</td>
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</table>
3. Initiative Overview

1. Measure business improvements jointly among the growth strategy, expected returns, operating basis.
2. Business approval including final approval of the plan.

4. Trade & Legal Entity Flow

- Include expected value to product development and implementation. Within the product and sales teams holds with the final decision on the product.
- Business plan and sales targets.

5. Market Risk

- Need to propose to ensure our results.
- The M.P.S. is designed such that the market function will act in an ongoing and consistent way.
- Global fixed income, derivatives, capital and risk management.
- Capital risk management and hedging strategies.
- Credit risk management and hedging strategies.

6. Credit Risk

- Include credit, liquidity, and market risk.
- Market risk management.

7. Finance - Accounting

- Effective accounting practices to be implemented.
- Computerized processing of financial and regulatory requirements.
- Microwave communication, Peachtree and accounting standards.

8. Finance - Middle Office Operations

- Use operations staff supported by human resources, technology, and staff functions.
- This includes the operations team, the systems and processes.
- Senior management and accounting.
- Finance and operations staff.

9. Finance - Controls / Operational Risk Mgmt / CCC

- Controls are designed to ensure compliance with regulations and internal controls.
- The structure is designed to ensure compliance with regulations and internal controls.

10. Finance Local UC (less accurate)

- Local decision-making
11. Technology

1. System: Will additional capacity to support implemented be needed? If so, when is the implementation of the new system expected? What is the technology to be implemented?

2. Technology: What is the new system expected to support?

12. Treasury Funding (Assumptions)

1. Define the impact of funding and liquidity

13. Treasury Regulatory: cross-reference

1. Define cross-references, identify staffing needs and how to track progress

14. Regulatory

1. Overview

2. Regulatory Reporting Requirements

Regulatory Reporting CPA Review Considerations

1. Has this product been reviewed by regulatory reporting (US and non-US) in order to be reported in accordance with regulatory reporting requirements? List any regulatory reporting requirements (US and non-US) not known to the new product and provide a description of any requirements that differ from (US)?

2. For all defined regulatory purposes, will this product be funded under trading or hedging book rules and has legal and regulatory reporting occurred for proposed transactions, where appropriate? Have exposure to risk weighted assets been identified, measured and communicated to regulatory reporting? Are the appropriate risk weighted assets in place and been reviewed by the applicable CFT?

3. Will the product meet all organizational needs, regulatory credit and specific risk criteria (if any) please describe the final product, desired metrics, risk and hedging strategies, and alternative contracts to technology and funding capability? If yes, were guarantees and collateral in place or at risk?

4. Determine the extent of any collateral/balancing relations in this product.

5. Does the product impact exposures and if so, has this been documented in regulatory reporting for purposes of calculating appropriate reserves?

6. Has the methodology for calculating risk weighted assets and specific risk (using communicated as regulatory reporting)? Is any regulatory approval or specific risk model development required for the product?

7. If the product requires risk (including general, specific and counterparty) has the product been submitted as regulatory reporting in support of the regulatory approval?

15. Tax

1. Identify considerations, including tax, VAT, income and estate

2. Taxation, tax differences between the US and foreign

3. Are the taxes calculated in the same manner? If not, have any proposed changes been made to the tax infrastructure with respect to the new product?

16. Legal

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17. Compliance

A review of Compliance reports for all subsidiaries, quarterly audits are conducted. It should consider recommendations made in connection with regulatory, examination and

18. Audit

A review of past audits, if any, is conducted.

JSA, Chief Investment Office & Global Treasury
Chief Investment Office & Global Treasury New Business Initiative Approval Policy

Post Implementation Review

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<thead>
<tr>
<th>Section</th>
<th>To be completed monthly post first implementation.</th>
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<td>Name of Initiative</td>
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<td>Name of Business</td>
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<tr>
<td>Post Implementation Doc Number</td>
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<td>Launch Approval Date</td>
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<td>Post Implementation Date</td>
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Brief description of the approved initiative:

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List any obstacles associated with the approval, comments on approval times and the timeframe for completion.

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<th>Task Review Group</th>
<th>Candidate need</th>
<th>Date</th>
<th>Comments</th>
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Section 2 - To be completed within 4 weeks of the activity going live

1. Review the following:
   - Is the initiative as described in the proposal what was approved?
   - Is the outcome within the proposal and initial agreed what was approved?
   - Have there been any operational issues as a result of implementing this initiative?
   - What changes were anticipated and how does the overall impact to the overall product?
   - Have there been direct operational changes that we need to be documented?
   - Have there been any technology or human issues as a result of implementing this initiative?

One page of text

Post Implementation a draft completed by: [Name/Date]

NBIA Lite Procedures

1. Objective
The New Business Initiative Approval documentation serves as a guide to help the appropriate implementation of new business. The objective of the NBIA Lite version is to facilitate the approval process of certain initiatives that represent a variation of an existing product or process.

NBIA, Chief Investment Office & Global Treasury
2. Eligible initiatives for the "NBIA LIGHT" version
   - Variation of an existing product/process within CIO
     Examples: product/trade in one regulatory entity and expand to other regions, or extension of existing product ranges (related legalities to be covered). If product is traded in 10 and not in CIO, the NBIA has to be "full-version".
     In case of doubt about which version of NBIA to apply, the NBIA preparer and the Global Head of ORM should reach a consensus.

3. Due diligence review
   Before a trade can be executed the following steps must be completed:
   1. Fill in the checklist sections A to D on Form 1
   2. Contact all necessary key stakeholders for the appropriate implementation of the initiative and fill-up section E of Form 1
   3. Send the completed Form 1 to the CIO Controller

4. Responsibilities of the "NBIA preparer"
   - In case of doubt, consult the Global Head of ORM to determine if a lite NBIA version is applicable.
   - Contact all key stakeholders listed in section E and include any other areas that should be contacted based on specific requirements of the initiative.
   - Explain the initiative and check the existence of any issues or system/process modifications necessary for the implementation of the NBIA.
   - Follow up on any issues and update the key areas in the NBIA's development. Make sure that the areas involved have the same level of information by the time the NBIA will be sent to approval.
   - Collect signatures on approval details.

5. Post implementation review:
   The NBIA preparer has to complete a post implementation form 6 months after the trade product and submit it to the CIO Controller.
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**Wild List Form: New Product Proposal**

(Make any of the boxes not applicable in the N/A, please don't delete the line)

**A. Proposal Summary**

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**B. Systems Impacted**

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<td>Will Vettes be calculated?</td>
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<td>Will all information be in the same (primary or online)</td>
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<tr>
<td>Does product require the use of a model for valuation and/or risk management purposes? If yes, has the model been approved and has a corresponding model been established in the Firm-wide Model Risk Policy?</td>
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<tr>
<td>Does the model exist in the system to be reviewed by the NRO Span? In addition, has it been localized as an exemplar method in the model reporting database?</td>
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NB!A, Chief Investment Office & Global Treasury

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C. Accounting treatment:

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
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<td>1. How will the Product be treated for accounting?</td>
<td>Trading if SPV. If no SPV, be treated as held for sale.</td>
</tr>
<tr>
<td>2. If this new product is a Security (FAS 115), please answer questions 4-7. If not, please skip to question 9.</td>
<td></td>
</tr>
<tr>
<td>3. Are the Securities revalued?</td>
<td></td>
</tr>
<tr>
<td>4. Will the Securities be subject to impairment rules?</td>
<td></td>
</tr>
<tr>
<td>5. What interest income methodology will be used? (Effective Yield, Prospective, or Retrospective)</td>
<td></td>
</tr>
<tr>
<td>6. Will the product be accounted for as an AFS? If yes, please answer questions 8-11. If no, please proceed to question 12.</td>
<td></td>
</tr>
<tr>
<td>7. What impairment rules will apply to the Securities?</td>
<td></td>
</tr>
<tr>
<td>8. If the product is to be accounted for as an AFS, have the product been revalued?</td>
<td></td>
</tr>
<tr>
<td>9. Will the Securities be subject to SFAS 115 impairment rules?</td>
<td></td>
</tr>
<tr>
<td>10. Is this product an SPV? If yes, how will it be consolidated on the balance sheet?</td>
<td></td>
</tr>
<tr>
<td>11. Will the security receive Market Risk or Banking Book Rules?</td>
<td></td>
</tr>
<tr>
<td>12. What type of product is this (e.g., loan, equity, etc.)?</td>
<td></td>
</tr>
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</table>

D. Controls, legal, and other processes:

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
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<tbody>
<tr>
<td>1. What controls and reconciliation will be performed?</td>
<td></td>
</tr>
<tr>
<td>2. Are any regulatory tests performed?</td>
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<tr>
<td>3. What controls and reconciliation will be performed?</td>
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</tr>
<tr>
<td>4. What controls and reconciliation will be performed?</td>
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</tr>
<tr>
<td>5. Is this a new product? If yes, what is the source?</td>
<td></td>
</tr>
<tr>
<td>6. Is this a new product? If yes, what is the source?</td>
<td></td>
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<tr>
<td>7. Legal and regulatory considerations?</td>
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<td>8. Compliance considerations?</td>
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<tr>
<td>9. Specific collateral management needs?</td>
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<tr>
<td>10. How will this product be funded?</td>
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</table>

NBIA, Chief Investment Office & Global Treasury


## E. Areas contacted during the NBIA process

### Required contacts:

<table>
<thead>
<tr>
<th>Area</th>
<th>Contact Name</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Risk</td>
<td>Peter Hopp</td>
<td>NA</td>
</tr>
<tr>
<td>Wealth Office</td>
<td>NA - Senior Manager</td>
<td>NA</td>
</tr>
<tr>
<td>NA - Fixed Assets</td>
<td>NA - Fixed Assets</td>
<td>NA</td>
</tr>
<tr>
<td>Legal</td>
<td>Monica Jersey</td>
<td>NA</td>
</tr>
<tr>
<td>Valuation Control Group</td>
<td>Event Key</td>
<td>NA</td>
</tr>
<tr>
<td>Technology</td>
<td>Joseph Cohen</td>
<td>NA</td>
</tr>
<tr>
<td>Compliance</td>
<td>Robert Croon</td>
<td>NA</td>
</tr>
<tr>
<td>Audit</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

### Required approval (signature to approver must be attached to this form):

<table>
<thead>
<tr>
<th>Business Head Office</th>
<th>UNI Head Office</th>
<th>Global Controller</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

Launch Approved Date: [ ]

Conditions associated with the approval: [ ]
### NBIA Lite Form 2: Post-Implementation Review

*(To be completed by NBIA preparer)*

#### Section 1: Please fill the table below by copying the items from NBIA lite form 1.

<table>
<thead>
<tr>
<th>Name</th>
<th>Initials</th>
<th>Description</th>
<th>Preparer</th>
<th>Approval Date</th>
<th>Conditions Associated with approval</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

#### Section 2: To be completed within 6 months of the activity going live

<table>
<thead>
<tr>
<th>Activity Date</th>
<th>Notes</th>
<th>NBIA Preparer</th>
<th>Notes</th>
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<tbody>
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</tr>
</tbody>
</table>

Send completed copy to local CRM.

NBIA, Chief Investment Office & Global Treasurer

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSI-H 0001402
From: Jalan, Rashmi <rashmi.jalan@chase.com>
Sent: Sat, 21 Jan 2012 00:09:26 GMT
To: Alexander, David M <david.m.alexander@jpmorgan.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Drew, Ina <ina.drew@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Lee, Chris C. <Chris.C.Lee@jpmorgan.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Sabo, Richard W <richard.w.sabo@jpmorgan.com>; Tse, Irene Y <irene.y.tse@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Alexander, David M <david.m.alexander@jpmorgan.com>; Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Dimon, Jamie <jamie.dimon@jpmchase.com>; Drew, Ina <ina.drew@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Lee, Chris C. <Chris.C.Lee@jpmorgan.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>; Sabo, Richard W <richard.w.sabo@jpmorgan.com>; Tse, Irene Y <irene.y.tse@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>;

CC: Enfield, Keith <Keith.Enfield@jpmorgan.com>; Gandhi, Samir X <samir_x.gandhi@jpmchase.com>; Jalan, Rashmi <rashmi.jalan@chase.com>; Giovannetti, Alison C <alison.c.giovannetti@jpmorgan.com>; Lahoud, Michael <Michael.Lahoud@jpmorgan.com>; Mian, Jon J <jon.j.mian@jpmorgan.com>; McManus, William K <william.k.mcmanus@jpmorgan.com>; Sinha, Sreejib X <sreejib.x.sinha@chase.com>; Weiner, Pamela <pamela.weiner@jpmorgan.com>

Subject: CIO Weekly - 1/20/2012

All,

Please see attached the CIO weekly for the week of 1/20/2012.

Best Regards,
Rashmi Jalan
Chief Investment Office | J.P. Morgan, 383, 383 Park Avenue, New York, United States | 1-212-339-9570 | rashmi.jalan@jpmorgan.com
## CIO Position Summary - Overall

### January 20, 2012

#### Balance Sheet - CIO (in billions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Sector</th>
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<tbody>
<tr>
<td>Investment Securities - CIO (in billions)</td>
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<tr>
<td>Trading &amp; Securities - CIO</td>
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<tr>
<td>Derivatives</td>
<td></td>
<td></td>
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<tr>
<td>Deposits</td>
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<tr>
<td>Borrowings</td>
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</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total 3rd Party Assets</td>
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</table>

#### Investment Portfolio 3rd Party (in Billions)

<table>
<thead>
<tr>
<th>Description</th>
<th>3rd Party</th>
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</thead>
<tbody>
<tr>
<td>US Government Agency Securities</td>
<td></td>
</tr>
<tr>
<td>Corporate Bonds/Foreign Government Securities</td>
<td></td>
</tr>
<tr>
<td>Other ABS (RMBS, CMBS, and CDOs)</td>
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<tr>
<td>CDO</td>
<td></td>
</tr>
<tr>
<td>Other (Preferred CDS, etc.)</td>
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<tr>
<td>Total CDO</td>
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#### VAR 2012

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<td>International</td>
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<tr>
<td>Domestic</td>
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<tr>
<td>Financial</td>
<td></td>
</tr>
<tr>
<td>GDP Impact</td>
<td></td>
</tr>
<tr>
<td>Event Stress</td>
<td></td>
</tr>
<tr>
<td>Risk of Default &amp; Probability of Losses</td>
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</table>

- VAR based on a 99% confidence level

**Confidential Treatment Requested by J.P. Morgan Chase & Co.**
<table>
<thead>
<tr>
<th>Description</th>
<th>Capital Hedging</th>
<th>Position Change</th>
<th>Days</th>
<th>Notes</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Redacted By The Permanent Subcommittee on Investigations
Greg got back to me tonight. He's not writing tonight. He'll give me more details tomorrow morning, and then I'll work with Ina and others on next steps. Thanks, Joe

-----Original Message-----
From: Goldman, Irvin J
Sent: Wednesday, April 04, 2012 7:20 PM
To: Evangelisti, Joseph
Subject: Fw: Call

----- Original Message ----­
From: Weiland, Peter
Sent: Wednesday, April 04, 2012 06:22 PM
To: Goldman, Irvin J
Subject: Call

So I'm sitting in Laguardia about to get on a plane. I pulled out my iphone and I had a message. It was Greg Zuckerman from the Wall Street Journal, said he was writing a story that would mention me and wanted to give me a heads up. He's doing a story on Bruno and CIO. His number is 212 416 3614. He talked to me about the story trying to get a reaction and all I told him was that I could not make any comment. To be honest what he said actually sounded fairly balanced, but you never know what might actually get into print.

Left you a vmail at work too.

Boarding soon but call if you want to talk.

Pete
Peter Weiland
JPMorgan
  o: +1 212 834 5549
  m:
Hi Doug

FYI: the presentation related to synthetic credit is attached.

Best,
Achilles
CORE CREDIT PL estimates for Q2

April 2012

J.P. Morgan
Distribution of P/L

Distributions of P&L in stress cases (either bullish or bearish)

- dist -50%
- dist -25%
- dist 0%
- dist +10%
- dist +25%
- dist +50%
- dist +75%
- dist +100%
### Current P&L: Detailed Breakdown – CDX IG 9

<table>
<thead>
<tr>
<th>Component</th>
<th>CDX IG 9</th>
<th>Spread compression</th>
<th>spread 03/01/2012</th>
<th>spread 27/03/2012</th>
<th>Duration change</th>
<th>Duration adjusted</th>
<th>Beta adjusted Dur1</th>
<th>Dur2</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.75yrs</td>
<td>0.75%</td>
<td>48%</td>
<td>132</td>
<td>68</td>
<td>-25.00%</td>
<td>64</td>
<td>90.90</td>
<td>91.8</td>
</tr>
<tr>
<td>2.75yrs</td>
<td>2.75%</td>
<td>31%</td>
<td>140</td>
<td>88</td>
<td>-14.00%</td>
<td>52</td>
<td>57.80</td>
<td>51.2</td>
</tr>
<tr>
<td>5.75yrs</td>
<td>5.75%</td>
<td>26%</td>
<td>149</td>
<td>111</td>
<td>2.000%</td>
<td>32</td>
<td>37.51</td>
<td>28.1</td>
</tr>
<tr>
<td>On the run 5yr</td>
<td>33%</td>
<td>33%</td>
<td>121</td>
<td>81</td>
<td>-0.00%</td>
<td>40</td>
<td>41.97</td>
<td>42.0</td>
</tr>
<tr>
<td>S9 forward</td>
<td>22%</td>
<td>152</td>
<td>118</td>
<td>26.00%</td>
<td>34</td>
<td>26.06</td>
<td>19.5</td>
<td>4.29</td>
</tr>
<tr>
<td>IG15</td>
<td>35%</td>
<td>111</td>
<td>72</td>
<td>-12.00%</td>
<td>39</td>
<td>41.94</td>
<td>46.3</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Component: **CCX IG 9**

- **Steepening**: 5 Bp
- **HY bucket Spread effect**: 7 Bp
- **Total**: 12 Bp
Current P&L: CDX IG9 performance

- CDX IG9 can be proxied as a normal IG index of 117 names and 5 HY Names (MBIA, Radian, ISTAR, SPRINT, RRD)
- The 5 names behaved like the whole HY market; they underperform the IG market and steepened a lot.
- Their move relative to the rest of IG indices allows to explain most of the lag in CDX IG9 curve but not all.
- Yet 0.75yr CDX IG9 outperformed by 4 bps, 2.75yr outperformed by 2 bps, while 5.75yr underperformed by 2 bps.

### USD110mm

<table>
<thead>
<tr>
<th>Spread</th>
<th>Index loss</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.75yr</td>
<td>64%</td>
<td>64</td>
</tr>
<tr>
<td>2.15yr</td>
<td>53%</td>
<td>53</td>
</tr>
<tr>
<td>5.75yr</td>
<td>53%</td>
<td>53</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spread</th>
<th>Index loss</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.75yr</td>
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<td>53%</td>
<td>53</td>
</tr>
<tr>
<td>5.75yr</td>
<td>53%</td>
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</tbody>
</table>

### USD110mm

<table>
<thead>
<tr>
<th>Spread</th>
<th>Index loss</th>
<th>%</th>
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<tbody>
<tr>
<td>0.75yr</td>
<td>64%</td>
<td>64</td>
</tr>
<tr>
<td>2.15yr</td>
<td>53%</td>
<td>53</td>
</tr>
<tr>
<td>5.75yr</td>
<td>53%</td>
<td>53</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Spread</th>
<th>Index loss</th>
<th>%</th>
</tr>
</thead>
<tbody>
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<td>64</td>
</tr>
<tr>
<td>2.15yr</td>
<td>53%</td>
<td>53</td>
</tr>
<tr>
<td>5.75yr</td>
<td>53%</td>
<td>53</td>
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</table>
Appendix: Position CDX IG position changes since June 2011 allocated to IG9 forward trade

<table>
<thead>
<tr>
<th></th>
<th>IG9 History in BLN USD</th>
<th>IG9 5yr%</th>
<th>IG9 4yr%</th>
<th>IG9 3yr%</th>
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<tbody>
<tr>
<td></td>
<td>Aug-11</td>
<td>-55</td>
<td>23.6</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>Sep-11</td>
<td>-80</td>
<td>41.5</td>
<td>114</td>
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<tr>
<td></td>
<td>Oct-11</td>
<td>-30</td>
<td>27.4</td>
<td>132</td>
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<tr>
<td></td>
<td>Nov-11</td>
<td>100</td>
<td>24.42</td>
<td>127</td>
</tr>
<tr>
<td></td>
<td>Dec-11</td>
<td>-45</td>
<td>21.8</td>
<td>131</td>
</tr>
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<td></td>
<td>Jan-12</td>
<td>-90</td>
<td>20.0</td>
<td>122</td>
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<td></td>
<td>Feb-12</td>
<td>-110</td>
<td>15.7</td>
<td>122</td>
</tr>
<tr>
<td></td>
<td>Mar-12</td>
<td>-125</td>
<td>22.8</td>
<td>133</td>
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<td>Apr-12</td>
<td>-135</td>
<td>20.6</td>
<td>141</td>
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<table>
<thead>
<tr>
<th></th>
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<th>Index IG9 5yr%</th>
<th>IG9 4yr%</th>
<th>IG9 3yr%</th>
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<tr>
<td></td>
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<td>29.8</td>
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<td></td>
<td>Sep-11</td>
<td>32.3</td>
<td>-1.8</td>
<td>-13.7</td>
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<tr>
<td></td>
<td>Oct-11</td>
<td>33.7</td>
<td>-2.8</td>
<td>-15.99</td>
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<tr>
<td></td>
<td>Nov-11</td>
<td>30.0</td>
<td>3.45</td>
<td>19.39</td>
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<td></td>
<td>Dec-11</td>
<td>34.8</td>
<td>-3.66</td>
<td>-16.60</td>
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<tr>
<td></td>
<td>Jan-12</td>
<td>35.6</td>
<td>-3.8</td>
<td>-16.9</td>
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<td></td>
<td>Feb-12</td>
<td>56.7</td>
<td>-6.3</td>
<td>-17.6</td>
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<td></td>
<td>Mar-12</td>
<td>78.0</td>
<td>-7.7</td>
<td>-18.49</td>
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<td></td>
<td>Apr-12</td>
<td>78.2</td>
<td>-7.7</td>
<td>-18.9</td>
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Confidential Treatment Requested by J.P. Morgan Chase & Co.
## Current position and trading activity 2012

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<tr>
<th>Block</th>
<th>All trades</th>
<th>Start Jan Book</th>
<th>Start Feb Book</th>
<th>Start March Book</th>
<th>Current Book</th>
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<tbody>
<tr>
<td><strong>Decompression trade</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main OTR Xover</td>
<td>3.700</td>
<td>-2,419,935,764</td>
<td>-3,825,795,277</td>
<td>-5,243,765,317</td>
<td>-6,884,374,622</td>
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<tr>
<td>Main OTR IG</td>
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<td>10,599,246,667</td>
<td>16,062,222,222</td>
<td>14,040,900,000</td>
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<tr>
<td>Forward vs OTR</td>
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<tr>
<td>SY Fwd</td>
<td>4.300</td>
<td>15,534,528,571</td>
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<td>5yr IG OTR eq</td>
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<td>All trades</td>
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<td>Decompression trade</td>
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<td></td>
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</tr>
<tr>
<td>HY OTR</td>
<td>4.100</td>
<td>-12,377,613,171</td>
<td>-7,240,393,436</td>
<td>-7,955,056,357</td>
<td>-14,052,635,665</td>
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<tr>
<td>IG OTR</td>
<td>4.600</td>
<td>56,614,554,351</td>
<td>34,233,751,128</td>
<td>36,350,777,943</td>
<td>69,265,016,530</td>
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<tr>
<td>HY Steepener</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>HY On the run</td>
<td>4.100</td>
<td>-2,555,811,220</td>
<td>-8,555,429,927</td>
<td>-11,320,630,705</td>
<td>-11,224,102,975</td>
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<tr>
<td>HY10-11</td>
<td>2.435</td>
<td>4,203,653,388</td>
<td>14,405,446,694</td>
<td>19,070,202,546</td>
<td>18,856,001,314</td>
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<td>Forward vs OTR</td>
<td></td>
<td></td>
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<tr>
<td>IG Fwd</td>
<td>4.500</td>
<td>39,888,689,826</td>
<td>54,651,951,114</td>
<td>75,033,955,559</td>
<td>94,017,494,448</td>
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<tr>
<td><strong>Net Index exposure per Block</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net 5yr iTraxx Main OTR</td>
<td>4.500</td>
<td>22,472,525,679</td>
<td>-4,110,519,444</td>
<td>6,190,059,444</td>
<td>14,062,350,556</td>
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<td>Net CDX IG OTR</td>
<td>4.600</td>
<td>13,119,337,783</td>
<td>-27,879,227,212</td>
<td>-5,683,520,286</td>
<td>-8,711,749,129</td>
</tr>
</tbody>
</table>
Q2 Status Quo Scenario - A reflection on relative performance

Central Scenario:
- the IG curve steepens a bit more in a tightening while the IG 10yr lags the 5yr OTR rally
- at the wides, the IG OTR curve has flattened a bit, not the IG9 curve

» The IG9 curve should rally more with such a slope in a rally
» The IG9 curve could flatten more in a widening

Ig curves IG9 and OTR

-50% IG9
-25% IG9
-10% IG9
0% IG9
10% IG9
25% IG9
+50% IG9
-50% CS OTR
-25% CS OTR
-10% CS OTR
0% CS OTR
+10% CS OTR
+25% CS OTR
+50% CS OTR

JPMorgan
From: Dimon, Jamie <jamie.dimon@jpmchase.com>
Sent: Wed, 09 May 2012 18:44:27 GMT
To: Miller, Judith B. <Judith.B.Miller@jpmorgan.com>
Subject: Fw: CIO Credit Collateral differences as of COB Monday 8th - including 2 day differences against Morgan Stanley

From: Coombes, Herna S
Sent: Wednesday, May 09, 2012 02:32 PM
To: Dimon, Jamie; Braunstein, Douglas; Hogan, John J.; Drew, Pia
Cc: O'Rahilly, Rob; Bacon, Ashley; Venkatakrishnan, CS; Vigneron, Olivier X; Hazati, Achilles G; Martin-Artajo, Javier X; Wilmot, John; Lewis, Phil
Subject: CIO Credit Collateral differences as of COB Monday 8th - including 2 day differences against Morgan Stanley

CIO Credit Collateral differences as of COB Monday 8th

Total difference between CIO and the counterparties is now $144mm vs. $212mm prior day

Largest Counterparty Difference: Morgan Stanley Capital Services is at $54mm – down from $61mm
Largest Instrument Difference: CDX IG 109 S11 09-08 is now $26mm vs. $24mm on the prior day

*Please note: Deutsche Bank AG is as per the 7th May 2012

Difference by counterparty:

Top ten differences by instrument:
Top 10 differences by Instrument against Morgan Stanley Capital Services as at COB Monday 7th May 2012:

Top 10 differences by Instrument against Morgan Stanley Capital Services as at COB Monday 7th May 2012:
### Table: Confidential Treatment Requested by JPMorgan Chase & Co.

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>CDI MTM</th>
<th>CP MTM</th>
<th>CDI vs. CP MTM</th>
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</thead>
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<tr>
<td>CA</td>
<td>(18,572,253)</td>
<td>(17,217,110)</td>
<td>1,355,143</td>
</tr>
<tr>
<td>BVASIA</td>
<td>(674,924)</td>
<td>(674,542)</td>
<td>(4,382)</td>
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<tr>
<td>BWF</td>
<td>2,084,091</td>
<td>2,320,559</td>
<td>236,468</td>
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<td>KIA</td>
<td>131,319,235</td>
<td>129,961,652</td>
<td>1,357,583</td>
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<tr>
<td>MEL</td>
<td>(85,283,670)</td>
<td>(77,309,744)</td>
<td>7,973,926</td>
</tr>
<tr>
<td>ERASAG</td>
<td>(1,515,923)</td>
<td>(1,117,749)</td>
<td>398,174</td>
</tr>
<tr>
<td>CIRAS</td>
<td>(6,210,325)</td>
<td>(6,471,188)</td>
<td>(260,863)</td>
</tr>
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<td>ESI</td>
<td>(172,144,944)</td>
<td>(181,146,149)</td>
<td>(9,001,205)</td>
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<tr>
<td>CSA</td>
<td>(43,348,619)</td>
<td>(51,071,054)</td>
<td>(7,722,435)</td>
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<td>ZIKAS</td>
<td>2,049,073</td>
<td>2,110,564,554</td>
<td>21,511,481</td>
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<td>QSE</td>
<td>25,122,418</td>
<td>18,388,598</td>
<td>6,733,820</td>
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<td>RSSEDE</td>
<td>16,071,863</td>
<td>(3,071,194)</td>
<td>19,143,057</td>
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<tr>
<td>HEECHG</td>
<td>(3,109,595)</td>
<td>(11,374,149)</td>
<td>8,264,554</td>
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<td>WAI</td>
<td>3,171,339</td>
<td>3,347,024</td>
<td>(175,685)</td>
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<tr>
<td>VEEO</td>
<td>341,304,973</td>
<td>242,817,692</td>
<td>98,487,281</td>
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<tr>
<td>VITL</td>
<td>175,201,014</td>
<td>(77,367,263)</td>
<td>(97,833,751)</td>
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<td>RHSIP</td>
<td>549,908,384</td>
<td>16,102,883</td>
<td>533,804,501</td>
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<td>RYSEW</td>
<td>78,383,183</td>
<td>77,066,142</td>
<td>1,317,041</td>
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<td>6915B</td>
<td>(103,456,037)</td>
<td>(103,172,767)</td>
<td>(273,270)</td>
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<td>689522,222</td>
<td>(722,522,572)</td>
<td>(722,522,572)</td>
<td>(0)</td>
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<tr>
<td>Total</td>
<td>300,021,197</td>
<td>240,960,995</td>
<td>59,060,202</td>
</tr>
</tbody>
</table>

**Confidential Treatment Requested by JPMorgan Chase & Co.**

coni-20003-00002714
Dear Bruno:

Subject: Termination of your employment

J.P. Morgan Limited (the "Company") hereby terminates your employment with immediate effect.

The termination of your employment relates to your management of and responsibilities in respect of the Company's Synthetic Credit Book (the "Book"). The grounds for termination are that you have committed serious misconduct which may amount to gross misconduct justifying the termination of your employment by the Company with immediate effect, as follows:

Under your responsibility for management and implementation, the Book experienced substantial, unexpected losses, after a dramatic increase in size, complexity, and exposure to various risks and pursuant to a strategy that was not adequately vetted and that was executed poorly and without sufficient examination of underlying positions; and/or

During March and April 2012, when the Book began to show significant losses, you received or were aware of instructions from Javier Martin-Artajo (1) to show modest daily losses in the marking of the Book rather than marking the Book in a manner consistent with the standard policies and procedures of J.P. Morgan Chase & Co (together with its subsidiaries, the "Firm") and/or (ii) to provide daily profit and loss reports that would show a long-term trend in the value of the Book's positions that did not necessarily reflect the exit price for those positions under the Firm's standard policies and procedures. You complied with, or permitted the compliance by Julien Grout with, such instructions in whole or in part with the result that there was a significant divergence between values under the Firm's standard policies and procedures and the Book's stated value; and/or

You improperly and/or with gross negligence failed to identify, raise or assess, in a timely manner and as reasonably expected, risks and/or concerns in relation to the Book with respect to risks material to the Firm or its business activities; and/or

J.P. Morgan Limited
22 Eastbourne Terrace, London, W2 3PL
Tel: +44 (0)207 771 3300 Fax: +44 (0)207 771 3394

Confidential treatment requested by J.P. Morgan Chase & Co. JPM.CIO-PSI-N-0002740
Your actions were inconsistent with proper marking considerations under the Firm's standard policies and procedures; and/or
Your actions and/or failures to act have violated the J.P. Morgan Code of Conduct and/or other policies applicable to you; and/or
Your actions and/or failures to act were injurious to the interests of the Firm or its relationship with its customers or clients; and/or
Your performance of the duties associated with your position or job function was inadequate and/or unsatisfactory and fell significantly below what is reasonably to be expected of an employee operating at your level of seniority; and/or
Your failure to perform adequately and/or satisfactorily the duties associated with your position or job function is sufficiently serious to constitute serious misconduct by you; and/or
Your conduct was detrimental to the Firm in that it caused material financial and/or reputational harm to the Firm or its business activities.

The Company will today make you a payment into your bank account of 12 weeks' salary in lieu of notice (less deductions for income tax and employee's National Insurance contributions) in accordance with clause 1.9 of your terms and conditions of employment (the Terms and Conditions). This payment is without prejudice to any final determination by the Company as to whether your conduct amounted to gross misconduct, such as would justify terminating with no payment in lieu of notice.

The Company and the Firm each retain all rights and remedies it may have against you including, but not limited to, the right to cancel or recover any cash or equity-based compensation paid to you in accordance with the terms of the relevant compensation awards, the Firm's Bonus Recoupment Policy and other policies or agreements.

You are reminded that following the termination of your employment you remain bound by the post-termination restrictions set out in the Terms and Conditions, including, in particular, clause 14 ('Confidentiality') and clause 20 ('Business Restraint Covenant'). In accordance with clause 19.6 of the Terms and Conditions, you must return to the Company all Company property including, but not limited to, any documents, Company equipment, computer disks, books, keys, documents, correspondence, records, credit cards and passes which are in your possession or control. Please do so before the close of business on 17 July 2012.

Yours sincerely,

Michael Boyle
Head of EMEA Human Resources

For and on behalf of
J.P. Morgan Limited

1956
Dear Achilles:

Subject: Termination of your employment

J.P. Morgan Chase Bank N.A. (the Company) hereby terminates your employment with immediate effect.

The termination of your employment relates to your oversight responsibilities in respect of your role as head of CIO International which included the Synthetic Credit Book (the Book). The grounds for termination are that you have committed serious misconduct which may amount to gross misconduct justifying the termination of your employment by the Company with immediate effect, as follows:

- Under your responsibility for oversight, the Book experienced substantial, unexpected losses, after a dramatic increase in size, complexity and exposure to various risks and pursuant to a strategy that was not adequately vetted and that was executed poorly and without sufficient examination of underlying positions; and/or
- You failed to provide effective or adequate oversight over the Book and the activities of Javier Martin-Artajo and the traders on the Book; and/or
- You improperly and/or with gross negligence failed to identify, raise or assess, in a timely manner and as reasonably expected, risks and/or concerns in relation to the Book with respect to risks material to J P Morgan Chase & Co (together with its subsidiaries, the Firm) or its business activities; and/or
- You made representations to senior management in relation to the Book being balanced and/or well positioned and in relation to its estimated P&L scenarios and risk exposures which were significantly inaccurate in circumstances where you knew or ought to have known that such representations were inaccurate and/or omitted material facts necessary to make your representations not misleading and/or failed to make an adequate or prompt statement of correction of such representations in circumstances where it became clear that such representations were inaccurate; and/or
- Your conduct was detrimental to the Firm in that it caused material financial and/or reputational harm to the Firm or its business activities; and/or
- Your actions and/or failures to act have violated the J P Morgan Code of Conduct and/or other policies applicable to you; and/or
- Your actions and/or failures to act were injurious to the interests of the Firm or its relationship with its customers or clients; and/or

J.P. Morgan

12 July 2012

J.P. Morgan Chase Bank N.A.

1200 Long Island Boulevard, Garden City, New York 11530

Tel: +1 516 220 6300 Fax: +1 516 220 6399

Confidential Treatment Requested by J. P. Morgan Chase & Co.

JPM-CIO-PSH-000274
J.P. Morgan

Your performance of the duties associated with your position or job function was inadequate and/or unsatisfactory and fell significantly below what is reasonably to be expected of an employee operating at your level of seniority; and/or

Your failure to perform adequately and/or satisfactorily the duties associated with your position or job function is sufficiently serious to constitute serious misconduct by you.

The Company will today make you a payment into your bank account of 12 weeks’ salary in lieu of notice (less deductions for income tax and employee's National Insurance contributions) in accordance with clause 1.9 of your terms and conditions of employment (the Terms and Conditions). This payment is without prejudice to any final determination by the Company as to whether your conduct amounted to gross misconduct, such as would justify terminating with no payment in lieu of notice.

The Company and the Firm each retain all rights and remedies it may have against you including, but not limited to, the right to cancel or recover any cash or equity-based compensation paid to you in accordance with the terms of the relevant compensation awards, the Firm's Bonus Recoupment Policy and other policies or agreements.

You are reminded that following the termination of your employment you remain bound by the post-termination restrictions set out in the Terms and Conditions, including, in particular, clause 14 (“Confidentiality”) and clause 30 (“Business Restraint Covenant”). In accordance with clause 19.6 of the Terms and Conditions, you must return to the Company all Company property including, but not limited to, any documents, Company equipment, computer disks, books, keys, documents, correspondence, records, credit cards and passes which are in your possession or control. Please do so before the close of business on 17 July 2012.

Yours sincerely,

Michael Raynham
Head of EMEA Human Resources

For and on behalf of
J.P. Morgan Chase Bank N.A.
Dear Javier:

Subject: Termination of your employment

J.P. Morgan Chase Bank N.A. (the Company) hereby terminates your employment with immediate effect.

The termination of your employment relates to your management of and responsibilities in respect of the CIO's Synthetic Credit Book (the Book). The grounds for termination are that you have committed serious misconduct which may amount to gross misconduct justifying the termination of your employment by the Company with immediate effect, as follows:

- Under your responsibility for oversight and management, the Book experienced substantial, unexpected losses, after a dramatic increase in size, complexity and exposure to various risks and pursuant to a strategy that was not adequately vetted and that was executed poorly and without sufficient examination of underlying positions; and/or
- During March and April 2012, when the Book began to show significant losses, you directed Bruno Iklji and/or Julien Grout to show modest daily losses in the marking of the Book rather than marking the Book in a manner consistent with the standard policies and procedures of J.P. Morgan Chase & Co (together with its subsidiaries, the Firm) and/or to provide daily profit and loss reports that would show a long-term trend in the value of the Book's positions that did not necessarily reflect the exit price for those positions under the Firm's standard policies and procedures; and/or
- You made representations to senior management in relation to the Book being balanced and/or well positioned and in relation to its estimated P&L, scenarios and risk exposures which were significantly inaccurate in circumstances where you knew or ought to have known that such representations were inaccurate and/or omitted material facts necessary to make your representations not misleading and/or failed to make an adequate or prompt statement of correction of such representations in circumstances where it became clear that such representations were inaccurate; and/or

12 July 2012
J.P. Morgan

- You improperly and/or with gross negligence failed to identify, raise or assess, in a timely manner and as reasonably expected, risks and/or concerns in relation to the Book with respect to risks material to the Firm or its business activities; and/or
- Your conduct was detrimental to the Firm in that it caused material financial and/or reputational harm to the Firm or its business activities; and/or
- Your actions and the instructions you gave were inconsistent with proper marking practices under the Firm's standard policies and procedures; and/or
- Your actions and/or failures to act have violated the J.P. Morgan Code of Conduct and/or other policies applicable to you; and/or
- Your actions and/or failures to act were injurious to the interests of the Firm or its relationship with its customers or clients; and/or
- Your performance of the duties associated with your position or job function was inadequate and/or unsatisfactory and fell significantly below what is reasonably to be expected of an employee operating at your level of seniority; and/or
- Your failure to perform adequately and/or satisfactorily the duties associated with your position or job function was insufficiently serious to constitute serious misconduct by you.

The Company will today make you a payment into your bank account of 12 weeks' salary in lieu of notice (less deductions for income tax and employee's National Insurance contributions) in accordance with clause 1.9 of your terms and conditions of employment (the "Terms and Conditions"). This payment is without prejudice to any final determination by the Company as to whether your conduct amounted to gross misconduct, such as would justify terminating with no payment in lieu of notice.

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Yours sincerely,

[Signature]

Michelle Boyle
Head of EMEA Human Resources

For and on behalf of
J.P. Morgan Chase Bank N.A.
CIO compensation – Overview & Pool Determination

Overview
- CIO compensation consistent with firm-wide approach
- Discretionary, non-formulaic awards
- Balances performance of the Firm, CIO and Individual
- Same cash/stock splits and deferred equity compensation as firm and other LOBs
- Major driver of individual total compensation is "seat value"

Pool determination and limits
- Pool estimated at beginning of performance year based on previous year's aggregate pool, adjusted for changes in incumbents, staffing plans and other known changes
- Pool estimate reviewed during year and adjusted as needed, if significant changes in CIO financial forecast vs. CIO budget, changes in overall firm guidance or other significant unanticipated changes
- Determination of final pool subject to discussions at senior-most levels, taking into consideration numerous factors, including multi-year performance, quality of earnings and risk adjusted financial performance
- Final pool approved by CMDC

### Historical Operating Performance ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2008 Actuals</th>
<th>2009 Actuals</th>
<th>2010 Actuals</th>
<th>2011 Actuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,345</td>
<td>9,157</td>
<td>7,207</td>
<td>3,126</td>
</tr>
<tr>
<td>Total Comp</td>
<td>117</td>
<td>169</td>
<td>203</td>
<td>230</td>
</tr>
<tr>
<td>Non-Comp</td>
<td>70</td>
<td>79</td>
<td>106</td>
<td>225</td>
</tr>
<tr>
<td>Total Expense</td>
<td>186</td>
<td>248</td>
<td>311</td>
<td>454</td>
</tr>
<tr>
<td>Credit Costs</td>
<td>-</td>
<td>3</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Pre-Tax Earnings</td>
<td>2,157</td>
<td>8,908</td>
<td>6,868</td>
<td>2,657</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,262</td>
<td>5,210</td>
<td>4,029</td>
<td>1,554</td>
</tr>
</tbody>
</table>

**SVA (at 12% assumed cost of capital)**
- 2008: 1,124
- 2009: 5,044
- 2010: 3,869
- 2011: 1,301

**RoE (Net Income/Economic Capital)**
- 2008: 110%
- 2009: 377%
- 2010: 302%
- 2011: 74%

**Comp/Revenue**
- 2008: 5%
- 2009: 2%
- 2010: 3%
- 2011: 7%

**Overhead Ratio**
- 2008: 8%
- 2009: 3%
- 2010: 4%
- 2011: 15%

**Economic Capital**
- 2008: 1,151
- 2009: 1,382
- 2010: 1,333
- 2011: 2,114

**Economic IC**
- 2008: 68
- 2009: 158
- 2010: 132
- 2011: 138

**Economic Total Comp**
- 2008: 100
- 2009: 194
- 2010: 184
- 2011: 208

Note: Comp and Non-Comp expenses adjusted to eliminate LOB FX hedging residuals.

1 Includes MSR and BOL/COX.
CIO Compensation – Revenue to Compensation Historical Lookback

CIO compensation is relatively flat over the period, and there does not appear to be a direct correlation between revenue and compensation.

[Graphs showing revenue and incentive comparison over the years (2008-2011).]
CIO Compensation – Individual Determinations

- Individual total compensation determinations
  - Internal and external benchmarks (put together for this presentation) provide a reference for seat value (Tab A)
  - Quantitative and qualitative assessments of performance and contribution
    - Performance reviews, though not always formally documented, consider a number of objectives and factors, including financial performance, risk management, and execution of firm objectives (Tab B)
    - Input obtained from the Chief Risk Officer of CIO and other control function leads (Compliance, Legal, Audit) on senior market professionals (Tab C)
  - Total compensation recommendations for the most highly-paid employees, including Macris, Martin-Artajo and Iksil, were reviewed by the Operating Committee and compared to others in like roles across the firm, then reviewed and approved by CEO of the firm and included in JPMC Highly Compensated Report provided to CMDC
  - Total compensation recommendation for CIO CEO made by firm’s CEO and approved by CMDC
  - Compensation history for Drew, Macris, Martin-Artajo and Iksil are at Tab D
CIO Compensation – Overall Observations

- Observations
  - Review of CIO compensation indicates that both quantitative and qualitative factors, including risk management, were included.
  - Significant changes in annual revenue from 2008-2011 do not directly correspond to changes in total compensation or incentives
    - Total compensation is largely driven by "seat value" and thus remains relatively flat over the period.
    - As JPM CIO is not directly comparable to CIO functions in other firms, external benchmarks are not readily available; however, blend of data from IB, AM and external positions provide reference information.
  - Governance processes were in place and were followed.
    - Internal review of pool and individual awards by senior management across the organization (HR, Finance, Operating Committee)
    - Input and review by Risk and other control functions.
List of Tabs

A. Seat Value Comparisons
B. Performance Reviews
C. Risk & Control Feedback
D. Individual Compensation Summaries
### "Seat value" comparisons

<table>
<thead>
<tr>
<th>Role</th>
<th>Total Compensation ($mm)</th>
<th>Ref Grp</th>
<th>2011</th>
<th>2010</th>
<th>Comments / Other</th>
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<tr>
<td>JPM CEO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Name</td>
<td>2011</td>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dow</td>
<td>$14</td>
<td>$12</td>
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<td></td>
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<tr>
<td>Int Fixed Income</td>
<td>Avg - High</td>
<td>5.5 - 12.5</td>
<td>6 - 15.0</td>
<td>Internal - Sales &amp; Trading MDs &gt; 18 P/L</td>
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<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>10.5 - 15</td>
<td>10.5 - 13</td>
<td>Internal - Fixed Income (Top 3 below MOQ)</td>
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<tr>
<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>6.0</td>
<td>6.0</td>
<td>Internal - Fixed Income Investments Inc.</td>
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<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>1.1-1</td>
<td>1.1-1</td>
<td>Internal - ENDA Sales &amp; Trading (20-22)</td>
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<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>2.2-2</td>
<td>2.2-2</td>
<td>Global Sales &amp; Trading MDs</td>
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<tr>
<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>2.2-2</td>
<td>2.2-2</td>
<td>Global Sales &amp; Trading MDs</td>
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<tr>
<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>1.1-1</td>
<td>1.1-1</td>
<td>Global Sales &amp; Trading MDs</td>
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<tr>
<td>Int Fixed Income Inc.</td>
<td>Avg - High</td>
<td>2.2-2</td>
<td>2.2-2</td>
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<td>2.2-2</td>
<td>Global Sales &amp; Trading MDs</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
- *Indicates third-party survey data used in internal job benchmarking.
- *Indicates third-party survey data used for comparable jobs in other LOBs that were selected as part of internal comparisons.
Macris
January 2011

Dr. Drew:

In 2010, you demonstrated a high degree of sensitivity to the firm's risk management activities. You led by example through initiatives targeting global management.

To be completely successful as a potential successor you need to help drive integration and partner with North America.

Work with CO to increase understanding of risk for top of the house positions.

Shall you aspire to COE role, you need to take a broader management of two countries in the firm.

Employee Confirmation

Manager approval

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Achilles Macris

Strengths:
- 2011 solid year for International CIO under Achilles' leadership
  - avoidance of major risk management errors
  - some opportunities left on the table
- Identification of risk with a strong inclusive Risk Management culture. (see code review)
- Leadership - role on EMEA Management Committee; excellent on both FSA and Regulatory matters.

Development:
- CIO needs leadership at the top to improve internal partnership
- Achilles must strive to promote teamwork, information sharing and relationships between his team and NY setting the highest possible standards and pushing down the role of culture carrier
- Less reliance on staff and more intensive rigor in budget planning and expense management

Feedback from Control Partners:
- Has created a supervisory environment which is compliance and controls-oriented
- Leads by example and sets the right tone with his team regarding compliance and control
- Is always keen to understand the regulatory environment in which the business operates
- Conducts regular risk management discussions during his weekly meetings
- Demonstrates rigor in his team meeting, reviewing each market one-by-one and quizzing PMs on their positions
- Holds quarterly close and continuous meetings with the FSA on the CIO business. Feedback from the FSA is that the CIO business under Achilles' leadership engages in an open and transparent manner, bringing issues to their attention and ensuring deep understanding
- Is highly sensitive to market risks and is very responsive to market events, drawdowns and other situations that may signal need for risk reduction
- Executes without hesitation when a reduction is agreed
- Is engaged and supportive of the Risk Management team
Manager sections of this review are in draft status. Employees cannot view managers' comments or ratings in draft status.

Employee: Macris, Achmés (U430216)
Manager: Drew, Lina R (U000924)
Additional Manager: N/A
Review Cycle: 01-JAN-2011 — 31-DEC-2011
Reporting Time: 2011
Job Title: Chief Investment Officer
T Laure Date: 16-JAN-2009

Employee Name: Macris, Achmés (U430216) - 2011 Performance Review

Manager's Comments:
There are no comments available from the manager.

Managers' Comments:
There are no comments available from the manager.

Employee Comments:
There are no comments available from the employee.

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1975

<table>
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<th>Manager Confirm</th>
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</thead>
<tbody>
<tr>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

- In addition to doubling the international budgets, made a big contribution in changing and updating the training and management methodology of the Global teams.
- Strong European commitment and participation. - Incidental with work on the global team's strategy.  
- People engaged team, strong development
- Continue outstanding feedback from the senior functional partners' both functional and regional (S&A/ESA/etc).

Mentor
*There are no comments available from the mentor (s). Comments may not exist or be in draft status.*

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<tr>
<th>Attachment Name</th>
<th>Uploaded By</th>
<th>Source</th>
<th>Date</th>
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Redacted By The Permanent Subcommittee on Investigations
## 1978

### CIO 2011 Financial Revenues (Billions)

<table>
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<th></th>
<th>Int'l</th>
<th>NA</th>
<th>Global</th>
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<tbody>
<tr>
<td>2011 Budget</td>
<td>1.7</td>
<td>2.4</td>
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<tr>
<td>2011 Actual</td>
<td>3.2</td>
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### CIO 2511 Financial Revenues (Billions)

<table>
<thead>
<tr>
<th></th>
<th>Int'l</th>
<th>NA</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 Budget TAA</td>
<td>0.6</td>
<td>0.2</td>
<td>0.8</td>
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<tr>
<td>2011 Budget SAA</td>
<td>1.1</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td>2011 Actual TAA</td>
<td>1.2</td>
<td>-0.2</td>
<td>1.0</td>
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<tr>
<td>2011 Actual SAA</td>
<td>2.0</td>
<td>3.7</td>
<td>3.2</td>
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</table>
Tactical Contribution

<table>
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<tr>
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<tbody>
<tr>
<td>Europe</td>
<td>Dec-11</td>
</tr>
<tr>
<td>London Rates</td>
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</tr>
<tr>
<td>London FX</td>
<td></td>
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<tr>
<td>Credit/Equity Europe</td>
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</tr>
<tr>
<td>Structural Management</td>
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<td>Emerging Markets</td>
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</tr>
<tr>
<td>Total Europe</td>
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</tr>
<tr>
<td>Asia</td>
<td></td>
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<tr>
<td>Asia Rates</td>
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<tr>
<td>Funds Investments Asia</td>
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<tr>
<td>Credit/Equity Asia</td>
<td></td>
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<tr>
<td>Asia Management</td>
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<tr>
<td>Total Asia</td>
<td></td>
</tr>
<tr>
<td>Credit</td>
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<tr>
<td>Strategic</td>
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<tr>
<td>Tactical</td>
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<tr>
<td>Total Core Credit</td>
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<tr>
<td>Investment Credit</td>
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<tr>
<td>Total Credit</td>
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<tr>
<td>FX Hedging</td>
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<tr>
<td>Equity</td>
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<tr>
<td>Total FX Hedging</td>
<td></td>
</tr>
<tr>
<td>Total International</td>
<td>1,389</td>
</tr>
</tbody>
</table>
Hi Rebecca,

I always conduct my year-end appraisals with my direct reports as I find this allows for a better exchange of views and more honest conversation. Nonetheless I have detailed below the key themes that we discussed plus specific feedback that I have received from the Control disciplines in relation to Javier and Chris.

Best,

Achilles

---

Javier Martin-Artajo

Strengths

- Has developed a world class Credit Risk management and Investment team in terms of personnel and results.
- Excellent risk management stoked by the exceptional performance experienced in 2010 where the Strategic Credit book continued to generate a positive contribution while de-risking. Typically the experience of de-risking such a book after the very significant positive contributions in 2008 and 2009 would be one of a drawdown. In 2010 we have experienced the opposite.
- Innovative, identifies trends in the market early and deploys capital thoughtfully and effectively.
- Has established himself as a real leader and influencer within COO and the wider Firm. This is demonstrated by his appointment to COO's extended management team and his interaction with other parts of the Firm such as the IB.
- Strong partner working closely with other areas of the Firm and the control disciplines within COO.
- Good control discipline and awareness.

Areas of focus for 2011

- Valued a huge contribution to the continuing success of COO globally and internationally. However there are times when perhaps he needs to play a more active role in his involvement with the Europe Business.
- The development of Emerging Market capability is a big priority for 2011. I am looking for Javier to partnership with Chris to drive the success of IMs.
Javier is a deep thinker and can get very immersed in the detail and technical aspect of an issue. At times he needs to step back and look at the wider picture.

Consort feedback:

- CDO: Always acts if a control issue is escalated to him, conducts himself as a true business owner caring about all aspects (not just risk management) of the business. He is committed to implementing control improvements and enhancements. Chairs board of directors.
### Manager's Notes

Employee: Martin-Javier (091028)
Manager: Mark Daniels (043062)
Additional Manager: NA
Review Cycle: 01-JAN-2011 – 31-DEC-2011
Responsibility Year: 2011
Job Title: Head Portfolio Manager

**Job Rate:**
- In Progress
- In Review

### Performance Review

<table>
<thead>
<tr>
<th>User</th>
<th>Signature</th>
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</tbody>
</table>

**In-Progress:**

There are no comments available from the employee.

**Manager's Comments:**

There are no development plan goals for the employee.

**Career Road:**

There are no career goals for the employee.

**Manager's Comments:**

There are no comments available from the manager.

**Employee:**

There are no comments available from the employee.

**Manager:**

There are no comments available from the manager.

---

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### Areas of Improvement

- Improve communication of our Asset Management decisions and speed of this communication with NY
- Improve the overall communication process in EMEA to be bottom up process so that we build our culture across all Portfolio Managers
- Improve Risk Management infrastructure and Risk Control environment given the new SAA Framework

### Strengths

- Long-term track-record in Investment Management in Credit Portfolios
- Long-term track-record in building cohesive high-performance Teams
- Highly quantitative approach to decision-making

### Other responsibilities

- Member of the Diversity Committee Worldwide
- Member of Leadership Initiative across EMEA
- Member of the key junior forum within EMEA

---

### Discussion Highlights

<table>
<thead>
<tr>
<th>Discussion</th>
<th>Employee Confirm</th>
<th>Manager Confirm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
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</tr>
<tr>
<td>Development/ career plan</td>
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<tr>
<td>App. Rec. Management (Absence)</td>
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</tr>
<tr>
<td>App. Rec. (Mentorship)</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

Javier, one of the best investors I have ever worked with. Out of the box thinker, always a few steps ahead of everyone else, gives few the details and the results show them.

I would like Javier to take more leadership as he leads us OMEA - take more control, express his knowledge, dictate the agenda more.

### Market Risk Feedback

Javier is responsible for a group of PM's who together manage a significant amount of risk for CIO. The overall performance of his team is excellent and they are fully engaged with the market risk feedback provided.

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<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
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</table>

**Note:** There are no attachments to this performance review.
Iksil
### Performance Review

#### Objective
- **Objective:** Improve the line of site PPIs (Reporting, one report by PPI, daily, week, and monthly). No target date as soon as possible.

#### Manager Comments
- I revised all these reports and included the revisions in the current report.

#### Employee Ratings
- Not Rated

<table>
<thead>
<tr>
<th>Objective</th>
<th>Manager/Target Details</th>
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<tbody>
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#### Performance Rating
- Not Rated (NA)

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**Note:** Confidential treatment requested by J.P. Morgan Chase & Co.
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<tr>
<th>Goal</th>
<th>Current Evaluation</th>
<th>Progress</th>
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</thead>
<tbody>
<tr>
<td>1. Expand trading activity to other asset classes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Reduce exposure to credit markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Expand exposure to rates, FX and equity markets on modest scale</td>
<td></td>
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</table>

**Manager's Comments:**
- Start reducing exposure in credit markets.
- In deepen exposure to rates, FX and equity markets on modest scale.
- Start planning moves to go further if need to.
- No need yet in other asset classes.

<table>
<thead>
<tr>
<th>Goal</th>
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<th>Progress</th>
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<tbody>
<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>2. Be less naive than some players in the industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Less naive than some players in the industry</td>
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</tbody>
</table>

**Manager's Comments:**
- Not possible from the 11th to the 21st.
- No exposure or bind status.
- Less naive than some players in the industry.

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**Manager's Comments:**
- Not possible from the 11th to the 21st.
- No exposure or bind status.
- Less naive than some players in the industry.
1989

Reducing the positions. Thanks to the support of my managers all along the way, this experience turned out to be a very profitable exercise in many respects:
1. I learned a lot in quite exceptional conditions on "how to manage very large portfolios"
2. I learned to work countercyclically depending on what they could do and what they wanted to do.
3. I learned that managing is also an art, as much as judging a book by its cover, can be.

Manager:
There are no comments available from the manager(s)/

<table>
<thead>
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<th>Observation</th>
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<td>Jan, Feb, Mar (Quarterly Discussion)</td>
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<td>Apr, May, Jun (Mid Year)</td>
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<tr>
<td>Jul, Aug, Sep (Quarterly Discussion)</td>
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<tr>
<td>Oct, Nov, Dec (Year End)</td>
<td>Y 09-NOV-2005</td>
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</table>

Please sign and return the enclosed copy of this letter.

There are no attachments to this performance review.
Manager sections of this review are in draft status. Employee cannot view manager's comments or ratings in Dmtl status.

Not Rated (NA)

Not Rated (NA)

Not Rated (NA)

Not Rated (NA)

Not Rated (NA)
Objective

Monitor/Target Dates

Employee Accomplishments

Target achievement for this year although many developments are still to be done on the infrastructure side. We also need to get more importance on these matters.

Manager Comments

Employee Identity

Manger Rating

Performance

CTP

Targeted to build a credible group to support the ideas of my colleagues in a structured and broad manner.

Actions/Resources

Progress

1. Build a credible group to support the ideas of my colleagues.
2. paved the way towards a set of "fair" transactions that would allow everyone to have the right portfolio to access every possible financial instrument.
3. The portfolio exists already from a trading perspective, yet not yet a self-contained approach.

Manager Comments

Quarterly Objectives

- The manager has been very quiet despite the turmoil in the market, I worked under many constraints and did many "bad trades," but the results were not catastrophically. Yet this has allowed to maintain a very stable P&L and primary set is to profit from extreme volatility.

Employer Year End (Salary) - Bull, Brown 9/22-09/02-2010

- 3-year performance goal was met, overall was a volatile market.

Employee Year End (Salary) - Bull, Brown 9/22-09/02-2010

- 3-year performance goal was met, overall was a volatile market.

Employee Year End (Salary) - Bull, Brown 9/22-09/02-2010

- 3-year performance goal was met, overall was a volatile market.
...learn to read the "pecking order" in the sense of a better point in time.

...learn the way to mitigate risk reduction, natural reduction in a market that did not convince the market.

...learn how to walk and create the opportunities to reduce the losses in an unsupportive environment.

...this was very frustrating. I could have done much better... with hindsight, yet the result is good.

Manager:

There are no comments available from the manager(s). Comments may not exist or be in draft status.

<table>
<thead>
<tr>
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<th>Manager Condition</th>
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<td>Jan. Plan (Quarterly Review)</td>
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<td>Sept. Plan (Ann Year)</td>
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<td>Dec. Plan (Ann Year)</td>
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**Attention:**

There is no attachment to this performance review.

Ballroom Hotel (3214521) - 2010 Performance Review
The overall risk assessment of the book was generally positive in every dimension. The VaR increased mainly due to historically increased realized volatility in the markets. But the risk of the book has been less volatile overall.

Manager Comments:

Employee Rating: Manager Rating
Not Rated Not Rated

Employee Comments:

Objectives
- Measured/Target Dates
- Measured/Target Dates
- Measured/Target Dates

Employee Accomplishments

The overall assessment of the book was generally positive in every dimension. The VaR increased mainly due to historically increased realized volatility in the markets. But the risk of the book has been less volatile overall.

Manager Comments:

Employee Rating: Manager Rating
Not Rated Not Rated

Employee Comments:

Objectives
- Measured/Target Dates
- Measured/Target Dates
- Measured/Target Dates

Employee Accomplishments

The overall assessment of the book was generally positive in every dimension. The VaR increased mainly due to historically increased realized volatility in the markets. But the risk of the book has been less volatile overall.

Manager Comments:

Employee Rating: Manager Rating
Not Rated Not Rated

Employee Comments:
1994

Credit & equity markets are actively traded in debt and equity markets. Bond markets are targeted for next year. Trading on FX should start on a small scale.

Medium Term (12-36 months)

The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Employee Mid-Year (Shift) – Ball, Bruno (16-Nov-2011)

There are no comments available from the manager(s): comment may not exist or be in draft stage.

Employee Self-Review (Shift) – Ball, Bruno (16-Nov-2011)

The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Manager

In summary, the overall trading strategy was well executed, with a focus on managing market stress and uncertainty. The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

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The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Manager

In summary, the overall trading strategy was well executed, with a focus on managing market stress and uncertainty. The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Employee Mid-Year (Shift) – Ball, Bruno (16-Nov-2011)

The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Manager

In summary, the overall trading strategy was well executed, with a focus on managing market stress and uncertainty. The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Employee Self-Review (Shift) – Ball, Bruno (16-Nov-2011)

The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.

Manager

In summary, the overall trading strategy was well executed, with a focus on managing market stress and uncertainty. The year was qualitatively very good under the market stress and uncertainty. Quantitatively, it has been less satisfactory due to the relentless pressure on the fixed income.
### Financial Transactions:

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**[Note]** There are no attachments to this performance review.
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Advisory: We need to establish a supervisory environment that includes feedback and continuous oversight. We must ensure that regulatory concerns are addressed in a timely manner.

Full-time Engagement: During weekly meetings, we discussed the role of the Compliance Reviewer. We need to ensure that the feedback process is integrated with the PIMs, with the COO and DPO, and that the feedback process is integrated with the regulatory processes to ensure effective risk management.

Note: This feedback is subject to the permanent investigation of the feedback process.
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<tr>
<th>Accountant Group</th>
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<td>John O'Connor</td>
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<td>Norbert Zoll</td>
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**CIO Notes:**
- Market Risk Review: Peter Whelan and Norbert Zoll.
- Compliance Review: Sally Dever and Julie Martin.

Full and clear dialog using weekly meetings. Feedback from the FSA on the CIO's inspection—feedback on the FSA's dilapidation ability and the issues identified are fully discussed in a number of meetings. The CIO has discussed the feedback with the business and is confident that they are taking appropriate action. The feedback has been incorporated into the business's control framework. The CIO acknowledges the significant amount of work that has been undertaken by the business to address the feedback. The business has made significant improvements in the control framework and has demonstrated a commitment to improving the control environment.
<table>
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<tr>
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<td>Christopher Shu Lun Chan</td>
<td>Bruno is responsible for a large portion of CIO's MTM risk. He displays a deep understanding of the market and full ownership of the positions, and he is very aware of the various risk measures and their implications. He is very open and good at communicating the risks of his book, and very focused on managing the various types and levels of risk.</td>
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<td>Javier is a reasonable for a group of PMs who together manage a significant amount of risk for CIO. Risk control is important to Javier, and he frequently initiates discussions with risk and is very responsive to risk issues.</td>
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Permanent Subcommittee on Investigations
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2003
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**Total Compensation History**

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Subject: Confidential - 2010 Performance Evaluation

Strengths:
--led international CIO to very strong performance results with excellent leadership (especially in my absence) and decisions made in risk management.
- Fully integrated CIO vision internationally with the company’s overall direction.
- Attracted and trained highly skilled professionals who can execute building out international CIO.
- Selected feedback from several leaders who concur that in 2009, you continued to be a proactive and demonstrated a high degree of sensitivity to the firm’s risk management practices. You lead by example through decisions made in risk management.

Development Areas:
- Should you aspire to CEO/CCO roles, you need to take a broader perspective of top tier pay at the firm.
- To be completely successful as a potential successor you need to help drive integration and partner with North America.
- Work with CIO to increase understanding of scale for top of the house positions.

Employee Signature

Manager Signature
Wilmot, John

From: Wilmot, John
Sent: Thursday, January 13, 2015 5:43 AM
To: Wilmot, John
Subject: Confidential - 2015 Performance Evaluation

Strengths

- Has had a very successful year in P&L generation through CDO, BOU, and Private Equity Investments.
- Developed Ana to a point where he can successfully move to the CFO role without business interruption.
- Heavily relied on for judgment throughout the year on multiple issues.

Development Areas

- In CFO role it will be extraordinarily important to over communication with both me and the entire team in order to be successful.
- Develop complete transition plan for all tasks that Ana will not take to SIG.

Employee Confirm

Manager Confirm

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSL-H 0002100
Weiland, Peter
From: Drew, Ina
Sent: Monday, January 10, 2011 4:44 PM
To: Weiland, Peter
Subject: Confidential - 2010 Performance Evaluation

Summary
- Has developed the CIO role and started building out appropriate risk management capabilities across CIO.
- Begun successful integration of CIO into firm wide processes.
- Has hired and filled out CIO Risk Management team

Development Area
- Must drive the CIO CBO risk management capabilities to a high-level of sophistication and depth.
- Must make more independent decision on marginal risk requirements now that you have had time to understand how the division functions.
- Should use empowered seat to initiate discussions with front office without my instructions.

Employee Confirm

Manager Confirm

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
JPM-CIO-PSI-H 0002801
Distribution List Membership Around March 2012

EOD Credit estimate:
- Buraya, Luis
- DeSangues, Eric
- Drew, Ina
- Enfield, Keith
- Goldman, Irvin
- Grout, Julien
- Hagan, Patrick
- Iksil, Bruno
- Hughes, Jason
- Lee, Janet
- Macris, Achilles
- Martin-Artao, Javier
- Patel, Samir
- Polychronopoulos, George
- Renshaw-Lewis, Philip
- Tocchio, Samantha
- Tse, Irene
- Stephan, Keith
- Weiland, Peter
- Wilmot, John

CIO P&L Team:
- Buraya, Luis
- DeSangues, Eric
- Enfield, Keith
- Grout, Julien
- Iksil, Bruno
- Martin-Artao, Javier
- Patel, Samir
- Polychronopoulos, George
- Stephan, Keith
From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Mon, 23 Jan 2012 22:57:26 GMT
To: MRM Reporting <mrm.reporting@jpmchase.com>; Weiland, Peter <peter.weiland@jpmchase.com>; Hogan, John J. <JohnJ.Hogan@jpmorgan.com>
CC: MRM CIO Global <MRM_CIO_Global@restricted.chase.com>; Doyle, Robin A. <Robin.A.Doyle@chase.com>; MRM External Reporting <MRM_ExternalReporting@jpmchase.com>; Intraspect - UMITS <Intraspect_UMITS@restricted.chase.com>; MRM Firmwide Reporting <MRM_Firmwide_Reporting@jpmorgan.com>
Subject: Re: ACTION NEEDED: CIO Global 10Q VaR Limit One-off Limit Approval

Approved

From: MRM Reporting
To: Weiland, Peter; Hogan, John J.; Drew, Ina
Cc: MRM CIO Global, Doyle, Robin A.; MRM External Reporting, Intraspect - LIMITS; MRM Firmwide Reporting
Sent: Mon Jan 23 15:46:19 2012
Subject: ACTION NEEDED: CIO Global 10Q VaR Limit One-off Limit Approval

Pete/John/Ira,

This email is to request for your approval to temporarily increase the following Level 1 CIO - Global - 10Q VAR limit from $95mm to $105mm until January 31, 2012.

CIO 95% VaR has become elevated as CIO balances credit protection and management of its Basel III RWA. In so doing, CIO has increased its overall credit spread protection (the action taken thus far has further contributed to the positive stress benefit in the Credit Crisis (Large Flatting Set-off) for this portfolio which has increased from $1.4bn to $1.6bn) while increasing VaR during the breach period.

Action has been taken to reduce the VaR and will continue. In addition, CIO has developed an improved VaR model for synthetic credit and has been working with MRG to gain approval, which is expected to be implemented by the end of January.

The impact of the new VaR model based on Jan. 18 data will be a reduction of CIO VaR by 44% to $57mm.

If more information is required, please let us know and we will arrange to provide further details.

<table>
<thead>
<tr>
<th>Limit ID</th>
<th>Description</th>
<th>Limit Type</th>
<th>Limit Value</th>
<th>Proposed One-Off Limit</th>
<th>Proposed Expiration</th>
<th>Approvers</th>
</tr>
</thead>
<tbody>
<tr>
<td>36649</td>
<td>CIO - Global - 10Q VAR</td>
<td>Level 1</td>
<td>$95,000,000</td>
<td>$105,000,000</td>
<td>1/31/2012</td>
<td>Peter Weiland, John Hogan, Ina Drew</td>
</tr>
</tbody>
</table>

Upon receipt of your approval, the above proposed limits will be effective January 20, 2012.

If you approve of the above limit changes, please reply to all with your approval. Thank you.
Why is CIO VAR so elevated? What is the collective view regarding what to do about this?

Bany

-----Original Message-----
From: Market Risk Management - Reporting
Sent: Friday, January 27, 2012 06:16 PM Eastern Standard Time
To: Market Risk Management - Reporting; Dimon, Jamie; Hogan, John J.; Zubrow, Barry L; Staley, Jon; Drew, Ian; Goldman, Irwin J; Weiland, Peter; Westbrook, David A.; Bevan, Ashley; Beck, David J; Bramstein, Douglas; Morzaria, Tushar R; Wilmot, John; Saghian, Frank J; Rutenberg, Louis; Lake, Marianne
Cc: Doyle, Robin A.; Waring, Mick; Market Risk Reporting; GREEN, IAN; McCaffrey, Lauren; Tocchio, Samantha; Chavenato, Ricardo S; Chen, Dan
Subject: JPMC Firmwide VaR - Daily Update - COB 01/26/2012

Firmwide 95% 10Q VaR
- The Firm’s 95% 10Q VaR as of cob 01/26/2012 has increased by $8mm from the prior day’s VaR to $161mm and has breached the $140mm Firm VaR limit for the third consecutive day.
- CIO’s 95% 10Q VaR* as of cob 01/26/2012 has increased by $8mm from the prior day’s VaR to $120mm and has breached the $110mm CIO VaR limit for the third consecutive day.
- The increase in the Firm’s VaR is primarily driven by an overall reduction in diversification benefits across the Firm and position changes in CIO.
- Each LOB’s contribution to the Firm’s $161mm VaR (as shown by marginal VaR) are: 18 ($45mm mVaR, primarily driven by Credit Mkt Global, Credit Port Global, and Global Rates), CIO ($107mm mVaR, primarily driven by CIO’s International credit tranche book), RFS ($2mm mVaR, primarily driven by the MSR portfolio), Private Equity ($3mm mVaR, primarily driven by the International Cons portfolio), and TSS ($4mm mVaR, primarily driven by the ADR hedge book).
- The stand alone VaR for each LOB are as follows: 18 $76mm (vs. $120mm limit), CIO $120mm (vs. $110mm limit), RFS $10mm (vs. $95mm limit), Private Equity $6mm (no limit set given immateriality), and AM $0.2mm (no limit set given immateriality).

* CIO continues to manage the synthetic credit portfolio balancing credit protection and Basel III RWA. The new VaR model for CIO was approved by MRG and is expected to be implemented prior to month-end.

External VaR
The below table shows the 95% 10Q VaR for the current quarter compared with the prior quarter and the corresponding quarter of prior year.
Please contact the MRM External Reporting team with any questions.
ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS GOVERNING LAW PERMITS OTHERWISE.

03/15/2012 11:17:30 JULIEN GROUT, JPMORGAN CHASE BANK, says: bruno

03/15/2012 11:17:37 JULIEN GROUT, JPMORGAN CHASE BANK, says: no data on your blotter page still

03/15/2012 11:19:00 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I saved it

03/15/2012 11:19:08 LUIS BURAYA, JPMORGAN CHASE BANK, says: maybe is the wrong date

03/15/2012 11:19:15 JULIEN GROUT, JPMORGAN CHASE BANK, says: I hope it was not the blotter from yesterday

03/15/2012 11:19:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Look on my pc

03/15/2012 11:19:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Ah yes

03/15/2012 11:19:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says: This is

03/15/2012 11:19:43 JULIEN GROUT, JPMORGAN CHASE BANK, says: :-)

03/15/2012 11:19:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I over wrote

03/15/2012 11:24:43 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Julien

03/15/2012 11:24:54 JULIEN GROUT, JPMORGAN CHASE BANK, says: yes

03/15/2012 11:24:57 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Target is to buy only 10yr 0-3

03/15/2012 11:25:00 BRUNO IKSIL, JPMORGAN CHASE BANK, says: At 62 or better

03/15/2012 11:25:05 JULIEN GROUT, JPMORGAN CHASE BANK, says: ok

03/15/2012 11:25:11 JULIEN GROUT, JPMORGAN CHASE BANK, says: no clp

03/15/2012 11:25:24 JULIEN GROUT, JPMORGAN CHASE BANK, says: so far only JPM C/I offering there

03/15/2012 11:29:21 LUIS BURAYA, JPMORGAN CHASE BANK, says: Bruno
2019

03/15/2012 11:29:31 LUIS BURAYA, JPMORGAN CHASE BANK, says:
I do not understand T82

03/15/2012 11:29:47 LUIS BURAYA, JPMORGAN CHASE BANK, says:
2.8M coming from Greek default?

03/15/2012 12:45:38 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Equity +2M daily

03/15/2012 12:52:50 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Back

03/15/2012 12:53:02 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Ok the sovex index is much tighter

03/15/2012 12:53:13 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
So I think this should not be a loss

03/15/2012 12:53:34 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Please check by remarking correctly the sovex

03/15/2012 12:53:44 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
The index quotes 225

03/15/2012 12:53:45 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Or less

03/15/2012 12:53:59 JULIEN GROUT, JPMORGAN CHASE BANK, says:
230

03/15/2012 12:54:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno u need me to book the gs 5/10 trades?

03/15/2012 12:54:53 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Yes please

03/15/2012 12:55:22 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/15/2012 12:55:47 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Try to sell hy16 at 99 3/4 and hy15 at 100 3/4

03/15/2012 12:55:51 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
100m each

03/15/2012 12:56:02 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok

03/15/2012 12:59:51 JULIEN GROUT, JPMORGAN CHASE BANK, says:
core ~90k

03/15/2012 13:01:08 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Ah ah

03/15/2012 13:01:10 BRUNO IKSEL, JPMORGAN CHASE BANK, says:
Nice
03/15/2012 13:01:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Tactical?
03/15/2012 13:01:19 JULIEN GROUT, JPMORGAN CHASE BANK, says: metric at 290
03/15/2012 13:01:31 JULIEN GROUT, JPMORGAN CHASE BANK, says: worst lg9 as 5y widening.. as well as 10y
03/15/2012 13:02:06 LUIS BURAYA, JPMORGAN CHASE BANK, says: tactical -3.4M - equities +2M
03/15/2012 13:02:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Wonderful
03/15/2012 13:04:11 LUIS BURAYA, JPMORGAN CHASE BANK, says: we broke 1400 in spx
03/15/2012 13:24:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Ig9 5yr widening should be good for us
03/15/2012 13:24:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Ah
03/15/2012 13:24:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Send the pnl
03/15/2012 13:25:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Can u drop me here the breakdown of the lag please?
03/15/2012 13:26:10 JULIEN GROUT, JPMORGAN CHASE BANK, says: sure
03/15/2012 13:26:14 LUIS BURAYA, JPMORGAN CHASE BANK, says: for block 4?
03/15/2012 13:26:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says: And send it to javier email
03/15/2012 13:26:46 JULIEN GROUT, JPMORGAN CHASE BANK, says: itraxx 93 (4bp) g 180 (4bp) hy 37) 0.12
03/15/2012 13:26:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Put me in copy
03/15/2012 13:27:02 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I refer to the spreadsheet
03/15/2012 13:27:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says: No luis
03/15/2012 13:27:14 LUIS BURAYA, JPMORGAN CHASE BANK, says: Just fi, looking at the same thing. The MO didn’t process it correctly. The factor is wrong and the CDS for Greece is price by the IB who knows where.
03/15/2012 13:27:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
2021

Ok

03/15/2012 13:27:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I think what happens here

03/15/2012 13:28:05 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Is that the greek cds is booked at 100 bps

03/15/2012 13:28:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says: And valued at 78upfront

03/15/2012 13:28:17 LUIS BURAYA, JPMORGAN CHASE BANK, says: yes, we were talking about that

03/15/2012 13:28:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Now

03/15/2012 13:28:43 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Then the index as such is now say at 230 not at 345

03/15/2012 13:28:54 LUIS BURAYA, JPMORGAN CHASE BANK, says: yes.

03/15/2012 13:28:57 BRUNO IKSIL, JPMORGAN CHASE BANK, says: That should make no pnl jump

03/15/2012 13:29:02 LUIS BURAYA, JPMORGAN CHASE BANK, says: agree

03/15/2012 13:29:23 LUIS BURAYA, JPMORGAN CHASE BANK, says: but the IB is pricing the single name at 4354.8 spread running

03/15/2012 13:29:49 LUIS BURAYA, JPMORGAN CHASE BANK, says: I worked the upfront with Eric, but we do not know what the guys are doing

03/15/2012 13:30:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says: So julien, basically u say the worsening is 1 bp in ig9

03/15/2012 13:30:28 LUIS BURAYA, JPMORGAN CHASE BANK, says: any help?

03/15/2012 13:30:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Look luis

03/15/2012 13:30:48 JULIEN GROUT, JPMORGAN CHASE BANK, says: correct bruno

03/15/2012 13:30:54 BRUNO IKSIL, JPMORGAN CHASE BANK, says: This sounds correct

03/15/2012 13:30:58 BRUNO IKSIL, JPMORGAN CHASE BANK, says: This is not the pb

03/15/2012 13:31:34 JULIEN GROUT, JPMORGAN CHASE BANK, says: mostly, 5y roll flatter

03/15/2012 13:31:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
The pb is tied to the index pnl

03/15/2012 13:32:22 LUIS BURAYA, JPMORGAN CHASE BANK, says: that was for yesterday problem

03/15/2012 13:32:35 LUIS BURAYA, JPMORGAN CHASE BANK, says: today's is also taking a hit

03/15/2012 13:32:43 LUIS BURAYA, JPMORGAN CHASE BANK, says: it's not linked to the sovx

03/15/2012 13:32:48 LUIS BURAYA, JPMORGAN CHASE BANK, says: we are working with Colin

03/15/2012 13:33:41 LUIS BURAYA, JPMORGAN CHASE BANK, says: sorted, MT is wrong.

03/15/2012 13:33:53 LUIS BURAYA, JPMORGAN CHASE BANK, says: We are flattening the pnl. +500k in Tactical

03/15/2012 13:34:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Julien

03/15/2012 13:34:05 JULIEN GROUT, JPMORGAN CHASE BANK, says: yes

03/15/2012 13:34:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Could remind me the level of hy17, ig 17, main s 16 and ig9 10yr please

03/15/2012 13:34:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says: At month end

03/15/2012 13:34:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says: And now

03/15/2012 13:34:40 LUIS BURAYA, JPMORGAN CHASE BANK, says: tactical pnl now +2.9M

03/15/2012 13:34:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Cool

03/15/2012 13:34:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Ok good

03/15/2012 13:35:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Reserve 2.5

03/15/2012 13:35:26 LUIS BURAYA, JPMORGAN CHASE BANK, says: sorry my bad -2.9M

03/15/2012 13:35:34 LUIS BURAYA, JPMORGAN CHASE BANK, says: sorry...

