

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 2017, 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 149.9mm as at 31 Dec 2017.

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 17.8 million. As at 31 December 2017, JPMSA has total shareholders' equity of SAR 149.9 million which results in a coverage ratio of 8.40. 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 2017**

	SAR 000s
Paid up capital	93,750
Audited retained earnings	49,108
Reserves (other than revaluation reserves)	7,061
Total Capital Base	149,919
Minimum Capital Requirement	17,851
Total Capital Ratio (times)	8.40

4. Risk and Control Framework

Risk is an inherent part of J.P. Morgan Chase's business activities. 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's Operating Committee, which consists of the Firm's Chief Executive Officer ("CEO"), Chief Risk Officer ("CRO"), Chief Operating Officer ("COO"), Chief Financial Officer ("CFO"), and other senior executives, is the ultimate management escalation point in the Firm, and may refer matters to the Firm's Board of Directors. The Operating Committee is responsible and accountable to the Firm's Board of Directors.

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

The Firm's CRO is the head of the Independent Risk Management (IRM) function and reports to the CEO and the Directors' Risk Policy Committee ("DRPC"). The CEO appoints the CRO to create the Risk Management Framework subject to approval by the DRPC in the form of the Primary Risk Policies. The Chief Compliance Officer ("CCO"), who reports to the CRO, is also responsible for reporting to the Audit Committee for the Global Compliance Program. The Firm's Global Compliance Program focuses on overseeing compliance with laws, rules and regulations applicable to the Firm's products and services to clients and counterparties.

The IRM function, comprised of Risk Management and Compliance Organizations, is independent of the businesses. The IRM function sets various standards for the risk management governance framework, including risk policy, identification, measurement, assessment, testing, limit setting (e.g., risk appetite, thresholds, etc.), monitoring and reporting. Various groups within the IRM function are aligned to the LOBs and to corporate functions, regions and core areas of risk.

The Firm places key reliance on each of its LOBs and other functional areas giving rise to risk. Each LOB or other functional area giving rise to risk is expected to operate its activities within the parameters identified by the IRM function, and within their own management-identified risk and control standards. Because these LOBs and functional areas are accountable for identifying and addressing the risks in their respective businesses and for operating within a sound control environment, they are considered the "first line of defense" within the Firm's risk governance framework.

The Firmwide Oversight and Control Group consists of dedicated control officers within each of the lines of business and corporate functions, as well as having a central oversight function. The group is charged with enhancing the Firm's control environment by looking within and across the lines of business and corporate functions to help identify and remediate control issues. The group enables the Firm to detect control problems more quickly, escalate issues promptly and engage other stakeholders to understand common themes and interdependencies among the various parts of the Firm.

As the "second line of defense", the IRM function provides oversight and independent challenge, consistent with its policies and framework, to the risk-creating LOBs and functional areas.

Internal Audit, a function independent of the businesses and the IRM function, tests and evaluates the Firm's risk governance and management, as well as its internal control processes. This function, the "third line of defense" in the risk governance framework, brings a systematic and disciplined approach to evaluating and improving the effectiveness of the Firm's governance, risk management and internal control processes. The Internal Audit Function is headed by the General Auditor, who reports to the Audit Committee. 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, or the Board of Directors.

4.2 EMEA Regional Risk Governance

EMEA Risk Committee ("ERC"): The ERC provides oversight of the risks inherent in the Firm's business conducted in EMEA or booked into EMEA entities and branches of ex-EMEA firms, and is chaired by the EMEA CRO. The ERC is accountable to the EMC and the Firmwide Risk Committee ("FRC") (where the EMEA CRO is also a member) and the Boards of the individual legal entities. In addition to its regional responsibilities, the ERC provides specific legal entity risk oversight of Risk Tier 1 entities, while the Legal Entity Risk Committee (LERC) (a sub-committee of the ERC) provides legal entity risk oversight of Risk Tier 2 and 3 entities.

EMEA Operating Committee ("EOC"): The EOC provides oversight and management of the operating environment to ensure appropriate management of operational risk and the maintenance of a sound internal control environment across all LOBs in the EMEA region. The EOC is accountable to the EMC and the Boards of the individual legal entities. The committees above may delegate responsibility for management and oversight of risks to other committees or forums.

