FEBRUARY 2015

PILLAR III DISCLOSURE

JPMorgan Saudi Arabia limited

License Number: 12164-37

PILLAR III DISCLOSURE

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1. Scope of Application

1.1 Purpose of the report

This report is prepared and issued by JPMorgan Saudi Arabia Limited (hereinafter referred to as "JPMSA" or "the Company") in accordance with the requirements of Article 68 of the Prudential Regulations issued by the Capital Markets Authority (hereinafter referred to as "CMA"). These rules include guidelines for the annual market disclosure of the Company's capital and risk management information required to be published on JPMSA website. JPMSA is a subsidiary of a foreign bank and does not hold any subsidiary investment in or outside of Saudi Arabia. As at 31 December 2014, the Company has share capital of SAR 78.75 million and proposed increase in capital of SAR 15 million which is pending CMA approval.

2. Capital Structure

2.1 Capital Structure

The capital injected by the parent companies' of JPMSA is unconditional in nature and does not have to be repaid unless the company is liquidated. Since its incorporation, the Company's capital base increased from an initial capital of SAR 60 million in 2010 to SAR 78.75 million. JPMSA is in the process of injecting additional capital of SAR 15 million to strengthen its capital position. JPMSA also plans to retain its accumulated profits for a period of at least 3 years to strengthen its capital position and support planned expansionary activities.

Further information on capital structure is set out in Exhibit A.1

3. Capital Adequacy

3.1 Capital Adequacy

The Company is in the process of strengthening its risk management framework to support the growing business requirements. The current risk management process in JPMSA is adequate in terms of its size and operations. JPMSA has developed an ICAAP Policy to measure, monitor, report all material risks and adopt an efficient capital planning process to ensure sufficient capital is available to meet the usual business activities and any unforeseen contingencies.

JPMSA is adequately capitalized over the capital planning horizon and will support the planned growth and expansion of the business by adding more capital. The Company also plans to retain its accumulated profits as part of its capital planning and management for a period of 3 years.

Under the CMA Prudential Rules, JPMSA's minimum capital requirement is SAR 9.98 million. As at 31 December 2014, JPMSA has total shareholders' equity of SAR 97.77 million including proposed capital increase of SAR 15 million which results in a coverage ratio of 8.29. The table below is a summary of the capital adequacy disclosure as set out full in Exhibits A.1 and A.2.

Exhibit 3.1

Capital Base – 31 December 2014	
	SAR 000s
Paid up capital	93,750
Audited retained earnings	4,021
Deduction from Tier-1 Capital	(15,000)
Total Capital Base	**82,771**
Minimum Capital Requirements	9,983
Total Capital Ratio (times)	**8.29**

3.2 Risk Appetite and Strategy

JPMSA's ICAAP report covers the assessment of all material risk types and the planning and management of capital required to cover these risks. The report is prepared in compliance with the standards and format prescribed by the CMA and as per recommended international best practices.

The material risk exposures of the Company (other than Pillar I) have been identified as follows:

- Concentration risk; and
- Strategic Risk

The above risks are primarily earnings related as risk exposure of JPMSA is driven from the services offered under different activities. The risk levels are within the acceptable range considering the scale of JPMSA operations, management oversight and lack of leverage.

The Board of Directors of JPMSA is responsible for setting the overall risk appetite for the Company. Risk appetite of JPMSA is defined as the amount of risk that the Company is willing to accept to achieve its stated objectives and respective returns to shareholders, while safeguarding against key sources of risk for the Company such as concentration, operational and other non-financial risks such as strategic, reputation and macroeconomic risk.

JPMSA has developed a risk appetite and has followed a top-down approach to introduce its risk appetite metrics. Risk appetite statement has been further refined keeping in view the significant regulatory changes impacting the investment companies sector.

JPMSA is focusing on its risk appetite metrics to measure the overall organization-wide performance and the performance of individual business units in a risk sensitive manner.