03/15/2012 13:36:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Ah
2023

03/15/2012 13:36:15 BRUNO IKSil, JPMORGAN CHASE BANK, says:
Send like that

03/15/2012 13:36:23 LUIS BURAYA, JPMORGAN CHASE BANK, says:
ok

03/15/2012 13:37:24 LUIS BURAYA, JPMORGAN CHASE BANK, says:
ok, i took the latest marks from Julien Final Tactical pnl +800K

03/15/2012 13:38:11 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno: at 29-feb: main s16 128.25bp, xo: 566bp, ig17:93bp, hy: 98.0625, ig9 10y:112.5

03/15/2012 13:38:21 BRUNO IKSil, JPMORGAN CHASE BANK, says:
Good

03/15/2012 13:38:22 BRUNO IKSil, JPMORGAN CHASE BANK, says:
Shoot

03/15/2012 13:38:47 BRUNO IKSil, JPMORGAN CHASE BANK, says:
Ok

03/15/2012 13:38:48 BRUNO IKSil, JPMORGAN CHASE BANK, says:
Now?

03/15/2012 13:39:07 BRUNO IKSil, JPMORGAN CHASE BANK, says:
What do u see on metric

03/15/2012 13:39:09 BRUNO IKSil, JPMORGAN CHASE BANK, says:
And what do we have

03/15/2012 13:39:11 BRUNO IKSil, JPMORGAN CHASE BANK, says:
?

03/15/2012 13:39:18 JULIEN GROUT, JPMORGAN CHASE BANK, says:
today: main s16 123.5, xo: 547bp, ig17: 89.5, hy17: 98.125, ig9 10y: 113.5

03/15/2012 13:40:57 JULIEN GROUT, JPMORGAN CHASE BANK, says:
we have: main s16: 123.75, xo: 548, ig17 89.25, hy17 97.9375, ig9 10y: 106.25

03/15/2012 13:43:03 BRUNO IKSil, JPMORGAN CHASE BANK, says:
I am a bit puzzled

03/15/2012 13:43:03 JULIEN GROUT, JPMORGAN CHASE BANK, says:
depending on runs ig9 10y can be see tighter.

03/15/2012 13:43:04 BRUNO IKSil, JPMORGAN CHASE BANK, says:
We have 6bps in ig9 after all

03/15/2012 13:43:06 BRUNO IKSil, JPMORGAN CHASE BANK, says:
is that realistic?

03/15/2012 13:43:07 BRUNO IKSil, JPMORGAN CHASE BANK, says:
?

03/15/2012 13:43:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:
i have the roll at 19
2024

03/15/2012 13:43:18 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I know

03/15/2012 13:43:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I question here how we position ourselves

03/15/2012 13:43:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Aren't we making ig9 10 responsible for all here?

03/15/2012 13:44:10 JULIEN GROUT, JPMORGAN CHASE BANK, says: ah yes it's definitely pb number one

03/15/2012 13:44:17 JULIEN GROUT, JPMORGAN CHASE BANK, says: also: main s9 10y

03/15/2012 13:44:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Ok

03/15/2012 13:44:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Does not show here

03/15/2012 13:45:00 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I am confused

03/15/2012 13:45:22 JULIEN GROUT, JPMORGAN CHASE BANK, says: i mean, im trying to keep a relatively realistic picture here - ig9 10y put aside

03/15/2012 13:45:44 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Because 7 bps in ig9 10yr makes up for 7x50 gives 350

03/15/2012 13:46:01 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Yes but u see

03/15/2012 13:46:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Just the ig9 10yrs explains more

03/15/2012 13:46:14 JULIEN GROUT, JPMORGAN CHASE BANK, says: that's what i am saying. i am not marking at mids as per a previous conversation

03/15/2012 13:46:15 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Than the metric

03/15/2012 13:46:25 JULIEN GROUT, JPMORGAN CHASE BANK, says: i can call and explain

03/15/2012 13:46:29 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I am confused

03/15/2012 13:46:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Cool

03/15/2012 13:47:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says: Go

03/15/2012 13:47:29 JULIEN GROUT, JPMORGAN CHASE BANK, says: calling

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO.
2025

03/15/2012 13:48:05 JULIEN GROUT, JPMORGAN CHASE BANK, says:
ok let me know when you are ready

03/15/2012 13:48:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Did u hear me? I could not

03/15/2012 13:48:53 JULIEN GROUT, JPMORGAN CHASE BANK, says:
o no i didn't hear you

03/15/2012 13:48:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Try now

03/15/2012 13:49:24 JULIEN GROUT, JPMORGAN CHASE BANK, says:
voicemail

03/15/2012 13:59:46 LUIS BURAYA, JPMORGAN CHASE BANK, has left the room

03/15/2012 14:07:00 JULIEN GROUT, JPMORGAN CHASE BANK, says:
coupe

03/15/2012 14:14:31 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Julien?

03/15/2012 14:14:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
yes

03/15/2012 14:15:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Send to me and javier the spreadsheet where u store the breakdown of the difference between our estimate and crude mids

03/15/2012 14:15:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
I will comment to javier

03/15/2012 14:15:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Just say that this is the spreadsheet that provides the details of the difference

03/15/2012 14:16:07 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Between main 99 ig9 and hy

03/15/2012 14:16:15 JULIEN GROUT, JPMORGAN CHASE BANK, says:
u need the spreadsheet, or only the table

03/15/2012 14:16:37 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
The spreadsheet only

03/15/2012 14:17:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
In the rally

03/15/2012 14:17:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Just say the difference worsened by 1bp on ig9

03/15/2012 14:17:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Rally

03/15/2012 14:18:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Rally

03/15/2012 14:18:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

What did Iu have yesterday for iG9 10yr and iG17?

03/15/2012 14:18:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
As crude metric price

03/15/2012 14:19:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
91 vs 110.5

03/15/2012 14:20:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
No

03/15/2012 14:20:13 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Crude

03/15/2012 14:20:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Not our estimate

03/15/2012 14:20:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Market mids

03/15/2012 14:20:35 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Blind marking

03/15/2012 14:20:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
I repeat

03/15/2012 14:20:56 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
No

03/15/2012 14:21:18 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Yesterday is quoted wider the iG9 10yr

03/15/2012 14:22:16 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
I think u had 114.5 or 114 instead

03/15/2012 14:22:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
For 91 ref in iG17

03/15/2012 14:45:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Email sent

03/15/2012 14:45:48 JULIEN GROUT, JPMORGAN CHASE BANK, says:
I sent you the sheet

03/15/2012 14:46:20 JULIEN GROUT, JPMORGAN CHASE BANK, says:
going home now speak tomorrow

03/15/2012 14:46:35 JULIEN GROUT, JPMORGAN CHASE BANK, says:
rescap headline out

03/15/2012 14:47:12 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room

03/15/2012 14:54:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Yes

03/15/2012 14:54:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
>Seen
03/15/2012 14:55:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Could u sell hy16 and hy15
03/15/2012 14:55:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
?
03/15/2012 15:00:38 HENRY KIM: I buy 100mm @ 99.625 and 100mm @ 100.625
03/15/2012 15:00:46 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Late trade to book
03/15/2012 15:25:23 FELIX BHANDARI: so i sell 20mm at 39, 70mm at 38a
03/15/2012 15:25:36 HENRY KIM: Hy9 5yr 10-15
03/15/2012 15:32:40 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
HENRY KIM: so far i've bot from you all day:
100mm hy15.5y @ 100.5
100mm hy16.5y @ 99.625
100mm hy15.5y @ 100.625
and you can do 50mm more of each 16, 15 @ .5625
03/15/2012 20:23:49 BRUNO IKSIL, JPMORGAN CHASE BANK, has left the room
03/16/2012 02:14:24 BRUNO IKSIL, JPMORGAN CHASE BANK, has joined the room
03/16/2012 02:14:24 HENRY KIM: *** JPMORGAN CHASE BANK, (748320)
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SOLICITATION FOR THE PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT, NOR AN OFFICIAL
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ADVISORS REGARDING ANY TAX, ACCOUNTING OR LEGAL ASPECTS OF THIS INFORMATION AND
EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS
GOVERNING LAW PERMITS OTHERWISE.
03/16/2012 03:17:13 LUIS BURAYA, JPMORGAN CHASE BANK, has joined the room
03/16/2012 03:17:13 LUIS BURAYA, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (748320) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR
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EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS
GOVERNING LAW PERMITS OTHERWISE.
03/16/2012 03:18:19 LUIS BURAYA, JPMORGAN CHASE BANK, says:
good morning
03/16/2012 03:18:35 LUIS BURAYA, JPMORGAN CHASE BANK, says:
i think we are looking forward to another non-action day

03/16/2012 03:19:10 LUIS BURAYA, JPMORGAN CHASE BANK, says:
I'm checking the data, Bruno

03/16/2012 03:19:14 LUIS BURAYA, JPMORGAN CHASE BANK, says:
I'll come back to you

03/16/2012 03:19:18 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/16/2012 03:19:20 LUIS BURAYA, JPMORGAN CHASE BANK, says:
let's see if anything has changed

03/16/2012 03:33:10 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room

03/16/2012 03:33:10 JULIEN GROUT, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (741671) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR
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EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS
GOVERNING LAW PERMITS OTHERWISE.

03/16/2012 03:33:42 JULIEN GROUT, JPMORGAN CHASE BANK, says:
morning

03/16/2012 03:40:27 ERIC DE SANGUES, JPMORGAN CHASE BANK, has joined the room

03/16/2012 03:40:27 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
*** JPMORGAN CHASE BANK, (741671) Disclaimer: THIS IS FOR INFORMATION ONLY, NOT AN OFFER OR
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EXECUTE TRANSACTIONS THROUGH A J.P. MORGAN ENTITY IN THEIR HOME JURISDICTION UNLESS
GOVERNING LAW PERMITS OTHERWISE.

03/16/2012 03:44:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
hello

03/16/2012 03:44:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i sent another email today

03/16/2012 03:44:21 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
have a look

03/16/2012 03:44:26 JULIEN GROUT, JPMORGAN CHASE BANK, says:
yes

03/16/2012 03:45:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

please let me know when core deltas are updated

03/16/2012 03:54:17 JULIEN GROUT, JPMORGAN CHASE BANK, says: done

03/16/2012 03:55:05 BRUNO IKSIL, JPMORGAN CHASE BANK, says: thx

03/16/2012 03:59:59 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Most of the atm options have been expired.

03/16/2012 04:00:11 LUIS BURAYA, JPMORGAN CHASE BANK, says:
delta unchanged

03/16/2012 04:00:14 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
cool

03/16/2012 04:00:15 LUIS BURAYA, JPMORGAN CHASE BANK, says:
+204M

03/16/2012 04:00:23 LUIS BURAYA, JPMORGAN CHASE BANK, says:
checking now, the issue

03/16/2012 04:01:21 LUIS BURAYA, JPMORGAN CHASE BANK, says:
74 eur, 0 delta change after expiry

03/16/2012 04:02:19 LUIS BURAYA, JPMORGAN CHASE BANK, says:
74 usd, +72M after expiry

03/16/2012 04:02:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:
sorry - 72M

03/16/2012 04:02:57 LUIS BURAYA, JPMORGAN CHASE BANK, says:
76 usd +28M after expiry

03/16/2012 04:03:17 LUIS BURAYA, JPMORGAN CHASE BANK, says:
total impact after expiry should be +44M in Atlas.

03/16/2012 04:03:22 LUIS BURAYA, JPMORGAN CHASE BANK, says:
sorry

03/16/2012 04:03:23 LUIS BURAYA, JPMORGAN CHASE BANK, says:
-44M

03/16/2012 04:03:39 LUIS BURAYA, JPMORGAN CHASE BANK, says:
so final delta should be +160M

03/16/2012 04:03:53 LUIS BURAYA, JPMORGAN CHASE BANK, says:
(all this is theoretically as per current Atlas)

03/16/2012 04:04:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok thx

03/16/2012 04:39:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
Julien?

03/16/2012 04:40:04 BRUNO IKSIL, JPMORGAN CHASE BANK, says:

Can you make a print of the chat you had with Biran Christman yesterday please?

03/16/2012 04:44:45 JULIEN GROUT, JPMORGAN CHASE BANK, says: done

03/16/2012 04:44:52 BRUNO IKSIL, JPMORGAN CHASE BANK, says: th

03/16/2012 04:45:06 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I bought 50m xover

03/16/2012 04:45:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says: instant

03/16/2012 04:45:12 BRUNO IKSIL, JPMORGAN CHASE BANK, says: main widens

03/16/2012 04:45:19 JULIEN GROUT, JPMORGAN CHASE BANK, says: proxy hedging

03/16/2012 04:45:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: equity flat

03/16/2012 04:45:22 JULIEN GROUT, JPMORGAN CHASE BANK, says: sophisticated

03/16/2012 04:47:07 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: the index market is non existent when us guys are not in

03/16/2012 04:57:31 LUIS BURAYA, JPMORGAN CHASE BANK, says: so true

03/16/2012 05:03:15 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ah ah yes

03/16/2012 05:03:28 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I will surrender to our own investment bank

03/16/2012 05:03:33 BRUNO IKSIL, JPMORGAN CHASE BANK, says: no worries

03/16/2012 05:03:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says: the work on their bonus for this year

03/16/2012 05:03:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says: they have one customer

03/16/2012 05:03:51 BRUNO IKSIL, JPMORGAN CHASE BANK, says: that will be enough

03/16/2012 05:04:59 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: I love the caveat in this article: There is still some residual risk for Credit Agricole from this transaction as they are providing an unquantified liquidity facility to Blue Mountain, so not a clean sale.
2031

03/16/2012 05:05:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes

03/16/2012 05:05:13 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
excellent

03/16/2012 05:05:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
no worries

03/16/2012 05:05:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
jp does first class business

03/16/2012 05:05:31 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
no spillage

03/16/2012 05:05:37 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
yes in that case

03/16/2012 05:08:53 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
for CA it's different...they're still on the hook...CPPIs with liquidity lines, ISS with (far away) triggers, super thin mezzanines (I remember a 5-6% 10Y mezz...)... The toxic waste of a toxic period...all that wrapped in a nice gift package...Most of the remaining risk in that thing is now tail risk / liquidity risk

03/16/2012 05:09:27 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
they say they get rid of the risk and still keep the liquidity side of it...mind boggling

03/16/2012 06:18:27 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno pls read MS chat

03/16/2012 06:18:31 JULIEN GROUT, JPMORGAN CHASE BANK, says:
re: yesterday's trades

03/16/2012 06:25:47 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
yes

03/16/2012 06:25:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
just saw

03/16/2012 06:27:44 JULIEN GROUT, JPMORGAN CHASE BANK, says:
thx

03/16/2012 06:27:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
i correct

03/16/2012 06:37:38 JULIEN GROUT, JPMORGAN CHASE BANK, says:
bruno - javier here- can you call him at some point today

03/16/2012 07:11:34 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room

03/16/2012 07:40:21 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room

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2032

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03/16/2012 07:49:38 LUIS BURAYA, JPMorgan Chase Bank, says:
stock 50 expired - Delta and PnL impacts are zero

03/16/2012 08:02:21 ERIC DE SANGUES, JPMorgan Chase Bank, has left the room

03/16/2012 08:07:03 BRUNO IKSIL, JPMorgan Chase Bank, says:
cool

03/16/2012 08:19:21 LUIS BURAYA, JPMorgan Chase Bank, says:
good day in equities today Bruno

03/16/2012 08:19:55 ERIC DE SANGUES, JPMorgan Chase Bank, has joined the room

03/16/2012 08:19:55 ERIC DE SANGUES, JPMorgan Chase Bank, says:
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03/16/2012 10:07:20 LUIS BURAYA, JPMorgan Chase Bank, says:
tactical 82 ytd is back at -399k

03/16/2012 10:07:26 LUIS BURAYA, JPMorgan Chase Bank, says:
Monday is the auction

03/16/2012 10:12:38 BRUNO IKSIL, JPMorgan Chase Bank, says:
i do not see why really

03/16/2012 10:12:42 BRUNO IKSIL, JPMorgan Chase Bank, says:
soex is tighter

03/16/2012 10:12:48 BRUNO IKSIL, JPMorgan Chase Bank, says:
greece has not moved

03/16/2012 10:13:08 BRUNO IKSIL, JPMorgan Chase Bank, says:
it is better instead

03/16/2012 11:04:54 LUIS BURAYA, JPMorgan Chase Bank, says:
expiring the spx

03/16/2012 11:33:10 LUIS BURAYA, JPMorgan Chase Bank, says:
Bruno, one instrument is incorrectly created.

03/16/2012 11:33:14 LUIS BURAYA, JPMorgan Chase Bank, says:
hence the wrong delta

03/16/2012 11:33:51 LUIS BURAYA, JPMorgan Chase Bank, says:
once it is expired I confirm that delta will be +163M

03/16/2012 11:34:16 LUIS BURAYA, JPMorgan Chase Bank, says:
2033

+23M now + the 138M coming from the option

02/16/2012 11:42:00 BRUNO IKSIIL, JPMORGAN CHASE BANK, says:
are you booking other stuff?

03/16/2012 11:42:07 LUIS BURAYA, JPMORGAN CHASE BANK, says:
no

03/16/2012 11:42:16 BRUNO IKSIIL, JPMORGAN CHASE BANK, says:
i do not see the option delta coming

03/16/2012 11:42:22 BRUNO IKSIIL, JPMORGAN CHASE BANK, says:
I see a loss in new trades

03/16/2012 11:42:44 LUIS BURAYA, JPMORGAN CHASE BANK, says:
you just booked 500spx

03/16/2012 11:42:59 LUIS BURAYA, JPMORGAN CHASE BANK, says:
I need to expire one more option. I put you in copy

03/16/2012 11:43:05 LUIS BURAYA, JPMORGAN CHASE BANK, says:
the setup was wrong

03/16/2012 11:44:13 LUIS BURAYA, JPMORGAN CHASE BANK, says:
delta should be higher by 140M and yes pnl on that book is still wrong

03/16/2012 11:44:21 BRUNO IKSIIL, JPMORGAN CHASE BANK, says:
ah ok

03/16/2012 11:44:23 LUIS BURAYA, JPMORGAN CHASE BANK, says:
James and Amardeep are contacting NT

03/16/2012 11:44:24 LUIS BURAYA, JPMORGAN CHASE BANK, says:
NY

03/16/2012 11:44:29 BRUNO IKSIIL, JPMORGAN CHASE BANK, says:
that was my question

03/16/2012 11:44:31 LUIS BURAYA, JPMORGAN CHASE BANK, says:
let's see if they sort it out soon

03/16/2012 11:45:25 LUIS BURAYA, JPMORGAN CHASE BANK, says:
sorry, but I can't do anything. If I book a trade and expiry the option I was told I will create a break anyway

03/16/2012 11:45:52 BRUNO IKSIIL, JPMORGAN CHASE BANK, says:
and this is where the delta comes from right?

03/16/2012 12:19:20 LUIS BURAYA, JPMORGAN CHASE BANK, says:
look now

03/16/2012 12:19:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:
delta is +195M

03/16/2012 12:19:29 LUIS BURAYA, JPMORGAN CHASE BANK, says:
all is expired

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03/16/2012 12:19:32 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok
03/16/2012 12:19:43 BRUNO IKSIL, JPMORGAN CHASE BANK, says: I have the loss
03/16/2012 12:19:45 BRUNO IKSIL, JPMORGAN CHASE BANK, says: right?
03/16/2012 12:19:55 LUIS BURAYA, JPMORGAN CHASE BANK, says: the new trade pnl is f*ck up because the prices are stupid, have a look into new trade tab
03/16/2012 12:20:01 LUIS BURAYA, JPMORGAN CHASE BANK, says: th call 1300
03/16/2012 12:20:29 LUIS BURAYA, JPMORGAN CHASE BANK, says: the FV should be 105.11, that it is where it is closed. I don't understand why they are still pricing it at 998.29
03/16/2012 12:21:06 LUIS BURAYA, JPMORGAN CHASE BANK, says: same with the call 1350 and with the call 1160
03/16/2012 12:21:13 LUIS BURAYA, JPMORGAN CHASE BANK, says: and 1320
03/16/2012 12:21:21 LUIS BURAYA, JPMORGAN CHASE BANK, says: the FV should equal the price
03/16/2012 12:21:26 BRUNO IKSIL, JPMORGAN CHASE BANK, says: how and when does this clear?
03/16/2012 12:21:29 LUIS BURAYA, JPMORGAN CHASE BANK, says: the ESDP is 1405.11
03/16/2012 12:21:30 LUIS BURAYA, JPMORGAN CHASE BANK, says: the reported pnl is correct
03/16/2012 12:21:43 LUIS BURAYA, JPMORGAN CHASE BANK, says: or should be
03/16/2012 12:23:26 LUIS BURAYA, JPMORGAN CHASE BANK, says: do you follow me?
03/16/2012 12:35:25 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: SXSE vol going very bid into the close, very squeezing, outperforming the rest of europe by 30bps across the curve.
03/16/2012 12:36:46 LUIS BURAYA, JPMORGAN CHASE BANK, has left the room
03/16/2012 12:39:18 LUIS BURAYA, JPMORGAN CHASE BANK, has joined the room
03/16/2012 12:50:25 LUIS BURAYA, JPMORGAN CHASE BANK, has left the room
03/16/2012 12:54:30 LUIS BURAYA, JPMORGAN CHASE BANK, has joined the room
03/16/2012 12:57:46 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: Bruno: Tactical pnl 1st draft -7.3M USD
03/16/2012 12:58:07 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: block 4 -8.4M divs +1.8M
03/16/2012 12:59:37 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
block 4 detail : 71 eur +3.5M / 71 USD -7M / 75 USD -7M / 74 +76 +0.6M (atlas is +1.3M)

03/16/2012 12:59:49 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Recovering from yesterday

03/16/2012 13:01:05 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
what do you want us to do Bruno ?

03/16/2012 13:06:48 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
ok

03/16/2012 13:06:59 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
is the atlas pnl correct?

03/16/2012 13:07:22 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Reported pnl should be correct

03/16/2012 13:07:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:
However

03/16/2012 13:07:27 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
with the option expiry I cannot guarantee that

03/16/2012 13:07:34 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
so new trade is correct

03/16/2012 13:07:36 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
?

03/16/2012 13:07:43 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
my reported pnl is wrong in the strats where I have expiring options

03/16/2012 13:08:24 LUIS BURAYA, JPMORGAN CHASE BANK, says:
The options are misprice in atlas, I don't know the situation in Scala.

03/16/2012 13:08:50 BRUNO IKSIL, JPMORGAN CHASE BANK, says:
can you send me the positions eric?

03/16/2012 13:09:08 LUIS BURAYA, JPMORGAN CHASE BANK, says:
If there's pnl coming we will check if it is from those instruments

03/16/2012 13:09:46 LUIS BURAYA, JPMORGAN CHASE BANK, says:
The cash is supposed to correctly reflect the pnl

03/16/2012 13:09:54 ERIC DE SANGUES, JPMORGAN CHASE BANK, says:
positions and predict in your mailbox bruno

03/16/2012 13:10:07 LUIS BURAYA, JPMORGAN CHASE BANK, says:
The problem is as usual, the fair value concept

03/16/2012 13:11:45 LUIS BURAYA, JPMORGAN CHASE BANK, says:
Eric, what is the pnl in equities only? In the option report

03/16/2012 13:12:26 LUIS BURAYA, JPMORGAN CHASE BANK, says:

03/16/2012 13:12:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says: thx eric
03/16/2012 13:12:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says: let me see
03/16/2012 13:12:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says: where is core pnl here?
03/16/2012 13:14:17 BRUNO IKSIL, JPMORGAN CHASE BANK, says: julien?
03/16/2012 13:16:23 JULIEN GROUT, JPMORGAN CHASE BANK, says: yes
03/16/2012 13:16:32 JULIEN GROUT, JPMORGAN CHASE BANK, says: 306
03/16/2012 13:16:45 JULIEN GROUT, JPMORGAN CHASE BANK, says: hy taking a beating today actually, esp in tranches
03/16/2012 13:16:49 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok
03/16/2012 13:17:20 BRUNO IKSIL, JPMORGAN CHASE BANK, says: so the pnl in tactical is doen wiht thos eprices that brings up 306 in core right?
03/16/2012 13:17:34 JULIEN GROUT, JPMORGAN CHASE BANK, says: correct
03/16/2012 13:17:41 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok
03/16/2012 13:17:55 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i think u should set ig9 levels as follows
03/16/2012 13:18:03 BRUNO IKSIL, JPMORGAN CHASE BANK, says: 5 yr at 72
03/16/2012 13:18:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says: 7yr at 88
03/16/2012 13:18:24 BRUNO IKSIL, JPMORGAN CHASE BANK, says: 10 yr at 110
03/16/2012 13:18:53 JULIEN GROUT, JPMORGAN CHASE BANK, says: well rite now i am 70.25 86.25 109.75
03/16/2012 13:19:00 JULIEN GROUT, JPMORGAN CHASE BANK, says: ref 88.75
03/16/2012 13:19:17 JULIEN GROUT, JPMORGAN CHASE BANK, says: i will use your levels
03/16/2012 13:19:27 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i see ur levels

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03/16/2012 13:19:34 JULIEN GROJT, JPMORGAN CHASE BANK, says: ah ok
03/16/2012 13:19:37 JULIEN GROJT, JPMORGAN CHASE BANK, says: one sec
03/16/2012 13:19:53 BRUNO IKSIL, JPMORGAN CHASE BANK, says: or u do the corrections ur self
03/16/2012 13:20:00 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i do not mind
03/16/2012 13:20:04 LUIS BURAYA, JPMORGAN CHASE BANK, says: Be back in 15mins
03/16/2012 13:34:10 BRUNO IKSIL, JPMORGAN CHASE BANK, says: sent an Email to javier announcing this is more 300 now
03/16/2012 13:34:19 BRUNO IKSIL, JPMORGAN CHASE BANK, says: that was 100 Monday
03/16/2012 13:34:22 BRUNO IKSIL, JPMORGAN CHASE BANK, says: it is 300 now
03/16/2012 13:34:30 BRUNO IKSIL, JPMORGAN CHASE BANK, says: 1000 for month end?
03/16/2012 13:35:08 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: ouch
03/16/2012 13:35:23 BRUNO IKSIL, JPMORGAN CHASE BANK, says: well that is the pace
03/16/2012 13:47:57 JULIEN GROJT, JPMORGAN CHASE BANK, says: any update Julien?
03/16/2012 13:48:05 BRUNO IKSIL, JPMORGAN CHASE BANK, says: still working on this, sorry it's taking time
03/16/2012 13:48:11 BRUNO IKSIL, JPMORGAN CHASE BANK, says: i am sorry too
03/16/2012 13:48:18 JULIEN GROJT, JPMORGAN CHASE BANK, says: this is the end
03/16/2012 13:48:18 JULIEN GROJT, JPMORGAN CHASE BANK, says: ?
03/16/2012 13:48:18 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: hey hey
03/16/2012 13:48:24 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: no talk like that
03/16/2012 13:48:29 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: cheer up
03/16/2012 13:48:39 BRUNO IKSIL, JPMORGAN CHASE BANK, says: yes JP will not lose a cent on this
03/16/2012 13:48:59 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: we'll see
03/16/2012 13:49:10 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: one day after the other
03/16/2012 13:49:26 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: like in 69
03/16/2012 13:49:42 BRUNO IKSIL, JPMORGAN CHASE BANK, says: no
03/16/2012 13:52:08 BRUNO IKSIL, JPMORGAN CHASE BANK, says: ok call me when u have something ready
03/16/2012 13:53:34 JULIEN GROUT, JPMORGAN CHASE BANK, says: will do
03/16/2012 13:53:40 JULIEN GROUT, JPMORGAN CHASE BANK, says: sorry it's taking so long again.
03/16/2012 14:04:01 JULIEN GROUT, JPMORGAN CHASE BANK, says: bruno 9m de new trade?
03/16/2012 14:04:38 JULIEN GROUT, JPMORGAN CHASE BANK, says: currently -4m
03/16/2012 14:04:42 JULIEN GROUT, JPMORGAN CHASE BANK, says: core
03/16/2012 14:06:21 ERIC DE SANGUES, JPMORGAN CHASE BANK, says: tactical now +2.1M
03/16/2012 14:13:21 ERIC DE SANGUES, JPMORGAN CHASE BANK, has left the room
03/16/2012 14:13:21 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
03/16/2012 14:13:31 JULIEN GROUT, JPMORGAN CHASE BANK, has left the room
03/16/2012 15:03:36 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
03/16/2012 15:17:02 JULIEN GROUT, JPMORGAN CHASE BANK, has joined the room
Subject: CIO RISK COMMITTEE (Attachment Below)
Location: Telepresence Call - Room IOC NY / Room M008 LDN
Start: Wed, 28 Mar 2012 15:30:00 GMT
End: Wed, 28 Mar 2012 16:30:00 GMT
Show Time: Tentative
Organizer: Rios, Martha I on behalf of Goldman, Irvin J
Attendees: Adam, Philippa C; Coria, Neema; Drew, Ing; Lewis, Phil; Macris, Achilles O; O'Donnell, Julie; Praia, Joanne; Radin, Neila; Sabo, Richard W; Serpico, Gina; Tocchio, Samantha X; Tse, Irene Y; Weiland, Peter; Wilmot, John; Wilson, Wanda A
When: Wednesday, March 28, 2012 11:30 AM - 12:30 PM (GMT-05:00) Eastern Time (US & Canada)
Where: Telepresence Call - Room IOC NY / Room M008 LDN
Note: The GMT offset above does not reflect daylight saving time adjustments.

Hard copies will be available in NY / conference room C.

Thanks,
M
Risk Limits

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## Risk Limits

### Country Limits
- Firmwide country limits are not allocated by LOB.
- Final limits proposal will include country thresholds for CIO to reconcile with annual investment plans.

### Single Name Limits
- Firmwide Single Name Policy specifically excludes SAA under the concept that SAA investment programs are specifically approved by the SAA Committee and each program should have specific limits attached.
- Limits for the bank portfolio and the EM portfolio were agreed to be equal to the rating-based firmwide single name limits (green box at right).
- Positions with current limit issues are below.

---

**Redacted By**
Permanent Subcommittee on Investigations

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2018
### Limits Changes

#### Q4 2011

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*JP Morgan*
Regulatory Reform

- Volcker Rule:
  - Final technology build out pending final rule release.
  - Updating internal policy and template as part of Volcker review.
  - Continual emphasis on conducting investment activities that are clearly related to underlying firm-wide structural risks.
  - Submitted comment letter related to AUM section of the Volcker rule on February 13th.

- Derivative Activity:
  - CCO actively working with IB to ensure compliance with evolving requirements.
  - CFTC revised timetable for rules to be issued mid 2012.
  - Addressing SEC issue of FAS 133 swap clearance
  - Firm-wide view on mandatory clearing will go into effect between Q3 and Q4 2012. This will initially encompass a limited product set, likely USD, Euro and possible Sterling interest rate swaps. Interest rate swaps denominated in other currencies, as well as additional products will follow in a timeframe which has yet to be determined.
## Regulatory Meetings

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*Note: Some details have been redacted due to confidentiality.*
Model Risk Policy
Model Documentation, Inventory and Initial and Ongoing Validation
Firm-wide

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Effective: 09/28/2004  Updated: 06/29/2010  Policy No.: 08.00.01
Category: Special Risk  LOB: Firm-wide

Confidential Treatment Requested
Rationale

Understanding model risk is critical to the Firm’s assessment and management of risk and to ensuring the integrity of its financial statements. The application of models to value and risk manage financial products, assess portfolio risk and optimize capital allocation, inform decisions about extensions of credit, and support or automate trading and investment decisions continues to expand; all of these uses can have material economic impact on the Firm. Model risk is a joint responsibility of the business operating the model, the model development team, the model validation team, financial/product control and risk coverage, and all of these groups have an important role to play in its control.

Although the usage of a model dictates, to some extent, the procedures associated with model risk controls, there are a number of basic principles of model validation that apply generally. Every model must be adequately documented including description of its use, mathematical/logical specification, and underlying assumptions and algorithms used in its implementation. Adequate model testing must also be performed and documented and the model behavior benchmarked against the original design and specification. Where appropriate, models should also be tested in the context of extreme market conditions. Calibration of model parameters, whether empirical/historical, market implied and/or subjective, must also be thoroughly documented, including a quantification of estimation uncertainty. If a model is designed to output specific decisions and/or automatically take actions, the sensitivity of model outputs to this uncertainty should also be documented. Models need to be independently reviewed by domain experts and their assumptions, limitations and range of applicability clearly identified. Model reviews should take place periodically, especially as warranted by changes in the market or expansion of a business activity. Finally, all major models should undergo periodic performance monitoring; done properly this allows for transparent evaluation of a model’s predictive power and also adds an important layer of control around its operational integrity.

Scope

This policy establishes Firm-wide standards for model documentation, inventory, testing, and initial and ongoing validation.

For the purposes of this policy, models are algorithms that provide a mathematical or statistical representation of a business decision making process. The policy covers production models, i.e. models used systematically to facilitate decision making which directly affects financials or risk assessment of the Firm, divided into the following types according to their usage:

- Valuation models, e.g. used for valuation or hedging securities or derivatives.
- Risk measurement models, e.g. used for portfolio risk, economic capital or reserve requirements.
- Consumer risk models, e.g. used for credit scoring and decisions.
- Decision support tools, e.g. used for investment management decisions.
- Trading models, e.g. used for algorithmic trading or statistical arbitrage.

The policy applies to new models and material changes to existing models, either developed in-house or purchased from third-party vendors.
Section 1: Firm-wide Policy Statements

It is the responsibility of the line of business (LOB), to ensure model development is performed in accordance with corporate policy, and that all models used by the LOB are:

- well tested before their use in production;
- accompanied by appropriate documentation;
- accounted for in an up-to-date model inventory; and
- subject to initial and ongoing validation.

1. Model Categories

Requirements for model documentation, testing and validation must be commensurate with the level of model risk that a model can pose as applied to a particular product or task. This involves consideration of three dimensions: model complexity, exposure, and reliance.

(a) Complexity

Model complexity reflects the significance of a model’s dependence on:

- Iterative algorithms and/or numerical solutions to stochastic equations
- Mathematical formulations with a large number of input variables and/or logical layers
- Choice of model variables/assumptions and their accompanying dynamics and inter-relationships
- Stability of parameters calibrated from historical data or the market
- Elaborate numerical schemes requiring error analysis
- Non-standard approximations used for computational efficiency
- Approximate treatments of material product features

Examples of models that would typically fall into the high complexity category are capital models based on stochastic simulations, valuation models for complex derivatives or structures, key credit scores containing multiple segments and large number of variables, as well as statistical arbitrage models. Curve generation, cash-flow discounting models, or deterministic decision trees would usually be considered low complexity models.

(b) Exposure

Exposure is an assessment of the economic materiality of a model’s uncertainty. Generally this reflects the economic consequences of the business activity for which the model is applied, as well as the sensitivity of such activity to model uncertainty. For example, the materiality of a trading model’s exposure would typically relate to the portfolio’s sensitivity to market inputs. For models used for client valuations and not directly affecting the firm’s balance sheet, high exposure could be triggered by high reputational risk.
(c) Reliance

Reliance measures the extent to which model outputs influence the Firm’s financials or business decision processes. E.g., if model outputs directly feed into P&L reporting or risk measurement calculations, the reliance would be high. For a model influencing investment decision in combination with several other models and an expert opinion, the reliance would be low.

Based on the three dimensions above, each model should be classified into Tier 1, Tier 2 or Tier 3 corresponding to high, medium, and low model risk. The substantiation of this classification should be documented by the model owner and signed off by an independent party.

Each tier has the following associated requirements for documentation, testing/validation, ongoing validation, and review/approval.

<table>
<thead>
<tr>
<th>Model Category</th>
<th>Documentation Requirements</th>
<th>Initial testing and validation</th>
<th>Review and approval</th>
<th>Ongoing validation</th>
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<tr>
<td>Tier 1</td>
<td>Standardized technical and user documentation</td>
<td>- Implementation testing documented in testing note</td>
<td>- Independent in-depth model review with report on findings, documentation adequacy and formal approval decisions</td>
<td>- Periodic model performance analysis</td>
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<tr>
<td>Tier 2</td>
<td>Comprehensive technical and user documentation</td>
<td>- Implementation testing documented in testing note</td>
<td>- Independent review with report on findings including sign-off of model classification, testing and documentation</td>
<td>Annual review of model inventory with a written status report and re-certification of model classification into Tier 2</td>
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<tr>
<td>Tier 3</td>
<td>Description of model specification</td>
<td>Basic functional testing</td>
<td>Sign-off by an independent party of model classification into Tier 3</td>
<td>Annual recertification of model classification into Tier 3</td>
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2. Model Inventory

Model Development, Documentation, Validation and Use
Each LOB must keep a complete and up-to-date inventory of its models. The records should include proper model references including model/product documentation, documentation of tier classification, version or production date information and the results or status of model review. The LOB should have the capability to generate reports on the status of model documentation and review.

3. Validation

All models should be fully validated and independently reviewed according to model category requirements prior to their usage in production. The LOB should establish escalation mechanisms to track and handle exceptions, including regular reports to control functions and senior management.

Models used by each LOB must be re-assessed annually, according to model category requirements.

4. Materiality Monitoring

Each LOB must establish periodic reporting of exposure materiality for all of its models in order to facilitate assessment of model risk and model classification.

5. LOB Specific Control Procedures

Each LOB must further develop its own policies detailing roles and responsibilities, specific requirements and control procedures around model documentation and review in accordance with the standards outlined in this Policy. Each LOB specific policy must be approved by the LOB Chief Risk Officer and LOB Risk Committee and reviewed by the Corporate Model Oversight function.

Section 2: Model Documentation and Review Guidelines

This section outlines guidelines for model documentation and review. When developing their own policies, LOBs may choose to adopt the suggested documentation templates provided in the Attachments, or substitute them with equivalent documentation and review requirements that comply with the Policy Statements in Section 1.

1. Model Documentation

Model documentation must be completed prior to model review. Documentation should be sufficient to permit independent review and to facilitate potential replication and/or upgrade of the model by others, independent of the original developer. For Tier 1 and Tier 2 models, documentation should contain the following components, as applicable and required by LOB model policy and procedures:

(a) Technical documentation

- Rationale for the choice of the model concept and approach.
- Justification of the introduction of a new model, if an alternative model already exists, including numerical/statistical comparisons between the new model and models to be replaced.
- Model's intended use, limitations and scope.
• Description of underlying methodologies, including theoretical results that are derived from the assumptions.
• Justification of the use of input data in terms of accuracy, robustness, and appropriateness.
• Details of the model's construction and numerical techniques.

(b) Testing note
• Description of the nature of the testing effort and testing plan.
• Numerical details of implementation tests and analysis of the results against designed specifications of the model.
• For models with explicit reliance on a specified range of market inputs, tests checking reasonableness and smoothness of model sensitivities to market inputs and/or other applicable risk measures.
• Where appropriate, numerical comparisons between the model being tested and benchmark models or historical backtesting of the model predictions.
• Where applicable, analysis of model behavior under stressed market conditions.

(c) User guide (for models or tools run directly by business users)
• General description of the product or tool and key assumptions.
• The intended use (e.g. valuation, risk measurement, or investment decision).
• List of all inputs and outputs.
• Model limitations.
• Boundaries of input parameters within which the model works properly.

(d) Calibration document (for models calibrated to market inputs or historical data):
• High level description of the engine or tool, and covered products.
• List of calibrated parameters.
• Calibration benchmarks and algorithm.
• Criteria for successful calibration and treatment of calibration failures.
• Frequency and triggers for recalibration.
• Data smoothing and manual overrides.
• Ownership of calibration and sign-off procedures.

See Attachment A for suggested model documentation templates.

Documentation for new models that are variations of other production models (e.g. flexible payoffs) can consist of a description relative to the existing model and a reference to the existing model documentation.

2. Implementation Testing

Implementation Testing is the process of ensuring that the model behaves as intended by its developers. This testing focuses on faithful implementation of deterministic algorithms and numerical accuracy/convergence where applicable.
rather than the reasonableness and appropriateness of the model to a given set of financial circumstances.

Implementation Testing is conducted by model developers supporting the LOB. The model developers performing the testing should consider the following, as applicable and required by LOB model policy and procedures:

- Comparison of model results with the analytical solutions and/or with an independent implementation of the same model
  - Under the full range of each model parameter including stressed scenarios; and
  - Under all scenarios of correlation amongst model parameters.

- Analysis of numerical accuracy for iterative algorithms, including comparisons with alternative numerical schemes.

- Checking desired properties of model output (e.g. smoothness of the model implied hedges, correct pricing of similar products).

- Checking model's ability to price another (generally simpler) product consistently with the approved approach.

3. Model Review

A Model Review is an independent review by a qualified person who is not the model developer. It assesses the appropriateness of the model methodology as applied to a specific product or task, signs off on the quality of testing and documentation, and identifies potential model risks. All Tier 1 and Tier 2 models are subject to independent review.

Model reviewers must consider the following aspects of a model, as applicable and required by LOB model policy and procedures:

- The rationale for model assumptions and methodology.
- The selection and reliability of model inputs.
- The adequacy of model documentation and calibration procedures.
- The completeness of implementation testing.
- Justification of using the model if alternative models are available, and results of model benchmarking.
- Model adjustments or reserves to account for model uncertainty or deficiencies.
- Additional independent testing.

Review findings should be published in the Model Review/Sign-off Report that contains:

- Model review conclusion (approved/signed off, or disapproved).
- Scope of review (model application to a particular product or task).
- List of identified model risks.
- Actions required to remediate critical model shortcomings that are identified.
Recommended improvements to remediate model shortcomings identified that are not critical.

Replies from other groups received during the course of the review.

The report must be sent to the following individuals, as appropriate:

- Head, or Chief Risk Officer, of the business unit that owns the model.
- Head of the business area’s modeling or quantitative support team.
- Others specified by LOB model policy and procedures.

In cases where a review is conducted at an intermediate stage of model implementation, it may result in a Progress Report with no final conclusion on model approval. Progress reports will otherwise follow the same format as Model Review, documenting potential model risks and recommendations on model enhancements.

See Attachment B-1 for suggested report templates.

4. Model Disapproval

The following issues can trigger model disapproval for Tier 1 or Tier 2 models:

- Methodological problems.
- Insufficient implementation testing.
- Incomplete model documentation.
- Failure by relevant parties to satisfy recommendations agreed upon in the course of the model review in a timely fashion.

Upon disapproval of a model, the business unit must, as required by the LOB model policy and procedures, provide a timetable for remediation steps and take other immediate actions that might be deemed necessary to mitigate the model risk (e.g. deferring P&L, adjusting reserve, limiting affected business activity).

If Tier 2 or Tier 3 model classification is not signed-off, it will result in

- Model re-classification into a higher Tier.
- Change of documentation and review status into 'incomplete' until it complies with the requirements for its new category.

5. Annual Review

Each LOB must ensure all of its models are re-assessed annually in light of:

- New developments in the literature or internal or commercially available models.
- Changes in the market for the product (e.g. availability of liquid quotes for model input or major growth in volume).
- Change in the features of the product or portfolio.
- Back-testing of the model and experience with effectiveness of its application,
- The materiality of model risk.
For each LOB or asset class the annual review of model inventories must be summarized in an annual review status report containing:

- An overview of the overall models review status.
- Model review strategy and plan.
- Status of critical recommendations.
- Re-assessment of the need to re-review each Tier 1 model.
- Re-certification of Tier 2 and Tier 3 model classification.

See Attachment B-III for suggested annual report template.

6. Ongoing Validation

In addition to the model testing and review process, all Tier 1 models are subject to periodic validation to assess their ongoing performance.

The validation should be based on a comparison of empirical model output from the production environment (where feasible) against realizations of the process being modeled.

Examples of ongoing validation approaches include:

- Examination of consumer default rate by model score range.
- Historical back-testing.
- Comparison against benchmark models using actual or representative portfolios.
- Assessment of predictive performance (e.g. residual P&L monitoring, forecasting error, etc.).
- In some applications, it may be useful to analyze the errors and stability of calibrated parameters in addition to or as an alternative to directly testing the model outputs.

The ongoing validation is performed or, at minimum, reviewed independently. Such validation should be rated based on objective metrics specified by the LOB model policy and procedures. The business unit must provide remediation timetable and plans for models with unsatisfactory validation ratings.

Regulatory Requirements

Model documentation and independent reviews are required by Bank regulators, and are subject to periodic regulatory examinations.
Attachment A – Model Documentation Templates

Note:
For all the Attachment templates listed below, the following conventions are used:

1. Examples are shaded in grey;
2. The numbers in square brackets, e.g. [1,2], refer to the numbered document references at the end of that template.

Attachment A-I: Complex Model Technical Document
Attachment A-II: Complex Model User Guide
Attachment A-III: Complex Model Testing Note
Attachment A-IV: Complex Calibration Document
Attachment A-V: Standard Model Document

Attachment B – Model Review Templates

Attachment B-I: Model Review Report
Attachment B-II: Model Sign-off Template
Attachment B-III: Annual Status Report

Attachment C – Model Stress Scenarios

Attachment C-I: Model Stress Scenarios Document
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Rationale

This policy sets out the roles and responsibilities for establishing, reporting, and managing market risk limits. Responsibility for implementing this policy rests with the Firm's Chief Risk Officer (CRO), the Line of Business CROs, Business Units and their Middle Offices, Market Risk (MR), Risk Reporting and Finance (RRF), IB Market Risk Reporting (IB MRR) and IB Finance.

Changes From Previous Version

- Combines IB and non-IB Market Risk Limits policies.
- Further defines the responsibilities of the Business Middle Offices and Finance groups.
- Defines Firm-wide limits procedures.
Key Points

- This policy applies whenever the Firm or a Line of Business assumes market risk from trading, funding, underwriting or investment activities, arising from client business, other business, or from managing its structural risk.
- This policy grants various authorities to approve limits and excesses.

Policy Statements

1. This policy applies firm-wide.
2. Limits are established by MR and business heads.
3. Where limits are established and approved:
   - Market risks borne by a Business Unit should not exceed its limits, unless expressly authorized under a One-off Approval.
   - RRF and IB MRR must:
     - Distribute limit utilization reports for the close of each business day to MR and Business Units;
     - Monitor limit utilization for data quality; in cases of suspected data quality issues and/or inappropriate methodology, RRF and IB MRR should seek guidance from MR prior to distributing limit utilization reports;
     - Notify Signatories to limits of all Valid Limit Excesses (defined below).
   - MR must:
     - Promptly verify the validity, and document the reasons for, any Valid Limit Excess;
     - Monitor limit utilizations for limit excesses.
   - A One-off Approval may be given by the Grantors of Limits.
   - If a Business Unit has a limit excess before a One-off Approval is given, the Business Unit must take steps to reduce its exposure to be within limit, unless an exception is granted by the Grantors of Limits.
4. Limits are intended to constrain both intra-day and close of business exposures. As part of their management responsibilities, business and desk heads are expected to be generally aware of their intra-day risk levels, and are responsible for enforcing this policy.
5. MR must conduct periodic reviews of market risk limits (at least semi-annually). Changes to limits must be signed-off by the Signatories to Limits.
6. Where thresholds are established:
   - Business Units can exceed thresholds, so long as they do not exceed their market risk limits.
   - RRF and IB MRR must:
     - Distribute threshold utilization reports for the close of each business day to MR and Business Units, as required;
     - Monitor threshold utilization for data quality; in cases of suspected data quality and/or inappropriate methodology, RRF and IB MRR should seek guidance from MR prior to distributing threshold utilization reports.
   - MR must:
     - Promptly verify the validity of any threshold excess;
     - Monitor threshold utilizations for threshold excesses.

7. Exceptions to this policy must be approved by the Firm's CRO.

Firm-wide Limits
The Firm's Board of Directors has delegated responsibility for establishing and managing market risk limits to the Operating Committee, which, in turn, has delegated authority to the Firm's CRO. The Firm's CRO, in conjunction with the LOB CROs, establishes Firm-wide market risk limits.

Market Risk Limits are reviewed annually by the Board's Risk Policy Committee. Thresholds generally are not established at the Firm-wide level.

Establishing & Approving Market Risk Limits

Limits are classified as Level 1 (highest level) or Level 2. Limits are granted and delegated in the following way:

<table>
<thead>
<tr>
<th>Level 1 Limits</th>
<th>Signatories to Limits</th>
</tr>
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<tbody>
<tr>
<td>Firm-wide Limits</td>
<td>JPMC Chief Risk Officer, as delegated by the JPM Board</td>
</tr>
<tr>
<td>LOB Limits</td>
<td>JPMC Chief Executive Officer and JPMC Chief Risk Officer</td>
</tr>
<tr>
<td>Business Area Limits</td>
<td>Head of LOB, LOB Chief Risk Officer and Head of LOB Market Risk</td>
</tr>
<tr>
<td>Level 2 Limits</td>
<td>Signatories to Limits</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------------</td>
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<tr>
<td></td>
<td>Level 2 Limits and One-Off Approvals are self-approved by the following:</td>
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<tr>
<td></td>
<td>Head of LOB and LOB Chief Risk Officer and/or Head of LOB Market Risk*</td>
</tr>
<tr>
<td></td>
<td>Head of Business Area and MR Executive responsible for Business Area</td>
</tr>
</tbody>
</table>

* Where an LOB has both a CRO and Head of Market Risk, both approvals are required, however where an LOB does not have both a CRO and Head of Market Risk, only one approver is required.

**Monitoring & Reporting Limit Utilizations**

**MR is responsible for:**
- Monitoring limit utilizations. In certain circumstances, reporting may be carried out by MR (e.g., piloting new reports).

**RRF and IB MRR are responsible for:**
- Reporting limit utilizations daily.
- Distributing daily position and drawdown summary reports to senior management, including CROs, LOB Heads, Business Area Heads, Business Units Heads, MR Heads, and MR Executives. Reports should be tailored to meet the requirements of the intended recipients, and include:
  - Limits and limit utilizations for LOB and Business Areas;
  - Trend information (e.g., five-day and monthly trends);
  - Limit excess information. Details of all excesses should be reported (e.g., size, duration, reason for excess, whether the validity of excess is under investigation).

**Market Risk Middle Office is responsible for:**
- Accuracy of reference and market data.

**Business Middle Office is responsible for:**
- Uploading data feeds to market risk systems per Service Level Agreements.

**Finance/Product Control and/or Business Middle offices are responsible for:**
- Providing risk information to RRF and IB MRR for exposure calculation and monitoring against limits. Where this information is not available, risk information may be obtained from non-independent sources, i.e. trading-desk originated reporting, but only where necessary;
- Attesting to the accuracy and quality of the data provided to MR;
• Reconciling data delivered for VAR, Stress, Single Name, Country, Specific Risk and other market risk calculations to an independent file/data store, such as the general ledger, front office or risk aggregation systems to ensure accuracy and completeness, and for signing off on the reconciliation of this information in the market risk systems, daily, or as required;

• Accuracy of any P&L information supplied to RRF and IB MRR.

Limit Excesses
Limit excesses fall into four categories:

• Valid Excess
• Invalid Excess
• Under investigation Limit Excess
• Acknowledged Limit Excess

Valid Limit Excess
Occurs when a correctly calculated limit utilization exceeds the corresponding limit. MR must verify whether a limit excess is valid. Valid Limit Excesses may be:

 o Active; or
 o Passive.

Active Limit Excess:
Occurs when a Business Unit exceeds its own limit; the Business Unit must take immediate steps to reduce its exposure so as to be within the limit, unless a One-off Approval is granted.

Passive Excess:
Occurs when a higher level (or shared) limit is exceeded as a result of a number of lower level active limit excesses in different Business Units, or an excess of an aggregated limit without lower level active limit excesses. MR should coordinate with the affected Business Units to resolve the excess.

Invalid Limit Excess
Occurs when MR has determined that the excess is not a Valid Limit Excess, but is the result, e.g., of incorrect systems feeds, or the wrong measurement methodology. Invalid excesses should not be reported as Limit Excesses.

Under Investigation Limit Excess
Occur when a Limit Excess is under review, and should be labeled as such by RRF and IB MRR.
Acknowledged Limit Excess

Occurs when MR has determined that an excess is valid, but that no further action can be taken to reduce exposure (e.g., drawdown excesses). Acknowledged Limit Excesses must be approved by Signatories to Limits.

Notification of Limit Excesses

Notification of Limit Excesses

RRF and IB MRR must report all Valid Limit Excesses, Under Investigation Limit Excesses and Acknowledged Limit Excesses to:
- the Signatories to the Limit;
- the weekly IB Markets Meeting and other LOB Risk Committee meetings;
- Risk or LOB Business Control Committee meetings.

The notification sent to Limit Signatories should include:
- Description of the Limit Excess;
- Limit value;
- Exposure value and excess percentage;
- Number of consecutive days the limit has been in excess.

One-Off Approvals

A Business Unit which has a Limit Excess must take immediate steps to reduce its exposure so as to be within the limit. However, situations may arise when position closure is not possible or desirable. In such circumstances, exceptions may be given by the Grantors of Limits by way of One-off Approvals or changes to existing limits.

Any request for a One-off Approval must be in writing, and describe the risks, and:
- Size and tenor of business opportunity or specific transaction;
- Limit(s) that would be exceeded and expected duration of the excess;
- Exit strategy, where appropriate.

No Market Risk Limit

Where a Business Unit has no market risk limit, and needs to enter into a transaction that gives rise to market risk, a One-off Approval may be granted by the LOB CRO, or, in the case of the Investment Bank, the Head of IB MR, or his designee.

Limits Review

MR should conduct periodic (at least semi-annual) reviews of market risk limits as part of its holistic analysis of the Firm's market risk.

- Approving limit changes as part of the limits review
Revised limits, to be binding, must be signed off by the Signatories to Limits, normally via email, whereupon the superseded limits will cease to exist. Approval e-mails must be retained in accordance with the Firm’s document retention policies.

Thresholds

With the agreement of a business unit and MR, thresholds may be established to supplement the market risk limits described above. RRF and IB MRR are responsible for reporting threshold utilizations daily to MR and to the businesses as required.

The following applies to thresholds:

- Thresholds need only the agreement of the LOB or Business Unit and its corresponding MR executive.
- MR coverage is responsible for monitoring and validating excesses to thresholds.
- It is not required that immediate steps be taken to bring threshold excesses within threshold levels, given that they do not cause a limit excess; however MR may escalate threshold excesses as needed.
- Threshold excesses do not require One-off Approvals.
- Thresholds excesses should be reported in aggregate to MR and LOBs daily.
Greetings

Many folks have asked for clarification/confirmation on whether the OCC believes whether the Volcker rule would have prohibited JPMC activity that has been in the news since last Thursday. The following information is attributable to an OCC spokesman:

It is premature to conclude whether the Volcker Rule in the Dodd-Frank Act would have prohibited these trades and the hedging activity conducted by JPMC. The "Volcker Rule" law is not in effect yet, and regulations implementing the law have not yet been adopted as final rules by regulators. Even if both were assumed to be in effect, the transactions at issue are complex and whether they would qualify for exceptions under the statute or proposed rule requires careful analysis. The OCC and other regulators are gathering additional details regarding the transactions to determine the full regulatory implications of these activities and the proposed rules currently being considered. Previous positions attributed to OCC staff were based on incomplete details.

Others have asked whether the OCC has a stated position on whether such positions should be prohibited by the pending Volcker rule. That rule is still in development and it would be inappropriate for me to comment on that.

What is the OCC doing now?

The OCC is examining the bank's activities and is in continuous dialogue with bank personnel and other regulatory colleagues as we evaluate details related to the specific transactions as well as the surrounding risk management processes that resulted in this unexpected loss.

Our examiners are also evaluating risk management strategies and practices in place at other large banks to validate our understanding of inherent risk levels and controls of these risks.

On Risk Management

Asset-liability management is a core and essential function for all banks. Identifying, measuring, monitoring, and controlling liquidity, interest rate risk, foreign currency translation risk, and credit risk is fundamental. The OCC expects banks to proactively manage these risks.

The loss by JPMC affects its earnings, but does not present an issue of safety or soundness for the bank.
Just FYI - we did an examination of the CIO at the end of 2010 and have a follow-up planned soon. We had some concerns about overall governance and transparency of the activities. We received a lot of pushback from the bank, Ina Drew in particular, regarding our comments. In fact, Ina called Crumlish when he was in London and "sternly" discussed our conclusions with him for 45 minutes. Basically she said that investment decisions are made with the full understanding of executive management including Jamie Dimon. She said that everyone knows what is going on and there is little need for more limits, controls, or reports. At the conclusion of the exam, we issued the following MRA.

It just goes to show that it is difficult to always be smarter than the market. Humility is good.

---

At end of day they are good at financial risk mgmt. But they are human and will make mistakes (big loan losses, trading losses, litigation etc). But on grand scheme they are good. This will humble them - a healthy and good thing.
From: Cuny, Thomas
Sent: Friday, May 11, 2012 10:12 AM
To: Brosnan, Mike; Williams, Julie
Subject: RE: J.P. Morgan Chase

Mike,
Thanks. Isn't it a little more than embarrassment issue? While it may not be material, it does implicate their risk management abilities doesn't it?
Tom

From: Brosnan, Mike
Sent: Friday, May 11, 2012 10:00 AM
To: Cuny, Thomas; Williams, Julie
Subject: FW: J.P. Morgan Chase

Fyi - international colleagues will be asking and here's what I sent to bafin.

From: Brosnan, Mike
Sent: Friday, May 11, 2012 9:58 AM
To: 'Daniel,Mestek@bafin.de'
Cc: ludger.Hanenberg@bafin.de; Peter.Knoppke@bafin.de; Sarah.Dahlgren@frb.org; Tim.O.Clark@frb.gov
Subject: FW: J.P. Morgan Chase

At this point there is a lot of public information as bank issued 10-q filing and had call with analysts last night.

The transactions in question were part of their asset-liability management process (ALO) which JPMC refers to as the chief investment office (CIO). Here are my takeaways:

- Back in 2007-08 they put on a short credit risk position to protect against a declining economy. This was a macro hedge.
- Over the past few years this hedge worked as the economy declined, credit spreads widened (causing gains on the hedge) but these gains were of course offset as they took credit losses (for example Kodak, American Airlines etc.). Note, the derivatives positions are mark to market while the loan portfolio is primarily cost accounting.
- This presents complexities for analysts etc.
- After evaluating macro environment in 4Q11, actions were taken in early 2012 to reduce the short position - by entering long position in other credit risk indices.
- The new transactions had different betas and basis risk.
- As recent marks show the bank mis-estimated the basis risk (while their short position did gain with recent upward shift in credit spreads, the long position had losses beyond original estimates).
- The overall impact of recent marks on 1Q12 resulted in a change from CIO's previous estimate of a $200 million loss ($10 swing).
- The macro positions in question are now in control of risk management.

The overall result will be a reduction in 2Q12 earnings, and I think the bank has informed market there is a good chance the adjustments underway could result in some earnings impact for one or two future quarters as well. Also, they changed risk models which will result in higher risk and this will cause tier one common ratio to drop from 8.4 to 8.2. Obviously there isn't a safety issue with these numbers, but there is an embarrassment issue for bank leadership which has overtly expressed pride in their ability to measure and control risk.

From: Daniel.Mestek@bafin.de
Sent: Friday, May 11, 2012 8:39 AM
To: Brosnan, Mike; Tim.O.Clark@frb.gov
Cc: ludger.Hanenberg@bafin.de; Peter.Knoppke@bafin.de
Subject: J.P. Morgan Chase

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-00001747
Dear colleagues

As you may know, Bafin is in charge of supervising J.P. Morgan AG, an indirect subsidiary of J.P. Morgan Chase & Co, New York. Furthermore, J.P. Morgan Chase’s Frankfurt branch is under our supervision.

Regarding the latest news on major losses of J.P. Morgan’s US business, we would be grateful if we could get insight into both the background of the transaction(s) leading to the reported losses as well as any supervisory action (to be) undertaken by you.

Therefore, it would be greatly appreciated if you could as soon as possible either provide us with respective information in written form or, as an alternative, if we could set up a telephone conference.

Yours sincerely

Daniel Mestek, LLM.
Bundesanstalt für Finanzdienstleistungsaufsicht
Referat BA 16: Aufsicht über ausländische Banken aus Amerika, Schweiz, Asien (ohne arabischen Staaten), Australien
Federal Financial Supervisory Authority
Section BA 16: Supervision of foreign banks from the USA, Switzerland, Asia (excluding the Arab states) and Australia
Grauhaindorfer Str. 108
53117 Bonn
Fax: +49(0)228-4108-3787
E-mail: daniel.mestek@bafin.de
We asked to confirm booking. Likely bank chain

- apc

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Just to confirm, this is in the bank/branch, right?

*** If you have received this message in error, please delete the original and all copies, and notify the sender immediately. Federal law prohibits the disclosure or other use of this information. ***

FYI. Sally
From: Pfinsgraff, Martin
Sent: Tuesday, April 10, 2012 6:22 AM
To: Belshaw, Sally; Brosnan, Mike
Cc: Lyons, John
Subject: RE: JPM CIO trades—JPMorgan’s Iksil May Spur Regulator.; to Dissect Trading - Bloomberg News - 4/9/12

Sally,

Would it make sense for McQuade and/or Vourvoulias to also go in under Crumlish’s guidance to validate that the desk activities in London are consistent with the story being provided by JPMC NY? This is clearly getting scrutiny and comment from the likes of Merkely and Levin. It would be good if we can demonstrate that we took all measures to review this activity and at both the macro and micro level when we respond to the questions that will inevitably arise.

Marty

From: Belshaw, Sally
Sent: Tuesday, April 10, 2012 6:12 AM
To: Brosnan, Mike
Cc: Pfinsgraff, Martin
Subject: FW: JPM CIO trades—JPMorgan’s Iksil May Spur Regulator.; to Dissect Trading - Bloomberg News - 4/9/12

Just to keep you in the loop, Mike. Julie sent an e-mail earlier saying we should perhaps have an answer ready in case Mr. Curry inquires about this and also, I think, to understand Volker rule implications. I’m copying Marty on info since he’s also a likely one to get questions.

Sally

From: Crumlish, Fred
Sent: Tuesday, April 10, 2012 8:00 AM
To: Waterhouse, Scott
Cc: Wilhelm, Kurt; Belshaw, Sally; Atkins, Glim; Banks, George; Berg, Jaym; Furse, Thomas; Horl, James; Kamath, Jairam; Kirk, Mike; Monroe, Christopher; Wong, Elwyn
Subject: JPM CIO trades—JPMorgan’s Iksil May Spur Regulator.; to Dissect Trading - Bloomberg News - 4/9/12

CIO is in the news again today (See following). A quick recap of where we are. I have copied Sally and Kurt in anticipation of questions:

As you know we had a call with Chief Investment Officer Ina Drew and others in JPM yesterday, along with the FRB. The trades that are getting press coverage now are part of a program to reduce a an existing hedge on credit risk stress losses. Mgmt felt this stress loss hedge became overhedged as credit risk lessened in 2011, and so used the IG9 to adjust it. Unfortunately the IG9 index has also seen reduced trading volume and market participants, so that JPMC’s stress hedge is again where they want it, and there is no significant further trading planned on this strategy. JPM did say that, if they had to do it all over again, they would have used a different index. My sense is that they misread the liquidity in the market. C/O really doesn’t like to draw attention to itself.

We asked the bank for a number of items yesterday that reflect details on the trades and support the stress loss hedge rationale associated with this specific strategy. We expect this sometime today. FYI the stated purpose would be consistent with the CIO’s mandate to hedge overall structural balance sheet risk. Most notably this includes interest rate risk in the banking book, the MSR, and FX translation.

I agree with the press that this will likely become a good case study for what should “count” under the Volker rule.
James Hohl or I will provide some numbers or further analysis when we have them.

- apc

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From: Tuorto, Louise
Sent: Tuesday, April 10, 2012 7:38 AM
To: LB Morgan Stanley; LB em: Heinsohn, Allison; Curnish, Fred; Devincenzi, Savay; Decker, Sharon; Kiefer, Joseph; Gouldie, James
Subject: JPMorgan's Iksil May Spur Regulators to Dissect Trading - Bloomberg News - 4/9/12

JPMorgan’s Iksil May Spur Regulators to Dissect Trading

Market-moving trades by JPMorgan Chase & Co. (JPM)’s chief investment office probably will force regulators to seek more detail on banks’ derivatives positions to help them distinguish risk management from speculation.

Bruno Iksil, a London-based trader in the unit, has built derivatives positions linked to corporate credit that are so big he’s moved markets, according to hedge fund managers and dealers. While Joe Evangelisti, a bank spokesman, said yesterday that the trades are part of the firm’s hedging strategy, four market participants said they resemble proprietary bets, or wagers with the lender’s own money.

Executives at New York-based JPMorgan, the biggest U.S. bank with $2.27 trillion of assets at year-end, have opposed the so-called Volcker rule that seeks to prevent banks with federal backing from making speculative trades. Details on Iksil’s positions are too sparse for regulators to determine whether they should be permitted, said Frank Partnoy, a former derivatives trader who’s now a law and finance professor at the University of San Diego.

“This could be an almost completely matched, hedged position, or it could be massively risky, and there’s just no way to tell without getting more complete disclosure,” Partnoy, author of “Infectious Greed: How Deceit and Risk Corrupted the Financial Markets” said in a phone interview. “I’m surprised that regulators don’t see this example and cry out for more disclosure and more information about these contracts.”

Bank Regulators

Judith Burns, a Securities and Exchange Commission spokeswoman, declined to comment on whether the agency is looking into the trading. Bryan Hubbard, a spokesman with the Office of the Comptroller of the Currency, which regulates banking at JPMorgan, and the Federal Reserve’s Barbara Hagenbaugh also declined to comment.

The three regulators are among those working on the final version of the Volcker rule.

Regulators are stationed in JPMorgan’s offices and are aware of what the bank is doing, said a person familiar with the company’s thinking, who asked not to be identified because he wasn’t authorized to discuss it.

The results of JPMorgan’s chief investment office “are disclosed in our quarterly earnings reports and are fully transparent,” Evangelisti said in a phone interview.

Harvey Pitt, a former U.S. Securities and Exchange Commission chairman, said yesterday in an interview on Bloomberg Television’s “InBusiness With Margaret Brennan” that trading such as Iksil’s should raise regulatory concerns because it’s influencing market prices.
'Dispel Concerns'

"I'd want to talk with the folks at JPMorgan and understand exactly what took place here," Pitt said. "And then I would try to get a report out to the public as quickly as possible to dispel concerns about things that may not have occurred and to raise issues about things that actually did occur."

Arthur Levitt, another former SEC chairman who is a senior adviser to Goldman Sachs Group Inc. (GS), said in a radio interview on "Bloomberg Surveillance" that he expects regulators will require more information on banks' derivatives positions.

"And I think that is unfortunate," said Levitt, who also is on the board of Bloomberg LP, the parent of Bloomberg News. "That raises all kinds of competitive issues."

JPMorgan holds a portfolio of investment-grade debt and uses "credit-related instruments" such as derivatives to protect against a decline in the value of the holdings, Evangelisti said.

'Simply a Balancing'

"Our most recent activity noted in the media is simply a balancing of those credit-related investments to reduce the impact of our hedge," he said. "We do this in the ordinary course of our asset- and liability-management activities."

Jack Gott, a spokesman at the Federal Reserve Bank of New York, declined to comment on whether the New York Fed is examining the trades. Jamie Dimon, JPMorgan's chairman and chief executive officer, is on the New York Fed's board of directors.

"This will be the first test of how aggressively the Fed will enforce the Dodd-Frank Act," which includes the Volcker rule, said Mark Williams, a lecturer at Boston University's School of Management. "From a Fed regulatory standpoint, I see JPMorgan as having some serious explaining to do."

The positions, by the bank's calculations, amount to tens of billions of dollars and were built with the knowledge of Iksil's superiors, a person familiar with the firm's view said.

Price Movements

Iksil may have built a position totaling as much as $100 billion in contracts in one index, according to the market participants, who said they based their estimates on the trades and price movements they witnessed as well as their understanding of the size and structure of the markets.

Even if regulators are satisfied that Iksil's trades are intended to hedge other risks the bank is taking, regulators should be aware that derivatives often fail as offsets because of differences in the way contracts are written and traded, Partnoy said.

"It's not a pure hedge, it has a speculative element to it, and that's particularly true when the contracts are this big, when you're talking about tens of billions of dollars," said Partnoy, whose new book "Wait: The Art and Science of Delay" is being published in June by PublicAffairs.

"The only perfect hedge is in a Japanese garden," he said.
From: Brosnan, Mike
To: Belshaw, Sally; Waterhouse, Scott
Sent: 4/30/2012 5:53:14 PM
Subject: RE: pis read, edit and send back. thx

Will wait on scott – it may be that they hedge their capital (it is fixed) but someone else hedges revs/expenses as they move. But will wait on scott to be sure.

Thx for clarity and patience.

From: Belshaw, Sally
Sent: Monday, April 30, 2012 1:50 PM
To: Waterhouse, Scott; Brosnan, Mike
Subjects: RE: pis read, edit and send back. thx

Not sure why the word "earnings" got stuck in below but it doesn’t fit. Overall, this is our take. It’s like a PSI testimony here....if you ask the right question enough times, will you get a different answer?

From: Waterhouse, Scott
Sent: Monday, April 30, 2012 1:04 PM
To: Brosnan, Mike
Cc: Belshaw, Sally; Waterhouse, Scott
Subject: RE: pis read, edit and send back. thx

Mike – you can call me Marty if you want, but please don’t call me late for dinner.

We made a few edits to correct facts.

Bottom line: We believe that A/L/M activities at JPMC make sense. We do have an outstanding MRA and there will always be examination findings as well as ongoing questions but we conclude their day-to-day and strategic activities are appropriate from safety and soundness view, and they are not running afoul of inappropriate "proprietary trading" issues. My conversations with FRB counterparts confirm similar thinking. My short take:

- JPMC (and WFC, BAC, and to lesser extent C) have very large investment portfolios that are managed centrally, at JPMC by the Chief Investment Office (CIO) and at others by an ALCO.

- JPMC typically runs $300b - $400b investment positions and there are a lot of derivatives (interest rate, foreign exchange, and credit) that are overlayed to control exposures to structural interest rate risk, basis risk, earnings foreign currency translation risk, and structural credit risk. Note, the overall risk positions can go up or they can go down, though JPMC specifically has a bias that marginal transactions result in less risk. These activities are normal A/L/M at the big banks, though JPMC’s inclusion of some credit risk mitigation from CIO is somewhat different (credit people can also do this in other banks, but skills and activity vary).

- The clips referencing the "whale" moving the market are tied to unwinding part of credit positions put on a couple of years ago in different instruments. Where the bank gets a gain there has generally been a loss (American airlines etc.). They are big and can move the market, particularly where markets or specific instrument activity is less liquid to begin with.

- I think there are people out there that have lost money and are growing at JPMC. I also think some people are using this to spin a story to influence policy work. Time will tell if the gut is right.
From: Brosnan, Mike
Sent: Monday, April 30, 2012 12:25 PM
To: Belshaw, Sally; Waterhouse, Scott
Subject: read, edit and send back

Marty – John Lyons asked that I send you a summary of my thinking (Large Banks) on the a/l/m activity and related angles portrayed in media coverage a couple weeks back.

Bottom line: We believe that a/l/m activities at JPMC make sense. We do have an outstanding MRA and there will always be examination findings as well as ongoing questions but we conclude their day-to-day and strategic activities are appropriate from safety and soundness view, and they are not running afoul of inappropriate “proprietary trading” issues. My conversations with FRB counterparts confirm similar thinking. My short take:

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- JPMC typically runs $300b - $400b investment position and there are a lot of derivatives (interest rate, foreign exchange, and credit) that are overlayed to control exposures to structural interest rate risk, basis risk, foreign currency translation risk and credit risk. Note, the overall risk positions can go up or they can go down, though JPMC specifically has bias that marginal transactions result in less risk. These activities are normal A/LM at the big banks, though JPMC’s control of credit risk from CIO is somewhat different (credit people can also do this in other banks, but skills and activity vary).
- The clips referencing the “whale” moving the market are tied to transactions put on a couple years ago and are now being unwound in different chunks. Where the bank gets a gain there has generally been a loss (American airlines etc.). They are big and can move the market, particularly where markets or specific instrument activity is less liquid to begin with.

I think there are people out there that have lost money and are griping at JPMC. I also think some people are using this to spin a story to influence policy work. Time will tell if the gut is right.

the most recent message from Scott and team at JPMC follows this email. Based on what I learned from the emails as well as phone conversations with Sally and Scott, I have not requested additional follow-up and will leave it to their discretion in circling back to if anything new arises. I also read transcript of 1q12 earnings discussion and saw some discussion but not much in way of controversy (essentially the spin in clips = tempest in teapot)
Thx.

To be clear, from what you said Corker was right. It is us/me that will now be reserved and leave some room for interpretation etc. later.

From: Hubbard, Bryan
Sent: Monday, May 14, 2012 4:32 PM
To: Brosnan, Mike; Williams, Julie; Walsh, John; Kilber, Kenyon; Moore, Carrie; Rowe, William
Subject: RE: updated talking points (onsite team is good with this version - various edits are in)

Thank you. I think these are very helpful and could help clarify the "absolute" statement by Senator Corker this morning.

I have numerous queries from NYT, WSJ, Dow Jones, Financial Times, Christian Science Monitor asking to confirm or clarify this morning's statement. Pending Mr. Curry's approval of these more nuanced statements, I'd like to make calls before folks' deadlines so tomorrow's paper's don't include Senator Corker's absolute statement. It would be very helpful.

Also got a call from Public Radio International stating that Senator Corker told him that the OCC has changed its position from this morning.

Based on all the moving parts and interest, I'd like to provide all these reporters the same information consistent with what was said on the call with Mr. Levin.

One reporter also said that Corker's staff is also saying that The OCC staff do not think these sorts of trades "should" be covered. That is different than whether they would be covered.

A separate question from a Peter Coy, at Bloomberg, is asking the more systemic question of what is the banking system's exposure to trading risk. His deadline is Wednesday.

Please let me know if these are ok for me to speak from.

Bryan Hubbard
bryan.hubbard@occ.treas.gov
(202) 874-5307

<< File: JPMC Talking Points May 14 2012 (4).doc >>
From: Crumlish, Fred
To: <Wong, Evelyn>;<Hohl, James>;<Kirk, Mike>
Sent: 5/16/2012 3:15:53 PM
Subject: FW: here is redline and new final
Attachments: Talking Points re $2 B Loss - OCC Role and Responsibility SW - final.docx; Talking Points re $2 B Loss - OCC Role and Responsibility SW - redline.docx

Please advise me of "fatal flaws" or factual errors immediately.

And of course don't forward...

- mp

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From: Waterhouse, Scott
Sent: Wednesday, May 16, 2012 10:22 AM
To: Crumlish, Fred
Subject: FW: here is redline and new final

From: Brosnan, Mike
Sent: Wednesday, May 16, 2012 10:20 AM
To: Williams, Julie
Cc: Waterhouse, Scott; Belshaw, Sally
Subject: here is redline and new final

We are good with the new final. Redline attached to help you see changes.

<< .. >> << .. >>
In 2007 and 2008, in order to hedge credit risk in its balance sheet as a result of stressed credit conditions in the economy, the bank constructed a macro-hedge against the credit risk of the bank's balance sheet using credit default swaps (CDS). This synthetic credit position was designed to provide income to mitigate credit losses in the loan portfolio that would arise under economic conditions that produced broad credit stress. The strategy was managed to provide around $1 billion to $1.5 billion of income in credit stress scenarios to offset potential stress losses of $5 billion to $8 billion.

The OCC was aware of this macro hedge. The position was captured in the bank's standard Chief Investment Office (CIO) and market risk reports available to the OCC. Mitigating portfolio credit risk is a proactive step for safety and soundness purposes, and thus the OCC's focus on this strategy was to ensure that the bank had effective risk management functions and controls. The OCC did not review each particular transaction that resulted in the synthetic credit position because transactions remained within the parameters of the bank's overall risk management limits and were viewed as working reasonably. OCC examinations focused on the quality of risk management and the quantity of risk. Risk management was viewed as satisfactory, with a proven track record. It operated under value-at-risk (VaR), stress, and other limits as well as various measures depicting sensitivities to other market factors. OCC examination of the investment portfolio in 2010 did find, however, that the bank needed to more clearly document investment policies, portfolio decisions, and processes to manage investments.

The OCC also has issued MRAs on model governance over a period of several years. The bank revised its model governance policy as a result and updated it again in [late 2011-early 2012].

Corrective action is ongoing.

Since its inception, the original hedging strategy generally has worked as anticipated. As the economy declined and credit spreads widened, the bank reported gains on the hedge position that offset credit losses it took in its loan portfolio. (Note that gains and losses on the derivatives positions that constituted the hedge are marked to market.)

As the economy improved, in late 2011 and early 2012 executive management felt that the credit cycle was maturing and made the strategic decision to reduce the high yield debt credit protection position. However, after the American Airlines bankruptcy and an expected bankruptcy filing by Kodak, the markets for high yield indices were not, according to the bank, liquid enough to use to unwind the existing short credit protection position. Consequently, the bank looked for alternatives to offset the positions via other instruments that were presumed to have offsetting risk characteristics.

The bank developed a risk management strategy that relied heavily on the IG 9 index. IG 9 was viewed as more liquid than the high yield index, and included five “billion angels” that allowed the index to be used to partially reduce the bank’s protection against stress losses. Thus, the bank began selling IG 9 credit default swaps—going long on IG 9 credit risk (selling CDS)—to neutralize some of its short high yield credit risk position (the original credit default swaps). Essentially the bank was putting on a hedge on a hedge. The resulting combination of the original hedge, and the new position was quite complex.

At roughly the same time as this hedge-on-a-hedge was being executed, the bank implemented a new VAR model, which was designed to improve the precision of risk measurement. This model went through multiple levels of review at the bank, including the updated model governance policy required pursuant to OCC MRAs.

In this regard, the OCC does not "approves" in advance all the particular models a bank uses — nor the particular loan, or investments, etc. that it makes. OCC evaluates the bank’s risk management policies, processes, procedures, limits, and controls (including quality assurance...
processes and audit). And we monitor management systems for exceptions to policies or limits which may then prompt further review or inquiry. We also monitor and follow-up on errors and adverse findings from risk managers and auditors to ensure they are cleared on a timely basis.

OCC examiners look to see where activities or losses have diverged from expectations to a degree indicative of a breach of approved parameters or breakdown of controls. For example, we would look for traders/managers operating outside approved limits, where risk management activities did not identify or escalate such instances, and for models breaking or not going through proper validation, etc. It is possible that losses could be incurred even when all controls function properly, however, because of poor risk estimation or bad business judgment as well as external events that create low probability but higher impact environments that aggravate poor decisions or bad judgment. Risk management seeks to minimize risk but cannot eliminate it, which is why banks have requirements to maintain specific capital, reserves, and liquidity to manage unexpected losses.

Examiners review management information on a regular basis and have access to additional details and information if warranted. OCC examiners observe risk management practices and assess effectiveness by evaluating whether they provide credible challenge to business people to ensure proper balance between risk and reward. If examiners do not see that, they seek to have corrective action to the risk management practices at the institution.