Additionally, the EMEA Audit and Compliance Committee reports into the global Audit Committee and the Boards of the individual legal entities, and oversees the integrity of financial statements, monitors and reviews internal financial controls and the effectiveness of the Internal Audit function.

The Global Legal Entity Risk framework assigns Risk Tiers from 1 to 4 to the Firm's significant operating entities across all lines of business based on qualitative and quantitative factors, where Tier 1 represents the highest level of Risk Management oversight required. Legal Entity Risk Managers ("LERM") are appointed for all Risk Tier 1, 2 and 3 entities. JPMSA has been classified as Risk Tier 3 under this framework.

4.3 JPMSA Legal Entity Risk Governance and Oversight Framework

JPMSA is part of the firm wide and regional risk governance oversight 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 a member of the EMEA Legal Entity Risk Committee (“LERC”) as well as 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.
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Firmwide credit risk management

Risk governance and Policy framework	<p>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:</p> <ul style="list-style-type: none">■ 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 <p>Estimating credit losses and ensuring appropriate credit risk-based capital management</p>
Risk appetite	<p>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.</p> <p>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.</p>
Approach to risk management	<p>Risk Measurement</p> <p>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.</p> <p>Credit and Counterparty Credit Risk</p> <p>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.</p> <p>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.</p> <p>Concentration Risk</p> <p>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.</p>

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 "BBB+ (or equivalent)" by major rating agencies with a 'stable' outlook from S&P and Moody's. JPMorgan Chase Bank, N.A. is rated Aa2, P-1 by Moody's, A+, A-1 by S&P and AA-, F1+ by Fitch 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.
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Exhibit 4.6.1

Credit Risk – 31 December 2017				
	Gross Exposures SAR 000s	Net Exposures SAR 000s	Risk Weighted Assets SAR 000s	Capital Requirement SAR 000s
Authorised persons and banks	145,389	145,389	29,078	4,071
Other Assets	13,443	13,443	40,329	5,646
Total on-balance sheet exposures	158,832	158,832	69,407	9,717

4.6.2 Market Risk

Market Risk

Lines of business	All
Risk definition	<p>Market risk¹ is the exposure to an adverse change in the market value of financial instruments caused by a change in market parameters. The primary categories of market parameters are:</p> <p>Interest Rates – Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, and mortgage prepayment rates;</p> <p>Foreign Exchange Rates – Foreign exchange rate risks result from exposures to changes in prices and volatility of currency rates;</p> <p>Equity Prices – Equity price risks result from exposures to changes in prices and volatility of individual equities, equity baskets and equity indices;</p> <p>Credit Spreads – Credit spreads are the difference between yields on corporate debt subject to default risk and government bonds;</p> <p>Commodity Prices – Commodity price risks result from exposures to changes in prices and volatility of commodities, such as natural gas, crude oil, petroleum products, precious and base metals and electricity.</p>

Firmwide Market Risk Management

Risk governance	<p>The Firmwide Risk Executive Market Risk (“FRE”) and Line Of Business Chief Risk Officers (LOB CROs) are responsible for establishing an effective market risk organization. The FRE, LOB Heads of Market Risk establish the framework to measure, monitor and control market risk.</p> <p>The Market Risk function is scaled and organized according to the amount and complexity of market risk arising from the business activity. Market risk management may be the responsibility of a dedicated Market Risk group or may be performed as part of the broader Risk Management function.</p> <p>In addition to the Risk Governance framework detailed in the Risk Governance policy, additional senior Market Risk management risk oversight is provided via two Forums, which typically convene monthly:</p> <ul style="list-style-type: none"> ■ Firmwide Market Risk Forum: <p>Platform for discussion of strategic market risk initiatives, market risk measurement and methodology changes (e.g., stress test shocks), policy and procedures and other matters as appropriate. The Firmwide Market Risk Forum is not intended to discuss current market risk events or positions, as these are discussed at LOB Risk Committees, as well as various business as usual MR meetings, as appropriate.</p> ■ Market Risk Control Forum: <p>Platform for discussion of operational control issues impacting the end-to-end Market Risk organization. The Market Risk Control Forum provides appropriate governance, transparency and escalation of material control issues.</p>
Risk appetite	JPMC’s Risk Appetite framework includes quantitative parameters for Market Risk.
Approach to risk management	<p>Risk Measurement</p> <p>Multiple measures are used to capture market risk and set limits as appropriate. These measures include, but are not limited to, VaR, Stress Testing, Nonstatistical measures, Profit & Loss (P&L) Drawdowns / Loss Advisories, Single Name Position</p>