The JPMSA's risk appetite can be summarized across the following dimensions (but not limited to):

- Capital Targets – maintaining capital adequacy above Company's defined minimum level
- Risk Targets – inclusive of losses, provisioning coverage, liquidity risk, concentration risk etc.
- Non-financial targets such as compliance with regulatory requirements etc.

Further to the quantitative risk appetite measures, JPMSA's objective is to keep risks at appropriate residual levels by maintaining a sound control environment. Management's tolerance for operational risk is considered as a part of the Company's overall risk appetite in light of the Company's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment.

Other important aspects of risk are controlled by relevant committees, policies or processes including:

- Maintaining the Company's reputation
- Compliance with regulatory mandates
- Integrity in business behavior and compliance with the employee Code of Conduct
- Adherence to new business initiative practices and appropriateness of client offerings
- Data and systems integrity
- Compensation practices that do not encourage inappropriate risk taking
- Zero tolerance for intentional fraud and breach of policies

4. Risk Management

4.1 General Qualitative Disclosure for Risks

Strategies and processes for risk management

Risk is an inherent part of JPMSA's business activities. JPMSA employs the same approach to managing these risks as JPMorgan Chase & Co. ("the Firm" or "the Group").

JPMSA has adopted the Group's risk management framework which seeks to mitigate risk and loss to the Group. The Group has established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which the Group and JPMSA are subject.

JPMSA employs a holistic approach to risk management to ensure the broad spectrum of risk types are considered in managing its business activities.

JPMSA believes effective risk management requires

- Acceptance of responsibility by all individuals within JPMSA
- Ownership of risk management within each line of business and
- Adherence to Firm wide structures for risk governance and oversight

JPMSA's risk management is overseen and managed on an enterprise-wide basis. JPMSA's Chief Executive Officer ("CEO"). Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO") develop and set the risk management framework and governance structure under advice from Group Risk Management and Compliance, which provides comprehensive controls and ongoing management of the risks inherent in its business activities. JPMSA's risk management framework creates a culture of risk transparency and awareness, coupled with personal responsibility throughout, where collaboration, discussion and escalation where appropriate is encouraged. Risk matters are discussed at the Local Management Committee ("LMC") attended by senior management. This committee is responsible and accountable to JPMSA's Board of Directors.

JPMSA's overall objective in managing risk is to protect its safety and soundness, and avoid excessive risk taking or loss.

The Board of JPMSA approves risk policies compliant with the laws and regulations of Saudi Arabia. These policies are aligned with those of the Firm which have been subject to the approval of the Board of Directors of JPMorgan Chase & Co.

JPMSA's Compliance Officer reports to the CEO of JPMSA who also attends the Company's quarterly Board meetings. The Compliance Officer chairs the Compliance Committee meetings which are attended by the senior management.

4.2 Credit risk

Credit Risk is the risk of loss arising from an obligor or counterparty default.

JPMSA credit risk arises as a result of the funds placed on deposit with JPMorgan Chase Bank, N.A. rated Aa3, P-1 by Moody's, A+, A-1 by S&P and A+, F1 by Fitch with a 'Stable' outlook across all three agencies. Operational accounts are held with local banks rated no less than "A" with major rating agencies. Corporate exposure describes out of pocket expenses with a corporate client to be recovered in full. Other assets comprise of fee accruals due from related parties and employee loans.

Credit risk oversight rests with the LMC under advice from Group Credit Risk Management (GCRM) which in turn reports to the Board of JPMSA.

GCRM is an independent risk management function that identifies and monitors credit risk throughout the Group and defines credit risk policies and procedures. GCRM reports to the Group's Chief Risk Officer.

Further information on credit risk is set out in Exhibits A.2, A.3, A.4 and A.5.

Currently JPMSA uses the prescribed methodology under Pillar I requirements of the CMA Prudential Rules to calculate regulatory capital for credit risk.