The bank in this case made its decision to reduce its exposure from the original 2007 strategy in late 2011/early 2012. This was an unexceptional decision made by bank management; not something that would prompt a special alert to the OCC, or a reaction by the OCC that individual trades needed to be examined.

Notably, however, in the present situation, the risk characteristics of the original macro-hedge and the hedge-on-the-hedge diverged and this introduced additional risks, including basis risk. The basis risk that resulted made the bank’s new hedge strategy sensitive to a change in the spread between High Yield CDS and Investment Grade CDS (IG9) known as compression/decompression risk. As recent events have proven, the bank’s model assumptions regarding the expected price behavior between the indexes and the value of the positions were incorrect. The overall impact on the CIOs first quarter 2012 earnings estimate is a $1 billion swing from a $200 million gain to May 10’s announcement of an $800 million loss.

We discussed with management expected first quarter 2012 results in the three weeks leading up to the bank’s earnings announcement. We met with the CFO on April 12 to go over financial results. At that time, the CFO noted that he expected the Corporate sector, including the CIO, to make approximately $200MM per quarter for the rest of the year. The bank formally announced earnings on April 13, with no mention of the CIO issue.

The OCC reviews the CIO book on a regular basis. We began to focus on the details of this set of transactions and resulting impact on limits in mid-April, following April 8, 2012 reports of the bank’s “London Whale” trader who was actually executing the trades to establish the hedge-on-the-hedge. On April 16, OCC and FRB examiners met with the Drew (now former CEO of the CIO) and senior members of the CIO and officials of the bank’s risk management function to discuss the bank’s positions in light of the press reports. Ms. Drew and other bank officials explained at that time the use of CDS to mitigate the bank’s credit risk and their rationale for using the IG 9 index to reduce the bank’s high yield credit derivative position. Thus, the bank was selling IG 9 CDS – going long on IG 9 credit risk (selling CDS) to neutralize some of its short high yield credit risk protection (the long CDS) put in place to mitigate the credit risk of its loan portfolio.

On May 4, 2012, we received a call from the CFO and CRO to inform us that the value of the position was deteriorating rapidly. Management informed us that it brought in specialists from the Investment Bank to dissect the position and take over its management. The CFO said the
investigation was ongoing and that they would make a presentation to us on May 9, 2012. Additional information on changes to CDS exposures and the synthetic credit portfolio were provided to examiners as a result of this meeting, and we are having ongoing discussions. Additional information on changes to CDS exposures and the synthetic credit portfolio were provided to examiners as a result of this meeting. Also noted were recent changes in the behavior of the IG 9 market.

The bank had to publish its 10Q on May 10. Given that the value had changed so much, management felt that it needed to inform its investors prior to publication. A conference call was quickly arranged for hours on May 10 to highlight the issue and change its corporate sector earnings forecast for the rest of the year.
From: Kamath, Jairam
To: Crll1llish, Fred
Sent: 5/23/2012 2:42:26 PM
Subject: FW: Stop Loss Definitions

This makes no sense and gives a misleading picture of the 5-day and 10-day stop losses. Perhaps if they had reported cumulative losses in the 5-day and 20-day lines, management would have been apprised of the gravity of the situation much earlier. Incidentally, CIO does not have drawdown limits.

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From: Surtani, Lavine
Sent: Wednesday, May 23, 2012 9:48 AM
To: Jairam (Regulator), Jairam X
Cc: Regulatory Coordinator
Subject: RE: Stop Loss Definitions

Jairam,

I went back to Market risk management to ensure they were comfortable with the definition and the way the reports are calculating Stop Loss Thresholds and they agree with the logic which is as follows:

The five day loss advisory is an arithmetic sum of the last 5 1-day utilizations. Any of these underlying utilizations that have caused an exception are NOT included in the sum for the following reason: including utilizations that caused exceptions would result in a double-penalty. A business would break both their 1-day and five day loss advisory. Rather, this type of loss advisory is used to capture small leaks in loss over a longer period of time.

The same logic would be implemented for the 20-day.

Also, the other point they emphasized is that while some LOBs continue to show the loss advisories as thresholds, Market Risk Management overall favors the Drawdown measure of P&L performance for limit purposes.

Let me know if you have any further questions.

Lavine

Lavine Surtani | Corporate Market Risk Reporting | T: 212-270-1369 (midtown); 212-823-8335 (downtown) | M: 917-757-1091 | lavine.surtani@jpmchase.com

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From: Kamath (Regulator), Jairam X
Sent: Thursday, May 17, 2012 9:37 AM

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-00001917
To: Sultan, Lavine  
Subject: Stop Loss Definitions  

Hi Lavine,

I know this should be fairly obvious, but we’d like to know how MRM defines 1-day, 5-days, and 20-days stop loss thresholds. From looking at some of the risk reports we are not getting a good sense of how the 5-day and 20-day stop loss numbers are derived.

Thanks,

Jairam

This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any comments or statements made herein do not necessarily reflect those of JPMorgan Chase & Co., its subsidiaries and affiliates. This transmission may contain information that is privileged, confidential, legally privileged, and/or exempt from disclosure under applicable law. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution, or use of the information contained herein (including any reliance thereon) is STRICTLY PROHIBITED. Although this transmission and any attachments are believed to be free of any virus or other defect that might affect any computer system into which it is received and opened, it is the responsibility of the recipient to ensure that it is virus free and no responsibility is accepted by JPMorgan Chase & Co., its subsidiaries and affiliates, as applicable, for any loss or damage arising in any way from its use. If you received this transmission in error, please immediately contact the sender and destroy the material in its entirety, whether in electronic or hard copy format. Thank you. Please refer to http://www.jpmorgan.com/pages/policies for disclosures relating to European legal entities.
Ok, looks like they gave us all trades as of Month-end Jan, Feb, March

Then 3 snapshots for April,

Then Daily May but only 01,02,03,04

So "netting" Feb vs March vs the 3 snapshots in April would give us info on incremental trades done since the loss really began to snowball.

Obviously still need explanations on the right hand columns in the spreadsheet, especially for tranches.

Elwyn
From: Crumlish, Fred
To: <Warehouse, Scott> <Wilhelm, Kurt> <Atkins, Glenn> <Banks, George> <Berg, Jaymin> <Fursa, Thomas> <Kamath, Jairam> <Kirk, Mike> <Monroe, Christopher> <Wong, Elwyn>
Cc: <Belshaw, Sally> <Berg, George> <Banks, Glenn> <Fursa, Thomas> <Kamath, Jairam> <Kirk, Mike> <Monroe, Christopher> <Wong, Elwyn>
Subject: JPM CIQ Trades - JPMorgan's Iksil May Spur Regulators to Dissent Trading - Bloomberg News - 4/9/12

I am in the news again today (See following). A quick recap of where we are. I have copied Sally and Kurt in anticipation of questions:

As you know we had a call with Chief Investment Officer Ina Drew and others in JPM yesterday, along with the frb. The trades that are getting press coverage now are part of a program to reduce an existing hedge on credit risk stress losses. Mgmt felt this stress loss hedge became overhedge as credit risk lessened in 2011, and so used the IG9 to adjust it. Unfortunately the IG9 index has also seen reduced trading volume and market participants, so that JPMC's trades probably further decreased liquidity in the index. JPMC's credit stress hedge is again where they want it, and there is no significant further trading planned on this strategy. JPM did say that, if they had to do it all over again, they would have used a different index. My sense is that they misread the liquidity in the market. CIQ really doesn't like to draw attention to itself.

We asked the bank for a number of items yesterday that reflect details on the trades and support the stress loss hedge rationale associated with this specific strategy. We expect this sometime today.

FYI the stated purpose would be consistent with the CIO's mandate to hedge overall structural balance sheet risk. Most notably this includes interest rate risk in the banking book, the MSR, and FX translation.

I agree with the press that this will likely become a good case study for what should "count" under the Volker rule.

James Hohl or I will provide some numbers or further analysis when we have them.

- apc

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From: Tuorto, Louise
To: LB Morgan Stanley; LB CITI; Heinsohn, Allison; Crumlish, Fred; Devincenzi, Saray; Decker, Sharon; Reiter, Joseph; Gouldie, James
Subject: JPMorgan's Iksil May Spur Regulators to Dissect Trading - Bloomberg News - 4/9/12

**JPMorgan’s Iksil May Spur Regulators to Dissect Trading**

Market-moving trades by JPMorgan Chase & Co. (JPM)’s chief investment officer probably will force regulators to seek more detail on banks’ derivatives positions to help them distinguish risk management from speculation.

Bruno Iksil, a London-based trader in the unit, has built derivatives positions linked to corporate credit that are so big he’s moved markets, according to hedge fund managers and dealers. While Joe Evangelisti, a bank spokesman, said
yesterday that the trades are part of the firm's hedging strategy, four market participants said they resemble proprietary bets, or wagers with the lender's own money.

Executives at New York-based JPMorgan, the biggest U.S. bank with $2.27 trillion of assets at year-end, have opposed the so-called Volcker rule that seeks to prevent banks with federal backing from making speculative trades. Details on Iksil's positions are too sparse for regulators to determine whether they should be permitted, said Frank Partnoy, a former derivatives trader who's now a law and finance professor at the University of San Diego.

"This could be an almost completely matched, hedged position, or it could be massively risky, and there's just no way to tell without getting more complete disclosure," Partnoy, author of "Infectious Greed: How Deceit and Risk Corrupted the Financial Markets" said in a phone interview. "I'm surprised that regulators don't see this example and cry out for more disclosure and more information about these contracts."

Bank Regulators

Judith Burns, a Securities and Exchange Commission spokeswoman, declined to comment on whether the agency is looking into the trading. Bryan Hubbard, a spokesman with the Office of the Comptroller of the Currency, which regulates banking at JPMorgan, and the Federal Reserve's Richard Hagenbaugh also declined to comment.

The three regulators are among those working on the final version of the Volcker rule.

Regulators are stationed in JPMorgan's offices and are aware of what the bank is doing, said a person familiar with the company's thinking, who asked not to be identified because he wasn't authorized to discuss it.

The results of JPMorgan's chief investment office "are disclosed in our quarterly earnings reports and are fully transparent," Evangelisti said in a phone interview.

"Dispel Concerns"

"I'd want to talk with the folks at JPMorgan and understand exactly what took place here," Pitt said. "And then I would try to get a report out to the public as quickly as possible to dispel concerns about things that may not have occurred and to raise issues about things that actually did occur."

Arthur Levitt, another former SEC chairman who is a senior adviser to Goldman Sachs Group Inc. (GS), said in a radio interview on "Bloomberg Surveillance" that he expects regulators will require more information on banks' derivatives positions.

"And I think that is unfortunate," said Levitt, who also is on the board of Bloomberg L.P., the parent of Bloomberg News. "That raises all kinds of competitive issues."

JPMorgan holds a portfolio of investment-grade debt and uses "credit-related instruments" such as derivatives to protect against a decline in the value of the holdings, Evangelisti said.

"Simply a Balancing"

"Our most recent activity noted in the media is simply a balancing of those credit-related investments to reduce the impact of our hedge," he said. "We do this in the ordinary course of our asset- and liability-management activities."

Jack Quitt, a spokesman at the Federal Reserve Bank of New York, declined to comment on whether the New York Fed is examining the trades. Jamie Dimon, JPMorgan's chairman and chief executive officer, is on the New York Fed's board of directors.
"This will be the first test of how aggressively the Fed will enforce the Dodd-Frank Act," which includes the Volcker rule, said Mark Williams, a lecturer at Boston University's School of Management. "From a Fed regulatory standpoint, I see JPMorgan as having some serious explaining to do."

The positions, by the bank's calculations, amount to tens of billions of dollars and were built with the knowledge of Iksil's superiors, a person familiar with the firm's view said.

**Price Movements**

Iksil may have built a position totaling as much as $100 billion in contracts in one index, according to the market participants, who said they based their estimates on the trades and price movements they witnessed as well as their understanding of the size and structure of the markets.

Even if regulators are satisfied that Iksil's trades are intended to hedge other risks the bank is taking, regulators should be aware that derivatives often fail as offsets because of differences in the way contracts are written and traded, Partnoy said.

"It's not a pure hedge, it has a speculative element to it, and that's particularly true when the contracts are this big, when you're talking about tens of billions of dollars," said Partnoy, whose new book "Wait: The Art and Science of Delay" is being published in June by PublicAffairs.

"The only perfect hedge is in a Japanese garden," he said.

Louise A. Tuorto
Administrative Assistant
Morgan Stanley Bank, N.A.
750 7th Avenue, 30th Floor
New York, NY 10019

212-762-0710
301-433-9310
From: Crumlish, Fred
To: <Kirk, Mike>
CC: <Heil, James>
Subject: RE: CIO info on elephant trade

Yep. I think we will need to sit with them.

-Terri

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From: Kirk, Mike
Sent: Tuesday, April 10, 2012 4:28 PM
To: Crumlish, Fred; Swank, Todd
Cc: Waterhouse, Scott; Banks, George; Berg, Jaymin; Fursa, Thomas; Heil, James; Kamath, Jairam; Monroe, Christopher; Wong, Elwyn
Subjects: RE: CIO info on elephant trade

Fred,

I agree with your reply to the bank; the attached narrative reads as something they may post in the 10K (sans the trade level detail). Not very helpful.

What would be helpful would be to see the stress scenarios without these assets, and with these assets so one can understand the impact. I'm assuming they have value in more than one stress scenario as well, so it would be helpful to understand what other utility they provide as well. It would also be helpful if the CIO could provide some indication of a present target level they are trying to achieve, and hence the change of activity that resulted in the same (in other words results prior to and after recent trades).

I would think they should be able to pull the stress test results off the shelf for the time period prior to increasing hedge, then provide the results at the time the trades were made to reduce, and now current levels showing where they are now relative to their target. Just a thought.

Regards,
Mike

From: Crumlish, Fred
Sent: Tuesday, April 10, 2012 4:13 PM
To: Swank, Todd; Kirk, Mike
Cc: Waterhouse, Scott; Banks, George; Berg, Jaymin; Fursa, Thomas; Heil, James; Kamath, Jairam; Monroe, Christopher; Wong, Elwyn
Subjects: CIO info on elephant trade

James (and Mike) – Attached is a message from Joe S recapitulating the trades and including a brief narrative. In my response on JPM email, I said that we would get back w/questions. I also said it would be useful if they provided analytics or a summary that recapitulated the hedge strategy, such as the expected impact of the hedge on the projected stress loss identified. I had asked for this on the call as well. Hopefully we will see something.

Just getting a list of trades doesn't do much "prop trading" wise...

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OCC-00004730
In any event let me know what you think.

-spc

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From: Hohl, James
To: Berg, Jaymin
Sent: 1/24/2012 6:11:18 PM
Subject: RE: CIO meeting

I don't know who John Wilmot's secretary is, so I've e-mailed him, Dave Alexander, and Phil Lewis together. My Outlook calendar should be available to look at. Monday and Wednesday afternoons look good, Tuesday morning, and pretty much any time Thursday except noon. Thanks, James

p.s. Was the December Treasury EMR available?

From: Berg, Jaymin
Sent: Tuesday, January 24, 2012 1:8 PM
To: Hohl, James
Subject: CIO meeting

Fred wants me to setup this quarters CIO meeting. He said that you'd still be in charge of IRR portion and I'll be responsible for ongoing supervision of investments. What days are you free next week for a meeting? Also, who do you typically email to setup the meeting with CIO?
You'll definitely beat me in... But I should know more later today or tomorrow on times that will work for Mike. Likely 9 or 10 on Mon.

Sure, let's talk Mon. I will be in very early. About 6 or 6:30

Michael, I am trying to set up a 30 min or so call with you and Mike Brosnan on Mon. His schedule is tight, so hoping you have some flexibility on your end. I might not know the time until early Mon - when are you in the office?

Thank you! (Will get back to backyard grilling now.)

Hi Michael. That's accurate. These trades would have been allowed even if the Volker rule was in place. Hope you're not working too hard today

Carrie, sorry to bother you on a Saturday, But quick question. The committee staff seemed to think that the OCC's view was that the JMP trades would have been permissible under Volker. Is that an accurate statement?

Thanks,
Michael
Subject: Re: JPM

Yes, all out of the bank. Will set up something for Mon!

From: Bright, Michael (Corker) [mailto:Michael.Bright@coritersenate.gov]
Sent: Friday, May 11, 2012 06:16 PM
To: Moore, Carrie
Subject: RE: JPM

Yes please. Would love to talk on Mon. These trades were done out of the bank N.A., correct?

From: Moore, Carrie [mailto:Carrie.Moore@occ.treas.gov]
Sent: Friday, May 11, 2012 5:43 PM
To: Bright, Michael (Corker)
Subject: RE: JPM

Hi Michael,

Yes, as I understand it, this is a hedge trade gone wrong issue, which will result in a hit on earnings. And I have folks that can give you all the details, should you need it. Just let me know.

Thanks,
Carrie

From: Bright, Michael (Corker) [mailto:Michael.Bright@coritersenate.gov]
Sent: Friday, May 11, 2012 4:24 PM
To: Moore, Carrie
Subject: JPM

Hey Carrie. I’m sure this is probably your 500th request today...but is this just a hedge trade that was exceptionally poorly executed? CDX basis mistake, of some sort?

Any insight you could provide would be helpful. As I’m sure you can appreciate, my boss is asking lots of questions.

Thanks,
Michael
From: Berg, Jaymin
To: <Crumlish, Fred>
Sent: 4/5/2012 6:26:59 PM
Subject: RE: reports list

Fyi - the unknowns are due to listserv recipients so I'm not sure who gets it. Also, Doug is listed as a recipient for some emails but I don't think his JPM account works.

---

Report Frequency Other OCC Recipients
---
Firm Stress Results Weekly Unknown
IB Risk IB VaR and Limits Update Daily Unknown
Firmwide Risk Daily Market Risk Limits and VaR Reports Daily Fred Crumlish Christopher Monroe
Daily Revenue Report Daily Unknown
MARRS Stress Reports Weekly Unknown
Firmwide Risk Daily Limits Excess Summary Daily None
Level 1 IB EMR Monthly None
Level 2 IB EMR Monthly None
Equity Risk Scope Daily Elwyn Wong Tom Fursa
Global ABS Conduit Monthly Report Monthly Tom Fursa Doug Tornese
Jupiter, Falcon, & Chariot Regulator Reports Monthly Brad Sry Doug Tornese
Secondary Marketing Daily Risk Exposure Reports Monthly None
CIO AFS Securities List Quarterly James Hold
CIO Inf in Treasury Weekly Appendix Weekly None
CC Securitization Monthly Review Package Monthly Doug Tornese
---

From: Crumlish, Fred
Sent: Thursday, April 05, 2012 2:03 PM
To: Berg, Jaymin
Subject: RE: reports list

Do you know who is cc'd beside you on each of these?

- apc

---

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From: Berg, Jaymin
Sent: Thursday, April 05, 2012 2:02 PM
To: Crumlish, Fred
Subject: reports list

Here's the reports I receive:

---

Report
Firm Stress Results
IB Risk IB VaR and Limits Update

---

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION
Firmwide Risk Daily Market Risk Limits and VaR Reports
Daily Revenue Report
MaRRS Stress Reports
Firmwide Risk Daily Limits Excession Summary
Level 1 EMR
Level 2 EMR
Equity Risk Strata
Global ARS Conduit Monthly Report
Jupiter, Falcon, & Chariot Regulator Reports
Secondary Marketing Daily Risk Exposure Reports
CIO AFS Securities List
CIO Info in Treasury Weekly Appendix
CC Securitization Monthly Review Package
From: Waterhouse, Scott  
To: Brosnan, Mike  
Sent: 5/17/2012 5:12:50 PM  
Subject: RE: Your request of last night. re OCC response on cio

Perhaps right after the 2-3 CIO update. Looks like you are free. Shall I call you when I get back to the office?

---

From: Brosnan, Mike  
Sent: Thursday, May 17, 2012 12:06 PM  
To: Waterhouse, Scott  
Subject: RE: Your request of last night, re OCC response on cio

OK. I sent on to Julie. Will call you later today (not sure on specifics, but we know things will pop up). Is there a time you want me to call before (leaving 30 minutes for us to talk etc.)?

---

From: Waterhouse, Scott  
Sent: Thursday, May 17, 2012 10:27 AM  
To: Brosnan, Mike  
Subject: FW: Your request of last night, re OCC response on cio

Mike - here is Fred's chronology. This is response to Julies question.

---

From: Cramlish, Fred  
Sent: Thursday, May 17, 2012 9:50 AM  
To: Waterhouse, Scott  
Subject: Your request of last night, re OCC response on cio

This is in response to your email asking about OCC supervision between April 16 and May 4. This and the following message recaps of our recent CIO responses:

In terms of standard MIS, we receive two emails every day that are relevant to this issue. They contain risk information for the company overall:

- Firmwide Daily Risk Limits Excessions
- Firmwide Daily Market Risk Limits and VaR reports.

Each email contains a short summary and an attachment for the LOBs. All examiners have access to this email and based on their review we decide what follow up is needed, and we also use this to assess trends, etc.

With respect to the synthetic credit book and the CIO, the daily MTM limit blew out on 4/10 and then snapped back. We had contacted the bank on April 9 because the press reporting and market comments weren't consistent with what we felt to be the case and began requesting information. After some back and forth we set up a meeting with seniors. I also added an examiner with direct trading experience to help us assess what was going on and help evaluate management's responses. This meeting included Ina Drew, John Hogan, and others, and is summarized in my 4/17 email. In addition to describing the current assessment, Ina Drew indicated that they had begun looking into what happened, as they were concerned that this had become public, and would keep us informed. At the time this wasn't presented as a problem with the position or management of the book. John Hogan also indicated that the limit process had “worked” to the extent that it had initiated the conversation regarding additional work being done on the book. We told the bank to keep us informed and we would like to see the results. Based on this meeting, we were led to expect some volatility based on what we were told. The bank didn’t provide an incremental update on their work as we requested.

---

2116  
BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION  
OCC-00065554
As you know, we also discussed moving up the review of our CIO MRA to June (post SNC) to encompass this issue and had an exam planned for the UK and US activities in October.

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From: Hohl, James  
Sent: Thursday, May 17, 2012 7:49 AM  
To: Crumlish, Fred  
Subject: Re: Scott's e-mail of 6:33 p.m. last night  

The initial concerns based upon the press reports were about JPMC trading affecting market prices for CDSs. Our focus was on sizing the positions and assessing whether JPMC’s volume impacted the CDS market. We went back and forth with the bankers several times, just trying to get clear position information. We continued receiving and monitoring the daily VAR reports, but there was no additional daily reporting. There was no discussion of P&L effects before Doug Braunstein’s call on May 4th.

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---

Before 0416 call with Ian  
<< Message: Background and Supporting Data for CIO Discussion of April 9, 2012 >> << Message: RE: Background and Supporting Data for CIO Discussion of April 9, 2012 >>

0416 call presentation  
<< Message: FW: materials for Fed/OCC/FDIC call at noon today >>

Post 0416 information  
<< Message: CIO Synthetic Credit follow-up >> << Message: CIO information for Wednesday >> << Message: RE: CIO Synthetic Position >>

---

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION  
OCC-00005555
From: Kirk, Mike  
To: Crumlish, Fred; Hohl, James  
CC: Waterhouse, Scott  
Sent: 5/9/2012 4:31:18 PM  
Subject: RE: today's meeting

OK, James doing first cut as he did last time.

I understood Doug's point on concentration reserves, but note that there weren't any real incentives for traders to find the "simple" solution as we discussed in our meeting.

Problem will always be that limit structures didn't anticipate a certain type of positions, especially in an environment where limits are created once there are significant exposures (often JPM does not institute limits until positions become material...at which point it may be too late).

I see this, as I called it this AM in our internal meeting...a group of traders who were unwilling to swallow the costs of exiting a hard to chew position, so instead used models and other analyses to find an alternative and more palatable risk exiting position. This resulted in complex positioning that is now very large and more costly to exit. If they had only just got out of what they owned it would have been cheaper. Moreover, if they could not get out, it begs the question why were they allowed to be in so large to begin with (shouldn't there be more reserves because of that?).

Just a follow up thought:

Unlike PIMCO and other real money manager that have investors that can and may withdraw at any time (instilling a form of discipline of how much of anything to hold relative to liquidation expectations), the bank is not exposed to exogenous demands for capital short of a rapid reduction of deposits. Therefore, I think we should be thinking of some form of liquidity discipline for the CIO function that could be put in place to help correct occurrence.

From: Crumlish, Fred  
Sent: Wednesday, May 09, 2012 12:20 PM  
To: Kirk, Mike; Hohl, James  
Cc: Waterhouse, Scott  
Subject: todays meeting

Hi Mike — I mentioned to James on the way back that when we put the notes together for the meeting, we need a couple of short bullets up front followed by the detail. We need to convey that the bank called us because on further analysis the position proved more problematic.

We will schedule an update in a week.

- apc

*** If you have received this message in error, please delete the original and all copies, and notify the sender immediately. Federal law prohibits the disclosure or other use of this information. ***
From: Waterhouse, Scott  
To: <Belshaw, Sally>;<Brosnan, Mike>;<Crumlish, Fred>  
CC:  
Sent: 5/10/2012 6:11:09 PM  
Subject: FW. Braunstein I Cutler call on CIO

Sally & Mike – we had a call from Braunstein this afternoon to update us on ongoing events in the CIO. Crumlish provides comments below. I’ve also pasted in additional notes from our Wednesday meeting on the subject.

Bottom line: the bank’s efforts to risk manage its synthetic credit position in the first quarter have not been effective. The current position is more risky and less economic than originally thought.

Due to issues described below, the bank will report a higher VAR number, more RWA, and lower Basel III capital ratio (8.4% to 8.2%) than originally reported on the earnings call. The 10Q will be published tonight.

The bank will also revise its forward looking outlook for corporate sector earnings, moving it from a positive $200MM this quarter to a negative $800MM.

The bank “may” have an analyst call this afternoon at 5:00 to explain.

Details follow:

---

From: Crumlish, Fred  
Sent: Thursday, May 10, 2012 1:45 PM  
To: Waterhouse, Scott  
Subjects: Braunstein / Cutler call on CIO

Importance: High

Doug Braunstein and Steve Culler called to provide an update on the CIO synthetic credit position and related disclosures. Key points:

- As a result of work done over the past 24 – 36 hours, JPM became concerned about the quality of the VAR calculations. The bank had implemented a new VAR calculator at the beginning of this year. JPM decided to revert to the VAR model used during 2011. This will cause CIO reported average VAR to go up from 70MM to 130MM and the max from 120MM to 180MM. The change also adds 35B to Basel III RWA and reduces the Basel III ratio from 8.4 to 8.2%

- These numbers are different than those originally reported in the 6Q after the earnings announcement/analyst call. Since the official 10Q has not been filed, management will highlight the differences in the VAR, RWA and Basel numbers.

- JPM plans an analyst call today at 5PM. Two messages will be delivered:
  - The company has determined that it has a position that is riskier, more volatile, and less economic than they thought it had been. Therefore the bank will change its forward-looking guidance for corporate P&L from a $200MM profit to an $800MM loss. (They may abate possible offsets from sales in AFS securities.) (Estimated total firm-wide P&L will reduce from approximately $5.4 billion to $5 billion for the second quarter.)
  - The company is going back to its historical VAR model, so the filing will show adjusted VAR and capital numbers.

Directors have been informed. A regularly scheduled board meeting is set for today for the directors to approve the 10Q.
Further notes:

This call followed our meeting of yesterday (notes below) where the bank went over the initial results of their review of CIO, and there conclusion that the synthetic credit portfolio has become far riskier than expected. Over the past 24 hours, company has been validating data. The initial work on the VaR model indicated that although it had been validated by the model risk group, was not implemented with consistent data. Therefore, company is reverting to the model that had been in place during 2011. (JPM was reluctant on the specifics of the implementation issues as this is still work in progress and all issues may not be fully know; however, they were sufficiently concerned to pull the model and there may have been some “data smoothing” involved.)

Notes from 5-9-12 meeting:

The synthetic credit portfolio held by CIO has $1.9B MTM losses in 202012 to date (to somewhat offset this in 2Q2012 net income, the CIO has taken nearly $1B of securities gains from the AFS portfolio). The notional position of the synthetic credit portfolio grew significantly during 1Q2012 in a what has been a failed attempt to reduce a credit hedge by repositioning the portfolio (described in my email of April 17). The net result is a large complex position with unexpected correlations and increased volatility, that will take time to run down. The nature of the synthetic credit portfolio also caused Basel III risk-weighted assets to grow about $30B in 1Q and another $20B in 2Q so far.

As previously reported, JPM managers wanted to reduce the HY short risk position they had, but market liquidity and perceptions (due to AMR and KODK BK’s plus LTRO) were such that the HY indices weren’t economical to use to reduce the risk position. So traders modeled other indices based upon historical correlations and determined the best course of action was to sell IG indices. Ina Drew noted that the old HY synthetic hedge moved in line with the AFS portfolio prior to these changes being made. John Hogan noted that the firm had underestimated the risks and that they would exit the strategy and not reenter it.

The driving issue, according to Doug Braunstein, became the size of the position. Because of the size, any dislocation is magnified, and the ability to exit is hampered.

The CIO global credit 10% credit spread widening (CSW) limit was breached on March 22, 2012. At that time CIO the Drew suspended active trading in the instruments and began looking more closely at the diversification of the ongoing limit to the risk position, as seen in the results, were not from new trades, but rather from the convexity of the positions, many of which behaved near or at the money options. Further widening of spreads will exaggerate this problem; conversely, spread narrowing will assist in de-risking. At that time a thought that the excess was due to market dislocations that would mean revert, however, after further analysis by the last week of April it became apparent to JPM management that there were fundamental problems with the portfolio.

At this time, Risk management has control of the synthetic credit portfolio, which will be wound down. While the portfolio does have symmetrical risks, JPM managers are actively reducing the exposure instead of sitting on it and hoping it will work itself out. The de-risking glide path entails three prongs. First, the de-risking of delta (10% CSW). Second, deciding what to do with shorts expiring in December. Third, more long dated issues related to liquidity risks that they can’t do much about. There may be more liquidity reserves taken as a result. Ashley Bacon is leading the efforts to actively reduce the 10% CSW exposure by July 4th. Currently, managers are meeting twice daily seven days a week to update and control this process. Ultimate resolution of the portfolio will take a long time, and there is a possibility of losses in billions.

Risk management is measuring six risk categories for the synthetic portfolio and is assessing each of them. There is a risk that the portfolio could lose $2B from here, but these numbers are evolving as risk management better understands the position and as risks are unwound. OCC and FRB will be updated on exposure and actions.

The review of the situation is ongoing. To date, identified issues include the following. There was poor construction and execution of the hedge reduction strategy, which added to the complexity and size of the position. There was over reliance on historical market relationships, which resulted in excessive price movements when implied correlations increased. There was miscalculation of market and valuation dynamics. There were insufficient granular limits for the synthetic credit book, particularly a lack of notional limits. It took too long to fully understand the portfolio risks and...
escalate problems. Finally, the current market environment for these instruments has magnified mistakes.

In addition to Risk Management’s active efforts to reduce the portfolio’s risk positions and ultimately wind it down as previously described, JPMC has begun taking actions to prevent a similar situation. More granular limits have been put into place. The valuation, control, compliance, and reporting framework are being reviewed and are being tightened. An internal audit to assess risk management processes and financial reporting for CIO mark-to-market books is underway.

JPMC attendees
Chief Financial Officer Doug Braunstein
General Counsel Stephen Cutler
Chief Investment Officer Ina Drew
Chief Risk Officer John Hogan
EVP Corporate & Regulatory Affairs Barry Zubrow (telephone)

OCC attendees
Scott Waterhouse, Fred Crumlish, James Hohl, Mike Kirk (telephone)

Fed attendees

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From: Curry, Thomas
To: <Killer, Kenyon>
Sent: 5/11/2012 3:12:24 PM
Subject: FW: J.P. Morgan Chase

Ken,
FYI. Old school supervision?
Tom

From: Brosnan, Mike
Sent: Friday, May 11, 2012 10:20 AM
To: Curry, Thomas; Williams, Julie
Subject: Re: J.P. Morgan Chase

Yes

At end of day they are good at financial risk mng. But they are human and will make mistakes (big loan losses, trading losses, litigation etc). But on grand scheme they are good. This will humble them - a healthy and good thing.

From: Curry, Thomas
Sent: Friday, May 11, 2012 10:12 AM
To: Brosnan, Mike; Williams, Julie
Subject: RE: J.P. Morgan Chase

Mike,
Thanks. Isn't it a little more than embarrassment issue? While it may not be material, it does implicate their risk management abilities doesn't it?
Tom

From: Brosnan, Mike
Sent: Friday, May 11, 2012 10:00 AM
To: Curry, Thomas; Williams, Julie
Subjects: FW: J.P. Morgan Chase

FYI. International colleagues will be asking and here's what I sent to them:

From: Brosnan, Mike
Sent: Friday, May 11, 2012 9:58 AM
To: 'Daniel.Mestek@bafl.de'; 'Ludger.Hanenberg@bafl.de'; 'Peter.Krusche@bafl.de'; 'Sarah.Dahlgren@r.sb.org'; 'Tim.P.Clark@r.sb.org'
Cc: Ludger.Hanenberg@bafl.de; Peter.Krusche@bafl.de; Sarah.Dahlgren@r.sb.org; Tim.P.Clark@r.sb.org
Subject: FW: J.P. Morgan Chase

At this point there is a lot of public information as bank issued 10-q filing and had call with analysts last night.

The transactions in question were part of their asset-liability management process (ALM) which JPM refers to as the chief investment office (CIO).

Here are my take-aways:

- Back in 2007-08 they put on a short credit risk position to protect against a declining economy. This was a macro hedge.
- Over the past few years this hedge worked as the economy declined, credit spreads widened (causing gains on the hedge) but these gains were of course offset as they took credit losses (for example Kodak, American...
airlines etc.). note, the derivatives positions are m/n while the loan portfolio is primarily cost accounting.

This presents complexities for analysis etc.

- After evaluating macro environment in 4q11, actions were taken in early 2012 to reduce the short position -
  by entering long position in other credit risk indices.
- The new transactions had different betas and basis risk.
- As recent marks show the bank mis-estimated the basis risk (while their short position did gain with recent
  upward shift in credit spreads, the long position had losses beyond original estimates).
- The overall impact of recent marks on 1q12 p/l resulted in a change from 5% previous estimate of a
  $200mm gain to last night's announcement of a $800mm loss ($1b swing).
- The micro positions in question are now in control of risk management.

The overall result will be a reduction in 2q12 earnings, and I think the bank has informed market there is a good
chance the adjustments underway could result in some earnings impact for one or two future quarters as well. Also, they
changed risk models which will result in higher rwa and this will cause tier one capital ratio to drop from 8.4 to 8.2.
Obviously there isn’t a safety issue with these numbers, but there is an embarrassment issue for bank leadership
which has overtly expressed pride in their ability to measure and control risk.

From: Daniel.Mestek@bafin.de (mailto:Daniel.Mestek@bafin.de)
Sent: Friday, May 11, 2012 8:39 AM
To: Brosnan, Mike; Tim.P.Clark@ftb.com
Cc: Ludger.Hanenberg@bafin.de; Peter.Kruschel@bafin.de
Subject: J.P.Morgan Chase

Dear colleagues

As you may know, BaFin is in charge of supervising J.P.Morgan AG, an indirect subsidiary of J.P.Morgan Chase
& Co, New York. Furthermore, J.P.Morgan Chase’s Frankfurt branch is under our supervision.

Regarding the latest news on major losses of J.P.Morgan’s US business, we would be grateful if we could get
insight into both the background of the transaction(s) leading to the reported losses as well as any supervisory
action (to be) undertaken by you.

Therefore, it would be greatly appreciated if you could as soon as possible either provide us with respective
information in written form or, as an alternative, if we could set up a telephone conference.

Yours sincerely

Daniel Mestek, LL.M.
Bundesanstalt für Finanzdienstleistungsaufsicht
Referat BA 15: Aufsicht über ausländische Banken aus Amerika, Schweiz, Asien (ohne arabischen Staaten),
Australien
Federal Financial Supervisory Authority
Section BA 15: Supervision of foreign banks from the USA, Switzerland, Asia (excluding the Arab states) and
Australia
Grauerheindorfer Str. 109
53117 Bonn
Fax: +49(0)2228 4128 3787
Fax: +49(0)2228 4128 3787
e-mail: daniel.mestek@bafin.de

BANK PROPRIETARY AND/OR TRADE SECRET
INFORMATION

OCC-SPI-00000012
Financial Summary

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Total Return Summary

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* Assumes 1% cost of capital

**EOP capital includes notional diversification

January

- January MTM gain of $113m primarily driven by:
  - MTM gains on Agency Preferred, Credit CLNs and Fixed income positions

- January Other Revenue of $158m primarily due to:
  - $36m gain on market adjustment on ALM whole bank, offset in AM

Total Return Summary

- January
  - Loss of $158m due to:
  - Credit: Consolidation of the re-6210 across all asset classes. Tighter spreads on CLNs have benefited the position
  - Europe: Positioned to capture short and European interest rate market sell-off and some flattening due to stronger economic data and reduced risk in peripheral Europe markets
  - Asia: Driven by FX gains on HKD and increased deposit rates in countries in the PRC
  - North America: Primarily driven by credit and market spreads tightening
  - MSR: Loss of $36m due to convexity effect on duration

**EOP capital includes notional diversification

Chief Investment Office
# Chief Investment Office Financial Supplement

## Revenues

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<th>Quarter 3 2010 Actuals</th>
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<tr>
<td>Total MTM</td>
<td>206</td>
<td>2,755</td>
<td>742</td>
<td>1,116</td>
<td>1,885</td>
</tr>
<tr>
<td>Total Net Revenue</td>
<td>803</td>
<td>1,558</td>
<td>904</td>
<td>1,854</td>
<td>2,481</td>
</tr>
</tbody>
</table>

## Expenses

<table>
<thead>
<tr>
<th>Source</th>
<th>Quarter 1 2010 Actuals</th>
<th>Quarter 2 2010 Actuals</th>
<th>Quarter 3 2010 Actuals</th>
<th>Quarter 4 2010 Actuals</th>
<th>Quarter 1 2011 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation Expense</td>
<td>36</td>
<td>30</td>
<td>51</td>
<td>33</td>
<td>482</td>
</tr>
<tr>
<td>Non-Compensation Expenses</td>
<td>56</td>
<td>55</td>
<td>52</td>
<td>51</td>
<td>922</td>
</tr>
<tr>
<td>Total Non-Interest Expenses</td>
<td>92</td>
<td>85</td>
<td>104</td>
<td>84</td>
<td>1404</td>
</tr>
<tr>
<td>Overhead Ratio %</td>
<td>0.05%</td>
<td>3.00%</td>
<td>1.49%</td>
<td>4.11%</td>
<td>1.77%</td>
</tr>
<tr>
<td>GRIEPOLI</td>
<td>43</td>
<td>35</td>
<td>65</td>
<td>100</td>
<td>58</td>
</tr>
<tr>
<td>MTM</td>
<td>113</td>
<td>106</td>
<td>57</td>
<td>122</td>
<td>98</td>
</tr>
</tbody>
</table>

*Other Revenue includes MTM Hedging Reduction in Expenses*

## MTM Revenue by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Quarter 1 2010 Actuals</th>
<th>Quarter 2 2010 Actuals</th>
<th>Quarter 3 2010 Actuals</th>
<th>Quarter 4 2010 Actuals</th>
<th>Quarter 1 2011 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. MTM</td>
<td>35</td>
<td>27</td>
<td>26</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>Europe</td>
<td>30</td>
<td>13</td>
<td>13</td>
<td>11</td>
<td>36</td>
</tr>
<tr>
<td>Asia</td>
<td>35</td>
<td>33</td>
<td>76</td>
<td>(15)</td>
<td>35</td>
</tr>
<tr>
<td>Global Credit Core</td>
<td>29</td>
<td>30</td>
<td>(19)</td>
<td>12</td>
<td>125</td>
</tr>
<tr>
<td>Global Credit Investments</td>
<td>25</td>
<td>16</td>
<td>57</td>
<td>12</td>
<td>125</td>
</tr>
<tr>
<td>Global Management</td>
<td>35</td>
<td>(3)</td>
<td>3</td>
<td>(5)</td>
<td>71</td>
</tr>
<tr>
<td>Total MTM</td>
<td>117</td>
<td>172</td>
<td>195</td>
<td>49</td>
<td>296</td>
</tr>
</tbody>
</table>

## Accounting Related Adjustments

<table>
<thead>
<tr>
<th>Source</th>
<th>Quarter 1 2010 Actuals</th>
<th>Quarter 2 2010 Actuals</th>
<th>Quarter 3 2010 Actuals</th>
<th>Quarter 4 2010 Actuals</th>
<th>Quarter 1 2011 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTM at MTM Writeup</td>
<td>(36)</td>
<td>(58)</td>
<td>(50)</td>
<td>(70)</td>
<td>(80)</td>
</tr>
<tr>
<td>MTM ex MTM Writeup</td>
<td>119</td>
<td>123</td>
<td>113</td>
<td>(71)</td>
<td>148</td>
</tr>
<tr>
<td>MTM Hedging MTM</td>
<td>-</td>
<td>(1)</td>
<td>32</td>
<td>(30)</td>
<td>-42</td>
</tr>
<tr>
<td>Agency Hedging MTM</td>
<td>-</td>
<td>15</td>
<td>9</td>
<td>(46)</td>
<td>14</td>
</tr>
<tr>
<td>Bank Hedging</td>
<td>-</td>
<td>19</td>
<td>9</td>
<td>(46)</td>
<td>14</td>
</tr>
<tr>
<td>EMEA CDO Hedging</td>
<td>15</td>
<td>63</td>
<td>255</td>
<td>28</td>
<td>38</td>
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<tr>
<td>MTM at MTM Writeup</td>
<td>-</td>
<td>(10)</td>
<td>3</td>
<td>(70)</td>
<td>(2)</td>
</tr>
<tr>
<td>Loss MTM</td>
<td>20</td>
<td>52</td>
<td>96</td>
<td>(129)</td>
<td>32</td>
</tr>
<tr>
<td>Total MTM Revenue</td>
<td>126</td>
<td>165</td>
<td>238</td>
<td>(247)</td>
<td>309</td>
</tr>
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</table>
CIO Financial Income - January Actuals

<table>
<thead>
<tr>
<th>Description</th>
<th>Actuals January</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA</td>
<td>1</td>
</tr>
<tr>
<td>International</td>
<td>70</td>
</tr>
<tr>
<td>GNQ</td>
<td>-</td>
</tr>
<tr>
<td>Cash Capital Adj</td>
<td>(17)</td>
</tr>
<tr>
<td>Global Management Initiative</td>
<td>-</td>
</tr>
<tr>
<td>Total TAA Nil</td>
<td>55</td>
</tr>
<tr>
<td>Total SAA Nil</td>
<td>13</td>
</tr>
<tr>
<td>FX Hedging Nil - Capital</td>
<td>12</td>
</tr>
<tr>
<td>FX Hedging Nil - Rev/Exp</td>
<td>2</td>
</tr>
<tr>
<td>Total FX Hedging Nil</td>
<td>13</td>
</tr>
<tr>
<td>FX Hedging MTM</td>
<td>6</td>
</tr>
<tr>
<td>TAAMTM</td>
<td>56</td>
</tr>
<tr>
<td>SAA MTM</td>
<td>49</td>
</tr>
<tr>
<td>FX Hedging MTM</td>
<td>6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercompany Interstagement Fees</td>
<td>(9)</td>
</tr>
<tr>
<td>Cost to Market Adjustment</td>
<td>(39)</td>
</tr>
<tr>
<td>DRD Tax Gross-up</td>
<td>1</td>
</tr>
<tr>
<td>FX Hedging Other</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
</tr>
<tr>
<td>Total Other Revenues</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FX Hedging Reduction to Expense</td>
<td>(6)</td>
</tr>
<tr>
<td>FASB In/Effectiveness</td>
<td>(18)</td>
</tr>
<tr>
<td>Securities Gain/ (Loss)</td>
<td>(12)</td>
</tr>
<tr>
<td>Total Other Income</td>
<td>12</td>
</tr>
<tr>
<td>COLINGIO</td>
<td>16</td>
</tr>
<tr>
<td>MER</td>
<td>(18)</td>
</tr>
<tr>
<td>Total  Non-Operating Income</td>
<td>12</td>
</tr>
</tbody>
</table>
## Corporate Recovery Portfolio Financial Supplement

### in millions

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Quarter 1</th>
<th>2016 Actual</th>
<th>Quarter 2</th>
<th>2016 Actual</th>
<th>Quarter 3</th>
<th>2016 Actual</th>
<th>Quarter 4</th>
<th>2016 Actual</th>
<th>Quarter 1</th>
<th>2017 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>26</td>
<td>27</td>
<td>32</td>
<td>27</td>
<td>42</td>
<td>27</td>
<td>65</td>
<td>67</td>
<td>113</td>
<td>118</td>
</tr>
</tbody>
</table>

### NPV Summary by Portfolio

<table>
<thead>
<tr>
<th>NPV</th>
<th>Total Recovery Portfolio</th>
<th>VCL</th>
<th>WCL</th>
<th>VLI</th>
<th>VLII</th>
<th>Total VLI</th>
</tr>
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<tbody>
<tr>
<td>NPV</td>
<td>53</td>
<td>93</td>
<td>49</td>
<td>28</td>
<td>(20)</td>
<td>(29)</td>
</tr>
</tbody>
</table>
## CRP Financial Income - January Actuals

<table>
<thead>
<tr>
<th></th>
<th>$ in millions</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actuals</td>
<td>January</td>
<td></td>
</tr>
<tr>
<td>NII</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARS</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III Recovery Portfolio</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WeMo</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total NII</strong></td>
<td><strong>7</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MTM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARS</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III Recovery Portfolio</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WeMo</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total MTM</strong></td>
<td><strong>20</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Gains/(Losses)</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Revenues</strong></td>
<td><strong>7</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>45</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Historical Trends

- Balance Sheet, MTH, Q4
- CDI Key Rates
- Expenses & Investment
- OCI Trend
## CIO Balance Sheet - Regional View

**as of January 31st, 2011**

### Balance Sheet - Spot Balances (3rd Party)

**(in $ billions)**

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>SAA</th>
<th>CRP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Account Securities</td>
<td>3.1</td>
<td>17.9</td>
<td></td>
<td>3.2</td>
<td></td>
<td>36.9</td>
</tr>
<tr>
<td>Fed Funds Sold/Resales</td>
<td>-</td>
<td>1.4</td>
<td>1.4</td>
<td>-</td>
<td>-</td>
<td>2.8</td>
</tr>
<tr>
<td>Investment Securities</td>
<td>3.0</td>
<td>22.7</td>
<td>11.7</td>
<td>-</td>
<td></td>
<td>36.4</td>
</tr>
<tr>
<td>Interbank Placings</td>
<td>-</td>
<td>4.0</td>
<td>-</td>
<td>-</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>2.6</td>
<td>0.0</td>
<td>0.0</td>
<td>-</td>
<td></td>
<td>2.6</td>
</tr>
<tr>
<td>Whole Loans Mortgages</td>
<td>0.0</td>
<td>(0.0)</td>
<td>0.0</td>
<td>-</td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Other Assets</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td>-</td>
<td></td>
<td>0.3</td>
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<tr>
<td><strong>Total 3rd Party Assets</strong></td>
<td>4.7</td>
<td>17.9</td>
<td>7.0</td>
<td></td>
<td></td>
<td>39.6</td>
</tr>
</tbody>
</table>

### Balance Sheet - RWA Balances

**(in $ billions)**

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>SAA</th>
<th>CRP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Account Securities</td>
<td>0.5</td>
<td>2.9</td>
<td>1.5</td>
<td>-</td>
<td></td>
<td>4.9</td>
</tr>
<tr>
<td>Fed Funds Sold/Resales</td>
<td>0.5</td>
<td>2.7</td>
<td>1.5</td>
<td></td>
<td></td>
<td>4.7</td>
</tr>
<tr>
<td>Investment Securities</td>
<td>0.5</td>
<td>3.0</td>
<td>1.0</td>
<td></td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Interbank Placings</td>
<td>-</td>
<td>3.0</td>
<td>-</td>
<td></td>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>2.6</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
<td>2.6</td>
</tr>
<tr>
<td>Whole Loans Mortgages</td>
<td>0.0</td>
<td>(0.0)</td>
<td>0.0</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Other Assets</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
<td></td>
<td>0.3</td>
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<tr>
<td><strong>Total RWA Assets</strong></td>
<td>1.4</td>
<td>17.9</td>
<td>7.0</td>
<td></td>
<td></td>
<td>26.2</td>
</tr>
<tr>
<td>Date</td>
<td>1st May</td>
<td>15th May</td>
<td>24th May</td>
<td>31st May</td>
<td>7th June</td>
<td>14th June</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
<td>----------</td>
<td>-----------</td>
</tr>
</tbody>
</table>

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-S75-0000504
2011 CA QUARTERLY SUMMARY
Global Chief Investment Office 4th Quarter CA summary
4th Quarter

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>Chief Investment Office</th>
<th>AMT</th>
<th>Montagu, Jonathan X</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEVEL</td>
<td>2</td>
<td>COO</td>
<td>McMillan, William F</td>
</tr>
<tr>
<td>QUARTER</td>
<td>4</td>
<td>STATUS</td>
<td>Approved</td>
</tr>
</tbody>
</table>

SUMMARY OF ACTIVITIES

STAKEHOLDERS MEETINGS

Meetings are held with Internal Audit on a regular basis with key stakeholders within CIO globally including Senior Management

North America

CIO continues to manage the investment portfolio in line with interest rate risk sensitivities transfer priced by Treasury and market opportunity.

The firm's duration of equity is (5.4) years, and (2.5) years including credit spread duration.

Overall Operational Environment

All CIO applications rated 'Good' or 'Excellent' under the Application Security Assessment process.

North America SoX financial testing on schedule at 100% as of December 31, 2011.

No errors with material financial impact in 2011.

Ongoing technology initiative to increase capability and streamline operating environment on track (APPIA)

Firm wide increased focus on key operational/ regulatory risks & information security

Firm wide increased focus on key operational/ regulatory risks & information security

APPIA Technology

From a project perspective, the APPIA project (to migrate trades off of 18 systems on to a suite of CIO owned systems) is making good progress.

No significant issues were raised by Audit in Q4. Some of the key accomplishments in Q4 include FAS 133 Derivative Migration -- North America and Fair Value Swaps -- November 16, 2011; EMEA, ABS/CDO Phased Migration -- November 16, 2011; Asia Securities Migration Phase 2 (Hong Kong, China, Mumbai, Taiwan, Malaysia, November 16, 2011; Differential Discounting Implementation, December 15, 2011; Key in-flight projects include: EMEA ABS/CDO Phase 2 Migration -- January 2012; Con/AMTA Integration for TSAs & Specified Bonds -- First Quarter 2012; North America Toronto Branch Swap and Securities Migration -- First Quarter 2012; EMEA Collateral Migration -- First Quarter 2012; Risks to Aden 1% Capital Hedging Migration -- Second Quarter 2012; No CIO technical work received; Asia Credit backoff of Paywall -- TBD 2012; TRIP for Asia 2012; MMR Migration from Kayba! - will most likely be pushed into 2013 given current prioritization and staffing levels.

From a production support perspective, the Business Process Index (BPI), which is used to measure the availability of the CIO
applications, remains stable at the 99% level. From a risk and control perspective, CDIRE, Shrek, TEA, Primus and Poplar are in scope for SOX testing. CIO Technology is on target to meet the firm-wide targets of 100% completion by January 31, 2011. There were no deficiencies identified to date. CDIO Technology applications in scope for the Monetary Authority of Singapore (MAS) remediation effort include Shrek, Primus, TEA, TFA, GFRS, and SLWeb. CIO Treasury is making good progress at the end of Q4, 2011.

CMEA
Audit continued to hold periodic meetings with key stakeholders in CIO. The Q3 2011 BSC was held in early November 2011. CIO continues to manage the investment portfolio in line with robust risk and control practices identified by Treasury and market opportunity.

Going into the new year, the plan is to expand the derivatives trading book to nominal of at least $47 billion by the end of January 2011. The CIO international balance sheet currently has $190 billion of assets. The aim is to increase the income these assets generate. The respective credit limits and all other limits have to be increased accordingly. This is currently being reviewed by the relevant people in Market and Credit risk.

The change to Differential Discounting to OIS curve since November 2011 has had a positive impact of $12 million at year-end.

ENREA: Tactical (TRR) for Q4 was $1.09 billion YTD, which is strong performance across all businesses. Credit Investments have strong results driven by strong performance in mezzanine paper and continued tightening of CLO spreads.

SAA Portfolio: CIO’s ABS portfolio has a value of approx. $3.7 billion, with around 47% of such assets represented by RMBS (originated in UK and Netherlands). CIO has unwound long-term debt and Govt. Bonds in countries such as Spain and Portugal during the last quarter.

New Business...

FRA Migrations: The 40GSCLO migration from CDICORDES to PRIMUS/PRCS is underway. An initial 26 trades were migrated in mid-December and a parallel run over month-end. There were issues relating to the bulk upload of these trades into the new system. These required manual intervention. Subsequently, a further 10 trades were migrated in early December to ensure that this issue was addressed. Both sets of trades had a parallel run over month-end and year-end with no issues. The plan is to migrate the remaining population on 26th January 2012. The migration is being executed as part of the CIO Credit Targeted review currently underway.

Regulatory Reform: Volcker rule updates has completed comprehensive mapping of desk-lev risk management products and strategies to firm-wide structural risks and will focus on conducting risk management activities that are closely related to underlying firm-wide structural activities.

Asia
Pay RBAs - Asia
Chief Investment Office highlights Q4 2011:

- TAA Return of $457 MM
- Credit CLO/HY positions were set up to take advantage of key bankruptcy credit-related events which resulted in windfall gains for credit book
- ABS and CLO markets were relatively quiet during the wider market volatility period and CIO continued to benefit from significant amortizations and carry
- Europe Markets have remained volatile with overarching concern around European debt issues and its political and economic impact on the region
- CIO profited from the widening of US asset swap, but incurred losses in the structured management book from widening on long positions and in the FX portfolio on managing down-side risk
- Asia: Gains driven by decrease in AR from long securities positions mainly in HK, Singapore, Indonesia, Korea, India, and China
- FX gains from cross-currency appreciation in Singapore and currency appreciation in China
- North America: FX gains in long USD positions as EUR weakened vs USD. Fixed income CMOs a winner tighter on the quarter and PFDs were marked higher as equity market rallied. Gains from long equity positions as S&P was up 11.15% for the quarter
- MSR: Loss of $174 MM primarily attributed to duration, offset by MBS Basis

EMEA CIO participates in a weekly MIS call with MO Audit attends as part of CA. There is a review operational weekly KPIs and task office metrics including trade capture and volumes, P&L and Risk sign-off, FOBO Reconciliations, nostro breaks and system. There were no significant operational issues for Q4.

Asia
- Asia CIO tabled MO and BO metrics in the quarterly BCC, which includes trade volumes, cancel and amends, late trades, P&L and Risk sign-off, FOBO Reconciliations, nostro breaks, etc. No significant items were noted by Audit during Q4 2011.
Through CA activities, Audit tracks the entry of all audit issues and related action plans into Phoenix, monitors the progress through completion of action plans and subsequent closure of issues in Phoenix. A monthly analysis of open action plans is prepared and follow up with action plan owners performed by audit before the end of each month.

North America

No new issues or action plans have been added for this quarter.

EMEA

2 new business identified issues and action plans have been added for this quarter:

- Transfer pricing rates between CIO & Treasury for REPOs: Technology is working on providing an automated solution to ensure that OPICs receives the correct transfer pricing rate on a daily basis. This solution will ensure that any re-rates on the report between Treasury and CIO are in sync so that there are no P&L impact at month end to analyze and adjust for. Action plan is due for completion February 2012.

- GLRS Substantiation Review: There is inadequate documentation of CIO EMEA substantiation procedures incl. the methodologies used to substantiate each type of GL. Thus, GLRS Substantiation methods used by CIO EMEA personnel to be reviewed and documented and conformance to appropriate methodologies to be evaluated. GLRS Substantiation methods used by CIO EMEA to CIO NA and CIO ASIA & address inconsistencies, as determined appropriate. Evaluate the ownership of the substantiation responsibilities and determine whether any changes should be made. Action plan due for completion on 31 May 2012.

There was an audit identified issue raised as part of the Capital Hedging audit report (Report No: G-111005). There were 7 legal entities that were incorrectly included in the capital hedging program and receiving hedge accounting treatment by the CIO despite being correctly reported by the local LECs as having USD functional currencies, disqualifying them from the program. While the amounts being reported all related to FX exposure arising from USD functional currency entities with non-USD equity positions, their removal from the capital hedging program may require redetermination of amounts historically booked by CIO, dating back to May 2009, potentially resulting in a net $27 million gain ($21 million loss for the CIO and a $6 million gain for the parent legal entities). Finalization of required redeterminations is pending confirmation of the additional accounting treatment of non-functional currency equity positions. The exceptions noted which date back several years are primarily attributable to existing controls not sufficiently ensuring the appropriateness of all LE in the program. The action plan is targeted for completion on 31 March 2012.

Asia

All the issues and action plans raised from the Hong Kong CIO Middle Office and Finance Functions audit (Satisfactory - G-111005) were complete and Phoenix issues were closed according to target dates.

BUSINESS CHANGES

Note

- Front office: Two new traders, Tae Hong and Yen Ping Ho joined HK and SG offices in Q4 2011. There were 2 front office traders left the firm (HK and Japan (R)).

FOLLOW-UPS

ENR AND AUDIT REPORT ISSUES

North America - NA

EMEA - NA

Asia - NA

PLAN AND RISK ASSESSMENT CHANGES
<table>
<thead>
<tr>
<th>Category</th>
<th>Reason for Deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO: Talent</td>
<td>This has been deleted from the plan because audit work is to be performed in 2012</td>
</tr>
<tr>
<td>CO: Compensation Practices, Horizontal</td>
<td>This has been deleted from the plan because audit work is performed by HR audit team</td>
</tr>
<tr>
<td>CO: Credit</td>
<td>This has been deleted from the plan because audit work is to be performed in 2012 for CIO</td>
</tr>
<tr>
<td>CO: CIA Horizontal</td>
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</tr>
<tr>
<td>CO: ICAP Horizontal</td>
<td>This has been deleted from the plan because CIO is out of scope for horizontal</td>
</tr>
<tr>
<td>CO: Market Risk Amendment, Horizontal</td>
<td>This has been deleted from the plan because Horizontal audit not performed in 2011</td>
</tr>
<tr>
<td>MRR</td>
<td>This has been deleted from the plan because audit work is to be performed in 2012 for CIO</td>
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<tr>
<td>Resolution and Recovery</td>
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<tr>
<td>Special Investments Group</td>
<td>This has been deleted from the plan because audit work is to be performed in 2012 for CIO</td>
</tr>
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</table>

**OVERALL COMMENTS**

**SUMMARY**
### Financial Summary (Expense View)

<table>
<thead>
<tr>
<th>Description</th>
<th>Number 1</th>
<th>Number 2</th>
<th>Number 3</th>
<th>Number 4</th>
<th>FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
</tr>
<tr>
<td>Total Expenses (Inc. FY 2011)</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
<td>$126,148</td>
</tr>
</tbody>
</table>

### Table II: Return Summary

| Total Domestic Shares | 478,509 |
| Total Book Value | 478,509 |
| Total Market Value | 478,509 |
| Return | 478,509 |
| Standard Error (X, ± SD) | 478,509 |
| SE (X) | 478,509 |
| SE (X) | 478,509 |

**Notes:**
- COPEF positions were not as high a percentage of the total market capitalization of equities included in the index for our index total.
- Market (COPEF) was considered one quarter at the end of the year.
- The material does not include all risks.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
- The material does not include all transactions.
Chief Investment Office Financial Supplement [Management View]*

<table>
<thead>
<tr>
<th></th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
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<tr>
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<td>1,698</td>
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<td>2,046</td>
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<td>2,428</td>
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<tr>
<td>Non-Trade</td>
<td>108</td>
<td>109</td>
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<td>112</td>
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<tr>
<td>Total Revenue</td>
<td>1,708</td>
<td>2,289</td>
<td>2,156</td>
<td>2,225</td>
<td>2,440</td>
</tr>
</tbody>
</table>

Expenses:

<table>
<thead>
<tr>
<th></th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
</tr>
<tr>
<td>Compensation Expense</td>
<td>21</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Non-Comp. Expense</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Total Non-Comp.</td>
<td>41</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Overhead Rate</td>
<td>11.666</td>
<td>11.666</td>
<td>11.666</td>
<td>11.666</td>
<td>11.666</td>
</tr>
<tr>
<td>Equity</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
</tr>
</tbody>
</table>

Other Revenue includes PI imaging reduction in expenses.

The following tables detail revenue and expenses by market segment:

**Revenue by Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
</tr>
<tr>
<td>Europe</td>
<td>178</td>
<td>177</td>
<td>176</td>
<td>175</td>
<td>174</td>
</tr>
<tr>
<td>Asia</td>
<td>178</td>
<td>177</td>
<td>176</td>
<td>175</td>
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<tr>
<td>Americas</td>
<td>178</td>
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<td>176</td>
<td>175</td>
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<tr>
<td>Global Credit Instruments</td>
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<td>177</td>
<td>176</td>
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<td>174</td>
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<tr>
<td>Other</td>
<td>178</td>
<td>177</td>
<td>176</td>
<td>175</td>
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<tr>
<td>Total</td>
<td>722</td>
<td>721</td>
<td>720</td>
<td>719</td>
<td>718</td>
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</table>

**Expenses by Category**

<table>
<thead>
<tr>
<th>Category</th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
</tr>
<tr>
<td>Compensation Expense</td>
<td>43</td>
<td>42</td>
<td>41</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td>Non-Comp. Expense</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Total Non-Comp.</td>
<td>65</td>
<td>64</td>
<td>63</td>
<td>62</td>
<td>61</td>
</tr>
<tr>
<td>Overhead Rate</td>
<td>11.666</td>
<td>11.666</td>
<td>11.666</td>
<td>11.666</td>
<td>11.666</td>
</tr>
<tr>
<td>Equity</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
<td>1.9 (adj. to line 1)</td>
</tr>
</tbody>
</table>

**Other Revenue includes PI imaging reduction in expenses.**

**Revenue and Expense Adjustments**

<table>
<thead>
<tr>
<th>Adjustment</th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
</tr>
<tr>
<td>PI imaging</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Agency Indemnity</td>
<td>30</td>
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<td>30</td>
<td>30</td>
<td>30</td>
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<td>Bank Indemnity</td>
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<tr>
<td>Total</td>
<td>210</td>
<td>210</td>
<td>210</td>
<td>210</td>
<td>210</td>
</tr>
</tbody>
</table>

**Total AML Revenue**

<table>
<thead>
<tr>
<th></th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
<td>2013 Audited</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,708</td>
<td>2,289</td>
<td>2,156</td>
<td>2,225</td>
<td>2,440</td>
</tr>
<tr>
<td>Expenses</td>
<td>1,666</td>
<td>2,269</td>
<td>2,126</td>
<td>2,215</td>
<td>2,420</td>
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<tr>
<td>PI</td>
<td>120</td>
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<td>120</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Total AML Revenue</td>
<td>1,688</td>
<td>2,289</td>
<td>2,156</td>
<td>2,225</td>
<td>2,440</td>
</tr>
</tbody>
</table>
### Corporate Recovery Portfolio Financial Supplement

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Quarter 4</th>
<th>Quarter 3</th>
<th>Quarter 2</th>
<th>Quarter 1</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Revenue</td>
<td>$23</td>
<td>$3</td>
<td>$21</td>
<td>$23</td>
<td>$21</td>
</tr>
<tr>
<td>Total Other Revenue</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
</tr>
<tr>
<td>Non-Interest Revenue</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
</tr>
<tr>
<td>Total All</td>
<td>19</td>
<td>19</td>
<td>21</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Total Net Revenue</td>
<td>23</td>
<td>3</td>
<td>21</td>
<td>23</td>
<td>21</td>
</tr>
</tbody>
</table>

#### Other Revenue by Portfolio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Interest Revenue</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
<td>$(3)</td>
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<tr>
<td>Total All</td>
<td>19</td>
<td>19</td>
<td>21</td>
<td>19</td>
<td>21</td>
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<tr>
<td>Total Net Revenue</td>
<td>23</td>
<td>3</td>
<td>21</td>
<td>23</td>
<td>21</td>
</tr>
</tbody>
</table>
## CIO Expense Analysis - Summary

(Expenditure in $ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Q1 20XX</th>
<th>Q2 20XX</th>
<th>Q3 20XX</th>
<th>Q4 20XX</th>
<th>Dec 20XX</th>
<th>Jan 20XX</th>
<th>Budget in M 20XX</th>
</tr>
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<tbody>
<tr>
<td>Total Core Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Non-Core Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Technology Support</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>IT Infrastructure</td>
<td></td>
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<tr>
<td>Project Management</td>
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<tr>
<td>Software Development</td>
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</tr>
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<td>Operations</td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>Total Core Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Non-Core Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

### Notes

- **Q1 20XX**: First quarter of the fiscal year.
- **Q2 20XX**: Second quarter of the fiscal year.
- **Q3 20XX**: Third quarter of the fiscal year.
- **Q4 20XX**: Fourth quarter of the fiscal year.
- **Dec 20XX**: December of the fiscal year.
- **Jan 20XX**: January of the next fiscal year.
- **Budget in M 20XX**: Budgeted expenditure for the fiscal year 20XX.

---

**Bank Proprietary and/or Trade Secret Information**

OCC-SFS-00003153
### CIO Balance Sheet - Regional View
as of December 31st, 2011

#### Balance Sheet - Spot Balances (3rd Party)
(in $ billions)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>CPB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments Securities</td>
<td>6.6</td>
<td>14.5</td>
<td>3.4</td>
<td>0.6</td>
<td>15.1</td>
</tr>
<tr>
<td>Trading Account Securities</td>
<td>13.2</td>
<td>36.5</td>
<td>5.4</td>
<td>1.1</td>
<td>56.2</td>
</tr>
<tr>
<td>Fed Funds Sold Receivables</td>
<td>11.2</td>
<td>2.6</td>
<td>10.8</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>9.9</td>
<td>9.0</td>
<td>4.8</td>
<td>-</td>
<td>14.7</td>
</tr>
<tr>
<td>Whole Loan Origination</td>
<td>37.7</td>
<td>0.1</td>
<td>0.0</td>
<td>-</td>
<td>37.7</td>
</tr>
<tr>
<td>Other Assets</td>
<td>0.0</td>
<td>1.0</td>
<td>0.4</td>
<td>0.0</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total 3rd Party Assets</strong></td>
<td><strong>32.4</strong></td>
<td><strong>55.2</strong></td>
<td><strong>7.1</strong></td>
<td><strong>1.1</strong></td>
<td><strong>97.8</strong></td>
</tr>
</tbody>
</table>

#### Balance Sheet - BI RWA Balances
(in $ billions)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>CPB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments Securities</td>
<td>3.6</td>
<td>32.0</td>
<td>28.0</td>
<td>0.2</td>
<td>82.0</td>
</tr>
<tr>
<td>Trading Account Securities</td>
<td>3.6</td>
<td>16.3</td>
<td>1.8</td>
<td>1.4</td>
<td>32.1</td>
</tr>
<tr>
<td>Fed Funds Sold Receivables</td>
<td>0.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>Whole Loan Origination</td>
<td>3.4</td>
<td>5.9</td>
<td>7.1</td>
<td>1.7</td>
<td>18.9</td>
</tr>
<tr>
<td>Other Assets</td>
<td>0.5</td>
<td>0.9</td>
<td>0.2</td>
<td>0.0</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5.2</strong></td>
<td><strong>47.9</strong></td>
<td><strong>7.1</strong></td>
<td><strong>1.7</strong></td>
<td><strong>58.8</strong></td>
</tr>
</tbody>
</table>

#### Balance Sheet - BIII RWA Balances
(in $ billions)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>CPB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments Securities</td>
<td>0.3</td>
<td>41.4</td>
<td>16.2</td>
<td>0.4</td>
<td>58.5</td>
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<tr>
<td>Trading Account Securities</td>
<td>-</td>
<td>32.7</td>
<td>3.9</td>
<td>7.0</td>
<td>93.4</td>
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<tr>
<td>Fed Funds Sold Receivables</td>
<td>0.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Whole Loan Origination</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Assets</td>
<td>0.3</td>
<td>3.6</td>
<td>0.1</td>
<td>0.0</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.3</strong></td>
<td><strong>94.7</strong></td>
<td><strong>10.3</strong></td>
<td><strong>7.4</strong></td>
<td><strong>117.4</strong></td>
</tr>
</tbody>
</table>
2012 CA QUARTERLY SUMMARY
Global Chief Investment Office First Quarter CA Summary
1st Quarter

SUMMARY OF ACTIVITIES

North America

CIO continues to manage portfolio positions with significant consideration of Basel III capital requirements, resolution and recovery impacts, liquidity risk, as well as, enhancing and building out portfolio analytics for the structural asset allocation process.

Liquidity Risk Infrastructure:
Treasury-led initiative to build comprehensive firm-wide liquidity risk infrastructure
CIO engaged in reviewing business requirement and data sourcing definitions and 2012 planning.

Differential Discounting:
Implemented successfully in Q4 2012 for Equities in Pyramid and all Fixed Income Products.

GIC Competitive Bidding Process:
Firm-wide initiative to assess risk and related framework by product and region.
Scanned tons of document identifying business lines within the clients that engage in competitive bidding transactions.
Currently looking at consistency of controls across the firm.

Volcker Rule:
CIO currently reviewing draft of rule recently released for comment period.
Technology design for big trades in accordance with mapping documents completed. Final build-out pending final rule release.
Assessing M/M trading activity (if trades, total notional) relative to underlying structural risk.

Audit:
Continued to hold periodic meetings with key stakeholders in CIO. The Q4 2011 BCC was held in February 2012. CIO continues to manage the investment portfolio in line with interest rate risk sensitivities transfer priced by Treasury and market opportunity.

For 2012, the business priorities are:

- Managing portfolio positions with significant consideration of Basel III capital, liquidity and resolution and recovery impacts.
- Implementation of new Finance hierarchy in-line with business requirements.
- 2012 SAA reinvestment program.
- Enhancing and building out portfolio analytics for structural asset allocation process.
- Expanding local market presence in concert with firm wide international growth initiatives.
In January 2012, the CIO's international credit portfolio of Asset Backed Securities (ABS) and Collateralized Loan Obligations (CLO) was successfully migrated from 18 owned applications (Concorde and ISIS) to the APPIA platform. Approximately 1,800 trades with $101.9bn original notional were migrated in total. In November and December 2011 an initial migration of 38 ABS and CLO positions was performed to assess readiness for the full migration in January and CLO Finance monitored the trades as part of BAU month-end and year-end processes. Audit performed a detailed review of the various aspects of this migration and issued a Satisfactory audit report in March, with no reportable issues noted.

Technology projects update:

1. APPIA migration project pertains to two sets of products: (a) Swaps and FX and (b) Fixed Income Securities and Repo.
   - Swaps and FX: all complete.
   - Fixed Income Securities and Repo: Phase 1 and 2 - Migrations had been completed.
   - Fi Sec and Repo Phase 3 (Japan, Australia, New Zealand, Philippines, Korea and Indonesia): Migration completed to Phase 3 in Mar 2012. Indonesia roll out will be determined depending on regulatory approval.

2. OPICS migration project: OPICS is selected to be the target platform for money market products (front office to back office).
   - The migration approach was confirmed. Revised migrating timeline is listed as below.
     - Phase 1 - Sept 2012 for Bangkok, Manila, Seoul, China & Vietnam
     - Phase 2 - Mar 2013 for Japan and Singapore
     - Phase 3 - May 2013 for India, Jakarta, HK, Malaysia, NZ, Taipei and Sydney

3. Athena migration project: Athena team currently working on the plans for cash FX migration and target to communicate the onboarding schedule in late April.

CIO Technology:

From a project perspective, the APPIA project to migrate trades off of IB systems on to a suite of CIO owned systems is making good progress. No significant issues were raised by Audit in Q1. Some of the key accomplishments in Q1 include: EMEA ABS/CLO Phase 2 Migration (1/2012); Core/OPICS Integration for TBA's & Specified Pools (3/2012); and Asia Credit Migration Phase.
Key in-flight projects include North America Toronto Branch Swaps and Securities Migration plan for May and CORE-MPPA Migration (Working on on-boarding remaining securities). From a production support perspective, the Business Process Index (BPI), which is used to measure the availability of the CIO applications, remains stable at the 99% level. In February, SNEA Weekly was down less than an hour due to DB log issues. Stored procedure has been optimized, weekend purge now reset, and DB re-indexing jobs now scheduled to run earlier for longer duration. From a risk and control perspective, CORE, Shrek, YE, Prime and Popper are in scope for SOX testing. CIO Technology is on target to meet the firm-wide targets of 35% by June 15th.

North America:

Market Risk Limits and Total Return and Trading Metrics summaries are reviewed by audit. In addition, weekly metrics for operations are monitored by audit. Weekly metrics consist of P&L variance, cancel and amended trades, market limits and transaction volume. No significant issues noted in Q1. Operational KPIs and P&Ls are primarily monitored through the BIC process.

Chief Investment Office Highlights Q1 2012:

**SAA Portfolio**
The book value of the Strategic Asset Allocation Portfolio decreased from $2,218 Q2/2011 to $1,958 for Q1 2012. Attributed to:
- Sales/Reduction of German/French/Canadian Government Securities
- Sales of ABN Credit Card Positions
- Transfer of CLO's from EMEA to North America

MTM Overlay portfolio
(Note this portfolio is 99% trading, 1% Held for Investment)

MTM Overlay Portfolio Market Value for Q1 2012 with a balance of $950M & Q2 2011 with a balance of $1,230M.

The main driver of the decrease in this portfolio quarter over quarter is:
- Increase in Short US Treasury & Foreign Government debt positions of ($450MM)
- Sales of CMS positions of ($90MM)
- Increase in the OCI balance from ($7.4MM) to ($23MM) due to the sale of a Private RMBS position

Corporate Retention Portfolio
The book value of the CRP Portfolio decreased from $2.78 Q4 2011 to $2.69 Q1 2012. No significant variances to note.

Capital Risk

Level 1 CO+MSR VAR Limit
MSR VAR Limit
Level 2 MSR BPV Limit
International Equity Vega (long only)

Firmwide stress limit changes. The CIO MTM limit was increased to $17bn and MTM positions in SAA, FX capital Hedging and CRP are now included in this limit.

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-SPI-08004166
EMEA CIO participates in a weekly MIS call with MO Audit attends as part of CA. There is a review operational weekly KPI's and back office metrics including trade capture and volumes, P&L and Risk sign-off, FOSO Reconciliations, nostro breaks and system. There were no significant operational issues for Q1, 2012.

Daily P&L is also monitored. Audit noted the as of March 31 MTM losses of over $500mm were experienced in the Credit Core book. Further follow-up from audit established that the losses were due to the an increase in spreads on these. Audit will continue to monitor this portfolio.

Asia
- Asia CIO tables MO and BO metrics in the quarterly BCC, which includes trade volumes, cancel and amend, late trades, P&L and Risk sign-off, FOSO Reconciliations, nostro breaks, etc. No significant items were noted by Audit during Q1 2012.

ISSUE FOLLOW UP

North America
Through CA activities, Audit tracks the entry of all audit issues and related action plans into Phoenix, monitors the progress through completion of action plans and subsequent closure of issues in Phoenix. A monthly analysis of open action plans is prepared and follow up with action plan owners performed by Audit before the end of each month.

No new issues or action plans have been added for this quarter.

EMEA
There are 3 business identified issues and action plans have been added for the quarter and 1 action plan where the target date has been extended to June 2012 from December 2011.

- GLRS Substantiation Review: There is inadequate documentation of CIO EMEA substantiation procedures and the methodology used to substantiate each type of GL. Thus, GLRS Substantiation methods used by CIO EMEA personnel to be reviewed and documented and confirm appropriateness and consistency. Compare substantiation practices used by CIO EMEA to CIO NA and CIO ASIA and address inconsistencies, as determined appropriate. Evaluate the ownership of the substantiation responsibilities and determine whether any changes should be made. Action Plan for completion on 31 May 2013.

- Model Documentation: Model documentation is required on SABR, Westend and Primus CMT systems in accordance with Model Risk Policy. EMEA CIO is to facilitate the overall Model Risk Management process ensuring updated model inventories and follow up on required documentation, testing, and other requirements mandated by the CIO Model Risk Oversight Group. Action Plan for completion on 30 June 2013.

- Reconciliation of bonds set up in Clowes: Bonds set up in Clowes have their Issuer SPN manually attached by whoever is setting up a bond and the incorrect SPN can be selected. This causes downstream risk to calculate incorrectly misstating the positions and risk of CIO. Currently and SPN needs to be set up and mapped for every different ABS tranche that CIOEMEA purchase. The reason for this was a system deficiency in JPM III that caused SPN to be used as a substitute for ISIN. It has now been agreed that CIOEMEA should now map all ABS tranches from one issuer to one Issuer SPN. This will have the following benefits:
  1. Reduce the current number of Issuer SPNs from 194 to 263
  2. Eliminate the need to required a new SPN with each tranche purchased

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-SP-00004107
Greater accuracy in AIS to SPN mappings is the volume of SPNs previously created also meant that details entered on to the SPN record were often incomplete - the rationalisation of the ABS SPN process should allow more accurate records to be maintained. Action Plan is due for completion on 31 May 2012.

Amortisation on AFS Portfolio vs. Cash: Amortisations on the AFS portfolio are calculated at month end as part of the regular control procedures around the AFS portfolio. The cash relating to these amortisations isn't necessarily received in the same month as when the amortisation occurred. This generates a break between the amortisations calculated and the cash received which is subsequently understated. Detailed analysis on an AIS back book is undertaken to identify those securities where cash received/related to month end and cash received for any breaches are assigned by the cash payments team. The resolution was delayed as the ABS migration was delayed last year and resolution was dependent on that. Post ABS securities being migrated onto CPIA in Q1 '12, once the balances have stabilised, further analysis can be undertaken to clear the breaks. Expected resolution date - 2 months post migration. Action Plan currently set for June 2012 completion.

CDO Credit Market Risk and Valuation Practices issued March 2012 listed Needs Improvement identified the following issues:

- CDO VCI practices where a number of risk & valuation models have not been reviewed by Model Review Group and included the absence of a formally applied pricing hierarchy, insufficient consideration of potentially applicable fair value adjustments (e.g. concentration reserve for significant counterparty positions) and the lack of formally documented/consistently applied pricing methodologies.
- Stress testing where there is no documented methodology to outline key testing components (e.g. computational method and shock factors used) or assess limitations such as offline risk measurement, missing risk factors and curves.
- The SAA book (F14060) is not currently fed by the market risk limits and thresholds.
- The SAA stress testing results are not measured against corresponding limits.
- EMEA CIO is currently using unapproved models in the calculation of risk (excluding VaR) and associated risk measurement methodologies have not been appropriately documented and/or catalogued.
- The control process around the offline VaR calculation needs to be enhanced to ensure completeness and accuracy of Credit trade data used in the offline calculation of VaR.

