MARCH 2019

PILLAR III DISCLOSURE

J.P. Morgan Saudi Arabia Company

License Number: 12164-37

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1. Scope of Application

This report is prepared and issued by J.P. Morgan Saudi Arabia Company (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 (http://www.jpmorgansaudiarabia.com).

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 2018, the Company has share capital of SAR 93.75 million.

The ultimate parent of the entity in scope of the disclosure is JPMorgan Chase & Co. ("JPMorgan Chase"), a financial holding company incorporated under Delaware law in 1968.

This document refers to JPMorgan Chase or the "Firm" when referring to frameworks, methodologies, systems and controls that are adopted throughout JPMorgan Chase & Co. and its subsidiaries. JPMSA or the "Company" is used to refer to documents, financial resources and other tangible concepts relevant only to J.P. Morgan Saudi Arabia Company.

2. 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 share capital of SAR 60 million in 2008 to SAR 93.75 million. JPMSA also plans to retain its accumulated profits for the foreseeable future to strengthen its capital position and support planned expansionary activities. JPMSA's total capital base is SAR 176.3mm as at 31 Dec 2018.

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

3. Capital Adequacy

The Company is continuously strengthening its risk management framework to support the growing business requirements. The current risk management process in JPMSA is considered adequate in terms of its size and operations. JPMSA ICAAP defines the framework for measuring, monitoring, reporting all material risks and for the efficient capital planning process to ensure sufficient capital is available to meet the usual business activities and any unforeseen contingencies.

JPMSA is considered adequately capitalized over the capital planning horizon. The Company also plans to retain its accumulated profits for the foreseeable future as part of its capital planning and management.

Under the CMA Prudential Rules, JPMSA's minimum capital requirement is SAR 23.3 million. As at 31 December 2018, JPMSA has total shareholders' equity of SAR 176.3 million which results in a coverage ratio of 7.56. The table below is a summary of the capital adequacy disclosure as set out full in Exhibits A.1 and A.2 in the Appendix.

Exhibit 3.1

Capital Base – 31 December 2018	
	SAR 000s
Paid up capital	93,750
Audited retained earnings	71,389
Reserves (other than revaluation reserves)	11,258
Total Capital Base	**176,397**
Minimum Capital Requirement	23,320
Total Capital Ratio (times)	**7.56**

4. Risk and Control Framework

Risk is an inherent part of J.P. Morgan Chase's business activities. When the Firm extends a consumer or wholesale loan, advises customers on their investment decisions, makes markets in securities, or offers other products or services, the Firm takes on some degree of risk. The Firm's overall objective is to manage its businesses, and the associated risks, in a manner that balances serving the interests of its clients, customers and investors and protects the safety and soundness of the Firm.

Firmwide Risk Management is overseen and managed on an enterprise-wide basis. The Firm's approach to risk management covers a broad spectrum of economic and other core risk areas, such as credit, market, liquidity, model, structural interest rate, principal, country, operational, compliance, legal, capital and reputation risk, with controls and governance established for each area, as appropriate.

The Firm believes that effective risk management requires:

- Acceptance of responsibility, including identification and escalation of risk issues, by all individuals within the Firm;
- Ownership of risk identification, assessment, data and management within each of the lines of business and corporate functions; and
- Firmwide structures for risk governance.

The Firm strives for continual improvement through efforts to enhance controls, ongoing employee training and development, talent retention, and other measures. The Firm follows a disciplined and balanced compensation framework with strong internal governance and independent Board oversight. The impact of risk and control issues are carefully considered in the Firm's performance evaluation and incentive compensation processes.

4.1 Firmwide Risk Governance Framework

Firmwide Risk Management is overseen and managed on an enterprise-wide basis. The Firm's risk management governance and oversight framework involves understanding drives of risks, types of risks and impacts of risks.

The Firm manages its risk through risk governance and oversight functions. The scope of a particular function may include one or more drivers, types and/or impacts of risk.

The Firm has an Independent Risk Management (IRM) function, which consists of the Risk Management and Compliance organizations. The CEO appoints, subject to DRPC approval, the Firm's CRO to lead the IRM organization and manage the risk governance structure of the Firm. The framework is subject to approval by the DRPC in the form of the primary risk management policies. The Firm's CRO oversees and delegates authorities to LOB CROs, Firmwide Risk Executives (FREs), and the Firm's Chief Compliance Officer (CCO). The CCO oversees and delegates authorities to the LOB CCOs, and is responsible for the creation and effective execution of the Global Compliance Program. The Firm places reliance on each of its LOBs and other functional areas giving rise to risk to operate within the parameters identified by the IRM function, and within its own management-identified risk and control standards. Each LOB and Treasury and CIO, inclusive of their aligned Operations, Technology and Control Management are considered the "first line of defense" and owns the identification of risks, as well as the design and execution of controls, inclusive of IRM-specified controls, to manage those risks. The first line of defense is responsible for adherence to applicable laws, rules, and regulations and for the implementation of the risk management structure (which may include policy, standards, limits, thresholds and controls) established by IRM.