JPMSA has implemented the ICAAP framework as per the CMA standards to quantify its risk exposure. The month on month development of the JPMSA balance sheet has been measured against the CMA Prudential guidelines to ensure adequate capital and liquidity is in place to support its business activities.

There are no past due claims or provisions on the JPMSA balance sheet. No collateral or netting has been taken in support of any transaction to date.

Exhibit 4.2

Exposure class – 31 December 2014				
	Gross Exposures SAR 000s	Net Exposures SAR 000s	Risk Weighted Assets SAR 000s	Capital Requirement SAR 000s
Authorised persons and banks	100,841	100,841	20,168	2,824
Corporates	46	46	329	46
Other Assets	5,433	5,433	16,299	2,281
Total on-balance sheet exposures	**106,320**	**106,320**	**36,796**	**5,151**

4.3 Market Risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The foreign exchange risk arises as a result of the translation of non-SAR balances into SAR for reporting purposes. Please see Exhibit A.2 for further details.

Currently JPMSA uses the prescribed methodology under Pillar I requirements of the CMA Prudential Rules to calculate regulatory capital for market risk.

Market risk oversight rests with the LMC which in turn reports to the Board of JPMSA.

The Firm's Board is ultimately responsible for managing market risk. The Firm has a designated Chief Risk Officer and Market Risk Officer who have responsibilities in relation to market risk management. The Market Risk management function is an independent risk management function that identifies and monitors market risk throughout the Group and defines market risk policies and procedures. The Market Risk function reports to the Group's Chief Risk Officer.

Market Risk seeks to control risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Group and the Firm's market risk profile for senior management, the Board of Directors and regulators. Market Risk is responsible for the following functions:

- Establishment of a market risk policy framework
- Independent measurement, monitoring and control of line of business market risk
- Definition, approval and monitoring of limits and
- Performance of stress testing and qualitative risk assessments

Each line of business is responsible for the management of the market risks within its units. Market Risk is responsible for overseeing each line of business ensures that all material market risks are appropriately identified, measured, monitored and managed in accordance with the risk policy framework.

Exhibit 4.3

Market risk – 31 December 2014		
	Long Position SAR 000s	Capital Requirement SAR 000s
Foreign exchange	3,389	68
Total Market Risk	**3,389**	**68**

4.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems including human error or due to external events that are neither market nor credit related.

Operational risk is inherent in JPMSA's activities and can manifest itself in various ways including fraudulent acts, business interruptions, and inappropriate behavior of employees, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage to JPMSA. The goal is to keep operational risk at appropriate levels, in light of JPMSA's financial strength, the characteristics of its businesses, the market in which it operates, and the competitive and regulatory environment to which it is subject.

Operational risk exposure is set out in Exhibit A.2.

To monitor and control operational risk, the Firm maintains an overall Operational Risk Management Framework (ORMF) which comprises governance oversight, risk assessment, capital measurement, and reporting and monitoring. The ORMF is intended to enable the Firm to function with a sound and well controlled operational environment.

Risk Management is responsible for prescribing the ORMF to the lines of business and corporate functions and to provide independent oversight of its implementation. The line of business and corporate functions are responsible for implementing the ORMF. The Firm wide Oversight and Control Group (FOCG), comprised of dedicated control officers within each of the lines of business and Corporate functional areas, as well as a central oversight team, is responsible for day to day review and monitoring ORMF execution.

The components of the ORMF are: oversight and governance, risk self assessment, reporting and monitoring and capital measurement.

JPMSA maintains a governance structure that has oversight of the operations being undertaken within the entity. Existing operations are measured against the ORMF. New products and processes are subject to a rigorous internal examination process requiring the approval of senior management of JPMSA and the associated lines of business.

In addition, JPMSA is subject to regular JPMorgan internal, external and regulatory audits. JPMorgan internal audit utilizes a risk-based program of audit coverage to provide independent assessment of the design and effectiveness of key controls over the Firm's operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the effectiveness of the Risk and Control Self Assessment ('RCSA') process, and the loss data-collection and reporting activities.