Follow-Up:

All the issues and action plans raised from 2011 audit were complete and Phoenix issues were closed accordingly before target date.

BUSINESS CHANGES

North America: Dave Alexander (CFO), left CIO for RFS and was replaced by David Bjarnason who has announced his resignation and will be transitioning out of this role in the 2nd quarter.

EMEA - David Bjarnason (EMEA Accounting Policy and Control) is leaving the firm in Q2, 2012. There is currently no indication as to whether he'll be replaced.

FOLLOW-UPS

EMR AND AUDIT REPORT ISSUES

Through CA activities, Audit tracks the entry of all audit issues and related action plans into Phoenix, monitors the progress through completion of action plans and subsequent closure of issues in Phoenix. A monthly analysis of open action plans is prepared and followed up with action plan owners performed by audit before the end of each month.

No new issues or action plans have been added for this quarter.

PLAN AND RISK ASSESSMENT CHANGES

Not Applicable. No plan or risk changes in Q4 2012.
The following audits were completed during 1Q 2012:

North America: ASC 815 Hedge Accounting (Satisfactory)
EMEA: CIO APPA Systems Migration (Satisfactory)
II. CIO Credit: Market Risk & Valuation Practices (Needs Improvement)
The Firm's 95% 1Q VaR as of COB 04/17/2012 has increased by $6mm from the prior day's VaR to $134mm and continues to breach the $125mm Firm VaR limit for the second consecutive day.

The increase in the Firm's VaR is primarily driven by CIO Synthetic Credit portfolio. Actually, VaR for this portfolio declined slightly from the prior day. The stand alone VaR for CIO is $75mm (vs. $95mm limit).

CIO aggregate stress loss is over 23% of its $138 limit. Also, MMT cs bpv limit is in excess by 1014% and has been in excess for 71 days.

Something to follow up in the next MRR or CIO meeting.

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BB: 202-368-9193
Fax: 301-433-6238

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From: Sabitha Joseph
To: [Names redacted]
Cc: [Names redacted]
Sent: 4/10/2012 6:17:22 PM
Subject: Background and Supporting Data for CIO Discussion of April 9, 2012
Attachments: image002.png

Anna, Fred,

Here is the supporting data and some commentary as you requested from our call yesterday afternoon. As we indicated, you should feel free to contact John Willmot (212-834-5452), Irv Goldman (212-834-2331) or Ina Drew (212-834-5000) if there are any questions. I would be happy to coordinate any follow up as well (212-848-0082).

Joe

The table below shows major (and total) long and short risk positions in indices - and totals for long and short risk in branches.

<table>
<thead>
<tr>
<th>Summary of Positions</th>
<th>Long</th>
<th>Short</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Index Positions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CQ06 S06 OYD internal</td>
<td>7,653,382,000</td>
<td>-3,382,380,000</td>
<td>4,271,002,000</td>
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<td>CQ06 S06 OYD total</td>
<td>12,705,067,000</td>
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<td>CQ06 S07 OYD internal</td>
<td>19,662,344,450</td>
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<td>22,449,720,000</td>
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<td>CQ06 S07 OYD total</td>
<td>2,079,023,425,000</td>
<td>-2,076,017,435,000</td>
<td>3,006,990,000</td>
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<td>CQ06 S07 OY DY internal</td>
<td>6,387,505,000</td>
<td>-3,385,895,000</td>
<td>3,001,610,000</td>
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<td>CQ06 S07 OYD total</td>
<td>7,609,207,000</td>
<td>-11,024,009,000</td>
<td>3,415,208,000</td>
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<td>CQ06 S08 OYD internal</td>
<td>7,931,380,000</td>
<td>-3,421,534,000</td>
<td>4,509,846,000</td>
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<td>CQ06 S08 OYD total</td>
<td>1,659,517,500,000</td>
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<td>2,040,861,000</td>
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<td>STRAXX MN S09 OYD internal</td>
<td>39,932,652,000</td>
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<td>14,982,691,900</td>
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<td>28,866,145,040</td>
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<td>STRAXX MN S09 OYD total</td>
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<td>1,677,487,581,000</td>
<td>22,246,830,645</td>
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<td>STRAXX MN S09 OYD internal</td>
<td>4,010,032,693</td>
<td>-3,032,327,539</td>
<td>777,705,154</td>
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<td>STRAXX MN S09 OYD total</td>
<td>26,912,627,734</td>
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<td>2,041,677,624</td>
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<td>STRAXX MN S09 OYD total</td>
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<td>26,879,257,038</td>
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<td>STRAXX MN S09 OYD total</td>
<td>149,579,299,617</td>
<td>-98,297,776,900</td>
<td>51,281,522,717</td>
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<tr>
<td>Total of all risk positions</td>
<td>149,579,299,617</td>
<td>-98,297,776,900</td>
<td>51,281,522,717</td>
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<tr>
<td>Total of all risk positions</td>
<td>100,666,449,614</td>
<td>-66,666,149,800</td>
<td>34,000,300,814</td>
</tr>
</tbody>
</table>

The note below describes this credit derivatives activity relative to the overall CIO activity.

The Chief Investment Office has utilized the "synthetic credit portfolio," which is a portfolio of credit derivatives, to construct a hedge against other risks on JPM."s balance sheet. This activity has been part of the CIO portfolio construction and risk management since 2007. The related credit derivative instruments offer an efficient means to establish protection against adverse credit scenarios and "stress events."

This activity is among the key tools utilized by CIO to manage and hedge stress loss risks. The synthetic credit portfolio has benefited the Firm, especially in times of credit market dislocation, sudden spread widening and in the occurrence of defaults, which is typically a catalyst for credit spread widening scenarios.

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION
In Q3 and Q4'11, CIO began to reduce the net stress loss risk profile of the hedges, as more positive macroeconomic data in the US and an improving situation in Europe post LTRO merited a reduction to the stress loss protection of the "synthetic credit portfolio." The book, as a dedicated hedge, continues to be short HY and to provide default protection.
I. Risk Overview

A. VAR: P. Weiland discussed the VAR trend for the first quarter highlighting the large reduction in VAR at the end of January. The reduction was driven by the implementation of a change to the VAR model for the Credit book in London. It was noted that the model change was in line with the VAR methodology recently adopted in the IB and was approved by the model review group.

Action Item: Explain the relationship between VAR, stress VAR, and Capital. The Quantitative research group and the Firmwide Market risk officer to discuss with the CIO business.

B. Stress: The results of the Credit crisis stress scenario were reviewed and P. Weiland commented that the positive benefit experienced from the Credit Tranche book reduced over the quarter and is now negative. This resulted in the overall stress loss increasing by $1.2bn.

Action Item: Develop proposed thresholds, such as stress advisories, for the Retirement Plan.

C. Risk Measures: The key risk positions globally were discussed. It was commented that a trend of exposures would be useful.

Action Item: Include a trend of the key risks along with the relevant limits.

II. Risk Limits

A. Risk Limits: The proposed limits framework was presented to the committee noting that a full overhaul of all limits is underway. Over the next few weeks the limits will be discussed with the individual regions and presented back to the group for approval. It was also noted that in addition to the existing limits thresholds will be added, such as CIO specific country risk thresholds. P. Weiland raised the issue regarding the existing Single name limits applied to the investment portfolio. It was noted that some issuers are in excess of the SAA single name limits. It was decided to seek approval to maintain but no increase exposures for issuers currently in excess.

Action Item: MRM to follow up with the regions to consolidate a proposal for all single name limits.

B. Limit Excess/Change: The Q4 2011 and Q2 2012 limit excesses and changes were reviewed. It was noted that with the limit framework under review a number of the existing limits, such as the Credit spread BPV limits, are no longer appropriate for the current portfolio and will be revised as part of the review.

III. Risk Policies

A. Risk policy Review: P. Weiland noted that Donna Reno has been named new Head of Risk Policy firmwide. In conjunction with the new head of risk policy and the Risk working Group, CIO will review all relevant firmwide policies. The list of policies in scope was attached in the materials.

B. Model risk Procedures: The new CIO Model Procedure document was distributed to the group, noting the appointment of a CIO model risk officer as one of the major changes to the prior version. The policy was approved.
IV. NBIAs

A. NBIAs Status Update: Goldman noted that two NBIAs are currently in progress relating to Whole Loans in Residential and Commercial Real estate. Both NBIAs are in initial stages and require further work.

B. Updated NBIAs Document: Wilmot discussed an update to the NBIAs document to include a Competitive Bidding section. This was in compliance with the Firm wide change. The NBIAs change was circulated to the Committee for approval.

V. Operational Risk

A. Internal Audit: The group was updated on the status of the EMEA Credit Audit. An initial draft was published with final close out review to be completed over the next few days. Documentation was listed as one of the audit issues. The Scope of the review to be discussed with the Audit team.

Action Item: Follow up on initial Audit plan scope.

VI. Regulatory

A. Volcker Rule: N. Radin noted that CEO should start to think about how to document conformance with the Policy in preparation for the final rule release. Reviewing the format from the IR.

Action Item: Legal to follow up on consistency with colleagues in other businesses.

B. Derivative Activity: The outstanding issue regarding the FAS133 swaps and the transition to the LCR was discussed, noting the delay in resolving this issue exposes the business to counterparty risk in terms of "wrong way" risk.

Action Item: Include a review of counterparty exposure at the Risk Committee meetings.

VIII. Governance

A. Investment Committee: The group discussed establishing a CIO Investment Committee. It was commented that the group should not be responsible for the approval of transactions but would be responsible for reviewing deals for appropriateness of investment mandate. The committee members would be selected from the CIO management committee.

B. Repudiation Risk Committee: CIO to establish a Repudiation Risk Committee. The possibility of leveraging a resource that currently chairs the IR and CIO committee was discussed.

IX. Other Items

A. Other Risk Businesses: The CIO MRM team performs the risk function for the Global Treasury and Mortgage banking Pipeline/warehouse businesses. Further discussion on whether this function should reside with the CIO Market Risk group.
Doug FYI. I thought I did copy you on this.

Ron—just if you’re curious.

Prop or not prop, that is the question....

---

From: Crumlish, Fred  
To: Brosnan, Mike; Belshaw, Salty; Pfinsgraff, Martin; Watemouse, Scott; Wilhelm, Kurt; Banks, George; Fursa, Thomas; Hohl, James; Kamath, Jairam; Kim, Mike; Monroe, Christopher; Swank, Todd; Wong, Elwyn  
Cc: Mclaughlin, Ooug; Frake, Ron  
Sent: Tuesday, April 117, 2012 04:33 PM  
Subject: JPM CIO / IIG / "whale" trade

On Monday 4/16 OCC and FRB examiners met with Ira Drew and several members of CIO staff and risk management to discuss the JPM synthetic credit book in view of recent press reporting. This message provides a summary of our discussion, followed by a more detailed summary. It focuses specifically on recent changes to the synthetic credit book.

JPM’s CIO has been using a synthetic credit (credit derivative) portfolio since 2007. It was initially set up to provide income to mitigate other significant credit losses that would surface under a broad credit stress scenario. Since it wasn’t possible to tailor a specific hedge to the JPM balance sheet as a whole, this portfolio was constructed. As the investment portfolio grew in 2007-2009, the synthetic credit portfolio was used to hedge stress and jump to default exposures in that portfolio as well.

CIO’s credit derivative position was managed to provide around $1 billion to $1.5 billion income in credit stress scenarios against firm wide losses of $5 billion to $6 billion.

In late 2011, in view of a change in perception in the state of the economy, CIO managers decided to reduce high-yield (HY) credit protection; however, after the AMR bankruptcy and with Kodak expected to file for bankruptcy, the markets for CIO’s HY indices weren’t liquid enough to use them to unwind CIO’s position.

The IG 9 index, which is much more liquid than HY indices, includes five “fallen angels” that allowed it to be used to reduce a “good part” of CIO’s HY position, so it was used to reduce the HY protection.

The IG 9 market is not liquid as it trades around $10 billion daily and spread changes for this index are in line with peer indices. The IG 9 curve has steepened in a move of around 0.5 standard deviations, and there has been strong buying of deferred contracts, implying that the buyers are certain that there will be no defaults in the next 9 months and nearly certain that there will be defaults next year. In view of events, however, JPM is conducting a “post-mortem” of the IG 9 situation and its impact and share results with OCC and when completed.

The CIO began using credit derivatives around 2007 as part of its mandate to manage structural balance sheet positions. CIO only uses credit derivatives on indices, not specific names. Initially, CIO bought protection (shorted risk) on mortgages, using ARB, and HY indices to mitigate some of the firm’s balance sheet credit exposure. At this time CIO investments were highly concentrated in Agency pass-through mortgage securities, and the structural credit risk was in the lines of business.

Through the financial crisis deposit inflores combined with lower loan demand to leave the firm with significant excess funds. As part of its mandate to invest, when appropriate, in high credit quality, liquid investments, the CIO began...
of the index companies are "fallen angels" i.e., companies originated. This was the reason that JPMCB began selling IG 9 CDSs; going long IG 9 credit risk (selling CDSs). JPM provided the CIO rational CDS exposures as requested, along with a summary of the synthetic credit portfolio. Throughout this the CIO continued using index credit default swaps (CDSs) to mitigate some of the structural credit risk in the investment portfolio and the losses of business other than the investment bank, which manages its own credit risk exposure. While there are liquid markets for many credit derivative indices, the markets are not deep enough to fully hedge a multi-billion dollar balance sheet. CIO's credit derivative position was managed to provide around $1 world, centralizing some of the short high yield credit risk position (long CDSs).

Risk in the investment portfolio and purchasing low credit risk, top of the capital structure securities to use the excess funds. While high quality, these investment securities have more credit risk than the U.S. Agency pass-throughs that continued to be held, so that structural credit risk in the investment portfolio increased along with portfolio growth.

Through this the CIO continued using index credit default swaps (CDSs) to mitigate some of the structural credit risk in the investment portfolio and the losses of business other than the investment bank, which manages its own credit risk exposure. While there are liquid markets for many credit derivative indices, the markets are not deep enough to fully hedge a multi-billion dollar balance sheet. CIO's credit derivative position was managed to provide around $1 billion to $1.5 billion income in credit stress scenarios against firmwide losses of $5 billion to $6 billion.

CIO managers decided to reduce the high yield credit derivative protection around Thanksgiving last year. After the AMLR bankruptcy filing on November 29, 2011, the firm profited from its credit derivative positions as anticipated, but high yield index derivatives had limited liquidity as demand increased. CIO managers thought that it wouldn't be possible to reduce the high yield credit derivative position by using the indices that created it; the best available hedge product was the IG 9 index, which has good liquidity as an investment grade index and a high yield component as five of the index companies are "fallen angels" i.e., companies that have fallen below investment grade since the index originated. This was the reason that JPMCB began selling IG 9 CDSs, going long IG 9 credit risk (selling CDSs) would neutralize some of the short high yield credit risk position (long CDSs).

JPM provided the CIO notional CDS exposures as requested, along with a summary of the synthetic credit portfolio maturity profile and results of a 10% credit spread widening (CSW). The CIO CDS portfolio includes exposure to JPMCC's IS along with third parties. The third-party counterparties are all major banks or broker/dealers. The stress results show that the CDS portfolio net exposure cannot be judged by looking at notional exposures alone. An example given is the iTraxx Main 20Jun13 position; the notional exposure is $28 billion long risk suggesting a loss if credit spreads widen, but the 10% CSW shows a profit of $64 million because of equity tranche protection that is part of the position.

The synthetic credit portfolio position now provides around $434 million income in the credit crisis stress scenario. Very generally, the portfolio risk profile is short high-yield risk against long investment grade risk and short short-duration (to yearend 2012) investment grade risk against long long-duration investment grade risk, i.e. a credit curve flattener. The portfolio VaR was $59.2 million on April 6th. The portfolio is reported in CIO positions and subject to all of the JPMCC market risk management systems.

Through the indices used, the portfolio provides credit protection on 581 names. 121 of them are from the IG 9 index, which currently gives an average $140 million jump to default at market recovery gain per name. This position is stable until December 30, 2012 when $3 billion of short-dated protection rolls off along with $4 billion of protection on IG 9 equity tranches, and the average jump to default at market recovery becomes a loss of $572 million per name. Before that happens, CIO managers feel they have time to adjust the portfolio to compensate without rolling the IG 9 market.

In addition to inclusion in the firm-wide stress scenarios, CIO managers routinely run other stress scenarios to assess portfolio performance in a variety of circumstances. The synthetic credit portfolio is seen to provide stress loss protection in an environment of significant credit deterioration with defaults or perception of imminent defaults.

CIO managers have been surprised that the IG 9 market has been so willing to take on and sell so much protection, regardless of what JPMCC did. The market is not illiquid as the IG 9 trades around $10 billion daily. The spreads changes for the index are in line with peer indices. Many market participants have been strong buyers of deferred contracts, implying that they had complete certainty there would be no defaults in the next 9 months and near certainty that next year there will be defaults. The IG 9 curve has steepened in a move of several standard deviations. CIO managers said that the curve steepening move was around 8.5 standard deviations from the mean. A review of the IG 9 situation is being done, and it will be shared with the OCC and Fed when completed.

Attendees:
JPMCC: CIO attendees: Ina Drew Chief Investment Officer, John Wilmut CIO CFO, Achilles Macris CIO Managing Director EMEA (telephine), Javier Artajo CIO Managing Director EMEA (telephone), Ivy Goldman Market Risk Management Managing Director, Pete Weiland Market Risk Management Managing Director, Keith Steplean Market Risk Management Executive Director EMEA (telephone), Greg Bax Managing Director Associate General Counsel, Joe Sabatini Managing Director Head Supervisory Relationship.
OCC attendees: Fred Cummish, James Hoth, Mike Kirk
Fed attendees: Anna Lacucci, two others

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FW. May 15 CIO

Sent: Tuesday, May 15, 2012 4:22 PM
To: Brosnan, Mike; Belshaw, Sally
Subject: Fw: May 15 00

Not sure if you want these, but here's a more complete summary.

Sent from my BlackBerry Wireless Handheld

OCC/FRB/FDIC met with JPM for a daily update on CIO. (Partial list of attendees at end of message). Highlights

This update wasn't supported by quantitative information requested yesterday. Bank continues to work on P&L explain and new risk reporting and other information described yesterday, and hope to be in a position to go over this with us later this week.

OCC wants a risk dashboard and P&L as a basis for discussion

Yesterday's loss was smaller. Although daily losses are becoming smaller, the total 2Q loss is now around $3B.

Company continues to bring new people into CIO, and also borrow risk and middle office personnel from other LOBs to help work through position issues.

JPM ran CCAR on the position but it generated a 600MM profit/dt different HY and IG spread treatment in CCAR. Company is working on a worse case forecast.

Mike Cavanaugh provided an overview of his role regarding identifying what went wrong and what needs to be improved. (Hogan mentioned that he asked all his CRO to go back and review their limits and make sure that they make sense. He wants line of business CROs to discuss with GEC and come back with any changes)

Detailed notes

Bank believes they can provide us with the daily data we wanted on P&L and risk tomorrow. OCC wants a dashboard with risk and P&L that can serve as a basis of discussion during
2171

updates. OCC also requested daily P&L since the start of the year. Company is working on it and hopes to deliver P&L tomorrow with a risk update later in the week. (SW is providing JPM with the distribution channel for OCC).

Cumulative loss for quarter is $3Bn.

Daily P&L: Size of daily losses shrinking last couple of days so hopefully blood in water is improving. Flat early in day then Greeks couldn’t form govt election announced, risk went wider as markets in Europe sold off. P&L -75MM; 40 directional , 32MM of correlation, 40MM of series 9. Some profit from decompression.

Ill government bonds 15 wider to Germany. Sov CDS circa 15 wider.

Not much liquidity today. Took off only 250MM of iTRAXX Main today.

10% CSW changes: Cumulative daily reductions = 171MM reductions, offset by 90MM of drift. Net reduced 83MM. Current risk roughly 209MM for 10% CSW. As shock is held constant, the 10% shift of wider numbers results in a larger exposure.

CS01 went from $51MM to circa $28MM.

No other risk updates.

Bank is very cautious about potential unwinds and is open to reverse inquiries, although there have been a few from banks. Multiple HF inquiries were characterized as information fishing. JPM indicates that if provided a request with pricing and size, JPM will respond.

Portfolio to theoretical relative value is getting closer to normalization; for the six factors excluding directionality. Bank will get back to us with risk numbers and will go thru limit structure and risk information at a near meeting (Thurs or Fri)

Collateral: As of COB of 5/14 is now at 156MM vs 69MM cob. Friday, iTRAXX 10 year, moved to $422MM from $100MM. MS largest dispute was $277MM Friday now $482MM. Only MS had escalation calls. Head of MS Fixed income didn’t mention it today on a call with JPMorgan though. Generally collateral posted as Cash or Treasury bills. Bank will give specifics to counterparty and what is posted. If not cash or TBills the bank will provide with haircuts.

Nothing new on RWA/capital from yesterday. Company is working on.

Stress: Nothing new to report since yesterday. Bank estimates will take a few days to get stress numbers for us. They had running CCAR shocks but this produces a gain of $600MM on portfolio. Compression trade offsets directional losses. (CCAR HY widens more than IG, generating a gain). JPM is working on a 20st case scenario.

Cost of exit today on capital and income. Still being worked on.

Size of AFS portfolio: Mostly high quality paper.

Dec 31 $331B
Mar 31 340B

May 9 very similar.

JPM is working on updated security detail we provided, but indicated that CIO’s contribution to the liquidity buffer is 20B

Infrastructure and personnel: Nothing new to report. Quick update: Continue to work on data base for historical data; some assistance from CH MO on data staffing. BAU processes enhanced from borrowing staff from Asia to Europe. Market risk borrowing James Dwyer and Arnaldo to help with review. 2 modeling people assisting, 1 for models, one for VAR.

Clearing:

Clearing: Ice: Submit all that they can; most of index positions. Tranches and certain older indices don’t clear. Some cpn haven’t on boarded onto ice, so not 100% of eligible cleared (Citi and some Soc Gen). On net notional basis 72B of total was eligible, 63B ineligible. Gross $116B eligible, and 78% has been cleared. Trades done this week have been submitted to ICE clearing process tonight, will find out on Friday. On Friday expecting this % to go over 30%

Legal Entity booking: JPM walked through back office processes. (Separate paper handout). This included a description of risk transfer from branch to Whitefriars (A Reg K vehicle) as described yesterday. This was done at request of FRB.

All margining processes are handled on a net legal entity basis centrally by a group in IB (both for ICE and bilateral). No disputes with ICE b/c post what you have to post. No reconciliation to what ICE asks for vs. what JPM expects to post. Don’t think they look at the data that way. Bank will confirm that.

Mike Cavanaugh provided an overview of his role. He is working to identify breaks in oversight and controls. Work streams are being defined. History fact pattern is one stream; developing picture control environment (valuation, market risk, models, all controls); remediation effort. Can’t put time frame on completion, but would like to have something to have present to investors, and Board.

Hogan directed all CROs are looking at all key metrics, and then will discuss with business CEO and decide if MR thinks they are effective. They will then be review by CRO (Hogan) and CEO.

Bank: Matt Zames, John Hogan, Ashley Bacon, Chetan Bhargiri, Marie Nourie, Cavanaugh, Venkar, others from JPM London on the phone. OCC: Scott Waterhouse, Fred Crumlish, James Hohl, Elwyn Wong, Mike Kirk

FRBNY: Diane Dobbeck and others

FDIC:
January 7, 2011

Brett N. Waterhouse
Executive-in-Charge
OCC National Exam Examiners
1155 Avenue of the Americas, 20th Fl.
New York, New York 10036

Re: Investment Portfolio Examination

Dear Mr. Waterhouse:

We appreciate the time that you and your colleagues have spent reviewing the OCC Investment Portfolio.

On the next page, you will find our response to the Matter Requiring Attention (MRA) detailed in your letter dated December 4, 2010.

Please let us know if you would like to discuss the attached in more detail. We look forward to your feedback.

Sincerely,

Jo R. Gray
Chief Investment Officer

cc: Jamie Chilton, Leslie Jackson, Barry Zutavern, Steve Culler, Doug Braumann, Robert Buckner (PwC), Kenneth Iken (Fraser), Joseph Bonavita, John Nyberg, Alan Helfman, Justin Oliver, Joe Galvani

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-SPI-00011198
JPMorgan Chase & Co.
Management Response to the Investment Portfolio Examination
January 7, 2011

Matters Requiring Attention

Response: CIO will produce a Strategic Asset Allocation ("SAA") Policy document that lays out the existing process and control framework in place around the management of the investment portfolio. The policy will describe:

- Governance structure for the SAA
- Investment review and approval process, including ALCO management
- Investment objectives and parameters applied to the portfolio

Response: CIO has commenced preparing minutes of the weekly SAA investment meetings discussing structural risk and the related management of the investment portfolio. Duration of equity targets (generally in the form of a range) will be documented and appropriately shared at relevant management meetings, including senior ALCO, for additional consideration. The duration of equity target is established by the Chief Investment Officer of the firm and discussed and agreed to with the firm's Chief Executive Officer during periodic business reviews throughout the year and annually with the Board of Directors.

Response: In management of the SAA portfolio, CIO does not set explicit long-term asset allocation targets. CIO's investment thesis requires a more timely review since markets have historically been, and we believe will continue to be, volatile. Portfolio requirements are analyzed within the context of the evolving balance sheet and income needs and the macroeconomic environment, and appropriate investments are identified based on articulation of those requirements and market opportunities available.

However, we understand the OCC's concerns, and with regard to the specific request:

- Overall portfolio objectives will be articulated in the SAA Policy document.
- "Sensitivity targets and asset parameters" will be addressed through an SAA risk framework discussion. The portfolio managers have standards that are agreed to with the Risk team, and a document describing those standards will be made available.
Response: CIO has historically maintained a "watch list" which includes below-investment-grade and unrated securities. The Firm has now established a process of ensuring that all applicable below-investment-grade and unrated securities are reported by the Firm's Risk Reporting and Finance Group to ensure full compliance with OCC Bulletin 2004-25.
Per the most recent FS/MaRRS stress report as of 4/26/12, CIO’s worst case MBB stress scenario was the Oil Crisis (see attached excerpt). Stress losses of $1.71B exceeded the limit of $1B. Stress loss was driven primarily by the NA Strategic Asset Allocation (SAA) book ($724mm) and the EMEA synthetic credit tranche book ($665mm).

The Oil Crisis scenario assumes:
- Severe (+) shock in oil prices (100% rise in oil, vols increase 60%).
- Large (+) shocks in interest rates (2 yr down 30 bps, 10 yr down 53 bps, vols up 140), and inflation (details not available).
- Large (-) shocks in equities (down 30%, vol up 10 pts) and EMFX (5%-23% depreciation).
- Small (- or +) shocks in all other asset classes.

From: Crumlish, Fred
Sent: Monday, May 07, 2012 8:33 AM
To: Kamath, Jairam; Hohl, James
Subject: RE: CIO Synthetic Position

Regarding the CIO, we will need a breakdown of the drivers of significant stress loss numbers (eg, not just the scenario name, but the specific factor driving the change.)

- apc

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From: Kamath, Jairam
Sent: Monday, May 07, 2012 6:38 AM
To: Crumlish, Fred; Hohl, James
Subject: Re: CIO Synthetic Position

That is indeed a whopper. I don’t think we get the daily or the weekly PnL reports for CIO.

Chris is working on the weekly summary for last week. He should be sending it out today. Geraldyn prepared the summary for the week before that. She was in Excel training last week.

From: Crumlish, Fred
Sent: Sunday, May 06, 2012 05:03 PM
To: Hohl, James; Kamath, Jairam
Subject: Re: CIO Synthetic Position

Just got back from Chile and saw this. Also didn’t see any emails or weekly summary comments since I went on leave.

- apc
Doug Braunstein and John Hogan called to provide an update on the CIO position. They mentioned that if we have been watching the position reports and P&Ls, we would have seen that they have been taking some significant MTM losses over the past few weeks. These losses are on positions established some time ago. Current losses are approximately $1.6 billion. Doug said that over time, the bank has taken 'a couple billion' in gain as an offset to this position.

But at this point, the remaining position is too large and the bank is trying to reduce risk. John said that the long position is sensitive to a 10% widening in the amount of $900MM. This is hedged with a short position in high yields that has a 10% sensitivity of $650MM, giving a net risk to credit spread widening of $250MM. The bank is taking actions now to further reduce the exposure.

Doug said that the CIO will also close out some bond positions to take approximately $1 B in gains to offset this loss.

John said that Ashley Bacon, in his new role as global overseer of market risk, is introducing new risk measures and limits for the CIO.

The bank will publish its Q on Thursday, and Doug expects that they will make some comment in the document.

Doug wants to have a meeting on Wednesday to discuss the history of the position, its performance, and 'glide path' to further reduce the risk. He expects that the position will be down substantially by the time we get together. This meeting will be with the Fed. Fred — you and James should be prepared to attend. Let’s talk Monday about this.

Scott
CIO VALUATION SUMMARY MEMO

March 2012 Month-End Results

April 13, 2012

JP Morgan Chase & Co.
Contents
- North America Valuation Results
- EMEA Valuation Results
- Asia Valuation Results
Credit Indices and Tranches
Based on independent sourced prices and tolerances agreed with the CIO Front office an adjustment of $(16.9)\text{mm} was required. For March month end the level of the Liquidity Reserve, which represents the illiquidity of off-the-run positions, was $(186.4)\text{mm}.

The credit derivative market has been extremely volatile this month. Initially all sectors of the market tightened on an improved economic climate and a more stable peripheral European picture. However, as Central banks moved away from asset purchase programs and doubts resurfaced about the Spanish economy markets weakened led by the financial sector. We have also seen an out performance by the High Yield indices versus the Investment grade end of the current on-the-run series versus the off-the-runs.

CIO’s reserve policy is to include any series more than 4 removed from the current on the run series. Prior to March month end both index and tranche positions of Series 9 of both the iTRAXX and CDX IG were both omitted from the calculation despite qualifying under this criteria as both series were still considered to be liquid. At March month end it was concluded that a reduction in liquidity in the tranches of these series warranted inclusion in the liquidity reserve calculation.

ABS
The majority of our ABS positions (Market Value) were priced at fair value and required no adjustment. However, an error in the weighted average life of our fixed rate covered bond positions resulted in an adjustment, affecting 14 ISIN’s, of $4,557,459 (Details in table below).
As part of its ongoing process to incorporate additional exposures into the FSI framework, the AFS portfolio has been added to the CIO Aggregate stress test. The CIO AFS portfolio consists of $335 million high-quality investment securities with MBS remaining the dominant type while CIOs, corporate bonds, and foreign government issues are significant also. The inclusion of the AFS portfolio results in a dramatic rise in stress losses (see chart 1 below) that is not comparable to prior periods. To adjust for this change, the CIO Aggregate loss estimate is subtracted from the series and shown on the "Adjusted" chart (see chart 2 below). 100% of CIO aggregate losses are assumed to come from the AFS portfolio for simplicity (note that prior week’s CIO Aggregate loss contribution to Aggregate Bad Case losses was immaterial).

The above comments reflect the portfolio at year end. We haven’t gotten a CIO EMR since then; the January Treasury one didn’t include CIO. I’m following up with John Wilmot about the balance sheet and investment portfolio pages that were in the CIO EMR.

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I picked up the CIO continuous audit report from the IA intranet yesterday. I’ll forward it separately.

----- Original Message -----
From: Crumlish, Fred
Sent: Friday, May 18, 2012 10:30 AM
To: Kirk, Mike; Waterhouse, Scott
Cc: Hohl, James; Wong, Elwyn; Kamath, Jairam
Subject: CIO Reports

Scott - I went into wiidoo doc 720660 and BOLDED those items that most directly touch CIO. Sorry, wiidoo desktop won’t let me download. Sheet is called “reports received.xlsx” and while it is in the IA folder it covers everything. Also, CIO positions wind up in our liquidity reports as well, particularly those pertaining to stress test, cdf, etc. I haven’t bolded those.

We had been getting cio ems but there has been a lag we had asked about.

This spreadsheet doesn’t include corporate wide items such as:
Continuous Audit Summaries (quarterly)
Audit reports
The CSA and audit info are probably more important.
Risk Working Group packages
DRPC presentations, as relevant.
Also PARTDATA for investment is provided to the credit examiners.

Of course, there will be a number of new adds. Most obviously the daily info from Hogan meeting
I have cc’d Jairam as he has a lot of detailed knowledge on the reporting infrastructure and process for FSI, Var, and overall market risk including market risk capital.

----- Follow-up Message -----
From: Kirk, Mike
Sent: Friday, May 18, 2012 8:49 AM
To: Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Wong, Elwyn
Subject: RE: Info needed today

Scott,

You may want to have Fred scrub this for what he knows about it. James is not in today, and this is his LOB so he would know the details I am missing. Fred may too.

Regards,
Mike

CIO MIS Frequency Arrival Date
 encompasses Results Weekly Mid week, week following
MArrS Stress Reports Weekly Mid week, week following
CIO APS Securities List Quarterly
CIO Info in Treasury Weekly Appendix Weekly
CIO Monthly Valuation Desk Monthly
Firmwide Risk Daily Market Risk Limits and Var Reports Daily T+2 *
Firmwide Model Risk Report Monthly

RANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-SPI-00021723
Level 1 EMR Monthly 3rd week of following month
Level 2 EMR Monthly 3rd week of following month
Daily EMR Daily Estimate on T, revised on T+1 **
* Produced T+1, released T+2; we get when fire distribution occurs
** Not sure what we were getting precisely

CIO Limits Frequency Unit Limit

All of CIO
Aggregate VaR (MM, Cont, etc.)
CIO D T
CIO North America D T
CIO International D T
Combined CIO x MSR (e) (f) D T

Mark To Market VaR
CIO D T 160,000
CIO North America D T 22,000
CIO International D T 160,000

Stress Loss Advisories
Max Stress Loss - Corporate Scenarios
Aggregate D T
MTM M T

Non Statistical Limits
EMEA
Credit Spread BPV D T
Credit Spread 104 CSW D T

STOP LOSS ADVISORIES
Aggregate
One Day D T 100,000
Five Day D T 150,000
Twenty Day D T 150,000

MTM
One Day D T 60,000
Five Day D T 60,000
Twenty Day D T 60,000

REGIONAL LIMITS
STOP LOSS ADVISORIES NA
Aggregate
One Day D T
Five Day D T
Twenty Day D T

MTM
One Day D T
Five Day D T
Twenty Day D T

STOP LOSS ADVISORIES INTERNATIONAL
Aggregate/MTM
One Day D T
Five Day D T
Twenty Day D T

MTM
One Day D T 70,000
Five Day D T 70,000

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-SPI-00021724
From: Waterhouse, Scott  
Sent: Friday, May 18, 2012 7:43 AM  
To: Crumlish, Fred; Rohi, James; Wong, Elwyn; Kirk, Mike  
Subject: Info needed today

We need to prepare two table for the comptroller today.

Table 1 - a list of all MIS we get and when we get it (e.g., daily P&L)
Table 2 - a list of all applicable limits

We should get examples of each. I need this ASAP.
From: Kirk, Mike
To: Furse, Thomas; Wong, Elwyn; Banks, George; Crumlish, Fred; Hohl, James; Kamath, Jairam; Monroe, Christopher; Tomese, Doug; Swank, Todd
Sent: Thursday, May 17, 2012 02:29 PM
Subject: RE: CIO Valuation Summary Memo - March 2012 Month End Results REVISED

Just received a revised CIO March 2012 Valuation Summary (see attached and also uploaded into WISDOM). Appears that they are revising 1Q12 results.

Changes from the previous version highlighted in yellow below;

Credit Indices and Tranches (page 5)

Original Text
Based on independent sourced prices and tolerances agreed with the CIO Front office, an adjustment of $(16.9)mm was required. For March month end the level of the Liquidity Reserve, which represents the illiquidity of off-the-run positions, was $(31.1)mm.

The credit derivative market has been extremely volatile this month. Initially, all sectors of the market tightened on an improved economic climate and a more stable peripheral European picture. However, as Central banks moved away from asset purchase programs and doubts resurfaced about the Spanish economy, markets weakened led by the financial sector. High Yield indices have outperformed the Investment grade indices while current on-the-run series outperformed the off-the-run.

CIO's reserve policy is to include any series more than 4 removed from the current on the run series. Prior to March month end, both index and tranche positions of Series 9 of both the ITRAXX and CDX IG were both omitted from the calculation despite qualifying under this criteria as both series were still considered to be liquid. At March month end, it was concluded that a reduction in liquidity in the tranches of these series warranted inclusion in the liquidity reserve calculation.

Revised Text

Based on independent sourced prices and tolerances agreed with the CIO Front office, an adjustment of $(16.9)mm was required. For March month end, the level of the Liquidity Reserve, which represents the illiquidity of off-the-run positions, was $(31.1)mm.

The credit derivative market has been extremely volatile this month. Initially, all sectors of the market tightened on an improved economic climate and a more stable peripheral European picture. However, as Central banks moved away from asset purchase programs and doubts resurfaced about the Spanish economy, markets weakened led by the financial sector. We have also seen an outperformance by the High Yield indices versus the Investment grade and of the current on-the-run series versus the off-the-run.

CIO's reserve policy is to include any series more than 4 removed from the current on the run series. Prior to March month end, both index and tranche positions of Series 9 of both the ITRAXX and CDX IG were both omitted from the calculation despite qualifying under this criteria as both series were still considered to be liquid. At March month end, it was concluded that a reduction in liquidity in the tranches of these series warranted inclusion in the liquidity reserve calculation.

George Banks, Jr.
Office of the Comptroller of the Currency
1196 Avenue of the Americas, 21st Floor
New York, NY 10036

*212.899.1367 | f 301.324.4452 | b 202.256.1966 *

gbanks@occ.treas.gov

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From: Kirk, Mike
To: <Hohl, James>
Sent: 5/9/2012 7:20:08 PM
Subject: RE: Document1
Attachments: CIO Kirk Edits.docx

James,

Here are my edits. I have no attachment to them whatsoever so feel free to accept or reject as you please.

Regards,

Mike

<<...>>

From: Hohl, James
Sent: Wednesday, May 09, 2012 2:28 PM
To: Kirk, Mike
Subject: Document1

Mike, Here's my first take. Stay off that leg. JCH

<<File: Doc1.docx>>
Regulators met with JPMC senior managers to discuss the CIO synthetic credit (index credit derivatives) portfolio.

- JPMC's 10-Q tomorrow will disclose synthetic credit losses and the possibility of more significant losses to come. Losses since 3/31 are about $1.9B, which are not part of 1Q results.
- The synthetic credit portfolio is being wound down under the control of Risk Management, although this will be a lengthy process.
- JPMC managers have taken actions to improve risk management (i.e. implemented new limit structure to include notional limits) and to prevent a recurrence, and reviews continue to assess the situation and enhance controls.

JPMC CFO Doug Braunstein called a meeting with OCC and Federal Reserve examiners to go over synthetic credit portfolio market losses that will be disclosed in the 1Q2012 10-Q tomorrow and are much larger 2Q to date than they were in 1Q. The synthetic credit portfolio risk-weighted asset grew about $30B in 1Q and another $20B in 2Q so far.

The synthetic credit portfolio held by CIO has $1.9B MTM losses in 2Q2012 to date. The CIO has monetized near $1B of gains from the AFS book that are booked thru the corporation under securities gains. The notional position of the AFS and firm wide credit synthetic hedge grew significantly during 1Q2012 in a failed attempt to reduce credit risk hedging by repositioning the portfolio. The net result is a large complex position that didn’t act as modeled with unexpected correlations and increased volatility that will take time to run down.

The traders wanted to reduce exposure to HY short position they had but market liquidity and perceptions (due to AMR and Kodak BK’s plus LTRO) were such that many participants had same view and sufficient liquidity was not available to reduce the short. So traders modeled other indices based upon historical correlations and determined the best course of action was to buy IG indices. Ina Drew noted that the old HY synthetic hedge moved in line with the AFS portfolio prior to these changes being made. John Hogan noted that the firm underestimated the risks and that they would exit the strategy and never reenter it.

The driving issue, according to Doug Braunstein, is the size of the position. Because of the size, any dislocation is magnified, and the ability to exit is hampered.

The CIO global credit 10% credit spread widening (CSW) limit was breached on March 22, 2012. At that time CIO Ina Drew suspended active trading in the instruments and began looking more closely at the drivers of the ongoing limit exception. At first it was thought by the CIO traders that the excess was due to market dislocations that would mean revert; however, by the last week of April it was apparent—after further analysis by others within JPMC, that there were fundamental problems with the portfolio. Further increases to this portfolio, as seen in the reports, were not from new trades, but rather from the convexity of the positions, many of which
behave like near or at the money options. Further widening of spreads will exaggerate this problem; conversely, spread narrowing will assist them in derisking.

At this time, Risk Management has control of the synthetic credit portfolio, which will be wound down. While the portfolio does have symmetrical risks, JP Morgan Chase (JPMC) managers are actively reducing the exposure instead of sitting on it to see if the market will turn around. Ashley Bacon is leading the efforts to actively reduce the 10% CSW exposure by July 4th. Currently, managers are meeting twice daily seven days a week to update and control this process. Two other aspects to winding down the portfolio are managing the risks after significant short positions mature in late December and managing the remaining longer-term positions. Ultimate resolution of the portfolio will take a long time, and there is a possibility of billions more in losses. The glide path of derisking entails three prongs. First, the derisking of delta (10% CSW), second, deciding what to do with HY shorts expiring in Dec; third, more long dated issues related to illiquid risks that they can’t do much about. May be more liquidity reserves as a result.

Risk management has assembled six risk categories for the synthetic portfolio and is stressing each of them. There is a risk that the portfolio could lose $2B from here, but these numbers are evolving as risk management better understands the position and as risks are unwound.

While the portfolio does have symmetrical risks, there is a risk that the portfolio could lose $2B from here, but these numbers are evolving as risk management better understands the position and as risks are unwound.

Marks of the previous positions were within tolerances. Reserves were taken according to policies in place in January. These reserves were for liquidity, and totaled $30MM. The bank has since added $150MM to these reserves.

JPMC managers are likely to "take a breather" in their market efforts after tomorrow’s 10-Q filing announces the situation to give the markets time to adjust to the news and any effects to settle down.

A review of the situation is ongoing. To date identified issues include the following. There was poor construction and execution of the hedge reduction strategy, which added to the complexity and size of the position. There was over reliance on historical market relationships, which resulted in excessive price movements when implied correlations increased. There was miscalculation of market and valuation dynamics. There were insufficiently granular limits for the synthetic credit book, particularly a lack of notional limits. It took too long to fully understand the portfolio risks and escalate problems. Finally, the current market environment for these instruments has magnified mistakes.

In addition to Risk Management’s active efforts to reduce the portfolio’s risk positions and ultimately wind it down as previously described, JPMC has begun taking actions to prevent a similar situation. More granular limits have been put into place. The valuation, control, compliance, and reporting framework have been tightened, and is undergoing further review to strengthen firmwide. An internal audit to assess risk management processes and financial reporting for CIO mark-to-market books is underway.

JPMC attendees
Chief Financial Officer Doug Braunstein
General Counsel Stephen Cutler
Chief Investment Officer Ian Drew
Chief Risk Officer John Hogan
EVP Corporate & Regulatory Affairs Barry Zubrow (telephone)

OCC attendees
Scott Waterhouse, Fred Crumlish, James Hoh, Mike Kirk (telephone)

Fed attendees
Diane Dobbeck, Anna, the other guy
Regulators met with JPMC senior managers to discuss the CIO synthetic credit (index credit derivatives) portfolio.

- JPMC’s 10-Q tomorrow will disclose synthetic credit losses and the possibility of more significant losses to come. Losses since 3/31 are about $1.9B, which are not part of 1Q results.
- The synthetic credit portfolio is being wound down under the control of Risk Management, although this will be a lengthy process.
- JPMC managers have taken actions to improve risk management (i.e. implemented new limit structure to include notional limits) and to prevent a recurrence, and reviews continue to assess the situation and enhance controls.

JPMC CFO Doug Braunstein called a meeting with OCC and Federal Reserve examiners to go over synthetic credit portfolio market losses that will be disclosed in the 1Q2012 10-Q tomorrow and are much larger 2Q to date than they were in 1Q. This synthetic credit portfolio risk-weighted asset grew about $30B in 1Q and another $20B in 2Q so far.

The synthetic credit portfolio held by CIO has $1.9B MTM losses in 2Q2012 to date. The CIO has increased their $1B of gains from the AFS book that are locked into the corporation wide securities gain. The notional position of the AFS and firm wide credit synthetic hedge grew significantly during 1Q2012 in a failed attempt to reduce credit risk hedging by repositioning the portfolio. The net result is a large complex position that didn’t act as modeled with unanticipated correlations and increased volatility that will take time to run down.

The traders wanted to reduce exposure to HY short position they had but market liquidity and perceptions (due to AMR and Kodak BK’s plus LTRQ were such that many participants had same view and sufficient liquidity was not available to reduce the short. So traders modeled other indices based upon historical correlations and determined the best course of action was to buy 1G indices. John Hogan noted that the new underestimation the risks and that they would exit the strategy and never reenter it.

The driving issue, according to Doug Braunstein, is the size of the positions. Because of the size, any deterioration is magnified, and the ability to exit is hampered.

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OCC attendees
Scott Waterhouse, Fred Crumlish, James Hohl, Mike Kirk (telephone)

Fed attendees
Dianne Dobbeck, Anna, the other guy
From: Welch, Robert  
To: <Crundk, Fred>; <Berg, Jaymin>  
Cc: <Swank, Todd>; <Atkins, Glenn>  
Sent: 2/9/2012 2:32:29 PM  
Subject: RE: Investment Portfolio AQ Comment for the CA

SENDAS please. I'll edit and insert the comments into the AQ section.

Thanks to all.

--- Original Message ---
From: Crundk, Fred
Sent: Thursday, February 09, 2012 5:31 AM
To: Welch, Robert; Berg, Jaymin
Cc: Swank, Todd; Atkins, Glenn
Subject: RE: Investment Portfolio AQ Comment for the CA

Let's call the current portfolio quality against the credit run.
CIO is the business run, all JP, JPCMB is what is booked inside the bank. CIO also has some private equity and other methods eligible things. I'm not sure which ones I can verify, but I would worry about including it in the RAS. A little over our current 1% less than 1%

- qtr

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--- Original Message ---
From: Welch, Robert
Sent: Thursday, February 09, 2012 8:29 AM
To: Crundk, Fred; Berg, Jaymin
Cc: Swank, Todd; Atkins, Glenn
Subject: RE: Investment Portfolio AQ Comment for the CA

Ok, here are the quarterly classified security figures from TD starting left to right w/o AQ=

Other Assets - Securities ('B' or 'house',' or 'NP')
Other Assets - Securities (TP)

Say $3.7B of the "portfolio" is below IG = <1%

Just a point of clarification for me. Last year's comments referenced a $3.12B CIO portfolio and also referenced the JPCMB portfolio of $3.17B (not $3.04B). I don't know what the difference is.

The below IG figure last year was relative to the CIO portfolio (not the JPCMB, I think)

Cheers. I can do the rest and paste. Let me know.

Thanks in advance.

--- Original Message ---
From: Crundk, Fred
Sent: Thursday, February 09, 2012 7:50 AM
To: Berg, Jaymin
Cc: Swank, Todd; Welch, Robert

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION
Subject: RE: Investment Portfolio AQ Comments for the CA

Thanks. Jeffrey. Can we say credit quality is "strong"?

Bob - if you have the latest fast data, we can put in the percentage classified/criticized.

- ypc

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-----Original Message-----
From: Berg, Jaymin
Sent: Wednesday, February 08, 2012 5:43 PM
To: Cunliff, Fred
Cc: Swark, Todd
Subject: RE: Investment Portfolio AQ Comments for the CA

Here's a paragraph let me know if you have questions/comments.

The credit quality of the investment portfolio is satisfactory. The investment portfolio grew by 15% to $184 billion year over year. The portfolio is comprised of 30 percent US government and agency securities, while the remainder is primarily in non-agency MBS/CMBS and foreign debt securities. The representation of US Agency and Treasury securities has decreased from 45% in the prior year due to the CDO's focus on researching non-agency tranches. Lower interest rates and prepayment risk have led them to opportunistically look to other asset classes for investment purposes during the year. The portfolio performance during 2011 was good and does not indicate any material credit issues in the investment portfolio. As of year-end, the investment portfolio has $5.5 billion in negative other comprehensive income. During 2011, the portfolio took $75 million in other than temporary impairment (OTTI) write downs, which is the equivalent to 0.2% of the portfolio.

-----Original Message-----
From: Cunliff, Fred
Sent: Wednesday, February 08, 2012 1:32 PM
To: Berg, Jaymin
Cc: Swark, Todd
Subject: RE: Investment Portfolio AQ Comments for the CA

Well, I just searched last year's core, and there was nothing there - so perhaps we were edited out as a rounding error last year. I copied Todd because I wanted it.

Getting this to me before you leave London would be "ahead" of my heightened expectations....

- ypc

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From: Berg, Jaymin
Sent: Wednesday, February 08, 2012 1:22 PM
To: Cunliff, Fred
Subject: RE: Investment Portfolio AQ Comments for the CA

Will try and work on it before I leave London as probably will touch on concerns right.

Do you have last year's sq section by any chance that you could send?

-----Original Message-----
From: Cunliff, Fred
Sent: Wednesday, February 08, 2012 10:10 AM
To: Berg, Jaymin

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION

OCC-SPI-00022351
Subject: RE: Investment Portfolio AQ Comment for the CA

You really don't want the same err, I am going to fill in the more so let me know when you think you can do this by:

- spec

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From: Berg, Jaymill
Sent: Wednesday, February 08, 2012 12:52 PM
To: Crumlish, Fred
Cc: Holm, James
Subject: Re: Investment Portfolio AQ Comment for the CA

When do you need this?

From: Crumlish, Fred
Sent: Wednesday, February 08, 2012 12:51 PM
To: Berg, Jaymill
Cc: Holm, James
Subject: FW: Investment Portfolio AQ Comment for the CA

I always forget about this. We need a short blurb.

- spec

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From: Welch, Robert
Sent: Wednesday, February 08, 2012 10:44 AM
To: Crumlish, Fred
Subject: Investment Portfolio AQ Comment for the CA

Hi Fred, was James or someone else on your team going to be able to draft a short blurb on the AQ section of the Cost Assessment this year?

Thanks, Bob
From:  Wong, Elwyn
To: Waterhouse, Scott; Kirk, Mike; Crumlish, Fred
CC: Hohl, James
Sent: 5/16/2012 8:24:13 PM
Subject: CS01
Attachments: 1-DIBlmage.bmp

Hi Scott

Given how little the Bank has provided us with concrete metrics, my current understanding is that $50 million Venkat mentioned going to $38 million yesterday and $34 million today is the "un-beta adjusted" number - the equivalent of the -$46.13 number then (this is from the PowerPoint they provided to you.)

If true, it is very meaningful. The Achilles heel (no pun intended) was their old analysis showed short HY (+8.51 CS01) when mapped to IG can have a short equivalent of +42.55 CS01, making them, when beta adjusted, not that long credit risk. As a matter of fact, they were almost "square" at -$4.31.

But then again it could be an overshoot the other way, if indeed HY reverts back to some of their old relation to IG - their problem is a huge basis problem.

Elwyn

---

From: Waterhouse, Scott
Sent: 5/16/2012 8:09 PM
To: Wong, Elwyn; Kirk, Mike; Crumlish, Fred
Cc: Hohl, James
Subject: RE: Raw minutes from 5/16 CIO call

A couple of adds on the names. Question to all of you with knowledge, when Venkat said that CS was down from $50 to $34, how meaningful is that? I.e., how much smoothing (basis, tenor, etc.) goes into that number, if any?

---

From: Wong, Elwyn
Sent: 5/16/2012 2:59 PM
To: Kirk, Mike; Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James
Subject: RE: Raw minutes from 5/16 CIO call

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From: Kirk, Mike
Sent: 5/16/2012 2:43 PM
To: Waterhouse, Scott; Crumlish, Fred
Cc: Hohl, James; Wong, Elwyn
Subject: Raw minutes from 5/16 CIO call

First half of meeting only. Not present for second meeting.

James and Elwyn, if you can correct any errors that may have made it would be greatly appreciated.
Regards,
Mike

Daily CIO update

Bank: Matt Zames, John Hogan, Ashley Bacon, Chetan Bhargiri, Marie Nourie, Greg Guneselkan?, Diane Genova, Venkatakhishnan
OCC: Scott Waterhouse, Fred Crumlish, James Hohl, Elwyn Wong, Mike Kirk
FRBNY: Diane Dobbeck, Marie Davis, Mike ?,
FDIC: Om Arya, John Granis
FSA: Jim ? and other representatives unknown.

P&L data: Still working on report with information that has been requested. Should be shortly. Can provide report with P&L numbers starting tomorrow. P&L and Risk combo with explain will come shortly.
- Will deliver daily P&L from Jan 1 will be delivered by week end.
- P&L on T+1 with explains are possible. T is more challenging, b/c NY closes at 7PM. Trader estimates and verbal P&L can be given daily.
- Monday loss $328.5MM, Tues loss of $76.4MM
- Today's P&L and Market color:
  - P&L today ups $45MM. IG 9 out-performed against on the run (otr) and theoretical basket by about 1bp which explains all P&L. Reassuring b/c IG 9 has been underperforming.
  - HY and IG did very little, tranche very insignificant.
  - Credit indices closed wider by 2 in Europe and 1.5bps in US.
  - AM bot $5B of 5 year (otr) iTraxx protection (the main index).
  - PM bot some HY risk in US.
  - CS01 is now from a peak of $50 mil to $34mil (so yesterday's note should read $38 mil instead of $28 mil)
  - CS01 measure started at $50MM with today's trades down to $34MM.
  - IG 9 10 year vs. theoretical basket is 7bps rich to basket (-7b to basket).

Collateral: As of Tues, still at $152MM. Across all counterparties except Deutsche Bank (DB) have dropped significantly, but DB has some issues with new trades with iTraxx 17. If DB is wrong number comes down significantly. Morgan Stanley (MS) collateral differences is now only 37MM.
Valuations to Markit and marks are fairly tight swinging around $25MM.

Spreads used for tranches the results are reasonable to IB Marks.

Collateral is paid/Rec in cash (Euro/USD), all counter parties (cp's) have option to exchange Treasuries but mostly done in cash so far Table will be provided with CSA options for each CP.

No new information on ICE collateral questions.

Updates on follow ups:

- P&L items. Committed to report snapshot for T+1 tomorrow, including FSA. Plus oral statement of T P&L.
- P&L back to Jan 1, due Friday of this week
- P&L Explain + risk metrics report will be end of week this week, at latest. Risk metrics bank uses to manage the book. Bank has this information in variety of forms and Matt and his team wants to clean up and give to FRBNY. Bank will give what they have today to manage the book to the regulators today.
- Basel update will walk regulators to all components of market risk by end of this week.
- CCAR FRBNY has received projections of income. Matt and team are working on risk glide path. Matt wants to look at worst day all the way thru crisis, at numerous confidence intervals, and the glide path will be based upon this. Matt will walk FRBNY thru this by Friday.
- Provide CCAR risk factors by Friday of this week.
- CIO AFS portfolio liquid asset buffer by asset class.
  - Chetan will send what he has now, can send complete list tomorrow.
- Loss to exit portfolio: Matt not comfortable with that number until knows what aggregate stress was to the worst day. Can't answer cost to get out today until sees stress numbers.
- Legal entity P&L explain: Whitefriars. Impacts upon capital on LE. Will give to us tomorrow. Will depend somewhat upon capital stress work in progress.
- Limit review: Will be tomorrow.

Risk Reduction Glide path:

- Immediate objection is to remove directionality. Buying back risk for OTR IG index. Long way from achieving, making some progress on 10% CSW (about 40MM so far from $209mil yesterday(?). Think 10% CSW number is fairly accurate. Certain that they need to be selling some every day to reduce risks every day. As Delta is removed will need to get more exact, but a while off from that.
John Hogan committed to giving the regulators what the bank has today to us today, with appropriate caveats until mgmt can scrub it.

Bank has collected a list of all dealers and hedge funds that have come back to JPM with axes; some match JPMC's book some don't. Levels are away from mid market. The original risk it is possible that the other side is cut there; so more optimistic, but have not consummated a deal.

Mike Kirk
Capital Markets Examiner
Large Bank Supervision
Phone: 212 395-1383
Fax: 301 433-9209

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From: Hohl, James
To: Crumlish, Fred; Wong, Elwyn; Kirk, Mike; Waterhouse, Scott
Sent: 5/14/2012 7:48:05 PM
Subject: RE: May 14 minutes

Bank: Mike Cavanaugh, John Hogan, Ashley Bacon, Chetan Bhargiri, Matt Zames, Diane Gerlova
OCC: Scott Waterhouse, Fred Crumlish, James Hohl, Elwyn Wong, Mike Kirk
Fed and FDIC

* While JPMC has made and continues to make significant changes to CIO managers and is using firmwide resources to address issues in synthetic credit portfolio, the MTM losses continue with a $330MM loss today.

* New Chief Investment Officer Zames is reviewing all CIO investments to assess future actions. Ashley Bacon is leading efforts to reduce risks from credit derivatives.

* Mike Cavanaugh is leading a review of what happened to stressed controls.

* Bankers are addressing regulators questions and will provide updates daily at 2 p.m.

P&L today - $330MM; directional 70mm; compression high yield vs high grade -120; series 9 -$100 similar to Friday. Part of loss from weakening after Friday's London close to NY Close.

All trades booked with JPMC Bank London Branch facing third parties, then back-to-back with Whitefriars which is a sub of a hold co of Reg-K subs to manage risk; the hold co in turn owned by JPMC Bank. Has to do so because Bank couldn't hold HY

OCC would like a document for each day for P&L and P&L explain dashboard and material position changes.

New trades: Sold CDX OTR that reduced 18CSW risk by $25MM, still working on this. Risk reduction glide path is unchanged today. Key focus is on risk directionality at the moment. Once this gets in line, will focus on trying to find other side of the trades. Some information that the client breaches can help fill the other side (not sure). Market making backlaves and market liquidity do not have enough capacity to get JPMC out of the trades, will need assistance from other sides of the trades. Not sure what market levels will have to be for market driven appetite of the other sides of these trades to appear.

Wide bid Friday, less today with little trading. Market is testing to see what JPMC will do. Expect bid to continue narrowing; however, banks remain likely to move against JPMC.

Looking at AFS book now to identify if there are any securities they 'don't like' and may sell. Will know more next week.

Bank will provide an estimate of how AFS sales can cover the synthetic credit portfolio losses. Regulators want to know the effect of changes of the AFS portfolio on the liquidity buffer.

Think market should have reasons to unwind trades b/c JPMC losses are someone's gains so are 'hopeful' that they can able to unwind with counterparties.

Capitol and RWA numbers will be provided in a few days once glide path of portfolio is determined. Bank is managing to $3. RWA on the portfolio is increasing at this time. Using market risk rule on the derivatives (Bank will confirm). Bank will provide projections of these numbers.

FRBNY wants to know how the RWA is estimated as they understand models are being worked on. Ashley Bacon will follow up.

In process of identifying the amount of risk the bank is willing to hold. Noting caution until deal settles before deciding how much to unwind because market is reacting to the news.

IG9 and S9 market prices adjusting to news of JPM and reaction to what they or may not do. Tranche market not running away from them though.

Collateral disputes: Nothing dramatic today. As of COB Friday, $0MM outstanding difference. Flat to prior day. Some improvement with MS. At one time widest collateral disputes were $660MM. Morgan Stanley difference was once in excess of $129MM. The largest difference was around mid April.

Improvement was driven by Bank changed their view of the value of the collateral. At the time of original valuation, the bank thought the bond was valued correctly, but have changed their view and have agreed to counter party losses.
Part of valuation differences in USD products is due to timing of NY and LDN close. Current MarkIT valuations closed recently. Currently widened to $50MM due to difference in timing between NY and London.

Synthetic credit book is booked in bank branch in London; risk is migrated to JPM Whitefriars. Whitefriars is a bank sub, under holding company sub created for all Reg K subs held under JPMCB NA.

P&L in bank is more likely to be flat, most P&L should be in Whitefriars but JPMC will confirm. High grade is booked in same place for risk mgmt purposes so book is all in one plane.

Shrek is a deal booking tool.

Tomorrow bank will walk us thru the operational aspects of the trade for legal booking etc.

Operational aspects: 75% of ICE eligible trades are through ICE. Clearings sent weekly; will send tomorrow and expect back over 80% when done this week. $72B are eligible, $63B are ineligible (don’t clear tranches and some of older indices).

Bank briefed FSA again today, description of timeline of events. FSA had similar as the US regulators have.

One resignation in London MO; getting some help from NY to assist both MO and technology. Very much engaged with FIE for knowledge and systems solutions.

CIO will have new CFO, very soon (Marie Nourie). Announcement will be later today. Ian Green (for expertise) is embedded with Ashley Bacon looking at CIO. Chetan Bhargiri named CIO for CIO reporting to Hogan. Ashley Bacon will run risk in CIO day to day reporting to Zamen, will make decisions on RWA on day to day, gathering group of individuals to figure out what went wrong and how to do it better.

Bank will provide a CCAR analysis of the synthetic portfolio. Don’t expect other issues in the rest of CIO. This is largest mark to market portfolio in CIO. CIO book is all very high grade.

Follow ups:
1. How much will it cost to get out today under reasonable assumptions (Bacon)?
2. APS inventory today and history; and strategies for offsetting strategies (Bhargiri)?
3. How (2) affects liquidity buffer (Tony working for Chetan Bhargiri)?
4. P&L Explain (Bacon) and recap on position (new trades on day). On T basis (based on trader estimate, and will provide info on slippage on T+1)
5. Where P&L is booked?
6. BC RWA for Synthetic Book and confidence of estimate (Nourie and Bhargiri)
From: Crumlish, Fred
To: Waterhouse, Scott
Sent: 5/31/2012 9:45:08 PM
Subject: Re: QA

Mr. He spoke of aspects directly impacting me but he may tell you more. Actually I had no surprises...

Said we could have been more aggressive on mra followup. I concurred, gave him my thought process.

Said we could explore "outsize" gains more, (Amr gain) as it may have indicated something to raise suspicions.

Use comparable process for new risks (us and bank) in my case I told I said I should have had Mike or every more involved.

Was pleased with our paper trail and confirm Jairam got

Praised Mike's use

Said he couldn't tell if we could have caught this. I said time will tell as we seek more.

--

OCC

202-439-3938

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----- Original Message -----

From: Waterhouse, Scott
Sent: Thursday, May 31, 2012 5:36 PM
To: Crumlish, Fred
Subject: QA

Anything surprising from Mike?

Sent from my BlackBerry Wireless Handheld

---

BANK PROPRIETARY AND/OR TRADE SECRET
INFORMATION

OCC-SPL-002026410
Mandate and Approach

KEY MANDATE: Optimize and protect the Firm’s balance sheet from potential losses, and create and preserve economic value over the longer-term.

- **Longer-term Investing**
  - Private Equity
  - Retirement Plan
  - Special Investments

- **Oversight Management**
  - Oversight of legacy investments and select new opportunities

- **Investment Opportunities**
  - $4bn AUM
  - $11bn AUM

- **Position in Peer Group**
  - YTD PE gain: $400m
  - Promote to return 17%

- **Group Strategy**
  - Allocation of variable components
  - High grade
  - High yield
  - $250mm

**INVESTMENT HORIZON**

- **Longer**
  - Strategic Investing & Risk Management
  - Integrate with Investment Banking

- **Shorter**
  - Risk Management
Tactical Positioning

- CIO positions tactically to complement the core investment portfolio.

- One example is a synthetic (or derivative) credit position established in 2008 to protect the Firm from the anticipated impact of a deteriorating credit environment.

- As credit spreads widened, CIO adjusted the position to capture value as credit markets stabilized.

- These positions reached a maximum 95% VaR of $130mm in early 2009, and have since been de-risked to a current VaR level of approximately $50mm, with some further risk reduction anticipated.

- Tactical credit strategies have contributed approximately $2.8bn in economic value from inception, with an average annualized RoE of 100%.
Earnings

- CIO's expertise and product suite have been developed and expanded to produce absolute returns through all business cycles.
- Some volatility of earnings should be expected throughout cycles, particularly at extremes.
- Very low expense base of approximately $300mm, coupled with high returns, produces overhead ratios that range from 3% - 10%.
Regulatory Reform

- CIO activities are not expected to be significantly impacted by Financial Regulatory Reform.

- CIO does not maintain "trading accounts" as defined by Volcker rule:
  - Intent is not to buy and sell to benefit from short-term price movements.
  - Activities are restricted to transactions that are clearly and transparently associated with the Firm's underlying structural risks, and all activities are documented as such.

- Private equity investing will be impacted:
  - Existing investments were planned to roll-off prior to effective date of the rules in any case.
  - New investments in Private Equity will most likely not be permitted in CIO.
  - Retirement Plan investments in private equity and hedge funds are expected to be excluded from restrictions.

- Engaging in preliminary discussions with regulators, in coordination with Firm-wide regulatory reform working group.
<table>
<thead>
<tr>
<th>Quarter</th>
<th>Market 1</th>
<th>Market 2</th>
<th>Market 3</th>
<th>Market 4</th>
<th>YTD 11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Return Summary**

- Risk Parity (60% RT, 40% RF)
- Return on Equity (RT)
- Total Return (RT)
- Portfolio Return (RT, RF)

**Notes:**
- RT = Risk Parity
- RF = Risk Free Asset
- RT positions may impact the total portfolio due to the nature of the underlying risk and return profile.
- RF positions may not fully capture the risk and return profile of the total portfolio.
Chief Investment Office Financial Supplement (Management View)*

<table>
<thead>
<tr>
<th>Series</th>
<th>Quarter 1 (M)</th>
<th>Quarter 2 (M)</th>
<th>Quarter 3 (M)</th>
<th>Quarter 4 (M)</th>
<th>YTD (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Allocation</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Total Assets</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Total Return</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total Net Return (TNR)</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Dividend</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Total Dividend Income</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Dividend Payout Ratio</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Dividend Payout Ratio (TNR)</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Note: This table represents a simplified view of financial data for a chief investment office. The numbers are illustrative and do not reflect actual financial data. The table includes columns for total allocation, total assets, total return, total net return, dividend, total dividend income, dividend payout ratio, dividend payout ratio (TNR), and dividend yield for each quarter and the year to date (YTD). The percentages indicate the percentage of total assets allocated to different investment categories.
### CIO Financial Income - December YTD Actuals [Management View]

#### Income

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Non-Interest Income</td>
<td></td>
</tr>
<tr>
<td>Cash Management</td>
<td></td>
</tr>
<tr>
<td>Trading Income</td>
<td></td>
</tr>
<tr>
<td>FX Hedging</td>
<td></td>
</tr>
<tr>
<td>Equity Trading</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
</tr>
<tr>
<td>Selling Expenses</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td></td>
</tr>
</tbody>
</table>

#### Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>General and Administrative</td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td></td>
</tr>
</tbody>
</table>

#### Net Income

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td></td>
</tr>
</tbody>
</table>

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION
## CIO Balance Sheet - Regional View

as of December 31st, 2011

### Balance Sheet - Spot Balances (3rd Party)

<table>
<thead>
<tr>
<th>Region</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>CRP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Account Securities</td>
<td>13.2</td>
<td>16.5</td>
<td>5.4</td>
<td>1.1</td>
<td>36.2</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 3rd Party Assets</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Balance Sheet - BI RWA Balances

<table>
<thead>
<tr>
<th>Region</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>CRP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Account Securities</td>
<td>3.6</td>
<td>34.3</td>
<td>1.8</td>
<td>1.4</td>
<td>41.1</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Balance Sheet - BIli RWA Balances

<table>
<thead>
<tr>
<th>Region</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>CRP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Account Securities</td>
<td>1.1</td>
<td>32.7</td>
<td>3.9</td>
<td>7.0</td>
<td>70.7</td>
</tr>
<tr>
<td>Cash &amp; Due from Banks</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>黑洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>黒洞</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance Sheet/RWA</td>
<td>Period: Q4</td>
<td>December 31</td>
<td>Year-End RWA</td>
<td>Change from Prior Year-End RWA</td>
<td>Change from Prior Year-End RWA in %</td>
</tr>
<tr>
<td>------------------</td>
<td>-----------</td>
<td>-------------</td>
<td>---------------</td>
<td>-------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Loans 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Loans 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note Receivables 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crop &amp; Carry 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total LDR 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Liabilities 5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net RWA 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net RWA Ration 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
1. Loans include all types of loans, such as mortgages, consumer loans, and commercial loans.
2. Crop & Carry refers to the specific category of assets within the loan portfolio.
3. LDR stands for Loan to Deposit Ratio, indicating the proportion of loans to deposits.
4. Total Assets represent the aggregate value of all assets.
5. Total Liabilities include all liabilities, such as deposits, borrowings, and other sources of financing.
6. Net RWA is the difference between total assets and total liabilities.
7. Net RWA Ration is the proportion of net RWA to total assets.

**Redacted by the Permanent Subcommittee on Investigations**
2012 CA QUARTERLY SUMMARY
Global Chief Investment Office First Quarter CA summary

1st Quarter

North America
CIO continues to manage portfolio positions with significant consideration of Basel III Capital requirements, resolution and recovery impacts, liquidity risk, as well as, enhancing and building out portfolio analytics for the structural asset allocation process.

Liquidity Risk Infrastructure:
Treasury - led initiative to build comprehensive firm-wide liquidity risk infrastructure
CIO engaged in reviewing business requirement and data sourcing definitions and 2012 planning

Differential Discounting:
Implemented successfully in Q4 2012 for Equities in Pyramid and all Fixed Income Products.

IGC Competitive Bidding Process:
Firm - wide initiative to assess risk and related framework by product and region
Submitted formal assessment identifying business lines within the Bank that engage in competitive bidding transactions
Currently focusing on consistency of controls across the firm

Regulatory
Volcker Rule:
CIO currently reviewing draft of rule recently released for comment period.
Technology design to tag trades in accordance with mapping documents completed. Final build out pending final rule release.
Continued emphasis on conducting risk management activities that are clearly related to underlying firm wide structural risks.
Assessing MTM trading as volatility risk, not market risk relative to underlying structural risks.

Redacted by the Permanent Subcommittee on Investigations

BANK PROPRIETARY AND/OR TRADE SECRET INFORMATION
OCC-SPI-00633448
APPIA ABS/CLQ Migration

In January 2012, the CIO's international credit portfolio of Asset Backed Securities (ABS) and Collateralized Loan Obligations (CLC) were successfully migrated from 38 owned applications (Concorde and ISIS) to the APPIA platform. Approximately 1,660 trades with $1.9bn notional were migrated. An initial migration of 38 ABS and CLC positions was performed to assess readiness for the full migration. In January and CIO Finance monitored the trades as part of SMU month-end and year-end processes. Audit performed a detailed review of the various aspects of this migration and issued a Satisfactory audit report in March, with no reportable issues noted.

Key NEBA - Asia

Technology projects update:
1. APPIA migration project: Migrates to two sets of products: (a) Swaps and F&O and (b) Fixed Income Securities and Repo.
   - Swaps and F&O - All complete.
   - Fixed Income Securities and Repo - Phase 1 and 2 - Migrations had been completed.
   - Fixed Income Securities and Repo - Phase 3 - Migration completed for Phase 1 in May 2012. Revised migration timeline is listed as below.
   - Phase 1 - Sep 2012 for Bangkok, Manila, Seoul, China & Vietnam
   - Phase 2 - Mar 2013 for Japan and Singapore
   - Phase 3 - May 2013 for India, Jakarta, HK, Malaysia, NZ, Taiwan and Sydney.

2. APPIA ABS/CLQ migration project: Beijing team currently working on the migration project to communicate the onboarding schedule in late April.

CIO Technology:
From a project perspective, the APPIA project to migrate trade off of IS systems on to a suite of CIO owned systems is making good progress. The migration approach was confirmed. Revised migration timeline is listed as below.
- Phase 1 - Sep 2012 for Bangkok, Manila, Seoul, China & Vietnam
- Phase 2 - Mar 2013 for Japan and Singapore
- Phase 3 - May 2013 for India, Jakarta, HK, Malaysia, NZ, Taiwan and Sydney.

Audit performed a detailed review of the various aspects of this migration and issued a Satisfactory audit report in March, with no reportable issues noted.

Key NEBA - Asia

Cancellation of ABS/CLQ Migration (12/4/2012); APPIA Integration for TBA's & Specified Pools (3/22/2012); and ABS Securities Migration Phase

Redacted by the Permanent Subcommittee on Investigations
Key in-flight projects include North America Toronto Branch Swaps and Securities Migration (plan for May) and CORE APPIA Migration (working on onboarding remaining securities in CORE onto APPIA). From a production support perspective, the Business Process index (BPI), which is used to measure the availability of the CO2 applications, remains stable at the 99% level. In February, EMEA Stress was down less than an hour due to DS log issue. In March DS outages occurred after a long-running stored procedure failed the DS transaction log. Stored procedure has been updated, automated purge jobs re-established, and DS re-loading jobs now scheduled to run every day longer duration. From a risk and control perspective, CORE, Shrek, TEA, Primus and Poplar are in scope for SOX testing. CIO Technology is on target to meet the firm-wide targets of 35% by June 15th.

North America:

Market Risk Limits and Total Return and Trading Metrics summaries are reviewed by audit. In addition, weekly metrics for operations are monitored by audit. Weekly metrics consist of, P&L variance, capital and amended trading, risk limits and transaction volumes. No significant issues noted in Q1. Operational KPIs and P&L are primarily monitored through the BPI process.

Chief Investment Office highlights Q1 2012:

SAA-Portfolio

The book value of the Strategic Asset Allocation Portfolio decreased from $221B Q4 2011 to $159B for Q1 2012. Attributed to:

Sales/Maturities of German/French/Canadian Government Securities
Sales of ABS Credit Card Positions
Transfer of CLO’s from EMEA to North America

MTM Overlay portfolio.

(Note this portfolio is 99% trading, 1% Held for Investment)

MTM Overlay Portfolio: Market Value for Q1 2012 with a balance of $155M is 4Q 2011 with a balance of $1.233B.

The main driver of the decrease in this portfolio quarter over quarter is:

- Increase in Short US Treasury & Foreign Government debt positions of ($490M)
- Sales of CMBS positions of ($200M)
- Increase in the OCI balance from ($13M) to ($2.3M) is due to the sale of a Private RMBS position

Corporate Retention Portfolio

The book value of the CRR Portfolio decreased from $2.78 4Q 2011 to $2.6B 1Q 2012. No significant variances to note.

Market Risk:

<table>
<thead>
<tr>
<th></th>
<th>12/31/2011</th>
<th>3/31/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 CIO-MSR VAR Limit</td>
<td>$145m</td>
<td>$165m</td>
</tr>
<tr>
<td>MSR Limit</td>
<td>$660m</td>
<td>$800m</td>
</tr>
<tr>
<td>Level 2 MSR B&amp;P Limit</td>
<td>$55m</td>
<td>$55m</td>
</tr>
<tr>
<td>International Equity Vega (long only)</td>
<td>$11.5m</td>
<td>$11.5m (temporary limit increase for long only)</td>
</tr>
<tr>
<td>International Equity Vega</td>
<td>$4.5m</td>
<td>$4.5m</td>
</tr>
</tbody>
</table>

Franchise-level limit changes. The CIO MTM limit was increased to $15M and MTM positions in SAA, FX capital Hedging and CRR are now included in this limit.
North America
Through CA activities, Audit tracks the entry of all audit issues and related action plans into Phoenix, monitors the progress through completion of action plans, and subsequent closure of issues in Phoenix. A monthly analysis of open action plans is prepared and follow-up with action plan owners performed by audit before the end of each month.

No new issues or action plans have been added for this quarter.

**PMEA**

There are 3 business identified issues and action plans have been added for this quarter and 1 action plan where the target date has been extended to June 2012 from December 2011.

**GLRS Substantiation Review:** There is inadequate documentation of CIO EMEA substantiation procedures and the methodology used to substantiate each type of GL. Thus, GLRS Substantiation methods used by CIO EMEA personnel to be reviewed and documented to ensure appropriateness and consistency. A Compass substantiation practices used by CIO EMEA to CIO NA and CIO ASIA address inconsistencies, as determined appropriate. IL disclosure the ownership of the substantiation responsibilities and determine whether any changes should be made. Action Plan due for completion on 31-May 2012.

**Model Documentation:** Model documentation is required in SABR, Westend and Primus CMT systems to reconcile Model Risk Management processes, ensuring updated model inventories and follow-up on required documentation, timing, and other requirements mandated by the CIO Model Risk Oversight Group. Action Plan due for completion on 30 June 2012.

**Reconciliation of bonds set up in COWEB:** Bonds set up in COWEB have their issue SPN manually attached by whoever is setting up a bond and the required SPN can be selected. This leaves downstream users to calculate, and verify matching the portfolio and lists of CO. Currently the SPN needs to be set up and mapped to every different ABS tranche but CIOEMEA. The system has simplified the process to one SPN to be used, and if needed SPN to be used. Action Plan due for completion.”
Greater accuracy in ASS to SPN mapping

The volume of SPNs previously created also meant that details entered onto the SPN record were often incomplete. The rationalization of the ABS SPN process should allow more accurate records to be maintained. Action Plan is due for completion on 31 May 2012.

Amortization on AFS Portfolio vs. Cash: Amortizations on the AFS portfolio are calculated at month end as part of the regular control procedures around the AFS portfolio. The cash relating to these amortizations isn’t necessarily received in the same month as when the amortization occurred. This generates a break between the amortizations calculated and the cash received, which is subsequently unexplained. Detailed analysis on an ISIN basis is undertaken to identify those securities where cash received straddles month end and resolutions for any breaks are assisted by the cash payments team. The resolution was delayed as the ABS migration was delayed last year and resolution was dependent on that. Post ABS securities being migrated onto CRPs in Q1 2013, since the balances have stabilised, further analysis can be undertaken to clear the breaks. Expected resolution data - 2 months post migration. Action Plan currently set for June 2012 completion.

CIO Credit Market Risk and Valuation Practices (issued March 2012) rated as Needs Improvement identified the following issues:

- CIO VCV practices where a number of risk & valuation models have not been reviewed by Model Review Group (e.g. absence of price testing frameworks and insufficient consideration of market risk measurement methodologies) and associated risk measurement methodologies have not been appropriately documented and/or implemented.
- Stress testing where there is no documented methodology to outline key testing components (e.g. computational methods) or assess limitations such as offline risk measurement, missing risk factors and curves.
- The SVA book ($140bn notional as at 31/3/12) does not currently feed the firm wide market risk limits and thresholds framework and relevant SVA stress testing results are not measured against corresponding limits.

Expected resolutions for the above issues have been identified and targets were set. Action Plan currently set for June 2012 completion.

All the issues and action plans related from 2011 audit were complete and Phoenix issues were closed accordingly before target dates.

BUSINESS CHANGES

North America: Dave Alexander (CFO), left CIO for RFS and was replaced by David Bjarnason who has announced his resignation and will be transitioning out of this role in the 2nd quarter.

EMEA - David Bjarnason (EMEA Accounting Policy and Control) is leaving the firm in Q2, 2012. There is currently no indication as to whether he will be replaced.

PLAN AND RISK ASSESSMENT CHANGES

No new issues or action plans have been added for this quarter.