The IRM function is independent of the businesses and is "the second line of defense". The IRM function sets and oversees the risk management structure for firmwide risk governance, and independently assesses and challenges the first line of defense risk management practices. IRM is also responsible for its own adherence to applicable laws, rules, regulations and for the implementation of policies and standards established by IRM with respect to its own processes.

The Internal Audit function operates independently from other parts of the Firm and performs Independent testing and evaluation of processes and controls across the entire enterprise as the Firm's "third line of defense". The Internal Audit Function is headed by the General Auditor, who reports to the Audit Committee.

In addition, there are other functions that contribute to the firmwide control environment including Finance, Human Resources, Legal, and Control Management.

The independent status of the IRM function is supported by a governance structure that provides for escalation of risk issues to senior management, the Firmwide Risk Committee, and the Board of Directors, as appropriate.

4.2 EMEA Risk Governance

As already discussed, J.P. Morgan's risk governance structure is based on the principle that each line of business is responsible for managing the risk inherent in its business, albeit with appropriate corporate oversight. Each LOB risk committee is responsible for decisions regarding the business risk strategy, policies (as appropriate) and controls. Therefore, each LOB within JPMCHL forms part of the Firmwide risk governance structure. To complement the global line of business structure, there is a regional governance construct as below:

- The EMEA Risk Committee (ERC) provides oversight of the risks inherent in the Firm's business conducted in EMEA or booked into EMEA entities and relevant branches as well as EMEA branches of ex-EMEA firms. In addition, to its regional responsibilities, the ERC has direct oversight of the risks in all EMEA Tier 1 entities. Tier 2 and 3 entities (including JPMSA) are overseen by the EMEA CRO Forum, a sub-forum of the ERC.
- The ERC is accountable to the EMEA Management Committee (EMC) and the boards, Directors Risk and Policy Committees (DRPC) and Oversight Committees of the relevant legal entities. In addition, it reports to the Firmwide Risk Committee (FRC) and the HR Control Forum.
- The EMEA CRO leads the Risk Management function in the region and chairs the ERC and EMEA CRO Forum. The EMEA CRO is a member of the EMC.

Whilst J.P. Morgan has established a comprehensive Firmwide risk policy framework, this is supplemented as required by legal entity-specific risk policies, which are approved by the relevant entity Boards and DRPCs.

Global Legal Entity Risk Framework

The Global Legal Entity Risk framework was established to support firmwide risk governance and oversight at the legal entity level. The framework is designed to drive appropriate oversight, best practices and escalation for legal entities globally based on tiered governance principles. Governance standards are established for each tier of governance, and include risk committee membership, reporting requirements and appointment of Legal Entity Risk Managers (LERMs). The framework is overseen by the Legal Entity Risk Forum and is organized through the regional legal entity Risk governance teams. These regional teams also support the LERMs on oversight of specific legal entity regulatory requirements.

Legal Entity Risk Forum

The LE Risk Forum exercises oversight and control of the legal entity risk management and governance standards across all regions. It is responsible for:

- Creating and administering consistent global standards, guidance and procedures in relation to LE risk management and governance;
- Addressing and prioritizing escalated LE and cross-regional risk management and governance matters; and
- Engaging with the various Risk Management functions, Lines of Business and other Corporate functions of the firm to achieve the aforementioned objectives.

The LE Risk Forum promotes alignment with established firmwide processes and procedures; any divergence driven by local laws and regulations is reviewed by the Forum and subsequently documented by the Global LE Risk Team. LE Risk Forum membership comprises the regional CROs, the CRO of JPMCB N.A, firmwide risk executives and regional and LOB LE Risk.

4.3 JPMSA Legal Entity Risk Governance and Oversight Framework

JPMSA is part of the firmwide and regional risk governance oversight framework as described above.

The JPMSA Board has delegated to the JPMSA Local Management Committee ("LMC"), composed of senior management, to ensure that any significant decisions are aligned to the Firm's strategy in light of any relevant KSA regulatory requirements, to consider the material risks and issues that are escalated to the LMC, and to provide the necessary oversight and challenge for any proposed mitigation/remediation activities.

The Location Operational Risk and Control Committee ("LORCC"), composed of respective business and control function representatives, is responsible to monitor adherence to the Operational Risk Management Framework (please refer to Operational Risk below) as well as review and identify operational risk and control items requiring escalation .

JPMSA has assigned a legal entity risk manager for the day to day risk management of the entity. The JPMSA legal entity risk manager is an attendee of the EMEA CRO Forum and a member of the LMC and LORCC.