Currently JPMSA uses the prescribed methodology under Pillar I requirements of the CMA Prudential Rules to calculate regulatory capital for operational risk.

Exhibit 4.4

Operational risk – 31 December 2014	
	Capital requirement SAR 000s
Total operational risk	**4,764**

4.5 Liquidity Risk

Liquidity risk is the risk that the Firm will be unable to meet its contractual and contingent obligations. Liquidity risk management is intended to ensure that the Firm has the appropriate amount, composition and tenor of funding and liquidity in support of its assets.

Liquidity Risk Oversight

The Firm has an independent liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk across the Firm. Risk oversight is managed through a dedicated Firm wide risk Group reporting into the CIO, Treasury, and Corporate ("CTC") Chief Risk Officer ("CRO"). The CTC and CRO report to the Firm's CRO.

Risk Governance and Measurement

Specific committees responsible for liquidity governance include Firm wide ALCO, CTC Risk Committee as well as lines of business and regional ALCOs, and regional / Legal Entity Risk Committees.

Liquidity Management

Responsibility for liquidity management rests with Global Treasury. The primary objectives of effective liquidity management are to ensure that the Firm's core businesses are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles, as well as during stress events, ensure funding mix optimization and availability of liquidity sources. The Firm manages liquidity and funding using a centralized, global approach in order to optimize liquidity sources and uses.

JPMSA is part of the Firm wide liquidity risk management framework (Firm wide Liquidity Risk Oversight & Liquidity Management Policy and Firm wide Contingency Funding Plan). JPMSA holds cash representing its capital and retained earnings. This cash balance is held for JPMSA's operational and business needs with JPMorgan Chase Bank, N.A. and other local banks.

A. Appendices

Exhibit A.1

Disclosure on Capital Base – 31 December 2014	
Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	93,750
Audited retained earnings	4,021
Share premium	0
Reserves (other than revaluation reserves)	0
Tier-1 capital contribution	0
Deductions from Tier-1 capital	(15,000)
Total Tier-1 capital	**82,771**
Tier-2 capital	
Subordinated loans	0
Cumulative preference shares	0
Revaluation reserves	0
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	0
Total Tier-2 capital	**0**
Total capital base	**82,771**

Exhibit A.2

Disclosure on Capital Adequacy – 31 December 2014

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SAR '000	Capital Requirement SAR '000
Credit Risk				
On–balance Sheet Exposures				
Governments and Central Banks	–	–	–	–
Authorised Persons and Banks	100,841	100,841	20,168	2,824
Corporates	46	46	329	46
Retail	–	–	–	–
Investments	–	–	–	–
Securitisation	–	–	–	–
Margin Financing	–	–	–	–
Other Assets	5,433	5,433	16,299	2,281
Total On–Balance sheet Exposures	**106,320**	**106,320**	**36,796**	**5,151**
Off–balance Sheet Exposures				
OTC/Credit Derivatives	–	–	–	–
Repurchase agreements	–	–	–	–
Securities borrowing/lending	–	–	–	–
Commitments	–	–	–	–
Other off–balance sheet exposures	–	–	–	–
Total Off–Balance sheet Exposures	**–**	**–**	**–**	**–**
Total On and Off-Balance sheet Exposures	**106,320**	**106,320**	**36,796**	**5,151**
Prohibited Exposure Risk Requirement	–	–	–	–
Total Credit Risk Exposures	**106,320**	**106,320**	**36,796**	**5,151**