¹ Market risk is for trading book and covers sovereign risk; also captures illiquid, one-way and concentrated positions.

Risk (SNPR). 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 is controlled primarily through a series of limits set in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity and accommodation of client business and management experience. The Firm maintains different level of limits. Corporate level limits include VaR and stress limits. Similarly, LOB limits include VaR and stress limits and may be supplemented by loss advisories, non-statistical measurements and P&L drawdowns. Limits may also be set within the LOBs, as well at the portfolio or legal entity level.

Limits are set by Market Risk and are regularly reviewed and updated as appropriate, with any changes approved by LOB management and Market Risk. Senior management, including the Firm's CEO and CRO, are responsible for reviewing and approving certain of these risk limits on an ongoing basis. All limits that have not been reviewed within specified time periods by Market Risk are escalated to senior management. The LOBs are responsible for adhering to established limits against which exposures are monitored and reported.

Limit breaches are required to be reported in a timely manner to limit approvers, Market Risk and senior management. In the event of a breach, Market Risk consults with Firm senior management and the LOB senior management to determine the appropriate course of action required to return to compliance, which may include a reduction in risk in order to remedy the breach. Certain Firm of LOB-level limits that have been breached for three business days or longer, or by more than 30%, are escalated to senior management and 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.

Authorized Instruments (AI) are instruments that each business unit within the LOB are permitted to trade when engaging in either trading or hedging activities. Trading desks must only trade products listed in the relevant AI inventory.

LOB Pre-Trade Transaction Guidelines ("PTG") framework is an integral Market Risk control and plays a key role to evidence Market Risk Coverage's (MRC) effective challenge of the business engaging in either trading or hedging activities. PTG Guidelines define the PTG triggers and are in place for each trading line of business (CIB, CIO, Treasury and Mortgage Bank). Businesses are primarily required to follow the applicable PTG and are responsible for notifying or seeking approval from Market Risk in the case of trades requiring pre-trade notification or approval.

**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. Please see Exhibit A.2 for further details.
Risk Governance	<p>The JPMSA approach to risk governance mirrors the Firmwide approach.</p> <p>The Legal Entity Chief Risk Officer and Market Risk Officer are responsible for considering the Firmwide methodologies / procedures with respect to each Legal Entity.</p> <p>Oversight for market risk is delegated by the Board of Directors to the Local Management Committee.</p>
Risk appetite	Firmwide risk appetite applies.
Approach to risk management	<p>Firmwide approach to risk management applies.</p> <p>Risk Reporting</p> <p>Market risk reporting is done on a monthly basis to the LMC as well as to the CMA.</p>
Policy framework	Firmwide policy framework applies.
Risk assessment	Based on the risk materiality factors described above, market risk is considered material based on the materiality threshold of SAR1mm.

Exhibit 4.6.2

Market risk – 31 December 2017		
	Long Position SAR 000s	Capital Requirement SAR 000s
Foreign exchange	51,783	1,036
Total Market Risk	51,783	1,036

