J.P.Morgan

ANNUAL REPORT 2016 OF J.P. MORGAN AG

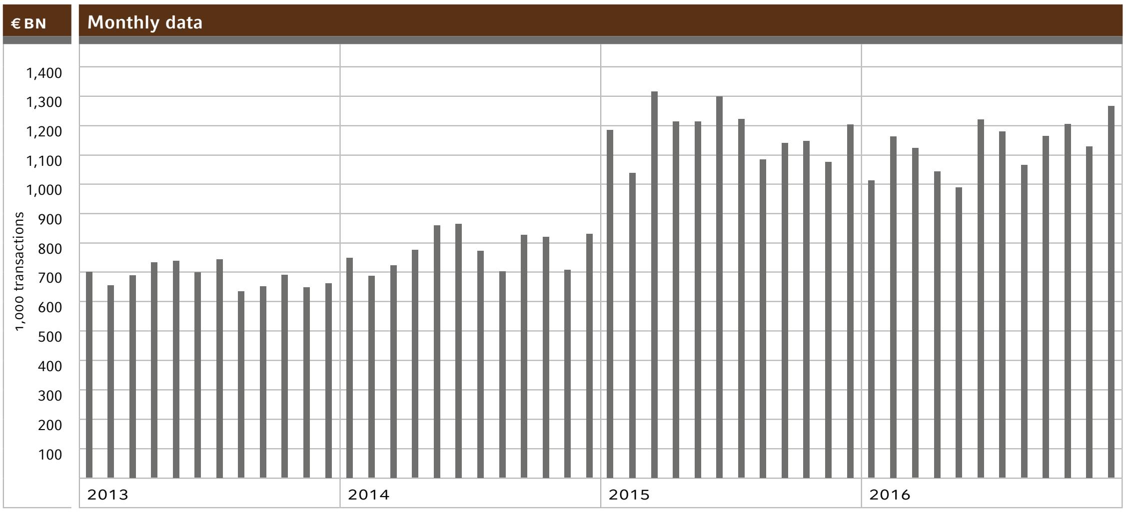
J.P. Morgan

INDICATORS J.P. MORGAN AG

€ M	2016	2015	2014	2013
Net Revenue	128.7	136.4	118.7	105.7
Net interest income	14.9	29.7	13.6	13.9
Net commission income	77.0	73.4	63.3	59.8
Total expenses	107.1	119.3	105.3	89.7
Income before Tax and extraordinary items	21.6	17.1	13.5	16.1
Net income	15.5	8.1	10.9	9.8
Equity	**645**	**629**	**621**	**611**
Return on Equity (RoE)	2.4 %	1.30 %	1.80 %	2.21 %
Return on Investment	0.07 %	0.06 %	0.08 %	0.09 %
Cost-Income Ratio	83.25 %	87.46 %	88.71 %	84.78 %
Pre-tax profit margin	16.77 %	12.55 %	11.37 %	15.22 %
Tier 1 capital ratio	72.6 %	88.9 %	115.13 %	87.90 %
Total capital ratio	93.3 %	114.3 %	143.92 %	112.70 %

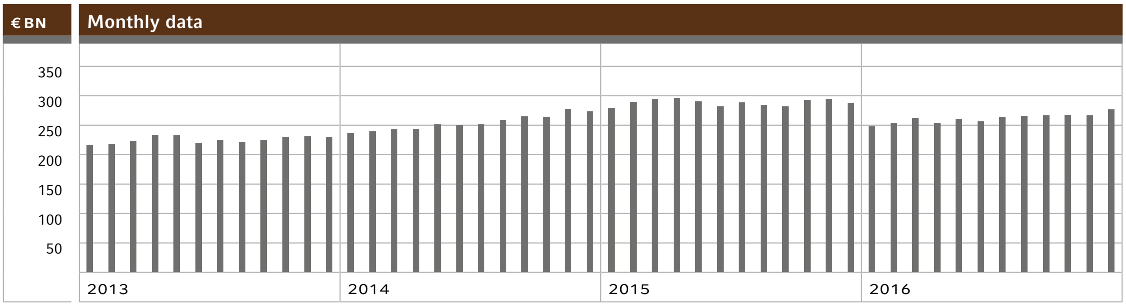
HIGH VALUE PAYMENTS

> PAGE 3: TREASURY SERVICES



ASSETS UNDER CUSTODY

> PAGE 4: INVESTOR SERVICES



CONTENT

Annual Report 2016

MANAGEMENT REPORT AS OF DECEMBER 31, 2016

Business and General Conditions

ORGANISATION AND LEGAL STRUCTURE

J.P. Morgan AG with its registered office in Frankfurt am Main is a 100 % indirect subsidiary of JPMorgan Chase & Co. with its registered office in Columbus, Ohio, in the United States of America. J.P. Morgan AG works on various levels, mainly in liquidity management and in the business segments, closely with different Group affiliates, and provides services to and receives them from various Group affiliates. The shares of J.P. Morgan AG are held directly by J.P. Morgan International Finance Limited with its registered office in Newark, United States of America.

J.P. Morgan AG is led by a three-member Management Board and controlled by a six-member Supervisory Board. The Management Board generally convenes on a monthly basis, while the Supervisory Board meets at least four times per year. The Supervisory Board has so far held two meetings in 2017, the Risk Committee has held three, and the Audit Committee a single meeting. On a quarterly basis, the Supervisory Board receives a written MaRisk (Minimum Requirements for Risk Management)-compliant risk report. The names of the members of the Management Board and the Supervisory Board are listed in the Notes.

For the Management Board meetings both business divisions, Treasury Services and Investor Services, prepare a full presentation that covers all significant events relevant to the discussion of the course of business in the past month, as well as changes in the levels of the Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) for their business segments. Likewise the meeting contains material on financial development, a detailed risk update, and a report from Corporate Functions, especially Compliance and Internal Audit, for discussion, consideration and passing of resolutions. The minutes of the Management Board meetings are kept by an employee from the Legal Department.

For its meetings, the Supervisory Board receives an up-to-date summary of the topics discussed in the Management Board meetings, in order to gain a detailed overview of the course of business, financial development, risk capacity, regulatory discussion, the status of current projects, and the work of Corporate Functions, for the purposes of discussion, consideration, and passing resolutions. Supervisory Board meeting minutes are kept by the head of the Legal Department or an external lawyer.

The Supervisory Board's Audit Committee normally meets with the auditor twice a year to discuss the audit plan as well as the annual financial statements and audit report. Minutes of the meeting of the Supervisory Board's Audit Committee are recorded by a Legal Department employee.

Furthermore, the Supervisory Board has established a remuneration committee that held meetings in 2016 when required.

