**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.

<table>
<thead>
<tr>
<th>Private Equity</th>
<th>Retirement Plan</th>
<th>Special Investments</th>
<th>COLI BOLI</th>
<th>Long-term Investing</th>
<th>Strategic Investing &amp; Risk Management</th>
<th>MTM Overlay &amp; Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oversight of legacy investments</td>
<td>Management of US defined benefit pension investments and oversight of 401k</td>
<td>Investment in stressed and distressed opportunities related to undervalued or underperforming JPMC loans</td>
<td>Maximization of tax-advantaged investments of life insurance premiums</td>
<td>Core investment and derivatives portfolio used to manage the Firm's structural risk exposures.</td>
<td>Management of Firm's foreign currency exposure from non USD capital, revenues, and expenses</td>
<td>Management of exposures in Home Lending's MSR asset</td>
</tr>
<tr>
<td>$3.5bn AUM</td>
<td>$11.0bn AUM</td>
<td>TBD</td>
<td>$8.8bn AUM</td>
<td>$(139)mm BPV structural risk</td>
<td>$17bn nominal structural risk</td>
<td>$(21)mm BPV structural risk</td>
</tr>
<tr>
<td>Position in run-off mode</td>
<td>YTD 2012 estimated return 5.7%</td>
<td>First two investments completed</td>
<td>Allocation to mortgages and high grade credit</td>
<td>Reduced interest rate allocation; rotating into credit</td>
<td>Some open currency exposures, primarily Asia and Latam</td>
<td>Close to fully hedged post model update</td>
</tr>
</tbody>
</table>

**J.P.Morgan**

**JPM-CIO-PSI 0015016**
Overview

Business Structure
- Manage the portfolio with TRR mindset, delivering on
  - Financial returns vs budget
  - RWA limits
  - Risk adjusted returns (OCI and liability marked)
- Allocation of $153bn in RWA and $6.9bn in capital against AFS and MTM activities
  - AFS investment portfolio $110bn in RWA
  - MTM activities $43bn in RWA
- Reallocation trend of RWA from MTM to AFS
- 430 people worldwide

Governance Structure
- Expanded Management Committee
  - Operating issues
- Investment Committee
  - ALM and Investment portfolio review, analytics and asset allocation
- CIO Risk Committee
  - Management of aggregate market, credit, reputation and operational risks
CIO Risk Summary – COB March 6, 2012

Redacted by the
Permanent Subcommittee on Investigations

Synthetic Credit Summary

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Syr1</th>
<th>Syr10%</th>
<th>Upl50%</th>
<th>Lg Fltr</th>
<th>Sm Fltr</th>
<th>Vol5%</th>
<th>Vol95%</th>
<th>Contrib</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Strategic</td>
<td>(25.4)</td>
<td>11.5</td>
<td>(38.1)</td>
<td>1,428.1</td>
<td>31.1</td>
<td>48.6</td>
<td>48.3</td>
<td></td>
</tr>
<tr>
<td>Core Tactical</td>
<td>0.3</td>
<td>12.6</td>
<td>20.6</td>
<td>87.8</td>
<td>50.4</td>
<td>8.4</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Synthetic Total</td>
<td>(25.1)</td>
<td>11.5</td>
<td>(17.5)</td>
<td>1,515.9</td>
<td>136.9</td>
<td>50.3</td>
<td>50.5</td>
<td></td>
</tr>
</tbody>
</table>

Redacted by the
Permanent Subcommittee on Investigations

OEP FX Hedging Summary

Redacted by the
Permanent Subcommittee on Investigations

MSR Hedging Program

Redacted by the
Permanent Subcommittee on Investigations

J.P.Morgan
Volcker

<table>
<thead>
<tr>
<th>Proposed Volcker Rule</th>
<th>CIO View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any trade subject to Market Risk Capital Rules is deemed de facto prop trading</td>
<td>A transaction that is legitimately risk hedging is not prop trading because of the application of accounting and capital rules</td>
</tr>
<tr>
<td>Trades held for less than 60 days duration are presumptively prop trading</td>
<td>MTM positions that are true risk mitigation transactions might benefit from short term price movements but are not prop trading</td>
</tr>
<tr>
<td>Hedge must be &quot;reasonably correlated&quot; to the risk being hedged, but the preamble to the Rule states the hedge is only permissible when it is &quot;established slightly before&quot; the banking entity becomes exposed to the underlying risk</td>
<td>Purpose of stress tests is to inform the banking entity about risks to which it may become exposed, and based upon that information it is prudent for the banking entity to take risk mitigating actions. Use crisis as an example of anticipatory hedging</td>
</tr>
</tbody>
</table>

- ALM-Volcker comment letter was submitted to the Clearing House and SIFMA for industry submission
- Included as part of JPM comment letter on Volcker Rule specific examples of actions taken during the crisis that need clarification under the Rule as written
- Held meetings with Fed and OCC in late January. Scheduling meetings with the FDIC and CFTC
From: mcmantis_william@jpmorgan.com
Sent: Fri, 30 Mar 2012 22:12:22 GMT
To: JOHN.WILMOT@jpmorgan.com; peter.weiland@jpmchase.com
      lisa.drew@jpmorgan.com; achilles.o.macris@jpmorgan.com; anthony.m.brown@jpmorgan.com; javier.x.marttin-artajo@jpmorgan.com; bruno.m.iksi@jpmchase.com; phil.lewis@jpmorgan.com; irvin.j.goldman@jpmchase.com; david.bjarnason@chase.com; Ashley.Bacon@jpmorgan.com; steiner.zinke@jpmorgan.com; John.J.Hogan@jpmorgan.com; lema,s.coombes@jpmchase.com; alison.c.giovannetti@jpmorgan.com; kastil.edwina@jpmorgan.com; paul.t.bates@jpmchase.com; Jason.LDN.Haghes@jpmorgan.com; keith.stephan@jpmorgan.com; Keith.Enfield@jpmorgan.com; rory.t.ensill@jpmchase.com; Douglas.Braunstein@jpmorgan.com; warren.shannon@jpmorgan.com; jean-francois.besam@jpmorgan.com; Daniel.Pinto@jpmorgan.com; frank.j.pearn@jpmorgan.com; graham.j.meadows@jpmorgan.com; hatzopoulos_alexander@jpmorgan.com; mcmamus_william@jpmorgan.com; Paul.A.Ricci@chase.com; jom.x.rose@jpmorgan.com; john.r.butarazzi@jpmchase.com; andrew.c.challen@jpmchase.com; spencer.x.john@jpmorgan.com; avis.b.rodriguez@us.pwc.com; lauren.m.tyler@jpmorgan.com


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Audit Department Report

EMEA CIO Credit - Market Risk and Valuation Practices

Report Number: G-12/003
Audit Rating: Needs Improvement
Report Date: March 30, 2012
Audit Type: Audit

Prior Report Number: G-10003
Prior Report Date: February 26, 2010
Prior Report Rating: Satisfactory

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PS/ 0009289

Permanent Subcommittee on Investigations
EXHIBIT #82
Prior Audit Type: Audit

Business Overview and Context
The CIO EMEA credit portfolio is made up of Investment and Core Credit portfolios. The investment portfolio consists of Asset Backed Securities (ABS), Collateralised Loan Obligations (CLOs), Mortgage Backed Securities (MBS) and Rates products (Corporate & Government Bonds) and had a total notional of approximately $157 billion as of 12/31/11, $140bn within the strategic asset allocation (SAA) book and $17bn in the tactical asset allocation (TAA) book. The Core Credit portfolio primarily consists of derivative positions such as the CDS indices and tranches and had a total notional value of approximately $50 billion as of 12/31/11.

