

REMUNERATION REPORT 2010
(DISCLOSURE PURSUANT TO § 7 INSTITUTS-VERGÜTUNGSVERORDNUNG)

J.P. Morgan

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REMUNERATION REPORT 2010

1. General

This disclosure statement relates to the following entities:

J.P. Morgan AG

JPMorgan Chase Bank, N.A., Frankfurt Branch

In the following, the term “**J.P. Morgan**” refers to each of these entities unless otherwise specified.

The term “**Firm**” will refer to all J.P. Morgan Chase & Co. group entities globally.

This remuneration statement sets out J.P. Morgan’s general compensation principles which apply to all remuneration arrangements. Details of specific remuneration programmes are set forth in the relevant plan terms and conditions as in force from time to time.

We believe that J.P. Morgan has consistently been at the forefront of sensible compensation practices. We have a rigorous performance and compensation management system that we believe to be aligned with global regulatory principles, including the requirements under German Stock Corporation Law as amended by the Act on Adequateness of Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung) and the Requirements for the Compensation in Financial Institutions (Instituts-Vergütungsverordnung).

2. Compensation Practices and Principles

At J.P. Morgan, our compensation philosophy, practices and principles are an important part of our business strategy. They help to attract and retain the employees we need and provide a control framework for the elements of compensation we use and the processes to maintain a balanced approach to compensation. Our current and potential talent pool is highly marketable and can be attracted to opportunities across a broad spectrum of regulated and unregulated financial services businesses. Our competition for talent includes not only other global banks, investments banks, regional/local banks, and asset managers, but also boutique investment firms, hedge funds and private equity firms.

Our actions are as important as our principles. In the past year, we undertook extensive internal reviews of our programs in light of the global economic environment, proposed and enacted legislation, and global regulatory initiatives. We have examined our policies and practices against multiple sources of regulatory guidance, and believe that our principles and practices are substantially consistent with recommended approaches.

Our compensation structure is designed to contribute to the achievement of the Firm's short-term and long-term strategic and operational objectives, while avoiding unnecessary or excessive risk-taking. We do this through a total compensation program comprised of an appropriate mix of fixed pay (base salary) and variable pay in the form of cash incentives and long-term equity-based incentives.

We have taken a number of steps in recent years as described further below, to help mitigate risk and further our objective of sensible and sound compensation practices. These steps include adoption of new recoupment policies and furthering the role of risk management in our compensation. In addition, consistent with regulatory guidance, beginning in 2010, employees across multiple businesses had the mix of their total compensation adjusted to provide more fixed compensation (i.e., salary) and less variable compensation (i.e., incentives) going forward.

We adhere to the Firm's compensation principles and practices which are described below and are set forth in Appendix A. Compensation practices continue to evolve and we will aim to continue to be at the forefront of best compensation practices in the industry.

2.1. GOVERNANCE

The Firm's compensation programs are intended to attract and retain employees with the skills and talent we need to create sustained value for the Firm and its shareholders.

We believe our approach is simple, consistent, effective and understandable. As such, we rely on commonly recognized elements of compensation and we use various design mechanisms to seek to ensure our incentive compensation arrangements are sensitive to risk-taking. In determining our compensation elements and their design, we also review the competitive landscape.

- Incentive compensation decisions are based on employees' contributions to sustained financial performance, adjusted for risk-taking and capital usage where appropriate.
- We do not rely on formulaic approaches tied to narrow measures. Performance evaluations consider multiple criteria – individual performance, business unit performance, Firm performance, controls, partnership and culture.
- Performance measures included in incentive plans are assessed for the potential to encourage or discourage employees to take excessive risks and assist in mitigating those risks.
- Incentive compensation decisions factor in the level and duration of risk taken.
- We use mechanisms, such as risk-adjusted metrics, deferrals, clawbacks and three- and five-year vesting on long term incentives to seek to ensure that compensation considers the relationship of near-term rewards to longer-term risks.
 - The majority of compensation plans at J.P. Morgan address potential timing conflicts by including payment deferral features. Awards that are deferred into equity have multi-year vesting. By staggering the vesting of equity awards over time, the interests of

employees to build long-term, sustainable performance (i.e., quality earnings) are better aligned with the long-term interests of both customers and shareholders.

- Incentives are split between cash and deferred equity, with the percentage being deferred and awarded in equity increasing as an employee’s incentive compensation increases.
- Clawback/recovery provisions are in place for incentive awards (cash and equity incentive compensation). Under our recoupment policy adopted in 2006, J.P. Morgan may seek repayment of incentive compensation (cash and equity) in the event of a material restatement of the Firm’s financial results for the relevant period.
- J.P. Morgan very rarely offers guarantees and only upon hiring and for a maximum of one year. In 2010, no contractual guarantees were extended to new employees.
- There are no golden parachutes for executives and we do not use supplemental executive retirement plans.
- Compensation of risk and control professionals is not predominantly based on the performance of the business they oversee.