In addition, in the second half of 2016 the Supervisory Board also established a Risk Committee that held its first meeting in 2016, as well as a Nomination Committee that will meet as required.

The Bank has a full banking license pursuant to § 1 para. 1 KWG (Kreditwesengesetz – German Banking Act) (nos. 1 to 5 and 7 to 9) and conducts banking business with institutional clients, banks, corporate clients and clients from the public sector.

INTERNAL CONTROL SYSTEM

In addition to regular meetings of the Management Board and the Supervisory Board, the Local Operational Risk & Control Committee, representing all functions subordinated to the CFO/COO Management Board, manages corporate governance in everyday business on behalf of the Management Board. J.P. Morgan AG's corporate functions do not only support the Bank's business segments but also all other Group units in Frankfurt am Main. The Treasury Services and Investor Services segments are each managed by one Member of the Management Board (Front Office) and controlled by a Member of the Management Board (CFO/COO).

In addition to the key controlling variables of net interest income and net commission income, a conservative risk policy that in particular limits the possible credit and counterparty risk provides the basis for successful management of J.P. Morgan AG. The methods and procedures for evaluating the risk-bearing ability, the risk profile of J.P. Morgan AG, and individual risk events are discussed on the Management Board's mandate in the Risk Oversight Committee for J.P. Morgan AG.

At the monthly meetings of the Business Forum, which bring together sales, operations and control functions, and which are also attended by the international risk managers, the course of business, KPIs and KRIs, feedback from clients, strategic projects, industry trends and changes in the legal or supervisory environment and their effects on the relevant business segments are discussed. In addition, treasury activities are discussed and reviewed each month in a European Asset & Liability Committee. The Management Board is thus enabled to identify changes or risks in the business performance in a timely manner and to make appropriate decisions and implement the necessary measures.

Moreover, comprehensive reports on all data representing loan utilisation, overdrafts, condition of collateral and key COREP figures are produced on a daily basis by the Finance and Credit Division for the Management Board. These reports are continuously being developed to meet the increasing regulatory requirements.

SEGMENTS AND ESSENTIAL PRODUCTS AND PROCESSES

J.P. Morgan AG is an integral part of the global J.P. Morgan Group and forms the backbone of the J.P. Morgan Group's operations in Germany. The full integration of the Bank into J.P. Morgan's global Treasury Services and Investor Services segments of the Group's Corporate & Investment Bank plays a crucial role, as it provides us with the necessary international network to deliver client services that do justice to J.P. Morgan's mission "First class business in a first class way". In 2016, the Bank continued to concentrate on its core business, in order to fulfil its roles, based in Frankfurt am Main, as € clearing provider of the Group, custodian bank and as a global custodian for the German investment market.

Again in 2016, customer satisfaction, increased efficiency and effective controls in our operational processes were in focus, in order, on the one hand, to improve our residual risk profile, and on the other hand to also further improve our interactions with our clients. The trends in our KPIs and KRIs, together with individual feedback from clients, hearten us, and we will continue along this road in 2017, while shifting increasing focus onto the quality of our outsourced processes.

Treasury Services

J.P. Morgan AG is globally responsible for the € clearing operations division. In the coming years, in view of an increasing unification of the European payment transactions and due to our high investments in technology, we expect to deliver our leading global technology and our client service in the mass payment market centrally from J.P. Morgan AG and in close cooperation with our sister companies both to corporate clients and to financial institutions throughout Europe. We are continually expanding our top position as a € clearer in TARGET2 and EBA by offering enhanced features to our multinational corporate clients and financial institutions both domestically and abroad.

On the basis of these infrastructure services, our sales teams offer highly advanced solutions in the areas of cash, treasury and trade finance management for corporate clients, insurance companies, asset managers, and financial institutions. Advanced technology and expansion of the Group's locations within the scope of the Global Corporate Banking concept enable our sales teams to offer ever more comprehensive global cash management solutions that provide notable advantages in the management of liquidity, particularly for our international clients. Together with our highly developed service concept, this allowed us to continue to grow with selected, international target clients, above all in global cash management and in trade finance management.

Investor Services

In J.P. Morgan Group's global Investor Services business segment, J.P. Morgan AG of Frankfurt am Main acts as a fully licensed and regulated custodian, providing global custody and custodian bank services to institutional clients in Germany since 1995. In this function, J.P. Morgan AG is currently providing custodial services to 156 investment funds, with more than 800 segments (individually managed portfolios) for its client base, with a value of € 184 billion.

In addition to the safekeeping and servicing of assets and the maintenance of an up-to-date inventory (with regard to custodial and non custodial assets), as well as settlement services for transactions, one of our core functions is the provision of various oversight functions to protect the relevant investment assets and the interests of the underlying investor. As part of our control functions, we ensure as a depositary bank that the ongoing activity of the investment management company is promptly supported and is in conformity with the statutory regulations, supervisory provisions and contractual conditions, as well as safeguarding the underlying assets of the investment funds.

Through the controls applied by J.P. Morgan AG as well as independent controls of the investment management company (KVG) – especially the monitoring of legality (control of the instructions of the KVG), control of the share price and net asset values calculated by the KVG, investment compliance monitoring, the obligation to verify asset ownership, monitoring of cash flows, controls in the context of depository management (inter alia monitoring of sub-custodians), controls relating to unit trades and returns, as well as the control of collateral – we ultimately ensure that the KVG has appropriate and coherent procedures and processes (including, among other things, appropriate valuation principles for asset values of investment funds) available to it and that these are continuously applied to the respective investment funds.

In addition to services in connection with safekeeping and settlement of transactions, a comprehensive range of products, additional services, and above all, client reporting is provided.

In our role as a custodian of investment assets, we note that institutional investors (e. g. insurance companies and pension funds) are showing flexibility in their search for returns on investment, and are investigating and implementing alternative investment options. In the low-interest environment, infrastructure loans and financing form a wide field with a broad range of applications. In this regard, the search for solutions for a suitable investment strategy reveals a heightened interest in so-called infrastructure debts. As permissible asset items, such investments can be acquired in principle for an investment fund, and are very interesting for institutional investors due to their long maturities. As a custodian, J.P. Morgan AG has embraced this strategic orientation and the challenges arising from it, in particular in the assessment, the representation and the property inspection, in order to help clients make the appropriate investments.

A similar growth potential in so-called alternative assets can be observed in the area of Private Equity. For this class of investments, J.P. Morgan offers comprehensive end-to-end solutions for administration as well as in relation to the reporting system on the Private Equity and Real Estate Platform (PeReS), which can be linked to the appropriate depositary function. Mandates won in the past successfully substantiate the claim to be perceived as a multifunctional service provider by our client base.

