J.P.Morgan

BASEL II PILLAR 3 DISCLOSURES

JPMorgan Chase Bank, National Associate, Bangkok Branch

Financial year ending December 31, 2009

J.P.Morgan

JPMorgan Chase Bank, National Association, Bangkok Branch
Financial year ending December 31, 2009

Disclosures under the New Capital Adequacy Framework (Basel II guidelines) for the year ended December 31, 2009

The Basel II Pillar 3 disclosure ("Basel P3") included herein is made solely to meet the requirements in Thailand, and related solely to the activities of the Bangkok Branch of JPMorgan Chase Bank, National Association, a wholly-owned bank subsidiary of JPMorgan Chase & Co.

All quantitative disclosures are reported in Thousand Baht.

A. Scope of application

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

JPMorgan Chase Bank, National Association is one of the principal subsidiaries of JPMorgan Chase & Co. (collectively, "JPMC", "the Group" or "the Firm"), the financial holding company incorporated in the United States. JPMC operates in Thailand through the Branch and through other subsidiaries owned by one or more of its principal subsidiaries. None of its Thailand subsidiaries are owned by the Branch in Thailand. Also, the Branch does not have any interest in insurance entities.

For a comprehensive discussion of risk management at JPMorgan Chase & Co., including its consolidated subsidiaries, please refer to Firm's Annual Report for the year ended December 31, 2009, which is available in the Investor Relations section of www.jpmorganchase.com or access to the following links:

2009 Annual Report: http://investor.shareholder.com/jpmorganchase/annual.cfm

B. Capital

(I) Capital Structure

The capital of the Branch consists principally of the Head Office account representing Capital remitted by Head Office and remittable surplus/deficit (if any) retained in Bangkok

Composition of Assets under Section 32 of the Financial Institutions Businesses Act B.E. 2551

Unit: Thousand Baht

Assets under Section 32	As of Dec. 31,09
Thai Government Securities	9,046,572
Leasehold Rights	66,0434
Total Maintaining assets under Section 32	9,112,616

Quantitative Disclosure:

Capital of Foreign Banks Branch (Table 2)

Item	As of Dec.31,09
1. Assets required to be maintained under Section 32	**9,112,616**
2. Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts (2.1+2.2)	**18,225,157**
2.1 Capital for maintenance of assets under Section 32	8,921,156
2.2 Net balance of inter-office accounts which the branch is the debtor (the creditor) to the head office and other branches located in other countries, the parent company and subsidiaries of the head office	9,304,766
3. Total regulatory capital (3.1-3.2)	
3.1 Total regulatory capital before deductions (The lowest amount among item 1 item 2 and item 2.1)	8,921,156
3.2 Deductions	-

(II) Capital Adequacy

On a group-wide basis, Firm's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Firm's business activities and to maintain "well-capitalized" status under US regulatory requirements. In addition, the Firm holds capital above these requirements as deemed appropriate to achieve management's regulatory and debt rating objectives. The Firm assesses its capital adequacy relative to the risks underlying the Firm's business activities, utilizing internal risk-assessment methodologies.

At local level, the Branch leverages as far as possible the group-wide capital management framework and risk assessment methodologies, supplemented where appropriate by a consideration of branch-specific issues including local stress tests. These considerations are formalized as part of a local Internal Capital Adequacy Assessment Process (ICAAP), as required by local regulation.

The Capital Management process at the Branch level is coordinated within the Finance organization with input from appropriate local and firm-wide risk specialists, and is reviewed by the Thailand Management Committee and/or Thailand Risk Committee (where appropriate). It is the responsibility of the local management and/or risk committee (where appropriate) to determine the appropriate level of capitalization for the Branch at the present and in the future as well as to ensure the businesses are managed within those capital limits or to request for any additional capitals in accordance with the Firm's Major Capital Infusion

(MCI) policy. In the normal course of events, the local management and/or risk committee review (where appropriate) the adequacy of capital annually or with increased frequency if circumstances demand.

The Branch is required to maintain the minimum capital requirement of 7.5% in accordance with Bank of Thailand's regulation. The Capital Adequacy Ratio is reported to Thailand Management Committee on a quarterly basis and the internal threshold of minimum capital requirement is established in order to trigger an escalation to the local management for further discussion and decision.

A summary of the Branch's capital requirement for credit risk, market risk and operational risk and the capital adequacy ratio as on December 31, 2009 is presented below.