4.4 Firmwide Risk Appetite Framework

JPMC Risk Appetite is a high level statement of the firm's appetite for risk. The Risk Appetite framework integrates risk controls, earnings, capital management, liquidity management and return targets to set the firm's risk appetite in the context of its objectives for key stakeholders, including but not limited to shareholders, depositors, regulators and clients.

4.5 JPMSA risk appetite

JPMSA leverages the firm wide Risk Appetite framework. JPMSA is also subject to a defined framework of target capital levels, as well as specific thresholds / triggers for escalation and action. Based on this framework, corrective action is taken as and when required to maintain an appropriate capitalization level.

4.6 Risk Assessment

JPMSA completes the Internal Capital Adequacy Assessment Process ("ICAAP") annually, which forms part of management and decision-making processes such as the JPMSA risk appetite, strategy, capital and risk management frameworks, and stress testing. The ICAAP is used to assess the risks to which the JPMSA is exposed; how these risks are measured, managed, monitored and mitigated; and how much capital the JPMSA should hold to reflect these risks now, in the future and under stressed conditions.

4.6.1 Credit Risk

Risk definition	Credit risk is the risk associated with the default or change in credit profile of a client, counterparty or customer. J.P. Morgan provides credit to a variety of customers, ranging from large corporate and institutional clients to individual consumers and small businesses. In its consumer businesses, J.P. Morgan is exposed to credit risk primarily through its home lending, credit card, auto, and business banking businesses. In its wholesale businesses, J.P. Morgan is exposed to credit risk through its underwriting, lending, market-making, and hedging activities with and for clients and counterparties, as well as through its operating services activities (such as cash management and clearing activities), securities financing activities, investment securities portfolio, and cash placed with banks.

Firmwide credit risk management	
Risk governance and Policy framework	Credit risk management is an independent risk management function that monitors, measures and manages credit risk throughout the J.P. Morgan group and defines credit risk policies and procedures. The credit risk function reports to the Firm's CRO. The Firm's credit risk management governance includes the following activities: ▪ Establishing a comprehensive credit risk policy framework ▪ Monitoring, measuring and managing credit risk across all portfolio segments, including transaction and exposure approval ▪ Setting industry concentration limits and establishing underwriting guidelines ▪ Assigning and managing credit authorities in connection with the approval of all credit exposure ▪ Managing criticized exposures and delinquent loans Estimating credit losses and ensuring appropriate credit risk-based capital management
Risk appetite	J.P. Morgan seeks to maintain a risk profile that is diverse in terms of obligor, product type, industries and geographic concentration. Additional diversification of JPMC's exposure is accomplished through: loan syndication and participations; loan disposals; securitizations; credit derivatives; and other risk-reduction techniques. Credit Risk policies govern the process by which limits are set and monitored according to individual clients, client families, geographic and sector. Credit family, sector and sovereign limits are set at a firm-wide level.
Approach to risk management	**Risk Measurement** Methodologies for measuring credit risk vary depending on several factors, including type of asset, risk measurement parameters and risk management and collection processes. Credit risk measurement is based on the probability of default of an obligor or counterparty, the loss severity given a default event and the exposure at default. **Credit and Counterparty Credit Risk** Credit loss estimates are based on estimates of the probability of default ("PD") and loss severity given a default. The probability of default is the likelihood that a borrower will default on its obligation; the loss given default ("LGD") is the estimated loss on the loan that would be realized upon the default and takes into consideration collateral and structural support for each credit facility. The estimation process includes assigning risk ratings to each borrower and credit facility to differentiate risk within the portfolio. These risk ratings are reviewed regularly by Credit Risk Management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The calculations and assumptions are based on both internal and external historical experience and management judgment and are reviewed regularly.

For portfolios that fluctuate based upon an underlying reference asset or index, potential future exposure is measured using probable and unexpected loss calculations based upon estimates of probability of default and loss severity given a default.

Concentration Risk

Credit concentration risk is managed at the firm-wide level through a matrix of credit family exposure thresholds, industry limits and country risk limits. The concentration risk framework complements but does not replace normal credit approval and review requirements.

Settlement Risk and Delivery Risk

Products not settled on DAP (Delivery After Payment) or PvP (Payment vs. Payment) terms require settlement exposure to be quantified (the delivery risk of physical commodity products is included in the DRE calculation), monitored and controlled. Settlement risk is calculated using the Duration Based Settlement Risk ("DBSE") metric. It measures The amount of purchased contracts which may be delivered on a single day to a particular counterparty (or eligible borrowers). The measure takes into account the duration of settlement risk resulting from settling different currencies locally and it incorporates settlement fail amounts in the exposure. JPM's "Credit Approval Principles" and "Counterparty Exposure and Settlement Exposure" policies govern Settlement Risk. Subject to certain criteria, the trades may be exempt from credit approval; if the trades fall outside of these criteria, then the business units are required to obtain credit approval for Daily Settlement Limits ("DSLs"). A DSL is a notional amount that limits the US$ equivalent receivable value of non-DAP/non-PvP transactions contracted to settle on a particular date. DBSE is monitored against DSL.