We strive for a long-term orientation both in the way we assess performance and in the way we structure compensation.

The aim of our compensation programs and policies is to motivate all employees to attain strong and sustained performance, both on an absolute and relative basis. We achieve this through processes and tools that are clear, transparent and effective at driving behaviors that expand the depth and breadth of our positive impact on clients.

Certain features of our compensation programs are targeted to help us achieve individual objectives, and other elements help us achieve multiple objectives simultaneously. Our vesting periods for stock awards generally provide that one-half vests after two years and the balance vests after three years. As a result of these awards, employees share the same interest in the Firm’s long-term success as other shareholders, and we believe that such ownership is a positive factor in retaining key employees. We also use these features to focus executives across all lines of business on longer-term strategy and the overall results of the Firm, particularly at more senior levels where executives can have a greater role in our long-term success.

We have recoupment policies in place, which provide for the cancellation or recovery of stock awards made to employees in appropriate circumstances.

2.2. RELEVANT MARKET PLACE

We use comparison groups, or benchmarking, to understand market practices and trends, to evaluate the competitiveness of our programs and to assess the efficiency of these programs. Each of our lines of business operates under the Firm’s overall compensation framework, but uses compensation programs appropriate to its competitive environment. Given the diversity of

our businesses, our global operations and the complexity of the products and services we provide, our comparison group is also diverse, global and complex.

As a result, the Firm reviews actual compensation levels, typically from compensation surveys, for companies that either directly compete with us for business and/or talent or are global organizations with similar scope, size or other characteristics to J.P. Morgan.

We believe that no one, single performance metric should determine the level of incentives awarded, particularly since there needs to be a balance of short-term and long-term metrics and a focus on sustained performance. Likewise, more balanced incentives should use multiple levels of performance measurement to discourage decisions that would only benefit one of several key stakeholders, i.e., individual executives, teams, the Firm or shareholders.

As a general matter, in assessing performance, we consider:

- Performance of the individual employee, the relevant line of business, and the Firm as a whole.
- Performance that is based on measurable and sustained financial results through the business cycle.
- Performance that is both relative and absolute, in that each year’s performance is compared not just to our own prior performance or achievement of current goals, but also to appropriately chosen comparison companies that compete in similar markets and provide similar financial products and services.

The performance criteria we consider include a robust set of quantitative and qualitative factors focused on financial performance, leadership skills, proper investing in the business, innovation and risk/control management. While specific factors will differ from business to business, function to function, and during different business cycles, among the most important factors that commonly apply are:

- Financial performance – operating earnings; revenue growth; expense management; return on capital; capital and liquidity management; quality of earnings.
- Leadership skills – contribution across business lines; establishing, refining and executing long-term strategic plans; focusing on doing what’s best for our clients and customers; attracting, developing and retaining highly effective and diverse leaders; executing acquisition integration tasks; building an inclusive culture; supporting the Firm’s values.
- Investing in the business – investing for growth (business expansion and technology); executing other major projects; achieving and maintaining market leadership positions in key businesses; supporting and strengthening the communities we serve worldwide.
- Innovation – improving client satisfaction; improving operational efficiency; thinking beyond your own business.

- Risk and control management – credit and risk management; maintaining compliance and controls; protecting the Firm’s integrity and reputation.

We believe that an ownership stake in the Firm best aligns our employees’ interests with those of our shareholders.

Our compensation programs are designed to annually deliver a meaningful portion of total compensation in equity to employees who can have the greatest impact on the bottom line and to increase for our most senior employees the equity portion of their compensation to strengthen the alignment with shareholder interests. J.P. Morgan pays a significant portion of our executive compensation in equity-based long-term incentives. Approximately 25 % of employees at J.P. Morgan receive a percentage of their compensation in deferred equity, subject to clawback provisions. That enhanced alignment to shareholder interests is deliberate and focuses executive activities and decisions on those areas that increase shareholder value. We further believe that competitive, annual equity awards subject to multi-year vesting and termination/forfeiture provisions effectively emphasize the long-term view of our business and bolster the retention of our top talent.

3. Elements of Compensation

Our salary programs, compensation levels, cash/stock mix, deferral rates, terms and conditions for equity awards, and the design of business-specific incentives are among the elements we frequently review. Basic information on the salary program as well as the discretionary bonus program are available for all German staff on the Firm’s intranet.

3.1. BASE SALARY

- Provides a measure of certainty and predictability to meet certain living and other financial commitments.
- Reviewed periodically and subject to increase if, among other reasons, the employee acquires material additional responsibilities, or the market changes substantially.

3.2. ANNUAL VARIABLE COMPENSATION

- Performance based incentive which can vary significantly from year to year.
- The Firm views incentive compensation in the context of total compensation and does not establish target levels of incentive compensation as a percentage of the relevant employees’ annual base compensation.