Quantitative Disclosure:

Minimum capital requirement for credit risk classified by type of assets under Standardized Approach (Table 3)

Unit: Thousand Baht

Minimum capital requirement for credit risk classified by type of assets under the SA	As of Dec.31,09
Performing claims	**1,116,294**
1. Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	542,245
2. Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	453,760
3. Claims on corporate, non-central government public sector entities (PSEs) treated as claims on corporate	110,636
4. Claims on retail portfolios	-
5. Claims on housing loans	59
6. Other assets	9,594
Non-performing claims	**3,752**
First-to-default credit derivatives and Securitisation	**-**
Total minimum capital requirement for credit risk under the SA	**1,120,046**

Minimum capital requirement for market risk for positions in the trading book (Table 6)

Unit: Thousand Baht

Minimum capital requirement for market risk (positions in the trading book)	As of Dec. 31,09
Calculated based on Standardized approach (SA)	2,261,870

Minimum capital requirement for operational risk (Table 7)

Unit: Thousand Baht

Minimum capital requirement for operational risk	As of Dec. 31,09
Calculated based on Basic Indicator Approach (BIA)	429,777

Total risk-weighted capital ratio (Table 8)

Unit: %

Ratio	As of Dec. 31,09
Total capital to total risk-weighted assets	17.55

C. Risk Exposures and Assessment

Credit Risk

I. General information on Credit Risk

<u>Qualitative Disclosure:</u>

Credit Risk Management Policy

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

"Know Your Customer" is the key element to credit risk management.

The new business initiative process requires a thorough understanding of the credit risk (and all other forms of risks) inherent in all proposed activities and undertakings. New initiatives will only be introduced after appropriate new control systems and implemented, in accordance with the Bank's New Business Initiative (NBI) process.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm's credit risk management governance consists of the following functions

- Establishing a comprehensive credit risk policy framework
- Calculating the allowance for credit losses and ensuring appropriate credit risk-based capital management
- Assigning and managing credit authorities in connection with the approval of all credit exposure
- Monitoring and managing credit risk across all portfolio segments
- Managing criticized exposures

Risk identification

The Bank is exposed to credit risk through lending and capital markets activities. Credit risk management works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs a detailed risk grading methodology for estimating the likelihood of obligor or counterparty default. Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. These finally result in a facility grade for each facility sanctioned by the Firm to a customer. Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses.

Probable and unexpected loss calculations are based upon estimates of probability of default and loss given default. Probability of default is the expected default calculated on an obligor basis. Loss given default is an estimate of losses that are based upon collateral and structural support for each credit facility. Calculations and assumptions are based upon management information systems and methodologies which are under continual review. Risk ratings are assigned and reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the borrowers' current risk profiles and the related collateral and structural positions.

Risk monitoring

The Firm has developed policies and practices that are designed to preserve the independence and integrity of extending credit and are included to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Credit risk is monitored regularly both on an aggregate portfolio level and on an individual customer basis through periodic and annual reviews. In order to meet credit risk management objectives, the Firm seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration. Management of the Firm's wholesale exposure is accomplished through loan syndication and participations, use of master netting agreements and collateral and other risk-reduction techniques.

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit metric forecasts, hold-limit exceptions and risk profile changes are reported regularly to senior credit risk management. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management.

Locally at the Bangkok branch, all proposals with relevant details of exposure are subjected to the relevant credit authority approval in accordance with the Global Credit Policy and to follow the global risk management process outlined above where appropriate. Officer with Credit Approval Authority are expected to understand the credit policies, guidelines and procedures applicable to their responsibilities.

The Branch's capital will be committed following thorough research and analysis, utilizing all expertise appropriately available in the organization which may contribute to our risk assessment. Certain transactions will require special approval due to their risk attributes or level of sensitivity.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral if applicable.

(1) Derivatives - The Branch maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Branch (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from

market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Branch requires margin deposits from counterparties.

(2) Master netting arrangements - The Branch further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Branch's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(3) Credit-related commitments - The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Branch on behalf of a customer authorizing a third party to draw drafts on The Branch up to a stipulated amount under specific terms and conditions are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Branch is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Branch monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Definition of past due and impaired

In line with Bank of Thailand's regulation, the "90 days' overdue" norm for identification of non-performing assets (NPA) has been adopted. Any amount due to the Branch under any credit facility is 'overdue' if it is not paid on the due date fixed by the Branch (i.e. is not paid as per the date the obligor is obligated to pay the Branch). A NPA shall be a loan or an advance where any amount to be received (as per the contractual terms) remains overdue for a period of more than 90 days or in respect of an Overdraft/Cash Credit the account remains 'out of order' for a period of more than 90 days.