Credit Risk Management of TCPs

Approval of new clients: All clients are subject to credit analysis and financial review by Credit Risk Management before new business is accepted.

Establishment of credit lines:

All credit exposure must be approved in advance by a Credit Officer(s) with the level of credit authority required by the applicable credit authority grid unless qualifying for rules-based policies, described separately below. The approval is recorded in iCRD. Proposals and credit lines are recorded on the Credit Risk Infrastructure System ("CRI"). Credit Officers approve intraday, advised and unadvised overdraft lines for clients based on analysis undertaken by Credit Risk Management.

In some instances, credit lines can be approved according to predetermined rules that are subject to annual review by the appropriate Credit Officers. The policy framework governing this provides a single, consistent global approach while allowing the application of differing local requirements.

Risk monitoring

The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision-making process of extending credit 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 exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the line of businesses.

Risk reporting

To enable monitoring of credit risk and effective decision making, aggregate credit exposure, credit quality forecasts, concentration levels and risk profile changes are reported regularly to senior members of Credit Risk Management. Detailed portfolio reporting of industry; clients, counterparties and customers; product 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, risk committees, senior management and the Board of Directors as appropriate. **Stress testing** Stress testing is important in measuring and managing credit risk in the Firm's credit portfolio. The process assesses the potential impact of alternative economic and business scenarios on estimated credit losses for the Firm. Economic scenarios and the underlying parameters are defined centrally, articulated in terms of macroeconomic factors and applied across the businesses. The stress test results may indicate credit migration, changes in delinquency trends and potential losses in the credit portfolio. In addition to the periodic stress testing processes, management also considers additional stresses outside these scenarios, including industry and country specific stress scenarios, as necessary. The Firm uses stress testing to inform decisions on setting risk appetite both at a Firm and LOB level, as well as to assess the impact of stress on individual counterparties.

JPMSA credit risk management

Line of Business	All
Risk profile	JPMSA's credit risk profile is limited and short-term, and is driven by deposits held with JPMorgan Chase Bank, N.A. or local banks. At the time of this document, these local banks were rated no less than "A- (or equivalent)" by major rating agencies with a 'stable' outlook from Fitch and Moody's. JPMorgan Chase Bank, N.A. is rated Aa1, P-1 by Moody's, AA, F1+ by Fitch and A+, A-1 from S&P with a 'Stable' outlook across all three rating agencies. Other assets mainly comprise of fee accruals due from related parties and prepaid expenses. Due to the nature of the business conducted in JPMSA, there is limited credit risk arising from its activities. There are no past due claims or receivables provision on the JPMSA balance sheet. No collateral or netting has been taken in support of any transaction to date.
Risk Governance and Policy Framework	JPMSA's legal entity approach mirrors the firm-wide approach with legal entity specific governance overlay. Credit risk oversight responsibility for JPMSA sits with the Local Management Committee, made up of senior management, which in turn reports to the Board of JPMSA.
Risk appetite	In addition to firm-wide credit risk policies, JPMSA's risk appetite is expressed through the risk bearing capacity process and limit guidelines that are in place including quantitative limits for credit risk under going concern and gone concern scenario. As new business is migrated into JPMSA, the entity's risk appetite and the framework governing it will be adapted accordingly, in line with factors including the risk profile of the incoming portfolios, products and services and the appropriate capital adequacy ratios.
Approach to risk management	The regional approach mirrors the firm-wide approach and is complemented by activities and governance that are specific to JPMSA. **Resourcing of credit function and credit approval** JPMSA has established an outsourced model through an SLA framework to leverage firm-wide credit risk analysis capability covering the initial credit risk analysis including assignment of ratings. In addition a Booking Office Country Approval ("BOCA") workflow has been established in iCRD to trigger formal notification and local approval for any changes to non-rule based facilities. The BOCA workflow enables to log and maintain relevant documentation and audit trail regarding the decision to grant change to

	credits to be included in JPMSA's files. **Monitoring and managing the quality of the credit portfolio** **Establishment of settlement lines** For the equities brokerage business, individual settlement limits have been granted to certain counterparties in order to manage potential counterparty risks (from counterparties failing to settle). In addition an aggregate trading limit has been established to ensure JPMSA remains adequately capitalized even in adverse events. **Concentration Risk** Credit concentration risk is managed at the firm wide level through a matrix of credit family exposure thresholds, industry limits and country risk limits. The concentration risk framework complements but does not replace normal credit approval and review requirements.
Risk Assessment	An assessment of the risks pertaining to Credit Risk together with a description of their risk management and governance is provided above as part of "Approach to risk management". JPMSA uses the prescribed methodology under Pillar I requirements of the CMA Prudential Rules to calculate regulatory capital for credit risk.