The Firm’s principal discretionary incentive arrangement, which covers the majority of employees across virtually all of our Lines of Businesses, incorporates several broad design features that seek to ensure incentive awards are appropriately risk-adjusted and relate to actual results achieved.

Short-term incentives

The cash portion is paid and the equity portion is awarded shortly following the performance year, generally in January.

Long-term incentives

The equity portion is awarded in the form of RSUs (Restricted Stock Units) determined by a mandatory deferral percentage representing a portion of the entire incentive award. 50 % of the RSU portion of the award vests on the second anniversary of the grant date and 50 % vests on the third anniversary of the grant date.

Equity awards

The Firm grants equity awards as special leadership options to select senior officers to reward and encourage leadership, including awards made in the form of SARs settled in shares only. The awards become exercisable ratably on each of the first five anniversaries of the grant date and shares received upon exercise must be held for at least five years after the grant date.

Stock-based awards vest over multiple years, and such awards granted in 2010 and 2011 are subject to the Firm's right to cancel an unvested or unexercised award, and to require repayment of the value of certain shares distributed under awards already vested if:

- the employee is terminated for cause or the Firm determines after termination that the employee could have been terminated for cause,
- the employee engages in conduct that causes material financial or reputational harm to the Firm or its business activities,
- the Firm determines that the award was based on materially inaccurate performance metrics, whether or not the employee was responsible for the inaccuracy,
- the award was based on a material misrepresentation by the employee.

4. Specific Remuneration Principles for Management Board Members of J.P. Morgan AG (Vorstand)

German law establishes additional specific requirements for the remuneration of the Management Board of J.P. Morgan AG. The Supervisory Board (Aufsichtsrat) of J.P. Morgan AG decides to apply remuneration principles developed by the Firm with sufficient room to consider local requirements it deems relevant in order to ensure strict compliance with these requirements.

5. J.P. Morgan AG Supervisory Board Approvals

In accordance with the German Stock Corporation Act, the Management Board of J.P. Morgan AG is competent and responsible for the remuneration of the employees of J.P. Morgan AG.

The Supervisory Board of J.P. Morgan AG, in turn, is reviewing the compensation of the Management Board members of J.P. Morgan AG on a regular basis to ensure strict compliance with these requirements.

The Supervisory Board will inter alia specifically monitor and approve the following aspects with respect to J.P. Morgan AG's remuneration systems on an annual basis:

- Overall compensation set up for J.P. Morgan AG's Management Board.
- Adequate business set up and consideration of J.P. Morgan AG's risk strategy and risk profile.
- Adequate use of performance related instruments within the remuneration systems to sustain yield of product/business (e.g. malus and clawback clauses).

All members of the Management Board have employment contracts covering, among other matters, their compensation.

6. Disclosure

in € thousands	Fixed compensation 2010	Variable compensation 2010	Total compensation 2010	Number of staff with variable compensation
Total	23,943	14,392	38,335	276
Corporate Sector	3,059	486	3,545	35
Investment Bank	7,278	11,339	18,617	81
Treasury & Securities Services	13,606	2,567	16,172	160

APPENDIX A

The Firm's Compensation practices and principles

We believe that JPMorgan Chase has consistently been at the forefront of sensible compensation practices.

We have a rigorous performance and compensation management system that incorporates the following practices and principles:

- A focus on multi-year, long-term, risk-adjusted performance and rewarding behavior that generates sustained value for the Firm through business cycles.
- An emphasis on teamwork and a “shared success” culture.
- A significant stock component (with deferred vesting) for shareholder alignment and retention of top talent.
- Recoupment and clawback provisions in addition to disciplined risk management to deter excessive risk taking.
- A recognition that competitive and reasonable compensation helps attract and retain the best talent necessary to grow and sustain our business.
- Strict limits or prohibitions on executive perquisites, special executive retirement or severance plans.
- Independent Board oversight of the Firm's compensation practices and principles and their implementation.

These practices and principles are supported by additional beliefs that guide how we operate. Compensation should not be overly rigid, formulaic or short-term oriented.

- Compensation programs should be designed as much as possible to allow for the Firm to exercise discretion and retain flexibility in compensation decisions. Multi-year guarantees should be kept to an absolute minimum. More generally, the assessment of performance should not be overly formulaic and should not overemphasize any single financial measure or single year, as that can result in unhealthy incentives and lead to unintended, undesirable results.
- Performance should be considered using a broad-based evaluation of people and their contributions to ensure that the right results are being encouraged. Factors such as integrity, compliance, institutionalizing customer relationships, recruiting and training a diverse, outstanding workforce, building better systems, innovation and other outcomes should be included. Performance feedback should be obtained from multiple sources across the Firm to ensure it is both balanced and comprehensive.
- Commission-based incentives generally should be limited to sales or production oriented employees who do not control credit or investment decisions. The different risk profiles such as liquidity risk, time horizons for realized gains or losses, and reputational and operational risk all should be appropriately taken into account.