Guidelines on loan classification and provisions

Loans are generally stated at the principal amounts outstanding. The asset classification and provision are primarily based on the management's review and assessment of the status of individual debtor as well as the Notification of the Bank of Thailand No. Sor Nor Sor. 31/2551 dated 3 August 2008 (RE: Classification and Provisions of the Financial Institutions).

In addition, the assessment (asset classification and provision) takes into consideration various factors including the risks involved, the value of collateral and the status of an individual debtor including the relationship of allowance for doubtful debts against the loan balance through the economic situation which may have impact on the customers' ability to pay.

Quantitative Disclosure:

Outstanding amounts of significant on-balance sheet assets and off-balance sheet items before adjusted by credit risk mitigation (Table 9)

Unit: Thousand Baht

Item	As of Dec. 31,09
1. On-balance sheet assets (1.1 + 1.2 + 1.3)	**36,750,401**
1.1 Net Loans [1/]	4,517,878
1.2 Net Investment in debt securities [2/]	31,150,490
1.3 Deposits (including accrued interest receivables)	1,082,033
2. Off-balance sheet items [3/](2.1 + 2.2 + 2.3)	**1,198,162,496**
2.1 Aval of bills, guarantees, and letter of credits	327,392
2.2 OTC derivatives	1,197,375,297
2.3 Undrawn committed line	459,807

[1/] Including accrued interest receivables and net of deferred incomes, allowances for doubtful accounts and allowances for revaluation from debt restructuring and including net loans of interbank and money market.
[2/] Excluding accrued interest receivables and net of allowances for revaluation of securities and allowances for impairment of securities
[3/] Before multiplying credit conversion factor

Outstanding amounts of on-balance sheet assets and off-balance sheet items before adjusted credit risk mitigation classified by country of geographic area of debtor (Table 10)

2009

Unit: Thousand Baht

Country or geographic area of debtor	On-balance sheet assets				Off-balance sheet items [3/]			
	Total	Net loans [1/]	Net Investment in debt securities [2/]	Deposits (including accrued interest receivables)	Total	Aval of bills, guarantees, and letter of credits	OTC derivatives	Undrawn committed line
1. Thailand	35,909,018	3,906,297	31,150,490	852,231	291,849,301	54,504	291,334,990	459,807
2. Asia Pacific (exclude Thailand)	172,759	64,235	-	108,524	447,290,706	13,183	447,277,523	-
3. North America and Latin America	-	-	-	-	104,426,892	259,705	104,167,187	-
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	668,624	547,346	-	121,278	354,595,597	-	354,595,597	-
Total	**36,750,401**	**4,517,878**	**31,150,490**	**1,082,033**	**1,198,162,496**	**327,392**	**1,197,375,297**	**459,807**

[1/] Including accrued interest receivables and net of deferred incomes, allowances for doubtful accounts and allowances for revaluation from debt restructuring and including net loans of interbank and money market.
[2/] Excluding accrued interest receivables and net of allowances for revaluation of securities and allowances for impairment of securities
[3/] Before multiplying credit conversion factor

Outstanding amounts of on-balance sheet assets and off balance sheet items before credit risk mitigation classified by residual maturity (Table 11)

Item	2009		
	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total
1. On-balance sheet assets (1.1 + 1.2 + 1.3)	**21,936,127**	**14,814,274**	**36,750,401**
1.1 Net loans [1/]	4,515,662	2,216	4,517,878
1.2 Net Investment in debt securities [2/]	16,338,432	14,812,058	31,150,490
1.3 Deposits (including accrued interest receivables)	1,082,033	-	1,082,033
2. Off-balance sheet items [3/] (2.1 + 2.2 + 2.3)	**459,474,416**	**738,688,080**	**1,198,162,496**
2.1 Aval of bills, guarantees, and letter of credits	167,188	160,204	327,392
2.2 OTC derivatives	458,847,421	738,527,876	1,197,375,297
2.3 Undrawn committed line	459,807	-	459,807