Exhibit 4.1

Credit Risk – 31 December 2018

	Gross Exposures SAR 000s	Net Exposures SAR 000s	Risk Weighted Assets SAR 000s	Capital Requirement SAR 000s
Authorised persons and banks	175,074	175,074	35,015	4,902
Other Assets	17,375	17,375	52,125	7,298
Total on-balance sheet exposures	**192,449**	**192,449**	**87,140**	**12,200**

4.6.2 Market Risk

Market Risk

Lines of business	All
Risk definition	Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term. The firm, through its lines of business ("LOBs"), may be exposed to market risk as a result of various financial activities, including trading, funding, underwriting and investing. Market Risk Management monitors market risks throughout the Firm and defines market risk policies, procedures and frameworks. The Market Risk Management function reports to the Firm's CRO, and seeks to manage risk, facilitate efficient

	risk/return decisions, reduce volatility in operating performance and provide transparency into the firm's market risk profile.

Firmwide Market Risk Management	
Risk governance	The Firmwide Risk Executive Market Risk ("FRE") Market Risk and Line Of Business Chief Risk Officers (LOB CROs) are responsible for establishing an effective market risk organization. The FRE Market Risk, LOB Heads of Market Risk establish the framework to measure, monitor and control market risk.
Risk appetite	JPMC's Risk Appetite framework includes quantitative parameters for Market Risk.
Approach to risk management	**Risk Measurement** There is no single measure to capture market risk and therefore the Firm uses various metrics both statistical and non-statistical to assess risk. As the appropriate set of risk measures utilized for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases. **Risk Monitoring and Control** Market risk limits are employed as the primary control to align the Firm's market risk with certain quantitative parameters within the Firm's Risk Appetite framework. Senior management, including the Firm's CEO, CRO and Market Risk Management are responsible for reviewing and approving limits on an ongoing basis. Limits that have not been reviewed within a specified time period by Market Risk Management are escalated to senior management. Limit breaches are required to be reported in a timely manner to limit signatories. Market Risk Management and senior management as appropriate determine the course of action required to return to compliance, such as a reduction in risk or the granting a temporary increase in limits. Aged or significant breaches are escalated to senior management, the LOB Risk Committee, and/or the Firmwide Risk Committee. Additional controls beyond market risk limits - including but not limited to Authorized Instruments, LOB Pre-trade Transaction Guidelines and E-Trading Control Standards - are also employed as a means to control market risk.
Policy framework	Firmwide Market Risk Management Policy

JPMSA Legal Entity Market Risk Management	
Scope	JPMSA
Risk profile	JPMSA market risk is currently limited to the foreign exchange risk which is calculated as 2% of the Net Open Foreign Currency Position (other than SAR) under the CMA Prudential Rules for Currency Risk. The non-SAR open currency positions are primarily in USD. Market risk may also arise from trade rejections under the Qualified Foreign Investor or Independent Custodian Model cash equities brokerage trading models. Please see Exhibit A.2 for further details.
Risk Governance	The JPMSA approach to risk governance mirrors the Firmwide approach. The Legal Entity Risk Manager is responsible for considering the Firmwide methodologies / procedures with respect to each Legal Entity. Oversight for market risk is delegated by the Board of Directors to the Local Management Committee.

Risk appetite	Firmwide risk appetite applies.
Approach to risk management	Firmwide approach to risk management applies.
Policy framework	Firmwide policy framework applies.
Risk assessment	JPMSA uses the prescribed methodology under Pillar I requirements of the CMA Prudential Rules to calculate regulatory capital for market risk.

Exhibit 4.2

Market risk – 31 December 2018		
	Long Position SAR 000s	Capital Requirement SAR 000s
Foreign exchange	90,476	1,810
Total Market Risk	**90,476**	**1,810**

4.6.3 Operational Risk

Lines of business	All

Operational Risk

Lines of business	All
Risk definition	Operational risk is the risk associated with inadequate or failed internal processes, people and systems, or from external events and includes compliance risk, conduct risk, legal risk, and estimations and model risk. Operational risk is inherent in the Firm's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, cybersecurity attacks, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their agreements. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Firm. The goal is to keep operational risk at appropriate levels in light of the Firm's financial position, the characteristics of its businesses, and the markets and regulatory environments in which it operates.