The Market Risk team is an independent control function within the CIO whose primary responsibilities are identifying, defining and monitoring appropriate measurement techniques to control market risk, using information provided by the JPMorgan risk infrastructure. CIO Valuation Control Group (VCG) is also an independent control function within the CIO responsible for price testing and fair value adjustments.

Audit Scope
The audit scope focused on risk and controls specifically relating to:

- Market Risk including the risk limits and sensitivities, VAR methodology and stress testing;
- Monthly valuation and reserve processes including independent price testing and provisioning;
- The completeness of positions included in the market risk and financial valuation processes.

Key Findings
The controls supporting the EMEA CIO Credit market risk management and valuation practices are being rated 'Needs Improvement' due to the following:

CIO VCG Practices
CIO utilise a number of risk and valuation models which have not been subject to review by the Model Risk Group. While there may be instances where the use of unapproved models is acceptable for a predefined period of time, no reserves are currently taken to account for positive P/L on unapproved models used for valuation purposes (i.e. Swaptions - Unapproved Model - Positive P/L $18m).

In addition, Audit noted deficiencies in the EMEA CIO VCG practices including the absence of a formally applied price sourcing hierarchy, insufficient consideration of potentially applicable fair value adjustments (e.g. concentration reserves for significant credit indices positions) and the lack of formally documented/consistently applied price testing thresholds. There is also a lack of transparency and quantitative assessment of the considerable judgment used to price test the CLO book given the inherent valuation uncertainty with the positions.

Market Risk

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Stress Testing - There is no documented stress testing 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. As a result, Audit was unable to fully assess the stress testing framework and related scenario outputs.

Market Risk Management Practices - The SAA book ($140Bn Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework and relevant SAA stress testing results are not measured against corresponding limits. CIO also does not explicitly measure the portfolio sensitivity to certain potentially applicable risk measures.

Market Risk Models - EMEA CIO is currently using unapproved models in the calculation of risk (including VaR) and associated risk measurement methodologies have not been appropriately documented and/or catalogued.

VaR Data Controls
While Audit found no specific examples of incomplete or inaccurate data, 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.

Root Cause
Root cause: Poorly documented CIO VCG practices and failure to comply with firmwide risk management standards.

Status
Management agrees with the reported issues and is implementing corrective actions.

Business Details
Level 1: Chief Investment Office
Business Executive: Ina Drew

Level 2: CIO
Business Executive: Achilles O Macris, John Wilcox, Phil Lewis, Irvin J Goldman

Location: United Kingdom, EMEA
Business Executive: Achilles O Macris

Audit Details
Management Team Member: Hatzopoulos, Alexander X
Audit Manager: John R Battarazi
Auditor In Charge: Andrew C Challin.
Detailed Findings and Management Action Plan

Issue: CIO VCG Practices

Audit testing identified several deficiencies and inconsistencies in EMEA CIO VCG practices and methodologies. Specifically:

- CIO is not currently deferring positive P&L generated from unapproved valuation models. Specifically, several unapproved models (Primus Sabre, ALIB Option, Offline TDR, Prime Whole Loan, CMBX Bond) are currently being used for valuation purposes without any corresponding reserves. Per VCG, associated 2011 P&L was predominantly limited to Swaptions totaling $18m.
- CIO VCG lacks a formally documented price sourcing hierarchy to govern the consistent use and appropriate application of independent prices for price testing purposes. Audit also noted that in price testing high grade corporate bonds, CIO VCG inappropriately utilises an Indicative report sent by JPM Asset Management (JPMAM), based on their incorrect understanding that such prices were validated by JPMAM's price testing function. Utilising Bloomberg prices, Audit estimated a price testing increase of $58m at 12/31/11. Separately, emerging market bonds are being price tested at mid levels, which is inconsistent with the front office marking at bid and resulted in an Audit estimated price testing decrease of $50m.
- There is no evidence of CIO VCG review to ensure the ongoing validity of thresholds applied to corporate, EM, government and government guaranteed bond price testing. Further, while the formally documented bond price testing threshold is +/- 1.5 price points (which would result in minimal required adjustments) different thresholds are actually applied by EMEA VCG without sufficient transparency or evidence. At year-end, Audit's independent bond price testing using dynamic thresholds resulted in an estimated $110m net increase. In addition, thresholds used to determine which price testing differences require adjustment are not clearly defined for Credit Indices.
- Concentration FVA was not calculated or applied for credit indices to account for the significant market positions. While the subsequently calculated potential concentration FVA of $13m would not have resulted in a required adjustment based on the CIO policy (which only requires taking the larger of the liquidity or concentration FVA), the policy's appropriateness should be reassessed.

Root Cause: Insufficient assessment/formalisation of certain price testing methodologies and poorly documented CIO VCG practices.

Action Plan

CIO will review current methodology to ensure consistency in application and appropriate practices are utilised. Specifically, CIO VCG will:

- Implement and evidence enhanced oversight of positive P&L being generated from unapproved and disapproved models, with reserves as necessary.
- Define and implement a price sourcing hierarchy to ensure a consistent and appropriate price sourcing and testing approach.
- Ensure price testing is performed consistently with front office marking policy.
- Document the rationale for current Bond price testing thresholds and reassess as necessary; clearly define price testing thresholds for ABS and CDS.
- Improve evidence of the monthly VCG ABS price testing process in order to enable re-performance.
- Reconsider the appropriateness of the existing credit indices price testing policy to ensure concentration is sufficiently incorporated.

Target Date: July 31, 2012

Issue Owner: Jason LDN Hughes
Issue: Market Risk Management and Stress Testing Practices  
Audit noted the following with regards to the market risk management framework, which is currently subject to a comprehensive reassessment by the CIO:

- There is no stress testing methodology documentation in place to outline key testing components (e.g., computational method and shock factors used for each asset class) or assess limitations such as offline risk measurement, missing risk factors and curves. Therefore Audit was unable to fully assess the validity of the stress testing framework and scenario outputs.
- The SAA book ($140bn Notional as at 12/31) does not currently feed the firm wide market risk limits and thresholds framework. While there is SAA portfolio stress testing and risk measurement of non statistical measures (e.g. CS01 and CSW), these exposures are not measured against corresponding limits. In the context of a large sell off scenario, the stress loss for AFS Credit is estimated to be $2.6bn.
- CIO does not explicitly measure the portfolio sensitivity to certain potentially applicable risk measures such as bond/CDs basis, interest rate and prepayment risk to facilitate sufficient consideration of corresponding risk management and controls.
- The Single Name Position Risk (SNPR) issuer exposure is misstated for the trading portfolio as it does not incorporate a disaggregation of the credit index tranche exposure at issuer level.

Root Cause: Market risk management practices have not been recently assessed or updated.

Action Plan

1. Comprehensive stress testing methodology documentation will be produced and specifically include shock factors (including FGI alignment) and an assessment of all risk factors. (Target Date: July 31, 2012)
2. CIO is currently undertaking a comprehensive review of the risk measurement and limits framework across all asset classes to assess potentially required enhancements including whether additional risk factors are required for inclusion. (Target Date: July 31, 2012)
3. CIO is in the process of implementing new functionality to enable the disaggregation of the credit index tranche for SNPR risk measurement purposes. (Target Date: September 30, 2012)
4. Target Date: July 31, 2012

Issue Owner: Keith Stephan
Issue: Market Risk Models
CIO is currently using unapproved models in the calculation of risk (including VaR) and associated risk measurement methodologies have not been appropriately documented and/or catalogued. Specifically:

- CIO specific amendments to approved IB VaR methodologies have not been documented or submitted to MRG for review. Unapproved amendments pertain to the production of P&L vectors and the use of proxies.
- CIO generate non statistical risk measures used for risk management, stress and VaR measurement via the internally developed West End analytics model, which has not been submitted to MRG for review.
- Documentation for all product sensitivity inputs used in CIO VaR models was not maintained in the Global Model Database (GMD), as required.
- The CIO Quantitative Research (QR) model inventory is incomplete. For example, the application of VaR and sensitivity models to specific product types is not included.