[1/] Including accrued interest receivables and net of deferred incomes, allowances for doubtful accounts and allowances for revaluation from debt restructuring and including net loans of interbank and money market.
[2/] Excluding accrued interest receivables and net of allowances for revaluation of securities and allowances for impairment of securities
[3/] Before multiplying credit conversion factor

Outstanding amounts of loans including accrued interest receivables and investment in debt securities before adjusted by credit risk mitigation classified by country or geographical area of debtor and asset classification as prescribed by the Bank of Thailand (Table 12)

2009

Unit: Thousand Baht

Country or geographic area of debtor	Loans including accrued interest receivables[1/]						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1.Thailand	3,906,358	-	-	-	7,943	3,914,301	177,345
2.Asia Pacific (exclude Thailand)	64,881	-	-	-	-	64,881	-
3.North America and Latin America	-	-	-	-	-	-	-
4.Africa and Middle East	-	-	-	-	-	-	-
5.Europe	497,320	-	50,026	-	-	547,346	-
Total	4,468,559	-	50,026	-	7,943	4,526,528	177,345

[1/] Including outstanding amounts of loans and accrued interest receivables of interbank and money market

Provisions (General provision and Specific provision) and bad debt written-off during period for loan including accrued interest receivables and investment in debt securities classified by country or geographic area (Table 13)

2009

Unit: Thousand Baht

Country or geographic area of debtor	Loans including accrued interest receivables[1/]			Specific provision for Investment in debt securities
	General provision	Specific provision	Bad debt written-off during period	
1.Thailand		7,943	-	177,345
2.Asia Pacific (exclude Thailand)		-	-	-
3.North America and Latin America		-	-	-
4.Africa and Middle East		-	-	-
5.Europe		-	-	-
Total	707	7,943	-	177,345

[1/] Including provision and bad debt written-off during period of loans including accrued interest receivables of interbank and money market

Outstanding amount of loans including accrued interests before adjusted by credit risk mitigation classified by type of business (Table 14)

2009 Unit: Thousand Baht

Type of business	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
Agriculture and mining	497,320	-	-	-	-	497,320
Manufacturing and commerce	-	-	50,026	-	5,901	55,927
Real estate business and construction	-	-	-	-	-	-
Public utilities and services	3,880	-	-	-	-	3,880
Housing loans	2,239	-	-	-	367	2,606
Others	3,965,120	-	-	-	1,675	3,966,795
Total	4,468,559	-	50,026	-	7,943	4,526,528

Provisions (General provision and Specific provision) and bad debt written-off during period for loans including accrued interest receivables classified by types of business (Table 15)

Unit: Thousand Baht

Type of business	2009		
	General provision	Specific provision	Bad debt written-off during period
Agriculture and mining		-	-
Manufacturing and commerce		5,901	-
Real estate business and construction		-	-
Public utilities and services		-	-
Housing loans		367	-
Others		1,675	-
Total	707	7,943	-

Reconciliation of change in provisions (General provision and Specific provision) for loans including accrued interest receivables* (Table 16)

Unit: Thousand Baht

Item	2009		
	General provision	Specific provision	Total
Provisions at the beginning of the period	589	8,299	8,888
Bad debts written-off during the period	-	-	-
Increases or (Decreases of provisions during the period	118	(356)	(238)
Provisions at the end of the period	707	7,943	8,650

*Including outstanding amount of loans and accrued interest receivables of interbank and money market

Outstanding amounts of on-balance sheet assets and off-balance sheet items* classified by type of assets under the SA (Table 17)

Unit: Thousand Baht

Type of asset	2009		
	On balance sheet assets	Off balance sheet item	Total
1. Performing claims			
1.1 Claim on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	26,469,057	59,334	26,528,391
1.2 Claim on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	970,321	18,551,944	19,522,265
1.3 Claims on corporate, non-central government public sector entities (PSEs) treated as claims on corporate	501,200	1,018,926	1,520,126
1.4 Claims on retail portfolios	-	-	-
1.5 Housing loans	2,239	-	2,239
1.6 Other assets	23,531,661	-	23,531,661
2. Non-performing claims	50,026	-	50,026
3. First-to-default credit derivatives and Securitisation	-	-	-
Total	51,524,504	19,630,205	71,154,709

*After multiplying with credit conversion factor and specific provision

II. Credit Risk: Standardized Approach (SA)

Qualitative Disclosure:

The Branch uses credit ratings which are assigned by the accredited External Credit Rating Agencies, which are Standard & Poor's (S&P) and Moody's, to assign risk weights for capital adequacy purposes according to the Notification of the Bank of Thailand No. Sor Nor Sor 90/2551 dated 27 November 2008 (RE: Regulations for Credit Risk Asset Calculations for Commercial Banks Using the Standard Approach). Where multiple ratings are available, the second worst rating has been considered.