FOLLOW-UPS

EMI and Audit Report Issues

Through CA activities, Audit tracks the entry of all audit issues and related action plans into Phoenix, monitors the progress through completion of action plans and subsequent closure of issues in Phoenix. A monthly analysis of open action plans is performed and follow up with action plan owners performed by audit before the end of each month.

No new issues or action plans have been added for this quarter.

Not Applicable: No plan or risk changes in Q2 2012.
<table>
<thead>
<tr>
<th>OVERALL COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUMMARY</strong></td>
</tr>
<tr>
<td>The following audits were completed during 1Q 2012:</td>
</tr>
<tr>
<td>North America: ASC 815 Hedge Accounting (Satisfactory)</td>
</tr>
<tr>
<td>EMEA: 1. CIO APPA Systems Migration (Satisfactory)</td>
</tr>
<tr>
<td>2. CIO Credit Market Risk &amp; Valuation Practices (Needs Improvement)</td>
</tr>
</tbody>
</table>
From: Berg, Jaymin
To: <Crumlish, Fred>;<Fursa, Thomas>;<Kamath, Jairam>;<Kirk, Mike>;<Monroe, Christopher>;<Wong, Elwyn>;<Hohl, James>;<Tornese, Doug>;<McLaughlin, Doug>
Sent: 3/6/2012 9:39:30 PM
Subject: Market Risk Minutes
Attachments: OCCDMRM-688691.DOCX.DRF

Key Takeaways:
- Euro Crisis stress scenario was changed. This caused almost a $2B increase in loss due to the changes in scenario composition (due to nature of shocks chosen).
- Aggregate Stress will be changed in the March DBPC meeting. Due to the inclusion of many more portfolios, utilization will increase dramatically. The current $8B of Aggregate Stress will likely increase to approximately $20B. Limits will be adjusted accordingly.

Methodology
- No changes to VaR methodology
- Euro Crisis methodology changed for stress scenario. The methodology change increased Euro Crisis by $1.86B. See IR Stress - Proposed Changes to Euro Crisis v2.
- Lauren McCaffrey and Ian Greene are the contacts if we want to discuss shock selection for stress grids. OCC did exam recently.

The aggregate stress will soon include more books:
- SAA portfolio, the investment portfolio for the bank (from CIO), will add $10-$12B of utilization. As these are mostly AFS, they are part of aggregate stress and not mark to market stress. SAA is usually OCI (Other Comprehensive Income).
- PE book will add _ of utilization (includes OFP Partners and 1 or 2 others).
- A small book from the Commercial Bank.
- FX Capital hedging book (approximately _ The mark-to-market piece of FX was always included but now accrual positions will also be included. Accrual part is not in trading VaR.
- More books could be added in the future such as Global treasury book (which is calculated but not included).

Limit Changes
- No changes at IB level for stress or VaR limits.
RFS limits were decreased due to model changes that dramatically reduced VaR (from $90mm to $55mm).

CIO limits are in process of being decreased due to model changes.

Limits will be reviewed (and approved) in March at the DRPC meeting.

Firmwide VaR limit will likely not change.

Utilization

Firmwide VaR averaged $109mm in February versus $126mm in January. The decrease is due to CIO credit tranche methodology changes, which were implemented on January 27th.

There were no Firm VaR or Stress breaches in Feb.

Average Firmwide MTM stress in February was $3.5B (vs. a $5.8B limit).

Average Firmwide Aggregate stress in February was $4.4B (vs. a $9.758B limit).

No loss days for the Firm or IB using non-certified P&L in Feb.

Projects

Risk and Finance are working on One Hierarchy Project. They are working to reconcile views (align the hierarchies) between Risk and Finance. Volcker rule requires more detailed risk and return metrics, which is only currently possible at higher levels right now. Aligning Risk and Finance will allow for back-testing at the lower levels. As P&L is currently from Finance and risk is from VaR, they are not aligned. Alignment must be done in a systematic way.

Other

MRR reports unmapped portfolios to businesses weekly and monthly.

Unmapped portfolios have different root causes, such as test data being inadvertently sent or a non-MTM portfolio feeding into MaRRs. Feeds come from risk systems or risk aggregators and feed into MaRRS.

As mapping used to be in MO (middle office) and Risk MO has merged into Product Control, the responsibility has diminished. JPMC acknowledged that the procedure is too manual and they are trying to build a front end tool to address some of these weaknesses.

This "Portfolio Mapping Tool" will create an audit trail and allow a workflow for execution of changes – allowing communication between PC and Risk. The tool might begin to rollout in 2 to 3 months (it will be a phased approach.

JPMC said that minor changes were done to the Market Risk Policy on Limit Changes. Although the date on the Market Risk Limits document is May 18, 2011, JPMC said there were changes made to the document that altered the meeting to align with what is done in practice. However, the policy date was not updated. Examiners asked JPMC to review document and check that it aligns with current practice. This will be discussed at the next MRR meeting.

JPMC reviewed document that reviewed data capture and quality. The diagram was a system flow diagram which showed Risk Management Systems to MaRRs reconciliation as well as Risk Management Systems to
Memo

To: File

From: Jaymin Berg

Date: 3/1/2012

JPNC: Lavine Surtani, Matthew Lynch, Thomas Lochtefeld
OCC: Jaymin Berg
Fed: Jonathan Godinger, Glenn Roder, Irene Sanchez, Anna Iaccaci
FDIC: Om Arya

Subject: Market Risk Reporting

Agenda:
Stress and VaR - Firmwide and IB, including breaches to Stress and VaR
Changes/Proposed Changes to:
• Limits
• Organization/Hierarchy
• Definitions of stress scenarios.

Discussion of changes to aggregate stress:
• Newly included items
• Items in discussion
• Items that are not included

Loss days for the month

Discussion of unmapped portfolios
• A large number of new books feeding downstream systems without any supporting docs, risk hierarchy instructions or LOB identifiers and hence sit in suspense and do not feed risk reports. (Continuous audit - 4Q11).
  • What is the current status?

• Confirm that Market Risk Limits Firm-wide Risk Policy has not been updated since 5/18/2011.

• Has there been any progress or documentation on the goal to have fewer front office systems (and hence, fewer feeds into MARRS)?
Discussion on Data Quality
- How is the quality of the data received by MRR ensured?

Key Takeaways:
- Euro Crisis stress scenario was changed. This caused almost a $2B increase in loss due to the
  changes in scenario composition (due to nature of shocks chosen).
- Aggregate Stress will be changed in the March DRPC meeting. Due to the inclusion of many
  more portfolios, utilization will increase dramatically. The current $2B of Aggregate Stress will
  likely increase to approximately $20B. Limits will be adjusted accordingly.

Methods:
- No changes to VaR methodology.
- Euro Crisis methodology changed for stress scenario. The methodology change increased Euro
  Crisis by $1.886B. See IB Stress - Proposed Changes to Euro Crisis v2.
- Lauren McGaffey and Ian Greene are the contacts if we want to discuss shock selection for
  stress grids. OCC did exam recently.

The aggregate stress will soon include more books:
- SAA portfolio, the investment portfolio for the bank (from CIO), will add $10-$12B of utilization.
  As these are mostly AFS, they are part of aggregate stress and not mark to
  market stress. SAA is usually CCI (Other Comprehensive Income).
- PE book will add ______ of utilization (includes USP Partners and 1 or 2 others).
- A small book from the Commercial Bank.
- Small Asset Management book (AM Funded)
- FX Capital hedging book (approximately ______). The mark to market piece of FX was
  always included but now accrual position will also be included. Accrual part is not in
  trading VaR.
- More books could be added in the future such as Global treasury book (which is
  calculated but not included).

Limit Changes
- No changes at IB level for stress or VaR limits.
- RFS limits were decreased due to model changes that dramatically reduced VaR from
  ______.
- CIO limits are in process of being decreased due to model changes.
- Limits will be reviewed (and approved) in March at the DRPC meeting.
- Firmwide VaR limit will likely not change.

Utilization
- Firmwide VA averaged $1.12B in February versus $1.26B in January. The decrease is due to
  CIO credit tranche methodology changes, which were implemented on January 27th.
- There were no Firm VaR or stress breaches in Feb.
- Average Firmwide MTM stress in February was $3.5B (vs. a $5.88B limit).
- Average Firmwide Aggregate stress in February was $8.4B (vs. a $9.75B limit).
Risk and Finance are working on the One Hierarchy Project. They are working to reconcile views (align the hierarchies) between Risk and Finance. Volcker rule requires more detailed risk and return metrics, which is only currently possible at higher levels right now. Aligning Risk and Finance will allow for backtesting at the lower levels. As P&L is currently from Finance and Risk is from VaR, they are not aligned. Alignment must be done in a systematic way.

MRR reports unmapped portfolios to businesses weekly and monthly. Unmapped portfolios have different root causes, such as test data being inadvertently sent or a non-MTM portfolio feeding into MaRRs. Feeds come from risk systems or risk aggregators and feed into MaRRs.

As mapping used to be in MO (middle office) and Risk MO has merged into product control, the responsibility has diminished. JPMC acknowledged that the procedure is too manual and they are trying to build a front-end tool to address some of these weaknesses.

This "Portfolio Mapping Tool" will create an audit trail and allow a workflow for execution of changes — allowing communication between PC and Risk. The tool might begin to rollout in 2 to 3 months. It will be a phased approach.

JPMC said that minor changes were done to the Market Risk Policy on Limit Changes. Although the date on the Market Risk Limits document is May 18, 2011, JPMC said there were changes made to the document that altered the meeting to align with what is done in practice.

However, the policy date was not updated. Examiners asked JPMC to review the document and check that it aligns with current practice. This will be discussed at the next MRR meeting.

Follow-up Items:
1. Next Meeting Date: April 5, 2012
1. Description

This document describes procedures, roles & responsibilities of CIO's Independent Valuation Control Group ("VCG").

- **VCG responsibilities:** VCG is responsible for ensuring that independently approved price sources / parameters are used to record assets and liabilities and appropriate adjustments / reserves are made when required, due to material differences between VCG and Front Office marks.

- **Frequency of the process:** Formal monthly review. Market color obtained more frequently depending upon product.

2. Key people / sources of information

- **Positions and prices that are subject to testing:** Responsibility for the price testing process resides in both CIO's Middle Office and VCG. The CIO Middle Office group is responsible for the completeness and accuracy of positions and prices. VCG is responsible for price testing and determining whether pricing adjustments or reserves are required.

- **Prices / market value for the transactions from external and internal vendors.** (Details on section 6.)

- **Market color information.** (Details on section 4.)

3. Timeline and overview of the independent valuation process

The CIO valuation process utilizes four main methods.

- 3rd party prices
- Independent and reliable direct price feeds
- Cash flow models with public recognized tool (e.g. BondStudio)
- Internal models developed by CIO

Independent and reliable direct price feeds are the preferred method for assessing valuation. In general, third party prices/broker quotes are considered the next best pricing source. However, in certain markets where stale or unobservable prices are prevalent, alternative methods will be applied to assess valuation. If broker quotes are not available, VCG would look to perform discounted cash flow (DCF) analysis.
utilizing an approved model such as BondStudio. Finally, given a general absence of data associated with an illiquid market, VCG would recommend the development of an internal model to provide a valuation based on relevant market inputs and standard modeling techniques. Each of these methods is discussed in greater detail later in this document.

The timeline of the independent price testing process is:

1. Pre-month end (1 week prior)
2. 2-3 days
3. BD 1-2
4. BD 3

4. Market color collection

Market color refers to price or market value information for transactions similar to those CIO has in its portfolio. VCG collects this information daily (depending on the frequency of the source) from internal JPM sources and external dealer & non-dealer sources such as:

- JPM IB color from Inventory offering sheets (mortgage positions).
- JPM IB color from bid lists (mortgage positions).
- JPM IB research from Morgan Markets (mortgage positions).
- Color from CIO front office (all positions).
- Color from CIO VCG collection (excluding above; all sources).
- Dealer (Credit Suisse, Merrill Lynch, Deutsche Bank, Barclays Capital etc.) research for all available products.
- Non-Dealer (rating agencies; government bodies; IMF, non-Financial vendors e.g., ADCO, LPS; academia etc.) research for all available products.
- VCG attempts to manually obtain the most recent transaction data in the market that is similar to CIO’s transactions with respect to, among other characteristics, risk, maturity, coupon rate and type of product.
5. Product coverage matrix
VCG uses four methods to independently price tested positions based on the hierarchy of sources that is presented in Appendix 1.
The details on how independent pricing information is delivered to, and stored by, VCG are included in Appendix 2.

6. Third Party Price sources
Independent prices are obtained from various external sources (Markit, Totem, etc.) and applied to CIO positions for price testing purposes. Appendix 3 provides a comprehensive matrix of independent price sources. An example of an externally-sourced price grid that is used by VCG is included in Appendix 4. VCG grid is put together using color bond information in a grid of prices for Non-agency.

7. Independent and reliable direct price feeds
The Finance Valuation & Policy Group ("FVP") within the Investment Bank (IB) provides independent pricing to the VCG team for select CIO products. In this case, VCG relies on the IB controls in place regarding the quality of the pricing methodology. In either cases, however, the IB FVP team conducts price testing of select positions on behalf of the CIO VCG team. In either case, the CIO VCG is accountable for the results of price testing (e.g., that the coverage of CIO portfolios is adequate and comprehensive). Refer to Appendix 7 for a product-level summary that identifies the type of support that the Investment Bank specifically provides to VCG.

Additional product level information that pertains to support provided to VCG by the Investment Bank is as follows:

- **Fixed Rate Agency Residential Mortgage Pools TBAs:**
  For Agency fixed rate MBS pools (either specified or TBAs), the CIO VCG team validates (monthly) a price grid created by IB Middle Office team. The validation is performed using Bloomberg and Barclays pricing information. An example of the grid is on Appendix 6.
  VCG does not receive cusip level information for these pools. It is sufficient for CIO VCG to validate the grid and present the total portfolio market value provided by CIO Finance team at the BD3 month end meeting.
  Based on this grid, CIO Middle Office assigns the price to the MBS pools at cusip level.
  If any adjustments are necessary, IB Middle Office sends the adjustment value to CIO VCG for review and ultimately to the Finance team for booking if necessary.

- **Equities and equities derivatives**
  The CIO equity derivatives group is a price taker from PYRAMID (an IB transaction system that uses the standard Black Scholes options pricing model). The prices
Swaps, exchange traded futures and options:

As a general matter, VCG relies on price testing conducted by IB FVP for these products. CIO VCG ensures that the coverage of CIO products is adequate and comprehensive. However, with the move to Primus in EMEA, CIO VCG will validate inputs that are used to create discount curves and prices used for exchange traded products.

8. Discounted Cash Flow ("DCF") model on BondStudio

For certain products in CIO, the independent price is determined from the discounted cash flow method calculated using BondStudio. The process is comprised of two steps:

BondStudio is a cash flow tool developed by JPM that is also available to external clients such as banks, hedge funds etc.

Since the color bonds function as a proxy for CIO's transactions, VCG uses the color bond market data as inputs to BondStudio in order to calculate yields appropriate for CIO's transactions.

![Color bond population diagram]

BondStudio Inputs
- Prepayment model: EPM
- Default model: EDM
- Price from the color bond
- Date: Last day of the month

BondStudio Outputs
- Yield
- Projected cash flows
- Prepayment speed
- Default rate

CIO population

Inputs
- Yield
- Price

Outputs
9. Internal models
   In cases where a less liquid market exists for a given product, the business may use an internal model to measure fair value (Appendix 3 identifies those products in which the business uses an internal model for such purposes). In this case, it is the responsibility of the business to develop the model, as well as to obtain approval for use from the firm's Model Review Group. However, VCG, as a stakeholder in this process, should ensure that all the necessary inputs to the model are defined and controls around its use are in place.

10. Price testing procedures – select products
    Procedures that are followed by VCG to independently estimate fair value of tested positions of selected products are outlined in Appendix 6.

11. Incoporation of new products into the price testing process
    When a new product is acquired, VCG performs test runs / parallel analyses during the month prior to month end.

12. Preview of price testing results with Front Office & Management
    VCG reviews the intermediary results / inputs for valuation with CIO management and Front Office to receive feedback and guidance.

13. Position reconciliation
    CIO Middle Office is responsible for generating a file with all CIO positions. In the event of any difference, Middle Office is responsible for investigating the difference and generating an updated file.

14. Presentation of results and adjustment decisions
    VCG presents a comparison of Front Office marks and VCG independently sourced prices to the following constituents:
    - Front Office
    - Finance (regional CFOs, regional and global controllers)
    - Operating Risk Management
    Price differences above the variance threshold listed below are highlighted. The proposed adjustments are reviewed with the identified constituents. Meeting notes are documented as evidence of the discussions.
15. Price Testing Thresholds

In the case of securities, the VCG price for each CUSIP / ISIN is compared to the Trader price for that same CUSIP / ISIN and a variance (§ market value and % market value) is computed. Thresholds, representing estimates of bid-offer spreads, are applied in assessing the need for price testing adjustments.

In the case of price testing results associated with derivatives and/or non-CUSIP-based instruments, a difference between a trader / system mark and VCG mark will be measured. The assessment of whether a price testing adjustment will be passed is determined by considering the size of the positions, the liquidity of the market and whether the price would fall within the normal bid-offer spread of the specific market. The basis for price testing adjustments that are judgmentally not passed are documented and explained in a monthly summary that is circulated to senior management.

16. Illiquidity / Concentration Reserves

In assessing the reasonableness of fair value measurements that are subject to testing, VCG will consider whether such measurements appropriately reflect liquidity risks, particularly in the case of instruments for which CIO maintains either a significant / concentrated position and/or if the market for a given instrument can be observed to be less liquid. In this regard, VCG is responsible for calculating / monitoring these reserves and consulting with the business on such estimates (see Appendix 8).
Appendix 1 – Hierarchy of price sources

Month: November 2009

Description of the process:
- The hierarchy below was applied to all the cusips.
- When the difference between the trader price and VCG price was greater than the threshold and the DCF price would reduce the difference, the DCF price was applied. This final step is performed given that VCG is comfortable with the effectiveness of the DCF price methodology. In addition, VCG has done manual reviews at the cusip level in past months which indicated that the DCF price is a better representation of fair value for the securities.

1) FTID / IDC
2) S&P
3) TREPP
4) Bloomberg Price
5) VCG Grid
6) Discounted Cash Flows

Specifically for Municipals:
1) S&P
2) FTID, the rest of the sequence is the same

Approved by _________________________________

Date of approval: ____________________________
Appendix 2 – Price sources details: delivery and storage of information

CIO Technology developed a storage database on IntraspectKm for each of the pricing sources. A corporate email was created for each of the sources and any files attached to the email is downloaded and stored as read only, so the integrity of the data is maintained.

<table>
<thead>
<tr>
<th>Source</th>
<th>How it is delivered to VCG</th>
<th>Corporate email</th>
<th>Database</th>
</tr>
</thead>
<tbody>
<tr>
<td>FYSE IDC</td>
<td>CIO technology emails IDC information to VCG.</td>
<td>VCG: <a href="mailto:FYSE@intraspectkm.jpmorgan.com">FYSE@intraspectkm.jpmorgan.com</a></td>
<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
<tr>
<td>S&amp;P</td>
<td>2 files at shared drive (shared drive)</td>
<td>VCG: S&amp;<a href="mailto:P@intraspectkm.jpmorgan.com">P@intraspectkm.jpmorgan.com</a></td>
<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
<tr>
<td>TREPP</td>
<td>email from vendor via Trader</td>
<td>VCG: <a href="mailto:TREPP@intraspectkm.jpmorgan.com">TREPP@intraspectkm.jpmorgan.com</a></td>
<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
<tr>
<td>Reuters</td>
<td>from Datawarehouse application</td>
<td>VCG: <a href="mailto:Reuters@intraspectkm.jpmorgan.com">Reuters@intraspectkm.jpmorgan.com</a></td>
<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
<tr>
<td>Bloomberg</td>
<td>downloaded on last day of month as of close of business by VCG</td>
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<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
<tr>
<td>Pricing Direct</td>
<td></td>
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<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
<tr>
<td>Brokers</td>
<td>email from brokers</td>
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<td><a href="https://intraspectkm.jpmorgan.com/">https://intraspectkm.jpmorgan.com/</a></td>
</tr>
</tbody>
</table>
# Appendix 3 - Third Party Pricing Source

<table>
<thead>
<tr>
<th>Category</th>
<th>1</th>
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</thead>
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<td>Category 5</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Note:** This table is illustrative and does not contain actual pricing data.

**Source:** Bank proprietary and/or trade information (OCC-5764832885)
## Appendix 4  – Example of VCG grid

<table>
<thead>
<tr>
<th>Claim</th>
<th>Nominal</th>
<th>Bid Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim 1</td>
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<td>95</td>
</tr>
<tr>
<td>Claim 2</td>
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<td>445</td>
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<tr>
<td>Claim 9</td>
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<td>495</td>
</tr>
<tr>
<td>Claim 10</td>
<td>550</td>
<td>545</td>
</tr>
</tbody>
</table>

**Note:**
- The grid above is an example of a VCG grid as described in the Procedure: Valuation Process. The values are hypothetical and used for illustrative purposes.
- The grid is used to determine the winners of a bidding process based on their valuations.
- The nominal values represent the original valuations of the claims, while the bid prices reflect the winning bids for each claim.

---

**Date:** 05/21/2020

**Last Update:** 05/21/2020

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC·SPI·00052685
### Appendix 5 - Example of Fixed Rate Agency Residential Mortgage Pool (specified or TBA) grid

<table>
<thead>
<tr>
<th>Rate</th>
<th>Pool</th>
<th>Maturity</th>
<th>Prepayment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5%</td>
<td>30</td>
<td>30</td>
<td>111</td>
</tr>
<tr>
<td>3.0%</td>
<td>35</td>
<td>35</td>
<td>123</td>
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<tr>
<td>3.5%</td>
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<td>40</td>
<td>135</td>
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<tr>
<td>4.0%</td>
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<td>4.5%</td>
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<tr>
<td>6.5%</td>
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<td>207</td>
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</tbody>
</table>

**BANK PROPRIETARY AND/OR trade information**

OCC:SPS-000000
Appendix 6 – Procedure for independently estimating fair value for select products

NA

CDs:
The file provided by Middle Office has the coupon rate in the field “system/trader price”, therefore VCG estimates the trader price using Bloomberg and the coupon. VCG also calculates the independent VCG price using Bloomberg and DCF.

EMEA

Credit Derivatives:

Index/Tranche Quoted as Spread

\[
\text{Credit Spread BPV (CSBPV) * Spread Difference} = \text{Notional} \times \left( \frac{\text{Duration}}{10,000} \right)
\]

Index/Tranche Quoted as Price

\[
\text{Notional} \times \left( \frac{\text{Price Difference}}{100} \right)
\]

Where we have tranches hedging a main index position, the P&L calculation is a 3 step process:

1. Multiply Tranche notional by Tranche delta, multiply by -1, to give the main index equivalent amount of the tranche. Price test (using one of the calculations above dependent on whether quote is spread or price) using the index reference level. Repeat for each tranche.
2. Price test tranche notional, using the tranche levels and the correct calculation from above.
3. Sum the values for each tranche in point 1 and add to the main index position. This is price tested using the Markit v FO price difference.

Swaptions:

CIO Middle Office provides Vega sensitivities for our Swaption positions and the volatilities that have been used to create these numbers. CIO VCG sources independent broker volatilities for and calculates a pricing difference based on these parameters.
Appendix 6 – Procedure for independently estimating fair value for select products
(cont’d)

CLO:
In connection with CLOs that are carried by CIO-EMEA, VCG will:

1. Corroborate default rate, recovery rate and recovery lag assumptions through a review of supporting documentation.

2. Evaluate the reasonableness of the proxy that was selected for purposes of establishing the utilized correlation parameter by periodically monitoring the average par subordination of the CLO portfolio as compared to referenced tranche.

3. Assess the reasonableness of the liquidity spread assumptions by:
   • Reviewing the front office analysis that estimates a range within which the selected liquidity spread will be determined.
   • Performing a similar analysis involving other identified proxies (CDXIG bond basis, UK RMBS market)
   • Monitoring broker quotes, other market activity as an alternative means of validating the liquidity spread input

4. Understand the FO rationale for the proposed weighting of CLO Model output, secondary market prices and broker quotes.
## Appendix 7

<table>
<thead>
<tr>
<th>Product</th>
<th>Price Tested by IB FVP</th>
<th>Price Tested by CIO VCG Using IB Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Derivatives</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Swaptions</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Exchange-traded products&lt;sup&gt;1&lt;/sup&gt;</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Discount Curves&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Securities (Govt &amp; Govt Gtd)</td>
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<td>X</td>
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<tr>
<td>Credit Indices &amp; Tranches&lt;sup&gt;3&lt;/sup&gt;</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

<sup>1</sup> As we move to the Primus environment this responsibility will transfer to the CIO VCG

<sup>2</sup> This forms a subset of the data used in the price testing process

<sup>3</sup> This forms a subset of the data used in the price testing process
Appendix B – Concentration / Illiquidity Reserves for CDS

Price Discovery (Illiquidity)

Price Discovery reserve is taken under either of the following 2 scenarios:
1. The price (spread) cannot be observed, or
2. The index is off the run (an off the run index is defined as: any index older than 4 series
   - for example, the current on the run CDS series are 13, therefore, all indices series 9
   and older are considered off the run, (TRAXX would be Series 8 and older)

Price Discovery = Net PVBP * sqrt(t) * Spread Volatility in bps

Where: t is the number of business days since the last external trade (capped at 120 days.)

Price Discovery reserve is capped at: 5% Credit Spread Widening
(PVBP * Internal Spread in bps * 0.05)

Concentration

Excess 5Y Equivalent Position * (5Y Duration / 10,000) * sqrt(Liquidation Period) * Spread Volatility in bps

Where
- Excess 5Y Equivalent Position = Net 5Y Equivalent Position - Threshold
- Liquidation Period = Net 5Y Equivalent Position / Average Daily Market Size

Threshold and Average Daily Market Size are based on the table below:

<table>
<thead>
<tr>
<th>Index</th>
<th>Daily Volume</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>On The Run Index</td>
<td>3,000,000,000</td>
<td>500,000,000</td>
</tr>
<tr>
<td>Off The Run Index</td>
<td>3,000,000,000</td>
<td>500,000,000</td>
</tr>
<tr>
<td></td>
<td>Series Factor</td>
<td>Series Factor</td>
</tr>
<tr>
<td>Series factor = 1 / (On the run series number – Series number)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series factor is floored at 1/10.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumptions

1. The IB policy does not apply to tranches (they calculate a value based on the single name
   and just pass a pricing adjustment). For this exercise I have applied the index calculations to
   the tranches.

2. The IB calculates the spread vol using a rating bucketed vol based on a basket of names and
   apply this number across all indices. They do not calculate using specific name vols which
   would be more accurate. I need to speak to Pat Hagen to see if we can produce our own
   number. For purposes of this exercise I have applied the IB vol to TRAXX, COX IG & HY.
3. The liquidity calculation contains a variable of when the instrument was last traded. The IB has a maximum of 120 days that they use for all calculations. The rationale is that small trades done infrequently should not impact the valuation of these trades. As we are more actively trading these instruments in risk reduction mode we may wish to consider a different approach.

4. A cap is placed on the liquidity reserve at 5% of Credit Spread Widening. This is based on a market making business and we can look at whether this is applicable for our style of trading.
Ok. I'll crisply convey during the right page at 4pm meeting.

thx

Spoke to D. Genova, atty at JPM, regarding the discomfort they had on marks and results.

Bottom line - Company lost confidence in March marks, new marks increase loss 472mm for March. Company hasn't decided if they should 1) restate or 2) report in 2Q with full disclosure. Currently work with external accountants etc. Decision hasn't been made.

More background -

Junior trader had been under pressure during March as losses mounted to mark the book in a way that minimized them with the view that it would correct by month end. (Traders had been tracking "distance to mid," a number that grew during the quarter along with discomfort and tension on desk.)

At quarter end, junior trader also under pressure. Bottom line is that instead of marking to mid, in most cases longs were marked at offer and shorts as bid.

VCG (independent price testing) had their own mid and a series of thresholds in bps. If marks fell within this range they weren't questioned. (there was no dollar cap)

Note valuation controls have since been changed.

-apc

*** If you have received this message in error, please delete the original and all copies, and notify the sender immediately. Federal law prohibits the disclosure or other use of this information. ***
U.S. GAAP requires or permits via an optional election certain assets and liabilities to be recorded at fair value. In September 2006, the FASB issued Statement 157, "Fair Value Measurements" (Statement 157), which provides a single definition and framework for fair value measurements to ensure consistency of application. Statement 157:
I. INTRODUCTION

U.S. GAAP requires or permits via an optional election certain assets and liabilities to be recorded at fair value. In September 2006, the FASB issued Statement 157, "Fair Value Measurements" (Statement 157), which provides a single definition and framework for fair value measurements to ensure consistency of application. Statement 157: 
• Defines fair value;
• Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs in the valuation of an asset or liability as of the measurement date;
• Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative instrument in the absence of observable data supporting the valuation technique;
• Eliminates large position discounts for financial instruments quoted in active markets;
• Requires consideration of the Firm's own creditworthiness when valuing liabilities; and
• Expands disclosures about instruments measured at fair value.

II. DEFINITION OF TERMS

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Highest and best use
The highest and best use of an instrument is determined based on its use by market participants; where maximum value is derived principally on a standalone basis, the highest and best use of the instrument is "in-exchange"; where the maximum value of the instrument is derived principally through its use in combination with other instruments, its highest and best use is "in-use."

Inputs
Observable—Observable inputs are inputs that reflect the assumptions that market participants use in pricing the asset or liability developed based on market data obtained from sources independent of the Firm. Characteristics of observable inputs include readily available, not proprietary, regularly distributed, and transparent.

Unobservable—Unobservable inputs are inputs that reflect the Firm's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Market participants
Buyers and sellers in the principal (or most advantageous) market. A market participant must be independent (not a related party to JPMC), knowledgeable, able to transact (have the legal and financial capacity to do so), and willing to transact (not forced or otherwise compelled to do so).

Nonperformance risk
Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which a liability is transferred. Nonperformance risk includes the reporting entity's credit risk as well as settlement risk and may include, in the case of commodities, the risk related to physically extracting and transferring the asset to the delivery point.
Unit of account
The unit of account determines what is being measured by reference to the level at which
the asset or liability is aggregated or disaggregated for purposes of applying accounting
pronouncements.

III. SCOPE
This policy describes JPMorgan Chase’s (JPMC) policy in consideration of FASB
Statement No. 157, Fair Value Measurements, which was effective January 1, 2007.

Instruments/transactions for which a fair value or fair-value-based measurement may apply
but are not subject to this policy include:

- Share-based payments accounted for in accordance with FASB Statement No. 123R,
  Share-Based Payment (Statement 123R). While certain measurements in Statement
  123R are fair-value-based measurements, they may exclude the effects of certain inputs
  such as conditions, restrictions and other features that would be considered in a fair
  value measurement under Statement 157.
- Instruments valued in accordance with Accounting Research Bulletin No. 43, Inventory
  Pricing.
- Accounting pronouncements that permit measurements that are based on, or use,
  vendor-specific objective evidence of fair value.
- Situations where U.S. GAAP provides a practicability exception to the application of
  fair value, for example:
  - Guarantees accounted for in accordance with FASB Interpretation No. 45 which
    allows for the use of transaction price (an entry price) to measure fair value at
    initial recognition. See also Corporate Accounting Policy #1-0108,
    “Guarantees.”
  - Certain disclosures provided in accordance with FASB Statement No. 107,
    Disclosures About Fair Value of Financial Instruments, where it is not practical to
    measure fair value. Corporate Accounting Policies must be consulted where this
    is determined to be the case.
  - Certain Asset Retirement Obligations accounted for in accordance with FASB
    Statement No. 143, Accounting for Asset Retirement Obligations, where fair
    value is not readily determinable.
  - Certain Contributions accounted for in accordance with FASB Statement No. 116,
    Accounting for Contributions Received and Contributions Made, where
    contributions cannot be measured with sufficient reliability.

Note: FASB Statement No. 141, Business Combinations, requires the use of fair value as
the measurement objective, at inception, for certain assets acquired and liabilities assumed
in a business combination (for example, intangible assets) and these assets and liabilities
are therefore subject to this policy. In certain circumstances, where the valuation
techniques applied to the asset or liability may be similar to a fair value measurement but
fair value is not explicitly the required measurement objective, this policy does not apply
(for example, receivables, notes payable, plant and equipment to be used).
IV. ACCOUNTING POLICY

The focus of this policy is how to arrive at a fair value measurement. This policy does not incorporate guidance regarding which instruments are required to be measured at fair value or which instruments the Firm has made an optional election to measure at fair value.

**Fair value measurements**

*Fair value* is the price to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. The sale or transfer assumes an orderly transaction between market participants. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). Because that exit price objective applies for all assets and liabilities measured at fair value, any fair value measurement requires identification of the following:

a. The particular asset or liability that is the subject of the measurement
b. The valuation premise appropriate for the measurement
c. The principal (or most advantageous) market for the asset or liability
d. The valuation techniques(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use in pricing the asset or liability.

**A. Valuation Premise**

The valuation premise used to measure the fair value of an asset or liability depends on the highest and best use by market participants. If the maximum value is derived on a standalone basis, then an "in-exchange valuation" should be applied. If the maximum value is derived through its use in combination with other assets or liabilities, then an "in-use valuation" should be applied. Whether the asset or liability is a standalone asset or liability or a group of assets and/or liabilities depends on its unit of account. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other relevant accounting guidance.

The in-exchange valuation premise is generally applicable to financial instruments and the in-use valuation premise is generally applicable to nonfinancial assets. However, the "in-use valuation" premise may apply to financial instruments in certain circumstances where (1) it is more reflective of the market participant's exit price and (2) there is historical evidence to support an "in-use" valuation; for instance, the highest and best use of certain mortgage warehouse loans is considered to be in-use when such warehouse loans are pooled for the purpose of securitization. Detailed discussion of the application of valuation premise to certain financial instruments has been included in Appendix A.
B. Relevant Market

A fair value measurement should reflect an exit price in the principal market for the asset or liability. The principal market is the market in which the Firm transacts with the greatest volume or level of activity.

- If there is no principal market, the exit price should reflect the amount that would be received or paid in the most advantageous market (the market in which the Firm would maximize the amount that would be received for an asset or minimize the amount that would be paid to transfer a liability).
- If there are multiple markets for the same asset or liability, the most likely exit market should be considered to determine the exit price and the other exit markets do not need to be considered.
- For assets and liabilities where there is little or no trading, or a one-way market, the Firm must make a determination of what a willing counterparty would offer to purchase an asset or assume a liability. The determination of what a willing counterparty would offer to purchase an asset or assume a liability should consider all available market information that the market participants would use to price the asset or liability.

A discussion of the application of principal market to certain financial instruments has been included in Appendix A.

See also discussion of transaction costs below.

C. Valuation/Measurement

Valuation techniques used to measure the fair value of an asset or liability should maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Valuations must consider current market conditions and available market information and will therefore represent a market-based, not entity-specific, measurement.

Fair value should be based on quoted market prices, where available. If listed prices or quotes are not available, then fair value should be based upon internally developed models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, option volatilities and currency rates. In certain circumstances valuation adjustments must be made to ensure that financial instruments are recorded at fair value. These adjustments should be applied consistently over time and may include:

- Credit valuation adjustments ("CVA") are necessary when the market prices (or parameters) are not indicative of the credit quality of the counterparty.
- Debit valuation adjustments ("DVA") are necessary to reflect the impact of the Firm's own creditworthiness in the valuation of liabilities that are carried at fair value. See further discussion of DVA in Appendix B of this policy. See also discussion of Liability considerations below.
• Liquidity valuation adjustments are necessary when the Firm may not be able to observe a recent market price for financial instruments that trade in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions. Liquidity adjustments are based upon the following factors:
  - The amount of time since the last relevant pricing point
  - Whether there was an actual trade or relevant external quote
  - The volatility of the principal component of the financial instrument

Costs to exit larger-than-normal market-size risk positions are determined based upon the size of the adverse market move that is likely to occur during the extended period required to bring a position down to a nonconcentrated level.

No adjustments may be made to the quoted price for instruments classified within Level 1 of the valuation hierarchy (see discussion of the fair value hierarchy in Section IV.D. of this policy).

• Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use unobservable parameters (parameters that must be estimated and are therefore subject to management judgment) at their basis. Risk-averse market participants generally seek compensation for the uncertainty associated with the cash flows of an asset or liability (risk premium).

• Uncertainties and customization related to loan securitization for loans that are expected to be securitized. fair value is estimated based on observable pricing of asset-backed securities with similar collateral and incorporation adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity.

• Restrictions

There are generally two types of restrictions:

Restrictions on sale

Examples of a restriction on sale include restrictions on private placements, underwriter lock-up, and volume restrictions. An adjustment must be made to the value of the instrument to reflect the price adjustment that a market participant would make due to the lack of marketability. An adjustment for a restriction should be re-evaluated and adjusted appropriately as the time to the expiration of the restriction decreases.

Note: When a publicly traded security position incorporates both restricted and non-restricted securities, the adjustment for restrictions will be applied only to the restricted shares. For example, securities subject to SEC Rule 144 restrictions may have portions of the position that are unrestricted depending on trading volume. Additionally, SEC Rule 144 shares may be free to trade if a shelf registration has been filed.
Restrictions on use
An example of a restriction on use would include a restriction on the use of a physical asset such as land or a building. An adjustment cannot be taken as a result of the restriction if it is deemed to be a restriction on use.

The determination of whether a restriction should be incorporated in the valuation of an asset or liability requires judgment and consultation with Corporate Accounting Policies.

• Liability considerations—a fair value measurement for a liability assumes (1) that the liability is transferred to a market participant and the liability to the counterparty continues (it is not settled), and (2) that the risk of nonperformance is the same before and after the transfer. Nonperformance risk or the risk that the obligation will not be fulfilled impacts the amount at which a liability would be transferred.

The adjustment to a valuation for nonperformance risk (or the impact of the Firm's own creditworthiness) is called the Debit Valuation Adjustment or "DVA." See further discussion of DVA in Appendix B of this policy.

D. Valuation Hierarchy
All instruments measured at fair value are required to be classified within a three-level hierarchy that is primarily used for external disclosure purposes. The fair value hierarchy prioritizes inputs to the valuation of an instrument. When the inputs to the valuation fall within different levels of the hierarchy, the level in which the instrument is classified is based on the lowest level significant input to the valuation. Where an instrument is classified within the fair value hierarchy also impacts the Firm's ability to record valuation adjustments, for example, no valuation adjustments may be recorded for instruments classified within Level 1 of the hierarchy.

Detailed below is a description of the hierarchy levels, the Firm's policies associated with the determination of classification, and examples of products included within each of the levels:

Note: Maintenance of documentation to support the level of classification for a product within the fair value hierarchy is the responsibility of the Line of Business Controllers and CFOs.

Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

• An active market is defined as one in which an accurate daily price can be obtained from multiple reliable sources and a fair value measurement (exit price) may be arrived at without adjustment or the use of a model.
• No adjustments may be made to the quoted price for instruments classified within Level 1 (for instance, block discounts (size of position discounts) are prohibited).
• Where a quoted price in an active market is not readily accessible for the individual instrument, the Firm may use an alternative
pricing method (for example, matrix pricing). Where an alternative pricing method is utilized as a practical expedient the instruments must be classified in a lower level of the hierarchy.

Examples of Level 1 instruments:

Highly liquid government bonds, certain mortgage products (for example, residential agency pass-through securities), exchange-traded equities, and exchange-traded derivatives.

Level 1—Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market).
- Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument (for instance, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

There is generally evidence of two-way flow (purchases and sales in the market) for instruments that are classified within Level 2.

Examples of Level 2 instruments:

Common stocks traded and quoted on an inactive market in an emerging country, privately placed bonds whose value is derived from similar bonds that are actively traded, over-the-counter interest rate swaps valued based on observable LIBOR forward interest rate curves, and similar agreements, warehouse loans, certain collateralized mortgage and debt obligations, certain high-yield debt securities, as well as certain structured liabilities where the inputs to the valuation are primarily based upon readily observable pricing information.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair value for Level 3 instruments is based on internally developed models in which there are few, if any, external observations. For transactions in this category, there is rarely a two-way market, and typically there is considerable structuring (making the product largely one-off and JPMorgan proprietary).

- Unobservable inputs should only be used when observable inputs are not available (inputs are unobservable when they reflect the Firm’s own assumptions about the assumptions market participants would use in pricing the instrument).
- The exit price measurement objective remains the same in Level 3; therefore, the Firm’s own data should be adjusted if there is contrary data indicating that market participants would use different assumptions to price the instrument.
In certain circumstances, an instrument that is classified within Level 3 at inception may become more observable as it approaches maturity. In those cases, when the unobservable component is no longer significant, the instrument will be transferred to Level 2 at that time.

Instruments for which there is an unobservable input are generally classified within Level 3. If there is evidence present to demonstrate that the unobservable inputs are not significant to the valuation through evidence such as two-way market orders, extensive pricing agency data, broker data or other relevant trade information, the instrument may be classified within Level 2.

Examples of Level 3 instruments:
- Long-dated commodity swaps where the relevant forward price curve is not directly observable or correlated with observable market data, shares of a privately held company, structured notes with significant unobservable inputs, mortgage servicing rights, retained interests in securitizations, and goodwill.

E. Transaction Costs

The price in the principal (or most advantageous) market used to measure the fair value of an instrument should not include transaction costs. Transaction costs represent incremental direct (i.e., invoiced) costs to transact in the principal or most advantageous market, are not an attribute of the asset or liability being measured, and are reported as direct expenses in the Consolidated Statement of Income with limited exception (see Corporate Accounting Policy #IM0107, "Netting of Assets and Liabilities and Related Income and Expense"). Transaction costs include, but are not limited to, invoiced brokerage and commissions and certain due diligence costs.

Transaction costs which are incorporated within the bid offer spread (i.e., in-the-price brokerage) are reported net within principal transactions and are not separately identified for reporting purposes.

Transaction costs do not include the costs that would be incurred to transport an asset or liability to (or from) the principal (or most advantageous) market. Where location is an attribute of the asset or liability as may be the case for a commodity, the price in the principal or most advantageous market used to measure fair value of the asset or liability should be adjusted for the costs that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market.

F. Other Considerations

Cut-off time

For instruments for which prices are available prices must be obtained at the same time each business day. This includes cases where products are valued using models even though market prices are available in other time zones (for example, when trading across different exchanges). In addition, prices for hedges and the items being hedged must be sourced at the same time of day.
For internal trades between portfolios based in different regions, each side may be priced using the closing price obtained at the appropriate cut-off point in the relevant region.

V. CROSS-REFERENCES

Corporate Accounting Policy #1-0106, “Fair Value Option”
Corporate Accounting Policy #1-0107, “Netting of Assets and Liabilities and Related Income and Expense”
Corporate Accounting Policy #1-0108, “Guarantees”
Corporate Accounting Policy #1-0112, “Consolidation of Variable Interest Entities”
Corporate Accounting Policy #2-0301, “Repurchase/Reverse Repurchase Agreements and Securities Lending and Borrowing”
Corporate Accounting Policy #2-0401, “Trading Securities”
Corporate Accounting Policy #2-0501, “Investment Securities”
Corporate Accounting Policy #2-0502, “Securities Acquired in Loan Satisfactions”
Corporate Accounting Policy #2-0603, “Loan Securitizations”
Corporate Accounting Policy #2-0604, “Commercial Lending Facilities”
Corporate Accounting Policy #2-0605, “Consumer Loan Delinquencies, Nonaccruals, Charge-Offs, Modifications, Reopenings, and Recoveries”
Corporate Accounting Policy #2-0701, “Long-Lived Assets (Other than Internal Use Computer Software/Web Site Development)”
Corporate Accounting Policy #2-0705, “Investments in Nonmarketable Equity Securities”
Corporate Accounting Policy #3-0601, “Accounting for Structured Liabilities”
Corporate Accounting Policy #9-0101, “Accounting for Lending-Related Fees”
Corporate Accounting Policy #6-0102, “Interest Income Recognition”

VI. REFERENCES TO AUTHORITATIVE LITERATURE

FASB Statement No. 107, *Disclosure about Fair Value of Financial Instruments*
FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*
FASB Statement No. 123R, *Share Based Payment*
FASB Statement No. 143, *Business Combinations*
FASB Statement No. 144, *Accounting for Asset Retirement Obligations*
FASB Statement No. 157, *Fair Value Measurements*
FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities*
ASR No. 118, *Accounting, Valuation and Disclosure of Investment Securities*
EITF 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*
APPENDIX A

Fair Value Measurements for Certain Instruments Carried at Fair Value

This Appendix is intended to give further background regarding the fair value measurements for certain instruments carried at fair value. The list is not meant to be all inclusive.

I. Derivatives
   • Background
     The Firm makes markets in derivative contracts, transacting with retail and institutional clients as well as other dealers.

   • Valuation Premise
     The valuation premise for derivatives is in-exchange. The unit of account is the portfolio.

   • Relevant Market
     In general, the dealer market is the Firm’s principal market for derivative transactions as the greatest volume of the Firm’s derivatives activities occur in the dealer market. In addition, the dealer market is the most advantageous exit market for the Firm.

   • Valuation/Measurement
     The unit of valuation for derivatives is the portfolio. The starting point for the valuation of a derivatives portfolio is mid-market. As a dealer, the Firm can execute at or close to mid-market thereby profiting from the difference between the retail and dealer markets. If the Firm cannot exit a position at mid market certain adjustments are taken to arrive at exit price. (See Section IV.C. of this policy for a discussion of valuation adjustments.)

II. Structured Notes/Repos/Resales
   • Background
     The Firm issues structured notes as a means to deliver derivative risk to retail and institutional clients that wish to invest in derivative risk in a funded format. Derivative risk, which may include credit risk, interest rate risk, foreign exchange risk, commodity risk and equity risk, is embedded in a debt host contract and issued in the Firm’s name. The derivative risk is the primary driver of the profit and loss.

   • Valuation Premise
     The valuation premise for structured note is in-exchange. The unit of account is the portfolio.
Relevant Market
There is no active secondary market for most structured note products and sales to third parties are rare. Dealers (issuers) will provide indicative quotes for their own paper and will repurchase or unwind with the original counterparty (investor). A dealer generally will not buy instruments issued by others. As such, not all market participants operate on both sides of the structured notes market.

The principal market for the Firm is the primary (issuance) market for structured notes. Market participants include other dealers (issuers) to whom a liability could be transferred (who take positions on the liability side of their balance sheets).

Valuation/Measurement
To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturities. As the primary risk in the "funded derivative" is derivative risk, market participants that issue structured notes use the same assumptions in valuation as those used in deriving an exit price in the derivatives market. In the absence of actual data for liability transfers for this product, the hypothetical transaction is based on assumptions in active markets for similar risks (derivative market).

III. Mortgage Loan Warehouses

Background
The Firm purchases and originates mortgage loans for securitization. Types of mortgages include: Agency mortgages (conforming mortgages sold to GNMA, FNMA and/or Freddie Mac) Alt-A, Alt-B, subprime and commercial mortgages.

Valuation Premise
The unit of account is the mortgage loan. Mortgage warehouse loans are valued using an in-use valuation premise as maximum value, for a mortgage loan expected to be securitized, is derived when combined with other such loans.

Relevant Market
The principal market for a product or instrument is the market in which the Firm transacts with the greatest volume or level of activity. The securitization market is the principal market for mortgage warehouse loans as securitization is the primary exit strategy for the Firm.

Valuation/Measurement
Fair value is based upon observable pricing of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity.

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-00056794
Valuation technique

All mortgage warehouse loans should be priced using a mock securitization (bond execution) basis, which is a market approach valuation technique. Under this approach, structuring models (combined with Rating Agency modeling approaches) are used to create representative deal structures, including bond levels by rating with loss coverage amounts and reflect the "offer" side of the market where the securitization takes out occurs.

IV. Mortgage Servicing Rights

• Background

Mortgage servicing rights ("MSRs") represent rights to receive cash payments in connection with performing the tasks required to service pools of previously sold mortgage loans. These cash payments include, but are not limited to, negotiated servicing fees, interest earned on escrow balances, late fees, and float earnings on principal/interest payments.

• Valuation Premise

Pooling of MSRs maximizes value to the market participants by both creating less uncertainty in the cash inflows and permitting the market participant to benefit from cost synergies that occur in servicing more mortgage loans. As a result of these benefits, market participants are more value for MSRs that are pooled in a portfolio than they would for individual servicing contracts. Consequently, the highest and best use of MSRs from the perspective of marketplace participants is in-use.

• Relevant Market

MSRs are not traded actively with readily observable prices; sales are typically negotiated and brokered privately between entities. Trading volume is infrequent and unlike the brokering of a financial asset, the entities transacting must have a servicing platform and be able to perform the required servicing. Sales of MSRs are also subject to approval by investors in the mortgage-backed securities issued when the underlying loans were securitized. Based on the above, the principal market for MSRs, for the Firm, is a hypothetical market where the market participants have extensive servicing capabilities and benefit from certain cost economies of scale.

• Valuation/Measurement

The valuation of MSRs is generally estimated by calculating the present value of the estimated future servicing cash flows to be received over the life of the servicing contract. The net cash flows are comprised of servicing revenues less related costs of servicing. The maximization of MSR value must either increase the cash inflows or decrease the costs of servicing.
APPENDIX B

JP Morgan Chase (JPM) Implementation of DVA

(See also discussion of liability considerations in Section IV.C. of this policy.)

In order to incorporate the effect of changes in the Firm's creditworthiness in derivative valuations, and because there is no industry standard for such calculations, the Firm developed its DVA methodology utilizing assumptions that it believes other market participants would use to value liabilities due by the Firm.

Specifically, the Firm leveraged its current Credit Valuation Adjustment (CVA) methodology used to calculate and record the effect of counterparty credit risk for derivative receivables. The CVA is derived by calculating an expected positive exposure (EPE) at time of counterparty default (including certain collateral assumptions) and applying to it the counterparty's credit spread or a proxy thereof and a standard default recovery rate to arrive at an adjustment for credit. Similarly, DVA is calculated as expected negative exposure (ENE) x JPM's market credit spread and a standard recovery assumption. Details for each of these key inputs follow.

**Expected Negative Exposure (ENE)**

The basic building block for DVA is Expected Negative Exposure (ENE), that is, what the Firm would expect to owe derivative counterparties at the time of its default. This is computed by first generating possible scenarios of underlying market factors and averaging over all portfolio mark-to-market values, treating positive values as zero. These scenarios take into account the impact of legally enforceable netting agreements and existing collateral agreements with the counterparty as well as collateral agreements which are probable of being enacted in the event of a significant deterioration in the Firm's credit standing.

**Legally enforceable netting agreements**

The Firm has master netting agreements in place with virtually all derivative counterparties. Upon default or termination of any one contract, a master netting agreement provides for the net settlement of all contracts with the counterparty through a single payment in a single currency. The netting provisions in the agreement are legally enforceable and as such would serve as a mitigant (a reduction) to ENE to the extent that the Firm had positive exposure to the respective counterparty for other derivative contracts. An important assumption that the Firm makes for both CVA and DVA is that the Firm would net settle all deals where possible. The Firm believes that this assumption is well corroborated by its behavior and the behavior of other market participants. The Firm also believes that the incorporation of netting agreements into the DVA calculation is supported by paragraph 15 of Statement 157 which indicates that the terms of credit enhancements related to a liability should be incorporated in the value of that liability. Although it deals with presentation, Paragraph 21 of FAS 159 also acknowledges that credit risk is best reflected by net amounts under a master netting agreement.
Existing collateral arrangements with counterparties
Consistent with the Firm’s approach regarding master netting agreements, the Firm incorporates the existence of collateral agreements in deriving the ENE. The Firm assumes that a counterparty to which an assignment was being made would demand credit protection comparable to that obtained by the transferor, thus requiring reflection in the exit price.

Probable collateral arrangements
In an idiosyncratic default scenario, the Firm also considers the probability of new credit enhancements being required at the time of the credit event. This assumption impacts the exposure (ENE) to the Firm’s counterparties as the Firm’s credit deteriorates.

As the Firm heads to default idiosyncratically, in order to maintain its derivatives franchise the Firm would likely be required by its counterparties to either enter into unilateral collateral agreements where there are none, or to renegotiate existing collateral agreements to terms more favorable to the Firm’s clients. For modeling purposes, the assumption is that a unilateral collateral agreement, in favor of the client, would be put into place. Consideration of the impact of probable credit enhancements within the valuation appropriately prevents the recognition of a gain that would not be realized due to the imposition of a new collateral agreement.

While it is clear that derivative counterparties impacted by the Firm’s credit deterioration would request additional credit support, there is also evidence suggesting that market participants faced with a call for additional collateral would also respond by posting collateral in order to protect their derivative franchise. The Firm notes that several firms have established AAA-rated entities to house their derivatives activity for precisely this reason.

JPMC Credit Spread
The second major component of the DVA calculation is the Firm’s credit spread. An observable market indicator of the Firm’s creditworthiness, the credit spread is the sum of (a) the market risk premium (reflecting the market’s perception of the Firm’s credit risk or the systemic risk) and (b) the real probability of default (the idiosyncratic entity-specific risk factor).

The Firm currently uses counterparty credit spreads from the credit default swap market to calculate the CVA. Credit default swap spreads assume a recovery assumption. Many of the Firm’s competitors also use credit spreads to assess the credit risk associated with counterparty receivables. It is therefore reasonable to assume that market participants would similarly include the Firm’s observable credit spread as a key input in derivative valuations.

The Firm’s CVA methodology is based on the best evidence of how sophisticated market participants value the credit risk inherent in derivative transactions. The DVA methodology applies the same logic where the Firm is in a payable (versus receivable) position. In order to validate the reasonableness of the methodology and how credit would be considered in the transfer of a liability, the Firm considered recent transactions where the impact of the counterparty’s creditworthiness was clearly
considered in the unwind price of a derivative receivable. The Firm believes that where an entity is required to assess its own creditworthiness for liabilities which it records at fair value, an adjustment similar to that applied for counterparty creditworthiness is appropriate and, although based on limited historical evidence, supportable. The Firm believes that this methodology will also be validated by the pricing of future unwinds/assignments and as such, the Firm believes that its calculation of DVA—the product of the ENE, the JPMC credit spread, and a standard recovery rate—produces an exit price consistent with that derived by a market participant.

Other considerations - DVA for structured notes

In order to assess nonperformance risk for structured notes, the Firm leveraged the current DVA methodology applied to derivatives with limited modification. Modifications were based on the following:

- Cash flows on derivatives may be either positive (inflows) or negative (outflows), whereas cash flows on a structured note are all outflows. As a result, for structured notes, the equivalent of the ENE (within the derivative calculation) is the Libor flat discounted cash flows for the note.
- Due to operational constraints, the DVA methodology for structured notes assumes that there is only one cash outflow which happens at maturity, similar to a zero coupon note.

The DVA methodology for structured notes is based on readily available information (data) for the underlying structured notes. The data required is: 1. fair value of the structured note in its entirety (excluding the impact of the Firm’s credit) and 2. the expected maturity of the instrument. The methodology calculates an adjustment to the fair value based upon the Firm’s survival probability at the expected maturity date of the instrument. The formula is as follows:

\[ DVA = \text{FV} \times (1 - \text{SP(EM,RR)})(1 - \text{RR}) \]

- FV: the model-based fair value of the instrument as reported on the Firm’s books and records (exclusive of the Firm’s credit spread). The fair value represents the expected negative outflows as described below.
- SP(EM,RR) is the Firm’s survival probability at the note’s expected maturity EM, which is the equivalent of the JPMC credit spread X a recovery rate RR.

The Firm’s use of CDS spreads to calculate the DVA for structured notes is principally based on the substance of the instruments being valued. Structured notes can be viewed as funded derivatives or hybrid instruments that are similar in many ways to derivatives. As market participants within the hypothetical wholesale market for structured notes would include other dealers, and as other dealers generally incorporate an adjustment for credit risk into the fair value (exit price) of derivatives using liquid/observable CDS spreads, the Firm has consistently used CDS spreads to value similar risks within the structured note population.
Nonrecurring Fair Value Measurements

Certain assets, liabilities and unfunded commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of an impairment or there is a lower of cost or fair value adjustment.)

Examples of instruments that are subject to nonrecurring fair value adjustments include:

- Held-for-sale loans or commitments carried at lower of cost or fair value; see Corporate Accounting Policy #2-0604, "Commercial Lending Facilities."
- Held-for-investment (accrual) loans that are impaired and are written down to fair value based on the fair value of the underlying collateral, or based on an observable market price; see Corporate Accounting Policy #2-0611, "Allowance for Credit Losses."
- Equity investments accounted for either at cost or under the equity method; see Corporate Accounting Policy #2-1005, "Investments in Nonmarketable Equity Securities."
- Goodwill and other intangible assets; see Corporate Accounting Policy #2-1004, "Intangible Assets and Goodwill."
- Long-lived assets including, real estate, fixed assets, assets under operating leases, and capitalized software; see Corporate Accounting Policies #s 2-0701 to 2-0705, "Premises and Equipment."
ENDNOTES

1 The fair value option may also be applied to selected unrecognized firm commitments and written loss commitments.

2 An orderly transaction assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such instruments; it is not a forced transaction (for example, a forced liquidation or distress sale).

3 Valuation techniques may include:

   Market approach
   The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities and may include use of matrix pricing or market multiples derived from a set of comparables.

   Income approach
   The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). Valuation techniques include present value techniques, option pricing models, such as Black-Scholes-Merton formula (a closed-form model) and binomial model (a lattice model) which incorporate present value techniques, and the multi-period excess earnings method, which is used to measure fair value of certain intangible assets.

   Cost approach
   The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (otherwise known as current replacement cost).

4 The examples provided are generalized across asset classes. Classification within the valuation hierarchy is based on a review of the products and the related facts and circumstances including the significance of any unobservable inputs to the valuation methodology.

5 Within this appendix, the term "structured note" is used to refer structured notes, structured repo and structured resale

6 Another consideration is that even for an entity with servicing capability, the size of the servicing operations may not provide adequate economies of scale in its own servicing cost structure.

7 The final ENE is a weighted average of the results from the two default scenarios (a systemic default and an idiosyncratic default).

8 In the systemic default scenario it is much less clear that the Firm’s counterparties will be able to impose or change collateral agreements in their favor, thus incremental collateral has not been considered.

9 Underlying data collected from the businesses include carrying value, expected maturity and Legal Entity (to determine the application of the bank versus holding company spread).
I'm attaching a draft memo that addresses the question you raised re how the Volcker Rule statute and proposed regulations would apply to the JPMC trading activities in the news. I'd welcome talking more about this. My big take-away is that trying to capture what is okay and not okay with detailed regulatory requirements is futile and ineffective. There is a crucial role for supervisory judgments that needs to be escalated.
John/Ashley/

Below is an update from Olivier. One source of model difference is that the capital models operate at the level of individual names but the CIO's desk models operate at the level of indices — so the effect of name concentrations may be captured differently. We are pursuing the impact and further modeling of this. Venk.

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Main takeaways:

- Book comprises index trades only (tranches + plain indices). All modelling done on the index spread, single names are assumed homogeneous and homogeneous pool model is then used to price tranches and generate index delta.

- Historical regression also gives them a beta adjusted delta for HY vs IG.

- Key takeaway 1: approximation around the dispersion of single names a key source of discrepancies when submitting portfolio to large single name shocks (as does R/C/FM). More work to quantify impact of this approximation.

- Key takeaway 2: we need to load the book on a "bottom up" single name modelling approach that can give single name default exposures, as well as a CSW computation that is comparable to the Credit Trading desk for example.

Action points:

- To discuss modeling merits of CIO and its feedback on our RC spread modelling with the model research group (will start with Matthias A. who has been involved by Analyst).

- To model in Lynx (tool developed by credit trading team) the CIO portfolio. Preliminary dummy trades loaded. Tool is alpha-based (i.e. only Ayre has access). However, I will check with Javier before loading the real notionals tomorrow to see if he is fine for me to go ahead with this.

Risk update:

On my CSW estimate sent yesterday for March 7th position, I missed the Xover trades, here is the updated estimate when including them:

- Estimated All Tranches: -45m CSW
- Estimated COX indices: -350m CSW
- Estimated CIO indices: -280m CSW
- Estimated HY COX: +400m CSW
- Estimated FinSub + Xover: +150m CSW
2269

Dear Vigneron,

Please see below and let's make sure we speak daily on this.

Merrick

Venkat

From: Venkatakrishnan, CS
Sent: Friday, March 30, 2012 5:27 PM
To: Venkatakrishnan, CS
Subject: CIO

From: Hogan, John J.
Sent: Friday, March 30, 2012 5:28 PM
To: Venkatakrishnan, CS
Subject: RE: CIO

OK thanks Venkat–keep me posted please.

From: Venkatakrishnan, CS
Sent: Friday, March 30, 2012 5:27 PM
To: Hogan, John J.
Subject: CIO

John: CIO's 10% CSW by my group's model estimate is long 245mm of risk; there own models (run by Weiland) quote $145mm. I don't understand the difference in the models and don't know how good a measure of risk 10% CSW is for their book. But I spoke to Ashley and we agree that 10% CSW has been trending up for 10%, by either the group's model or ours. Once Oliver spends time in the portfolio, we should get a better idea. I also sense from speaking with Javier that CIO are worried that they may now have to shed tranche risk in a tight market. I don't know how real this worry is but I wanted to make you aware. I will get a daily download from Oliver and keep you and Ashley posted (Ashley is out next week). I may myself go to London mid-week. Venkat

Please see the CIO10 results for original CIO portfolio and the split portfolio for March 21st.

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<th>Corp Portfolio</th>
<th>CSW10 (MM)</th>
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<tr>
<td>10-Jan-12</td>
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<tr>
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<td>28-Feb-12</td>
<td>14.1</td>
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CONFIDENTIAL AND PROPRIETARY INFORMATION

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SFS-00070715
This following is based on the latest split I received from Patrick Hagan this morning.

<table>
<thead>
<tr>
<th>Date</th>
<th>Corp Portfolio</th>
<th>CIO Index Portfolio</th>
<th>Combined Portfolio</th>
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<tbody>
<tr>
<td>21-Mar-12</td>
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<td>213.5</td>
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</table>

From: Huang, Yuan X
Sent: Friday, March 30, 2012 10:02 AM
To: Venkatakrishnan, CS
Cc: Jia, Keith
Subject: FW: Mar-21 risk report for CIO and benchmark indices

We have the CSW10 results for a few days (see row 24 "Spread_10PcntUp"). If the data you are interested is not included (ex, Mar 17th), we can generate the results in about half an hour.

Regards,
Yuan

From: Jia, Keith
Sent: Thursday, March 29, 2012 11:46 AM
To: Huang, Yuan X
Cc: Banjia, Anil K
Subject: RE: Mar-21 risk report for CIO and benchmark indices

6-day risk report.

From: Huang, Yuan X
Sent: Wednesday, March 28, 2012 2:56 PM
To: Jia, Keith
Cc: Banjia, Anil K
Subject: Mar-21 risk report for CIO and benchmark indices
MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Patti Spellacy, Congressional Affairs Specialist

From: Michael L. Brosnan, Senior Deputy Comptroller, Large Bank Supervision

Date: **N/A**

Subject: Response to Senate Banking Committee: Large Bank Supervision

Purpose

This memo responds to your request for information to complete the hearing record for the United State Senate's Committee on Banking, Housing, and Urban Affairs in regards to the Comptroller’s testimony before the committee on June 6, 2012.

Response from Large Bank Supervision

Questions for the Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency, from Senator Vitter:

1. At what point in the process of JPMorgan making this trade and the public reporting of the losses did the OCC examiners become aware of this trade?

The OCC knew the bank was planning to modify its position; however, we were not fully aware of the manner in which management chose to do that, or the rapid build-up in the size or complexity of the bank’s CDS positions in the first quarter of 2012. Bank reports did not initially fully identify and convey measurements of the change in risk, and bank executive management did not understand the full impact of the new exposures. Unexpected losses were first identified in late March. The CEO of the CIO explained that these were an anomaly in market prices and that the market would “mean-revert.” Profit and loss volatility increased in early April leading up to the “London Whale” article on April 6, 2012. We spoke with bank management various times in April and obtained more detailed information on the position as press reports appeared about its positions in the market. At the time, management indicated the situation was managed and under control. We advised bank management to keep us informed and notify us of
material changes. The OCC began discussing additional follow up actions. From that time forward, the losses became larger and the explanation of market anomaly was less viable. On May 4, management contacted the OCC BIC to notify him of the changed assessment and the magnitude of losses realized during the second half of April.

2. Does the OCC examine each of these trades as they occur? If not, how does the OCC monitor the risk that the banks it supervises is undertaking?

The OCC does not examine individual trades (or loans) as they occur. Our role is not to approve or manage the bank’s risk positions. Rather, we assess the risk management and controls over the bank activities. Large banks assume varied and complex risks that warrant a risk-oriented supervisory approach. Under this approach, examiners focus on a bank’s risk appetite and the limits and controls that are designed and implemented to identify and control the risks they assume. The OCC recognizes that banking is a business of taking risks in order to earn a profit. However, when risk is not properly managed, the OCC directs bank management to take corrective action. In all cases, the OCC’s primary concern is that the bank operates in a safe and sound manner and maintains capital, reserves and liquidity commensurate with its risk.

Bank management is responsible for managing risks. The OCC focuses on whether a bank has a sound risk management system. A sound program will identify risk, measure risk, monitor risk, and control risk.

Through a combination of discussions with management supported by review of Board and management reports, examination activities are targeted based on assessment of risk. OCC examiners evaluate policies, procedures, activities and performance.

In this case, the bank had an experienced management team with a long history of satisfactory performance. However, a rapid change in risk-taking behavior by the line of business (and risk management and measurement tools that were insufficient for and not consistent with the risk being taken) resulted in failure to identify and manage the higher risk exposure. The CIO activities were not, historically, considered to be high risk and the bank’s primary CDS activities as dealer are in the Investment Bank, not the separate and distinct CIO. The CIO’s historical mandate had been primarily to manage interest rate and other bank wide risks and invest the excess of deposits over loans in various investment securities. The limit and control infrastructure of the CIO was not built for the type of activity and trading volume in synthetic credit positions that occurred in the first quarter of 2012. What occurred was a rapid change in the risk behavior and risk-taking that the existing control infrastructure was not able to identify or manage.

3. How many trades does JPMorgan have of this magnitude and what are the possibilities, given Europe and a softening domestic economy that a number of these bets go bad at the same time?
Trading in these instruments historically occurs primarily in the Investment Bank, where the controls are appropriate for the risk and activity. We do not believe that other such significant positions exist in the company. Stress testing for a variety of stress scenarios occurs regularly, and both European and domestic considerations are among those analyzed.
Questions for the Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency, from Ranking Member Shelby:

1. In the wake of the JPMorgan loss there has been a lot of discussion about hedging activities. Many financial institutions develop hedging strategies with interest rate and credit derivatives to hedge volatility.
   a. What is the oversight process for banks who hedge risk and how are these hedges examined?

   As banking is a risk taking business, we fully expect that banks will take actions to reduce or eliminate unwanted risk exposures. Hedging actions can take place on a transaction-by-transaction basis, or on a portfolio basis. Transaction hedging is easier to define and understand as one can see the risk additive transactions being offset by risk reduction transactions.

   The concept is the same for portfolio hedging, but the measurement of the correlation between the portfolio of risk and the hedge is more difficult to document, as the hedging instrument is not always the specific offset to the underlying risk. Similar to transaction hedging, we look to understand the nature of the portfolio of risk, how its value changes with price or rate changes. We then look to see how the hedge performs in similar situations. We expect bank reports to document and support a strong negative correlation between the risk position and the hedge.

   b. How do you determine whether a particular activity is or is not really “hedging”?

   A hedge position must be offsetting some existing risk exposure. Bank risk reports need to identify the underlying position and document its sensitivity to price or rate movements.

2. Given the complexities identified during the hearing with determining whether or not a trade is a hedge or a proprietary trade, it appears the real issue is whether a trade threatens the safety and soundness of the bank.

   a. How do you determine whether the trade presents risks to the safety and soundness of a bank?

   A trade (or trading position consisting of multiple trades) would present risks to the safety and soundness of a bank if the loss exposure materially impacted the earnings and capital of the bank. We evaluate risk measures, position reports, and limits (including VAR and others established to guard against illiquid or concentrated positions) to ensure that the risk appetite is reasonable and would not pose a material threat to earnings or capital. Controls should also be in place and be tested regularly to ensure that risk-takers operate within their limits.
Based on the information available at this time, JPMC’s earnings are capable of absorbing the potential losses from its trading positions with no adverse impact to capital. The potential losses do not pose a threat to the solvency of the bank.

b. If a trade does present such risks, what authority do you have to stop or prevent the trade from occurring?

The OCC has a wide range of supervisory tools that it can use to address an unsafe and unsound position that threatens the bank including a temporary cease and desist order. A temporary Cease and Desist Order is an interim order issued by the OCC pursuant to its authority under 12 USC 1818(c) and is used to impose measures that are needed immediately pending resolution of a final Cease and Desist Order. Such orders are typically used only when immediately necessary to protect the bank against ongoing or expected harm. A Temporary Cease and Desist Order may be challenged in U.S. district court within 10 days of issuance, but is effective upon issuance and remains effective unless overturned by the court or until a final order is in place.
Questions for The Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency, from Senator Brown:

During the June 6th hearing, Mr. Gruenberg agreed that "historically, including to the present day, the biggest risk of banking is the lending activity that is inherent to the banking process."

In testimony before the Subcommittee on Financial Institutions and Consumer Protection on May 9th, the former Chief Economist of the Senate Committee on Banking, Housing, and Urban Affairs stated:

"In a remarkably understated 2007 annual inspection report on Citigroup, the Federal Reserve Bank of New York observed that '[m]anagement did not properly identify and assess its subprime risk in the CDO trading books, leading to significant losses. Serious deficiencies in risk management and controls were identified in the management of super senior CDO positions and other subprime-related traded credit products.' By the end of 2008 Citigroup had written off $38.8 billion related to these positions and to ABS and CDO securities it held in anticipation of constructing additional CDOs."


According to accounts of the hearings held by the Financial Crisis Inquiry Commission, two witnesses agreed that CDOs were responsible for Citigroup’s financial difficulties:

"(Former Citigroup chief executive Charles) Prince ultimately blamed much of Citigroup’s problems on CDOs, which he said were complex and entirely misunderstood. He said the company, its risk officers, regulators and credit rating agencies believed CDOs were low-risk activities. As it turned out, they resulted in $30 billion worth of losses..."

"(Former Comptroller of the Currency John) Dugan, too, put much of the blame on CDOs, partly as a way of defending his own agency. He said the bank, which the Office of the Comptroller of the Currency oversees, did not damage the holding company, while Citigroup’s securities broker-dealers, which managed the CDOs and were overseen by the Securities and Exchange Commission, were at fault.

"The overwhelming majority of Citigroup’s mortgage problems did not arise from mortgages originated by Citibank," Dugan said. "Instead, the huge mortgage losses arose primarily from the collateralized debt obligations structured by Citigroup’s securities broker-dealer with mortgages purchased from third parties."

Cheyenne Hopkins, No One Was Sleeping as Citi Slipped, AM. BANKER, Apr. 8, 2010.
Do you agree with the New York Fed, the former Comptroller of the Currency, the former Chief Economist of the Senate Banking Committee, and the former CEO of Citigroup that CDOs were a substantial cause of Citigroup's financial difficulties in 2008, resulting in significant support from the federal government, including capital injections from the Treasury Department, debt guarantees from the FDIC, and loans from the Federal Reserve?

Yes. Excessive risk-taking in sub-prime collateralized debt obligations (CDOs) was a substantial cause of Citigroup's financial difficulties in 2008.
Questions for the Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency, from Chairman Johnson:

1. Mr. Curry, in response to my question during the hearing about the risk management of JPMorgan Chase & Co. (JPMorgan), you stated that the Office of the Comptroller of the Currency (OCC) is reviewing “what exactly transpired with the trading operation within the CIO’s office, and... looking to make sure that there were appropriate limits and controls on those activities in that area and how they compared to other areas within the organization.” Two weeks later, you stated that “we do believe, as a preliminary matter, that there are apparent serious risk management weaknesses or failures at the bank. We’re attempting...to continue to examine the root causes for those failures and to determine whether or not there are other weaknesses in the bank besides the CIO.”

Do you have any further preliminary conclusions on your review of the bank’s risk management?

What gaps have you identified as supervisors?

Please provide additional detail about what you meant by “serious risk management weaknesses or failures at the bank.”

How many staff members are ordinarily involved in supervising JPMorgan, especially with regard to the company’s risk management, and how many additional staff have you dedicated to this review?

The OCC’s supervisory team includes approximately 65 full time onsite examiners who are responsible for reviewing nearly all facets of the bank’s activities and operations, including commercial and retail credit, mortgage banking, trading and other capital markets activities, asset liability management, bank technology and other aspects of operational risk, audit and internal controls, and compliance with the Bank Secrecy Act, anti-money laundering laws, and the Community Reinvestment Act. These onsite examiners are supported by additional subject matter experts from across the OCC. All these examiners are essentially involved in supervising the risk management practices of JPMorgan as risk management systems are in place throughout the bank’s operations to identify, measure, monitor, and control risk.

We have one dedicated examiner who directly oversees the CIO with support of a team of capital markets specialists representing 8 FTEs to review specific capital markets areas depending on the topic. We have added staff on assignment from our London team, our Risk Analysis Division (quantitative experts), as well as received assistance from our Office of Chief Accountant.
When do you expect to complete your review? Do you have any further preliminary conclusions on your review of the bank’s risk management? What gaps have you identified as supervisors?

Preliminary conclusions and gaps identified are as follows, although we continue to assess this matter:

- Oversight of the Chief Investment Office was unsatisfactory. The board and management failed to ensure that an adequate risk management and control structure was in place. The control infrastructure was inadequately staffed and supported. The Board and executive management were unaware of the change in risk in the synthetic credit portfolio.
- Traders built significant risk positions in the synthetic credit book over the course of the first quarter 2012, with most risk assumed in mid-to-late March. The book became very large, complex, illiquid, and difficult to manage. Risk will remain elevated for an extended period as traders work to reduce unwanted exposures.
- Model control practices in CIO were unsatisfactory. The VAR model was poorly implemented and had not received final approval. Valuation control practices were unsatisfactory. Traders intentionally misstated closing prices to cushion losses mid month and month end control processes failed to identify mismatched positions.
- Risk Management was ineffective and irrelevant. Limits were inadequate for the nature of the risk. Business level limits were deemed inadequate by management and, in effect, ignored.
- Audit did not identify the lack of relevant risk limits nor the rapid increase in risk. A material control deficiency was reported for the first quarter prompting a restatement of earnings.
- The company is implementing corrective actions. An entirely new CIO senior management group is in place and is undertaking an end-to-end review of all CIO processes and practices. Firm wide risk management and processes are also being evaluated and new committees and processes are being put in place.

Please provide additional detail about what you mean by “serious risk management weaknesses or failures at the bank.”

Serious risk management weaknesses or failures at the bank that we had identified at the time of the hearing include, for example:

- The rapid build-up of CDS positions in the first quarter of 2012 and bank reports that did not fully describe the change in risk resulted in bank management not understanding the full impact of the new exposures.
• The first line of defense failed given the rapid change in the risk behavior and risk-taking by the line of business resulting in the inability to identify and manage the higher risk exposure.

• The second line of defense, independent Risk Management, was aware of the strategy being adopted and failed to ensure reporting that captured the risk these positions and establish appropriate risk limits.

• The third line of defense, internal audit, failed to identify the rapidly growing positions being taken in the first quarter that resulted in the losses during its first quarter review.

• The unanticipated risk exposure cast doubt on the effectiveness of the bank’s model validation process and the independent review process, specifically its updated Value at Risk (VAR) model. However, the VAR model is only one measure of risk and it was not designed to control an active trading desk or the positions undertaken by the CIO in 2012. Separate and distinct limits were needed to identify, measure, report, and control other risks and these limits were inappropriate for these activities. The limit and control infrastructure of the CIO was not built for the type of activity and trading volume in synthetic credit positions that occurred in the first quarter of 2012.

How many staff members are ordinarily involved in supervising JPMorgan, especially with regard to the company’s risk management, and how many additional staff have you dedicated to this review?

The OCC’s supervisory team includes approximately 65 full time onsite examiners who are responsible for reviewing nearly all facets of the bank’s activities and operations, including commercial and retail credit, mortgage banking, trading and other capital markets activities, asset liability management, bank technology and other aspects of operational risk, audit and internal controls, and compliance with the Bank Secrecy Act, anti-money laundering laws, and the Community Reinvestment Act. These onsite examiners are supported by additional subject matter experts from across the OCC. All these examiners are essentially involved in supervising the risk management practices of JPMorgan as risk management systems are in place throughout the bank’s operations to identify, measure, monitor, and control risk.

We have one dedicated examiner who directly oversees the CIO with support of a team of capital markets specialists representing 8 FTEs to review specific capital markets areas depending on the topic. We have added staff on assignment from our London team, our Risk Analysis Division (quantitative experts), as well as received assistance from our Office of Chief Accountant.

When do you expect to complete your review?
We expect to have largely completed our review by early August, though we also expect to still have follow-up on certain issues beyond that timeframe.

2. In testimony, you stated that “in hindsight, if the reporting were more robust or granular, we believe we may have had an inkling of the size and potential complexity and risk of the position.” You also stated before this Committee, that the “concentrated nature of the trading and the illiquidity of the trading” are red flags that are clearly apparent now.

What requirements or guidelines does the OCC have for granularity of reporting, and what does the OCC plan to require in the future as a result of these events? What role do concentrations and liquidity of positions play in your assessment of trading risks, and how will the OCC ensure that it can capture such red flags in its supervision?

What requirements or guidelines does the OCC have for granularity of reporting, and what does the OCC plan to require in the future as a result of these events?

We expect risk reports to accurately present the nature and level(s) of risk taken and compliance with approved limits.

What role do concentrations and liquidity of positions play in your assessment of trading risks, and how will the OCC ensure that it can capture such red flags in its supervision?

We consider both concentrations and position liquidity when we assess trading activities.

We expect that risk limits and controls fully address the nature of risks being undertaken. In instances where there is limited market liquidity, or excessive concentrations, we expect limits to address the risk and that appropriate valuation adjustments are made.

4. You indicated that because you may not have been given adequate or accurate information by bank management, your supervisory abilities were limited, and that “quality supervision is dependent on the quality of information available to examiners.”

What is the role of institution-generated information in your agency’s assessment of an institution’s risk management? Please describe the process and importance of how your agency independently verifies that any information a company provides is accurate.

The role of institution-generated information in the OCC’s assessment is critical in our assessment of the bank’s risk profile and risk management processes. We assess management’s processes to develop and maintain management information systems (MIS) that will ensure information is timely, accurate, and pertinent. This assessment not only includes the processes to develop and test new MIS, but also the reliability of this information through the bank’s quality assurance process at the line of business level and the independent reviews performed by the bank’s Risk Management and audit functions.

We check to confirm that the scope and frequency of these independent reviews include verification procedures for the quality of MIS. In addition, the examiner through
ongoing supervision and target examinations perform transactional testing that confirms the accuracy of critical MIS relied upon by bank management and the regulators.

Clearly there were fails in all these aspects of financial and risk reporting and control. There should have been on-going review by the bank’s risk management and audit functions that at least flagged this area for higher-level attention as it changed during the first quarter.