4.6.3 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; operational risk includes cybersecurity risk, business and technology resiliency risk, payment fraud risk, and third-party outsourcing risk. Operational risk is inherent in the Firm's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other 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 is comprised of four main components: Governance, Risk Identification and Assessment, Measurement, and Monitoring and Reporting.
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Approach to risk management	<p>Governance</p> <p>The lines of business and corporate functions are responsible for owning and managing their operational risks. The Firmwide Oversight and Control Group, which consists of control officers within each line of business and corporate function, is responsible for the day-to-day execution of the ORMF.</p> <p>Line of business and corporate function control committees oversee the operational risk and control environments of their respective businesses and functions. These committees escalate operational risk issues to the Firmwide Control Committee ("FCC"), as appropriate.</p> <p>The Firmwide Risk Executive for Operational Risk Governance ("ORG"), a direct report to the Chief Risk Officer ("CRO"), 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 ORG, and are independent of the respective businesses or corporate functions they oversee.</p> <p>The Firm's Operational Risk Governance Policy is approved by the Directors' Risk Policy Committee ("DRPC"). This policy establishes the Operational Risk Management Framework for the Firm.</p> <p>Risk Identification and Assessment</p> <p>The Firm utilizes several tools to identify, assess, mitigate and manage its operational risk. One such tool is the Risk and Control Self-Assessment ("RCSA") program which is executed by LOBs and corporate functions in accordance with the minimum standards established by ORG. As part of the RCSA program, lines of business and corporate functions identify key operational risks inherent in their activities, evaluate the effectiveness of relevant controls in place to mitigate identified risks, and define actions to reduce residual risk. Action plans are developed for identified control issues and businesses are held accountable for tracking and resolving issues in a timely manner. Operational Risk Officers independently challenge the execution of the RCSA program and evaluate the appropriateness of the residual risk results.</p> <p>In addition to the RCSA program, the Firm tracks and monitors events that have or could lead to actual operational risk losses, including litigation-related events. Responsible businesses and corporate functions 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. ORG</p>
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provides oversight of these activities and may also perform independent assessments of significant operational risk events and areas of concentrated or emerging 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, 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 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 CCAR and ICAAP processes.

Monitoring and Reporting

ORG has established standards for consistent operational risk reporting. The standards also reinforce escalation protocols to senior management and to the Board of Directors. Operational risk reports are produced on a firm wide basis as well as by line of business and corporate function.

<p>Risk Appetite</p>	<p>The Firm’s overall appetite for risk is governed by a “Risk Appetite” framework. The framework and the Firm’s risk appetite are set and approved by the Firm’s Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and Chief Risk Officer (“CRO”). LOB-level risk appetite is set by the respective LOB CEO, CFO and CRO and is approved by the Firm’s CEO, CFO and CRO. Quantitative parameters and qualitative factors are used to monitor and measure the Firm’s capacity to take risk consistent with its stated risk appetite. Quantitative parameters have been established to assess select strategic risks, credit risks and market risks.</p> <p>Qualitative factors have been established for select operational risks, and for reputation risks. Risk Appetite results are reported quarterly to the Board of Directors’ Risk Policy Committee (“DRPC”).</p> <p>The Firm’s objective is to keep operational risk at appropriate residual levels by maintaining a sound control environment. Management’s appetite for operational risk in light of the Firm’s financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject are considered part of the overall Risk Appetite framework. The Firm’s appetite for operational risk is managed through a qualitative risk appetite framework.</p>
<p>Interaction between risk categories</p>	<p>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.</p>
<p>Policy framework</p>	<p>Firmwide Operational Risk Governance Policy</p>

JPMSA operational risk management

Risk profile	<p>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").</p> <p>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. As a result of this exercise, key risks are identified and potential loss forecast is used to feed Pillar 2 Capital.</p> <p>For Pillar 1, JPMSA uses the methodology as prescribed by CMA Prudential Rules.</p>
Risk governance	<p>The JPMSA Board has overall responsibility for ensuring the appropriate management of Operational Risks impacting the entity. They discharge this responsibility through:</p> <ul style="list-style-type: none"> ■ 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. <p>Lines of Business (LOBs) have primary responsibility for the management of operational risk for all EMEA locations in which they conduct business. Each LOB has its own governance framework. The frameworks 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 environment and identify emerging trends and issues that they may challenge.</p> <p>The LOB framework is complemented by the JPMSA Legal Entity Risk Governance Framework as outlined above.</p>
Risk appetite	JPMSA's tolerance for operational risk is not numerically quantified, but is controlled by the risk and control frameworks in place throughout the firm, as governed by the Risk Management Governance policy.
Approach to risk management	JPMSA's approach mirrors the Firmwide approach
Policy framework	JPMSA adheres to the Firmwide operational risk management framework.
Risk assessment	Operational Risk is considered material based on the materiality threshold of SAR1mm.