Root Cause: Model documentation for VaR and non statistical models was not appropriately maintained and submitted to MRG for review.

Action Plan

1. CIO will document all amendments to the approved VaR model and submit to MRG for review.

CONFIDENTIAL TREATMENT REQUESTED BY J.P. MORGAN CHASE & CO. JPM-CIO-PSI 0009294
2. CIO will document the West End Analytics engine and submit to MRG for review.
3. The QR model inventory and GMD will be updated as appropriate.

Target Date: June 30, 2012
Issue Owner: Keith Stephan

Issue: VaR Data Controls
While Audit found no specific examples of incomplete or inaccurate data, 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 for the Credit Sectors. Specifically:

- For Synthetic Credit, controls require enhancement to ensure the completeness and accuracy of trade positions used in the market risk VaR model, which are sourced from Primus via a stored procedure.
- For Secured Credit, controls require enhancement to ensure the completeness and accuracy of the sensitivity data (CSO1) used in the market risk VaR model and sourced from the trader maintained blotter (which is used as the central source of position and risk information for VaR reporting).

In addition, no SOX testing was being performed on these manual processes, which require designation as key SOX controls.

Root Cause: A lack of clear handshakes for ensuring the completeness and accuracy of VaR feeds in the off-line process.

Action Plan
1. CIO-MO will implement daily controls to ensure the completeness and accuracy of data used in the off-line calculation of VAR.
2. Following successful implementation of the above, Middle Office manager to deem control as a SOX key control and test as necessary going forward.

Target Date: May 31, 2012
Issue Owner: Hema S Coombes

Issue: VCG reporting
Audit noted the following with regards to VCG reporting to senior management:

- Pre- and post-price testing threshold results are not being reported.
- There is no historical analysis or trending of key valuation metrics with only the current month being reported.
- High grade bond price testing results that were reported to senior management varied from the underlying calculation files by $11m due to a manual reporting error. However, this issue did not result in a financial statement impact.

Root Cause: Insufficient focus on ensuring the appropriateness of VCG reporting to senior management.
Issue: Manual Errors within Price Testing and FVA Process
Controls over spreadsheets used for price testing purposes are not appropriately designed, resulting in several manual errors totalling $13m, $1.4m of which had a financial statement impact. The $1.4m error ($31m reported versus $32.4m actual) was primarily the result of several off-the-run credit indices being excluded. Other errors noted include VCG using an incorrect benchmark for 37 of the bonds tested and EUR/GBP high grade corporate bond positions not being converted into USD before aggregation for reporting purposes.

Root Cause: Controls over spreadsheets used for price testing purposes are not appropriately designed.

Action Plan
CIO VCG will implement sufficient spreadsheet control and governance processes in the VCG process to sufficiently minimise the risk of manual errors.

Target Date: July 31, 2012
Issue Owner: Jason LDN Hughes

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— End Report —
From: Drew, Ina <Ina.Drew@jpmorgan.com>  
Sent: Thu, 05 Apr 2012 21:05:18 GMT  
To: macris@btinternet.com  
CC: Wilmot, John <JOHN.WILMOT@jpmorgan.com>; Goldman, Irvin J <irvin.j.goldman@jpmchase.com>  
Subject: Fw: Jamie's fine with this.

---

From: Drew, Ina  
Sent: Thursday, April 05, 2012 04:53 PM  
To: Evangelisti, Joseph; Zubrow, Barry L  
Subject: Re: Jamie's fine with this.

Point two. Assets and liabilities  
We do not disclose CIO earnings - part of corporate

---

From: Evangelisti, Joseph  
Sent: Thursday, April 05, 2012 04:45 PM  
To: Drew, Ina; Zubrow, Barry L  
Subject: Jamie's fine with this.

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w: Dimon, Jamie  
Sent: Thursday, April 05, 2012 4:45 PM  
To: Evangelisti, Joseph  
Subject: Re: Revised: WSJ/Bloomberg CIO stories

Ok

---

From: Evangelisti, Joseph  
Sent: Thursday, April 05, 2012 04:44 PM  
To: Drew, Ina; Dimon, Jamie; Hogan, John J.; Scher, Peter L; Zubrow, Barry L; Staley, Jes; Cutler, Stephen M; Radin, Neila; Braunstein, Douglas; Wilmot, John  
Subject: Revised: WSJ/Bloomberg CIO stories

Here are some revised points based on your comments. The WSJ's deadline is in 10 minutes. 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 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.

We cooperate closely with our regulators, who are aware of our hedging activities.
Background: Not correct to attribute gains to a single trader. Members of the CIO take long-term hedging positions in the context of our overall liquidity management structure.

Background: $200 billion vastly overstated. $600 million in gains overstated.

Won't comment on a specific people.

From: Evangelisti, Joseph
Sent: Thursday, April 05, 2012 4:06 PM
To: Drew, Ina; Braunstein, Douglas; Hogan, John J.; Staley, Jes; Schoer, Peter L
Cc: Dimon, Jamie; Youngwood, Sarah M
Subject: WSJ/Bloomberg CIO stories

The Wall Street Journal and Bloomberg are working on prominent stories about Bruno Iksil, a managing director in our Chief Investment Office in London.

They are saying that Iksil currently has more than $200 billion in positions in credit trading products and has made JPM more than $600 million in profits over the past two years. They said his current CDS positions on the IG9 Index are roiling the market and that some of his positions may result in losses.

More generally, the WSJ and Bloomberg are saying that JPMorgan basically has a large proprietary trading shop hidden in its CIO, and that many analysts are unfamiliar with specifics around its activities. They also say that with increased capital rules the upcoming Volcker Rule, these activities could come under pressure.

I'd like us to hit hard the points that the CIO's activities are for hedging purposes and that the regulators are fully aware of our activities. I'd like to give them the following on the record:

* The Chief Investment Office is responsible for managing and hedging the firm's liquidity, foreign exchange, interest rate and other structural risks.

* Gains in the CIO offset and hedge losses in other parts of the firm.
  
  o The investments and positions undertaken by the CIO are to hedge positions and losses in other parts of the firm and are done in the context of our overall company risk management framework. Hedging gains reflected in our financial statements represent one side of a transaction that is hedging a loss in one of our main businesses.

* We cooperate closely with our regulators, and they are fully aware of our hedging activities.

* Background: Not correct to attribute gains to a single trader. Members of the CIO take long-term hedging positions in the context of our overall liquidity management structure.

* Background: $200 billion vastly overstated. $600 million in gains overstated.

* Won't comment on a specific people.
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 outperformed as it was positioned 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.

Post 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 mil dollars but net to 350 mil 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 CO on Monday.

Have a good holiday.
LEADING INTO THE CRISIS AND ECONOMIC DOWNTURN:

IN DISCUSSION WITH JD, CIO DECIDES TO BUY CREDIT PROTECTION USING INSTRUMENTATION ON THE SYNTHETIC CREDIT DERIVATIVES MARKET, PRINCIPALLY IN THE HIGH YIELD SPACE.

WHICH LEFT US SHORT RISK OR LONG PROTECTION IN WHICH CASE THE POSITION WOULD PROFIT AS HIGH YIELD COMPANIES DEFAULTED. AS TIME PROGRESSED AND THE FILINGS OCCURRED, THIS POSITION WAS BALANCED TO A MODERATE EXTENT WITH INVESTMENT GRADE LONG RISK POSITIONS.