Firmwide Operational Risk Management	
Operational Risk Management Framework	To monitor and control operational risk, the Firm has an Operational Risk Management Framework ("ORMF") which is designed to enable the Firm to maintain a sound and well-controlled operational environment. The ORMF has four main components: Governance, Operational Risk Identification and Assessment, Operational Measurement, and Operational Risk Monitoring and Reporting.
Approach to risk management	**Governance** The lines of business and corporate functions are responsible for applying the ORMF in order to manage the operational risk that arises from their activities. . The Control Management organization, which consists of control officers within each line of business and corporate function, is responsible for the day-to-day execution of the ORMF. Line of business and corporate function control committees are responsible for reviewing data that indicates the quality and stability of processes, addressing key operational risk issues, focusing on processes with control concerns, and overseeing control remediation. These committees escalate operational risk issues to the Firmwide Control Committees (FCC), as appropriate. The Firmwide Risk Executive for Operational Risk Management (ORM), is responsible for defining the ORMF and establishing minimum standards for its execution. Operational Risk Officers report to both the line of business CROs and to the Firmwide Risk Executive for ORM, and are independent of the respective businesses or corporate functions they oversee. The Firm's Operational Risk Management Policy is approved by the Directors' Risk Policy Committee (DRPC). This policy establishes the Operational Risk Management Framework for the Firm. **Operational risk identification and assessment** The Firm utilizes a structured risk and control self-assessment process which is executed by the lines of business and Corporate in accordance with the minimum standards established by ORM, to identify, assess, mitigate and manage its operational risk. As part of this process, lines of business and Corporate identify key operational risks inherent in their activities, address gaps or deficiencies identified, and define actions to reduce residual risk. Action plans are developed for identified control issues and business and Corporate are held accountable for tracking and

resolving issues in a timely manner. Operational Risk Officers independently challenge the execution of the self-assessment and evaluate the appropriateness of the residual risk results.

In addition to the self-assessment process, the Firm tracks and monitors events that have led or could lead to actual operational risk losses, including litigation-related events. Responsible lines of businesses and Corporate analyze their losses to evaluate the effectiveness of their control environment to assess where controls have failed, and to determine where targeted remediation efforts may be required. ORM provides oversight of these activities and may also perform independent assessments of significant operational risk events and areas of concentrated or emerging risk.

Operational risk measurement

In addition to the level of actual operational risk losses, operational risk measurement includes operational risk-based capital and operational risk losses under both baseline and stressed conditions.

The primary component of the operational risk capital estimate is the Loss Distribution Approach ("LDA") statistical model, which simulates the frequency and severity of future operational risk loss projections based on historical data. The LDA model is used to estimate an aggregate operational risk loss over a one-year time horizon, at a 99.9% confidence level. The LDA model incorporates actual internal operational risk losses in the quarter following the period in which those losses were realized, and the calculation generally continues to reflect such losses even after the issues or business activities giving rise to the losses have been remediated or reduced.

As required under the Basel III capital framework, the Firm's operational risk-based capital methodology, which uses the Advanced Measurement Approach ("AMA"), incorporates internal and external losses as well as management's view of tail risk captured through operational risk scenario analysis, and evaluation of key business environment and internal control metrics. The Firm does not reflect the impact of insurance in its AMA estimate of operational risk capital.

The Firm considers the impact of stressed economic conditions on operational risk losses and develops a forward looking view of material operational risk events that may occur in a stressed environment. The Firm's operational risk stress testing framework is utilized in calculating results for the Firm's Comprehensive Capital Analysis and Review (CCAR) and Internal Capital Adequacy Assessment Processes (ICAAP).

Operational risk monitoring and reporting

ORM has established standards for consistent operational risk monitoring and reporting. Reporting includes the evaluation of key risks indicators against established thresholds as well as the assessment of different types of operational risk against stated risk appetite. The standards reinforce escalation protocols to senior management and to the Board of Directors.

Risk Appetite	Risk Appetite framework for assessing and monitoring risk is supported by the risk and control frameworks in place throughout the firm, as governed by the Risk Governance policy, where each area of the firm is responsible for assessing and managing the risks in its business, at a minimum to meet the firm's risk management standards and within management's own chosen risk and control standards. The company places key reliance on the LOB as the first line of defense in risk governance. Corporate functions are also responsible for the assessment of the risks they create including escalation of issues to the proper risk and control forum. While the firm's appetite for certain risks is not numerically quantified, firm level risk appetite is set for the following qualitative factors: — Operational risk — Compliance risk

	— Conduct risk — Reputation risk Additional qualitative factors may be incorporated and monitored at the LOB or function level outside of the firmwide risk appetite framework.
Interaction between risk categories	Operational risk can manifest itself in various ways. Operational risk subcategories such as compliance risk, conduct risk, legal risk and estimations and model risk, as well as other operational risks, can lead to losses which are captured through the Firm's operational risk measurement processes.
Policy framework	Firmwide Operational Risk Management Policy