Within the J.P. Morgan Group, the execution of OTC derivatives subject to clearing is offered through central counterparties (so-called CCPs). Clients are supported in observing and complying with regulatory provisions efficiently and adequately. The opportunity to select J.P. Morgan as a clearing member provides a good chance to influence business activities in a positive manner.

MARKETS AND COMPETITIVE POSITION

In Treasury Services, there is a need to differentiate between relationship management and our function as global operating hub for € clearing operations. In relationship management, J.P. Morgan AG is responsible for institutional clients, banks, corporate clients and public sector clients primarily based in Germany or Austria. In the area of banking, this includes subsidiary companies based in Germany or Austria whose parent companies have their headquarters in other countries.

Based on our global responsibility for the € clearing operations division resting with the core team in Frankfurt am Main, as well as teams in sister companies of the Group in Mumbai (India) and in Manila (the Philippines), J.P. Morgan AG services clients from various countries where the J.P. Morgan Group operates. In its function as € clearer in TARGET2 and EBA, J.P. Morgan AG is among the largest providers of payment services in Germany in terms of the volume of payments settled daily.

In the Investor Services segment we currently offer our services as a custodian bank and depository primarily to special funds subject to the Investment Act and to Alternative Investment Funds (AIF), which are subject to the KAGB, in addition to direct investments by institutional clients (especially insurance companies, pension institutions, pension funds, and church institutions), corporate clients and public sector clients in Germany. This also includes subsidiaries or branches based in Germany whose parent companies have their headquarters in other countries. J.P. Morgan AG is one of the leading depository / custodian banks in Germany.

Thanks to the strong product and technology leadership of the J.P. Morgan Group, J.P. Morgan AG was able to acquire a series of important clients, especially in the Investor Services segment, also due to the emphasis placed by both J.P. Morgan AG and the J.P. Morgan Group on customer-oriented and innovative product solutions, using the benefits of scale with standardised processes. The strong capital base of J.P. Morgan AG as well as its membership of the voluntary deposit protection scheme has been received positively among our clients, underlining the Group's commitment to J.P. Morgan AG and the German office.

KEY LEGAL AND ECONOMIC INFLUENCE FACTORS

The legal and supervisory landscape displayed a high level of continuity in 2016. The focus on the implementation of EU initiatives had no major impact on J.P. Morgan AG's core business and customer relationships.

At the forefront of discussions with customers was, on the one hand, how to invest excess liquidity, the need to pass on the European Central Bank's negative interest rates, and on the other hand, our customers' expectation that improvements in internal efficiency would be passed on in reduced prices.

Topics that we are looking at now with an eye to the near future are increasing digitalisation and its effects on our business processes, IT security because of the growing threat from cyber crime, the impact of Brexit on the business model within the Group and last but not least, the implementation of new supervisory requirements.

PERSONNEL DEVELOPMENT

The number of employees at J.P. Morgan AG increased in 2016 from 268 to an average of 284[1] compared to the previous year. The staff turnover fell in 2016 to 6.57 %, compared to 9 % the previous year. Of the total number of employees, 27 % made use of flexible working time arrangements, in the previous year it was 20 %.

In line with our business concept, we continue to put the highest emphasis on the qualitative selection of new hires and continued training and education programs for our staff.

The J.P. Morgan AG human resources policy focuses on the highest level of quality and diversity among employees, and is simultaneously committed to adjusting to the needs of our employees.

The underlying features of J.P. Morgan AG's remuneration system are presented in a separate Remuneration Report which can be found at the following website: http://www.jpmorgan.com/investor relations/SEC & Other Fillings > Basel Pillar 3 Disclosures > Germany.

BUSINESS DEVELOPMENT

2016 was a year with stable results for J.P. Morgan AG, but with various aspects that varied widely from the prior year and from the original plans for this business year.

Our interest income continued to suffer from central banks' continued low interest rate policies, and fell significantly com-

[1] Including employees released from duties, on parental leave and on secondment.

pared to prior year and plans, due to the reduced investment options for our surplus liquidity in securities by means of so-called reverse repos.

The growth in commission income in both business segments was very gratifying, with an overall increase of around 5 % compared to 2015. This increase was higher than our prudent expectations, but shows the confidence our customers have in entrusting more business to us.

In 2016 we had an exceptional income from the sale of securities in the liquidity reserve, although this in fact fell compared to 2015 by € 10 million.

Our other operating income (excluding the positive effect from the bond portfolio) increased by € 13.9 million compared to the prior year. A number of factors were responsible for this: (a) a clearly higher level of services billed to other JPM companies and (b) a positive result from our pension portfolio, in particular a one-off effect of a change in the law for the method of calculating the discount factor.

Thanks to disciplined cost management, the internal project and administrative costs were reduced by around 8 % compared to the prior year.

The balance sheet total as of December 31, 2016 rose compared to the balance sheet date of December 31, 2015 by 80 %. The main driver for this is the group strategy of keeping part of its liquidity in euro with the Bundesbank via J.P. Morgan AG.

From an overall perspective, we rate 2016 as cautiously positive. The business development of our core activities in Treasury Services and Investor Services met our expectations.

Earnings, Financial and Assets Position

EARNINGS

Thanks to the intensification of our activities with existing customers, J.P. Morgan AG managed to increase its net commission income in 2016. During the business year, net commission income at a total of € 77.0 million was 4.9 % higher than the previous year's value. Interest earnings fell back compared to the prior year and at € 14.9 million were € 14.9 million lower than the prior year. The significant factor that influenced the interest income is first and foremost the lack of investment opportunities in securities in the form of reverse repos for our liquidity surplus. We failed to meet the plan targets for 2016 in interest earnings, and exceeded them in commission income. Other operating income rose by 10.7 % to € 36.8 million for 2016 as a whole. In particular, the valuation resulting from the change in the fair value of the plan assets and the expenditures from the discounting of pension reserves contributed to this result.

The personnel and administrative expenses decreased by 10.2 % compared to the previous year. The drop came mainly from lower costs of services provided from other group companies, lower contributions to the deposit guarantee fund, as well as lower costs for external consultancy services. The earnings before tax and extraordinary items increased by 26.1 % to € 21.6 million. The annual surplus for financial year 2016 amounted to € 15.5 million after taxes.

This result means a return on equity of 2.4 % after 1.3 % in the previous year.

FINANCIAL POSITION

Principles and Objectives

J.P. Morgan AG's balance sheet is driven by deposits provided by institutional clients and banks through the €-Clearing segment and the custodian bank business, and continued to show an exceptionally stable financial position in 2016. Clients are enabled to utilise credits solely in the form of intra-day lines and short-term overnight overdrafts in the event of a funding-gap in both business segments. Excess liquidity generated by this deposit-driven business approach is invested mainly in reverse repo-transactions with JPMorgan Chase Bank, N.A. The bond portfolio, consisting of securities from first-class issuers, was further reduced during the course of 2016.