OVER THE LAST 5 YEARS, THE POSITIONS MADE APPROXIMATELY 2.3 BILLION DOLLARS, WERE REASONABLY STABLE WITH PREDICTABLE P&L ALTHOUGH THERE WERE A COUPLE OF PERIODS OF DISTORTIONS MAINLY CENTERED AROUND SYSTEMATIC MARKET EVENTS INCLUDING LEHMAN AND AIG.

IN NOVEMBER OF 2011 THE POSITION WAS QUITE STABLE AND IN BOUNDS FROM ALL PERSPECTIVES.

WHAT HAPPENED?

FOUR THINGS HAPPENED AROUND THE MONTH OF DECEMBER TO CHANGE MY THINKING ON THE NEED FOR A PRO DEFAULT BIASED HEDGE.

1. THE COMPANY WAS STARTING TO DO THE MATH AROUND THE BASEL III RWA RULES. THE SAME BOOK THAT WAS DRAWING 20 OF CAPITAL UNDER BASEL I (THE REGIME THAT WAS IN PLACE DURING THE ENTIRE TIME OF THE HEDGE CONSTRUCTION) WAS GOING TO NEED APPROXIMATELY 60 BIL OR THREE TIMES THE CAPITAL TO SUPPORT.

2. WE HAD A BIG PAY DAY. AMERICAN AIRLINES FILED EARLY AND WE OWNED IN THE HIGH YIELD HEDGE, A SIGNIFICANT OPTION ON THAT OUTCOME. WE RECORDED $450 MILLION OF GAINS. ALTHOUGH THIS WAS A POSITIVE EVENT FOR THE BOOK, THE HIGH YIELD MARKETS WERE RIOLED AND DISLOCATED FOR THIS AND OTHER TECHNICAL REASONS.

3. THE LTRO IN EUROPE WAS ANNOUNCED ON DECEMBER 8TH PROVIDING STRONG SUPPORT FOR THE CREDIT UNIVERSE.

4. THE ECONOMY, PARTICULARLY IN THE UNITED STATES WAS LOOKING MUCH BETTER FROM ALL MACROECONOMIC STATISTICS AND WAS FURTHER FUELED BY THE LARGE SCALE EUROPEAN LIQUIDITY INJECTION. WE HAVE A PRO RISK THEMATIC THROUGH THE INVESTMENT BOOKS.

BOTTOM LINE: FOR ALL OF THE REASONS CITED, WE MADE A DECISION TO REDUCE THE SIZE OF THE HIGH YIELD SHORT.
THE TRADERS WERE DETERMINING HOW BEST TO REDUCE THE SHORT IN THE HIGH YIELD MARKET GIVEN THE DESCRIBED LACK OF LIQUIDITY IN THE HIGH YIELD MARKET. A DIRECT REDUCTION OF THE EXPLICIT POSITION WAS DEEMED NOT POSSIBLE AND ENORMOUSLY EXPENSIVE.

THE DESK THEN TURNED TO THE NEXT BEST PROXY WHICH IS CALLED THE IG9 INDEX. IT IS AN OLD INDEX FROM 2007, COMPOSED OF 125 EQUALLY WEIGHTED NAMES. WHICH MADE SENSE GIVEN THAT THE INDEX HAD 5 NAMES INCLUDING RADIAN, MBIA, ISTAR AND SPRINT OR COMMONALITY IN SINGLE NAMES THAT WOULD DIRECTLY OFFSET THE HIGH YIELD POSITION. THIS CHOICE WAS VIEWED AS HAVING AMPLE LIQUIDITY AND A GOOD PROXY TO REDUCE THE SHORT.

LIMIT

THE CONSTRAINING OPERATING LIMIT IN PLACE WAS VAR AND THE VAR HAD BEEN A GOOD PREDICTOR OF THE RISK. IN FACT, AS POSITIONS WERE ADDED THE VAR WAS COMING DOWN WHICH WAS ALSO A KEY DRIVER OF THE INTENDED CAPITAL REDUCTION.

THE DESK ADDED A VERY LARGE INVESTMENT GRADE POSITION TO TRY TO KEEP UP WITH THE REBALANCING THAT BELIEVED WAS NECESSARY AS THE HIGH YIELD MARKET WAS RISING IN PRICE.

WHAT WENT WRONG?

THIS IS WHERE AND HOW THE MAJOR PROBLEMS STARTED.

FIRST WE DID NOT HAVE LIMITS CONSTRAINING THE NOMINAL AMOUNTS OF POSITIONS THAT WOULD CLEARLY HAVE FLAGGED THE PURCHASES AS TOO LARGE AND CONCENTRATED FOR THE UNDERLYING LIQUIDITY OF THE MARKET DESPITE THE FACT THAT THE RISK EQUIVALENT OF THE PURCHASES WERE WITHIN LIMIT.

THE MODEL GOT IT WRONG. ALL THE THEORETICAL UNDERPINNINGS OF VALUATION HAVE BROKEN DOWN AND THE VOLATILITY HAS BROKEN ALL HISTORICAL AND WORSE CASE BANDS.

THERE WAS NO ELEVATION OF THE SIZE OF THE POSITION CHANGE OR A DISCUSSION AROUND THE MAGNITUDE OF NEW LONG RISK BEING ADDED TO EFFECTIVELY CLOSE DOWN OR BALANCE THE SHORT HIGH YIELD POSITION.

THE RESULT

THE RESULT IS A VERY LARGE, CONCENTRATED POSITION WHICH RETAINS ITS PRO DEFAULT PROPERTIES UNTIL THE END OF THE YEAR, IE STILL SHORT THE HIGH YIELD MARKET.

HOWEVER THE OVERALL BOOK IS LONG AGGREGATE CREDIT PRINCIPALLY IN INVESTMENT GRADE IN EUROPE AND THE UNITED STATES.
THE STRESS LOSS HAS FLIPPED FROM A POSITIVE RESULT TO A NEGATIVE RESULT SHOULD THERE BE A SEVERE SHOCK OR DOWNTURN.

WHAT ARE WE DOING?

THE FIRM WITH SIGNIFICANT HELP FROM THE INVESTMENT BANK AND THE RISK MANAGEMENT ORGANIZATION IS FRAMING A RISK REDUCTION PLAN THAT IT HAS STARTED TO GENTLY IMPLEMENT. THIS WILL TAKE AT LEAST THREE MONTH. WE ARE UNABLE TO PREDICT THE SIGNIFICANT P&L VOLATILITY THAT MAY ARISE AS A CONSEQUENCE.

I HAD STARTED REDUCING THE ALLOCATION TO INVESTMENT GRADE CREDIT IN THE INVESTMENT PORTFOLIO IN THE FIRST QUARTER AND AM ACCELERATING THOSE SALES TO MONETIZE SOME OF THE 9 BILL OF GAINS WE HAVE HARVESTED FROM THOSE CASH INVESTMENTS. WE CONSIDER THOSE SALES TO BE BOTH GOOD ECONOMIC SALES AND ALSO THE RIGHT THING TO DO TO BRING DOWN THE FIRMS EXPOSURE TO CREDIT, ALBEIT TOP OF THE CAPITAL STRUCTURE, WHILE THE RISK REDUCTION PLAN FOR THE EXCESS POSITION IN THE CREDIT DERIVATIVES BOOK IS BEING UNWOUND.

WE ARE WORKING THROUGH THE 10Q DISCLOSURE AND DOUG AND JAMIE ARE WEIGHING THE RISK REWARD TO THE COMMUNICATION PLAN AROUND A PRESS RELEASE AND ANALYST MEETING AND THE POTENTIAL IMPACT ON THE MARKET AND OUR ABILITY TO REDUCE THIS POSITION.