- In a fiduciary business, certain roles are evaluated solely on individual and business unit results. In addition, some of these roles are paid long-term compensation with incentives linked directly to their investment strategies in order to more fully align their interests with those of the clients.

Teamwork and a shared success environment should be encouraged and rewarded.

- Contributions should be considered across the Firm, within business units, and at an individual level when evaluating an employee's performance.
- Performance should be based on realized profits and risk-adjusted returns that add to the long-term value of the franchise, rather than just revenues. We adjust financial performance for risk and use of the Firm's capital.
- All equity awards for executive officers should be subject to reduction, forfeiture, or additional deferred vesting if there is not satisfactory progress towards priorities.

A meaningful ownership stake in the Firm should be used to reinforce alignment with shareholders.

- A significant percentage of incentive compensation should be in stock that vests over multiple years.
- As the decision-making authority, importance and impact of an employee's role increases, a greater portion of total compensation should be awarded in stock.
- A proper balance between annual compensation and longer-term incentives should clearly delineate the importance of sustainable, realizable value. At JPMorgan Chase:
 - Our Board of Directors is paid a majority of their compensation in stock and our Directors have agreed not to sell any shares of stock (including any open market purchases) for as long as they serve on the Board.
 - Senior executives receive at least 50 % (and in some cases, substantially more) of their incentive compensation in stock.
 - The officers who make up our Operating Committee are generally required to hold 75 % of compensation-related stock awards during the period 10 years from grant of the underlying award and 50 % thereafter, and the non-Operating Committee, Executive Committee officers are generally required to hold 50 %.
 - Executives cannot sell short, buy puts, sell calls, enter into derivative contracts on, or otherwise hedge our stock, and even after retirement, executives typically continue to have substantial holdings of our company stock.

Risk management and compensation recovery policies should be robust enough to deter excessive risk taking and improper risk management.

- Risk disciplines and review processes should generate honest, fair and objective evaluations of where we stand and how we're doing. Variable compensation funding should be consistent with effective risk management and the timing of compensation payouts should be sensitive to the time horizon of associated risks.
- Final determinations of compensation in risk management and control functions should not be made solely in the business areas and should be less focused on outcomes in the area covered by the individual, and more aligned with the Firm's overall performance. Compensation of those functions should be less variable one year to the next when compared to the compensation of revenue-generating functions.
- Recoupment policies should go beyond Sarbanes-Oxley and other minimum requirements and include recovery of compensation paid for earnings that were never ultimately realized or if it's determined that compensation was based on materially inaccurate performance metrics or a misrepresentation by an employee. We have in place recovery provisions for "cause" terminations, misconduct, detrimental behavior and actions causing financial or reputational harm to the Firm or its business activities. For all senior managers and highly paid employees, the Firm may cancel or require repayment of shares if employees failed to properly identify, raise or assess risks material to the Firm or its business activities.

Attracting, retaining and developing talent is critical to sustaining success.

- Our long-term success depends in very large measure on the talents of our employees. Our compensation system plays a significant role in our ability to attract, motivate and retain the highest quality management team and diverse workforce.
- Compensation should have an acute focus on meritocracy, shareholder alignment, sensitivity to the relevant market place, and disciplined processes to ensure it remains above reproach and can help build lasting value for our clients.
- For employees in good standing who have resigned and meet "full career eligibility" or other acceptable criteria, awards generally should continue to vest over time on their original schedule and be subject to continuing post-employment obligations to the Firm during this period.

Strict limits or prohibition on executive perquisites and special benefits.

- An executive's compensation should be straightforward and consist primarily of cash and equity.
- We do not maintain special supplemental retirement or other special benefits just for executives.
- The Firm generally has not had any change in control agreements, golden parachutes, merger bonuses or other special severance benefit arrangements for executives.

Independent Board oversight.

- Our Compensation Committee, which includes only independent directors, reviews and approves the Firm's overall compensation philosophy, principles and practices.
- The Compensation Committee reviews the Firm's compensation practices as they relate to risk and risk management in light of the Firm's objectives, including its safety and soundness and the avoidance of excessive risk.
- The Compensation Committee reviews and approves the terms of our compensation award programs, including recoupment provisions, restrictive covenants and vesting periods.
- The Compensation Committee reviews the Firm's overall incentive compensation pools and those of each of the Firm's Line of Businesses and the Corporate Sector.
- The Compensation Committee reviews the performance and approves all compensation awards for the Firm's Operating Committee on a name-by-name basis.
- The full Board's independent directors review the performance and approve the compensation of our CEO.

J.P.Morgan

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