JPMSA operational risk management	
Risk profile	Operational risk is an inherent part of the activity of JPMSA. LOB activity performed in this entity is subject to the Firm's Operational Risk Management Framework (ORMF). JPMSA is an entity with well-established processes and a developed infrastructure to support the businesses conducted at the legal entity: investment banking advisory, brokerage (equities and markets), direct custody and clearing. New products are subject to the requirements of the NBIA policy prior to launch, including the assessment of potential impact to legal entities. The businesses within JPMSA identify and assess operational risks through the firm wide annual risk and control self-assessment (RCSA) process. In addition, a risk profile for JPMSA is prepared with internal and external operational risk events information, and involving the business, location subject matter experts and legal entity stakeholders, on an annual basis.
Risk governance	The JPMSA Board has overall responsibility for ensuring the appropriate management of Operational Risks impacting the entity. They discharge this responsibility through: ▪ Recognition of the operation of global policies to ensure each Line of Business (LOB) and Functional Groups has accountability for the operational risk management framework for businesses in the legal entity. ▪ Review and discussion at the Board level of risks, issues, and the effectiveness of the operational risk framework. Business have primary responsibility for the management of operational risk for all EMEA locations in which they conduct business. The operational risk management frameworks to which the business and Corporate abide are designed to ensure that risk and control issues, or potential issues, are tracked and monitored to resolution. Various business control forums and committees receive data that allows them to gain insight into the operational risk and control environment and identify emerging trends and issues that they may challenge. The LOB framework is complemented by the JPMSA Legal Entity Risk Governance Framework as outlined above.
Risk appetite	JPMSA's tolerance for operational risk is not numerically quantified, but is part of the risk and control frameworks in place throughout the firm, as governed by the Firm Risk Appetite policy.
Approach to risk management	JPMSA's approach mirrors the Firm's approach
Policy framework	JPMSA adheres to the Firm operational risk management framework.
Risk assessment	For Pillar 1, JPMSA uses the methodology as prescribed by CMA Prudential Rules which is based on the Basic Indicator Approach (BIA) recommended by Basel.

Exhibit 4.3

Operational risk – 31 December 2018	
	Capital requirement SAR 000s
Total operational risk	**9,310**

4.6.4 Liquidity Risk

Liquidity Risk

Risk definition	Liquidity risk is the risk that the Firm will be unable to meet its contractual and contingent financial obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.

Firmwide Liquidity Risk Oversight	
Risk governance	Committees responsible for liquidity governance include the firmwide ALCO as well as line of business and regional ALCOs, the Treasurer Committee, and the CTC Risk Committee. In addition, the DRPC reviews and recommends to the Board of Directors, for formal approval, the Firm's liquidity risk tolerances, liquidity strategy, and liquidity policy at least annually.
Liquidity risk oversight	The Firm has a liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk across the Firm. Liquidity risk oversight is managed through a dedicated firmwide Liquidity Risk Oversight group. The CTC CRO, who reports to the Firm's CRO, is responsible for firmwide Liquidity Risk Oversight. Liquidity Risk Oversight's responsibilities include but are not limited to: ▪ Establishing and monitoring limits, indicators, and thresholds, including liquidity appetite tolerances; ▪ Monitoring and reporting internal firmwide and legal entity liquidity stress tests as well as regulatory defined liquidity stress tests; ▪ Approving or escalating for review new or updated liquidity stress assumptions; ▪ Monitoring liquidity positions, balance sheet variances and funding activities; ▪ Conducting ad hoc analysis to identify potential emerging liquidity risks; and ▪ Performing independent review of liquidity risk management processes.

Internal stress testing	Liquidity stress tests are intended to ensure that the Firm has sufficient liquidity under a variety of adverse scenarios, including scenarios analyzed as part of the Firm's resolution and recovery planning. Stress scenarios are produced for JPMorgan Chase & Co. and the Firm's material legal entities on a regular basis, and ad hoc stress tests are performed, as needed, in response to specific market events or concerns. Liquidity stress tests assume all of the Firm's contractual financial obligations are met and take into consideration: ▪ Varying levels of access to unsecured and secured funding markets, ▪ Estimated non-contractual and contingent cash outflows, operating subsidiaries, at levels sufficient to comply with liquidity risk tolerances and minimum liquidity requirements, and to manage through periods of stress where access to normal funding sources is disrupted ▪ Potential impediments to the availability and transferability of liquidity between jurisdictions and material legal entities such as regulatory, legal or other restrictions. Liquidity outflow assumptions are modeled across a range of time horizons and currency dimensions and contemplate both market and idiosyncratic stresses. Results of stress tests are considered in the formulation of the Firm's funding plan and assessment of its liquidity position. The Parent Company acts as a source of funding for the Firm through equity and long-term debt issuances, and the IHC provides funding support to the ongoing operations of the Parent Company and its subsidiaries, as necessary. The Firm maintains liquidity at the Parent Company and the IHC, in addition to liquidity held at the operating subsidiaries, at levels sufficient to comply with liquidity risk tolerances and minimum liquidity requirements, and to manage through periods of stress where access to normal funding sources is disrupted.