WHAT WENT WRONG:
Hi Ina,

Following up from our earlier call, here is a summary of our synthetic credit activity, results and outlook for Q2.

Year-to-date the synthetic book is -$525MM. Offsets in other credit positions limit the Q1 loss to -$350MM, while the Q1 CIO Intl financial income was +$830MM including the synthetic book. The Q1 TRR (including OCI delta) is $3.2bio year to date.

The synthetic credit book, as a dedicated hedge to our credit longs, continues to be short HY. In Q4, we decided to neutralize the risk profile of this book for two reasons: a) the large realized gains around the AMR events, and b) given our large investment program in cash credit securities and related view.

Our attempt to neutralize the book has been unsuccessful. We ended up losing a predictable -575MM on HY shorts, however the IG hedge delivered only +50MM. Although investment grade performed very well in Q1 and the relationship between HY and IG also worked in our favour, two idiosyncratic factors rendered our hedge ineffective:

1. **Our longs**, IG.9 and ITX.9 forwards, are in the off-the-run curves which steepened +24bps. Excess liquidity and the pro-risk environment drove carry traders to the front-end.

2. **Our longs underperformed the on-the-run indices as they contain specific high-risk names** in the old series (CDX.IG.9 contains Radian, MBIA, Countrywide, ILFC, iStar Financial, RR Donnelly; ITraxx.S9 contains Hellenic Telecom, Banco Espirito Santo, Portugal Telecom, Dixons, Elec. de Portugal).

The reason, however that we have chosen these IG proxies is because these are the very names that we are short in HY instruments.

Therefore, although thus far unsuccessful, these IG proxies best neutralize and balance our synthetic books to event risk. This has been reflected in the VaR and Stress VaR. Overall, we still remain short these names with a pro-defaul risk profile.

The book is overall risk balanced, given the cross-market long/short and has positive carry of $2MM/day, while retaining upside on defaults (see graph below).

For final Q2 we estimate a P&L range of -150MM to +250MM. Intra-quarter P&L could exceed this range, but not significantly.

The above estimate does not include P&L on default events, which is significantly positive, as shown in graphs below.

It is my impression that the recent market attention to our IG.9 activities maybe due to the market's incorrect perception that we are outright long IG.9 index with a related default risk profile. We are not.

I think it would be much more likely that the significant market shorts in IG.9 10Y will need to be covered. Many dealers hold significant shorts in IG.9 against legacy CDO portfolios, and as hedges to illiquid single-name inventory.

Related to IG.9, the most rewarding, short-term catalyst for CIO would be an MBIA related default event and
subsequent curve flattening. Alternatively, a settlement or positive case outcome for MBIA would be bullish and would support a rally in the forwards. Our P&L profile in this case would be in the above range of -150 to +250MM, and more carry dependent. Unfortunately this scenario would tie up augmented RWA further forward.

Best,
Achilles
A couple of follow-ups separately from a conversation I had with Doug late this afternoon:

- Profile of maturity of the Index and Tranche positions (driven by the discussion on the handout Appendix: Position CDX IG position changes since June 2011 allocated to IG9 forward trade)
- Doug had the question of why we just didn’t reduce the HY position to reduce our risk rather than going long the IG 9 (we discussed carry (ie associated p/l) but he makes the relevant point that from an RWA perspective this might be less economic)
- Lastly, Doug wanted some history relative to current positions (longs and shorts) and what were the relative indicative credit spreads at entry against current spreads

My follow-up question from this morning’s discussion:

- On the Appendix page referenced above: Can you explain to me the trend in risk trend highlighted in the far right column “Net CDX IG index position on “5yr” bucket”? It went from -14.4bn in Feb to -0.96bn in Mar to +12.1bn in April. Did the $8bn in IG5.75yr exposure add between Mar and Apr solely drive the $13bn addition to the Net CDx IG position?
- I think for reference purposes we also need to consider any statements around market volumes and days to liquidation carefully especially as it relates to p/l impact

John C. Wilmot | Chief Investment Office | © John.wilmot@jpmorgan.com | ☏ Work: (212) 834-5452 | ✆ Cell: 

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From: Drew, Ina
Sent: Monday, April 09, 2012 5:42 PM
To: Macris, Achilles O; macris@........ Martin-Artajo, Javier X
Cc: Goldman, Irvin J; Wilmot, John
Subject: Deliverables for meeting tomorrow

-Index/Tranches – Gross Notionals, nets – itemized for central clearing or counterparty risk

Table with spreads and VIEWS on spread moves with p/l associated. This is for Jamie and Doug. It is an extension of the table you provided that shows spread moves monthly.

' st of questions that we MAY or may not use for specific discussion with the GR (Hill)

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Confidential Treatment Requested by J.F...
We can review all and start a process for follow up things we need to address for risk management etc.

John/Irv – anything to add.

Please make sure ALL e-mails are distributed to me John and Irv. We will vet together with you tomorrow and then send out as appropriate.

ACHILLES – your other follow up was with Daniel on FSA**
This is the governance used in the IB to control what is currently going on in CIO. We (obviously) need to implement this in CIO as soon as possible, John

----- Original Message -----  
From: GREEN, IAN  
Sent: Wednesday, April 11, 2012 06:53 AM  
To: Bacon, Ashley; Goldman, Irvin J  
Cc: Hogan, John J.  
Subject: RE: Credit risk limits

CH uses a small number of limits (attached) and a significant reliance on the Structural Risk Measure (SRM - also attached) as the principal business limits. Directional limits tend to be small as the book is managed to be broadly neutral to spreads & correlation. All tranches and index trades are decomposed into Single Name positions and managed against spread-based limits and thru SNPR. We also rely heavily on the Stress Testing framework running 20 spread scenarios and 6 basis scenarios daily. An example Stress page for CH is attached.

here is also a significant reliance placed on the risk MIS and periodic reviews of the gross portfolio risks forums like the IRBC. I can send additional commentary on these if required.

Thanks
Ian

----- Original Message -----  
From: Bacon, Ashley  
Sent: 11 April 2012 00:14  
To: Goldman, Irvin J; GREEN, IAN  
Cc: Hogan, John J.  
Subject: Re: Credit risk limits

Ian, could you please send Irv the structure of CH limits and thresholds (and the SRM).

Thanks

----- Original Message -----  
From: Goldman, Irvin J  
Sent: Tuesday, April 10, 2012 05:57 PM  
To: Bacon, Ashley  
Cc: Hogan, John J.  
Subject: Credit risk limits

Hey,

Can you tell me what IB risk limits and measures we use for credit hybrids outside of var, stress + cs 10 widening.
From: Martin-Artajo, Javier X <javier.x.martin-artajo@jpmorgan.com>

Sent: Wed, 11 Apr 2012 14:59:13 GMT

To: Drew, Ina <Ina.Drew@jpmorgan.com>

CC: Macris, Achilles O <achiilles.o.macris@jpmorgan.com>

Subject: RE: Single names CDS basis relative to IG 9 CDS - URGENT update

Ina,

the market is quiet today. Too early to tell but so far about flat P/L. The tension has stopped now. The bank's communications yesterday are starting to work. I hope that it keeps this way tomorrow.

regards

From: Drew, Ina

Sent: 11 April 2012 15:53

To: Martin-Artajo, Javier X

Subject: RE: Single names CDS basis relative to IG 9 CDS - URGENT update

How is it going? Any market color today?