Exhibit 4.6.3

Operational risk – 31 December 2017

	Capital requirement SAR 000s
Total operational risk	7,098

4.6.4 Liquidity Risk

Liquidity Risk

Risk definition	Liquidity Risk ² is the risk arising from the Firm's inability to meet contractual and contingent obligations or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.
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Firmwide Liquidity Risk Oversight

Risk governance and policy framework	Liquidity Risk Oversight is managed through an independent firm wide risk group within the CTC Risk organization. Liquidity risk management issues are governed by the CTC Risk Committee, which is co-chaired by the JPMC COO and CTC CRO.
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The CTC RC notes or reviews amendments made to the liquidity risk stress testing assumptions used within the firm wide liquidity risk appetite tolerances. The CTC RC reviews stress methodology, assumptions, and results used within liquidity risk stress tests that are a part of the firm wide liquidity risk appetite tolerances on a quarterly basis. The assumptions and results included in the quarterly stress review are approved by the JPMC CRO. Changes to the stress methodology and assumptions are also reviewed at the Liquidity Stress Governance Forum.

The firm has a liquidity risk governance framework to review, approve, and monitor the implementation of liquidity risk policies and funding and capital strategies, at the firm wide, legal entity and LOB levels. The specific risk committees responsible for liquidity risk governance include the DRPC, firm wide ALCO, CTC Risk Committee and the Finance Committee, as well as risk committees and ALCOs of regions, legal entities and LOBs.

The Firm's Liquidity Risk Oversight Policy specifies overall principles for the Firm's approach to Liquidity Risk Oversight. This policy applies to the assessment, measurement, monitoring and control of Liquidity Risk across the firm. If models are developed or used to calculate liquidity risk and stress measures, they will be subject to the firm's Model Risk Management policy, subject to materiality.

Other corporate policies involved in the overall appropriate management of liquidity risk include:

- Firmwide Liquidity Limits & Indicators Policy;
- Risk Appetite Policy; and,
- Model Risk Management Policy

Risk appetite	<p>The DRPC approves the Firm's Risk Appetite Policy on behalf of the Board, reviews actual or forecast results exceeding risk appetite tolerances at each scheduled meeting and approves the Liquidity Risk Appetite and stress framework.</p> <ul style="list-style-type: none"> ■ 90 Day Risk Appetite > 100%: Maintain buffer of Local LAB assets sufficient to meet peak cash outflows caused by an immediate and acute stress scenario; ■ 365 Day Risk Appetite = PASS: Management can access a broader pool of available unencumbered securities and/or reduce extension of wholesale credit to withstand prolonged liquidity outflows over 365 days. ■ Regulatory measures: US LCR > 100%: Maintain US-defined HQLA sufficient to meet 30 days cumulative cash outflows established by the US LCR
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Approach to risk management	<p>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's responsibilities include but are not limited to:</p> <ul style="list-style-type: none"> ■ Establishing and monitoring limits, indicators, and thresholds, including liquidity appetite tolerances;
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² Liquidity risk includes increased funding costs, asset sale haircuts and other liquidity-initiated actions that may reduce capital or impact RWAs.