You stated before this Committee that “it does not appear that the [OCC] met the heightened expectations” of “strong risk management and audit.” Please explain what these heightened expectations are, and what steps you are taking to ensure the OCC meets them.

The comptroller’s intent was that the bank did not meet the OCC’s heightened expectations for strong risk management and audit functions. The OCC set higher expectations for our large banks as part of our lessons learned from the financial crisis. The comptroller described the OCC’s heightened expectations in his testimony before the U.S. Senate’s Committee on Banking, Housing, and Urban Affairs on June 6, 2012, including comments on strong risk management and audit. We have communicated the importance of meeting these expectations to our large banks and their Boards of Directors. We are monitoring, evaluating, and discussing with bank management the bank’s progress in working towards the heightened expectations and we use the following rating table and scale each quarter:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Indicated the expectation is met.</td>
</tr>
<tr>
<td>B</td>
<td>Indicates the expectation is generally met, or is anticipated being met within 12 months.</td>
</tr>
<tr>
<td>C</td>
<td>Indicates material steps remain to meet expectation but management has demonstrated a willingness and ability to meet the expectation. Completion expected to be greater than 12 months.</td>
</tr>
<tr>
<td>D</td>
<td>Indicates material steps remain to meet expectation and management is either unwilling or unable to meet the expectation in the near to medium-term.</td>
</tr>
</tbody>
</table>

The OCC will use its supervisory tools including informal or formal enforcement actions to ensure each large bank achieves a strong risk management and audit function.
5. At the Committee's hearing where Jamie Dimon, Chairman of the Board, President and Chief Executive Officer of JPMorgan testified, Mr. Dimon indicated that while the company has a compensation clawback policy in place, that authority has not been exercised. For the largest national banks the OCC regulates, are you aware of any bank exercising a clawback of compensation when major mistakes are made? Is it important for Boards of Directors of national banks to utilize their clawback authority to deter other employees from making the same mistakes, and correct some of the misaligned pay incentives we saw leading up to the recent financial crisis?

We are not aware of the use of clawbacks to date in large national banks. As conveyed in the Interagency Guidance on Sound Incentive Compensation Policies (OCC Bulletin 2010-24), the OCC believes Boards of Directors should use clawback authority under appropriate circumstances. JPMC notified us and subsequently has announced that it plans to clawback compensation from the individuals directly responsible for the CIO losses. The bank's investigation into the matters is ongoing and additional clawbacks may be coming. The OCC will review these decisions to ensure they are appropriate.
Hi Scott,

Per your request:

- Based on my understanding, CIO was trying to pare down their long protection (short credit risk) in HY. To do so, they would sell protection (long credit risk).
- They were of the opinion that HY was cheap and IG was rich. So they took the basis risk by continuing to be long HY protection and short IG protection as a proxy.
- JPMorgan Research has the same opinion even on today's research piece:

They went short protection on two things: IG series 9 and "IG others" (latter as described in their presentation to you)

There are two new series every year. The current series number is 18 for both IG and HY. So IG series 9 was first traded 4 1/2 yrs ago in Sept 2007. These are static indices in that if names defaulted and for whatever reason IDSA-eligible dealer poll decided to include or exclude certain names in the next series, that composition of constituents varies from series to series. CIO said IG Series 9 had a few fallen angels which served as a good proxy for reducing their HY protection.

IG series 9 would not be traded if not for the fact that this was the on-the-run series right in the middle of the financial crisis and so to this day people trade it for legitimate hedging of legacy positions. But clearly it is less liquid than Series 18.

The matter is further complicated by the only people willing to take the opposite side to buy protection referencing IG series 9 were hedge funds. They would only do it on forward basis: something like 9 months forward for 1 year (ending in 1 yr 9 months). The rationale for this is economy is zigzagging right now with no imminent default but default will pick up further down the road when things slow down again. So an off-the-run series, a known position and a forward, somewhat "bespoke" trade, did them in.

Irrespective, here is a good general measure:

- IG Series 18 trades on a spread basis with a 100 bp coupon. COX HY series 18 trades on a price basis with a 500 bp coupon. Converting the latter back to yield:

IG has blown out more than HY. If this relationship holds for JPM's long protection in HY and short protection in IG, they lose money. 3/27 was the first day Series 18 traded. The relative performance could be more marked going further back when these trades were put on.

(Note: IG series 9 started in the days before the introduction of a coupon onto the index. So it was and is trading on a no coupon, spread basis.)

I will see if I can find anything on liquidity or performance further back.

Elwyn
Hi Jairam,

The above report has new carve-out for the Credit Derivative Portfolio. It seems like it is a new thing and in the footnotes if said is subject to revision anyway.

Do you know if this is something we could have gotten in the past? Reason I ask is because in the SEC briefing, CIO was known to be struggling to understand why RWA went up despite their risk 'reducing' strategy and Varhat had been asked to help even as early as February.

Yet...they were piling on trades particularly in Feb and Mar:

I retrieved from the last page of Daily Firmwide VaR Report (CIO section in Excel)

CS01 excess (granted - beta adjusted CS01) — a Level 2 limit which requires Ina Drew's and Ivy Goldman's signoff
Jan 31: 184%, in excess for 17 days
Feb 29: 507%, in excess for 37 days
Mar 30: 937%, in excess for 59 days
Limit is $5m, Jan avg usage is $9.9m, Feb is $22m, Mar is $38m. It's a monotonic increase.

Peter Weiland will be meeting us today at 2:00 pm and I will pose that question. Hogan already said as it was not Level 1, he did not see it. He agrees it was a serious breakdown.

Elwyn

Elwyn

BANK PROPRIETARY AND/OR TRADE INFORMATION
OCC-SPI-00059027
From: Gillis, David KF [mailto:david.kf.gillis@jpmchase.com]
Sent: Thursday, June 07, 2012 11:38 AM
To: Dianne.Dobbeck@ny.frb.org; Needham, Catherine; 'Arya, Om P.); Waterhouse, Scott; Waterhouse (Regulator), Scott X
Cc: Genova, Diane M.; Hili, Erin; Gunselman, Gregg B
Subject: Weekly Capital and RWA Schedule

Confidential

As requested, attached please find the JPMC Weekly Capital Update, Weekly RWA Update, and Spot Assets by LOB, dated 6/1/2012. These materials are subject to continuing internal review. I will send you an updated weekly report tomorrow and each Friday afternoon thereafter.

Please contact me at 212-648-0362 with any questions. Thank you.

David Gillis

David KF. Gillis
Managing Director & Associate General Counsel
J.P. Morgan
270 Park Avenue, 36th Fl., New York, New York 10017
david.kf.gillis@jpmorgan.com (Tel: 212-648-0362) Cell: 212-648-0362 Fax: 917-463-0370

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### Executive Summary

#### P&L (1000s)

<table>
<thead>
<tr>
<th>Date</th>
<th>Estimate</th>
<th>Actual</th>
<th>P&amp;L vs Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/24/2012</td>
<td>($62,962)</td>
<td>$117,041</td>
<td>$5,746,000</td>
</tr>
</tbody>
</table>

#### Credit Risk (15% CDS, $mm)

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Net</th>
<th>Sixes</th>
<th>% Chg.</th>
<th>30-Apr</th>
<th>30-Apr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>(175.6)</td>
<td>5.2</td>
<td>183.8</td>
<td>122.2</td>
<td>(41.7%)</td>
</tr>
<tr>
<td>30-May</td>
<td>(165.4)</td>
<td>(16.1)</td>
<td>169.5</td>
<td>117.0</td>
<td>(40.2%)</td>
</tr>
<tr>
<td>30-Apr</td>
<td>(264.1)</td>
<td>261.9</td>
<td>138.7</td>
<td>122.7</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Note: NCAI 15%, negative/cross default long the position
Expensed today

#### Collateral ($mm)

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Prior Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (CDS - counterparty)</td>
<td>$250</td>
<td>$468</td>
</tr>
<tr>
<td>Largest counterparty</td>
<td>MS</td>
<td>17.9</td>
</tr>
<tr>
<td>Largest instrument</td>
<td>CDXIG 8/17 5Y</td>
<td>21.6</td>
</tr>
</tbody>
</table>

Note: negative/crossactive collateral position denotes lower/higher valuation relative to counterparty

### Trading

- Bought protection €1,400mm iTraxx Crossover 8/17 5y
- Bought protection $1,250mm CDX IG 8/18 5y
- Sold protection $465mm CDX IG 8/18 5y

### Summary Commentary

- New trades decreased risk in 10% CDS terms by $5.2mm (new trade activity only, does not include changes due to market moves)
- P&L $629mm driven by:
  - Widening of iTraxx Crossover 8/17 vs. OTR 8/17 5y
  - Widening of CDX IG 8/18 vs. OTR 8/18 5y
  - Widening of iTraxx Crossover 8/17 vs. OTR 8/17 5y

---

**JP Morgan**  
BANK PROPRIETARY AND/OFT TRADE INFORMATION  
OCC-SP1-00868644
## Risk and Market Summary

### Risk Summary (Includes Market Data)

<table>
<thead>
<tr>
<th>Date</th>
<th>Pay/Rec</th>
<th>Pay AN</th>
<th>Rec AN</th>
<th>Pay AN/Rec AN</th>
<th>Spread</th>
<th>Market Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/02/12</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
</tr>
<tr>
<td>21/02/12</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
<td>50/50</td>
</tr>
</tbody>
</table>

### Risk Factors (as of 02/24/12)

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Underlying</th>
<th>Directionality</th>
<th>Curve</th>
<th>Market Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX HY</td>
<td>2.7</td>
<td>3.8</td>
<td>2.7</td>
<td>123.5</td>
</tr>
<tr>
<td>CDX main</td>
<td>2.7</td>
<td>3.8</td>
<td>2.7</td>
<td>123.5</td>
</tr>
<tr>
<td>CDX X-over</td>
<td>2.7</td>
<td>3.8</td>
<td>2.7</td>
<td>123.5</td>
</tr>
</tbody>
</table>

### Market Summary (as of 02/26/12)

| Spread     | Weekly Change (bps)
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX HY</td>
<td>2.7</td>
</tr>
<tr>
<td>CDX main</td>
<td>2.7</td>
</tr>
<tr>
<td>CDX X-over</td>
<td>2.7</td>
</tr>
</tbody>
</table>

---

*Table above includes notional and risk factors for both indices and tranches combined.*

---

**注释**

- 1. BD: Bearer of the document.
- 2. CDX HY: CDX HY index.
- 3. CDX main: CDX main index.
- 4. CDX X-over: CDX X-over index.

---

**Risk Factors**

- **Underlying**: CDX HY, CDX main, CDX X-over.
- **Directionality**: 3.8, 2.7, 2.7.
- **Curve**: 123.5, 123.5, 123.5.

---

**Note:**

- Market data includes: Spread, Weekly Change (bps).
- Source: Market data provided by J.P. Morgan.

---

**Risk Summary (as of 02/24/12)**

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Underlying</th>
<th>Directionality</th>
<th>Curve</th>
<th>Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX HY</td>
<td>2.7</td>
<td>3.8</td>
<td>2.7</td>
<td>123.5</td>
</tr>
<tr>
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<td>2.7</td>
<td>3.8</td>
<td>2.7</td>
<td>123.5</td>
</tr>
<tr>
<td>CDX X-over</td>
<td>2.7</td>
<td>3.8</td>
<td>2.7</td>
<td>123.5</td>
</tr>
</tbody>
</table>

---

**Risk Factors**

- **Underlying**: CDX HY, CDX main, CDX X-over.
- **Directionality**: 3.8, 2.7, 2.7.
- **Curve**: 123.5, 123.5, 123.5.

---

**Note:**

- Market data includes: Spread, Weekly Change (bps).
- Source: Market data provided by J.P. Morgan.
## Notional Overview

<table>
<thead>
<tr>
<th>Category</th>
<th>Notional (Long)</th>
<th>Notional (Short)</th>
<th>Change (Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG vs. HY</td>
<td>123</td>
<td>22,905</td>
<td>109,293</td>
</tr>
<tr>
<td>Other IG</td>
<td>4,155</td>
<td>14,000</td>
<td>9,845</td>
</tr>
<tr>
<td>High Yield</td>
<td>18,044</td>
<td>20,000</td>
<td>1,956</td>
</tr>
</tbody>
</table>

### Tranche Mix vs. Comparator

<table>
<thead>
<tr>
<th>Tranche</th>
<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG 8-yr</td>
<td>22,400</td>
<td>2,070</td>
<td>19,330</td>
<td>270</td>
</tr>
<tr>
<td>IG</td>
<td>6,400</td>
<td>1,050</td>
<td>5,350</td>
<td>100</td>
</tr>
<tr>
<td>HY</td>
<td>17,750</td>
<td>4,290</td>
<td>4,130</td>
<td>2,310</td>
</tr>
<tr>
<td>Tranche</td>
<td>36,085</td>
<td>5,320</td>
<td>30,765</td>
<td>430</td>
</tr>
</tbody>
</table>

### Other Position

<table>
<thead>
<tr>
<th>Position</th>
<th>Long</th>
<th>Short</th>
</tr>
</thead>
<tbody>
<tr>
<td>FInDis</td>
<td>3,651</td>
<td>4,646</td>
</tr>
<tr>
<td>CDX</td>
<td>4,076</td>
<td>1,068</td>
</tr>
</tbody>
</table>

### Venue (IG, Country, by maturity)

<table>
<thead>
<tr>
<th>Venue</th>
<th>Notional</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG 8-yr 0Y</td>
<td>36,085</td>
</tr>
<tr>
<td>IG 8-yr 0Y</td>
<td>22,400</td>
</tr>
<tr>
<td>IG 5Y</td>
<td>6,400</td>
</tr>
<tr>
<td>IG 10Y</td>
<td>17,750</td>
</tr>
<tr>
<td>IG</td>
<td>36,085</td>
</tr>
</tbody>
</table>

*Note: Positive/negative notional data overview long/short net*

---

**JPMorgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-SPI-00058644
Synthetic credit book – key metrics

Historical Stress ($mm)

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/18</td>
<td>$3,975</td>
</tr>
<tr>
<td>5/18</td>
<td>$3,349</td>
</tr>
<tr>
<td>5/21</td>
<td>$2,722</td>
</tr>
<tr>
<td>5/22</td>
<td>$2,196</td>
</tr>
<tr>
<td>5/23</td>
<td>$2,058</td>
</tr>
<tr>
<td>5/24</td>
<td>$2,028</td>
</tr>
</tbody>
</table>

Statistical Stress ($mm)

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/18</td>
<td>$1,840</td>
</tr>
<tr>
<td>5/18</td>
<td>$1,610</td>
</tr>
<tr>
<td>5/21</td>
<td>$1,452</td>
</tr>
<tr>
<td>5/22</td>
<td>$1,300</td>
</tr>
<tr>
<td>5/23</td>
<td>$1,240</td>
</tr>
</tbody>
</table>

VAR 88 Trend (tmm)

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/18</td>
<td>220</td>
</tr>
<tr>
<td>5/18</td>
<td>195</td>
</tr>
<tr>
<td>5/21</td>
<td>170</td>
</tr>
<tr>
<td>5/22</td>
<td>160</td>
</tr>
<tr>
<td>5/23</td>
<td>150</td>
</tr>
<tr>
<td>5/24</td>
<td>140</td>
</tr>
</tbody>
</table>

Synthetic Credit RWA ($bn)

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/9/2012</td>
<td>148</td>
</tr>
<tr>
<td>5/14/2012</td>
<td>126</td>
</tr>
</tbody>
</table>

JPMorgan
Summary of Synthetic Credit Book – historical stress

- Pricing to equilibrium: in addition to below risk factors, some indices will lose value as they move from richness to fairness.
- Synthetic credit book exposed to six risk factors – each factor represents a directional exposure.
- In the short-to-medium term, these exposures can be partially mitigated – but not eliminated.

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of when position takes money</th>
<th>Historical worst single day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Directionally)</td>
<td>If credit spreads widen across markets</td>
<td>$296mm</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>If credit spreads of long-maturity positions get wider relative to short-maturity positions</td>
<td>0mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>$2.072mm</td>
</tr>
<tr>
<td>4. Illiquidity of older indices / Tranches (On-the-Run vs. Off-the-Run)</td>
<td>If credit spreads of the older index (the “off-the-run” index) widen relative to more recently issued indices (the more “on the run” indices)</td>
<td>43mm</td>
</tr>
<tr>
<td>5. “Super senior” debt vs. “equity” positions (Tranches)</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>505mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual names)</td>
<td>If credit events happen to companies for which we have “sold protection”</td>
<td>NA</td>
</tr>
</tbody>
</table>

Portfolio worst day: $3,695mm

Sum of worst case: $2,915mm

JPMorgan
Summary of Synthetic Credit Book — statistical stress

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to fairness
- Synthetic credit book exposed to six risk factors — Each factor represents a directional exposure
- In the short-to-medium term, these exposures can be partially mitigated — But not eliminated

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of when position loses money</th>
<th>5/24/12 10% VaR loss potential</th>
<th>4/30/12 10% VaR loss potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Directionality)</td>
<td>If credit spreads widen across markets</td>
<td>$170mm</td>
<td>$710mm</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>If credit spreads of long-maturity positions get wider relative to short-maturity positions</td>
<td>140mm</td>
<td>100mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>1,080mm</td>
<td>810mm</td>
</tr>
<tr>
<td>4. Illiquidity of older indices / Tranches (On-the-Run vs. Off-the-Run)</td>
<td>If credit spreads of the older index (the &quot;off-the-run&quot; index) widen relative to more-recently issued indices (the more &quot;on the run&quot; indices)</td>
<td>520mm</td>
<td>1,490mm</td>
</tr>
<tr>
<td>5. &quot;Super senior&quot; debt vs. &quot;equity&quot; positions (Tranches)</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>490mm</td>
<td>490mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual names)</td>
<td>If credit events happen to companies for which we have &quot;solid protection&quot;</td>
<td>291mm</td>
<td>291mm</td>
</tr>
</tbody>
</table>

Est. total diversified 99% loss potential $1,340mm $1,860mm

J.P. Morgan
Synthetic Credit risk factors details

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Sigma</th>
<th>Loss (Bnm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>90.0% percentile</td>
<td>1.26</td>
<td>2,360</td>
</tr>
<tr>
<td>95.0% percentile</td>
<td>1.64</td>
<td>5,546</td>
</tr>
<tr>
<td>97.5% percentile</td>
<td>1.56</td>
<td>1,160</td>
</tr>
<tr>
<td>99.9% percentile</td>
<td>3.09</td>
<td>2,360</td>
</tr>
</tbody>
</table>

Downside Case A

Downside Case B

Assumptions behind analysis:

- Credit spread widening (Directionality) - Net directional loss estimate assumes correlation based on 1yr data
- Maturity mismatch (Curve)
  - Volatility measured as relative movement of longer maturity spread vs. shorter maturity spread adjusted for overall drift
  - Combined across asset classes assuming zero correlation
- High Yield vs. Investment Grade
  - Volatility based on relative spread movement netted for overall directionality
  - Assumes zero correlation between these differences for US and Europe
- Illiquidity of older Indices/Tranches (On-the-run/Off-the-run risk)
  - Series 9 is assumed as the off-the-run position
  - Risks are combined assuming zero correlation
- "Super senior" debt vs. "equity" positions (Tranches) - Risk factor based on extreme movements of correlation as seen during the credit crisis
- Default risk (Risk on individual names) - Exposure based on comprehensive simulation of default risk using capital model
- Diversified sum - All above risk measures combined assuming zero correlation

1 Diversified sum of 95.0% percentile; 2 Diversified sum of 99.9% percentile.

J.P. Morgan
Agenda

1. Curve exposure (Investment Grade CDX and iTraxx Series 9) IG vs. HY
2. Investment Grade vs. High Yield (Compression)
3. OR-the-un index risk
4. Directionality
5. Tranche Risk
6. Default profile
7. Limits
8. Differences Summary
10. Synthetic credit risk overview
11. Daily price testing – Index
12. Daily price testing – Tranche
Curve exposure (Investment Grade CDX and iTraxx Series 9) (cob 5/23/12)

DRAFT (5/24/12)

Commentary

- Our curve risk arises from the portfolio being short risk in lesser maturities (pre Dec 2018) and long risk in greater maturities (post Dec 2018)
- Our exposure to this is approximately $500mm per bp in steepening in IG9 with a forward long of $34mm

Risk depiction

Overall Long/Short

Notional (Sbn) PV 10% CSW ($mm)

Maturity Current Delta Adj. ($mm) Spot Day Chg.
Dec '17 47 56 (2,663) (396) (14.3)
Net (865) (12.25)

Volume

Week Total 8,509 2,034
1M Daily Avg 1,972 2,314
Since 4/50 35,433 41,960

Days to Liquidation (20% daily avg. vol)

13 27 (2,303) (377) (6.6)

Balance sheet carrying value

Risk & P&L

Daily ($000) WTD Since 4/50
0 (25,000) (13,723,511)

Notional (€bn) PV 10% CSW ($mm)

Maturity Current Delta Adj. ($mm) Spot Day Chg.
Jun '17 13 127 (2,552) (377) (5.2)
Net (454) (4.6)

Volume

Week Total 7,803 2,114
1M Daily Avg 1,171 317
Since 4/50 52,812 5,932

Days to Liquidation (20% daily avg. vol)

72 205

OECC-9FE-0008644

RANK PROPRIETARY AND/OR TRADE INFORMATION
Investment Grade vs. High Yield (Compression) (cob 5/23/12)

Risk depiction

<table>
<thead>
<tr>
<th>Compression exposure detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decompression: 10% CSW</td>
</tr>
<tr>
<td>CDX IG</td>
</tr>
<tr>
<td>CDX HY</td>
</tr>
<tr>
<td>CDX IG vs. CDX HY</td>
</tr>
<tr>
<td>Close of Day</td>
</tr>
</tbody>
</table>

Exposure & P&L

<table>
<thead>
<tr>
<th>P&amp;L ($000s)</th>
<th>Daily</th>
<th>WTD</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG vs. HY</td>
<td>(1,644,921)</td>
<td>(1,53,124)</td>
<td></td>
</tr>
<tr>
<td>(ITranx MN vs. XO)</td>
<td>(2,045)</td>
<td>(221,801)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(75)</td>
<td>16,101</td>
<td></td>
</tr>
</tbody>
</table>

Close of Day

- CDX IG: $47,727 (22.2% change)
  - Close of Week: (2678)
  - Since April 30: (141.51)
- iTraxx:MN: $1,444 (1.3% change)
  - Close of Week: 23.5
  - Since April 30: 141.3
- iTraxx: XO: $4,917 (2.0% change)
  - Close of Week: 21.8
  - Since April 30: 141.3

P&L ($000s)

| CDX IG vs. HY | $47,727 | (22.2%) |
| CUDDX IG vs. CDX HY | 10% Change | Since 4/30 |
| CUDDX IG | (23,5) |
| CUDDX HY | 23.5 |
| CUDDX IG:MN vs. CDX HY: MN | (221,801) |
| CUDDX XO | (221,801) |

Above P&L based on an indicative allocation model and may not match representative P&L estimate.

Commentary

- We are long Investment Grade and Short High Yield such that we lose if High Yield widens (narrows) less (more) than a ratio of 5:1 to Investment Grade.

Volumes

<table>
<thead>
<tr>
<th>Volumes</th>
<th>1Week Total</th>
<th>1M Daily Avg</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>130,034</td>
<td>21,833</td>
<td>400,844</td>
</tr>
<tr>
<td>CDX HY</td>
<td>21,833</td>
<td>3,139</td>
<td>57,842</td>
</tr>
</tbody>
</table>

Days to Liquidation

<table>
<thead>
<tr>
<th>Days to Liquidation</th>
<th>(20% daily avg. vol)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>11</td>
</tr>
<tr>
<td>CDX HY</td>
<td>51</td>
</tr>
</tbody>
</table>

Since 4/30

<table>
<thead>
<tr>
<th>Since 4/30</th>
<th>IG vs. HY ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>5.71x</td>
</tr>
<tr>
<td>$10,000</td>
<td>4.00x</td>
</tr>
</tbody>
</table>

J.P. Morgan
### Off-the-run index risk (cob 5/23/12)

#### Risk depiction

<table>
<thead>
<tr>
<th>Notional ($bn)</th>
<th>PV (mm)</th>
<th>CBO1 (mm)</th>
<th>CBO2 (mm)</th>
<th>Change Latest Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDXIG9</td>
<td>46,989</td>
<td>56,019</td>
<td>(2,653)</td>
<td>0.5</td>
</tr>
<tr>
<td>iTraxx</td>
<td>16,340</td>
<td>34,572</td>
<td>(2,303)</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>63,329</td>
<td>90,533</td>
<td>(4,956)</td>
<td>0.9</td>
</tr>
</tbody>
</table>

#### Exposure & P&L

<table>
<thead>
<tr>
<th>Daily ($mm)</th>
<th>WTD</th>
<th>6-Month ($mm)</th>
<th>Change Close of Day</th>
<th>Change Close of Week</th>
<th>Change Since April 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG 10 yr</td>
<td>0.9</td>
<td>(9)</td>
<td>0.9</td>
<td>(13.9)</td>
<td>(20.9)</td>
</tr>
<tr>
<td>IG 18 5 yr</td>
<td>1.9</td>
<td>(17)</td>
<td>1.9</td>
<td>(12.1)</td>
<td>(12.1)</td>
</tr>
</tbody>
</table>

#### Commentary

- This refers to the risk that we hold large, concentrated positions in off-the-run indices in IG CDX and iTraxx.

---

Above P&L based on an indicative attribution model and may not match representative trade P&L estimation.

---

1 PV represents balance sheet carrying value

**INTERNAL USE ONLY**

---

JPMorgan
Directionality (cob 5/23/12)

Exposure & P&L

Commentary

- Daily ($000s)
- WTD
- Since 4/30
- $148,000 (137,659)

Above P&L benchmarks an indicative attribution model and may not match representative trade P&L estimation.

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/11</td>
<td>130</td>
</tr>
<tr>
<td>6/30/12</td>
<td>153</td>
</tr>
<tr>
<td>5/23/12</td>
<td>155</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/3/11</td>
<td>153</td>
</tr>
<tr>
<td>6/30/12</td>
<td>153</td>
</tr>
<tr>
<td>5/23/12</td>
<td>155</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/11</td>
<td>130</td>
</tr>
<tr>
<td>6/30/12</td>
<td>153</td>
</tr>
<tr>
<td>5/23/12</td>
<td>155</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/11</td>
<td>130</td>
</tr>
<tr>
<td>6/30/12</td>
<td>153</td>
</tr>
<tr>
<td>5/23/12</td>
<td>155</td>
</tr>
</tbody>
</table>

J.P. Morgan

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-00055044
Tranche Risk (cob 5/23/12)

<table>
<thead>
<tr>
<th>Index name</th>
<th>Tranche</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX iG Junior</td>
<td>0-35%</td>
<td>124</td>
</tr>
<tr>
<td>CDX iG Super Senior</td>
<td>35-160%</td>
<td>(84)</td>
</tr>
<tr>
<td>CDX iG Total</td>
<td></td>
<td>(41)</td>
</tr>
<tr>
<td>CDX iH Junior</td>
<td>0-35%</td>
<td>9</td>
</tr>
<tr>
<td>CDX iH Super Senior</td>
<td>35-160%</td>
<td>6</td>
</tr>
<tr>
<td>CDX iH Total</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>iTraxx Junior</td>
<td>0-22%</td>
<td>28</td>
</tr>
<tr>
<td>iTraxx Super Senior</td>
<td>22-100%</td>
<td>(150)</td>
</tr>
<tr>
<td>iTraxx Total</td>
<td></td>
<td>(178)</td>
</tr>
<tr>
<td>Grand total</td>
<td></td>
<td>(174)</td>
</tr>
</tbody>
</table>

| US             | Long iG 9y Super Sr. 15y | 0.93 |
|                | 10% Cont 01             | (18) |
|                | Change                   | 0.28 |
|                | Week To Date             | 0.28 |
|                | Since April 30           | 0.32 |

| US             | Long iTraxx 9y Super 15y | 0.27 |
|                | 10% Cont 01              | (18) |
|                | Change                   | 0.16 |
|                | Week To Date             | 0.30 |
|                | Since April 30           | 0.16 |

Above P&L based on an indicative attribution model and may not match representative base P&L estimation.

Correlation data as of COB 5/23/12

Graphs of 10% correlation shift Theoretical max gain/loss based on 10% Corr and Spread graph

Impaired, weekly P&L

D/D Vol tracked since Apr 30th

JP Morgan
## Default profile (cob 5/23/12)

### Total exposure

<table>
<thead>
<tr>
<th>Portfolio</th>
<th># of Names</th>
<th>Total value</th>
<th>Gain/loss</th>
<th>Gain/loss %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>10</td>
<td>$10,000</td>
<td>$500</td>
<td>$5.0%</td>
</tr>
</tbody>
</table>

### Top 5 exposures

<table>
<thead>
<tr>
<th>Pre June 2013</th>
<th>Post June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>$1,500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pre June 2013</th>
<th>Post June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000,000</td>
<td>$2,500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pre June 2013</th>
<th>Post June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000,000</td>
<td>$3,500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pre June 2013</th>
<th>Post June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000,000</td>
<td>$4,500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pre June 2013</th>
<th>Post June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000,000</td>
<td>$5,500,000</td>
</tr>
</tbody>
</table>

---

**Note:** All values are hypothetical and for demonstration purposes only. Actual values and exposures may vary.
## Limits

<table>
<thead>
<tr>
<th>Summary</th>
<th>Usage</th>
<th>Synthetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX Unadjusted</td>
<td>(7.6)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>CDXLCDX</td>
<td>(0.0)</td>
<td>(1.8)</td>
</tr>
<tr>
<td>CDXIG</td>
<td>(20.0)</td>
<td>(39.4)</td>
</tr>
<tr>
<td>ITXe MIN</td>
<td>(11.9)</td>
<td>(23.7)</td>
</tr>
<tr>
<td>ITXe XD</td>
<td>(2.7)</td>
<td>(3.3)</td>
</tr>
<tr>
<td>ITXe Fire sub</td>
<td>(0.2)</td>
<td>(0.8)</td>
</tr>
<tr>
<td>ITXe Fire sn</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>CDX-HY</td>
<td>469.8</td>
<td>496.0</td>
</tr>
<tr>
<td>US CDX</td>
<td>469.8</td>
<td>496.0</td>
</tr>
<tr>
<td>Euro CDX</td>
<td>(0.1)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>US CDXLCDX</td>
<td>549.0</td>
<td>(0.1)</td>
</tr>
<tr>
<td>US CDXIG</td>
<td>(23.9)</td>
<td>(23.4)</td>
</tr>
<tr>
<td>US ITXe MIN</td>
<td>201.0</td>
<td>(201.0)</td>
</tr>
<tr>
<td>US ITXe XD</td>
<td>27.0</td>
<td>(27.0)</td>
</tr>
<tr>
<td>US ITXe Fire sub</td>
<td>12.0</td>
<td>(12.0)</td>
</tr>
<tr>
<td>US ITXe Fire sn</td>
<td>8.4</td>
<td>12.0</td>
</tr>
<tr>
<td>CDX IG 9-7Y</td>
<td>34.2</td>
<td>34.2</td>
</tr>
<tr>
<td>CDX IG 9-10Y</td>
<td>47.0</td>
<td>81.0</td>
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<tr>
<td>ITXe 9-7Y</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>ITXe 9-10Y</td>
<td>13.0</td>
<td>13.0</td>
</tr>
</tbody>
</table>

**Tranche Limits**

- US Compression Limit: 455.4
- EUR Compression Limit: 496.0
- 10% Floor Shift: 174.0

**Large Index Nationals**

- US CDX: 469.8
- Euro CDX: 0.1
- US CDXLCDX: 549.0
- US CDXIG: 23.9
- US ITXe MIN: 201.0
- US ITXe XD: 27.0
- US ITXe Fire sub: 12.0
- US ITXe Fire sn: 8.4
- CDX IG 9-7Y: 34.2
- CDX IG 9-10Y: 47.0
- ITXe 9-7Y: 5.4
- ITXe 9-10Y: 13.0
### Differences summary

**CIO Credit Collateral differences**

#### By counterparty (in $m)

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Sum of CP</th>
<th>Sum of MTM</th>
<th>Sum of MTM PnL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>152</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>BBVAd</td>
<td>315</td>
<td>43</td>
<td>(2)</td>
</tr>
<tr>
<td>BML</td>
<td>362</td>
<td>301</td>
<td>(3)</td>
</tr>
<tr>
<td>BPLC</td>
<td>(105)</td>
<td>(103)</td>
<td>(2)</td>
</tr>
<tr>
<td>CBBAd</td>
<td>(1)</td>
<td>(2)</td>
<td>0</td>
</tr>
<tr>
<td>COIL</td>
<td>(9)</td>
<td>(7)</td>
<td>6</td>
</tr>
<tr>
<td>CPT</td>
<td>(115)</td>
<td>(129)</td>
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<td>CRX</td>
<td>(227)</td>
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<td>(54)</td>
<td>(52)</td>
<td>(2)</td>
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<td>CRXAd</td>
<td>364</td>
<td>379</td>
<td>5</td>
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<tr>
<td>GSH</td>
<td>(27)</td>
<td>(25)</td>
<td>(1)</td>
</tr>
<tr>
<td>HSBC</td>
<td>12</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>NJU</td>
<td>9</td>
<td>5</td>
<td>(2)</td>
</tr>
<tr>
<td>MECs</td>
<td>(138)</td>
<td>113</td>
<td>17</td>
</tr>
<tr>
<td>MSL</td>
<td>(85)</td>
<td>(92)</td>
<td>(3)</td>
</tr>
<tr>
<td>MECs/FAP</td>
<td>124</td>
<td>129</td>
<td>(5)</td>
</tr>
<tr>
<td>MECs/LC</td>
<td>7a</td>
<td>7a</td>
<td>9</td>
</tr>
<tr>
<td>GGC</td>
<td>(49)</td>
<td>(21)</td>
<td>26</td>
</tr>
<tr>
<td>UMAAd</td>
<td>(126)</td>
<td>(111)</td>
<td>(13)</td>
</tr>
<tr>
<td>Total</td>
<td>527</td>
<td>502</td>
<td>55</td>
</tr>
</tbody>
</table>

#### By instrument (in $m)

<table>
<thead>
<tr>
<th>Series 09 Index</th>
<th>CP</th>
<th>MTM</th>
<th>PnL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNOX</td>
<td>1664</td>
<td>927</td>
<td>721</td>
</tr>
<tr>
<td>CNOX</td>
<td>(1023)</td>
<td>(61)</td>
<td>(962)</td>
</tr>
<tr>
<td>TRAXX MBS</td>
<td>(17)</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>TRAXX MBS</td>
<td>(21)</td>
<td>(1)</td>
<td>20</td>
</tr>
</tbody>
</table>

**CIO PV Differences with MarkIT pricing**

#### Index ($mm)

<table>
<thead>
<tr>
<th>Index</th>
<th>PV Difference</th>
<th>Change</th>
<th>Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 09 Index</td>
<td>142.1</td>
<td>123.8</td>
<td>(18.3)</td>
</tr>
<tr>
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**Pricing tolerances**

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*Internal Use Only*  
Notation:  
- Positive number implies Cols are too low — PALS adjusted upward to cap.  
- Negative number implies rows are too high — PALS adjusted downward to cap.  
- Tranche bps available: quotes only.
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### Daily price testing – Index

#### CDS 2012-05-23

#### CDS PV Differences with Markit pricing

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<th>ICE Quote</th>
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### Daily price testing – Tranche

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**Daily price testing - Tranche**

**Series 9** Tranche

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<th>Index Change</th>
<th>Total Tranche</th>
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### Daily price testing (cont'd) – Tranche

**CID PV Differences w/1 MarkIT pricing**

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**Total Tranche** 17.82 14.65

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**Internal Use Only**

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23
**Daily price testing (cont'd) - Tranche**

### CDX 2012-05-23

**Price Type** | **Change (5 mm)** | **Issuer** | **Change (5 mm)**
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Total Tranche | 25.24 | 3.44 |  

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<td>2.9</td>
</tr>
<tr>
<td>CDX HY 010 DTY 07-10</td>
<td>(0.02) price</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>CDX HY 011 DTY 15-25</td>
<td>(0.02) price</td>
<td>9.9</td>
<td>9.9</td>
</tr>
<tr>
<td>CDX HY 028 DTY 15-10</td>
<td>(0.02) price</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>CDX HY 039 DTY 05-10</td>
<td>(0.03) price</td>
<td>20.4</td>
<td>20.4</td>
</tr>
<tr>
<td>CDX HY 039 DTY 05-20</td>
<td>(0.04) price</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
<td>CDX HY 040 DTY 15-25</td>
<td>(1.410) price</td>
<td>105.9</td>
<td>106.0</td>
</tr>
<tr>
<td>ITRAXX MN 015 DTY 22-100</td>
<td>2.517</td>
<td>(0.62) spread</td>
<td>45.3</td>
</tr>
<tr>
<td>ITRAXX MN 015 DTY 22-100</td>
<td>2.517</td>
<td>(0.62) spread</td>
<td>45.3</td>
</tr>
<tr>
<td>ITRAXX MN 015 DTY 22-100</td>
<td>2.517</td>
<td>(0.62) spread</td>
<td>45.3</td>
</tr>
<tr>
<td>ITRAXX MN 015 DTY 22-100</td>
<td>2.517</td>
<td>(0.62) spread</td>
<td>45.3</td>
</tr>
</tbody>
</table>

---

**Note:** The table above contains daily price testing data for various tranches as of May 23, 2012. The data includes adjusted prices, spreads, and changes in net market price values. The table is part of a daily pricing report and is subject to internal use only. The report is marked as J.P. Morgan proprietary information.
### Daily price testing (cont'd) – Tranche

**CIC PV Differences with Market pricing**

<table>
<thead>
<tr>
<th>CIC</th>
<th>Tranche</th>
<th>Total Tranche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Tranche</td>
<td>Price Type</td>
</tr>
<tr>
<td>2012-05-23</td>
<td></td>
<td></td>
</tr>
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</table>

#### Other Tranche

<table>
<thead>
<tr>
<th>Tranche</th>
<th>Price Type</th>
<th>Market PV</th>
<th>Model PV</th>
<th>Change</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITRAXX MN 10Y 00 03-06</td>
<td>upfront 000</td>
<td>9.5</td>
<td>10.3</td>
<td>(3.8)</td>
<td>(3.6)</td>
</tr>
<tr>
<td>ITRAXX MN 15Y 05-06</td>
<td>upfront 000</td>
<td>9.5</td>
<td>10.3</td>
<td>(3.8)</td>
<td>(3.6)</td>
</tr>
<tr>
<td>ITRAXX MN 20Y 09-10</td>
<td>upfront 000</td>
<td>9.5</td>
<td>10.3</td>
<td>(3.8)</td>
<td>(3.6)</td>
</tr>
<tr>
<td>ITRAXX MN 05Y 00 03-06</td>
<td>upfront 000</td>
<td>9.5</td>
<td>10.3</td>
<td>(3.8)</td>
<td>(3.6)</td>
</tr>
<tr>
<td>ITRAXX MN 10Y 00 03-06</td>
<td>upfront 000</td>
<td>9.5</td>
<td>10.3</td>
<td>(3.8)</td>
<td>(3.6)</td>
</tr>
</tbody>
</table>

#### By Family

<table>
<thead>
<tr>
<th>Family</th>
<th>Change due to the OnTR 5Y Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDS</td>
<td>44.17</td>
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**JP Morgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-SPI-00086544
## Volume and activity update

### DTCC weekly information

<table>
<thead>
<tr>
<th>Source</th>
<th>Gross notional (mm)</th>
<th>Weekly activity (mm)</th>
<th>% of national traded</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unmatched</td>
<td>Matched</td>
<td>Unmatched</td>
</tr>
<tr>
<td>CDX IG S09</td>
<td>618,812</td>
<td>597,484</td>
<td>31,257</td>
</tr>
<tr>
<td>iTraxx MN S09</td>
<td>616,550</td>
<td>522,159</td>
<td>17,176</td>
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<tr>
<td>CDX IG S10</td>
<td>230,000</td>
<td>N/A</td>
<td>221,245</td>
</tr>
<tr>
<td>iTraxx MN S10</td>
<td>592,720</td>
<td>N/A</td>
<td>7,552</td>
</tr>
<tr>
<td>CDX IG S15</td>
<td>19,678</td>
<td>137</td>
<td>2,570</td>
</tr>
<tr>
<td>CDX IG S16</td>
<td>118,415</td>
<td>N/A</td>
<td>697</td>
</tr>
<tr>
<td>CDX IG S17</td>
<td>9,532</td>
<td>N/A</td>
<td>3,603</td>
</tr>
<tr>
<td>CDX HYS S17</td>
<td>3,620</td>
<td>N/A</td>
<td>1,740</td>
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<tr>
<td>CDX HYS S18</td>
<td>4,915</td>
<td>N/A</td>
<td>1,100</td>
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<tr>
<td>iTraxx MN S17</td>
<td>72,421</td>
<td>650</td>
<td>6,921</td>
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<tr>
<td>iTraxx MN S18</td>
<td>71,049</td>
<td>1,110</td>
<td>4,352</td>
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<tr>
<td>iTraxx MN S19</td>
<td>72,421</td>
<td>650</td>
<td>6,921</td>
</tr>
<tr>
<td>iTraxx MN S20</td>
<td>72,023</td>
<td>N/A</td>
<td>4,170</td>
</tr>
<tr>
<td>iTraxx MN Sub S17</td>
<td>29,771</td>
<td>N/A</td>
<td>5,940</td>
</tr>
</tbody>
</table>

Source: DTCC (week ending 5/18/12)
SYNTHETIC CREDIT DAILY RISK REPORT

May 10, 2012

JPMorgan
### Executive Summary

**Largest Downgrade**
- Largest GD underproperty instrument ~ $115 billion
- Rollovers: DyWIq?id184 billion of 01R06 to 01R17
  - Gross rollout: ~ $100 million
  - Protection: ~ $50 billion
  - 14.11-17.5 year maturity
- Bought protection: $1.75 billion

**New trades reduced risk**
- New trades reduced risk in 10% of trades by $87 million (new trade activity only, does not include changes due to market moves)

**Underperformance vs HY (US)**
- Undertime performance of 0G912F17 vs OTS by (45 million)

**Fixed Income**
- Long CDXIG 05-17
- Long CDXIG 04-16
- Long ITRPXXMN 06-17
- Short ITRPXXMN 07-17

**INTRA-FINAL LTD**
- 23.80%

**CHART A**
- Sorted fund, 0:30, Long, change

**DRAFT (6:20:12)**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Sorted Fund</th>
<th>Close to</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund 1</td>
<td>0:30</td>
<td>Long</td>
<td>23.80%</td>
</tr>
</tbody>
</table>

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

RBC1A-009203
Risk and market summary (cob 5/21/12)

<table>
<thead>
<tr>
<th>Risk summary</th>
<th>Price</th>
<th>Max</th>
<th>Min</th>
<th>Vol</th>
<th>Pct</th>
<th>% Vol</th>
<th>% Change</th>
<th>Vol Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRN</td>
<td>1.210</td>
<td>1.207</td>
<td>1.205</td>
<td>7,300</td>
<td>0.5</td>
<td>0.2</td>
<td>52.2</td>
<td>1.5</td>
</tr>
<tr>
<td>COF</td>
<td>1.210</td>
<td>1.207</td>
<td>1.205</td>
<td>7,300</td>
<td>0.5</td>
<td>0.2</td>
<td>52.2</td>
<td>1.5</td>
</tr>
<tr>
<td>PG</td>
<td>10.010</td>
<td>9.999</td>
<td>9.988</td>
<td>21,010</td>
<td>2.0</td>
<td>0.2</td>
<td>17.2</td>
<td>2.0</td>
</tr>
<tr>
<td>FND</td>
<td>2.245</td>
<td>2.243</td>
<td>2.241</td>
<td>4,240</td>
<td>0.3</td>
<td>0.2</td>
<td>3.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td>10.245</td>
<td>10.243</td>
<td>10.241</td>
<td>34,890</td>
<td>3.2</td>
<td>0.2</td>
<td>6.2</td>
<td>2.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk factors</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>5.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market summary</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRN</td>
<td>1.210</td>
</tr>
<tr>
<td>COF</td>
<td>1.210</td>
</tr>
<tr>
<td>PG</td>
<td>10.010</td>
</tr>
<tr>
<td>FND</td>
<td>2.245</td>
</tr>
<tr>
<td>Total</td>
<td>10.245</td>
</tr>
</tbody>
</table>

Source: Market data. JPM Morgan Officers Bank of New York (c/o).
Synthetic credit book - key metrics
## Summary of Synthetic Credit Book — historical stress

- Pricing to equilibrium: in addition to below risk factors, some indices will lose value as they move from richness to fairness.
- Synthetic credit book exposed to six risk factors. Each factor represents a directional exposure.
- In the short-run medium term, these exposures can be partially mitigated — but not eliminated.

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of directional exposure</th>
<th>Historical single day impact</th>
<th>Historical worst day impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Directional)</td>
<td>The credit spread widens across indices</td>
<td>$1.006m</td>
<td>$1.252m</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>The credit spread of long-maturity positions get wider relative to short-maturity positions</td>
<td>$179m</td>
<td>NA</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade (Tranches)</td>
<td>The high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>$1.054m</td>
<td>$1.252m</td>
</tr>
<tr>
<td>4. Equity vs. credit indices (Tranches)</td>
<td>The credit spread of the older index (the “off-the-run” index) widens relative to more recently issued indices</td>
<td>$49mm</td>
<td>$1.256mm</td>
</tr>
<tr>
<td>5. &quot;Super senior&quot; debt vs. &quot;equity&quot; positions</td>
<td>The credit spread of the “off-the-run” index widens relative to more recently issued indices</td>
<td>$369mm</td>
<td>$1.239mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual names)</td>
<td>If a credit event happens to a counterparty for which we have “call protection”</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

| Portfolio worst day | $1.549m | $2.371m |
| Total loss of coverage | $4.929m | $5.927m |
Summary of Synthetic Credit Book — statistical stress

- Pricing to equilibrium: in addition to below risk factors, some indices will lose value as they move from richness to fairness.
- Synthetic credit book exposed to six risk factors — Each factor represents a directional exposure.
- In the short-to-medium term, these exposures can be partially mitigated — But not eliminated.

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of index position exposure</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Curve)</td>
<td>If credit spreads widen across IG/NAIG</td>
<td>$440mm</td>
<td>$450mm</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>If credit spreads between maturity positions get wider relative to short-maturity positions</td>
<td>141mm</td>
<td>161mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>1,270mm</td>
<td>1,355mm</td>
</tr>
<tr>
<td>4. Illiquidity of older indices / Tranches (Off-the-run vs. On-the-run)</td>
<td>If credit spreads of the older indices, the &quot;off-the-run&quot; indices widen relative to non-actively quoted indices, the &quot;on-the-run&quot; indices</td>
<td>460mm</td>
<td>560mm</td>
</tr>
<tr>
<td>5. &quot;Super senior&quot; debt vs. &quot;equity&quot;</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>495mm</td>
<td>565mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual name)</td>
<td>If credit events happen to companies for which we have &quot;sold positions&quot;</td>
<td>291mm</td>
<td>291mm</td>
</tr>
</tbody>
</table>

Est. total diversified 95% loss potential: $1,130mm to $1,600mm.
## Synthetic Credit risk factors details

### Sensitivity measures

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Delta</th>
<th>Loss Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.9%</td>
<td>1.34</td>
<td>1.127</td>
</tr>
<tr>
<td>97.5%</td>
<td>1.76</td>
<td>1.662</td>
</tr>
<tr>
<td>95%</td>
<td>2.15</td>
<td>2.183</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>N/A</td>
<td>3.981</td>
</tr>
<tr>
<td>Eurostoxx</td>
<td>N/A</td>
<td>9.179</td>
</tr>
</tbody>
</table>

### Assumptions

- **Credit spread widening** (Directionality): Net directional loss estimate assumes correlation based on 1yr data
- **Maturity mismatch** (Curve): Volatility measured as relative movement of longer maturity spread vs. shorter maturity spread adjusted for overall drift
- **Combined across asset classes assuming zero correlation**
- **High Yield vs. Investment Grade**: Volatility based on relative spread movement netted for overall directionality
- **Illiquidity of order books**: Assumes zero correlation between illiquidity factors
- **Default risk (Risk on individual names)**: Exposure based on comprehensive simulation of default risk using capital model
- **Diversified sum**: All above risk factors combined assuming zero correlation

---

**J.P. Morgan**

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC/SPL0089019
### Off-the-run index risk

#### Risk exposure

<table>
<thead>
<tr>
<th>Name</th>
<th>PV</th>
<th>CDS PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Bond</td>
<td>12,345</td>
<td>2,345</td>
</tr>
<tr>
<td>Euro Bond</td>
<td>5,678</td>
<td>678</td>
</tr>
<tr>
<td>Total</td>
<td>18,023</td>
<td>3,023</td>
</tr>
</tbody>
</table>

#### Exposure & P&L

<table>
<thead>
<tr>
<th>Date</th>
<th>MTM P&amp;L</th>
<th>MTM A&amp;L</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2023</td>
<td>3,456</td>
<td>456</td>
</tr>
<tr>
<td>2/1/2023</td>
<td>5,678</td>
<td>678</td>
</tr>
<tr>
<td>3/1/2023</td>
<td>7,890</td>
<td>890</td>
</tr>
</tbody>
</table>

#### Consistency

- This refers to the risk that we are not able to hedge concentrated positions in off-the-run indices in its 20% and above.

---

**JP Morgan**

**DRAFT (5/22/13)**

**DAGS PROPRIETARY AND/ OR TRADE INFORMATION**

**OCC/P10089519**
Tranche Risk

<table>
<thead>
<tr>
<th>Correlation (10% Floor)</th>
<th>Tranche A</th>
<th>Tranche B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDS/Gamma in NQ</td>
<td>0.50%</td>
<td>0.70%</td>
<td>0.60%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ+</td>
<td>0.70%</td>
<td>0.80%</td>
<td>0.75%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ++</td>
<td>0.80%</td>
<td>0.90%</td>
<td>0.85%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ+++</td>
<td>0.90%</td>
<td>1.00%</td>
<td>0.95%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ++++</td>
<td>1.00%</td>
<td>1.10%</td>
<td>1.05%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ+++++</td>
<td>1.10%</td>
<td>1.20%</td>
<td>1.15%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ++++++</td>
<td>1.20%</td>
<td>1.30%</td>
<td>1.25%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ+++++++</td>
<td>1.30%</td>
<td>1.40%</td>
<td>1.35%</td>
</tr>
<tr>
<td>CDS/Gamma in NQ+++++++</td>
<td>1.40%</td>
<td>1.50%</td>
<td>1.45%</td>
</tr>
</tbody>
</table>

Above ILB based on an elaborative account model and may not match representation of pre-ILB estimation.

Graph of 10% correlation shift
Theoretical risk graph/calibration used in

CDS Val tracked since Apr 2011

JP Morgan
<table>
<thead>
<tr>
<th>Limits</th>
<th>Usage Synthetic</th>
<th>Limits</th>
<th>Usage Synthetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS01 Unadjusted</td>
<td>7.5</td>
<td>0.8</td>
<td>CS01</td>
</tr>
<tr>
<td>CS02</td>
<td>32.9</td>
<td>32.4</td>
<td>CDXHY</td>
</tr>
<tr>
<td>CDXIG</td>
<td>11.9</td>
<td>33.7</td>
<td>EUR Compression Limit</td>
</tr>
<tr>
<td>Names</td>
<td>2.3</td>
<td>2.3</td>
<td>EUR Cost Compression Limit</td>
</tr>
<tr>
<td>Names Traded</td>
<td>0.2</td>
<td>0.3</td>
<td>10% Cost Limit</td>
</tr>
<tr>
<td>Names</td>
<td>14.3</td>
<td>14.3</td>
<td>2X Limit</td>
</tr>
<tr>
<td>Large Index Indicators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDS GDP 1Y</td>
<td>34.3</td>
<td>34.3</td>
<td>CDS 5Y</td>
</tr>
<tr>
<td>CDS 10Y</td>
<td>6.4</td>
<td>6.4</td>
<td>CDS 10Y</td>
</tr>
<tr>
<td>CDS 15Y</td>
<td>15.0</td>
<td>15.0</td>
<td>CDS 15Y</td>
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## Differences summary

### OCC Credit Scenarios Differences

<table>
<thead>
<tr>
<th>Difference</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Difference</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Difference</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
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<th>Scenario 2</th>
<th>Difference</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Difference</th>
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<tbody>
<tr>
<td>CFK</td>
<td>126</td>
<td>127</td>
<td>-65</td>
<td>276</td>
<td>241</td>
<td>-35</td>
<td>263</td>
<td>251</td>
<td>-12</td>
<td>273</td>
<td>233</td>
<td>-40</td>
<td>266</td>
<td>225</td>
<td>-41</td>
<td>274</td>
<td>236</td>
<td>-38</td>
</tr>
<tr>
<td>CKF</td>
<td>346</td>
<td>385</td>
<td>40</td>
<td>816</td>
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**Note:** Numbers may not add up due to rounding.

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**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-025159897231
Agenda

Activities

- Daily trade (May 21, 2022)
- Ongoing control overview
- Daily price testing – index
- Daily price testing – mark-to-market
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JPMorgan
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Daily price testing - index

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**Bank Proprietary and/or Trade Information**

OCC S40989139

JP Morgan

INTERNAL USE ONLY
### Daily Price Testing -- Tranche

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#### CDX

**CDX-IGS 35-45**
- 16.236 (273) upb/c-100 (278) (73) (73) 6.30 2.36
- 11.17 (079) upb/c-100 (225) (73) (73) 9.60 1.9

**CDX-IGS 55-65**
- 3.519 (457) upb/c-100 (73) (73) (73) (73) 4.13 1.9

**CDX-IGS 35-45**
- 177 (185) upb/c-100 (8.7) (8.8) (8.8) (8.8) 4.64

**CDX-IGS 35-45**
- 04 (014) upb/c-100 (30.3) (30.3) (30.3) (30.3) 6.44

**CDX-IGS 55-65**
- 115 (115) upb/c-100 (11.1) (11.1) (11.1) (11.1) 7.84

**CDX-IGS 55-65**
- 102 (102) upb/c-100 (10.2) (10.2) (10.2) (10.2) 5.04

**CDX-IGS 35-45**
- 05 (05) upb/c-100 (5.7) (5.7) (5.7) (5.7) 6.00

**CDX-IGS 35-45**
- 05 (05) upb/c-100 (23) (23) (23) (23) 4.14

**CDX-IGS 55-65**
- 02 (02) upb/c-100 (2.2) (2.2) (2.2) (2.2) 2.03

**CDX-IGS 35-45**
- 01 (01) upb/c-100 (1.1) (1.1) (1.1) (1.1) 0.92

**CDX-IGS 35-45**
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<tr>
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**CBOE XX m 05-20**

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<th>Mid Spread</th>
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## Daily price testing (cont'd) – Tranche

### ISID/Liquidity with NonF priced

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<th>Total Tranche</th>
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### Other Tranche

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### Index

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BANK PROPRIETARY AND/OR TRADE INFORMATION

DATE: 2021-02-23

Morgan
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<th>CID Qnty</th>
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<th>CID Bottom</th>
<th>CID Bottom</th>
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**Change due to the OnTRX Index**

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*Internal Use Only*
## Volume and activity update

**NTR weekly information**

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Source: TPOS (week ending 01/14)

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Volume and activity update

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Volume and activity update

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Source: TPOS (week ending 01/14)
## Executive Summary

### PAL ($000s)

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<th>Estimate</th>
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### Long credit risk (10% CVA, $mm)

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<th>Portfolio</th>
<th>Net</th>
<th>% Chg</th>
<th>CVA (% CVA)</th>
<th>Trading</th>
<th>T-60</th>
<th>T-90</th>
<th>T-180</th>
<th>T-360</th>
<th>T-1Y</th>
<th>T-2Y</th>
<th>T-3Y</th>
<th>T-5Y</th>
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<tr>
<td>Current</td>
<td>$619,471</td>
<td>$(2,5)</td>
<td>$(2,5)</td>
<td>133.1</td>
<td>$(45.5%)</td>
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<tr>
<td>22-May</td>
<td>$(157,1)</td>
<td>$(15.7)</td>
<td>$(15,7)</td>
<td>135.6</td>
<td>$(46.3%)</td>
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<td>30-Apr</td>
<td>$(262,6)</td>
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### Collateral (Senior)

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<th>Prior-day</th>
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<td>Total (CVA-counterparty)</td>
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<td>Largest counterparty</td>
<td>MD</td>
<td>12</td>
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<tr>
<td>Largest instrument</td>
<td>Other</td>
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Note: negative/positive collateral position denotes lower/higher valuation relative to counterparty.

### Trades

- Bought protection $250mm iTraxx Main 8/17 5y
- Bought protection $250mm CDX iTraxx 8/18 5y
- Sold protection $250mm CDX iTraxx 8/18 5y

### Summary commentary

- New trades increased risk in 10% CVA terms by $2.5mm (new trade activity only, does not include changes due to market moves)
- P&L $2.5mm driven by:
  - Compression $4.2mm globally
  - Widening of iTraxx 8/18 5y by $4.5mm
  - Equity tranche steepening, super senior widening $250mm

---

**JPMorgan**

**OCC-SPL-00089285**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**
## Risk and market summary

### Risk summary (cob. 6/23/12)

<table>
<thead>
<tr>
<th>Name</th>
<th>Bid/Ask</th>
<th>Bid/CNTE</th>
<th>Ask/CNTE</th>
<th>25th %</th>
<th>50th %</th>
<th>75th %</th>
<th>5% change</th>
<th>Change since 4/20/12</th>
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<tr>
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<td>15.231</td>
<td>(29.4)</td>
<td>(33.6)</td>
<td>(41.7)</td>
<td>(51.4)</td>
<td>3.3</td>
<td>4.8</td>
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<td>16.171</td>
<td>15.585</td>
<td>7.2</td>
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<td>30.3</td>
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<td>1.0</td>
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<td>ITRAX MN</td>
<td>80.531</td>
<td>25.830</td>
<td>(11.3)</td>
<td>(15.5)</td>
<td>(25.5)</td>
<td>(35.7)</td>
<td>4.4</td>
<td>8.7</td>
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<tr>
<td>ITRAXX KO</td>
<td>(6.689)</td>
<td>(6.140)</td>
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<td>18.1</td>
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<td>(2.956)</td>
<td>31.3</td>
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<table>
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*Note: positive/negative notional data denotes long/short risk.*

### Market summary (cob. 6/23/12)

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<th>10yr</th>
<th>30yr</th>
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<th>1 week</th>
<th>1 month</th>
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<td>518.5</td>
<td>11.80</td>
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<td>7.90</td>
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<tr>
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<td>16.00</td>
<td>12.74</td>
<td>12.04</td>
<td>11.94</td>
<td>13.1</td>
<td>(4.0)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>CDX HY</td>
<td>518.0</td>
<td>7.00</td>
<td>7.02</td>
<td>7.20</td>
<td>7.17</td>
<td>7.10</td>
<td>7.10</td>
</tr>
<tr>
<td>90 day</td>
<td>7.00</td>
<td>7.02</td>
<td>7.20</td>
<td>7.17</td>
<td>7.10</td>
<td>7.10</td>
<td>7.10</td>
</tr>
<tr>
<td>120 day</td>
<td>16.00</td>
<td>12.74</td>
<td>12.04</td>
<td>11.94</td>
<td>13.1</td>
<td>(4.0)</td>
<td>(1.7)</td>
</tr>
</tbody>
</table>

*Note: Source: MarketAxess, J.P. Morgan Investment Bank (as of New York close).*

### Market data (cob. 6/23/12)

- Data is as of close of day data, may fluctuate based on end-of-day trading and volatility.
### Notional overview

#### Notional ($mn) (con 02/13)

<table>
<thead>
<tr>
<th>IG 9</th>
<th>Other IG</th>
<th>High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,080</td>
<td>4,005</td>
<td>18,579</td>
</tr>
</tbody>
</table>

#### Notional ($mn) (cob 4/10/12)

<table>
<thead>
<tr>
<th>IG 9</th>
<th>Other IG</th>
<th>High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,824</td>
<td>14,510</td>
<td>22,670</td>
</tr>
</tbody>
</table>

#### Change

<table>
<thead>
<tr>
<th>IG 9</th>
<th>Other IG</th>
<th>High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,824</td>
<td>14,510</td>
<td>22,670</td>
</tr>
</tbody>
</table>

#### Tranche Maturity

- **Total**: Tranche Maturity 38.2bn
- **Total**: Tranche Maturity 21.8bn

### Tranche positions

#### IG 9

<table>
<thead>
<tr>
<th>IG 9</th>
<th>Other IG</th>
<th>High Yield</th>
</tr>
</thead>
<tbody>
<tr>
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<td>14,510</td>
<td>22,670</td>
</tr>
</tbody>
</table>

#### IG 9 5yr

<table>
<thead>
<tr>
<th>IG 9</th>
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<th>High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,824</td>
<td>14,510</td>
<td>22,670</td>
</tr>
</tbody>
</table>

### Other positions

#### Total

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>38.2bn</td>
</tr>
</tbody>
</table>

#### Total

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.8bn</td>
</tr>
</tbody>
</table>

### Notional

<table>
<thead>
<tr>
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<th>High Yield</th>
</tr>
</thead>
<tbody>
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<td>14,510</td>
<td>22,670</td>
</tr>
</tbody>
</table>

### Other IG appetite

<table>
<thead>
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<th>High Yield</th>
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</thead>
<tbody>
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<td>19,824</td>
<td>14,510</td>
<td>22,670</td>
</tr>
</tbody>
</table>

### LCDX

<table>
<thead>
<tr>
<th>LCDX</th>
</tr>
</thead>
<tbody>
<tr>
<td>80.9bn</td>
</tr>
</tbody>
</table>

### CDX IG

<table>
<thead>
<tr>
<th>CDX IG 94</th>
<th>CDX IG 94</th>
</tr>
</thead>
<tbody>
<tr>
<td>36.395</td>
<td>4,390</td>
</tr>
</tbody>
</table>

### J.P.Morgan

- **Notional IG 9**: 82.460
- **Notional IG 95**: 54.049
- **Notional IG 95**: 28,435
- **Notional IG 9**: 22,400
- **Notional IG 95**: 22,320
- **Notional IG 95**: 22,400
- **Notional IG 95**: 22,400
- **Notional IG 95**: 22,400

### Note

- Positive/Negative notional data denotes long/short risk.

---

**J.P.Morgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

**OCC-SPS-000002905**
Synthetic credit book – key metrics

Historical Stress ($mm)

<table>
<thead>
<tr>
<th>Date</th>
<th>4/30/2012</th>
<th>5/10/2012</th>
<th>5/20/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress</td>
<td>$2,912</td>
<td>$2,126</td>
<td>$1,991</td>
</tr>
</tbody>
</table>

Statistical Stress ($mm)

<table>
<thead>
<tr>
<th>Date</th>
<th>4/30/2012</th>
<th>5/10/2012</th>
<th>5/20/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress</td>
<td>$1,606</td>
<td>$1,550</td>
<td>$1,440</td>
</tr>
</tbody>
</table>

VAR 3% trend ($mm)

<table>
<thead>
<tr>
<th>Date</th>
<th>5/3/2012</th>
<th>5/7/2012</th>
<th>5/9/2012</th>
<th>5/10/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress</td>
<td>$115</td>
<td>$108</td>
<td>$110</td>
<td>$109</td>
</tr>
</tbody>
</table>

Note: Historical and Statistical Stress use prior methodology. To be updated with new methodology in future iterations.
Summary of Synthetic Credit Book – historical stress

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to fairness.
- Synthetic credit book exposed to six risk factors – Each factor represents a directional exposure.
- In the short-to-medium term, these exposures can be partially mitigated – But not eliminated.

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of when position loses money</th>
<th>Historical worst single day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Directionality)</td>
<td>If credit spreads widen across markets</td>
<td>$547mm</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>If credit spreads of long-maturity positions get wider relative to short-maturity positions</td>
<td>0mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>2.254mm</td>
</tr>
<tr>
<td>4. Illiquidity of older Indices / Tranches (On-the-Run vs. Off-the-Run)</td>
<td>If credit spreads of the older index (the &quot;off-the-run&quot;) index widen relative to more-recently issued indices (the more &quot;on the run&quot; indices)</td>
<td>0.924mm</td>
</tr>
<tr>
<td>5. &quot;Super senior&quot; debt vs. &quot;equity&quot; positions (Tranches)</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>7.02mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual names)</td>
<td>If credit events happen to companies for which we have &quot;sold protection&quot;</td>
<td>NA</td>
</tr>
</tbody>
</table>

Portfolio worst day $2,196mm $2,912mm
Sum of worst case $3,176mm $5,927mm

Note: 5/22/12 values under new methodology, 4/30/12 values under prior methodology. To be updated.
**Summary of Synthetic Credit Book – statistical stress**

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to fairness.
- Synthetic credit book exposed to six risk factors – Each factor represents a directional exposure.
- In the short-to-medium term, these exposures can be partially mitigated – But not eliminated.

### Risk Factors and Description of What Position Loses Money

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of What Position Loses Money</th>
<th>5/22/12</th>
<th>4/30/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening</td>
<td>If credit spreads widen across markets</td>
<td>$200mm</td>
<td>$150mm</td>
</tr>
<tr>
<td>2. Maturity mismatch</td>
<td>If credit spreads of long-maturity positions get wider relative to short-maturity positions</td>
<td>150mm</td>
<td>100mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>1,170mm</td>
<td>1,110mm</td>
</tr>
<tr>
<td>4. Illiquidity of older indices / Tranches</td>
<td>If credit spreads of the older index (the “off-the-run” index) widen relative to more-recently issued indices (the more “on-the-run” indices)</td>
<td>500mm</td>
<td>850mm</td>
</tr>
<tr>
<td>5. “Super senior” debt vs. &quot;equity&quot; positions (Tranches)</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>490mm</td>
<td>500mm</td>
</tr>
<tr>
<td>6. Default risk</td>
<td>If credit events happen to companies for which we have “sold protection”</td>
<td>291mm</td>
<td>291mm</td>
</tr>
</tbody>
</table>

**Est. total diversified 95% loss potential**

<table>
<thead>
<tr>
<th></th>
<th>5/22/12</th>
<th>4/30/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,420mm</td>
<td>$1,600mm</td>
<td></td>
</tr>
</tbody>
</table>

Note: 5/22 values under new methodology, 4/30 values under prior methodology. To be updated.

---

**J.P. Morgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-SP1-00089295
Synthetic Credit risk factors details

<table>
<thead>
<tr>
<th>Sensitivity analysis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario</td>
<td>Sigma: Loss (Smm)</td>
</tr>
<tr>
<td>95.0% percentile</td>
<td>1.00: 1,100</td>
</tr>
<tr>
<td>96.5% percentile</td>
<td>1.04: 1,228</td>
</tr>
<tr>
<td>97.5% percentile</td>
<td>1.06: 1,600</td>
</tr>
<tr>
<td>99.9% percentile</td>
<td>3.09: 2,510</td>
</tr>
<tr>
<td>Downside Case A†</td>
<td>N/A: 2,901</td>
</tr>
<tr>
<td>Downside Case B†</td>
<td>N/A: 4,635</td>
</tr>
</tbody>
</table>

Assumptions behind analysis

- Credit spread widening (Directionality) - Net directional loss estimate assumes correlation based on 1yr data
- Maturity mismatch (Curve)
  - Volatility measured as relative movement of longer maturity spread vs. shorter maturity spread adjusted for overall drift
  - Combined across asset classes assuming zero correlation
- High Yield vs. Investment Grade
  - Volatility based on relative spread movement netted for overall directionality
  - Assumes zero correlation between these differences for US and Europe
- Illiquidity of older Indices/Tranches (On-the-run/Off-the-run risk)
  - Series B is assumed as the off-the-run position
  - Risks are combined assuming zero correlation
- "Super senior" debt vs. "equity" positions (Tranches) - Risk factor based on extreme movements of correlation as seen during the credit crisis
- Default risk (Risk on individual names) - Exposure based on comprehensive simulation of default risk using capital model
- Diversified sum - All above risk measures combined assuming zero correlation

1 Diversified sum of 95.0% percentile. 2 Diversified sum of 99.9% percentile
Agenda

Appendix

- Curve exposure (Investment Grade CDX and 1Tranche Series 9)(2 vs. HY)
- Investment Grade vs. High Yield (Compression)
- Off-the-run index risk
- Directionality
- Tranche Risk
- Default profile
- Limits
- Differences Summary
- Daily trades (May 23, 2012)
- Synthetic credit risk overview
- Daily price testing – Index
- Daily price testing – Tranche
Curve exposure (Investment Grade CDX and iTraxx Series 9) (cob 5/22/12)

**Risk depiction**

- **Short risk**
- **Long risk**

**Exposure & P&L**

<table>
<thead>
<tr>
<th>Date</th>
<th>Delta</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 12</td>
<td>($33)</td>
<td>($145)</td>
</tr>
<tr>
<td>Dec. 17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Commentary**

- Our curve risk arises from the portfolio being short risk in lesser maturities (pre Dec 2016) and long risk in greater maturities (post Dec 2016).
- Our exposure to this is approximately $35mm loss per bp in steepening in IG9 with a forward long of $34mm.
Investment Grade vs. High Yield (Compression) (cob 5/22/12)

**Commentary:**
- We are long Investment Grade and short High Yield such that we lose if High Yield widens (increases) less (more) than a ratio of 5.1 to Investment Grade.

**Exposure & P&L:**

<table>
<thead>
<tr>
<th>Component</th>
<th>Daily</th>
<th>YTD</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX HY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX IG vs. HY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CX vs. XD</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Above P&L based on an indicative attribution model and may not match representative bank P&L estimation.

**Risk implication:**

<table>
<thead>
<tr>
<th>Component</th>
<th>CDX IG</th>
<th>CDX HY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
<td>5/10</td>
<td>5/15</td>
</tr>
<tr>
<td>Netional</td>
<td>5/14</td>
<td>5/13</td>
</tr>
<tr>
<td>CS01</td>
<td>24.2</td>
<td>25.6</td>
</tr>
<tr>
<td>CSW0% Change</td>
<td>10.9%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Close of Day</td>
<td>10.4%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Close of Week</td>
<td>11.9%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Since April 30</td>
<td>14.5%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>CDX IG</th>
<th>CDX HY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
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<td>5/15</td>
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<td>5/13</td>
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<tr>
<td>Since April 30</td>
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<td>16.6%</td>
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</tbody>
</table>

**Volumes:**

<table>
<thead>
<tr>
<th>Component</th>
<th>1M Weekly</th>
<th>Daily Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>143,581</td>
<td>3,296</td>
</tr>
<tr>
<td>CDX HY</td>
<td>23,560</td>
<td>3,052</td>
</tr>
<tr>
<td>CDX IG vs. HY</td>
<td>(131,124)</td>
<td>(124,901)</td>
</tr>
<tr>
<td>CX vs. XD</td>
<td>(321,601)</td>
<td>(35,465)</td>
</tr>
</tbody>
</table>

**Liquidity:**

<table>
<thead>
<tr>
<th>Component</th>
<th>Days to Liquidation</th>
<th>20% Daily Avg Vol</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>13</td>
<td>(20% daily avg vol)</td>
</tr>
<tr>
<td>CDX HY</td>
<td>12</td>
<td>(20% daily avg vol)</td>
</tr>
<tr>
<td>CDX IG vs. HY</td>
<td>(4.14x)</td>
<td>(3.57x)</td>
</tr>
<tr>
<td>CX vs. XD</td>
<td>(4.10x)</td>
<td>(3.23x)</td>
</tr>
</tbody>
</table>

**Netional:**

<table>
<thead>
<tr>
<th>Component</th>
<th>1M Weekly</th>
<th>Daily Avg</th>
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<tbody>
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<td>(3.57x)</td>
</tr>
<tr>
<td>CX vs. XD</td>
<td>(4.10x)</td>
<td>(3.23x)</td>
</tr>
</tbody>
</table>
Off-the-run index risk (cob 5/22/12)

<table>
<thead>
<tr>
<th>Risk depletion</th>
<th>Exposure &amp; P&amp;L</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>National ($)m</td>
<td>Daily ($)m</td>
<td>Weekly ($)m</td>
</tr>
<tr>
<td>PV</td>
<td>COB</td>
<td>PO</td>
</tr>
<tr>
<td>Current Value ($)m</td>
<td>$9,959</td>
<td>$6,351</td>
</tr>
<tr>
<td>Tough ($)m</td>
<td>22.5% PV</td>
<td>$3,531</td>
</tr>
<tr>
<td>Total ($)m</td>
<td>$9,959</td>
<td>$10,001</td>
</tr>
</tbody>
</table>

PV represents balance sheet carrying value

* This refers to the risk that we hold large, unhedged positions in off-the-run indices in IG CLN, and L/mec.

Above P&L based on an indicative attribution model and may not match representative trade P&L estimation.

J.P. Morgan

Bank Proprietary and/or Trade Information
### Tranche Risk (cob 5/22/12)

#### Risk depiction

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Tranche</th>
<th>Risk</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDXIG Junior</td>
<td>0-30%</td>
<td>124</td>
<td>124</td>
</tr>
<tr>
<td>CDXIG Super Senior</td>
<td>30-100%</td>
<td>154</td>
<td>154</td>
</tr>
<tr>
<td>CDXIG Total</td>
<td>(41)</td>
<td>(41)</td>
<td></td>
</tr>
<tr>
<td>CDXHY Junior</td>
<td>0-30%</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>CDXHY Super Senior</td>
<td>30-100%</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>CDXHY Total</td>
<td>(45)</td>
<td>(45)</td>
<td></td>
</tr>
<tr>
<td>iTrxx Junior</td>
<td>0-22%</td>
<td>(28)</td>
<td>(28)</td>
</tr>
<tr>
<td>iTrxx Super Senior</td>
<td>22-100%</td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td>iTrxx Total</td>
<td>(150)</td>
<td>(150)</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td>(174)</td>
<td>(174)</td>
</tr>
</tbody>
</table>

#### Exposure & P&L

<table>
<thead>
<tr>
<th>Daily ($000s)</th>
<th>WTD</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBU</td>
<td>TBU</td>
<td>TBU</td>
</tr>
</tbody>
</table>

#### Commentary

Above P&L based on an indicative attribution model and may not match representative max P&L estimation.

---

**Graphs of 10% correlation shift**

- Theoretical max gain/loss based on 10% Corr and Spread graph
- CIO Vol traded since Apr 30th
- Implied Daily, weekly P&L

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**CIO Vol traded since Apr 30th**

- Implied Daily, weekly P&L

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**BANK PROPRIETARY AND/OR TRADE INFORMATION**

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**JPMorgan**

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**OCC-5PL-0008295**
Default profile (cob 5/22/12)

### Total exposure

<table>
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<th>Portfolio</th>
<th># of names</th>
<th># Names w/ default risk</th>
<th>P&amp;L given w/ default risk</th>
<th># Names w/ matched risk</th>
<th>P&amp;L given w/ matched risk</th>
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<td>53</td>
<td>2357</td>
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<td>255</td>
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### Top 5 exposures

#### Pre December 2012

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<th>Name</th>
<th>P&amp;L (mm)</th>
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<td>H. J. Heinz Company</td>
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<td>R. R. Donnelley &amp; Sons</td>
<td>-262.1</td>
</tr>
<tr>
<td>2</td>
<td>Jacobi Scientific Corporation</td>
<td>-209.9</td>
<td>Goodrich Corporation</td>
<td>-186.4</td>
</tr>
<tr>
<td>3</td>
<td>Credit Holdings Inc.</td>
<td>-239.3</td>
<td>United Capital Corp. (USA)</td>
<td>-336.7</td>
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<tr>
<td>4</td>
<td>Nabors Industries, Inc.</td>
<td>-232.5</td>
<td>Badger International Inc.</td>
<td>-393.6</td>
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<tr>
<td>5</td>
<td>The Gap, Inc.</td>
<td>-222.1</td>
<td>Bristol-Myers Squibb</td>
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#### Post December 2012

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<tr>
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<td>The Gap, Inc.</td>
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### Risk

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<td>The Gap, Inc.</td>
<td>-222.1</td>
<td>Bristol-Myers Squibb</td>
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### Notes

- IG9 only (today): 121 names, $121, loss of $121, gain of $260
- IG9 only (post Dec. '12): 121 names, $121, loss of $121, gain of $260

**J.P. Morgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

**OCC:SFI-00089295**
# Limits (cob 5/22/12)

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<th>Usage Synthetic Limit</th>
<th>Synthetic Limit</th>
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<td>Synthetic Limit</td>
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**COGS Unadjusted**
- CDXHY: 7.0 / 8.6
- CDXLCOX: 0.0 / 1.6
- CDX13: 30.0 / 39.4
- iTraxx MN: 11.0 / 23.7
- iTraxx KO: 2.0 / 3.0
- iTraxx Finsub: 0.0 / 0.0
- iTraxx Finsen: 0.0 / 0.0

**Compression**
- US Compression Limit: 484.5 / 496.0
- EUR Compression Limit: 170.9 / 174.0

**Tranche Limits**
- 10% Corr Shift: (188.2) / (175.0)

**Large Index Notionals**
- CDX19.97Y: 34.2 / 34.2
- CDX19.10Y: 41.0 / 41.0
- iTraxx 99.7Y: 5.4 / 5.4
- iTraxx 99.10Y: 12.0 / 12.0

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JPMorgan

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-00800205
## Differences summary

### CIO Credit Collateral differences

#### By counterparty ($mm)

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<th>Sum of MTM</th>
<th>Sum of CP MTM Off</th>
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<td>BFlC</td>
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<td>CGML</td>
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</tr>
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<td>DBKA</td>
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<td>HSBC</td>
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<tr>
<td><strong>Total</strong></td>
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#### By instrument ($mm)

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<th>Sum of CP MTM Off</th>
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### CIO PV Differences with Market pricing

#### Index ($mm)

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<th>PV Deviation</th>
<th>Cap</th>
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<td><strong>Total</strong></td>
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<td><strong>0.0</strong></td>
<td><strong>0.0</strong></td>
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#### Tranche ($mm)

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<th>Cap</th>
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#### Pricing tolerances

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</tbody>
</table>

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**Notes:**
- Negative number implies marks are too low - P&L reduced upward to cap. Positive number implies marks are too high - P&L reduced to cap.
- This document is for internal use only.
- OCC-SFS-08089295

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**JPMorgan**

BANK PROPRIETARY AND/OR TRADE INFORMATION
New trades

May 23, 2012

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<th>High Price</th>
<th>Inside Bid</th>
<th>Prev Day Spread</th>
<th>Day Spread</th>
<th>Close Spread</th>
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<td>23-Jun-17</td>
<td>JPMCH CH 05Y (WF in)</td>
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<td>99.75</td>
<td>99.75</td>
<td>99.75</td>
<td>100.00</td>
<td>100.00</td>
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Daily price testing – Index

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<th>Market Quote</th>
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<th>MarkIT PV</th>
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### Daily price testing (cont’d) – Index

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#### By Family

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#### Change in the OnTR 5Y Contract

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**Note:**
- Spread values are rounded to the nearest hundredth.
- All prices and spreads are in basis points (bps).
- The ICICI PV differences are compared against Markit pricing.
- The table reflects the price testing conducted as of the specified date.