JPMSA Liquidity Risk Oversight	
Risk profile	JPMSA does not have material liquidity risks due to type of business activities it undertakes. JPMSA is incorporated into the firm wide liquidity risk management framework. As at Dec-18, JPMSA had SAR75.8 mm of cash balances held with JPMCB NA and a local bank rated no less than A- (or equivalent), compared to total liabilities of SAR16 mm[1].
Risk governance	For JPMSA, the Board of Directors have delegated the risk oversight to the Local Management Committee.
Approach to risk management	JPMSA is incorporated into the firm-wide liquidity risk management framework. (see above).

1. Excluding positions related to Swaps conducted in line with the CMA Swaps Circular

A. Appendices

Exhibit A.1

Disclosure on Capital Base – 31 December 2018	
Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	93,750
Audited retained earnings	71,389
Share premium	0
Reserves (other than revaluation reserves)	11,258
Tier-1 capital contribution	0
Deductions from Tier-1 capital	0
Total Tier-1 capital	**176,397**
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	**176,397**

Exhibit A.2

Disclosure on Capital Adequacy – 31 December 2018

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	175,074	175,074	35,015	4,902
Corporates				
Retail	–	–	–	–
Investments	–	–	–	–
Securitisation	–	–	–	–
Margin Financing	–	–	–	–
Other Assets	17,375	17,375	52,125	7,298
Total On–Balance sheet Exposures	**192,449**	**192,449**	**87,140**	**12,200**
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	**192,449**	**192,449**	**87,140**	**12,200**
Prohibited Exposure Risk Requirement	–	–	–	–
Total Credit Risk Exposures	**192,449**	**192,449**	**87,140**	**12,200**

Market Risk	**Long Position**	**Short Position**	
Interest rate risks	–	–	–
Equity price risks	–	–	–
Risks related to investment funds	–	–	–
Securitization/re-securitization positions	–	–	–
Excess exposure risks	–	–	–
Settlement risks and counterparty risks	–	–	–
Foreign exchange rate risks	90,476	–	1,810
Commodities risks	–	–	–
Total Market Risk Exposures	**90,476**	**–**	**1,810**
Operational Risk			**9,310**
Minimum Capital Requirements			23,320
Surplus/(Deficit) in capital			153,077
Total Capital ratio (times)			**7.56**

Exhibit A.3

Disclosure on Credit Risk's Risk Weight (SAR '000) – 31 December 2018

Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitization	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	–	–	–	–	–	–	–	–	–	–	–	–	–
20%	–	–	175,074	–	–	–	–	–	–	–	–	175,074	35,015
50%	–	–	–	–	–	–	–	–	–	–	–	–	–
100%	–	–	–	–	–	–	–	–	–	–	–	–	–
150%	–	–	–	–	–	–	–	–	–	–	–	–	–
200%	–	–	–	–	–	–	–	–	–	–	–	–	–
300%	–	–	–	–	–	–	–	–	–	17,375	–	17,375	52,125
400%	–	–	–	–	–	–	–	–	–	–	–	–	–
500%	–	–	–	–	–	–	–	–	–	–	–	–	–
714% (include prohibited exposure)	–	–	–	–	–	–	–	–	–	–	–	–	–
Average Risk Weight	0%	0%	20%	0%	714%	0%	0%	0%	0%	300%	0%	45.28%	45.28%
Deduction from Capital Base	–	–	4,902	–	-	–	–	–	–	7,298	–	12,200	12,200

Exhibit A.4

Disclosure on Credit Risk's Rated Exposure (SAR '000) – 31 December 2018

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		–	175,074	–	–	–	–	–
Corporates		–	–	–	–	–	–	–
Retail		–	–	–	–	–	–	–
Investments		–	–	–	–	–	–	–
Securitization		–	–	–	–	–	–	–
Margin Financing		–	–	–	–	–	–	–
Other Assets		–	16,910	–	–	–	–	465
Total		–	**191,984**	**–**	**–**	**–**	**–**	**465**

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		175,074	–	–	–	–
Corporates		–	–	–	–	–
Retail		–	–	–	–	–
Investments		–	–	–	–	–
Securitization		–	–	–	–	–
Margin Financing		–	–	–	–	–
Other Assets		16,910	–	–	–	465
Total		**191,984**	**–**	**–**	**–**	**465**

Exhibit A.5

Disclosure on Credit Risk Mitigation (CRM) (SAR '000) – 31 December 2018

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	175,074	–	–	–	–	175,074
Corporates	–	–	–	–	–	–
Retail	–	–	–	–	–	–
Investments	–	–	–	–	–	–
Securitization	–	–	–	–	–	–
Margin Financing	–	–	–	–	–	–
Other Assets	17,375	–	–	–	–	17,375
Total On-Balance sheet Exposures	**192,449**	–	–	–	–	**192,449**
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	**192,449**	–	–	–	–	**192,449**