J.P. Morgan AG also held sufficient liquidity at all times in 2016. The bank manages liquidity conservatively. The liquidity ratio on December 31, 2016 reached 1.48, and was 1.69 on average, while the liquidity coverage ratio was 121.3%.

Capital Structure

The liable equity increased in comparison to December 31, 2015 by the accumulated profit of the previous year. On the balance sheet as of December 31, 2016, this results in a Tier 1 capital ratio of 72.64% and a total capital ratio of 93.27%. With this amount of capital available, J.P. Morgan AG remains in a comfortable position to support existing business, as well as the planned business growth as required with capital. J.P. Morgan AG's regulatory equity was composed of the following components as at the reporting date of December 31, 2016:

Tier 1:	€ 654	million core capital, reserves and funds for general banking risks
Upper Tier 2:	€ 0	million
Lower Tier 2:	€ 186	million subordinated loans
Total Tier 2:	€ 186	million

Off-Balance Sheet Business

Within the division of Trade Finance, the credit risks in the form of contingent liabilities taken on J.P. Morgan AG's own books continue to be for the most part directly collateralised within the Group. For issuances made by J.P. Morgan AG, we hold total return swaps to cover the risk, and in order to cover the risk of changing interest rates arising from the securities portfolio, we concluded an interest swap with JPMorgan Chase Bank N.A.

ASSET SITUATION

The receivables from our clients decreased slightly, due to a lower utilisation of short-term overdraft loans and through a lower utilisation of available liquidity as at the reporting date, by € 17.5 million to € 205 million, and deposits decreased by € 155 million to € 6,089 million as at the reporting date. The receivables from credit institutions increased due to the high treasury activities by € 10,167 million to € 22,030 million (of which, credit with central banks of € 13,195 million). On the other hand, liabilities to credit institutions increased by € 10,189 million to € 15,558 million at the balance sheet date. This meant that the balance sheet total of J.P. Morgan AG rose significantly and at the balance sheet date were at a level of € 22,567 million. The total capital ratio as of December 31, 2016 was 93.27 and on average across the whole year 2016 was 116.85.

The securities portfolio with first-class bonds was gradually further reduced throughout the year and compared to December 31, 2015 has shrunk by € 111 million to a book value of € 248 million.

Financial and Non-financial Performance Indicators

FINANCIAL PERFORMANCE INDICATORS

Financial performance indicators, defined for internal control of J.P. Morgan AG, comprise in particular absolute KPIs (Key Performance Indicators) such as the net interest income, net commission income, and income before tax and extraordinary items. In addition, return on equity, cost-income ratio, and the pre-tax profit margin are used to measure performance. The KPIs are derived directly from the information in the balance sheet and the income statement in the annual financial statement, and for the current and previous financial years amount to the following:

€ M	2016	2015
Net revenue	128.7	136.4
Net interest income	14.9	29.7
Net commission income	77.0	73.4
Total expenses	107.1	119.3
Income before tax and extraordinary items	21.6	17.1
Net income	15.5	8.1
Equity	**645**	**629**
Return on equity (RoE) (Income after tax/average equity)	2.4 %	1.3 %
Return on capital (Income after tax/Total assets)	0.07 %	0.06 %
Cost-income ratio (Total expenses/Net revenue)	83.25 %	87.46 %
Pre-tax profit margin (Income from regular business activities/Net revenue)	16.77 %	12.55 %
Tier 1 capital ratio	72.6 %	88.9 %
Total capital ratio	93.3 %	114.3 %

The notable decrease in interest earnings of around 50 % compared to the prior year is mainly a result of the reduction of the bond portfolio and the lack of investment opportunities in reverse repo transactions.

The income from commissions moved very positively in the opposite direction with growth of around 5 %. The custodian segment made a major contribution to this positive trend. Additional earnings from customer acquisitions did not play a significant role in either segment in 2016.

The payment volumes via TARGET2 and EBA EURO1 in 2016 remained at the same level as the prior year. The growth in custodian activity was – in terms of the assets under custody – as high as 7.7 %, which meant that the negative effects of the growing downward pressure on prices could be absorbed.

Despite the unsatisfactory trend in interest earnings, we managed to achieve our net earnings target of € 124 million, and to exceed it with € 128.7 million.

As compared with the time-frame for the previous year, the operational result thus improved by around 26 % to € 21.6 million in comparison with the previous year.

The cost-income ratio for this year was improved from 87.46 % to 83.25 %. This is the result of our disciplined cost management.

The return on equity (RoE) rose from 1.3 % in the prior year period to 2.4 %, which places it above the expected plan rate of below 2 %. The Tier 1 and total equity capital ratios fell as expected in comparison to December 31, 2015 due to the changes, but nevertheless continued to remain in an extremely comfortable range.

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators are influenced by the role of J.P. Morgan AG as a transaction bank in € payment transactions and as a global custodian. Along with the actual volumes settled by J.P. Morgan AG for its clients, we focus on the degree of automation and the actual losses from operative errors. In addition, we measure the fluctuation rate as an indicator of stability of our operative platform from the point of view of employees.

	2016	2015
Number of payment instructions – High Value (TARGET2 & EBA EURO1)	4.5 million	4.5 million
Number of payment instructions – Low Value (STEP2 only)	63 million	71 million
Straight-through processing rate	98.34 %	98.42 %
Assets under Custody (in € billions)	309	287
Customer satisfaction – Custodian bank (Internal Score)	100 %	100 %
Operating losses (in € millions)	0.1	0.6
Fluctuation rate	5 %	9 %
Gender Diversity (VP-Level)	35 %	32 %

The non-financial performance indicators that refer to the transaction volumes of J.P. Morgan AG show a stable environment with further improvement in the degree of automation in payment transactions, at an already very high level. Although our settlement volume in low-value clearing in 2016 again fell slightly compared to the prior year, this is the result of a managed consolidation and risk strategy related to our customer portfolio.

In the custodial segment, thanks to improvements in efficiency and quality in handling customer inquiries, we were able to maintain our very good result in our internal rating model for customer satisfaction at 100 %, with 98 % of customers being satisfied and 2 % very satisfied. This constant positive trend also shows up in the increased value of assets that our customers entrust to our custodian service.

From an operations perspective, the goal continues to be greater automatisation, which goes hand-in-hand with efficiency enhancement and cost savings, as well as with the reduction of sources of error.