From: Martin-Artajo, Javier X

Sent: Wednesday, April 11, 2012 10:52 AM

To: Staley, Jes

Cc: Drew, Ina; Braunstein, Douglas; Hogan, John J.; Macris, Achilles O

Subject: FW: Single names CDS basis relative to IG 9 CDS - URGENT update

Jes,

further to your last question on the single names versus index I hope that this clarifies your question.

best regards

Javier

From: Martin-Artajo, Javier X

Sent: 11 April 2012 15:31

To: Drew, Ina

Cc: Macris, Achilles O

Subject: Single names CDS basis relative to IG 9 CDS - URGENT update

Ina,

regarding the relationship of a CDS index versus its components that is not an exposure that we have in the book. But, it is likely to affect our book given that it is not driving the dynamics of our curve position. The demand for single names in the last has not affected the index position if you look at the graph below. The basis to theoretical has been somewhere around 20 bps at the beginning of the year (Orange line) and the CDX IG 9 10 Yr (5.75 maturity, ie our long in IG 9 5 Yr as we call
Redacted By The Permanent Subcommittee on Investigations
From: Drew, Ina <Ina.Drew@jpmorgan.com>
Sent: Wed, 11 Apr 2012 00:16:29 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>; Braunstein, Douglas, Hogan, John J. <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L. <barry.l.zubrow@jpmchase.com>; Staley, Jes <jes.staley@jpmorgan.com>
CC: Goldman, Irvin J <irvin.j.goldman@jpmchase.com>; Wilmot, John, <JOHN.WILMOT@jpmorgan.com>; Macris, Achilles O <achilles.o.macris@jpmorgan.com>
Subject: FW: updated

ALL: Please see attached 2nd quarter scenarios for the Credit Book with descriptions. We can review all assumptions and answer questions on the 8:30am call. We are working on Jamie's request for correlation of the credit book against the portfolio and will also have those numbers at 8:30am.
Synthetic Credit Summary

<table>
<thead>
<tr>
<th>Date</th>
<th>Realised P&amp;L</th>
<th>Q1 Estimate</th>
<th>Q2 Estimate</th>
<th>Q3 Estimate</th>
<th>Q4 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-04-01</td>
<td>$5MM</td>
<td>-$5MM</td>
<td>-$10MM</td>
<td>-$15MM</td>
<td>-$20MM</td>
</tr>
</tbody>
</table>

Note regarding P&L Estimate of 12 April 2012

Today's P&L estimate of -$355MM represents a move 0.5% current Var 50% of $70MM.

Off the run IG curve bear steepened avg +70bp (30% of YTD move), and spreads widened avg +100bp.

Q2 P&L Estimates - these scenarios do not include 16 April P&L, which would accrete back into each scenario $1400MM, if re-calibrated for today's market moves

- $5MM (New Financial Crisis) implies an average spread widening of +25%, driven by banks/financials undergoing stress. In this case, the portfolio P&L is driven by:
  - +100MM carry
  - -500MM driven by underperformance of IG vs. HY (compression, led by bank/financials widening)

- Q2 P&L Estimates - these scenarios do not include 16 April P&L, which would accrete back into each scenario $1400MM, if re-calibrated for today's market moves

- $250MM (New Financial Crisis) implies an average spread widening of +25%, driven by banks/financials undergoing stress. In this case, the portfolio P&L is driven by:
  - +250MM carry
  - -100MM driven by underperformance of IG vs. HY (compression, led by bank/financials widening)

- $350MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches

- -$100MM due to spread widening, not offset in this case by curve flattening (we assume here that curves remain 43bps steep in IG equivalents)

- -$150MM (Stress Quo) in this case we assume that market levels and curves freeze at current levels; in this scenario CIO would deleverage around volatility throughout the quarter
  - +200MM carry
  - -300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches

- +$350MM (Central Scenario) in this case bull steepening of IG curves (+43bps), more than offset by outperformance of IG.9 curve vs. on the run
  - +170MM carry
  - -280MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches

- +$100MM due to risk in credit spreads +15%

- -$200MM due to relative outperformance of IG.9 curve vs. on the run IG curves (while counter-intuitive, the "compression" effect of IG.9 vs. on the run IG complex is driver of performance)

- +$150MM due to long-dated equity tranche outperformance

- In the section "10% Optimistic" the convexity of the portfolio in a highly positive or a highly negative market outcome is demonstrated.

- In the section "20% Optimistic" it is estimated that the book would range $355MM to $650MM.

- - $355MM in the event of bear steepening of curves, spreads wider by avg +10%

- - $650MM in the event of bull steepening of curves, spreads tighter by avg -25%, driven by underperformance of IG.9 (forwards do not roll down curve in rally)

JPMorgan
From: Wilmot, John <JOHN.WILMOT@jpmorgan.com>
Sent: Wed, 11 Apr 2012 18:59:00 GMT
To: Dimon, Jamie <jamie.dimon@jpmchase.com>
    Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. 
    <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Drew, Ina 
    <Ina.Drew@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Goldman, Irvin J 
    <Irvin.J.Goldman@jpmchase.com>
CC: Braunstein, Douglas <Douglas.Braunstein@jpmorgan.com>; Hogan, John J. 
    <John.J.Hogan@jpmorgan.com>; Zubrow, Barry L <barry.l.zubrow@jpmchase.com>; Drew, Ina 
    <Ina.Drew@jpmorgan.com>; Staley, Jes <jes.staley@jpmorgan.com>; Goldman, Irvin J 
    <Irvin.J.Goldman@jpmchase.com>
Subject: synthetic credit information

Jamie,

Attached please find a presentation on the synthetic credit book that was reviewed this afternoon with Doug, Jes, Ina, Barry and John. It covers the relevant data requests from the past several days.

John

John C. Wilmot | Chief Investment Office | John.wilmot@jpmorgan.com | Work: (212) 834-5452 | Cell: 

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Confidential Treatment Requested by J.P
Synthetic Credit Summary: Notional Exposure

- Gross external (to CIO, including IB) notional is $636.2bn long risk vs. $678.6bn short risk across all index and tranche products.
- External Index notional faces Intercontinental Exchange (ICE) net $166.7bn, 97% of total net external index exposure.
- Tranche products are not eligible for ICE clearing and are bilateral counterparty exposures.

<table>
<thead>
<tr>
<th></th>
<th>Long</th>
<th>Short</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross external</td>
<td>836.3</td>
<td>-678.6</td>
<td>157.7</td>
</tr>
<tr>
<td>Notionals outstanding with JPM:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Index</td>
<td>210.0</td>
<td>-187.2</td>
<td>-12.8</td>
</tr>
<tr>
<td>- tranche</td>
<td>162.2</td>
<td>-160.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Notionals outstanding with ICE:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Index</td>
<td>48.6</td>
<td>-36.9</td>
<td>11.7</td>
</tr>
<tr>
<td>- tranche</td>
<td>250.1</td>
<td>-153.4</td>
<td>96.7</td>
</tr>
<tr>
<td>Notionals outstanding with external counterparties:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Index</td>
<td>122.1</td>
<td>-118.6</td>
<td>3.5</td>
</tr>
<tr>
<td>- tranche</td>
<td>253.1</td>
<td>-208.9</td>
<td>44.2</td>
</tr>
</tbody>
</table>

CDX.IG.0 not position for CIO is $82.2bn, which is approximately 10-15 days of 100% of trading volume.

CDX.NA.0.18 not position for CIO is $335.5bn, which is approximately 5-12 days of 100% trading volume.