Market Risk	**Long Position**	**Short Position**	Capital Requirement SAR '000
Interest rate risks	–	–	–
Equity price risks	–	–	–
Risks related to investment funds	–	–	–
Securitisation/resecuritisation positions	–	–	–
Excess exposure risks	–	–	–
Settlement risks and counterparty risks	–	–	–
Foreign exchange rate risks	3,389	–	68
Commodities risks	–	–	–
Total Market Risk Exposures	**3,389**	**–**	**68**
Operational Risk			4,764
Minimum Capital Requirements			9,983
Surplus/(Deficit) in capital			72,788
Total Capital ratio (times)			**8.29**

Exhibit A.3

Disclosure on Credit Risk's Risk Weight (SAR '000) – 31 December 2014

	Exposures after netting and credit risk mitigation												
Risk Weights	Govern-ments and central banks	Adminis-trative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Invest-ments	Securitisation	Other assets	Off-balance sheet commit-ments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	–	–	–	–	–	–	–	–	–	–	–	–	–
20%	–	–	100,841	–	–	–	–	–	–	–	–	100,841	20,168
50%	–	–	–	–	–	–	–	–	–	–	–	–	–
100%	–	–	–	–	–	–	–	–	–	–	–	–	–
150%	–	–	–	–	–	–	–	–	–	–	–	–	–
200%	–	–	–	–	–	–	–	–	–	–	–	–	–
300%	–	–	–	–	–	–	–	–	–	5,433	–	5,433	16,299
400%	–	–	–	–	–	–	–	–	–	–	–	–	–
500%	–	–	–	–	–	–	–	–	–	–	–	–	–
714% (include prohibited exposure)	–	–	–	–	46	–	–	–	–	–	–	46	329
Average Risk Weight	0%	0%	20%	0%	714%	0%	0%	0%	0%	300%	0%	34.61%	34.61%
Deduction from Capital Base	–	–	2,824	–	46	–	–	–	–	2,281	–	5,151	5,151

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Exhibit A.4

Disclosure on Credit Risk's Rated Exposure (SAR '000) – 31 December 2014

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks		–	–	–	–	–	–	–
Authorised Persons and Banks		–	100,841	–	–	–	–	–
Corporates		–	–	–	–	–	–	46
Retail		–	–	–	–	–	–	–
Investments		–	–	–	–	–	–	–
Securitisation		–	–	–	–	–	–	–
Margin Financing		–	–	–	–	–	–	–
Other Assets		–	4,994	–	–	–	–	439
Total		**–**	**105,835**	**–**	**–**	**–**	**–**	**485**

Exposure Class	Short term Ratings of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+, F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
	Capital Intelligence	A1	A2	A3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks		–	–	–	–	–
Authorised Persons and Banks		100,841	–	–	–	–
Corporates		–	–	–	–	46
Retail		–	–	–	–	–
Investments		–	–	–	–	–
Securitisation		–	–	–	–	–
Margin Financing		–	–	–	–	–
Other Assets		4,994	–	–	–	439
Total		**105,835**	**–**	**–**	**–**	**485**

Exhibit A.5

Disclosure on Credit Risk Mitigation (CRM) (SAR '000) – 31 December 2014						
Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	–	–	–	–	–	–
Authorised Persons and Banks	100,841	–	–	–	–	100,841
Corporates	46	–	–	–	–	46
Retail	–	–	–	–	–	–
Investments	–	–	–	–	–	–
Securitisation	–	–	–	–	–	–
Margin Financing	–	–	–	–	–	–
Other Assets	5,433	–	–	–	–	5,433
Total On-Balance sheet Exposures	**106,320**	–	–	–	–	**106,320**
Off-balance Sheet Exposures						
OTC/Credit Derivatives	–	–	–	–	–	–
Exposure in the form of repurchase agreements	–	–	–	–	–	–
Exposure in the form of securities lending	–	–	–	–	–	–
Exposure in the form of commitments	–	–	–	–	–	–
*Other Off-Balance sheet Exposures	–	–	–	–	–	–
Total Off-Balance sheet Exposures	–	–	–	–	–	–
Total On and Off-Balance sheet Exposures	**106,320**	–	–	–	–	**106,320**