Operating losses in 2016 came in below our already ambitious targets. "Operational excellence" remains our guiding principle, and is connected with our efforts to achieve constant improvement in our technology platform, the internal control systems and the ongoing training of our employees. It is important to us that we analyse operational errors in detail and draw the necessary consequences here for the future. It is for this reason that we have a particularly strong commitment to an open "risk and error culture".

We see the low fluctuation rate in a financial centre like Frankfurt with intensified competition for "talent" likewise as a result of our efforts to constantly improve the working environment as well as the development opportunities of our employees. One of our priorities continues to decisively implement the goals of a "great team & winning culture". We are proud to have been able to roll out the group-wide training program "Leadership Edge" in Frankfurt, and we have been able to offer a platform to various Business Resource Groups.

In 2017 we expect an increase in the number of payment instructions in the high value area and Assets under Custody. For SEPA payments we are expecting a large increase. The straight-through processing rate should go back up to the 2015 level. It is also important to us that we further improve the quality and efficiency of our customer service sustainably. We are expecting the staff turnover rate to rise, although it remains a priority for us to provide an inclusive working environment and further flexibility in defining jobs in order to continue to attract talented staff.

BUSINESS PRINCIPLES "HOW WE DO BUSINESS"

J.P. Morgan AG is completely integrated into the corporate culture of JPMorgan Chase & Co, whose guiding principles are convincingly described by the four pillars of the Group-wide business principles:

- Exceptional Client Service
- Operational Excellence
- A Commitment to Integrity, Fairness and Responsibility
- A Great Team and Winning Culture

For further details please visit the website of JPMorgan Chase & Co.:
http://www.jpmorganchase.com/corporate/About-JPMC/business-principles.htm

Relationships with Related Companies and Persons

We have identified our parent company JPMorgan Chase Bank, N.A., as well as J.P. Morgan International Finance Ltd. as the companies closely related to J.P. Morgan AG. We consider the members of the Management Board and the Supervisory Board of J.P. Morgan AG and their family members as related persons.

The following financial transactions are carried out with related companies:

- Money market transactions, investing and borrowing money
- Transactions in Total Return Swaps
- Reverse Repos

- Nostro accounts
- Provision of subordinated capital
- Purchasing and supplying corporate services

All transactions have been closed on normal market terms. J.P. Morgan AG received appropriate compensation for every legal transaction with associated companies that were known to J.P. Morgan AG at the time at which the legal transactions were undertaken. There are no transactions conducted with related persons.

Outlook

SIGNIFICANT OPPORTUNITIES AND RISKS FOR THE UPCOMING FINANCIAL YEARS

Our outlook from recent years substantially retains its validity for the coming year:

In relation to economic trends in Germany, we are assuming continued positive, but weaker growth in Gross Domestic Product in 2017 compared to the previous year, although the outlook for 2018 is pleasantly positive. This means that we expect the economy in Germany to remain buoyant for the foreseeable future. We expect the ECB's continued expansive monetary policy and consumption to be the drivers for this. We also see the European economy continuing on a path of solid growth, with falling unemployment figures and an inflation rate well below 2 %. Potential risks lurk in the long-term effects of Brexit, the political tendency towards national protectionism and the trade conflicts that can be expected between the United States and the European Union.

Also over the next years we expect to see a continuation of the trend towards professionalising cash management in companies, pension funds and insurers, with the goal of further integration of the value-added chain in the liquidity management of a company for continued income optimisation. In view of the negative interest environment, which in our opinion will not significantly change in 2017, and in view of the expansive monetary policy, the opportunity for banks to absorb the "non-operating liquidity" of customers, and the income and risk targets of our customers, will continue to be the focus of dialogue between banks and customers.

For the banking sector in Germany, but also more widely, the implementation of legal regulation, and the general improvement of steering the whole bank remain the largest challenge. Added to this is increasing price competition for standard products in an extremely unfavourable negative interest environment. Customer loyalty in this respect, and the increasing readiness of customers to change banks, shows the importance for banks of adapting to changing customer needs. Investment in technology, adjustments to business processes, and also the retention of experts and talented employees all play an important part in this, if you wish to retain or even improve your competitive position. J.P. Morgan AG, as an internal group service provider for euro payment processing, is well positioned, and will be able to extend its own role by acquiring new customers, as well as expanding our new role of Cash Agent in Target2Securities. This will in turn be reflected in the levels of commission income in Treasury Services.

The trend for large institutional investors to adapt their investments to the altered shape of an economy which is becoming more and more global and the resulting demand for global custodian services will also be sustained in 2017. This could lead to opportunities for growth in the custodial business, which could achieve growth of up to 10 % in assets under custody.

In relation to the exit of the United Kingdom from the European Union ("Brexit") and the related need for banks to restructure in order to be able to continue to supply financial products and services to the internal market, J.P. Morgan AG is also well positioned – in the context of the currently defined business and risk strategy – to be able to expand its role of service provider for euro payment processing, as we can assume that customers will opt for banks with a stable business model and capital resources because of the increasing uncertainty.

With the decision to also act in future as the booking unit for OTC derivatives for selected customer segments and so take over activities from other J.P. Morgan units in the UK, and thanks to an excellent rating from Moody's (A1 / P-1), Standard & Poor's (A+ / A-1) and Fitch (AA– / F1+) we can also see potential for further expanding this new business area.

We view the disproportionate regulation of the financial markets as presenting continued risk for our business; however, we continue to assume that regulators worldwide will develop and implement a coordinated and measured concept for the regulation. Above all, we see here a further encumbrance by an intensification of control tasks and reporting requirements, which must be compensated by cost savings in the operational divisions in order not to harm the income situation of J.P. Morgan AG in a lasting manner.

Possibilities of passing on these costs to our customers are only possible to a limited extent in view of the increasing price pressure in the transactional business with many competitors. Even if we were able to pass on the liquidity costs to our customers for the most part, this step would not increase the dwindling interest income that arises from the lack of investment opportunities that match our risk profile.

We see further risks in the political destabilisation of some countries or regions, which could lead to a clear deterioration of the market situation, with potential negative effects on the solvency of our clients, and resulting sustained losses.

EXPECTATIONS FOR THE BANK'S FUTURE PERFORMANCE

Thanks to our consistent conservative risk policy, we do not expect any risk-related losses for the next two years, as well.

For 2017 we are expecting an increase in our commission income from Investor Services, but also for Treasury Services, thanks to the expanded role within the Group for J.P. Morgan AG as the cash agent in Target2Securities. In addition, a new business segment is opening up for J.P. Morgan AG, acting as the booking unit for the group for OTC derivatives for selected customer segments. In relation to interest earnings, we are, however, expecting a further sharp fall to a level below € 8 million, because of the limited investment opportunities.