Quantitative Disclosure:

Outstanding amount of net on-balance sheet assets and off-balance sheet items after adjusted by credit risk mitigation for each type of asset, classified by risk weight under the SA (Table 19)

Unit : Thousand Baht

Type of asset	2009							
	Rated outstanding amount					Unrated outstanding amount		
Risk Weight (%)	0	20	50	100	150	35	75	100
Performing claims								
1. Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	12,068,534	-	14,459,857	-	-			-
2. Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	-	16,840,156	-	2,617,228	-			64,881
3. Claims on corporate, non-central government public sector entities (PSEs) treated as claims on corporate	-	-	15	89,933	815,483			614,694
4. Claims on retail portfolios							-	
5. Claims on housing loans						2,239		
6. Other assets								127,925
Risk weight (%)			50	100	150			
Non-performing claims			-	50,026	-			
Capital deduction items prescribed by the Bank of Thailand								

III. Credit risk mitigation under the Standard Approach (SA)

Qualitative Disclosure:

The Branch does not apply or use any Credit Risk Mitigation (CRM) to any on or off balance sheet exposures according to the Notification of the Bank of Thailand No. Sor Nor Sor 90/2551 dated 27 November 2008 (RE: Regulations for Credit Risk Asset Calculations for Commercial Banks Using the Standard Approach).

Quantitative Disclosure:

Part of outstanding that is secured by collateral under SA classified by type of assets and collateral (Table 28)

Type of asset	2009	
	Eligible financial collateral	Guarantee and credit derivatives
Performing assets		
Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	-	-
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	-	-
Claims on corporate, non-central government public sector entities (PSEs) treated as claims on corporate	-	-
Claims on retail portfolios	-	-
Claims on housing loans	-	-
Other assets	-	-
Total	-	-

Market risk

I. General information on Market Risk

<u>Qualitative Disclosure:</u>

Market risk management

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency, equity and commodity products, all of which are exposed to general and/or specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, equities and commodity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

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

Market risk management framework

At group level, market risk is identified, measured, monitored, and controlled by an independent corporate risk governance function. Market risk management seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, Board of Directors and regulators. Market risk management is overseen by the Chief Risk Officer and performs primary functions of (i) establishment of a comprehensive market risk policy framework; (ii) independent measurement, monitoring and control of business segment market risk; (iii) definition, approval and monitoring of limits; and (iv) performance of stress testing and qualitative risk assessments.

The Group's business segments have valuation teams which provide independent oversight for the accuracy of valuations of the positions that expose the Group to market risk.

Market risk identification and classification

The market risk management group works in partnership with the business segments to identify market risks throughout the Group to refine and monitor market risk policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their units. Market risk management group is also responsible for identifying exposures which may not be large within individual business segments, but which may be large for the Group in aggregate. Regular meetings are held between market risk management and the head of risk-taking businesses to discuss and to decide on risk exposure in the context of the market environment and client flows.

Market risk measurement

The Group uses various metrics, both statistical and non-statistical, to measure and reflect all aspects of market risk.

(i) Non-statistical measures

Non-statistical risk measures include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Group's market risk exposure.

(ii) Statistical measures
The Group's primary statistical risk measure, Value-At-Risk ("VAR"), estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VAR is used for comparing risk across businesses, monitoring limits, one-off approvals, and as an input to economic capital calculations. To calculate VAR, the Group uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months. The Group calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level.

While VAR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Group's exposure to unlikely but plausible events in abnormal markets. Along with VAR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Group's risk profile and loss potential, and stress losses are monitored against limits. Stress-test results, trends and explanations are provided each month to the Group's senior management and to the lines of business to help them better measure and manage risk and to understand event risk-sensitive positions. Periodically scenarios are reviewed and updated to reflect changes in the Group's risk profile and economic events.

To evaluate the soundness of the VAR model, the Firm conducts daily back-testing of VAR against daily market risk-related revenue.