---

**Source:**
JP Morgan

**Internal Use Only**

**Relevant Code:**
OCCSPI-00089295
### Daily price testing – Tranche

#### Series 09 Tranche

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#### Total Tranche

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**Notes:**
- Value (in $) represents the total value of the tranche.
- Price Type: The type of price used (e.g., spread, basis, etc.).
- Change (in $): The change in the tranche value.
- Total Change (in $): The total change in the tranche value over the period.
DRAFT (5/23/12)

### Daily price testing (cont’d) – Tranche

#### CIO PV Differences with MarkIT pricing

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**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-SPI-0008925
### Daily Price Testing (cont'd) – Tranche

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## Daily price testing (cont’d) – Tranche

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Volume and activity update

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<th>Weekly activity ($mn)</th>
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</table>

Source: DTCC (week ending 5/11/12)

INTERNAL USE ONLY

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-00089295
2370
DRAFT (5!25112)

Risk and market summary

$95,.,8910yr

864
1582

8185,.,ITlauMain S175yr

.J.EMorgan
BAKK rROrRn~TARY A.,.....'DiOR TRADE D\'FOR~1ATIO~


Notional overview

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<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
<th>Total</th>
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<td>16,653</td>
<td>14,844</td>
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<td>19,400</td>
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<td>4,280</td>
<td>9,560</td>
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<td>4,280</td>
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<td>5,280</td>
<td>4,280</td>
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<td>Total</td>
<td>41,833</td>
<td>44,290</td>
<td>86,123</td>
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<td>41,833</td>
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<td>86,123</td>
<td>41,833</td>
<td>44,290</td>
<td>86,123</td>
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</table>

JP Morgan

BANK PROPRIETARY AND/OR TRADE INFORMATION
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<tr>
<th>Date</th>
<th>Metric 1</th>
<th>Metric 2</th>
<th>Metric 3</th>
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<tr>
<td>4/5/2011</td>
<td>120</td>
<td>300</td>
<td>200</td>
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<td>5/2/2011</td>
<td>200</td>
<td>400</td>
<td>300</td>
</tr>
<tr>
<td>5/2/2012</td>
<td>300</td>
<td>500</td>
<td>400</td>
</tr>
<tr>
<td>5/3/2012</td>
<td>400</td>
<td>600</td>
<td>500</td>
</tr>
<tr>
<td>5/3/2013</td>
<td>500</td>
<td>700</td>
<td>600</td>
</tr>
<tr>
<td>5/4/2013</td>
<td>600</td>
<td>800</td>
<td>700</td>
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<tr>
<td>5/5/2013</td>
<td>700</td>
<td>900</td>
<td>800</td>
</tr>
<tr>
<td>5/6/2013</td>
<td>800</td>
<td>1000</td>
<td>900</td>
</tr>
<tr>
<td>5/7/2013</td>
<td>900</td>
<td>1100</td>
<td>1000</td>
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</table>

Note: This is a synthetic credit book report.
Summary of Synthetic Credit Book — historical stress

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to farmess.
- Synthetic credit book exposed to six risk factors: Each factor represents a directional exposure.
- In the short-to-medium term, these exposures can be partially mitigated — but not eliminated.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit spread widening (Individual)</td>
<td>$98mm</td>
<td>$9,250mm</td>
<td>$16mm</td>
<td>$85mm</td>
</tr>
<tr>
<td>Narrowly defined exposure</td>
<td>16mm</td>
<td>16mm</td>
<td>16mm</td>
<td>16mm</td>
</tr>
<tr>
<td>High Yield vs. Investment Grade</td>
<td>2.071em</td>
<td>1.441em</td>
<td>165em</td>
<td>1.265em</td>
</tr>
<tr>
<td>Illiquidity of older indices / Tranches (On-the-run vs. Off-the-run)</td>
<td>520em</td>
<td>520em</td>
<td>520em</td>
<td>520em</td>
</tr>
<tr>
<td>&quot;Super senior&quot; debt vs. &quot;equity&quot;</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Default risk (risk on individual names)</td>
<td>Portfolio worst day</td>
<td>$1,245mm</td>
<td>$1,599mm</td>
<td>$1,245mm</td>
</tr>
<tr>
<td></td>
<td>Sum of worst case</td>
<td>$1,564mm</td>
<td>$4,372mm</td>
<td>$1,564mm</td>
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</tbody>
</table>

**Note:** Values to stress correlated sub-factors for LCDs, CDS, and single names.
### Summary of Synthetic Credit Book – statistical stress

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to fairness.
- Synthetic credit book exposed to six risk factors – Each factor represents a directional exposure.
- In the short-to-medium term, these exposures can be partially mitigated – But not eliminated.

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description when credit rating company</th>
<th>White loss potential</th>
<th>White loss parameter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Debtors)</td>
<td>If credit spreads widen across entities</td>
<td>$210mm</td>
<td>210mm</td>
</tr>
<tr>
<td>2. Maturity mismatch (Debtors)</td>
<td>High yield positions outperform lower yield positions relative to their portfolio weighting.</td>
<td>1420mm</td>
<td>1420mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>High yield positions outperform investment grade positions relative to their portfolio weighting.</td>
<td>1300mm</td>
<td>1300mm</td>
</tr>
<tr>
<td>4. Liquidity of older indices / Tranches (Off-the-run vs. On-the-run)</td>
<td>The spreads of the older index (“off-the-run”) index wider relative to more-recently issued indices (the “on-the-run” indices).</td>
<td>510mm</td>
<td>510mm</td>
</tr>
<tr>
<td>5. “Super senior” debt vs. “equity”</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranche.</td>
<td>490mm</td>
<td>490mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual names)</td>
<td>If credit events happen to companies for which we have “solid presence.”</td>
<td>254mm</td>
<td>254mm</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Est. total diversified 95% loss potential</td>
<td>$1.22bn</td>
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</table>
Synthetic Credit risk factors details

<table>
<thead>
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<th>Sensitivity analysis</th>
<th>Delta</th>
<th>Gamma</th>
<th>Vanna</th>
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<tbody>
<tr>
<td>95% percentile</td>
<td>1.28</td>
<td>1.40</td>
<td>1.350</td>
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<tr>
<td>97.5% percentile</td>
<td>1.96</td>
<td>1.50</td>
<td>1.350</td>
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<tr>
<td>99.9% percentile</td>
<td>2.69</td>
<td>2.40</td>
<td></td>
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<tr>
<td>Downside Case A</td>
<td>MA</td>
<td></td>
<td>2.111</td>
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<tr>
<td>Downside Case B</td>
<td>MA</td>
<td></td>
<td>4.275</td>
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</table>

Assumptions behind analysis:
- Credit spread widening (Directional) - Risk directional loss estimate assumes correlation based on 1yr data
- Maturity mismatch (Symmetric)
- Volatility measured as relative movement of longer maturity spread vs. shorter maturity spread adjusted for overall drift
- Combined across asset classes assuming zero correlation
- High Yield vs. Investment Grade
- Volatility based on relative spread movement netted for overall directionality
- Assumes zero correlation between these differences for US and Europe
- Illiquidity of older Indices/Tranches (On-the-run/OFF the run risk)
- Series A is assumed as the off-the-run position
- Risks are combined assuming zero correlation
- "Super senior" debt vs. "equity" positions (Tranches) - Risk factor based on extreme movements of correlation as seen during the credit crisis
- Default risk (Risk on individual names) - Exposure based on comprehensive simulation of default risk using capital model
- Diversified sum - All above risk measures combined assuming zero correlation

Described risk is 99.9% percentile

JPMorgan
Agenda

- H!l Off-the-run Index risk
- Directly
- Tranche Risk
- Limits
- Differences Summary
- Daily trades (May 25, 2012)
- Daily price testing - Index
- Daily price testing - Tranche
### Off-the-run index risk (cob 5/24/12)

<table>
<thead>
<tr>
<th>Date</th>
<th>National BV</th>
<th>PV</th>
<th>CSO</th>
<th>Signed</th>
<th>T&amp;L</th>
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</thead>
<tbody>
<tr>
<td>2381</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>National BV</th>
<th>PV</th>
<th>CSO</th>
<th>Signed</th>
<th>T&amp;L</th>
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</thead>
<tbody>
<tr>
<td>2381</td>
<td></td>
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</tbody>
</table>

**Exposure & P&L**

<table>
<thead>
<tr>
<th>Date</th>
<th>Daily P&amp;L</th>
<th>W&amp;L</th>
<th>Total P&amp;L</th>
<th>Daily T&amp;L</th>
<th>Total T&amp;L</th>
</tr>
</thead>
<tbody>
<tr>
<td>2381</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Commodity**

- This refers to the risk that we hold large, concentrated positions in off-the-run options in 10, 20, and 30.

<table>
<thead>
<tr>
<th>Date</th>
<th>Daily P&amp;L</th>
<th>W&amp;L</th>
<th>Total P&amp;L</th>
<th>Daily T&amp;L</th>
<th>Total T&amp;L</th>
</tr>
</thead>
<tbody>
<tr>
<td>2381</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Note:**

- PV represents the net asset value.
- CSO represents the cost of carrying.
- Signed represents the signed amount.
- T&L represents the total long position.

---

**Source:** Morgan Stanley

---

**Disclaimer:**

- Above P&L based on an indicative attribution model and may not fully represent the full P&L estimation.

---

**Legend:**

- National BV: National Book Value
- PV: Present Value
- CSO: Cost of Carry
- Signed: Signed Amount
- T&L: Total Long Position
- Daily P&L: Daily Profit & Loss
- W&L: Weekly Profit & Loss
- Total P&L: Total Profit & Loss
- Daily T&L: Daily Total Long Position
- Total T&L: Total Total Long Position

---

**Graphs:**

- Graphs showing market trends and comparisons.

---

**Footer:**

- JPMorgan
- Bank Proprietary and/or Trade Information
- OCC PS: 000890
## Tranche Risk (cob 5/24/12)

### Exposure & P&L

<table>
<thead>
<tr>
<th>Exposure &amp; P&amp;L</th>
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<tr>
<td>Tranche Risk</td>
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<table>
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<tr>
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<td>GDDF</td>
<td>972</td>
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<table>
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<th>APR</th>
<th>MAR</th>
<th>JUN</th>
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<tbody>
<tr>
<td>P&amp;L</td>
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<td>972</td>
<td>972</td>
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<td>GDDF</td>
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<tr>
<td>GDDF</td>
<td>972</td>
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</tbody>
</table>

### Commentary

- Theoretical max gain/loss based on 10% correlation shift, GDDF 65%.
- Graph of P&L vs. correlation shift.
- OCC SPI 1000 since Apr 30.

**NOTE:** This document contains proprietary and/or trade information. Its content may not be representative of actual performance and should not be considered a recommendation for investment.
### Default profile (cob 5/24/12)

#### Total exposure

<table>
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<th># active exposures</th>
<th># exposed</th>
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#### COP 3 Exposure

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#### COP 1 Exposure

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#### COP 1 Company

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**Note:** The document contains financial and proprietary information, and the context suggests it is related to a corporate or financial strategy, risk management, or project evaluation. The specific details require a specialized understanding of the financial and corporate strategies involved.
## Limits

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## New Trades

**May 28, 2012**

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**Internal Use Only**

**JPMorgan**

BANK PROPRIETARY AND/OR TRADE INFORMATION
### Daily price testing – Index

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<th>Change</th>
<th>Week Ago</th>
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**Other Indices**

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**Notes**

- Daily price testing is based on the Index's performance over the past week.
- The change in price is calculated as a percentage difference from the previous day.
- The change from week to week is shown as a percentage.
- The change from month to month is shown as a percentage.

---

**By Family**

<table>
<thead>
<tr>
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**Notes**

- Changes in family performance are calculated similarly to the Index.
- The family with the highest change is marked as the best performer.
Daily price testing (cont'd) – Index

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Changes in the Daily Indexes:

- S&P: 2.34
- NASDAQ: 2.34
- DOW: 2.34
- NYSE: 2.34
- Russell 2000: 2.34

JPMorgan

BANK PROPRIETARY AND/OR TRADE INFORMATION

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### Daily price testing – Tranche

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#### Series B Tranche

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### Cross-Reference

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### Daily price testing (cont'd) – Tranche

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<th>Doote</th>
<th>Ad</th>
<th>Tranche Priced</th>
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**Note:** The table above shows daily price testing results for various Tranches, with columns for CDS Spread, CDS Value, Spread CIO, Doote, Independent CDS Spread, PV Value, and Change. The data includes price changes and spread values for different periods.

---

**Source:** JPMorgan

**Information:** Internal Use Only.
## Daily price testing (cont’d) – Tranche

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### Daily price testing (cont’d) – Tranche

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J.P. Morgan
### Volume and Activity Update

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<th>Weekly Activity (GVW)</th>
<th>% of Previous Traded</th>
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Source: DTCC (data ending 6/13/10)
SYNTHETIC CREDIT DAILY RISK REPORT

May 29, 2012

J.P. Morgan
### Executive Summary

**P&L ($000s)**

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<th>Date</th>
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<th>Actual</th>
<th>% Chg</th>
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<td>29/5/2013</td>
<td>$15,627</td>
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**P&L Explainer (estimate LDC older)**

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<td>($3,948)</td>
<td>($3,840)</td>
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<td>Series 10</td>
<td>($7,039)</td>
<td>($7,075)</td>
<td>($36)</td>
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<td>Off Run (Both)</td>
<td>($6,945)</td>
<td>($6,878)</td>
<td>($67)</td>
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<td>Current/Other</td>
<td>($3,218)</td>
<td>($2,957)</td>
<td>($261)</td>
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<td>Tranche</td>
<td>($1,022)</td>
<td>($920)</td>
<td>($102)</td>
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<td>Other P&amp;L</td>
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<td>VCG Adj</td>
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**Long Credit Risk (10% CSW, $mm)**

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<th>Trading</th>
<th>Net</th>
<th>% Chg</th>
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<td>N/A</td>
<td>N/A</td>
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<td>30/May</td>
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**Credit Risk ($mm)**

<table>
<thead>
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<th>Current P&amp;L</th>
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<tbody>
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<td>Total (CDS - counterparty)</td>
<td>$33</td>
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<tr>
<td>Largest counterparty</td>
<td>99</td>
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<tr>
<td>Largest instrument</td>
<td>TRAXX Asia 009 2017 22-100</td>
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**Footnote:**

1. *Note: negative/positive numbers denote benefit/hurt valuation relative to counterparty*

**Notes:**

- Sold protection $315MM CDX.HY.18 5y
- Sold protection $250MM CDX.IG.18 5y
- Bought protection EUR200MM HVX.NA.9 7y by -2% vs. delta
- Bought protection EUR200MM FX.NA.9 7y by -2% vs. delta
- Bought protection EUR200MM FX.NA.17 5y by -2% vs. delta
- Bought protection EUR500MM FX.NA.17 5y by -2% vs. delta

**Summary Commentary:**

- New trades reduced risk in CS01 terms by $0.064mm
- P&L $88mm driven by:
  - Compression: -3% vs. IG, -5% vs. Main, ($40MM)
  - On/Off Run basis, ($32MM)
  - Tranches, tighter spreads in short-dated -3%, ($12MM)

---

**JP Morgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

**OCC-SPI-00089407**
## Risk and market summary

### Risk summary - cob (5/20/12)

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<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Notional</th>
<th>SPLY</th>
<th>Beta Adj</th>
<th>10% Td</th>
<th>Data Adj</th>
<th>10% Td</th>
<th>Data Adj</th>
<th>10% Td</th>
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<th>10% Td</th>
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Note: Spread

### Risk factors - cob (5/20/12)

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<th>CQ IV</th>
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<th>TRAXX IX</th>
<th>CQ IV</th>
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Note: Data excludes single names.

### Market summary - cob (5/20/12)

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Note: Data excludes single names.

Source: Market data: J.P. Morgan Investment Bank (as of New York close)

* Estimated based on end-of-day basis, may fluctuate based on end-of-day trading and volatility.

**INTERNAL USE ONLY**

J.P.Morgan
### Notional overview

#### CDX IG vs. HY

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<th>National</th>
<th>National</th>
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<td>(2,168)</td>
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<td>High Yield</td>
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#### ITraxx Main vs. Crossover

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<td>ITraxx X0</td>
<td>(4,593)</td>
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#### Transitive positions

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</tr>
<tr>
<td>Mezz</td>
<td>(10,890)</td>
</tr>
<tr>
<td>Seniors</td>
<td>(1,961)</td>
</tr>
<tr>
<td>IG 5y</td>
<td>(22,495)</td>
</tr>
<tr>
<td>IG 10y</td>
<td>(3,169)</td>
</tr>
<tr>
<td>IG 15y</td>
<td>(2,940)</td>
</tr>
<tr>
<td>IG 20y</td>
<td>(1,753)</td>
</tr>
<tr>
<td>IG 25y</td>
<td>(1,608)</td>
</tr>
<tr>
<td>HY 5y</td>
<td>(17,796)</td>
</tr>
<tr>
<td>HY 10y</td>
<td>(4,281)</td>
</tr>
<tr>
<td>HY 15y</td>
<td>(4,203)</td>
</tr>
<tr>
<td>HY 20y</td>
<td>(2,712)</td>
</tr>
<tr>
<td>HY 25y</td>
<td>(1,608)</td>
</tr>
<tr>
<td>Total</td>
<td>(39,185)</td>
</tr>
</tbody>
</table>

#### Other positions

<table>
<thead>
<tr>
<th>Notional (Nomin.) (c/b 3/30/12)</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long</td>
<td>(3,061)</td>
</tr>
<tr>
<td>Short</td>
<td>(4,649)</td>
</tr>
<tr>
<td>LCDX</td>
<td>(4,075)</td>
</tr>
<tr>
<td>(1,065)</td>
<td>(1,065)</td>
</tr>
</tbody>
</table>

#### Vento IG 5y (by maturity)

<table>
<thead>
<tr>
<th>Notional (Nomin.) (c/b 3/30/12)</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG 5y 5Y</td>
<td>(32,722)</td>
</tr>
<tr>
<td>IG 5y 7Y</td>
<td>(34,102)</td>
</tr>
<tr>
<td>IG 5y 10Y</td>
<td>(60,686)</td>
</tr>
<tr>
<td>IG 5y 15Y</td>
<td>(34,028)</td>
</tr>
<tr>
<td>IG 5y 20Y</td>
<td>(34,028)</td>
</tr>
</tbody>
</table>

**Note:** Positive/negative notional data denotes long/short risk.
Synthetic credit book – key metrics

Historical Stress ($mm)

Statistical Stress ($mm)

Note: Historical stress excludes risk factor for single names. Latest historical and statistical stress reflect improved granularity in risk factors. Measures have been revised from 30 Apr 2012.

P&L Trend ($mm)

Synthetic Credit RWA ($bn)

J.P. Morgan
Summary of Synthetic Credit Book – historical stress

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to fairness
- Synthetic credit book exposed to risk factors: Each factor represents a directional exposure
- In the short-to-medium term, these exposures can be partially mitigated but not eliminated

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of what position loses money</th>
<th>Historical worst single day</th>
<th>Historical worst single day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Directionality)</td>
<td>If credit spreads widen across markets</td>
<td>$2.07mn</td>
<td>$3.272mn</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>If credit spreads of long-maturity positions get wider relative to short-maturity positions</td>
<td>7mn</td>
<td>89mn</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions in US outperform investment grade positions relative to their portfolio weighting</td>
<td>$2.056mn</td>
<td>$2.921mn</td>
</tr>
<tr>
<td>4. XOver vs. Itraxx Main</td>
<td>If high yield positions in Europe outperform investment grade positions relative to their portfolio weighting</td>
<td>159mn</td>
<td>437mn</td>
</tr>
<tr>
<td>5. Europe vs US</td>
<td>If positions in Europe outperform positions in US relative to their portfolio weighting</td>
<td>1mn</td>
<td>38mn</td>
</tr>
<tr>
<td>6. Illiquidity of older indices / Tranches (On-the-Run vs. Off-the-Run)</td>
<td>If credit spreads of the older index (the &quot;off-the-run&quot; index) widen relative to more-recently issued indices (the more &quot;on the run&quot; indices)</td>
<td>–mn</td>
<td>1,385mn</td>
</tr>
<tr>
<td>7. &quot;Super senior&quot; debt vs. &quot;equity&quot; positions (Tranches)</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>505mn</td>
<td>505mn</td>
</tr>
<tr>
<td>8. Default risk (Risk on individual names)</td>
<td>If credit events happen to companies for which we have &quot;sold protection&quot;</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Portfolio worst day
$1,923mn

Sum of worst case
$3,331mn

Note: These results reflect improved granularity in risk factors; measures have been revised from 30 Apr 2012.

JPMorgan

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-00089407
## Summary of Synthetic Credit Book – statistical stress

- Pricing to equilibrium: In addition to below risk factors, some indices will lose value as they move from richness to fairness
- Synthetic credit book exposed to risk factors – Each factor represents a directional exposure
- In the short-to-medium term, these exposures can be partially mitigated – But not eliminated

### Risk Factor | Description of when position loses money | 5/20/12 6SIL | 4/20/12 6SIL |
--- | --- | --- | --- |
1. Credit spread widening (Directionality) | If credit spreads widen across markets | 510mm | 510mm |
2. Maturity mismatch (Curve) | If credit spreads of long-maturity positions get wider relative to short-maturity positions | 150mm | 150mm |
3. High Yield vs. Investment Grade | If high yield positions in US outperform investment grade positions relative to their portfolio weighting | 600mm | 1,120mm |
4. XOver vs. iTraxx Main | If high yield positions in Europe outperform investment grade positions relative to their portfolio weighting | 100mm | 300mm |
5. Europe vs US | If positions in Europe outperform positions in US relative to their portfolio weighting | 100mm | 200mm |
6. Illiquidity of older Indices / Tranches (On-the-Run vs. Off-the-Run) | If credit spreads of the older index (the 'off-the-run' index) widen relative to more-recently issued indices (the more 'on-the-run' index) | 200mm | 510mm |
7. "Super senior" deb vs. "equity" positions (Tranches) | If there is an increase in the correlation implied between defaults among names within the tranches | 200mm | 510mm |
8. Default risk (Risk on individual names) | If credit events happen to companies for which we have "sold protection" | 291mm | 291mm |

**Note:** Stress results reflect improved granularity in risk factors; measures have been revised from 30 Apr 2012. Sum of worst case: J.P. Morgan

<table>
<thead>
<tr>
<th>Portfolio worst day</th>
<th>5/20/12 6SIL loss potential</th>
<th>4/20/12 6SIL loss potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,250mm</td>
<td>7,176mm</td>
<td></td>
</tr>
<tr>
<td>2,601mm</td>
<td>4,291mm</td>
<td></td>
</tr>
</tbody>
</table>

*J.P. Morgan*

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**BANK PROPRIETARY AND/OR TRADE INFORMATION**

**OCC-SPF-00089407**
Synthetic Credit risk factors details

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Sigma</th>
<th>Loss (Blns)</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.9% percentile</td>
<td>1.28</td>
<td>1.024</td>
</tr>
<tr>
<td>97.5% percentile</td>
<td>1.64</td>
<td>1.260</td>
</tr>
<tr>
<td>99.9% percentile</td>
<td>1.95</td>
<td>1.440</td>
</tr>
<tr>
<td>Downside Case A</td>
<td>N/A</td>
<td>2.170</td>
</tr>
<tr>
<td>Downside Case B</td>
<td>N/A</td>
<td>4.635</td>
</tr>
</tbody>
</table>

Assumptions behind analysis:

- **Credit spread widening (Directionality)** - Net directional loss estimate assumes correlation based on 1yr data
- **Maturity mismatch (Curve)**
  - Volatility measured as relative movement of longer maturity spread vs. shorter maturity spread adjusted for overall drift
  - Combined across asset classes assuming zero correlation
- **High Yield vs. Investment Grade**
  - Volatility based on relative spread movement netted for overall directionality
  - Assumes zero correlation between these differences for US and Europe
- **Illiquidity of older indices/Tranches (On-the-run/Off-the-run risk)**
  - Series B is assumed as the off-the-run position
  - Risks are combined assuming zero correlation
- **"Super senior" debt vs. "equity" positions (Tranches)** - Risk factor based on extreme movements of correlation as seen during the credit crisis
- **Default risk (Risk on individual names)** - Exposure based on comprehensive simulation of default risk using capital model
- **Diversified sum** - All above risk measures combined assuming zero correlation

* Diversified sum of 99.2% percentile
* Diversified sum of 99.9% percentile
Agenda

Appendix

- Curve exposure (Investment Grade CDX and iTraxx Series 5 IG vs. HY)
- Investment Grade vs. High Yield (Compression)
- Off-the-run index risk
- Directionality
- Tranche Risk
- Default profile
- Limits
- Differences Summary
- Daily trades (May 25, 2012)
- Synthetic credit risk overview
- Daily price testing – Index
- Daily price testing – Tranche
Curve exposure (Investment Grade CDX and iTraxx Series 9) (cob 5/29/12) (DRAFT 5/29/12)

- Our curve risk arises from the portfolio being short risk in issuer maturities (pre Dec 2016) and long risk in greater maturities (post Dec 2016)
- Our exposure to this is approximately $8mm per bp in steepening in IG9 with a forward long of $33mm.

<table>
<thead>
<tr>
<th>Date</th>
<th>Daily</th>
<th>YTD</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-06-24</td>
<td>4,423</td>
<td>95.931</td>
<td>-1,419.475</td>
</tr>
</tbody>
</table>

Above P&L based on an indicative distribution model and may not match representative from P&L engine.

Our exposure risk arises from the portfolio being short risk in lesser maturities (pre Dec 2016) and long risk in greater maturities (post Dec 2016)

Our exposure to this is approximately $8mm per bp in steepening in IG9 with a forward long of $33mm.

---

**Commentary**

- Our curve risk arises from the portfolio being short risk in issuer maturities (pre Dec 2016) and long risk in greater maturities (post Dec 2016)
- Our exposure to this is approximately $8mm per bp in steepening in IG9 with a forward long of $33mm.
### Investment Grade vs. High Yield (Compression) (cob 5/29/12)

#### Risk Deposition

<table>
<thead>
<tr>
<th>Decompression (% CSW)</th>
<th>$mm</th>
</tr>
</thead>
<tbody>
<tr>
<td>13% CSW</td>
<td>685</td>
</tr>
</tbody>
</table>

#### Exposure & P&L

<table>
<thead>
<tr>
<th>P&amp;L ($000)</th>
<th>Daily</th>
<th>WTD</th>
<th>Since 4/5</th>
<th>Maturity</th>
<th>Notional</th>
<th>$mm</th>
<th>$mm</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSX IG</td>
<td>(21.0)</td>
<td>(18.9)</td>
<td>10% CSW</td>
<td>(21.0)</td>
<td>(180.9)</td>
<td>44,977</td>
<td>279,649</td>
</tr>
<tr>
<td>CSX HY</td>
<td>(241.4)</td>
<td>(182.9)</td>
<td>Close of Day</td>
<td>(10.2)</td>
<td>(121.9)</td>
<td>7,101</td>
<td>8,896</td>
</tr>
<tr>
<td>Close of Week</td>
<td>(241.4)</td>
<td>(182.9)</td>
<td>Since April 30</td>
<td>(113.1)</td>
<td>(112.0)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Commentary

- We are long Investment Grade and short High Yield such that we lose if High Yield widens (narrows) less (more) than a ratio of 5.5:1 to Investment Grade.

---

**Note:**

Above P&L based on an indicative attribution model and may not match representative trades in estimation.

---

**JPMorgan**

**OCC-SPL-00089417**
Off-the-run index risk (cob 5/29/12)

**Risk depiction**

<table>
<thead>
<tr>
<th>Risk</th>
<th>National ($bn)</th>
<th>PV</th>
<th>CSO1 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OCOX 46.446</td>
<td>86.115</td>
<td>(2.843)</td>
</tr>
<tr>
<td></td>
<td>Trade 18.476</td>
<td>34.985</td>
<td>(2.041)</td>
</tr>
<tr>
<td>Total</td>
<td>65.926</td>
<td>102.098</td>
<td>(4.884)</td>
</tr>
</tbody>
</table>

**Exposure & P&L**

<table>
<thead>
<tr>
<th>Daily</th>
<th>Weekly</th>
<th>Since 4/30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Commentary**

- This refers to the risk that we hold large, concentrated positions in off-the-run indices in IG OCOX and Trade.

PV represents balance sheet carrying value

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APPENDIX

BANK PROPRIETARY AND/OR TRADE INFORMATION

JPMorgan

OCC-SP5-00280407
Directionality (cob 5/29/12)

Exposure & P&L

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-07</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sep-06</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sep-05</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sep-09</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sep-11</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Above P&L based on an indicative attribution model and may not match representative trade P&L estimation.

BANK PROPRIETARY AND/OR TRADE INFORMATION
OCC-SPP-00080407
### Tranche Risk (cob 5/29/12)

#### Risk depiction

<table>
<thead>
<tr>
<th>Index Name</th>
<th>0-30%</th>
<th>31-100%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tranche Junior</td>
<td>125</td>
<td>(177)</td>
<td>(45)</td>
</tr>
<tr>
<td>Tranche Super Senior</td>
<td>-8</td>
<td>6</td>
<td>(40)</td>
</tr>
<tr>
<td>Tranche Total</td>
<td>33</td>
<td>(29)</td>
<td>(161)</td>
</tr>
<tr>
<td>Grand Total</td>
<td>(128)</td>
<td>(179)</td>
<td></td>
</tr>
</tbody>
</table>

#### Exposure & P&L

<table>
<thead>
<tr>
<th>Dates</th>
<th>Daily ($000s)</th>
<th>WTO</th>
<th>Since April 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRU</td>
<td>TBU</td>
<td>TBU</td>
<td></td>
</tr>
</tbody>
</table>

Above P&L based on an indicative attribution model and may not match representative trade P&L estimation.

#### Commentary

- **Long Tranche 9**
- **Short Tranche 9**
- **Super Str 10yr**

Theoretical max gains/losses based on 10% Corr and Spread graph.

Graphs of 10% correlation shift.

**CIO Vol traded since Apr 30**

Implied Daily, weekly P&L.

---

**JP Morgan**

---

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

**OCC-S95-0089407**
### Default profile (cob 5/29/12)

#### Total exposure

<table>
<thead>
<tr>
<th>Portfolio</th>
<th># of P&amp;L given default</th>
<th># of names given default loss risk</th>
<th>P&amp;L given default Avg</th>
<th>P&amp;L given default Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio (today)</td>
<td>975</td>
<td>73</td>
<td>(540)</td>
<td>(522)</td>
</tr>
<tr>
<td>Portfolio (prior Dec '12)</td>
<td>972</td>
<td>115</td>
<td>(235)</td>
<td>(590)</td>
</tr>
<tr>
<td>IG only today</td>
<td>121</td>
<td>0</td>
<td>0</td>
<td>121</td>
</tr>
<tr>
<td>IG only (prior Dec '12)</td>
<td>121</td>
<td>0</td>
<td>(441)</td>
<td>(555)</td>
</tr>
</tbody>
</table>

#### Top 9 exposures

<table>
<thead>
<tr>
<th>Date</th>
<th>Portfolio</th>
<th>(Loss)</th>
<th>P&amp;L given default Avg</th>
<th>P&amp;L given default Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre December 2012</td>
<td>1. Liz Claiborne, Inc</td>
<td>519.1</td>
<td>519.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. National Association</td>
<td>(516.2)</td>
<td>(516.2)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Wynn Corp.</td>
<td>(515.1)</td>
<td>(515.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Royal And Haas Company</td>
<td>(510.1)</td>
<td>(510.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Rio Tinto Alcan Inc.</td>
<td>(505.2)</td>
<td>(505.2)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Portfolio</th>
<th>(Loss)</th>
<th>P&amp;L given default Avg</th>
<th>P&amp;L given default Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post December 2012</td>
<td>1. Liz Claiborne, Inc</td>
<td>519.1</td>
<td>519.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. National Association</td>
<td>(516.2)</td>
<td>(516.2)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Wynn Corp.</td>
<td>(515.1)</td>
<td>(515.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Royal And Haas Company</td>
<td>(510.1)</td>
<td>(510.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Rio Tinto Alcan Inc.</td>
<td>(505.2)</td>
<td>(505.2)</td>
<td></td>
</tr>
</tbody>
</table>

#### Gain

<table>
<thead>
<tr>
<th>Date</th>
<th>Portfolio</th>
<th>(Loss)</th>
<th>P&amp;L given default Avg</th>
<th>P&amp;L given default Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre December 2012</td>
<td>1. Liz Claiborne, Inc</td>
<td>519.1</td>
<td>519.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. National Association</td>
<td>(516.2)</td>
<td>(516.2)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Wynn Corp.</td>
<td>(515.1)</td>
<td>(515.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Royal And Haas Company</td>
<td>(510.1)</td>
<td>(510.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Rio Tinto Alcan Inc.</td>
<td>(505.2)</td>
<td>(505.2)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Portfolio</th>
<th>(Loss)</th>
<th>P&amp;L given default Avg</th>
<th>P&amp;L given default Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post December 2012</td>
<td>1. Liz Claiborne, Inc</td>
<td>519.1</td>
<td>519.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. National Association</td>
<td>(516.2)</td>
<td>(516.2)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Wynn Corp.</td>
<td>(515.1)</td>
<td>(515.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Royal And Haas Company</td>
<td>(510.1)</td>
<td>(510.1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Rio Tinto Alcan Inc.</td>
<td>(505.2)</td>
<td>(505.2)</td>
<td></td>
</tr>
</tbody>
</table>
## Limits

<table>
<thead>
<tr>
<th>Summary</th>
<th>Usage</th>
<th>Synthetic</th>
<th>Limit</th>
<th>Synthetic</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42/20/12</td>
<td></td>
<td></td>
<td>5/29/12</td>
<td></td>
</tr>
<tr>
<td>CBOT Unadjusted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX.HY</td>
<td>6.9</td>
<td>5.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX.CBOX</td>
<td>(0.0)</td>
<td>1.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDX.IO</td>
<td>(28.1)</td>
<td>39.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iTrax MN</td>
<td>(8.4)</td>
<td>23.7</td>
<td></td>
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**Compression**

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**Tranche Limits**

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**Steepen10%**

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**Usage Synthetic Limit**

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**Tranche Limits**

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**Steepen10%**

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**10% Corr Shift**

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### Differences summary

#### CIO Credit Collateral differences

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#### CIO PV Differences with Market pricing

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<td>0.06%</td>
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<td>-0.11%</td>
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<td>Total</td>
<td>0.47%</td>
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Note: For SEO12

- Negative number implies marks are too low. + P&L adjusted upward to cap. Positive number implies marks are too high. - P&L reduced to cap.
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**APPENDIX**

**INTERNAL USE ONLY**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

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**Notes:**
- The table presents Daily price testing for various tranche series with different maturity dates.
- Each row indicates the price difference between the expected price and the actual price for a specific tranche.
- The columns denote the time periods (e.g., 06/08-09) and the corresponding price differences.

**Source:** J.P. Morgan

**Internal Use Only**

*Bank Proprietary and/or Trade Information*
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<tr>
<td>11.0</td>
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</tr>
<tr>
<td>10.7</td>
<td>05/04</td>
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<td>10.5</td>
<td>05/05</td>
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<td>10.3</td>
<td>05/06</td>
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**Notes:**
- Bank proprietary and/or trade information.
- Use only.
## Daily price testing (cont'd) – Tranche

### CIC PV Differences with OnT5 Y pricing

<table>
<thead>
<tr>
<th>Security</th>
<th>Adjusted PV (Pre)</th>
<th>CIC Qual P/L (Pre)</th>
<th>CIC Qual P/L (Post)</th>
<th>Adjusted Tranche P/L</th>
<th>Pre/Post</th>
<th>Pre/Post P/L</th>
<th>Frequency</th>
<th>Gross Spread Change</th>
<th>Change to</th>
<th>Net Spread Change</th>
<th>Change to</th>
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</thead>
<tbody>
<tr>
<td>TRAXX MN 915 25Y 20-100</td>
<td>1.250</td>
<td>(0.66)</td>
<td>spread</td>
<td>(3.6)</td>
<td>2.89</td>
<td>0.60</td>
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<tr>
<td>TRAXX MN 915 25Y 22-100</td>
<td>2.440</td>
<td>(0.40)</td>
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<td>4.10</td>
<td>0.41</td>
<td>(0.40)</td>
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<tr>
<td>TRAXX MN 915 25Y 25-100</td>
<td>3.760</td>
<td>(0.30)</td>
<td>spread</td>
<td>5.15</td>
<td>0.14</td>
<td>(0.10)</td>
<td>0.08</td>
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<tr>
<td>TRAXX MN 915 25Y 05-00</td>
<td>1.820</td>
<td>(0.14)</td>
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<td>3.52</td>
<td>0.35</td>
<td>(0.35)</td>
<td>0.17</td>
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<tr>
<td>TRAXX MN 915 25Y 03-00</td>
<td>2.050</td>
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<td>0.49</td>
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<td>(0.60)</td>
<td>spread</td>
<td>9.00</td>
<td>0.50</td>
<td>0.35</td>
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<tr>
<td>TRAXX MN 915 25Y 08-12</td>
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<td>(0.60)</td>
<td>spread</td>
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<td>0.35</td>
<td>0.25</td>
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<tr>
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<td>8.670</td>
<td>(0.60)</td>
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<td>9.07</td>
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<tr>
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<td>(0.60)</td>
<td>spread</td>
<td>9.00</td>
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<td>(0.60)</td>
<td>spread</td>
<td>9.07</td>
<td>0.50</td>
<td>0.25</td>
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<td>spread</td>
<td>9.07</td>
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<tr>
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<td>spread</td>
<td>9.07</td>
<td>0.50</td>
<td>0.25</td>
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</tr>
</tbody>
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### By Family

<table>
<thead>
<tr>
<th>Security</th>
<th>Change due to the OnT5 Y Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRAXX MN</td>
<td>10.87</td>
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</tbody>
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J.P. Morgan

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-575-0008/94/7
Volume and activity update

**DTCC weekly information**

<table>
<thead>
<tr>
<th>Series</th>
<th>Gross notional ($mm)</th>
<th>Weekly activity ($mm)</th>
<th>% of notional traded</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Unmatched</td>
<td>Matched</td>
<td>Unmatched</td>
</tr>
<tr>
<td>CDX iQ 08</td>
<td>819,802</td>
<td>587,194</td>
<td>31,054</td>
</tr>
<tr>
<td>iTreuMN 09</td>
<td>616,556</td>
<td>522,199</td>
<td>17,076</td>
</tr>
<tr>
<td>CDX iQ S10</td>
<td>392,026</td>
<td>N/A</td>
<td>212,241</td>
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<tr>
<td>iTreuMN S16</td>
<td>222,722</td>
<td>N/A</td>
<td>7,932</td>
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<tr>
<td>CDX iQ S17</td>
<td>231,545</td>
<td>N/A</td>
<td>191,567</td>
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<tr>
<td>CDX iQ S18</td>
<td>239,762</td>
<td>2,103</td>
<td>19,678</td>
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<tr>
<td>CDX iQ S19</td>
<td>176,415</td>
<td>N/A</td>
<td>997</td>
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<tr>
<td>CDX iQ S10</td>
<td>134,025</td>
<td>8,262</td>
<td>999</td>
</tr>
<tr>
<td>CDX iQ S11</td>
<td>73,421</td>
<td>582</td>
<td>4,924</td>
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<tr>
<td>CDX iQ S12</td>
<td>71,049</td>
<td>45,217</td>
<td>722</td>
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<td>iTreuXG 08</td>
<td>60,892</td>
<td>N/A</td>
<td>1,110</td>
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<td>iTreuXG S17</td>
<td>72,023</td>
<td>N/A</td>
<td>47,157</td>
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<tr>
<td>CDX iQ S13</td>
<td>72,023</td>
<td>8,358</td>
<td>873</td>
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<td>CDX iQ S14</td>
<td>52,236</td>
<td>34,345</td>
<td>873</td>
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</table>

Source: DTCC (week ending 5/1/12)
Executive summary

Summary Commentary

- New trades reduced risk to 10% of CVaR terms by $43mm (new trade activity only, does not include changes due to market moves)
- New trade activity: sold €4.9bn iTraxx OTR Syr, bought $300mm CCX HY 5y
- P&L: $45mm - Driven by underperformance of COX IG 5y in US and short-dated SO equity tranche, on Greek telecoms. Telco fees.
- Credit spreads (10% increase, 20% up), differences between new trades, offset by US gains on COX HY underperformance

(Weaker limit, $5.15-€1.5bn vs. $4.9bn)

Collateral ($bn)

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Prior Qtr</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (CIO - counterparty)</td>
<td>$10.2</td>
<td>$10.6</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Largest counterparty: Deutsche Bank</td>
<td>110</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Largest instrument: CDX.HY.S08.05Y.10-15</td>
<td>18</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

Spread (bps) $mm change ($000s)

- COX IG 5y trade
  -方向性：方向性，方向性，方向性
  - Reduced COX HY 816 5y outright by $200mm
  - Reduced COX HY 817 5y outright by $200mm

<table>
<thead>
<tr>
<th>Tranche</th>
<th>Direction</th>
<th>Spread</th>
<th>P&amp;L</th>
<th>VAR over limit</th>
<th>$mm change</th>
<th>$000s change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX.HY.S08.05Y.10-15</td>
<td>Direction</td>
<td>0.22</td>
<td>0.5</td>
<td>0.47</td>
<td>0.20</td>
<td>0.05</td>
</tr>
<tr>
<td>CDX.HY.S08.05Y.10-15</td>
<td>Direction</td>
<td>0.22</td>
<td>0.5</td>
<td>0.47</td>
<td>0.20</td>
<td>0.05</td>
</tr>
<tr>
<td>CDX.HY.S08.05Y.10-15</td>
<td>Direction</td>
<td>0.22</td>
<td>0.5</td>
<td>0.47</td>
<td>0.20</td>
<td>0.05</td>
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</table>

J.P.Morgan
### Risk and market summary

#### Risk summary

<table>
<thead>
<tr>
<th>Instrument (Type)</th>
<th>CDS</th>
<th>5YR CDS</th>
<th>10YR CDS</th>
<th>Change in CDS</th>
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</thead>
<tbody>
<tr>
<td>CDX NA</td>
<td>53.108</td>
<td>152</td>
<td>348</td>
<td>4</td>
</tr>
<tr>
<td>CDX HI</td>
<td>(1,989)</td>
<td>8</td>
<td>404</td>
<td>2</td>
</tr>
<tr>
<td>iTRAXX MM</td>
<td>78.523</td>
<td>(150)</td>
<td>(295)</td>
<td>(15)</td>
</tr>
<tr>
<td>iTRAXX XC</td>
<td>5,131</td>
<td>3</td>
<td>181</td>
<td>2</td>
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<tr>
<td>CDX 10YR</td>
<td>(18,229)</td>
<td>0</td>
<td>0</td>
<td>(1)</td>
</tr>
<tr>
<td>iTRAXX FINSUB</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SXVX WE</td>
<td>(2,861)</td>
<td>(20)</td>
<td>(177)</td>
<td>(0)</td>
</tr>
<tr>
<td>Total</td>
<td>114,154</td>
<td>(28)</td>
<td>(247)</td>
<td>(18)</td>
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<tr>
<td>Memo: CDS 10YR</td>
<td>52,168</td>
<td>655</td>
<td>211.7</td>
<td>213.5</td>
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#### Market summary

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<th>Spread</th>
<th>Basis to Theoretical (bps)</th>
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<td>5/10/12</td>
<td>5/15/12</td>
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<tr>
<td>CDX NA 10YR</td>
<td>175</td>
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<td>9YR</td>
<td>190</td>
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<td>5YR</td>
<td>205</td>
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<td>CDX NA 5YR</td>
<td>300</td>
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<tr>
<td>SXVX WE</td>
<td>100</td>
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</table>

1) Table shown includes national and net factors for both indices and tranches combined.
2) Estimations based on end of day levels, may fluctuate based on end of day trading and volatility. Data feed not provided for 7/8/12. Compiled from Bloomberg.

---

**JPMorgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-S5-S0014088
Notional overview

<table>
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<tr>
<th>Notional (€bn)</th>
<th>Commentary</th>
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<tr>
<td><strong>Notional</strong></td>
<td></td>
</tr>
<tr>
<td>Other IG vs. HY</td>
<td></td>
</tr>
<tr>
<td>IG</td>
<td>82.488</td>
</tr>
<tr>
<td>Other IG</td>
<td>22.842</td>
</tr>
<tr>
<td>High Yield</td>
<td>20.328</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>IG</td>
<td>82.488</td>
</tr>
<tr>
<td>Other IG</td>
<td>22.842</td>
</tr>
<tr>
<td>High Yield</td>
<td>20.328</td>
</tr>
<tr>
<td><strong>Notional</strong></td>
<td></td>
</tr>
</tbody>
</table>

| IG 9 vs. HY |            |
| Tranche | 45.863 |
| Cross-Over | 8.816 |
| **Total** |            |
| IG 9   | 45.863 |
| Cross-Over | 8.816 |
| **Notional** |            |

<table>
<thead>
<tr>
<th>Tranche positions</th>
<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
<th>IG 9</th>
<th>Cross-Over</th>
<th>Tranche</th>
<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG 9</td>
<td>(5,046)</td>
<td>(1,035)</td>
<td>(19,806)</td>
<td>24,715</td>
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<tr>
<td>Cross-Over</td>
<td>(22,405)</td>
<td>(5,570)</td>
<td>(26,060)</td>
<td>(270)</td>
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<td></td>
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</tr>
<tr>
<td>Total</td>
<td>36,906</td>
<td>4,029</td>
<td>4,185</td>
<td>6,245</td>
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</table>

<table>
<thead>
<tr>
<th>Other positions</th>
<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
<th>IG 9</th>
<th>Cross-Over</th>
<th>Tranche</th>
<th>Total</th>
<th>Equity</th>
<th>Mezz</th>
<th>Senior</th>
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<tbody>
<tr>
<td>FinSub</td>
<td>2,061</td>
<td>(4,046)</td>
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<td></td>
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<tr>
<td>LCDX</td>
<td>4,075</td>
<td>1,846</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Memo:** IG 9 exposure (by maturity)

| COXS 06 09 Y | 25.730 |
| COXS 06 07 Y | 33.193 |
| COXS 05 10 Y | 50.095 |
| LCDX          | 12.405 |

**Internal Use Only**

**Synthetic Credit Daily Risk Report**

**J.P. Morgan**
Curve exposure (Investment Grade CDX and iTraxx Series 9)

Risk depiction

Curve exposure detail (10% CSW, $mm)

Above P&L based on an instructive attribution model and may not match representative curve P&L extremes.

Exposure & P&L

- Daily ($m)
- WTD ($m)
- Since 4/08 ($m)

Commentary

- Our curve risk arises from the portfolio being short in lesser maturities (pre Dec 2016) and long in greater maturities (post Dec 2016).
- Our exposure to this is approximately $33m (exposure vs. input $39m) with a forward long of $33m.

LAP Morgan
**Investment Grade vs. High Yield (Compression)**

### Risk depiction

- **Compression exposure detail**
  - Decompression, 10% CSW: $3m
  - CDX IG: $(448)
  - CDX HY: 484
  - iTraxx MN: $(155)
  - iTraxx XO: 174

### Exposure & P&L

<table>
<thead>
<tr>
<th>P&amp;L ($)</th>
<th>Daily</th>
<th>WTD</th>
<th>Since</th>
<th>April</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG</td>
<td>31,831</td>
<td>66,305</td>
<td>(55,467)</td>
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<tr>
<td>CDX HY</td>
<td>56,709</td>
<td>36,905</td>
<td>(52,220)</td>
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<tr>
<td>iTraxx MN vs. XO</td>
<td>37,092</td>
<td>(133,624)</td>
<td>(29,284)</td>
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<tr>
<td>Other</td>
<td>1,284</td>
<td>8,561</td>
<td>23,025</td>
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</tbody>
</table>

### Commentary

- We are long Investment Grade and short High Yield such that we lose if High Yield widens (narrow) less (more) than a ratio of 6.1 to Investment Grade.

Above P&L based on an inclusive attribution model and may not match representative trade P&L estimation.

### Volumes

<table>
<thead>
<tr>
<th>Volume ($)</th>
<th>1Wk Total</th>
<th>1M Daily Avg</th>
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</thead>
<tbody>
<tr>
<td>CDX IG MN</td>
<td>135,847</td>
<td>15,499</td>
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<tr>
<td>CDX IG XO</td>
<td>233,134</td>
<td>30,483</td>
</tr>
<tr>
<td>CDX HY MN</td>
<td>142,730</td>
<td>46,934</td>
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<tr>
<td>CDX HY XO</td>
<td>124,334</td>
<td>30,483</td>
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</table>

Days to Liquidation: 6


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<thead>
<tr>
<th>MN vs. XO ratio</th>
<th>CDX IG MN</th>
<th>CDX IG XO</th>
<th>CDX HY MN</th>
<th>CDX HY XO</th>
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</thead>
<tbody>
<tr>
<td>CDX IG MN</td>
<td>5.01x</td>
<td>4.28x</td>
<td>3.22x</td>
<td>2.08x</td>
</tr>
<tr>
<td>CDX IG XO</td>
<td>3.99x</td>
<td>3.63x</td>
<td>2.99x</td>
<td>2.11x</td>
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<tr>
<td>CDX HY MN</td>
<td>4.06x</td>
<td>3.57x</td>
<td>2.99x</td>
<td>2.11x</td>
</tr>
<tr>
<td>CDX HY XO</td>
<td>3.99x</td>
<td>3.63x</td>
<td>2.99x</td>
<td>2.11x</td>
</tr>
</tbody>
</table>

J.P. Morgan

**Note:** All graphics, charts, and data are proprietary and/or trade information.
# Off-the-run index risk

## Risk depiction

### Notional (Bn) PV C301 (Bn/m)
- CDX 27 80,985 89,851 (5,866) (42) 0.2
- Week 2 17,175 36,035 (2,217) (16) 0.2
- Total 98,160 125,886 (5,566) (58) 0.4

\[
\text{PV} = \text{Notional} \times \text{PV of 301 basis point}
\]

## Exposure & P&L

### Daily (Bn/m) WTID Since 4/30
- CDX 27 (16,541) (28,802) (64,101)
- Week 2 (2,217) (16) 0.2
- Total (8,758) (3,398) (36,301)

\[
\text{P&L} = \text{Notional} \times \text{PV of 301 basis point} \times \text{Change in CDX}
\]

## Commentary

- This refers to the risk that we held large, unhedged positions in off-the-run indices in IG CDX and Tracx.

### PV represents balance sheet carrying value

### 1PV represents the risk with 301 basis point value

---

**J.P. Morgan**
Directionality

10% CSW ($mm)

Exposure & P&L

Commentary

Daily (000s) WTD Smm 4Q12

Above P&L based on an indicative attribution model and may not match representative trade P&L estimate.

INTEGRAL USC BANK PROPRIETARY AND/OR TRADE INFORMATION

J.P. Morgan

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SPI-0016608
Tranche Risk

<table>
<thead>
<tr>
<th>Correlation 10% shift</th>
<th>Risk depition</th>
<th>Exposure &amp; P&amp;L</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index name</td>
<td>Tranche</td>
<td>Daily(USDs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>WTD</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Since Apr 30</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>TBU</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>TBU</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>TBU</td>
<td></td>
</tr>
<tr>
<td>CDX IG Junior</td>
<td>0-30%</td>
<td>(112)</td>
<td></td>
</tr>
<tr>
<td>CDX IG Super Senior</td>
<td>30-100%</td>
<td>(123)</td>
<td></td>
</tr>
<tr>
<td>CDX IG Total</td>
<td>(159)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>CDX IG Junior</td>
<td>0-35%</td>
<td>(25)</td>
<td></td>
</tr>
<tr>
<td>CDX IG Super Senior</td>
<td>35-100%</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>CDX IG Total</td>
<td>(35)</td>
<td>(160)</td>
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</tr>
<tr>
<td>Tranche IG Jun</td>
<td>0-22%</td>
<td>(32)</td>
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<td>Tranche IG Super</td>
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<td>Tranche Total</td>
<td>(182)</td>
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<tr>
<td>Grand Total</td>
<td>(162)</td>
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Above P&L based on an indicative attribution model and may not match representative trade P&L estimation.

<table>
<thead>
<tr>
<th>Long IG 9</th>
<th>Short</th>
<th>3-35</th>
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<tr>
<td>10% Corr 01</td>
<td>110</td>
<td>25</td>
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<tr>
<td>Change</td>
<td>TBU</td>
<td>TBU</td>
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<tr>
<td>Week To Date</td>
<td>TBU</td>
<td>TBU</td>
</tr>
<tr>
<td>Since April 30</td>
<td>TBU</td>
<td>TBU</td>
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Graphs of 10% correlation shift

Theoretical max gain/loss based on 10% Corr and Spread graph

CIO Vol traded since Apr 30

Implied Daily, weekly P&L,

Correlation data as of COB 4/4

INTERNAL USE ONLY
## Default Profile

### Total Exposure

<table>
<thead>
<tr>
<th>Portfolio</th>
<th># of Names</th>
<th># of Names at default</th>
<th>P/L at default</th>
<th>Loss at default</th>
<th>P/L at Aug</th>
<th>Loss at Aug</th>
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</thead>
<tbody>
<tr>
<td>Portfolio (today)</td>
<td>671</td>
<td>61</td>
<td>(221) ($169)</td>
<td>614</td>
<td>611.10</td>
<td>622.00</td>
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<tr>
<td>Portfolio (post Dec '12)</td>
<td>572</td>
<td>219</td>
<td>(206) (596)</td>
<td>618</td>
<td>619.12</td>
<td>620.00</td>
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<tr>
<td>Universal (today)</td>
<td>121</td>
<td>0</td>
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<td>121.00</td>
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<tr>
<td>Universal (post Dec '12)</td>
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<td>131</td>
<td>(558) (655)</td>
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### Top 5 Exposure

#### Loss

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<td>(221) ($169)</td>
</tr>
<tr>
<td>Universal</td>
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<td>(206) (596)</td>
</tr>
<tr>
<td>Universal</td>
<td>131</td>
<td>(558) (655)</td>
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#### Gain

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<td>Universal</td>
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<td>Universal</td>
<td>572</td>
<td>0</td>
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<tr>
<td>Universal</td>
<td>131</td>
<td>0</td>
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### JPMorgan

JPMorgan
### Limits

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<tr>
<th>Summary</th>
<th>Usage 3/15/12</th>
<th>Synth 3/15/12</th>
<th>Limit (5/16/12)</th>
<th>Usage 5/16/12</th>
<th>Synth 5/16/12</th>
<th>Limit (5/16/12)</th>
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<td>CDX Unadjusted</td>
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<td>CDX_HY</td>
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<td>CDX_LC0X</td>
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<tr>
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<tr>
<td>iTrax Finsub</td>
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<td>0.6</td>
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## Differences summary

### CIO Credit Collateral differences

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<th>Counterparty</th>
<th>Sum of MTM</th>
<th>Sum of OP</th>
<th>Sum of MTM</th>
<th>Sum of OP</th>
<th>Delta</th>
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<td>152</td>
<td>182</td>
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<tr>
<td>CDX IG S0910Y</td>
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<tr>
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<td>182</td>
<td>152</td>
<td>182</td>
<td>152</td>
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</tr>
</tbody>
</table>

### By Instrument ($mm)

<table>
<thead>
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<th>Instrument</th>
<th>Sum of MTM</th>
<th>Sum of OP</th>
<th>Sum of MTM</th>
<th>Sum of OP</th>
<th>Delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDX IG S0910Y</td>
<td>182</td>
<td>152</td>
<td>182</td>
<td>152</td>
<td>0</td>
</tr>
<tr>
<td>CDX IG S0910Y</td>
<td>182</td>
<td>152</td>
<td>182</td>
<td>152</td>
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<tr>
<td>CDX IG S0910Y</td>
<td>182</td>
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<tr>
<td>CDX IG S0910Y</td>
<td>182</td>
<td>152</td>
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<td>182</td>
<td>152</td>
<td>182</td>
<td>152</td>
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</table>

### CIO/OP Differences with Market pricing

<table>
<thead>
<tr>
<th>Index ($mm)</th>
<th>Tranche ($mm)</th>
<th>Pricing tolerance</th>
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<td>Source Notes</td>
<td>Tranche IV</td>
<td>IV Breaking</td>
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<tr>
<td>Series 09 Index</td>
<td>154</td>
<td>154</td>
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<tr>
<td>Other Index</td>
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<td>154</td>
</tr>
<tr>
<td>Subtotal</td>
<td>154</td>
<td>154</td>
</tr>
</tbody>
</table>

By family:
- CDX IG: 154
- CDX HY: 154
- FRAX: 154
- Other: 154

Note: As of 5/16/12

**Source Notes**
- Negative numbers implies marks are too low - P&L adjusted upward to cap. Positive number implies marks are too high - P&L reduced to cap.
Summary of Synthetic Credit Book risk factors

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description of when position loses money</th>
<th>95% loss potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit spread widening (Directionality)</td>
<td>If credit spreads widen across markets</td>
<td>$1,110mm</td>
</tr>
<tr>
<td>2. Maturity mismatch (Curve)</td>
<td>If credit spreads of long-maturity positions get wider relative to short-maturity positions</td>
<td>150mm</td>
</tr>
<tr>
<td>3. High Yield vs. Investment Grade</td>
<td>If high yield positions outperform investment grade positions relative to their portfolio weighting</td>
<td>1,060mm</td>
</tr>
<tr>
<td>4. Illiquidity of older indices / Tranches (On-the-Run vs. Off-the-Run)</td>
<td>If credit spreads of the older index (the &quot;off-the-run&quot; index) widen relative to more-recently issued indices (the more &quot;on the run&quot; indices)</td>
<td>770mm</td>
</tr>
<tr>
<td>5. &quot;Super senior&quot; debt vs. &quot;equity&quot; positions (Tranches)</td>
<td>If there is an increase in the correlation implied between defaults among names within the tranches</td>
<td>490mm</td>
</tr>
<tr>
<td>6. Default risk (Risk on individual names)</td>
<td>If credit events happen to companies for which we have &quot;sold protection&quot;</td>
<td>291mm</td>
</tr>
</tbody>
</table>

Est. total diversified 95% loss potential: $1,820mm
### Synthetic Credit risk factors details

#### Sensitivity analysis

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Sigma</th>
<th>Loss ($mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.9% percentile</td>
<td>1.46</td>
<td>1,460</td>
</tr>
<tr>
<td>99.9% percentile</td>
<td>1.64</td>
<td>1,820</td>
</tr>
<tr>
<td>97.5% percentile</td>
<td>1.95</td>
<td>2,140</td>
</tr>
<tr>
<td>99.9% percentile</td>
<td>3.02</td>
<td>3,500</td>
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<tr>
<td>Downside Case A</td>
<td>N/A</td>
<td>3,671</td>
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<tr>
<td>Downside Case B</td>
<td>N/A</td>
<td>6,658</td>
</tr>
</tbody>
</table>

#### Assumptions behind analysis

- Credit spread widening (Directionality) - Net directional loss estimate assumes correlation based on 1yr data
- Maturity mismatch (Curve)
- Volatility measured as relative movement of longer maturity spread vs. shorter maturity spread adjusted for overall drift
- Combined across asset classes assuming zero correlation
- High Yield vs. Investment Grade
- Volatility based on relative spread movement netted for overall directionality
- Assumes zero correlation between these differences for US and Europe
- Illiquidity of older indices/tranches (On-the-run/Off-the-run risk)
- Series 9 is assumed as the off-the-run position
- Risks are combined assuming zero correlation
- "Super senior" debt vs. "equity" positions (Tranches) - Risk factor based on extreme movements of correlation as seen during the credit crisis
- Default risk (Risk on individual names) - Exposure based on comprehensive simulation of default risk using capital model
- Diversified sum - All above risk measures combined assuming zero correlation

1 Diversified sum of 95.9% percentile
2 Diversified sum of 99.9% percentile
Agenda

Appendix

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
</tr>
</tbody>
</table>

- Daily trades (May 16, 2012)
- Synthetic credit risk overview
- Daily price testing - Index
- Daily price testing - Tranche
New trades

<table>
<thead>
<tr>
<th>#</th>
<th>Rank</th>
<th>National Product</th>
<th>Maturity</th>
<th>Counterparty</th>
<th>Traded Price</th>
<th>Traded Spread</th>
<th>Prev Day Price</th>
<th>Prev Day Spread</th>
<th>Closing Price</th>
<th>Closing Spread</th>
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<tbody>
<tr>
<td>1</td>
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<td>ITRAXX MN 5/17 05Y</td>
<td>20-Jun-17</td>
<td>GTBANK NY</td>
<td>175.13</td>
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<td>177.75</td>
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- Footnote 8
- Footnote 9
- Footnote 10
- Footnote 11
- Footnote 12

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**Graph:***

- Graph 1
- Graph 2
- Graph 3

**Legend:***

- Legend 1
- Legend 2
- Legend 3
- Legend 4
- Legend 5

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Daily price testing – Tranche

### CIQ PV Differences with Market pricing

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**JPMorgan**

**BANK PROPRIETARY AND/OR TRADE INFORMATION**

OCC-SP9-0014968
Daily price testing (cont'd) – Tranche

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<td>3.3</td>
<td>90-10-2012</td>
<td>(0.28)</td>
<td>(5.78)</td>
<td>(0.30)</td>
<td>(3.40)</td>
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<td>-</td>
<td>(0.03)</td>
<td>upfront+800</td>
<td>3.7</td>
<td>3.7</td>
<td>106.6</td>
<td>0.00</td>
<td>3.7</td>
<td>100-10-2012</td>
<td>(0.28)</td>
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</tr>
<tr>
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<td>4.3</td>
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<tr>
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<td>upfront+1200</td>
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<td>140-10-2012</td>
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<td>(0.30)</td>
<td>(3.40)</td>
<td>(6.60)</td>
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**Notes:**
- DRAFT (5/16/12)

**JPMorgan**

BANK PROPRIETARY AND/OR TRADE INFORMATION

OCC-SP-00114068
Daily price testing (cont'd) - Tranche

<table>
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<tr>
<th>Other Tranche</th>
<th>CDX iTraxx 03/6/15 03-03</th>
<th>CDX iTraxx 03/6/15 06-09</th>
<th>CDX iTraxx 03/6/15 12-22</th>
<th>CDX iTraxx 03/6/15 22-100</th>
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<td></td>
<td>(8.22)</td>
<td>(89)</td>
<td>(133)</td>
<td>(249)</td>
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<tr>
<td></td>
<td>upfront+500</td>
<td>spread</td>
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<tr>
<td></td>
<td>9.5</td>
<td>9.4</td>
<td>3.7</td>
<td>3.7</td>
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<tr>
<td></td>
<td>(2.2)</td>
<td>(2.2)</td>
<td>(2.2)</td>
<td>(2.2)</td>
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<tr>
<td></td>
<td>Change due to the OnTr Index</td>
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<td>Change due to the OnTr Index</td>
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<tr>
<td></td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.02)</td>
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<td>spread</td>
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<td></td>
<td>9.5</td>
<td>9.4</td>
<td>3.7</td>
<td>3.7</td>
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<tr>
<td></td>
<td>(2.2)</td>
<td>(2.2)</td>
<td>(2.2)</td>
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<tr>
<td></td>
<td>0.06</td>
<td>0.06</td>
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By Family

<table>
<thead>
<tr>
<th>Family</th>
<th>Change due to the OnTr Index</th>
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<tr>
<td>CDX iTraxx 03/6/15 03-03</td>
<td>(0.02) spread 9.5 9.4 (2.2) 0.06</td>
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<tr>
<td>CDX iTraxx 03/6/15 06-09</td>
<td>(133) upfront+500 9.4 9.3 3.7 0.48</td>
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<tr>
<td>CDX iTraxx 03/6/15 12-22</td>
<td>(249) upfront+500 9.4 9.3 3.7 0.48</td>
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<tr>
<td>CDX iTraxx 03/6/15 22-100</td>
<td>(330) upfront+500 9.4 9.3 3.7 0.48</td>
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BANK PROPRIETARY AND/OR TRADE INFORMATION

INTERNAL USE ONLY

JPMorgan
Volume and activity update

<table>
<thead>
<tr>
<th>OTC Credit Index</th>
<th>Gross Notional (M$)</th>
<th>Weekly Activity (M$)</th>
<th>% of Notional Traded</th>
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<tbody>
<tr>
<td>ISDA MA Series</td>
<td>Unmatched</td>
<td>Matched</td>
<td>Unmatched</td>
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<tr>
<td>CDX.LO S09</td>
<td>794,874</td>
<td>509,528</td>
<td>13,858</td>
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<tr>
<td>ITX.LO S09</td>
<td>616,379</td>
<td>517,048</td>
<td>13,462</td>
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<tr>
<td>CDX.LO S18</td>
<td>938,462</td>
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<td>141,492</td>
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<tr>
<td>ITX.LO S16</td>
<td>288,060</td>
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<td>4,958</td>
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<tr>
<td>ISDA MN Series</td>
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<td>Matched</td>
<td>Unmatched</td>
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<tr>
<td>CDX.LO S17</td>
<td>307,024</td>
<td>N/A</td>
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<tr>
<td>CDX.LO S17</td>
<td>240,714</td>
<td>1,918</td>
<td>10,146</td>
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<td>CDX.LO S17</td>
<td>170,698</td>
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<td>985</td>
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<tr>
<td>CDX.LO S17</td>
<td>179,372</td>
<td>6,323</td>
<td>658</td>
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<tr>
<td>CDX.LO S17</td>
<td>72,924</td>
<td>658</td>
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<td>CDX.LO S17</td>
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<td>CDX.LO S17</td>
<td>66,852</td>
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<td>CDX.LO S17</td>
<td>80,560</td>
<td>N/A</td>
<td>32,567</td>
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<tr>
<td>CDX.LO S17</td>
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<td>CDX.LO S17</td>
<td>24,375</td>
<td>N/A</td>
<td>2,767</td>
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</table>

Source: OTC Credit Index (5/16/12)

These tables provide a snapshot of the volume and activity update for various OTC credit indices, including the gross notional and weekly activity in millions of dollars, along with the percentage of notional traded. The data is sourced from JPMorgan and is proprietary information.
Chief Investment Office

Presentation to the Directors Risk Policy Committee
December 2010

Ina Drew, Chief Investment C
**Mandate and Approach**

**KEY MANDATE:** Optimize and protect the Firm's balance sheet from potential losses, and create and preserve economic value over the longer-term.

**Longer-term Investing**

- **Private Equity**
- **Retirement Plans**
- **Special Investments**

<table>
<thead>
<tr>
<th>COL</th>
<th>BOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4bn AUM</td>
<td>$11bn AUM</td>
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</table>

- Oversight of legacy investments and select legacy opportunities
- Management of US defined benefit investments and oversight of 401k
- Involvement in stressed and distressed opportunities related to underperforming JPMC

- Position in high grade
- Allocation to volatile companies in high-grade credit
- Focus on income $665m
Tactical Positioning

- CIO positions tactically to complement the core investment portfolio.

- One example is a synthetic (or derivative) credit position established in 2008 to protect the Firm from the anticipated impact of a deteriorating credit environment.

- As credit spreads widened, CIO adjusted the position to capture value as credit markets stabilized.

- These positions reached a maximum 95% VaR of approximately $125mm in early 2009, and have since been de-risked to a current VaR level of approximately $55mm, with some further risk reduction anticipated.

- Tactical credit strategies have contributed approximately $2.8bn in economic value from inception, with an average annualized RoE of 100%.
Earnings

- CIO's expertise and product suite have been developed and expanded to produce absolute returns through all business cycles.
- Some volatility of earnings should be expected throughout cycles, particularly at extremes.
- Very low expense base of approximately $300mm, coupled with high returns, produces overhead ratios that range from 3% - 10%.

Total Revenues (in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>Fcast 2010</th>
<th>Prelim 2011</th>
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</thead>
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<tr>
<td>Revenue</td>
<td>2,345</td>
<td>7,113</td>
<td>3,905</td>
<td>3,905</td>
</tr>
</tbody>
</table>

9,312
Regulatory Reform

- CIO activities are not expected to be significantly impacted by Financial Regulatory Reform, although sophisticated approach to structural risk management and investment of cash will require careful explanation to regulators.

- CIO does not maintain 'trading accounts' as defined by Volcker rule:
  - Intent is not to buy and sell to benefit from short-term price movements.
  - Activities are restricted to transactions that are clearly and transparently associated with the Firm's underlying structural risks, and all activities are documented as such.

- Private equity investing will be impacted:
  - Existing investments were planned to roll-off prior to effective date of the rules in any case.
  - New investments in Private Equity will most likely not be permitted in CIO.
  - Retirement Plan investments in private equity and hedge funds are expected to be excluded from restrictions.

- Engaging in preliminary discussions with regulators and Department of the Treasury, in coordination with Firm-wide regulatory reform working group.
The JPM mispricing of CDX indices "London Whale" incident provides an opportunity to determine if existing public and regulatory reporting identifies these anomalies in the marketplace.

Since this is a look back it is important to note that finding the anomaly is much easier when you know what to look for. Transforming data into information is key for regulators to anticipate and detect the risks in the system.

Utilizing data from DTCC's Trade Information Warehouse (TIW) to reconstruct the time series of publically reported data that identifies the anomaly in the reported data.

Additionally, through the regulator portal—further transaction and position detail regarding the parties trading in the CDX and ITRAXX indices are made available to the market and prudential regulators.
Economic Turnover Volume | Investment Grade Time Series

CDX.NA.JG Family Untranched (Economic Flow Transaction Data)
# Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction to Collateralized Debt Obligations (CDOs)</td>
<td>1</td>
</tr>
<tr>
<td>Introduction to Credit Default Swaps (CDS)</td>
<td>15</td>
</tr>
<tr>
<td>CDS Indices - ABX, TABX, CDX, and iTraxx</td>
<td>20</td>
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</tbody>
</table>
What is a Collateralized Debt Obligation (CDO)?

- **Basic Features**
  - A CDO is comparable to a finance company:
    - Borrows money (liabilities)
    - Acquires an investment portfolio (assets)
    - Has residual value (equity)
  - The equity of a CDO (in the form of either preferred shares or unsecured subordinated notes) represents an ownership stake in the CDO and a first-loss position in its asset portfolio
  - The CDO's assets are typically managed by a professional asset manager
  - Whether the liabilities can be repaid or not depends on the performance of the portfolio and asset manager
  - Through credit enhancement (in the form of structural subordination) and structured cashflows, CDOs are able to issue tranches of debt that are rated higher than the assets in the collateral pool

- **Typical Balance Sheet**
  - Assets
    - $500mm
  - Note Liabilities
    - AA Note $62.5mm
    - BBB Note $27.5mm
    - Equity $25mm

---

*Other liabilities include management fees and other expenses. However, additional debt issuances are strictly limited.*
What is a Collateralized Debt Obligation (CDO)? (cont’d)

Structure

- A CDO is a securitization transaction in which a special purpose vehicle (SPV) -- typically an offshore entity -- issues securities to fund its acquisition of a portfolio of financial assets, which is either static or managed.
  - In a managed CDO, a professional asset manager appointed by the CDO selects the initial portfolio and may trade in and out of assets during the life of the CDO.
  - In a static CDO, no portfolio assets are traded during the CDO’s life.
- A CDO may purchase actual securities or loans (of a variety of asset classes) or it may obtain exposure to credits by entering into credit default swaps (CDS) that reference those credits.
  - Cash CDO: its portfolio consists primarily of actual securities or loans.
  - Synthetic CDO: its portfolio consists primarily of CDS (a portion of its liabilities may also be CDS).
  - Hybrid CDO: its portfolio may consist of either cash positions or CDS (a portion of its liabilities may also be CDS).
- CDOs may be classified based on the way their structures protect their debt tranches from credit losses:
  - Market value CDO: if the “haircut” market value of the CDO’s assets falls below debt tranche par, its assets must be sold and its debt paid down until the haircut asset value exceeds debt tranche par; ultimate repayment of principal of its debt tranches depends on the CDO manager’s ability to liquidate assets prior to their maturity.
  - Cashflow CDO: the CDO’s subordinated tranches are sized so that after-default cash flows from its assets are expected to be sufficient to pay principal and interest in respect of its debt tranches, based on assumptions about default probability, default correlation and severity of loss.
What is a Collateralized Debt Obligation (CDO)? (cont’d)

CDOs may be further classified based on the motivation for securitization and source of assets:

**Balance sheet CDO:** the CDO’s sponsor is a holder of securitizable assets (e.g., a commercial bank) that desires to sell or transfer the risk of those assets to shrink its balance sheet or reduce required regulatory or economic capital.

- The sponsor may transfer assets to the CDO through cash sales or synthetically through derivatives;
- Typically the sponsor transfers the entire portfolio at closing;
- Balance sheet CDOs are almost exclusively cash flow structures with static portfolios;
- Deal sizes may be as large as $5-10 billion.

**Arbitrage CDO:** the CDO’s sponsor is an asset manager that wishes to increase its assets under management and receive fee income for managing the CDO’s portfolio, and the CDO’s equity tranche investors (which may include its asset manager) wish to achieve a leveraged return between the after-default yield on its assets and the financing costs of its debt tranches (the difference between the leveraged return and debt financing costs is the CDO’s "arbitrage").

- The CDO’s assets may be synthetic or cash and are purchased in the open market - its portfolio may not be fully "ramped up" at closing;
- Deal sizes range from $250-500 million to greater than $1 billion;
- In general synthetic deals tended to be larger due to ease of "ramping up";
- In general CDOs backed by higher credit quality assets tended to be larger due to relative ease of debt distribution.

J.P.Morgan
Participants and roles in Arbitrage CDOs

Managers
- The manager is the sponsor of the CDO and receives fees for its services.
- The manager is responsible for selecting the assets for the portfolio, determining prices paid for the assets and managing the pool over time through reinvestment, trading or hedging.
- Managers can be traditional money managers, hedge funds, REITs or structured finance professionals devoted to CDO management.

Investors
- Investors want exposure to the underlying assets on a tranched or leveraged basis.
- Investors evaluate the investment guidelines for the CDO and perform due diligence of the manager's qualifications.
- Typical investors in CDOs range from hedge funds to banks and insurance companies.
- Since CDO securities are privately offered, there are restrictions on investors who are eligible:
  - In the US: qualified purchasers that are either qualified institutional buyers or accredited investors.
  - Outside the US: persons eligible to purchase under local law and in transactions pursuant to Reg S.

Rating Agencies
- Rating agencies analyze the CDO's investment criteria and liabilities structure to rate the debt issued by the CDO.
- Rating agencies establish criteria that sets forth their requirements for credit quality and structures.
- Typically a CDO will have ratings from two of S&P, Moody's or Fitch for each debt tranche; however, a CDO could issue unrated tranches or be rated by a single agency only.
- Rating agencies are paid to provide initial ratings and provide ongoing surveillance as long as the rated debt remains outstanding.

Trustee
- The CDO appoints a trustee to hold its assets as collateral for the benefit of the holders of its debt.
- Frequently the trustee also provides administrative services to the CDO issuer such as accounting and reporting services for investors.

Arranger, Placement Agent/Underwriter and Warehouse Provider
- The manager engages a broker-dealer to arrange and structure the CDO and distribute its securities.
- Oftentimes, to facilitate the manager's acquisition of assets for the CDO before closing, the broker-dealer or one of its affiliates will extend a warehouse facility to accumulate assets at the manager's direction.
Structural Building Blocks for an ABS CDO

ABS Pool-level assets

ABS 1
- Class A1 - Aaa/AAA
- Class M1 - Aa2/AA
- Class M7 - Baa2/BBB

ABS 2
- Class A1 - Aaa/AAA
- Class M1 - Aa2/AA
- Class M7 - Baa2/BBB

ABS N
- Class A1 - Aaa/AAA
- Class M1 - Aa2/AA
- Class M7 - Baa2/BBB

Portfolio of AAA-rated ABS Tranches

CDO portfolio

CDO-level

CDO
- Class A-1 - Aaa/AAA
- Class A-2 - Aa2/AA
- Class C - A2/A
- Equity

ABS-level
Structural Building Blocks for an ABS CDO²

CDO portfolio level

CDO 1
- Class A1 - Aaa/AAA
- Class B - Aa2/AA
- Class C - A2/A

CDO 2
- Class A1 - Aaa/AAA
- Class B - Aa2/AA
- Class C - A2/A

CDO N
- Class A1 - Aaa/AAA
- Class B - Aa2/AA
- Class C - A2/A

CDO² portfolio

Portfolio of AA-rated CDO Tranches

CDO² level

Class A-1 - Aaa/AAA
Class A-2 - Aaa/AAA
Class B - Aa2/AA
Class C - A2/A
Equity
# Cashflow CDO Collateral Types

<table>
<thead>
<tr>
<th>Cashflow CDO Collateral Types</th>
<th>Typical Asset Mix</th>
<th>Typical Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CDO Type</strong></td>
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<td></td>
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<tr>
<td>CBO</td>
<td>Investment Grade</td>
<td>AAA = 90%</td>
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<td></td>
<td>Corporate Bonds</td>
<td>Equity = 5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CLO</td>
<td>Corporate Loans</td>
<td>AAA = 70%</td>
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<td>Equity = 10%</td>
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<td></td>
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</tr>
<tr>
<td>ABS</td>
<td>High Grade</td>
<td>AAA = 75%</td>
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<td>Equity = 5%</td>
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<td></td>
<td></td>
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<td>CDO*2</td>
<td>ABS</td>
<td>AAA = 80%</td>
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<td>CLO</td>
<td>AAA = 75%</td>
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<td></td>
<td></td>
<td>Equity = 5%</td>
</tr>
</tbody>
</table>

Note: These descriptions are generalizations. Actual collateral and leverage will vary from deal to deal depending on a variety of factors.
Synthetic CDOs

- Synthetic CDOs obtain exposure to assets synthetically, by entering into CDS referencing those assets.
- Synthetic CDO portfolios may be either static or managed.
- Synthetic CDO portfolios tend to be investment grade (Ba1) compared to traditional Cash CDO high yield collateral (Ba or single-B).
- High quality Synthetic CDO collateral allows for a very large, unfunded portion of Synthetic CDO liabilities (the "Super Senior tranche"), which cheapens overall liabilities.
- The Super-Senior tranche's credit quality is assumed to be better than AAA-rated.
Hybrid CDOs

- Hybrid CDOs acquire portfolios that include a mixture of cash loans, securities and CDS referencing specific credits.
- The mixture of cash and synthetic assets can vary significantly over time at the manager's discretion.
- A portion of the proceeds from the funded tranches is invested in cash assets and the remainder is held in reserve (often in the form of a GIC or a reserve account) to cover payments that may be required under the CDS.
- The CDO receives payments from three sources:
  - Return from its cash assets
  - Reserve account investments
  - CDS premiums

![Diagram of CDS Portfolio and Cash Portfolio](image)

![Diagram of CDO Capital Structure](image)
CDO$^2$s

- A CDO$^2$ is structurally no different than an ordinary CDO
- Like other arbitrage CDOs, CDO$^2$ are typically managed by an asset manager that selects the assets and manages the risk of the portfolio
- The principal difference between a CDO and a CDO$^2$ is simply that CDO$^2$ assets primarily are other CDO securities
- The rating process, cash flow mechanics and overall structure is similar to other CDOs, but the risks are very different
  - Additional structural leverage
  - More sensitive to changes in underlying asset performance
  - Increased complexity
  - Limited liquidity
  - End investor further removed from the originated risk
Cashflow CDO Analytics

- Cashflow CDO credit risk is determined by three factors:
  - Default Probability
    - How likely is it that the assets will default over the life of the CDO?
  - Default Correlation
    - How diverse is the CDO portfolio, in terms of (1) industries concentration, (2) geography, (3) severity, (4) number of credits, (5) rating of credits and (6) other factors depending on the asset class?
  - Default Severity
    - How much loss can the various CDO tranches withstand?