For on the run positions the numbers are much smaller, ranging from 0.25 days to 2 days volume in IG and HY, respectively.
### Synthetic Credit Summary: Maturity Profile

**Top Table:** Shows gross notional across indices and tranches by underlying index family (can be confusing, add notional of indices and tranches)

**Bottom Table:** Shows the 10% credit spread widening per maturity bucket.

- Largest short risk exposures in investment grade mature in Dec-12 for CDX:IG.9 and Jun-13 for iTraxx 60.
- Largest short risk exposures in high yield are concentrated in Dec-15 to Jun-16 for CDX:HY and Dec-16 for iTraxx: Crossover.
Synthetic Credit Summary: Risk & P/L Scenarios

- Total Synthetic Credit Var: 59.2mm
- 16% Credit Spread Widening
  - The position, beta-adjusted has net directional loss of $163MM in 10% parallel move in spreads
  - This is equivalent of $34.8bpc of long risk in 5y IG equivalents
- Relative value Risk Exposures
  - IG vs. HY 527bps of risk if IG underperforms HY by 1bps
  - IG 5/10s curve position 48MMbps of risk if curve steepens 1bps
  - XO vs. ITX $84mmbps of risk if ITX underperforms MOVEX by 1bps
  - ITX 5/10s curve position 19MMbps if curve steepens 1bps

<table>
<thead>
<tr>
<th>Index</th>
<th>Spr01</th>
<th>Spr+16%</th>
<th>Up56%</th>
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</thead>
<tbody>
<tr>
<td>CDX HY</td>
<td>8,510,886</td>
<td>478,396,558</td>
<td>2,285,054,595</td>
</tr>
<tr>
<td>CDX LCDDX</td>
<td>90,747</td>
<td>1,395,630</td>
<td>6,722,105</td>
</tr>
<tr>
<td>CDX IG</td>
<td>-35,121,719</td>
<td>-453,123,526</td>
<td>-2,144,460,027</td>
</tr>
<tr>
<td>ITRAXX MN</td>
<td>-22,056,610</td>
<td>-344,840,211</td>
<td>-1,771,859,467</td>
</tr>
<tr>
<td>ITRAXX XO</td>
<td>3,060,724</td>
<td>178,197,413</td>
<td>819,356,090</td>
</tr>
<tr>
<td>ITRAXX FINSUB</td>
<td>-560,652</td>
<td>-2,044,028</td>
<td>-107,359,386</td>
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<tr>
<td>ITRAXX FINSEN</td>
<td>-31,249</td>
<td>-747,797</td>
<td>-3,498,997</td>
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<tr>
<td>SOVX WE</td>
<td>-19,090</td>
<td>-437,811</td>
<td>-2,115,454</td>
</tr>
<tr>
<td>Synthetic Total</td>
<td>-46,127,273</td>
<td>-163,377,269</td>
<td>-617,579,542</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Index</th>
<th>CS01</th>
<th>Beta Adj CS01</th>
<th>Compressed01</th>
<th>Steeper01</th>
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</thead>
<tbody>
<tr>
<td>CDX HY</td>
<td>8,510,886</td>
<td>42,554,432</td>
<td>-45,080,715</td>
<td>-56,052,678</td>
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<tr>
<td>CDX LCDDX</td>
<td>90,747</td>
<td>453,732</td>
<td>-42,554,432</td>
<td>-56,052,678</td>
</tr>
<tr>
<td>ITRAXX XO</td>
<td>3,060,724</td>
<td>12,242,896</td>
<td>42,554,432</td>
<td>56,052,678</td>
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<tr>
<td>ITRAXX FINSUB</td>
<td>-560,652</td>
<td>-2,242,609</td>
<td>-42,554,432</td>
<td>-56,052,678</td>
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<tr>
<td>ITRAXX FINSEN</td>
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<td>-124,981</td>
<td>-42,554,432</td>
<td>-56,052,678</td>
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<tr>
<td>SOVX WE</td>
<td>-19,090</td>
<td>-19,090</td>
<td>-42,554,432</td>
<td>-56,052,678</td>
</tr>
<tr>
<td>EUR50</td>
<td>19,090</td>
<td>-19,090</td>
<td>-42,554,432</td>
<td>-56,052,678</td>
</tr>
</tbody>
</table>

Total Synthetic Credit: -46,127,273 - 4,314,245 - 61,492,074 - 64,751,959
Synthetic Credit Summary: Exposure to steepness

- On a simple basis, curve could steepen by 20 bps more (on historical basis)
- Loss approx $1 billion
- With hedges currently in place, we could steepen by 100 bps approx
- Loss approx $550mm

Bottom graph shows the behaviour of the slope of IG 8.5yr versus IG 9.5yr that we have in our book. This shows the relationship between the slope of our position in the index versus the actual hedge that we have bonding the relationship that is the 5yr short that we have on the run five year IG and the short that we have in the HY OTR since Jan 2008. This ratio is 85% and 15% as per our book.

JPMorgan
Single Name Risk & Forward Jump to Default Risk

Table 1: default profile today and post December 2012

<table>
<thead>
<tr>
<th>Portfolio</th>
<th># of Names</th>
<th># of names with default loss risk</th>
<th>Average P&amp;L given Default ($mm)</th>
<th>Max P&amp;L given Default ($mm)</th>
<th># of names with default gain</th>
<th>Average Gain given Default ($mm)</th>
<th>Max Gain given Default ($mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total portfolio today</td>
<td>566</td>
<td>62</td>
<td>-67</td>
<td>-205</td>
<td>626</td>
<td>133</td>
<td>600</td>
</tr>
<tr>
<td>Total portfolio post Dec 2012</td>
<td>566</td>
<td>228</td>
<td>-335</td>
<td>-716</td>
<td>357</td>
<td>133</td>
<td>600</td>
</tr>
<tr>
<td>IG9 only today</td>
<td>121</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>121</td>
<td>146</td>
<td>417</td>
</tr>
<tr>
<td>IG9 post Dec 2012</td>
<td>121</td>
<td>0</td>
<td>-572</td>
<td>-716</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

IG9 Hedge options

- **IG9 on-the-run**: covers 89 names out of 121
- **IG18 on-the-run**: covers 13 out of the remaining 32 names unhedged with IG18

- Today there is considerable default protection coming from IG9 tranche.
- Across the 121 names in IG9, the Jump-To-Default at Market Recovery goes from a current gain of +148m on average per name to a loss of -572m per name post December 2012.
- This is because of the roll-off of two forms of protection:
  - The first is the 32bn of short-dated protection on 20th Dec 2012.
  - The second (and this is important) is the roll-off of nearly $4bn long protection on IG9 equity tranches. The equity tranche gives protection at an approximate ratio of 30 to 1, so the $4bn of equity tranche protection is equivalent to $120bn of index protection in terms of pure default risk.
- Post 20th December 2012, we would be able to partially hedge this exposure with the current on-the-run Index but the overlap is 89 names out of the 121 in IG9.
- On the 32 remaining names we have a Jump-to-Default loss of $500mm on average per name that would need to be hedged by other means (HY on the run index, single name CDS, index tranche etc)
Across the 121 names in IG9, the Jump-To-Default at Market Recovery goes from a current gain of +146m on average per name to a loss of -572m per name post December 2012 as shown in the table.