Loss advisories are tools used to highlight to senior management trading losses above certain levels and are used to initiate discussion of remedies.

The Firm conducts economic value stress tests for both its trading and non-trading activities at least every two weeks using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Stress testing enhances the understanding of the Firm’s risk profile and loss potential, and stress losses are monitored against limits.

Market risk monitoring

Market risk is controlled primarily through a series of limits. Limits reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity, business trends and management experience. Market risk management group regularly reviews and updates risk limits. Senior management, including the Group's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving risk limits at least once a year.

All non-statistical measures, statistical measures, loss advisories and limit excesses are reported daily to each lines of business at a Regional level. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required to reduce trading positions or consult with senior management on the appropriate action.

Local Governance

Thailand Risk Committee (TRC) of the Branch is responsible for the overall management of risk limits and review of the risk reports. The committee discusses the overall market and associated risks at quarterly TRC meeting. TRC is represented by senior management from several LOBs i.e. Senior Country Office, Branch Manager, Credit Executive, FX and Interest Rate traders, Liquidity traders, Chief Operating Officer, Compliance Manager, Senior Finance Officer, Regulatory Market Risk Manager (RMR) and Sales. Any local policies are generally tabled out and acknowledged by TRC. The Branch level market risk exposure and limit utilization is also reported to TRC on a daily basis.

II. Market Risk: Standardized Approach (SA)

Qualitative Disclosure:

For Market Risk, the Branch applies Standardized Approach (SA) to calculate capital requirement and uses Contingent Loss Method or Scenario Analysis Method to calculate capital requirement for options according to the Notification of the Bank of Thailand No. Sor Nor Sor 94/2551 dated 27 November 2008 (RE: Guideline on Supervision of Market Risk and Capital Requirement for Market Risk of Financial Institutions).

Quantitative Disclosure:

Minimum capital requirements for each type of market risk under the Standardized Approach (Table 30)

Unit: Thousand Baht

Minimum capital requirement for market risk under the Standardized Approach	Current period
Interest rate risk	1,728,994
Equity position risk	-
Foreign exchange rate risk	532,876
Commodity risk	-
Total minimum capital requirements	2,261,870

Operational risks

I. General information on Operational Risk

Qualitative Disclosure:

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The Firm has implemented a software system to enhance its reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner.

On a weekly basis, information in the form of volumes of deals, outstanding nostro / bank balances, confirmations outstanding and reconciliation breaks are reported by Operations to the Operating Risk Management group (ORM). The same is reviewed and compiled on fortnightly basis and reported by ORM to the regional management. In case of an operational risk event, businesses operating in the Branch are responsible for filing an error report for input into the Firm's risk event database.

In Thailand, the Location Operating Committee (LOC) chaired by the Chief Operating Officer (COO) of the Branch is responsible for the oversight and control of operating risk within the location. The LOC consisted of COO, all location team leads of each operation team (T&SS, IB), GCRM Middle Office, Finance, Compliance, Internal Audit, Operation Risk Management (ORM), Human Resources (HR), Global Technology & Information (GTI), Information Technology Risk Management and Resiliency Risk Management. The LOC meetings are held once in two months to review all operating risks, regulatory framework and general ledger controls.

In the LOC meeting, Compliance would update any material changes of laws and regulations to the committee. This is to ensure that all relevant parties are aware of and will be in line with all local rules and regulations. Moreover, both Compliance and Internal Audit would share the results according to their monitoring or audit programs to the LOC members when any significant issues are found during the audit period.

Further Thailand Management Committee (TMC) consisting of senior management has been established to enable the management of JPMCB to discharge their responsibilities effectively. TMC reviews business, operational and financial matters, as well as some aspects of risk management.

II. Operational Risk Capital Assessment

As required by Bank of Thailand, the Branch follows the Basic Indicator Approach (BIA) to compute capital requirements for operational risk. Please refer to Table 7 for quantitative disclosures on the Branch’s operational risk.

Equity exposures in the banking book

I. General information on Equity exposures in the banking book

Qualitative Disclosure:

Equity exposures in the banking book pertain to the shares received from the debts previously restructured. The Branch has no policy to invest in equity securities for trading or other purposes. Such shares are classified as available-for-sale securities (investment in marketable equity securities) are carried at fair market value traded in Stock Exchange of Thailand. Increases or decreases in the carrying amount are credited or charged against unrealized gains or losses on change in fair value of investments in securities under Head Office's equity and balances with other branches under the same entity. For, investments in non-marketable equity securities (if any), it will be classified as general investments are stated at cost less allowance for impairment in value.