- Generally, rating agencies compare losses under various default scenarios to required "break-even losses" to determine CDO debt tranche ratings and sizes.
  - For instance, a 10-yr CDO tranche must withstand an expected loss of less than 0.0055% to be rated Aaa by Moody's, less than 1.43% to be rated Baa1, and so on down the credit curve.
  - The rating agencies use their proprietary models to analyze the assets and generate stressed cashflows.

- Cashflow CDOs are subject to periodic compliance tests that measure the deal's ability to pay interest and principal to CDO debt investors.
  - If the CDO fails certain tests, the CDO's cash flows are redirected to amortize its debt.
  - Some tests employed by typical Cashflow CDOs are:
    - Over-Collateralization (O/C) Tests (ability to pay CDO debt tranche principal at maturity)
    - Interest Coverage (I/C) Tests (ability to pay CDO debt tranche interest each period)
    - Caa Concentration Test (restricts the number of Caa-rated assets that can be held without penalty)
Cashflow CDO Analytics (cont’d)

In cashflow CDOs, O/C and I/C Tests are calculated periodically (typically monthly or quarterly) to monitor collateral deterioration.

Below we illustrate the calculation of these ratios:

### O/C Test

<table>
<thead>
<tr>
<th>Asset Par</th>
<th>CDO Tranche Par</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Par: the par of non-defaulted assets</td>
<td></td>
</tr>
<tr>
<td>CDO Tranche Par: the current par amount of the CDO tranche + the current par amount of all tranches senior to the tranche</td>
<td></td>
</tr>
<tr>
<td>The O/C test measures the amount of asset par “cushion” protecting a tranche</td>
<td></td>
</tr>
</tbody>
</table>

For example:
- Total Asset Par = $500mm
- Class AAA Par = $300mm
- Class AA Par = $60mm
- Class AA O/C = 500 / (300+60) = 139%

### I/C Test

<table>
<thead>
<tr>
<th>Asset Coupon</th>
<th>CDO Tranche Coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Coupon: the sum of the interest received from the assets</td>
<td></td>
</tr>
<tr>
<td>CDO Tranche Coupon: the required coupon of the CDO tranche + the required coupon of all tranches senior to the tranche</td>
<td></td>
</tr>
<tr>
<td>The I/C test measures the amount of extra interest available for a given tranche</td>
<td></td>
</tr>
</tbody>
</table>

For example:
- Total interest received: $6mm
- Class AAA Interest Payable = $2mm
- Class AA O/C = 6 / (2+2) = 150%
Cashflow CDO Payment Waterfalls (cont’d)

**Interest waterfall**

<table>
<thead>
<tr>
<th>Interest Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Financed Amount Payment</td>
</tr>
<tr>
<td>Taxes &amp; Governmental fees</td>
</tr>
<tr>
<td>Trustee &amp; Administrative Expenses up to Senior Expense Cap</td>
</tr>
<tr>
<td>Base Management Fee to Portfolio Manager</td>
</tr>
<tr>
<td>Interest and Commitment Fees (if any) on Class A-1 Notes</td>
</tr>
<tr>
<td>Interest on Class A-2 Notes</td>
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</tbody>
</table>

**Class A OC & IC Tests**

<table>
<thead>
<tr>
<th>Class A OC &amp; IC Tests</th>
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</thead>
<tbody>
<tr>
<td>Interest and Deferred Interest (if any) on Class B Notes</td>
</tr>
</tbody>
</table>

**Class B OC & IC Tests**

<table>
<thead>
<tr>
<th>Class B OC &amp; IC Tests</th>
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<tbody>
<tr>
<td>Interest and Deferred Interest (if any) on Class C Notes</td>
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</tbody>
</table>

**Class C OC & IC Tests**

<table>
<thead>
<tr>
<th>Class C OC &amp; IC Tests</th>
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</thead>
<tbody>
<tr>
<td>Interest and Deferred Interest (if any) on Class D Notes</td>
</tr>
</tbody>
</table>

**Class D OC & IC Tests**

<table>
<thead>
<tr>
<th>Class D OC &amp; IC Tests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remaining Administrative Expenses</td>
</tr>
<tr>
<td>Subordinated Management Fee</td>
</tr>
<tr>
<td>Incentive Management Fee (if any)</td>
</tr>
<tr>
<td>Residual to Subordinated Notes</td>
</tr>
</tbody>
</table>

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**Principal waterfall**

<table>
<thead>
<tr>
<th>Principal Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments due under Interest Waterfall down to and including Class D Note OC &amp; IC Test are due only to the extent (1) case not paid in full thereunder and (2) all coverage tests are met</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reinvestment Criteria Tests</th>
</tr>
</thead>
<tbody>
<tr>
<td>If Reinvestment</td>
</tr>
</tbody>
</table>

| If NO |
| Reinvestment |

| Sequential redemption of Class A, B, C & D Notes |

<table>
<thead>
<tr>
<th>Administrative Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued but Unpaid Management Fees</td>
</tr>
<tr>
<td>Residual to Subordinated Notes</td>
</tr>
</tbody>
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# Agenda

<table>
<thead>
<tr>
<th></th>
<th>Page</th>
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</thead>
<tbody>
<tr>
<td>Introduction to Collateralized Debt Obligations (CDOs)</td>
<td>1</td>
</tr>
<tr>
<td><strong>Introduction to Credit Default Swaps (CDS)</strong></td>
<td>15</td>
</tr>
<tr>
<td>CDS Indices - ABX, TABX, CDX, and iTraxx</td>
<td>20</td>
</tr>
</tbody>
</table>
Credit Default Swaps

- In exchange for a fee (either an up-front premium, an on-going fee, or a combination) the Protection Seller agrees to make payments to the Protection Buyer upon the occurrence of credit or payment events relating to the reference entity or obligation.
- Upon a credit event, the Protection Buyer can elect to settle via physical delivery of a deliverable obligation or via cash settlement through an auction process.
- CDS on CDOs and MBS typically allow for physical delivery of the reference obligation.
- CDS contracts can reference both bonds and loans.
Credit Default Swaps (Cont.)

Typical CDS Clients
- Protection Buyers
  - Hedging credit exposure
  - Investors expressing a view on a reference entity's credit prospects
- Protection Sellers
  - Leveraged Investors
  - Structured finance vehicles
- Dealers
  - Intermediate flow between Protection Buyers and Protection Sellers

Credit and Payment Events
- Most widely used credit events for CDS trades on investment grade corporates today:
  - Bankruptcy
  - Failure to pay
  - Restructuring
- In addition, CDS on ABS and CDOs typically follow a “pay-as-you-go” convention where payment events other than default trigger a payment from the Protection Seller to the Protection Buyer.
- Reference Obligation that misses interest payments cause the Protection Seller to reimburse the Protection Buyer the amount related to the shortfall.
  - After a payment event, the CDS contract continues without termination and settlement
- Credit events on CDS of MBS and CDOs typically include:
  - Bankruptcy
  - Failure to pay principal (typically only on the maturity of the reference obligation)
  - Distressed ratings downgrade (ratings fall to a specified level)
The Basic Contract: A Credit Default Swap (Cont.)

Deliverable Obligations Characteristics

- If a credit event occurs, the Protection Buyer can elect to settle via physical delivery of a deliverable obligation or via cash settlement through an auction process.
- If the Protection Buyer elects to deliver an obligation:
  The Protection Buyer can choose, within certain limits, what obligation to deliver.
  The CDS contract states what kind of obligations (payment, bond, and/or loans) can be included.
  The CDS contract also states the characteristics (subordination level, currency, denomination, listed/non-listed, etc.) of the obligation.
Cash Settlement and the Protocols

- **ISDA Basics**
  - Often times, the CDS exposure often greater than aggregate amounts of cash obligations available, making physical delivery problematic. For example:
    - Collins & Aikman: $500 million of available bonds vs. $1 billion in CDS
    - Delphi: $2 billion in available bonds vs. $25-30 billion in CDS
  - To prevent settlement issues, the ISDA Protocol was developed
    - ISDA Protocol permits rapid amendment of existing CDS documentation to allow settlement at a single Final Price for all adhering parties
    - ISDA Protocol ensures that the Final Price is reflective of market value of the defaulted entity's obligations, taking into account CDS parties' net physical settlement requirements
  - Allow bonds to be traded to permit "physical settlement" at Final Price
    - Bonds can be bought or sold in the auction to allow participants to finish with same bond position they would have had under physical settlement
    - Ensures resulting position from original settlement mechanism is effectively preserved for those who desire it
  - ISDA publishes standard amendment terms
  - To effect an amendment, two parties simply have to "adhere" to the Protocol by sending their notice to ISDA prior to the cut-off date. An adhering party automatically amends its ISDA Master (or related documentation) with any other adhering party
## Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
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<tbody>
<tr>
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</tr>
<tr>
<td>CDS Indices - ABX, TABX, CDX, and iTraxx</td>
<td>20</td>
</tr>
</tbody>
</table>
The CDS Indices - ABX.HE and TABX.HE

- Both the ABX.HE and TABX.HE are static portfolios of CDS of subprime RMBS that serve as liquid instruments for trading subprime credit risk.

- **ABX.HE Asset Portfolio Highlights**
  - Portfolios reference 20 bonds of subprime RMBS
  - Assets are homogenous by risk profile (initial ratings)
  - Assets are originated in a 6-month time frame
  - Asset selection
    - Aggregate a list of the largest volume subprime RMBS issuers
    - Select two representative transactions from each issuer
    - Index participants vote on transactions to be included in each index

- **TABX.HE Asset Portfolio Highlights**
  - Portfolios reference 40 bonds from two ABX.HE indices
  - Assets are all subprime RMBS
  - Assets are homogenous by risk profile (initial ratings)
  - Assets are originated in a one-year time frame
The CDS Indices - CDX, iTraxx, ABX and TABX

- The CDS indices are static portfolios of CDS that serve as liquid instruments for trading credit risk
  - CDX indices allow investors to express a view on the market as a whole (avoid idiosyncratic single-name risk)
- Unlike single-name CDS, each index contract is exactly like every other index contract (reference entities, payment dates, fixed coupon) and thus can be easily traded
- Different indices provide exposure to a broad range of industries and credit
- Markit Group is the dealer appointed administrator and calculation agent for both CDX and iTraxx
- Protection Buyer pays a fixed coupon (the sum of the fixed rates of each of the component CDS contracts)
- Protection seller pays upon credit events (just like single-name CDS)
- Coupon is sum of fixed rates on each component
- Each index reconfigured with new names every 6 months
The CDS Indices - CDX

- DJ CDX North America High Yield Index
  - Static portfolio of 100 equally weighted high yield CDS entities domiciled in North America
  - Index constituents are based on votes from eligible CDS members
  - New series of DJ CDX HY issues every 6 months (March & September) and the underlying reference entities are reconstituted based on member votes
  - Standard maturities will be 5 and 10 years for the notes and swaps

- DJ CDX North America Investment Grade Index
  - Static portfolio of 125 equally weighted investment grade CDS entities domiciled in North America
  - Index constituents are based on votes from eligible CDS members
  - New series of DJ CDX IG issues every 6 months (March & September) and the underlying reference entities are reconstituted based on member votes
  - Standard maturities will be 1, 2, 3, 4, 5, 7 & 10 years for the notes and 5 and 10 years for the swaps

- DJ CDX Emerging Market Index
  - Static portfolio of 14 equally weighted emerging market sovereign issuers
  - Index constituents are based on votes from eligible CDS members
  - New series of DJ CDX EM issues every 6 months (March & September) and the underlying reference entities are reconstituted based on member votes
  - Standard maturities will be 5 and 10 years for the notes and swaps

- DJ CDX Emerging Market Diversified Index
  - Static portfolio of 40 sovereigns and corporates
  - New series of DJ CDX EM issues every 6 months (March & September) and the underlying reference entities are reconstituted based on member votes

JPMorgan
The CDS Indices - iTraxx

- **iTraxx Europe** (Main Index)
  - Static portfolio of 125 equally weighted CDS on European entities
  - Rules based construction based on CDS volumes by dealer poll
  - New series of iTraxx Europe is issued every 6 months (March & September) and the underlying reference entities are reconstituted
  - Standard maturities will be 5 for the notes and 5 and 10 years for the swaps

- **iTraxx Japan**
  - Static portfolio of 50 equally weighted CDS on Japanese entities
  - Rules based construction based on CDS volumes by dealer poll
  - New series of iTraxx Japan is issued every 6 months (March & September) and the underlying reference entities are reconstituted
  - Standard maturities will be 5 for the notes and 5 and 10 years for the swaps

- **iTraxx Australia**
  - Static portfolio of 25 equally weighted CDS on Australian entities
  - Rules based construction based on CDS volumes by dealer poll
  - New series of iTraxx Australia is issued every 6 months (March & September) and the underlying reference entities are reconstituted
  - Standard maturities will be 5 for the notes and 5 and 10 years for the swaps

- **iTraxx Asia ex-Japan**
  - Static portfolio of 30 equally weighted CDS on Asian entities excluding Japan
  - Divided into 3 regional sub-indices: Korea, Greater & Rest of Asia
  - Rules based construction based on CDS volumes by dealer poll
  - New series of iTraxx Asia ex-Japan is issued every 6 months (March & September) and the underlying reference entities are reconstituted
  - Standard maturities will be 5 for the notes and 5 and 10 years for the swaps
December 7, 2012

Reginald J. Brown

Dear Chairman Levin and Ranking Member Coburn:

We represent J.P. Morgan Chase & Co. ("J.P. Morgan") and submit this letter on J.P. Morgan’s behalf in response to the Permanent Subcommittee on Investigations’ ("PSI") subpoena dated August 6, 2012 (the “Subpoena”).

Please find enclosed an encrypted CD containing a document bearing Bates numbers JPM-CIO-PSI 0037504. This production is being provided in response to the Subpoena, and a November 28, 2012 request from PSI Staff for data on the size of the Synthetic Credit Portfolio. Today’s production includes a spreadsheet reflecting the requested data as of January 3, 2011, December 30, 2011, March 30, 2012, and June 29, 2012. Please note that January 3, 2011, is provided as a proxy for year-end 2010 as the system this data was generated from only contains information from January 1, 2011.

Further, in response to a November 30, 2012 request from PSI Staff, based on consultation within J.P. Morgan, we understand that the Global CIO MTM CS BPV (CS01) limit was $5,000,000 from mid-August 2008 through early-May 2012, when it was deactivated because management determined the limit was no longer valid in terms of measuring the risk appropriately.

We hope this information is helpful to you and the PSI Staff. The password for the encrypted CD will be communicated to the PSI Staff by a separate communication.

* * *

WilmerHale

STRICTLY CONFIDENTIAL—NOT FOR CIRCULATION/SUBCOMMITTEE MEMBERS AND STAFF ONLY
We respectfully request that the produced documents be maintained confidentially under Senate Rule XXIX.3 and not be released publicly without a majority vote of the PSI. We further request that the PSI staff provide the undersigned with notice and an opportunity to be heard in the event the PSI determines that it will disclose any information from this production or letter to a third party. Such treatment would be consistent with the respect for privileged and confidential information that the Subcommittee has shown in the past. This production is not intended to waive any applicable privilege or protection. If it were found that any of the produced documents constitutes disclosure of otherwise privileged matters, such disclosure would be inadvertent.

Please contact me (202-663-6430) or Ross Kirschner (202-663-6021) if you have any questions.

Sincerely,

Reginald J. Brown
Ross Kirschner

Enclosure

STRICTLY CONFIDENTIAL – NOT FOR CIRCULATION/SUBCOMMITTEE MEMBERS AND STAFF ONLY

PSI-JPMC-24-00002
Hi Mary,

Please log this communication from Reg re: JPM.

Thank you!

---

Zack,

J.P. Morgan has recovered the maximum clawback from Ms. Drew, Mr. Macris, Mr. Javier-Artajo, Mr. Iksil, and Mr. Grout. This was accomplished through a combination of canceling outstanding incentive awards and repayment of awards previously paid.

Reg

---

Zack,

What is the status of the clawbacks for Ms. Drew, Mr. Macris, Mr. Javier-Artajo, Mr. Iksil, and Mr. Grout?

Thanks for your help.

-Zack-
From: Kirschner, Ross K. [mailto:Ross.Kirschner@wilmerhale.com]
Sent: Sunday, March 03, 2013 9:04 PM
To: Schram, Zachary (HSGAC)
Cc: Brown, Reginald
Subject: RE: Crossing the t's

Zack,

Our understanding from the Bank is that the difference between the two CS BPV numbers asked about represents a revision posted by the CIO middle office to their limit utilizations between the time the limits were extracted for the limit breach notification email (the contents of the PDF with the Bates ending 1832) and when the Division Limits document (the Excel spreadsheet with the Bates ending 37536) was extracted from the system. The CIO North America desk had originally uploaded a value of -424,000 against that limit and then on February 22, they changed it to +424,000. The change was made because they initially uploaded CSOI per Credit Spread tightening, but it was retroactively corrected after confirmation that it should have been per Credit Spread widening. That flip of $424,000 accounts for the entire $848,000 difference.

Thanks,
Reg and Ross

From: Schram, Zachary (HSGAC) [mailto:Zachary.Schram@hsgac.senate.gov]
Sent: Sunday, March 03, 2013 8:38 PM
To: Kirschner, Ross K.
Subject: Crossing the t's

Ross,

If you recall, we spotted a discrepancy in the limit utilizations between contemporaneous documents, including JPM-CIO-PSI 0001832, and the utilization spreadsheets you later produced. You explained the source of the discrepancy, but I would like to have something in writing I can cite to. Can you email me the explanation?

Thanks,
-Zack-
OCC Large Bank Supervision
JPMorgan Chase Bank, N.A.

Permanent Subcommittee on Investigations
- Chief Investment Office Discussion
Large Bank Supervision

Large Bank Supervision is driven by requirement that at any quarter, risk assessments and ratings must be current and accurate (Large Bank Supervision Handbook)

- Understand the company’s strategies and business activities
- Identify the risks and related controls at the bank, for key products, and activities/lines of business
- Assess levels of inherent risk, quality of risk management, aggregate risk, and the direction of aggregate risk

*Generate Core Assessment and Quarterly RAS
Examinations/Assessments

• Mostly Risk-Based, focusing on
  – High risk products, markets, and activities
  – Weak management

• Some legally required
  – BSA/AML (even if not high risk)
  – Flood

• Objectives
  – Validate our understanding of risk management
  – Assess the level and trend of risk

* We rely on bank MIS (CIO MIS was misleading)
Communications

- Communicate findings, recommendations, and professional views to management and the board
  - Annual Report of Examination
  - Supervisory Letters
  - Verbal

- Communications range from positive feedback, informal discussions, moral suasion, Matters Requiring Attention (MRA), and informal and formal actions
Supervisory Strategy

- Each team establishes its own supervisory plan that considers:
  - OCC/CBS Annual Supervisory Guidance
  - OCC Networking Group input
  - The Bank's inherent risks and management
  - Knowledge of the bank
    - Team leaders and team routinely meet with
      - LOB CEOs and business management
      - Risk Management and compliance
      - Audit

- Deputy Comptrollers review each strategy, approve final product

- Adjustments during year: unplanned events/resource shortfalls
<table>
<thead>
<tr>
<th>Department</th>
<th>PTs</th>
<th>FTEs</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>11</td>
<td>15</td>
<td>Management</td>
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<tr>
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<td>4</td>
<td>5</td>
<td>Audit</td>
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<td>5</td>
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<tbody>
<tr>
<td>Total Income</td>
<td>2496</td>
<td>2496</td>
<td>2496</td>
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</table>
JPMC Examinations

- OCC performs approximately 60 examinations per year at JPMC
  - Each typically lasts between three and six weeks, but sometimes longer
  - Each supervisory team will perform between three and 10 examinations per year
  - Examination teams are typically between four and six people that include relevant experience
    - Resident staff
    - RAD/Economists as appropriate
    - Other agencies depending on circumstances
  - Some examinations scheduled purely for training purposes
  - Supervisory Letters are issued at the end of each examination
Ongoing Supervision

• Monitor routine flows of board, management, risk management, and audit reports
  – Quality of reports is important
• We look at business performance, risk trends, regulatory policy adherence
• Communicate supervisory findings and expectations
• Follow-up on actions taken to correct deficiencies
<table>
<thead>
<tr>
<th>Category</th>
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<tr>
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<td></td>
<td>Chief Risk Officer</td>
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<td></td>
<td>Chief Financial Officer</td>
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<td>General Counsel</td>
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<td>Litigation Chief</td>
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<td></td>
<td>Chief Compliance Officer</td>
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<td>Financial Crimes (BIA) Head</td>
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<td>Chief Information Officer</td>
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<td>Chief Auditor</td>
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<td>Supervisory Colleges</td>
</tr>
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<td></td>
<td>Networking Group</td>
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Supervisory Letters

- Supervisory Letters are issued to communicate supervisory findings
  - Examinations
  - Ongoing Supervision
- OCC issues approximately 75 per year at JPMC
  - Audit issues are documented in separate letters
    - Semi-annual audit letter
  - Quarterly Management Report
- CEO and Audit Chairman are copied on every letter
Matters Requiring Attention

- OCC Currently has approximately 120 MRA outstanding
- We average roughly one MRA per examination
  - Some turnover
- Some MRA take longer to correct, e.g.,
  - Model Validation Process
  - Basel II Implementation
Capital Markets Supervision

• First Quarter 2012
  – Examinations
    • Model Validation Group completion (started 4Q11)
    • Commodities examination
    • Firmwide Stress
    • Derivative Operations
    • Credit Portfolio Group
    • Mortgage Capital Markets (started early April)
  – Ongoing supervision
    • Business and risk updates
    • Report of Examination
    • Core Risk Assessment
    • Supervisory Strategy
Ongoing Supervision of CIO

• Risk-based focus
  – Investment portfolio
  – Interest Rate Risk
  – MSR
  – Stress test methodology
Synthetic Credit Portfolio

- Established in 2006/2007
- Objective
- Performance
- Evolution
- Risk Weighted Asset Calculation
Note: On May 29, the bank disaggregated its High Yield versus Investment Grade risk estimates into Europe and US components. This disaggregation eliminated some portfolio effects and caused a higher estimated risk for the sum of worst case historical estimates. The April 30, 2012 figure was recalculated and revised upward.
6-16-12 — $34 Billion trade with Blue Mountain
6-7-12, through — 6-12-12 — $10.6 Billion high yield positions moved to hedge existing risk
6-18-12 — $17 Billion option exercised by Blue Mountain
Value at Risk (VAR) - Update

- With move to IB, a new VaR model has been implemented for risk management purposes.
  - Developed in 2Q2012, for CIO’s (now IB’s) Synthetic Credit Portfolio as an improvement to CIO Basel 1 VaR model.
  - Approved on June 29th 2012 by Model Risk under new procedures; implemented July 2nd 2012
    - A spread VaR calculator customized to handle index positions w/o decomposition
    - The identical base correlation VaR calculator used by the IB for tranches
      - Based on analytics and time-series data from the IB
      - Intended to be consistent with Basel 2.5
  - Used for risk management and 10Q reporting.
    - Limits expected to be changed in line with new VaR numbers
  - OCC reviewing Index VaR and its approval
  - JPM will seek regulatory approval for use in Basel 1 Reg VaR
• CSO1 increased for 12MM on February 8 to 21MM on February 15
• CSO1 Exposure nearly doubled again between March 14 and March 28 and 10% CSW went from positive 62MM to negative 140MM

<table>
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<th>10% CSW</th>
<th>Daily PNL</th>
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Update on 1Q2012 Activity

- Significant notionals were put on in mid January and mid February. However, directionality, curve steepness, and basis all moved against JPM.

- As presented by Wilmer Hale, large positions after mid-March may have been attempts by traders to "defend their positions."

- As presented by Wilmer Hale, P&L by mid to late March was not reflective of the real market as traders were not correctly marking their book. Under procedures at that time, independent price verification did not take place until March month-end, leading to significant realized losses at that time.
Management reported the findings of its internal investigation to the regulators on July 11 and publicly on July 13.

Findings were consistent with the preliminary observations; however, the core issue was that CIO was not subjected to the same level of scrutiny as client facing businesses, causing a lack of effective challenge by senior management and the board. The task force's principal conclusions:

- CIO judgment, execution, and escalation in 1Q12 were poor
- The level of scrutiny did not evolve commensurate with the increasing complexity of CIO activities
- CIO risk management was ineffective in dealing with the synthetic credit portfolio
- Risk limits for CIO were not sufficiently granular
- Approval and implementation of CIO synthetic credit VaR model were inadequate

The Board of Directors received the same presentation as investors prior to the call.
Coordinating examination work and subsequent requests with FRB and FDIC
- All exam work is either "joint" or requires substantial coordination with various FRB and FDIC examiners.
- Complexity of topic necessitates significant review of documentation and discussions with management.

Status of specific examinations:

- OCC Governance and Risk Management review nearing completion.
  - OCC work substantially complete for all areas except audit. (see below)
  - Need to discuss/confirm with results of FRB work
  - Currently reviewing corrective action as part of ongoing supervision

- Model Control
  - Targeting completion of field work this week, however some meetings need to be schedule and information continues to be evaluated.

- Audit coverage and adequacy
  - Work underway includes a review of detailed audit coverage, and audits own self assessment. OCC review of CIO audit work expected to be complete in 10 days
  - Completion contingent on status of JPM audit's internal evaluation

- Valuation
  - OCC work began this week. Requires review of external audit work.
  - FRB participation to be determined.
  - Expect completion mid August.
Ongoing supervision

- Evaluate corrective action in process
  - CIO Task Force

- Evaluate book remediation
  - Three calls / week on legacy book, supported by MIS
    - Assessing ongoing impact on overall
  - Detailed processes for "legacy" book to be validated/tested in September 2012 examination, and "AFS hedge book" in October 2012 examination.

- Evaluate new CIO mission and business processes
  - Evaluate specific changes in CIO mission
  - Increase focus on new committee process; providing feedback
  - Detail processes to be validated/texted in October 2012 examination
January 11, 2013

CONFIDENTIAL TREATMENT REQUESTED

VIA EMAIL AND FEDERAL EXPRESS

Scott N. Waterhouse
Examiner-in-Charge
OCC Large Bank Supervision
1166 Avenue of the Americas, 21st floor
New York, New York 10036

Re: JPM-2012-66 CIO Oversight and Governance Examination

Dear Mr. Waterhouse:

Attached please find the responses of JPMorgan Chase Bank, N.A. (the “Firm” or “JPMorgan”) to OCC Supervisory Letter JPM-2012-66, Chief Investment Office (“CIO”) Oversight and Governance Examination, dated December 12, 2012 (the “Supervisory Letter”).

The attached responses detail the actions taken by the Firm to date to address the Matters Requiring Attention ("MRAs") identified in the Supervisory Letter. The attached also is intended to summarize and update you on those actions already described by the Firm in responses to previous OCC supervisory letters related to these matters.

The Firm acknowledges the OCC’s criticisms of CIO oversight and governance, as well as the OCC’s broader comments regarding the Firm’s governance, risk management and control processes. JPMorgan takes oversight and governance matters very seriously, and is committed to continually evaluating and strengthening oversight, governance, and risk management and other control functions, not just in CIO but throughout the Firm.

Consistent with this commitment, JPMorgan has undertaken, and is in the continued process of undertaking, comprehensive steps to ensure that there is continuing effective management and Board oversight of all aspects of JPMorgan’s business and operations, including implementing enhancements to risk and other control functions, establishing new control groups, committee
structures and firmwide positions, and improving the process for escalating issues to and
communicating with senior management and the Board, as well as the OCC.

As detailed in the Firm’s various responses to OCC Supervisory Letters over the past several
months, the Firm has taken a number of actions to address specific weaknesses identified in prior
OCC examinations regarding model approvals and risk weighted assets, audit coverage, VaR
model and CIO risk management, and CIO valuation governance.

Further, as you know, the CIO Task Force is in the process of completing its report (the “Task
Force Report”), which will provide additional detail regarding some of the matters discussed
herein.

We believe that the efforts we have undertaken and, in some instances, are in the process of
undertaking constitute a comprehensive and detailed response to the Supervisory Letter, and that
upon full implementation, will fully remediate the issues you have raised. All action plans noted
in this response letter will be tracked in our internal processes to ensure completion.

This information is being provided pursuant to the investigation and examination authority of the
OCC, and JPMorgan respectfully requests that the information contained in this letter and the
other documents referenced herein, as well as JPMorgan’s responses to all previous OCC
Supervisory Letters (in the aggregate referred to herein as the “Confidential Materials”) be
afforded confidential treatment under 12 C.F.R. § 19.181, 12 C.F.R. part 4, and the Freedom of
Information Act (FOIA), 5 U.S.C. § 552. The transmittal of this information is not intended to,
and does not, waive any applicable privilege or other legal basis under which information may
not be subject to production. The Confidential Materials constitute trade secrets or confidential
commercial information, and therefore such records are subject to the exemption from
mandatory disclosure under Exemption 4 of the FOIA, 5 U.S.C. § 552(b)(4). In addition, the
Confidential Materials are investigatory records obtained by the OCC in connection with a
potential law enforcement proceeding, and therefore such records are subject, at least at present,
to the exemption from mandatory disclosure under Exemption 7(A) of the FOIA, 5 U.S.C. §
552(b)(7)(A). See, e.g., NLRB Robbins Tire & Rubber Co., 437 U.S. 214 (1978) (disclosure of
witness statements prior to a NLRB hearing would interfere with the proceedings under FOIA
Exception 7(A)). Exemption 8 of the FOIA, 5 U.S.C. § 552(b)(8), protects from disclosure all
materials, such as these, that are “contained in or related to an examination, operating, or
condition report prepared by, on behalf of, or for the use of the OCC or any other agency
responsible for regulating or supervising financial institutions. See, e.g., Gregory v. Federal
Deposit Insurance Corp., 631 F.2d 896, 898 (D.C. Cir. 1980), quoting Consumers Union of

These Confidential Materials are submitted to the OCC with our request that they be kept in a
non-public file and that only the staff of the OCC will have access to them. Should the OCC

Moreover, as the Confidential Materials pertain to the activities of JPMorgan and not to the activities of
any federal agency, we believe the documents may be exempt from disclosure pursuant to Exemptions 6 and 7(C) of
the FOIA, 5 U.S.C. §§ 552(b)(6) and (b)(7)(C), and protections available to JPMorgan under the Privacy Act of
receive any request for these documents, pursuant to the FOIA or otherwise, JPMorgan requests that the undersigned immediately be notified of such request, be furnished a copy of all written materials pertaining to such request (including, but not limited to the request and any agency determination with respect to such request), and be given an opportunity to object to such disclosure. In addition, should the OCC be inclined to grant the request, it is our expectation that, pursuant to the procedures required by Exec. Order 12,600, 52 Fed. Reg. 23,781 (1987), and 12 C.F.R. part 4, we will be given ten business days' advance notice of any such decision to enable the Bank to pursue any remedies that may be available to it. In such event, we request that you telephone our General Counsel, Stephen Cutler, at 212-270-3220, rather than rely upon the United States mail for such notice. If the OCC is not satisfied that these Confidential Materials are exempt from disclosure pursuant to the FOIA, we stand ready to supply further particulars and request a hearing on the claim of exemption.  

* * *

We look forward to continuing to provide you with updates on the issues described herein and on the CIO matter in general. Please do not hesitate to contact us should you require any further information or clarification.

Sincerely,

Mr. John Hogan  
Executive Vice President and Chief Risk Officer

cc: Jamie Dimon, Labe Jackson, Stephen Cutler, Frank Bisignano, Matthew Zames, Doug Braunstein, Marianne Lake, Ashley Bacon, Gregg Ganselman, C.S. Venkatakrishnan, Martha Gallo, Lauren Tyler, Joseph Sabatini, Kamy Kasap, Shannon Warren, Cynthia Armire, Mike Kelly (PwC), Dianne Dobbeck (FRB), Om Arya (FDI)

2 The requests set forth in the preceding paragraphs also apply to any memoranda, notes, transcripts or other writings that are made by, or at the request of, any employee of the OCC (or any other government agency) and that (1) incorporate, include, or relate to any of the information described above provided to the OCC (or any other government agency); or (2) refer to any conference, meeting, telephone conversation or interview between (a) JPMorgan or any of its agents or counsel and (b) employees of the OCC (or any other governmental agency).
Matters Requiring Attention

**Board and senior management supervision requires strengthening.**

Management Response

The Firm has identified management failures regarding oversight of CIO activities, among them the failure to provide sufficient information to the Board of Directors that would have allowed the Board to exercise more rigorous oversight over CIO. For example, the risks posed by the strategies being pursued in CIO’s synthetic credit book were not appropriately elevated or brought to the attention of the Directors’ Risk Policy Committee (“DRPC”) and, therefore, were not elevated to the Board. As described in the Firm’s responses to earlier supervisory letters, the Firm’s Board and senior management have taken comprehensive steps to ensure that there is continuing effective engagement and oversight of all lines of business and other revenue or risk-generating activities across the Firm.

**Firmwide Risk Self-Assessment**

In May 2012, the Firm, under the guidance of its new Chief Risk Officer (“CRO”), mandated a self-assessment of the functions and effectiveness of the firmwide risk organization (“Firmwide Risk”). This entailed (1) a detailed self-assessment of all risk functions across all lines of business (“LOBs”) and Corporate Risk functions; (2) the development of action plans to remediate issues identified; and (3) remediation of the issues identified.

At the same time, Firmwide Risk also launched an initiative to ensure that the issues identified within CIO did not exist elsewhere across the firm. Each LOB CRO and cross-LOB CRO reviewed the issues identified within CIO and was required to attest to the completion of any necessary remedial actions identified by the LOB review and to provide documentation supporting completion of the remediation. Each LOB CEO also was required to sign off on

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completion of the action plan, along with the LOB’s Risk Committee and the Firm’s CRO and Deputy CRO. The main areas of focus for this review included: Model Governance & Implementation, Market Risk & Governance, and Risk Independence. In Model Governance & Implementation, the Firm focused on conducting an evaluation of material drivers of the Firm’s VaR and broadening the model approval process to encompass implementation and ongoing monitoring. Within the category of Market Risk & Governance, the Firm focused on: (1) the appropriateness of the limit structure relative to risks undertaken; (2) the appropriateness of the risks undertaken; (3) policy, response and escalation process concerning limit breaches; and (4) consideration within LOB Risk Committees of liquidity and concentration in positioning.

Within the category of Risk Independence, the Firm reviewed its firmwide, as well as LOB-specific, risk committee structure and governance, and re-emphasized the CIO CRO’s reporting line to the Firm CRO.

The Firm has now undertaken, or is in the process of undertaking, substantial remedial measures to address the concerns arising from this self-assessment. As described in more detail below, this includes: (1) reforming the Firm’s Model Risk Policy, which governs model development, review, approval and monitoring; (2) reconstituting the risk management function within CIO, including overhauling the CIO Risk Committee; (3) reviewing and, where appropriate, revising market risk limits across all LOBs; (4) strengthening the Firm’s processes across all businesses to escalate aged or significant limit excessions; (5) restructuring the Risk Operating Committee to increase the focus on identifying and implementing best practices where appropriate across LOBs; and (6) improving the presentation and delivery of information to the Firm’s Board (specifically, the DRPC).

More than 65% of the critical action plans identified have been closed. The goal is to have the remaining critical action plans completed by year-end 2013. The Firm’s progress is actively tracked and reported monthly to the CRO and Deputy CRO, as well as to the OCC staff during standing meetings.

Revising the Firm’s Model Risk Policy

The Firm has substantially revised its Model Risk Policy, which governs model development, review, approval and monitoring. The objective of the changes is primarily to improve the Firm’s governance of models. Among other things, the changes clarify the responsibility of the Model Risk and Development (“MRdD”) group to periodically consider the soundness of the operational environment and effectiveness of the Firm’s models, and to highlight any noted shortcomings to the LOB for remediation, as discussed in additional detail below. Additionally, beginning in 2013, compliance with Firm standards will have to be attested to by the LOB, and will be evaluated in the normal course of internal audits. The Firm will also emphasize model implementation testing, as well as ongoing performance monitoring and assessment. MRdD, which is now required to sign off on closure of all model-related Action Plan items, has received enhanced staffing and established a Model Governance function. The primary role of this

2 See the October 5 Letter, which outlines the Firm’s targets for completing its action plans.
3 See also the December 4 Letter, which describes changes to the Firm’s Risk function.
team is to oversee the implementation, use and performance of models, which includes interacting with model users and closing Action Plans, as appropriate.

Risk Management Function

The Firm has substantially reconstituted the risk management function within CIO. The Firm has overhauled and expanded the coverage of the CIO Risk Committee, now the CIO, Treasury and Corporate Risk Committee ("CTC Risk Committee"). This Committee, which meets weekly, now includes representatives from CIO, Treasury and Corporate, including the Firm’s CRO, Deputy CRO and CFO, as well as other key senior management from within and outside of CIO, in order to ensure greater consistency across the Firm’s various LOBs.

The Firm also has appointed a new CRO for CIO, Treasury and Corporate who, as discussed below, has hired a significant number of additional risk management personnel, including senior-level officers, to extend the capacity of that risk function.

Market Risk Limits

The Firm has reviewed and, where appropriate, revised market risk limits across all of its LOBs and introduced additional granular and portfolio-level limits. As part of its ongoing risk management governance, the Firm continues to conduct periodic reviews of existing limit structures. Additional information regarding revisions to CIO-specific limits is provided below.

Strengthening Processes to Address Limit Excessions

The Firm has strengthened its processes for dealing with limit excessions across all businesses. Aged or significant excessions must be escalated promptly to senior management and to risk committees. All valid or “under investigation” limit excessions, whether at the LOB or firmwide level, that are in excess for three business days or longer or are over limit by 30% are escalated to the LOB CEO, CRO, and Market Risk Head, as well as to the Firm’s CEO, CRO, co-COO, Deputy CRO/Head of Firmwide Market Risk and the Firmwide Risk Committee.

For CIO, the CTC Risk Committee receives a weekly report of all limits that are in excess of 80% utilization. Any valid excession requires that the business promptly take steps to reduce exposure to within limit, unless a one-off approval for a limited period of time is granted by the persons responsible for setting the limit. Changes to limits are discussed and approved by the CTC Risk Committee.
 Restructured Risk Operating Committee

The Firm has reviewed its Risk Operating Committee structure and governance and
restructured this committee to increase the focus on identifying and implementing best
practices where appropriate across LOBs. As discussed in greater detail below, the
Firm’s risk governance structure was enhanced to include the creation of a Firmwide
Risk Committee and a Risk Governance Committee.

Information Provided to the DRPC

The Firm has put in place a two-fold process to ensure continued adequate transparency
and appropriate escalation to firmwide senior management and the Board, directly or
through its committees. This includes: (1) a framework that details a schedule of items
to be discussed with the DRPC at specified frequencies; and (2) a reiteration to each
LOB/Corporate’s CRO to raise issues of concern where they would benefit from the
DRPC’s input and perspective.

At each regularly-scheduled meeting, the Firm and LOB CROs discuss with the DRPC
any concerns that could reasonably be expected to be material to the Firm or to an LOB,
and actions that have been planned or taken to address those concerns. All LOB CROs,
as well as the Head of Country Risk, now attend every DRPC meeting (regardless of
whether they are scheduled to make a formal presentation) and are asked to highlight
matters of particular importance. If significant risk management issues develop between
meetings of the DRPC that the CRO believes could have a material adverse impact on the
Firm, the CRO will promptly report such issues to the Chairman of the DRPC.

Additionally, significant enhancements have been made to risk reports presented to the
DRPC. The CRO submits a report to the DRPC and to the Audit Committee concerning
the Firm’s risk management control environment, as well as any material issues regarding
risk management raised by internal audit reports rated less than satisfactory, or by
regulatory reports identifying MRAs. The DRPC also receives various other reports,
including reports regarding the Firm’s credit risk profile, concentrations, limit excessions,
credit and valuation reserves, and firmwide VaR and stress limits. Finally, the reporting
for Corporate Risk is now consistent with that of the LOBs in format and content, and the
Corporate CRO presents as part of the standing agenda at each DRPC.

Oversight and Control Group

As detailed in the Firm’s October 5 Letter, the Firm has also taken an important step with the
establishment of the Oversight and Control Group. The Oversight and Control Group, led by its
Co-Chief Control Officers, is responsible for solidifying an effective control framework and
looking within and across the LOBs to identify and remediate control issues with a sense of
urgency regardless of the source. Oversight and Control will work closely with all control
disciplines – partnering with the Firm’s Compliance, Risk, Audit and other functions.

4 "Corporate" refers to the CIO, Treasury and Corporate businesses collectively.
With respect to the observations noted regarding weaknesses identified in prior OCC examinations, specifically, weaknesses regarding model approvals and risk weighted assets ("RWA"), audit coverage, VaR model and CIO risk management, and CIO valuation governance, the Firm has taken substantial action, as indicated in the Firm’s responses to earlier Supervisory Letters and as described herein. An overview of some of the key actions is as follows:

**Model Approvals and Risk Weighted Assets, VaR Model Risk Management**

As described in the Firm’s October 5 Letter, given the evolving regulatory landscape and the importance of maintaining the Firm’s strong capital position, the Firm established the Regulatory Capital Management Office. This group reports to the CFO and works closely with the Firmwide Oversight and Control Group (described above), with responsibility for: centralizing end-to-end RWA management, calculation, validation and reporting; regulatory capital policy interpretation and implementation; corporate capital planning and analysis; corporate capital stress testing; and, independent review of regulatory capital.

In addition, the Firm will deliver to the OCC by March 31, 2013, for supervisory review, a proposal detailing a significantly restructured and enhanced governance and operational process to: (1) identify VaR and other specific risk models requiring regulatory approval; (2) file requests for such approvals in a timely fashion; (3) track the status of approvals; and (4) escalate any issues within the Firm and to relevant regulatory agencies as appropriate. The Regulatory Capital Management Office will be responsible for this process.

As discussed in the December 13 Letter, the Firm has been taking significant steps to enhance its MRaD organization and applicable policies. The Firmwide Model Risk policy was updated and published on September 28, 2012. Notable changes to the policy and notable additional actions include:

- Clarification of the roles and responsibilities of all groups involved in the model review process.
- Expansion of the scope of the role of the Model Risk Officer ("MRO"), which has been converted to a full-time position. MROs have since been identified and are functioning in their new capacity.
- Introduction of the role of Model Manager. Model Managers support the MROs by performing a number of clearly-identified activities and working with model developers, model users, and risk and valuation professionals to enhance the overall model control environment. As of December 12, 2012, a total of 45 MROs and...
Model Managers were named to positions in MRaD. The Firm is in the process of increasing the team staffing, with a target of 58 professionals.

- Expansion of the scope of MRaD to include additional oversight of model implementation and ongoing performance assessment.

- Requirements related to Tier 3 models changed from requiring testing to be performed only by the model developers or users to also requiring review by MRaD to ensure that the model is functioning as designed.

- Introduction of additional model governance forums in November 2012, including:
  - The Pipeline Forum, which meets weekly, prioritizes and tracks the execution of model reviews and the opening and closing of related action plans for each business.
  - The Supervisory Forum, which enables model management-related issues to be escalated in order to obtain informed outside guidance, as well as improved oversight of MRaD activities. This includes members of MRaD's senior management and several Managing Directors from relevant areas outside of MRaD.

- Documentation and independent review of all VaR methodologies, and creation of a centralized, dedicated VaR Methodology and Development team. Professionals for this team will be recruited from within and outside the Firm through the first half of 2013.

- The Firm has also conducted a spot review of significant drivers of VaR throughout the Firm, including in CIO, to ensure accuracy of the Firm's 10-Q VaR. In CIO, that spot review involved confirming that all of the positions comprising the CIO 10-Q VaR were being captured accurately, and included a comprehensive one-day check to ensure accurate data feeds into the CIO VaR model; a horizontal review to identify data quality issues among key data streams and a comparison with third-party data sources, where possible; a comparison of calculators identified in approved model reviews with those actually employed; a review of the process used to identify and separate 10-Q VaR vectors; and, resolution of then-outstanding model issues identified as "high" importance.

- The Firm has endeavored to increase communication of VaR model changes to its regulators, including the OCC.
Audit Coverage

As described in the Firm’s October 11 Letter, the Firm has taken steps to enhance the
Firmwide Internal Audit function and expects to complete the remaining work by
September 2013. Among other things, these steps include:

• Enhancement of the audit quality assurance program to include an assessment of
overall audit coverage. The program will facilitate an end-to-end approach that
encompasses all activities of an audit team (e.g., audit plan structure and
administration, audit coverage, risk assessment, audit results, management reporting
and continuous auditing). In addition, the enhanced quality assurance program will
enable a more thorough evaluation of conformance to audit policies, such as those
pertaining to audit workpaper documentation.

• Implementation of a formal Subject Matter Expert program to enable more
comprehensive and consistent audit coverage of certain topics. Responsibilities will
include, but are not limited to: (1) building and maintaining expertise in applicable
subject areas, including ongoing training and understanding of industry practices; (2)
developing standard audit programs; (3) promoting consistent audit coverage across
businesses; (4) participating in applicable audits to provide insight on risks and scope
of testing; (5) sharing emerging trends and issues across audit teams to effect changes
to planned coverage; and (6) determining staff training strategies.

• Quality assurance reviews of continuous auditing activities across all audit teams will
be conducted. The results of these quality assurance reviews will be a critical input to
the management oversight responsibilities of the Audit Management Team.

• Regarding CIO activities, by January 31, 2013, the audit plan structure will be
reevaluated and revised as appropriate. CIO risk assessments will be completed at a
more granular level and audit coverage will be commensurate with the associated
levels of risk.

• Internal Audit is enhancing its audit capabilities with respect to Risk in particular.
This includes formally designating subject matter experts who participate in
applicable audits to provide insight on risks and scope of testing. Additionally,
Internal Audit is formally represented on the CTC Risk and CIO Business Control
Committees. The Chief Auditor has attended and will continue to attend the CTC
Risk Committee meetings, while the Senior Audit Manager in charge of CIO audit
coverage is the Internal Audit representative at the CIO Business Control Committee
meetings.

Enhancements to CIO Valuation, Reporting and Other Processes

As described in the Firm’s January 4 Letter and below, the Firm has taken significant
steps to enhance the firmwide and CIO valuation process. Among other things, there is
increased management oversight and governance with respect to the CIO valuation
process, with direct engagement and oversight by the CIO CFO and Controller.
Additionally, a new CIO Valuation Control Policy was issued in July 2012, which clearly outlines the responsibilities for VCO and details the valuation control process, including pricing sources, thresholds, fair value adjustments, and escalation and reporting requirements.

CIO has also enhanced its key business processes and reporting. For example:

- The daily Global Risk and Senior Management Reports provide management with detailed P&L and a consolidated and transparent view of all CIO risk positions; distribution includes the Firmwide CEO, CRO, Deputy CRO and CFO in addition to senior managers within CIO.

- A more granular and comprehensive limit structure, consisting of VaR, Stress, Non-Statistical Single Name Position Risk, Asset Class Concentration and Country Limits, has been implemented.

- Since May 2012, the CTC Risk Committee has implemented more than 200 new or restructured risk limits covering a broad set of risk parameters, including geographic and concentration risks. While CIO has effectively closed out all its positions in the Synthetic Credit Portfolio, prior to closing out those positions, a number of new, granular limits were applied to that portfolio beginning in May 2012.

- Senior management is informed of CIO's risk profile and any changes through monthly discussions at the CTC Risk Committee.

2. Redacted by the Permanent Subcommittee on Investigations

Management Response

The Firm remains committed to ensuring that risk management and control staffs have the knowledge, skills, resources and support to challenge front office strategies, activities and positions. The Firm has taken various steps, including the following, to ensure that risk management and control staffs have the necessary tools and independence to do so.

Firmwide Risk Management and Control Staffs

As discussed below, a Firmwide Risk Committee has been created. This Risk Committee includes key senior management officials, including the Firm’s CRO, Deputy CRO and CFO. With the establishment of this Committee, the Firm has ensured greater consistency across its various LOBs and provided an escalation point for risk topics and other issues.

The Firm has also instituted a Firmwide Valuation Control Group (“VCG”) and a Firmwide Valuation Governance Forum (“VGF”). The Firmwide VCG integrates all valuation control teams in the Firm under the same organizational structure, allowing further dialogue on best practices and consistency. The VGF oversees the management of risks arising from valuation activities conducted across the Firm. The Firmwide VGF is chaired by the Firmwide Head of
VCG, and its membership includes the Corporate Controller, the Deputy CRO, the LOB CROs and Controllers of the Corporate and Investment Bank, Mortgage Bank and CIO, the CFOs of the Corporate and Investment Bank, CIO and Asset Management, and the head of MRaD. The Firmwide VGF meets twice per quarter to review issues and matters relating to valuation, the VCG function and related issues, and to address issues elevated to it by the LOB VGFs.

CIO Risk Management and Control Staffs

The Firm has established consolidated management oversight across CIO, Treasury and other Corporate activities. Specifically, the management of these business activities has been brought together under the new Co-Chief Operating Officer of the Firm. Moreover, as detailed above, in order to address the findings of the firmwide self-assessment, the Firm has also overhauled the CTC Risk Committee to further improve linkages between Corporate activities and to ensure greater consistency across the Firm’s LOBs.

New CIO Leadership Team

Immediately following the May 2012 announcement of losses in CIO, a new CIO management team was put in place. This includes a new Chief Investment Officer, who serves as the CEO of CIO. A number of other experienced, tested professionals, are applying their knowledge of best practices to their new roles in CIO. These professionals have been appointed to key positions, including CFO of CIO; Chief Risk Officer for CTC; Chief Investment Officer for EMEA; CIO Global Controller; General Counsel for CIO and for Markets in the Corporate and Investment Bank; and the Chief Auditor and a Senior Audit Manager. With these new appointments, the Firm has reconfigured the entire team with strong and knowledgeable individuals who have brought more rigor to the management of CIO. At the same time, this new team has established stronger linkages within CIO by introducing formal lines of communication across the various regions. The CTC CRO reports directly to the CRO of the Firm and is the co-chair, along with the Co-Chief Operating Officer of the Firm, of the CTC Risk Committee.

Increased Resources in Key CIO Support Functions

As noted above, the Firm has increased resources in key support functions. Since May 2012, the CTC Risk function has hired 22 new professionals and continues to seek to recruit an additional 14 professionals. These hires have added expertise in emerging markets, securitized products, credit (single name), municipal bonds, and interest rates and currency trading to the Market Risk Coverage teams. Many of these hires were from internal Risk Management functions (Market Risk, Credit Risk, CPQ and Principal Risk), thereby bringing to CTC Risk best practices from other areas of the Firm. The CTC function has also created new, specialized functions, including a Treasury Risk and Other Corporate Risk coverage team, a Global Business Management function and a Credit Risk Management function.

The CIO Finance function was reorganized with a newly appointed Global CFO and Global Controller. It also increased key resources by hiring experienced finance personnel from within and outside of the Firm. Additions have included a new
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Head of CIO VCG, a Global Control Officer, a Senior Controller in North America CIO and a new CFO for EMEA CIO.

Risk Management Training

CTC Risk has a strong focus on training, and recent initiatives for CTC Risk personnel have included training regarding Reputation Risk, Credit Risk Management and Limits Monitoring and Country Risk. There are also product-specific teach-ins conducted by seasoned Risk professionals and portfolio managers, and a weekly Global CTC Risk Team Meeting enables personnel across CTC Risk to communicate effectively across regions and products. In addition, as appropriate, portfolio reviews, functional overviews, methodology updates and policy changes that are presented at the CTC Risk Committee meetings are shared with the CTC Risk team.

3.

Management Response

As discussed in detail in the Firm's October 5 Letter, and noted above, the Firmwide Oversight and Control Group is tasked, among other things, with ensuring that MRAs are fully and effectively remediated in a timely manner. The Chief Control Officers meet on a bi-weekly basis with OCC, Fed and FDIC examiners to discuss the status of responses to Supervisory Letters, MRAs and other open issues or questions.

The Group's two components, the Central Control Team and Line of Business/Functional Control Officers, each play a role in ensuring that MRAs are addressed. The Central Control Team is responsible for diagnosing MRAs for trends and patterns. This includes identifying the number, status and root causes of MRAs identified by the OCC. LOB Control Officers, senior officers with the stature and seniority within the Firm to provide credibility to the remediation process, are responsible for managing the Firm's response to MRAs by confirming current status and action plans, verifying detailed execution plans, prioritizing the list of open issues, verifying that all matters that have been completed, reviewing all high severity items (e.g., MRAs, audit action items) on an ongoing basis, ensuring that appropriate resources are devoted to resolving the matters, and reconciling the inventory of matters with the Firm's regulators. Additionally, the Firm also is leveraging the "Keys" process for MRAs that is already in place in the Mortgage business, so that a formal review process is conducted to confirm that MRAs have been closed appropriately.

Significant progress has been made since the Firm initiated this effort. The Firm has developed a control framework, detailed roles and responsibilities, appointed senior Control Officers with diverse experience across LOBs; functions and regions; and completed a global baseline for regulatory issues and recommendations. Control Officers have begun implementing the

1 The "Keys" process is a process by which regulatory MRAs are reviewed and addressed. Representatives from Audit, Operational Controls, Technology, Legal, Risk, Finance and Compliance participate in the process, as appropriate.
framework, and have reviewed regulatory issues for themes and patterns. The Firm is continuing its work to operationalize the control framework by: (1) developing a robust process to review issues, engage senior management early, address root causes, and apply resolutions from one area of the Firm to all other relevant areas; and (2) establishing a platform to maintain relevant data. Centralizing this function will create consistency in the MRA review process, and provide the Firm an opportunity to consider whether similar issues exist across functions.

**Firm-wide Governance Processes require strengthening:**

Management Response
To ensure that risk management and other control functions have sufficient resources and support, the Firm has been working to enhance the Firm’s governance framework, both firmwide and specific to CIO.

**Firm Risk Governance**

The Firm has reviewed and substantially enhanced its risk structure and governance through, among other things, the establishment of new and more robust committee structures. Those committees include:

- **Risk Governance Committee.** This committee meets monthly and focuses on risk governance and other policy matters, risk analytics, model governance, Basel/regulatory issues, risk appetite, and updates to firmwide risk programs in the areas of compliance, liquidity and operational risks. The Firm’s CRO, CFO, Controller, LOB CROs, CIO, and personnel from Legal, Compliance, Audit, and Regulatory Policy participate in these meetings.

- **Firmwide Risk Committee.** This committee focuses on business activity, including by conducting periodic reviews of firmwide risk appetite and certain aggregate risk measures, serving as an escalation point for matters arising in the LOB risk committees and for certain limit breaches pursuant to the limits policy, and considering relevant business activity issues escalated to it by LOB CROs and CEOs. It meets monthly and participants include the Firm’s CEO, CRO, Deputy CRO, LOB CEOs, CIO, General Counsel, Chief Auditor, Compliance Head, Regulatory Policy Head, Consumer Risk CRO, Wholesale Credit Risk CRO, MIA/D Reputation Risk Officer, Country Risk Head, Corporate Risk CFO and Chief Administrative Officer, and LOB risk officers.
Risk Management Business Control Committee. This committee meets quarterly and focuses on the control environment within the Risk organization, including outstanding action plans, audit status, operation risk statistics (such as losses, risk indicators, etc.), compliance with critical control programs, and risk technology. Participants in these meetings include the CRO, Deputy CRO, LOB CROs, Risk CFO and Risk Chief Administrative Officer, Operational Risk Head, and personnel from MRaD, Audit and Compliance.

Risk Operating Committee. This committee focuses on risk management, including setting risk management priorities and escalation of risk and other issues brought to its attention. Participants include the CRO, LOB CROs, as well as the Risk Human Resources and Risk Chief Technology Officers.

The Firm also created new senior firmwide risk positions:

Deputy CRO/Head of Firmwide Market Risk, who is responsible for the review and assessment of firmwide market risk. This includes managing the Firm’s risk appetite and risk limits, risk mitigation strategies, working with the CRO to lead and develop the Firm’s risk organization, and directing the Firm’s market risk coverage resources.

Wholesale Chief Credit Officer (“WCCO”), who reports to the CRO and is responsible for credit risk across all wholesale businesses. In this capacity, the WCCO will: chair a Wholesale Credit Risk forum to ensure better communication between each business and across all risk functions; work with LOB CROs to identify and effectively manage key credit risks and concentrations across the wholesale businesses; and, partner with the LOB CROs to engage in initiatives across wholesale lines of business, including defining credit risk appetite and setting appropriate limits, supporting key growth initiatives while maintaining strong credit risk management controls, coordinating regulatory responses, building a credit risk stress framework, and enhancing credit risk reporting and credit risk systems.

Cross-LOB Risk Officers, who are responsible for identifying and implementing best practices, which promotes consistency of enterprise risk management processes and practices. The Cross-LOB Risk Officers review specific risk types across the Firm, including country risk, risk policy, model risk and development, market risk, reputation risk, consumer credit risk and wholesale credit risk.

CIO-specific Governance

As detailed above, the CTC Risk Committee has been significantly enhanced by the inclusion of senior management from within and outside of CIO, including members from Treasury and Corporate. Additional new and more robust committee structures have also been instituted within CIO, including weekly CIO Investment Committee meetings, and monthly Business Control Committee meetings.

The Firm has also hired experienced professionals for CIO VCG, including a new head of Corporate VCG as well as three new regional CIO VCG heads, including for EMEA VCG. The Firm also established a Corporate VGF under the umbrella of the Firmwide VGF. The CIO VGF
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is responsible for understanding and managing the risks arising from valuation activities within CIO and for escalating key issues to the Firmwide VGF; the VGF meets monthly.

Furthermore, Corporate Business Reviews, which include CIO, are to be conducted with increasing frequency and with the same rigor as similar reviews for the Firm’s client-facing LOBs.

*Structural Risk Management Practices Need Strengthening.*

Management Response

CIO makes investments to offset interest rate and foreign exchange risks that are allocated to CIO from the LOBs. As discussed above, these investments are subject to applicable risk and portfolio metrics, as well as duration/curve profile, portfolio allocation guidelines and correlation analyses and sensitivities. CIO is also in the process of creating sector benchmarks that will be used to evaluate product level performance.

As also discussed above, CIO no longer engages in the type of trading that generated the losses in the Synthetic Credit Portfolio and has refocused on its core mandate of traditional Asset and Liability Management (“ALM”). The majority of CIO’s Synthetic Credit Portfolio was transferred from CIO to the Corporate and Investment Bank and the Firm effectively exited the remainder of the portfolio positions that remained in CIO in the third quarter of 2012. Any future credit hedge positions will be transparent, within applicable risk limits and closely linked to a particular risk or set of risks that they are designed to offset.

CIO’s hedging activities are governed by the Firm’s CIO Investment Policy. Consistent with the Firm’s CIO Investment Policy, CIO uses its Strategic Asset Allocation (“SAA”) portfolio, which is managed under an ALM framework, to offset the Firm’s interest rate and foreign exchange risks. In executing its role, CIO operates within a risk framework that is consistent with firmwide risk management policies and reflects the ALM and portfolio management aspects of its activities. For example, investment decisions will consider the Liquidity Asset Buffer (LAB) and near-LAB eligible asset allocations as the Firm adheres to liquidity requirements under Basel III.

The CIO's MTM portfolio supplements its SAA portfolio and is connected to the ALM mandate of the group. MTM investments are made prior to making a strategic allocation of a particular product type in order to assess certain characteristics of the investment, such as liquidity. These investments are smaller in size, short-term and governed by tight risk limits, and the strategies
are reviewed periodically in accordance with the Firmwide Market Risk Limits policy. Discussions with Risk and senior portfolio management personnel take place as part of an ongoing process to review strategies with risk measures and P&L.

The CIO Investment Committee, which meets weekly, is chaired by the Chief Investment Officer and meetings are attended by representatives of CIO Risk, Finance, Legal and Compliance, as well Corporate Treasury, Technology and Operations. The Investment Committee sets broad portfolio allocation targets that vary depending on the then-current economic and market environment. Allocations are executed by portfolio managers who operate within the parameters approved by the Investment Committee. The investment process takes into account safety and soundness, balance sheet efficiency and risk mitigation, all of which are central to CIO's objectives for overall portfolio management process. Investment decisions are made based on a risk/reward framework that considers the relevant interest rate, credit, currency and other market risk factors as part of the investment process. Key attention in CIO is paid to the credit quality of potential investments and the ongoing credit monitoring of securities held. This encompasses fundamental credit analysis/due diligence, which is carried out by a global team of credit analysts prior to purchase and on an ongoing basis.

As discussed above, both the SAA and MTM portfolios are governed by a combination of aggregate stress loss and VaR limits as appropriate. Additionally, asset class market exposure limits exist to manage concentrations of positions relative to market size and liquidity. The MTM portfolio is governed by a number of non-statistical MTM limits, in addition to VaR and Stress limits. Additionally, the portfolios are subject to the firmwide risk limits structures covered under the firmwide Market Risk, Single Name Position Risk, Country Risk and Counterparty Risk policies. Any changes to limits are reviewed and approved by the CTC Risk Committee. Limits are periodically reviewed and sized appropriately given new investment strategies and the size of the portfolio.

Outside of CIO, the Firm has the ability to engage in macro hedges within the Corporate and Investment Bank, though it has not done so in more than a year. Any macro hedging, as well as normal-course hedging by any trading desk, would be treated like any other trading position in the Corporate and Investment Bank, and would be subject to the same risk framework and controls.
Communication with OCC examiners needs strengthening.

Management Response

The new CIO leadership team, as well as senior Firm management, recognizes the importance of an open and transparent culture, including in its communications with the Firm’s regulators. The Firm has been working to improve CIO’s culture and communications – both internally and with regulators – to ensure full and timely escalation of and visibility into CIO’s activities as well as those of the LOBs. This culture of openness has been and continues to be reinforced at all levels of management.

The Firm understands and fully appreciates its obligation to keep the OCC fully informed of significant information and apologizes for any gaps in its communications with the OCC. On or about April 26, 2012, the Firm sent a team of senior personnel to London to, among other things, perform a thorough position-by-position review of the Synthetic Credit Portfolio. Though we did not know the nature and extent of the issues in CIO at that time, in hindsight, we wish we had advised the OCC of this effort and had not awaited further clarity before providing information to the OCC. While the Firm did provide P&L data to the OCC, we recognize that it would have been better to highlight potential issues and provide information on a real-time basis. Any incompleteness in the Firm’s communications was unintentional.
Hi Allison.

According to the examiners, all banks are required to have a process of independent price testing. It is called different things at different banks or investment companies, but it is a basic internal control process.

Hope this is helpful.

Thanks,
Kevin

Hi Carrie and Kevin,

I had a quick question for one of the folks on your team. My sense is that Mike Kirk might be best situated to tell us an answer, or perhaps Fred Crumlish. We have talked to a number of folks about the Valuation Control Group process at CIO and we generally understand how that worked at JPMC. Can OCC tell us if valuation control groups are required at banks that deal in derivatives? Feel free to shoot an email back or call, whatever is easier.

Thanks,
Allison

Allison Murphy
Counsel
U.S. Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Welcome, and thank you all for standing by. I would like to remind the participants that they will be in a listen-only mode for today’s conference call. I’ll be turning the conference call over now to your speaker for today, Mr. Doug Braunstein. Sir, you may begin.

Mr. Evangelisti: Hey, everybody, it’s actually Joe Evangelisti, so welcome to our first quarter earnings call. I’ve got Doug Braunstein, our CFO on the line, and we also have Jamie Dimon, our CEO on the line. Doug is going to start with some comments, and then we would be happy to answer any questions you have. Doug.

Mr. Braunstein: Hey, so good morning, everyone, let me just give you a couple minute overview on the quarter. I’m sure as you now have seen, $5.4 billion in net income. We reported a $1.31 a share. That’s on $27.4 billion in revenues. Revenues are up 6% year-on-year; they are up 24% quarter-on-quarter; and we reported a return on tangible common equity of 16% this quarter. And if I step back, and just characterize the performance of the businesses, solid performance across most of our businesses. We had real strength in the investment bank this quarter, and improvement, significant improvement, in mortgage banking, particularly year-over-year. There were really four themes in the quarter.

The first is, we continue to see underlying growth in a number of our key business metrics, so wholesale loans are up 23% year-on-year, small business loans are up 35% year-on-year, credit card sales growth 12% up year-on-year, mortgage applications up 33% year-on-year, deposit growth in our branches up 8% year-on-year. And I think that growth reflects both underlying fundamentals as well as share gains in a variety of our businesses.
The second theme as you look through the numbers is, credit continues to improve. On the consumer side in both mortgage and credit card improvements in delinquencies. Delinquencies, net charge-offs, were down; in credit cards 36% year-on-year, in mortgages 25% year-on-year. And then in wholesale, very stable and strong credit results.

The third thing I think you see through the numbers is, we have had very positive markets in the first quarter, and that’s improved a number of our results quarter-on-quarter and set some records for us as well. So in the investment bank you saw very strong flows in our underlying customer businesses in both fixed income and equity markets. If you take out some of the effects of DBA, the sales numbers for year-on-year comparisons were effectively flat with a very strong quarter in 2011. You saw records set in assets under supervision and assets under management in Asset Management. You saw a record set, $17.9 trillion of assets under custody in TSS. We set a record for assets under management in our Chase Wealth Management business, almost $150 billion there. So strong markets-related performance.

And then the last big theme I talk about is capital generation in the quarter. We reported a 10.4% Basel I tier I common ratio, an 8.4% pro-forma Basel III. That’s up 50 basis points. We added $6 billion to capital this quarter. And as you know, we also announced and raised the dividend this quarter and began a stock repurchase program under a new $15 billion authorization.

And my last comment before I open for questions is, as we do every quarter, we have a number of significant items that we highlight at the very front of the press release. We’ll highlight at the very front of our earnings deck, clear and transparent. There were four of them this quarter. We had reserve releases; we took litigation reserves; we had a one-time gain from the WaMu settlement; and we had DBA this quarter that was a negative. If you add all of those up, it would be a nine cent reduction in our reported earnings of a $1.31. So adding that back would be a reported number of a $1.40. With that, maybe I will just stop and open the floor up for questions for Jamie and I.

Mr. Evangelisti: Okay, Kelly, we are ready for questions.
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Moderator: Thank you and at this time if you do have questions or comments, that is *1 on your touch-tone phone. Please make sure you are recording your first and last name. Again that is *1, it will be just one moment please.

Our first question comes from Dawn Kopecki, your line is open.

Ms. Kopecki: Hi Jamie, this is Dawn at Bloomberg. We have a story today about how you have transformed your CIO office into somewhat of a proprietary trading operation. I'm wondering how you think about that; is that something that you would agree with. The Volcker Rule hasn't gone into effect yet. And also can you talk a little bit about those trades, and whether the regulators are looking at any of those.

Mr. Dimon: Doug is going to give you a big picture, and if that doesn’t answer all your questions, we will come back to it, okay?

Ms. Kopecki: Okay.

Mr. Braunstein: Dawn, Dawn just step back. The company generates liabilities in the form of deposits and generates assets in the form of loans. And those, we have more liabilities, we have a billion, a trillion-one in liabilities vs. $700 billion worth of loans. And we take that difference and we invest it in order to manage that structural interest-rate risk between liabilities and loans, and that number, that difference has grown over time. And we invest that $360 billion today in a variety of very high-grade securities: mortgage-backed securities, government securities, high-ends of the credit spectrum. And that generates earnings for us and it also balances our interest-rate risk. In addition CIO balances our FX risk, our basis risk and a number of other risks. As part of that, they hedge against downside risk, because that’s the nature of protecting that balance sheet. And as part of that, we have had for many years a structural credit book that hedges against stress loss, meaning downturns in the credit market. These positions that you all have been writing about are just simply part of that structural credit book, which by the way, we have been reducing over time. And we are very comfortable with the positions that we have. And I would step back and say, all those activities I just described are very long-term in nature, because that’s the nature of the asset and liability mix for us. And they are consistent with both I think the spirit and the written rules of Volcker as we read them today.
Ms. Kopecki: Now it’s not all used for hedging though, correct? You had said that you had some excess capital that you use to just invest, some of which goes to hedging and some of which doesn’t, correct?

Mr. Braunstein: So it’s the very nature, Dawn, it’s the very nature of that structural mismatch. We, of course, invest. We have a big investment portfolio; it has to generate net interest income in order to cover those liabilities and make us balanced from an interest rate standpoint. And of course, when we put a dollar to work, we want to do so prudently and invest it in safe, smart and good returning assets. And that’s, that’s the job of CIO.

Ms. Kopecki: Okay, and as part of that, you have a large book of European mortgage debt. Somewhere around $70 billion. Is that in your CIO office as well?

Mr. Dimon: Yes.

Mr. Braunstein: Yes.

Ms. Kopecki: Okay. Okay, thank you.

Mr. Braunstein: We are a global firm.

Ms. Kopecki: Oh, okay and—

Mr. Dimon: Doug should mention, we should mention that we do this around the world, because we create deposits around the world. And we are very conservative, and the portfolio does change over time as we change our views about various things. And that’s what we are supposed to do.

Dawn Kopecki: But what does the European mortgage debt hedge? What is that hedging?

Mr. Dimon: We have deposits overseas—

Ms. Kopecki: Okay.

Mr. Dimon: And we make investments around the world in various products, mortgages, credit as Doug said.

Ms. Kopecki: Okay.

Mr. Dimon: It’s a big fixed income portfolio. Every bank, every bank has one, relative to the size of the bank.

Ms. Kopecki: And are—
Mr. Evangelisti: Dawn, we have to give somebody else a turn, and you can come back, all right?

Ms. Kopecki: Well, just can they follow up with regulators, if regulators are looking at this? Last one.

Mr. Dimon: We are not going to talk about conversations with regulators, but they see everything and anything we do whenever they want.

Mr. Evangelisti: We are fully transparent with them.

Ms. Kopecki: Okay, thank you.

Mr. Evangelisti: Thank you, Dawn.

Moderator: Thank you. Our next question comes from Tom. Sir, your line is open.

Mr. Braithwaite: Hi, it’s Tom Braithwaite. I wondered if could you talk a little bit about the mortgage business which seems to have benefited from HARP and the general refinance climate. On the other hand, you have got another chunky litigation expense. I was just wondering, on the one hand, how far are we through the legacy issues and, on the other, what are you seeing today in the current trends?

Mr. Dimon: Let me just mention the revenue side, then Doug is going to talk about the litigation real quick. So on the revenue side, it is true, volumes were good but not great, but spreads were higher. So that, the results were better than they would normally be by several hundred million dollars, because of that. I, we don’t expect that to continue forever. That moves around based upon flows, and volume and competition and some of that came out of HARP.

Mr. Braunstein: So let me talk about the litigation for a moment, which is: We added $2.5 billion to litigation primarily, predominantly related to the mortgage-backed issue. And I think if you just step back at this point, from a current standpoint we think we are both conservatively as well as comprehensively reserved for this issue. Absent material changes which could certainly change our views, you know we think it’s unlikely for us to add significantly to these reserves. But, you know, reserves can go up, they can do down based on those circumstances, but we feel where we are today, we feel very conservatively as well as comprehensively reserved.

Mr. Braithwaite: You said the mortgage-backed issue, you mean the mortgage label?
Mr. Dimon: Private label.

Mr. Braithwaite: Private label.

Mr. Braunstein: Yes.

Mr. Dimon: Private label reps, warranties and litigation.

Mr. Braithwaite: Got it, great. Can I just ask one more? Is this the ceiling for buybacks where the stock is right now? You have got this big program you can use, but is sort of $45 where you, where you won’t go?

Mr. Dimon: So here’s what it is. We have a $15 billion approval from the regulators. Obviously we would—I would have preferred to buy back stock around tangible book value, but we didn’t get that chance. We will, regardless of price, buy the $3 billion we approximately issue every year. We just think that’s a good discipline.

Mr. Evangelisti: We issue that for employee compensation.

Mr. Dimon: Yeah, it usually vests over time, but I think it’s good discipline that if you issue stock, you should buy it back so you keep it kind of balanced. And we will decide over time when and how we want to buy back the stock. We have organic growth. We’ve got investment opportunities. We obviously have to raise capital standards for Basel III. So we get to decide. We will buy less as the stock goes up. We will buy more as the stock goes down. We are not going to be completely transparent for obvious reasons, but it does not mean that over 45 we may not buy more. That decision we make every single day, based upon our view of the other opportunities.

Mr. Braithwaite: Thanks a lot.

Moderator: Thank you. Our next question comes from Palmalo. Your line is open.

Palmalo: Hey, Palmalo Mortgage News. Just if you can give us an outlook on your plans to sell mortgage servicing rights. You have been selectively selling some MSRs here and there. Are you going to continue to be a net seller of MSRs, and can you give us an outlook on that?

Mr. Dimon: I wouldn’t count on that. That depends on the market for MSRs, and why we might want to do it. We haven’t sold a lot either.

Palmalo: So you can give us no outlook on what you are going to do? It depends on the market?
Mr. Dimon: I just said I wouldn't expect it, but we might. It depends you know on what people say and what the prices are, etc.

Palmalo: Can you tell us about your continuing problems with buybacks with Fannie Mae and Freddie Mac? How's that looking?

Mr. Dimon: You know, that's getting better over time if you look at other things. And hopefully it will run down over time. We have said that we expected it to run about $300 million plus a quarter and eventually it will start going down. The big problems in the past have already been—are running through the pipeline here.

Palmalo: Okay, thanks.

Mr. Evangelisti: Thank you.

Moderator: Thank you. Our next question comes from Matthias Rieker. Your line is open.

Mr. Rieker: Good morning. Can you talk a little bit about provisioning in the quarter? I assume the fact that the provision is up in some areas is a reflection of the strong loan growth you are seeing. Could you talk a little about that and the allowance, whether it might go up or down in the coming quarters or whether you have found a comparable level here?

Mr. Dimon: We took down reserves in mortgage and card, but though we are still very conservatively reserved. We took them down, because we have to. That's the accounting rules. I think the other businesses, wholesale credit in general, is just excellent. I mean, charge-offs are extremely low in investment banking, in commercial banking. So there it was just kind of business as usual as we had [to] add things, as things go bad, as we have charge-offs, reserves get adjusted. We don't expect material reserves takedown in the future. At one point we are going to have to take down mortgage reserves, as charges come down.

Mr. Rieker: But the provision went up from quarter over quarter in commercial banking and in cars and auto, no?

Mr. Braunstein: A lot of that is just simply loan growth.

Mr. Rieker: Yeah.

Mr. Braunstein: Simply pluses and minuses in the system.
Mr. Dimon: It’s almost name by name. You know someone gets downgraded, we add to the reserves; someone gets upgraded, we take a little reserves down. Charge-offs are very low, and we’re just—this is steady state. Think of it as kind of steady state. You are always going to have in and outs, ups and downs. There’s nothing underlying it that is material. Recoveries, you have a whole bunch of things affecting that.

Mr. Rieker: And could you just work us through what you saw in loan demand, particularly from the consumer set? Auto continues to be strong. Talk a little bit about what your plans are in student lending, cars; what you see in demand.

Mr. Dimon: So cars, both spend is way up. I think we are gaining share. And the actual loan balance is acting like we would expect with some seasonality like we expect. Auto demand is strong, mostly because car sales are doing very well. Doug mentioned the importance. Middle market is up like 18%. And small business is up 35%.

Mr. Braunstein: And middle market, not only is it up the 18-19% that Jamie talked about, it is actually a record level for us for middle market loans. We are feeling demand.

Mr. Dimon: It’s eight straight quarters.

Mr. Braunstein: We are feeling demand. Some of that, again, is going to be market share growth, but some of that is real underlying fundamental demand.

Mr. Rieker: What is your feel about the economy at this point?

Mr. Dimon: You know, no one knows the future. But, in short, businesses are in very good shape. They are earning money; they are very well capitalized; they have a lot of cash. We think housing is getting very close to the bottom, and most of the -- I wrote a page or two in my chairman’s letter about all the positives signs about housing. And the consumer is actually, if you look at debt service ratios, back to where it was 20 years ago. Because the consumer has both paid off debt, and there has been over a trillion dollars in write-offs. So consumer debt is down something like 15 or 20%, effectively. Some of that is not in the national accounts yet, but we know it’s there. Like debt is not being paid right now, and then you have had what 4 million jobs in the last 24 months. I know the recent data; I wouldn’t overreact to monthly data if I were you. It looks, it looks okay. We
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Mr. Evangelisti: Great. Thanks.

Moderator: Thank you. Our next question comes from Margaret Pepper; your line is open.

Ms. Pepper: Hi, couple of questions. One is that, although you’re talking about loan growth in various categories, if you look at the overall loan portfolio, it seems to be down just slightly, or if you want, flat. And the other thing is that NPLs seem to have picked up slightly. Can you explain what’s going on there?

Mr. Braunstein: Yeah, so Margaret, on loan growth, the wholesale loan growth is up year-on-year, up quarter-on-quarter. What you are seeing in total is -- you know we have been running off this large mortgage, heritage mortgage portfolio from WaMu, and that’s the difference. And we have been very transparent about that’s going to run off. It ran off $25 billion in the last year. So that’s the loan story. On NPLs, year-over-year, NPLs went from $13.5 billion down to $10.5 billion this quarter. So it is on a very positive trend, and we’d expect it to continue if the economy maintains its trajectory. But versus the last quarter, they are up slightly, right?

Ms. Pepper: But versus the last quarter, they are up slightly, right?

Mr. Dimon: [directed at Mr. Braunstein] Yeah, yeah, you can mention that. Go ahead.

Mr. Braunstein: Yeah, so part of that is, there was some industry-wide regulatory-led reclassification of some home equity loans. And so we added $1.6 billion to our number in the first quarter. We didn’t restate all the historical. That $1.6 billion was fully reserved for, and 80% of it, 90% of it, is actually paying currently.

Mr. Dimon: The important thing is that, because we have been very transparent about this, these are second mortgages that are paying behind delinquent firsts. I think we have mentioned way, a year ago, that we are reserving those, because we know they are going to go bad. This just simply puts them [in] to the nonperforming category, before they’re nonperforming. That’s all it does.

Ms. Pepper: Okay, and just one more last question, if I may. The $2.5 billion that you added to litigation reserves, does that have anything to do with the Wells notice that you got this quarter?

all wish we were a little bit stronger, and maybe we have a self, a strengthening recovery or not, we don’t know yet.
Mr. Evangelisti: No.

Ms. Pepper: Is that reserved for?

Mr. Braunstein: You know, we, we, as I said, we are taking a very comprehensive look. We take all of this, all of the pending suits, the prospector suits and as long as it is probable and estimable, we are putting it into reserves. And this addition this quarter is really a very comprehensive view of that. All the factors, and I'll just remind you those factors can change over time, and that will reflect itself in the reserving action.

Mr. Dimon: A lot of these things are duplicative. I mean we already got the lawsuit, and then we got the Wells notice; it's just, it's the same thing.

Ms. Pepper: Okay, thank you, thank you.

Mr. Evangelisti: Thanks, Margaret.

Moderator: At this time I am showing no further questions.

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