	<ul style="list-style-type: none"> ■ Defining, monitoring, and reporting internal firm wide and material legal entity liquidity stress tests, and monitoring and reporting regulatory defined liquidity stress testing; ■ Monitoring and reporting liquidity positions, balance sheet variances and funding activities; ■ Conducting ad hoc analysis to identify potential emerging liquidity risks.
Risk measurement	Regulatory required stress tests (e.g. US LCR) and internal stress tests are conducted to ensure the Firm meets all compliance requirements.
Risk mitigation	<p>The Firm manages liquidity and funding using a centralized, global approach across its entities, taking into consideration both their current liquidity profile and any potential changes over time, in order to optimize liquidity sources and uses.</p> <p>The primary objectives of effective liquidity management are to ensure that the Firm's core businesses are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles as well as during stress events, ensure funding mix optimization, and availability of liquidity sources.</p> <p>The Firm's contingency funding plan ("CFP"), which is reviewed by ALCO and approved by the DRPC, is a compilation of procedures and action plans for managing liquidity through stress events. The CFP incorporates the limits and indicators set by the Liquidity Risk Oversight group. These limits and indicators are reviewed regularly to identify the emergence of risks or vulnerabilities in the Firm's liquidity position. The CFP identifies the alternative contingent liquidity resources available to the Firm in a stress event.</p>
Risk monitoring and reporting	Liquidity limits and indicators are governed by the firm wide Liquidity Risk Limits and Indicators Policy, which is approved by the CTC CRO.
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-17, JPMSA had SAR145mm of cash balances held with JPMCB NA and a local bank rated no less than BBB+ (or equivalent), compared to total liabilities of SAR 8.9mm. Please refer to section 2 and 3 for further details on JPMSA's capital.
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).

Appendices

Exhibit A.1

Disclosure on Capital Base – 31 December 2017

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	93,750
Audited retained earnings	49,108
Share premium	0
Reserves (other than revaluation reserves)	7,061
Tier-1 capital contribution	0
Deductions from Tier-1 capital	0
Total Tier-1 capital	149,919
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	149,919

Exhibit A.2
Disclosure on Capital Adequacy – 31 December 2017

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SAR '000	Capital Requirement SAR '000
Credit Risk				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks	–	–	–	–
Authorised Persons and Banks	145,389	145,389	29,078	4,071
Corporates				
Retail	–	–	–	–
Investments	–	–	–	–
Securitisation	–	–	–	–
Margin Financing	–	–	–	–
Other Assets	13,443	13,443	40,329	5,646
Total On-Balance sheet Exposures	158,832	158,832	69,407	9,717
<i>Off-balance Sheet Exposures</i>				
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	158,832	158,832	69,407	9,717
Prohibited Exposure Risk Requirement	–	–	–	–
Total Credit Risk Exposures	158,832	158,832	69,407	9,717
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	51,783	–		1,036
Commodities risks	–	–		–
Total Market Risk Exposures	51,783	–		1,036
Operational Risk				
Minimum Capital Requirements				17,851
Surplus/(Deficit) in capital				132,068
Total Capital ratio (times)				8.40

Exhibit A.3

Disclosure on Credit Risk's Risk Weight (SAR '000) – 31 December 2017

Risk Weights	Exposures after netting and credit risk mitigation											Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets	
	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			
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	145,389	-	-	-	-	-	-	-	-	-	145,389	29,078
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	-	-	13,443	-	-	13,443	40,329
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight	0%	0%	20%	0%	714%	0%	0%	0%	0%	300%	0%	-	43.70%	43.70%
Deduction from Capital Base	-	-	4,071	-	-	-	-	-	-	5,646	-	-	9,717	9,717

Exhibit A.4
Disclosure on Credit Risk's Rated Exposure (SAR '000) – 31 December 2017

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	-	40,997	104,392	-	-	-	-	-	
Corporates	-	-	-	-	-	-	-	-	
Retail	-	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	-	-	
Securitization	-	-	-	-	-	-	-	-	
Margin Financing	-	-	-	-	-	-	-	-	
Other Assets	-	-	-	-	-	-	-	442	
Total	-	53,998	104,392	-	-	-	-	442	

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	-	40,997	104,392	-	-	-	
Corporates	-	-	-	-	-	-	
Retail	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	
Securitization	-	-	-	-	-	-	
Margin Financing	-	-	-	-	-	-	
Other Assets	-	13,001	-	-	-	442	
Total	-	53,998	104,392	-	-	442	

Exhibit A.5

Disclosure on Credit Risk Mitigation (CRM) (SAR '000) – 31 December 2017

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						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	-	-	-	-	-	-
Authorised Persons and Banks	145,389	-	-	-	-	145,389
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitization	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	13,443	-	-	-	-	13,443
Total On-Balance sheet Exposures	158,832	-	-	-	-	158,832
<i>Off-balance Sheet Exposures</i>						
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	158,832	-	-	-	-	158,832