Quantitative Disclosure:

Equity exposures in banking book (Table 32)

Unit: Thousand Baht

Equity exposures	**2009**
1. Equity exposures	
1.1 Equities listed and publicly treaded in the Stock Exchange	
▪ Book value	16,932
▪ Fair value	7,031
1.2 Other equities	-
2. Gains (losses) on sale of equities in the reporting period	-
3. Net revaluation surplus (deficits) from valuation of AFS equity	(9,901)
4. Minimum capital requirements for equity exposures classified by the calculation methods SA	527

Interest rate risk in the banking book (IRRBB)

I. General information on Interest rate risk in the banking book

<u>Qualitative Disclosure:</u>

Interest rate risk management for the banking book is governed by the relevant Market Risk Management policies and framework as well as Asset/ Liability Committee (ALCO) policy at the Firm level. The Firm's banking book may be subject to interest rate risks primarily resulting from exposures of banking book products to changes in the level, slope and curvature of the yield curve, the volatility of interest rates. "Banking Book" means position of financial instruments or other transactions not intended for trading purpose, or financial instruments which were intended, at the onset, to be held for a long period of time or until it's matured. Interest rate risk is one of the categories of market risk. The risk management approach at the location or entity level is consistent with that of the corporate level.

The interest rate risk in the banking book for the Branch is managed by Chief Investment Officer (CIO) within the limits governing CIO activities/positions at the Branch level. Any LOB retaining IRRBB positions require discussion and approval from CIO on a case by case basis and the proposals need to be placed in the ALCO for consideration. If there is any significant issue identified from the regular limit review and monitoring process, CIO trader will be notified and the same will be placed in the Thailand Risk Committee and/or ALCO where appropriate.

BPV as a measure is used to calculate Interest Rate Risk in the Banking book. BPV quantifies the MTM impact to a portfolio of trades to a one basis point change in interest rates. The higher the BPV implies the higher sensitivity to changes in Interest Rates. Interest rate risk in the banking book could arise from inter-bank money market taking and placing, repo positions (if any), loans and deposits. Interest rate risk limits (in terms of BPV) are set and monitored by CIO on a daily basis. Currently, there is no option risk in this entity as option is not used in the banking book. In IRRBB risk assessment process, if there is any significant behavior change for any exposure e.g. advanced loan repayment, non-maturity deposits, CIO will adjust their risk assessment accordingly.

<u>Quantitative Disclosure:</u>

The effect of changes in interest rates* to net earnings (Table 33)

Unit: Thousand Baht

Currency	**2009**
	Effect to net earnings
Baht	58,170
USD	(95,570)
JPY	1,010
Others	1,175
Total effect	(35,215)

*The percentage change in interest rates of 100 bps.

Roles and Responsibilities of Internal Audits and Compliance

Internal Audit's role is to provide the management, including the Location Operating Committee (LOC), with an independent assessment of the firm’s ability to manage and control risk, including operational risks, and to influence and advise management on ways of enhancing the firm's capacity to manage these risks through the followings:

- Evaluating the control aspects of new policies, procedures, products and systems to appraise the adequacy and effectiveness of the proposed systems of control.
- Developing and maintaining an efficient and effective program of audit coverage and appropriate reporting processes that provide reasonable assurance that the system of internal control, as designed, achieves its objectives.
- Fostering a continuous, self-checking control environment in partnership with senior management and the firm’s risk management and control communities.
- Disseminating best practices and lessons learned across businesses.

In addition, the management of the Firm supports a strong compliance culture and believe that all employees globally share a common duty to both adhere to the highest standard of integrity and fair dealing, and comply with the laws, regulations, and policies that govern our businesses and activities. The LOB will receive first level support and assistance from Compliance including:

- Providing guidance on regulatory issues such as, updates on changes in regulatory requirements and performing ongoing regulatory reviews;
- Sign-offs of LOB policies, procedures and compliant letters,
- Providing front-end reviews of marketing copy and telemarketing scripts;
- Providing timely reports of compliance issues to LOB; and
- Collaborating with and educating LOB management on compliance issue