Despite ongoing disciplined cost management, we are expecting that costs will rise year on year, with the planned profit therefore being around € 6 million.

ASSUMPTIONS

These expectations are based on the assumptions that there will be a stable political environment in Germany and Europe, with successful crisis management and a slight falling off in economic performance in the Eurozone over the next two years. For Germany – based on the published Economic Research Reports from the J.P. Morgan Group – there is also an assumption of a slight drop in economic performance compared to the previous year. We expect growth in GDP for Germany in 2017 of 1.6 %.

With regard to the world economy, we assume that the dynamic growth in the past few years in emerging economies will further cool down in 2017 due to persistent geopolitical uncertainties and falling domestic demand in certain important emerging economies, combining to exert a negative influence on economic development in the established industrialised countries.

Moreover, we assume that the ECB will maintain its negative-interest rate policy in 2017, and that this will also continue in 2018. In addition, we made the assumption that the average trend of the euro with respect to the US dollar will remain on average at the level of the beginning of 2017.

DEVELOPMENT OF SEGMENTS

In the planning calculation for the next years, we are assuming for the Investor Services segment that there will be a growth in overall profits of 5 % p.a. for both 2017 and 2018. For the Treasury Services segment, we predict for 2017 a rise in overall profits of around 6 %, but in 2018 we expect only a minor increase. Overall, we are expecting average growth in commission income of 3.8 % p.a. in 2017 and of 7.0 % in 2018, under the assumption that it will be 2018 before we see the full impact of our new business activities.

In 2017, we expect net revenues amounting to € 124 million compared to € 128.7 million in the prior year.

Thus, in 2017, the return on equity will be markedly below 1 %, the profit margin is expected to be below 5 %, and the cost-income ratio is expected to be 94 %. We expect the Tier 1 capital and total capital ratios to remain unchanged compared to the previous year.

FINANCIAL SOLVENCY

Based on our business model and thanks to our extremely conservative investment strategy, with a very limited change in the maturity transformation for achieving additional margin on interest rates, the bank will continue to have an exceptionally high liquidity ratio (1.48 as of 31/12/2016), that does not offer any room for doubt about J.P. Morgan AG's solvency. With a liquidity coverage ratio of 121.3 % as of December 31, 2016 this is well above the mandatory minimum ratio that now applies since 1 January 2017 of 80 %.

Risk Report

INTRODUCTION

Risk is an inherent part of J.P. Morgan AG's business activities. When J.P. Morgan AG offers products or services, it takes on some degree of risk. J.P. Morgan AG's overall objective is to manage its business, and the associated risks, in a manner that balances serving the interest of its clients, customers and investors and protects the safety and soundness of J.P. Morgan AG.

RISK STRATEGY AND RISK MANAGEMENT

The risk strategy is derived directly from J.P. Morgan AG's business strategy and is part of the J.P. Morgan AG Business & Risk Strategy. It is defined by the Management Board of J.P. Morgan AG and approved annually by the Supervisory Board.

The risk strategy defines how J.P. Morgan AG will manage the risks it has taken as part of its business activities. By limiting and managing the risks, risk-bearing capacity and liquidity are ensured at all times. The risk strategy covers all material risks and is, if necessary, further specified for individual risk categories in the form of partial risk strategies and then made concrete and operational using policies, guidelines and work instructions. The completeness and suitability of the risk strategy is reviewed annually. Basis for the review is the annual risk inventory (also completed ad-hoc if required). This ensures that the risk strategy takes all material risks faced by J.P. Morgan AG into consideration.

The classification of individual risk categories as a material risk is based on whether the occurrence of the risk could have a serious negative effect on J.P. Morgan AG's risk-bearing capability, liquidity or capital situation.

As per the risk inventory, in 2016 the following risk categories are material for J.P. Morgan AG:

– Credit risk,
– Market risk,
– Interest rate risks of the banking book,
– Business risk,
– Liquidity risk,
– Pension risk and
– Operational risks.

The analysis also defines the risk appetite by allocating the available risk covering potential to the individual risk categories. This facilitates compliance with the limits, and allows for the monitoring of that compliance throughout the financial year.

The following principles apply for risk management and monitoring:

– Clearly defined organisational structures and documented processes for all risk-bearing businesses are in place, from which the responsibilities and competencies of all functions involved are derived.
– There is a clear segregation of duties between Front Office and Back Office in order to avoid potential conflicts of interest.
– For the risk identification, measuring, aggregation, managing, monitoring and communicating of the risk categories, suitable procedures are defined and implemented in J.P. Morgan AG, including the Group-wide infrastructure.
– Appropriate limits for all significant risk categories have been adequately defined and are effectively controlled.

No major changes to the risk management system in J.P. Morgan AG have taken place in 2016.

MANAGEMENT & CONTROLLING

The Management Board member "Back Office" is responsible for risk management at J.P. Morgan AG, with regular reporting to the general management, as well as to J.P. Morgan AG's Supervisory Board. J.P. Morgan AG classifies a risk as a potential loss or a failure to realise a profit due to internal or external factors, and manages these in the context of risk management.

The Independent Risk Management ("IRM") function, comprised of Risk Management and Compliance Organizations in J.P. Morgan AG, 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.

- J.P. Morgan AG 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 J.P. Morgan AG's risk governance framework.
- The Location Control Officer that is part of the Firmwide Oversight and Control Group has 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 Risk Governance and Compliance function, tests and evaluates the J.P. Morgan AG'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 independent status of the IRM function is supported by a governance structure that provides for escalation of risk issues to senior management, the Risk Oversight Committee, or the Management Board.

The IRM functions are in charge of the operational implementation of the risk control and monitoring, taking into account the Group-wide infrastructure and policies. They report directly to the Management Board "Back Office" as the Chief Risk Officer (CRO). These include, in particular, the Market and Credit Risk Officer for the risk monitoring of credit and market price risks, the Risk Governance Officer as risk controller, the Treasury & Credit Control for the monitoring of credit, liquidity and market price risks, and the Location Control Officer for monitoring the operational risks.

Risk measurement and reporting take place in J.P. Morgan AG according to risk category on a daily (credit, market and liquidity risk), monthly (operational and earnings risks) or quarterly cycle (pension risks). The risk-bearing capacity is analysed on a monthly basis.

In addition to regulatory limits, the Management Board at J.P. Morgan AG defined a series of early-warning indicators, which are monitored daily and in a timely manner. Indicators and risk limits include, among others, recovery indicators, credit limits, investment limits, bidding limits, position limits as well as the minimum liquidity of J.P. Morgan AG, and are clearly documented. These also consider the concentration risk with respect to other J.P. Morgan entities.

For its monthly sessions, the Management Board receives a detailed overview of the development of the business areas, information on financial trends, a detailed risk report as well as a report from the Corporate Functions.