Table 2: Top 20 names Default Exposure Post Dec 2012

<table>
<thead>
<tr>
<th>Names IG9</th>
<th>JT0 post dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAXTER INTERNATIONAL INC.</td>
<td></td>
</tr>
<tr>
<td>BRSOL-MAYERS GUARDIAN COMPANY</td>
<td></td>
</tr>
<tr>
<td>CAPITAL ONE BANK (USA), NATIONAL ASSOCIATION</td>
<td></td>
</tr>
<tr>
<td>CENTER CORPORATION</td>
<td></td>
</tr>
<tr>
<td>COMCAST CABLE COMMUNICATIONS, LLC</td>
<td></td>
</tr>
<tr>
<td>DUKE ENERGY CAROLINAS, LLC</td>
<td></td>
</tr>
<tr>
<td>INMAQ CORPORATION</td>
<td></td>
</tr>
<tr>
<td>GOODWIN CORPORATION</td>
<td></td>
</tr>
<tr>
<td>HONEYWELL INTERNATIONAL INC.</td>
<td></td>
</tr>
<tr>
<td>INTEGROL-HAND COMPANY, INTERNATIONAL BUSINESS MACHINES CORPORATION</td>
<td></td>
</tr>
<tr>
<td>INTERVAL ACQUISITION CORP.</td>
<td></td>
</tr>
<tr>
<td>MCDONALD'S CORPORATION</td>
<td></td>
</tr>
<tr>
<td>MCKEEBEN CORPORATION</td>
<td></td>
</tr>
<tr>
<td>MISTRAS GROUP CORPORATION</td>
<td></td>
</tr>
<tr>
<td>NITTO INDIAN NIKEN INC.</td>
<td></td>
</tr>
<tr>
<td>P&amp;G AND HAS COMPANY</td>
<td></td>
</tr>
<tr>
<td>THE WALCO DISNEY COMPANY</td>
<td></td>
</tr>
<tr>
<td>WELLS FARGO &amp; COMPANY</td>
<td></td>
</tr>
<tr>
<td>WYETH LLC</td>
<td></td>
</tr>
</tbody>
</table>
### Synthetic Credit Summary: Risk & P/L Scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Realised P/L in Q1</th>
<th>Q2 P/L Estimates - these scenarios do not include 18 April P/L, which would accrete back into each scenario +$400MM, if re-calibrated for today's market moves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>-$250MM (New Financial Crisis) implies an average spread widening of -25%, driven by bank/financials underlying stress. In this case, the portfolio P/L is driven by:</td>
<td>- $250MM carry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $100MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $300MM due to 'spread widening', not offset in this case by curve flattening (we assume here that curves remain 43bps steep in IG equivalents)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $150MM (Status Quo) in this case we assume that market levels and curves 'freeze' at current levels; in this scenario CIO would del hedge around volatility throughout the quarter</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $200MM carry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $300MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- $500MM due to long-dated tranche underperformance as observed in Q1</td>
</tr>
<tr>
<td>Case 2</td>
<td>+$350MM (Central Scenario) in this case bull steepening of IG curves (+4bps), more than offset by outperformance of IG.9 curve vs. on the run</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>+$170MM carry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+$260MM due to 'duration extension' as we project that the short-dated short risk duration in IG will contract as expiry approaches</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+$100MM due to rally in credit spreads -15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+$200MM due to relative outperformance of IG.9 curve vs. on the run IG curves (while counter-intuitive, the 'compression' effect of IG.9 vs. on the run IG complex is driver of performance)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+$150MM due to long-dated equity tranche outperformance</td>
</tr>
<tr>
<td>Case 3</td>
<td>In the section '10% Optimistic' the convexity of the portfolio in a highly positive or a highly negative market outcome is demonstrated.</td>
<td>-$570MM in the event of 20% tightening of spreads, decomposition of HY vs. IG away, and IG.8 forward outperformance (rolling down the curve)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1,136 'End of QE' refers to a scenario of strong growth led by U.S., spreads avg. -50% tighter</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+$1,725MM in 'Many Defaults' inverse wave of defaults among widest spread names (inl. NIV), IG spreads vs. IG's flattening, and +70% spread widening, driven by performance of HY shorts, IG flattening and long protection positions in the portfolio</td>
</tr>
<tr>
<td>Case 4</td>
<td>In the section '10% Extreme' it is estimated that the book would range -$365MM to -$650MM.</td>
<td>- $350MM in the event of bear steepening of curves, spreads wider by avg +10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-$650MM in the event of bull steepening of curves, spreads tighter by avg -25%, driven by underperformance of IG.9 (forwards do not roll down curve in rally)</td>
</tr>
</tbody>
</table>

**Note regarding P/L Estimate of 10 April 2012**

Today's P/L estimate of -$395MM represents a move of current VaR of $800MM.

Off the run IG.9 curves bear steepened avg +70bp (30% of YTD move), and spreads widened avg +10bps.
Appendix: CDX.IG.9 Market Impact

- CIO increased the CDX.IG.9 5.78y exposure by $36bn during January and February.
- Compared to on the run equivalent spread moves this does not appear to have distorted market prices.
- "Skew" or index to the basis has been mean reverting / moving less negative since start of year (original line on DataQuery graph).

<table>
<thead>
<tr>
<th>CDX.IG.9 Spreads</th>
<th>IG5 6.78y</th>
<th>IG5 2.78y</th>
<th>IG5 0.78y</th>
<th>IG5 5.75y slope</th>
<th>IG5 SY GTR</th>
<th>HF SY GTR</th>
<th>IG 5Y GTR adj for IG 5Y HF spread (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-11</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103.36</td>
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<tr>
<td>Sep-11</td>
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<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103.36</td>
</tr>
<tr>
<td>Nov-11</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103.36</td>
</tr>
<tr>
<td>Jan-12</td>
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<td>103</td>
<td>103</td>
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<td>103</td>
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<td>103.36</td>
</tr>
<tr>
<td>Feb-12</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103.36</td>
</tr>
<tr>
<td>Apr-12</td>
<td>103</td>
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<td>103</td>
<td>103</td>
<td>103</td>
<td>103</td>
<td>103.36</td>
</tr>
<tr>
<td>MTD Chg</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Redacted By The Permanent Subcommittee on Investigations

J.P. Morgan
Attached please find the three documents we discussed:

- Core Credit Executive Summary
- Synthetic Credit Q&A
- Market Structure Overview
Below is an explanation from a strategic point of view the construction, execution, risk profile and the extreme P/L outlook for the synthetic credit book or Core Credit Book.

The construction of the credit derivatives book: the Core Credit Book as we call it internally was designed since its inception to benefit from market downside risk with a profile that would offer the firm the best risk/reward for that downside protection.

At the beginning of 2007 we started a program that bought ABX and TABX protection on the subprime and since July 2008 we started a program that would benefit from large defaults on High Yield names as the Risk / Reward for having curve flatteners was a very good way to get this protection for the company. The book has kept its profile of pro-default risk for High Yield until the end of 2011.

The execution of the High Yield Book from inception in 2007 was based on buying protection on the on-the-run series and tranches of this series and balancing the book with older series as the High Yield market tends to have wider names as times passes since it collects the most traded names and will include the large fallen angels too. So, this makes sense to do if we believe that we have a bad economy in front of us but has to be balanced to adjust for large spread moves and needs to offset with some positive carry to make the book with the smallest negative carry that we think is appropriate.

The way that we at CIO have book-run the Core Book to balance the negative carry cost of the High Yield Book overtime has been using Investment Grade strategies that gave us some carry or buying optionality (or both) in the tranche market to offset the directionality of the High Yield Book if this was more efficient than using intra-High Yield hedging.

From an execution point of view the Book from the beginning of 2011 was a pivotal year since we started to realize that the Risk / Reward that this book offered started to have a Risk / Reward that was not as compelling as it had been in the past and started to reduce the book notional and size until June 2011 when we increased the High Yield Book once again as the events of Europe and US started to gather momentum.

The P/L Outlook for the Core Book could be described as balanced in terms of directionality (without a short bias Beta adjusted) and with large default protection for all of 2012 of the top 12 High Yield riskiest names in HY and a positive carry of 2 MM/day.

In order to explain the P/L outlook for Q2/Q3/Q4 2012 I would like to describe the book in a more detail group of trades to better understand the risks that the book currently has.