For its sessions, the Supervisory Board receives a current summary of the topics discussed in the meetings of the Management Board, including a summary of the risk report.

The risk-bearing capability analysis is a core component of the overall bank control of J.P. Morgan AG, with the goal of guaranteeing a suitable risk profile and adequate capital at all times. J.P. Morgan AG decided on a Going-Concern approach, whereby it could continue the core business activities even if all items of the defined risk covering potential were consumed through exposure to risks. The confidence level of 95 % corresponds to the underlying assumptions of the Going-Concern approach; risk coverage potential and the economic capital model are configured accordingly. The observation period lasts one year. As a secondary control circuit, a Gone-Concern approach is analysed in parallel, with a confidence level of 99.91 %.

According to the risk inventory credit risks, market risks, operational risks, pension risks, business risks and interest rate risks in the banking book are quantified as relevant risk categories in the context of the risk-bearing capacity calculation. Liquidity risks are a part of the stress testing.

The risk bearing capital essentially consists of J.P. Morgan AG's retained earnings, the § 340g HGB reserve for general banking risks, accumulated profits and the profits achieved in the financial year as well as the planned retained profits of the following years. The quantification of the business risk, which is primarily meant to delineate planning uncertainty, is deducted from this capital.

The quantification of the capital requirement for the occurring risks takes place through internal, institute-specific calculation approaches. The calculation of the risk-bearing capability takes place on a monthly basis.

For the verification of the risk bearing capacity, a set of combined stress scenarios has defined for as part of integrated macroeconomic stress scenarios encompassing different risk categories. They are calculated and analysed on a monthly basis. As part of the integrated stress testing, the risk-bearing capability was guaranteed at any time.

The risk-bearing capability concept and the stress tests are validated annually, building on the risk inventory. In fiscal year 2016, we further developed the risk-bearing capacity concept of J.P. Morgan AG. This primarily concerns the revised definition of the risk cover potential for the Going-Concern approach, the consideration of the interest-rate risk from the banking book, the further development of the calculation of the concentration risk, as well as the separate treatment of pension risk as complementary components in the risk-bearing capacity concept.

The regulatory capital requirement for the individual risk categories is monitored by the Regulatory Reporting Team on a daily basis and is shown in the table above (all figures given in million €). The economic capital requirement pursuant to the Going-Concern and Gone-Concern approaches is additionally calculated by Risk Governance on a monthly basis.

			Regulatory			Economic
€ M	12/31/2015	06/30/2016	12/31/2016	12/31/2015	06/30/2016	12/31/2016
Type of risk						
Credit risk	35.7	41.1	49.3	12.6	23.7	28.8
Operational risk	16.2	18.0	19.2	15.0	16.6	16.6
Market risk	3.6	6.6	8.2	5.3	3.9	2.9
IRBB	–	–	–	**27.8**	**4.6**	**1.0**
Capital requirement	**55.5**	**65.75**	**72.0**	**60.7**	**48.8**	**49.2**
Risk coverage pool	834.2	840.0	840.0	99.2	123.2	125.3

As per December 31, 2016, utilisation of the going concern approach stood at 39.3 %.

In 2017, we will work continuously on the further development of the risk-bearing capacity concept integrating further method-related adjustments on the basis of the regulatory implementation of the SREP concept.

RISK CATEGORIES

Credit Risk

Credit risk refers to the risk of loss arising from the default of a customer. J.P. Morgan AG provides credit through its operating services activities (such as custodian banking function and clearing activities) and cash placed with banks particularly in the context of Treasury activities.

J.P. Morgan AG's credit risk management consists of:

- A comprehensive credit risk policy framework. By means of its credit risk strategy, which is derived from the general business and risk strategy, the Management Board defines the risk profile in regard to its clients and credit products. Moreover, structural organisation and processes for risk steering, potential measures to minimise risk and risk reporting are defined more closely in the Group-wide policies and in the J.P. Morgan AG MaRisk Guidelines. The Management Board makes credit decisions on the basis of the clearly defined separate responsibilities for "Front Office" and "Back Office".
- Monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- Assigning and managing credit authorities in connection with the approval of all credit exposure

The Credit Risk Strategy aims to protect J.P. Morgan AG from losses due to credit risk through:

- a conservative and well-defined approval process for intraday and overdraft lines
- a defined process of exposure reduction in case of excessive overdrafts of high-risk counterparties
- an ongoing analysis of unwanted concentration risks for certain counterparty groups

Procedures for intensified loan management as well as the treatment of problematic loans exist but continued not to require application during the financial year 2016. For the year 2017, we expect no defaults, for this reason no loan loss provisions were booked that would be required in the case of an expected loss resulting from the default of a customer.

Risk Measurement

The Credit Risk Management function measures, limits, manages and monitors credit risk across the J.P. Morgan AG's businesses. 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.

J.P. Morgan AG uses an unexpected loss model with a confidence level of 95 % (99.91 % in Gone-Concern) to calculate the economic capital requirement. As the basis for the EAD the client's drawing behaviour is estimated for the payment transactions accounts on the basis of historical data, or otherwise market value positions per the reporting date are taken into consideration. Concentration risks are quantified for all relevant portfolios on the basis of the Herfindahl Hirschman Index.

J.P. Morgan AG uses the credit risk standard approach (KSA) for the regulatory quantification of the credit risk.

Stress Testing

Stress testing is important in measuring and managing credit risk in the J.P. Morgan AG's credit portfolio. The process assesses the potential impact of alternative economic and business scenarios on estimated credit losses for the J.P. Morgan AG.

A series of different scenarios are considered within the scope of the credit risk stress test that assume that client ratings, collateral, drawing behaviour, portfolio concentrations or correlations could significantly worsen over the course of time. There is a regular validation of the stress tests and their results.

Risk Monitoring and Management

Daily monitoring of credit risk at the individual client level is done by Treasury & Credit Control, using the Group-wide credit limit control system, which records individual limits and utilisation at account level and/or at the level of single borrower units. The system does not allow unauthorised intra-day limits. In essence, the main focus is on the monitoring of so-called intraday lines of credit and overdraft facility usage.

Management of J.P. Morgan AG's credit risk exposure is accomplished through a number of means, including:

- Credit approval process,
- Collateral.

Within Trade Finance, the credit risks in the form of contingent liabilities taken on J.P. Morgan AG's own books are for the most part directly collateralised within the Group. There are no significant call risks.

Risk reduction strategies are deployed in the same way with respect to JPM Group companies.

On the basis of J.P. Morgan AG's business model as a Group-wide service provider in € payment transactions, but also as a custodian bank with a focus on special funds, concentration risks exist that are likewise taken into account in J.P. Morgan

AG's risk-bearing capacity concept. Here, we expect no significant changes in the coming year.

Since J.P. Morgan AG does not run an active trading book, issuer risk, replacement risk, and settlement risk play an extremely minor role.

Risk Reporting

A report of daily exposures and all new accounts and lines and/or all changes of existing lines is being presented daily for approval to the Credit Officer and if required additional approvers. Moreover, compliance with the approved limit structure, the monitoring of the risk-bearing capability as well as the analysis of the portfolio structure (e.g., maturities, credit products, segments and countries) including concentration risk is summarised in monthly reports to the Management Board.

The loan portfolio as well as the credit risk underwent no significant changes in 2016. Key values of the loan portfolio include:

€M	12/31/2016	12/31/2015	12/31/2014
Lines of payment transaction (Intra-Day)	24.1bn	25.9bn	25.7bn
Lines of payment transaction (Overnight-Day)	4.2bn	4.2bn	4.4bn
Overdrafts	579	688	171
RWA for credit risk	579	446	323
RTF Going-Concern	28.8	12.6	15.7
RTF Gone-Concern	269.3	119.5	163.9

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market- nor credit-related. Operational risk is an inherent part of the activity of J.P. Morgan AG and its LOBs, 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 damage. The goal is to keep operational risk at appropriate levels in light of J.P. Morgan AG's financial strength and the characteristics of its businesses.

To monitor and control operational risk J.P. Morgan AG utilizes the Firm's 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 Assessment, Measurement, and Monitoring and Reporting.

ORMF Governance

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. 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. The Firmwide Risk Executive for Operational Risk Governance ("ORG"), a direct report to the 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. 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. The assessments of operational risk using this framework are reviewed with the DRPC.

The Risk Governance and Location Control Officer are jointly responsible for the J.P. Morgan AG's Operational Risk Manual which details the local application of the ORMF.

Risk Assessment
The Firm utilizes several tools to identify, assess, mitigate and manage its operational risk. One such tool is the 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.

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 analyse their losses to evaluate the efficacy of their control environment to assess where controls have failed, and to determine where targeted remediation efforts may be required. ORG 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 on 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. 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.

Risk Monitoring and Reporting
ORG has established standards for consistent operational risk reporting. The standards also reinforce escalation protocols to senior management and to the Management Board. The

purpose of these reports is to enable management to maintain operational risk at appropriate levels and enable prompt escalation. A summary of the results is presented to the Management Board as part of the monthly MaRisk reports.

Key values for operational risk are:

€ M	12/31/2016	12/31/2015	12/31/2014
Losses arising from operational risks	0.1	0.6	0.2
Regulatory capital requirement	226	203	190
RTF Going-Concern	16.6	15.0	20.6
RTF Gone-Concern	31.2	28.2	38.7

In addition to the RCSA process referenced within the Risk Assessment section, a Risk Inventory for J.P. Morgan AG is prepared annually involving the business and the IRM functions.

Legal Risk Management

Legal risk is the risk of loss or imposition of damages, fines, penalties or other liability arising from the failure to comply with a contractual obligation or to comply with laws, rules or regulations to which the Firm is subject.

In addition to providing legal services and advice to the Firm, the global Legal function is responsible for working with the businesses and corporate functions to fully understand and assess their adherence to laws, rules and regulations. In particular, Legal assists Oversight & Control, Risk, Finance, Compliance and Internal Audit in their efforts to ensure compliance with all applicable laws and regulations and the Firm's corporate standards for doing business.

Employee Risk

Human Resource risks are those associated with the employment of staff for example, the cost of employment, health and safety issues; over-reliance on key individuals and inadequate succession planning; the cost and reputational damage of litigation by employees and/or arising from employee misconduct; and the risks associated with inappropriate compensation practices. J.P. Morgan AG tries to minimize operational risks through established oversight and control processes and the implementation of key controls.

IT Risk

The systems used in J.P. Morgan AG are part of the Groups IT Infrastructure. As such J.P. Morgan AG utilizes a number of critical applications to access market infrastructure (e.g. for the € Clearing) or to service internal and external clients. One of the core requirements for J.P. Morgan AG's business is a functioning IT infrastructure. J.P. Morgan AG tries to minimize operational risks through a standardized business continuity planning and testing, as well as the IT development are established firm-wide processes.

Process Risk

Process risk means the risk of loss resulting from inadequate or failed internal processes. Core activities in J.P. Morgan AG, such as payment services and custody services, define the entity as a transactional bank, as such process risk is highly relevant. J.P. Morgan AG tries to minimize operational risks through established oversight and control processes and the implementation of key controls.

Losses incurred when a force of nature or an individual(s) causes damage or injury to the Firm's employees, clients, and/ or physical assets. J.P. Morgan AG manages this risk through extensive business continuity planning intended to guarantee the orderly operation of critical processes. The threat scenarios considered include the unavailability of employees, the breakdown of support systems, and the inability to use the building. The appropriate emergency plans were developed with the inclusion of Group-wide infrastructure and are regularly tested.

Liquidity Risk

J.P. Morgan AG defines liquidity risk as the risk that the entity will be unable to meet its 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. Liquidity risk for J.P. Morgan AG is comprised of the following sub-risks:

- Inherent liquidity risk is the risk that an institution cannot meet its financial obligations, such as payments and collateral needs, as they fall due in the short term and medium term, either at all or without incurring unacceptable losses.
- Intraday liquidity risk is the risk that a bank fails to manage its intraday liquidity adequately, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties, as well as a bank's reputation in the market.
- Funding risk is the risk that the institution will not have stable sources of funding in the medium and long term, resulting in the current or prospective risk that it cannot meet its financial obligations, such as payments and collateral needs, as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably.

The J.P. Morgan AG Board has ultimate responsibility for the liquidity and risk within the entity. The Board reviews and establishes an appropriate level of liquidity risk appetite, and it also reviews and periodically approves relevant frameworks and policies that specify how liquidity risk is managed in relation to the entity.

Risk mitigating instruments include early warning indicators, liquidity limits and specific breach escalation protocols.

J.P. Morgan AG's primary source of liquidity is driven by customer deposits. The liquidity is mainly invested in JPM Chase Bank London Branch in the form of reverse repos. Majority of the reverse repos have an overnight maturity.

Key ratios monitored for liquidity risk are:

	12/31/2016	12/31/2015	12/31/2014
BaFin Liquidity Ratio	1.48	1.91	1.95
Liquidity Coverage Ratio	121 %	149 %	149 %
Net Stable Funding Ratio	400 %	161 %	107 %

J.P. Morgan AG's liquidity and funding management is integrated into JPMorgan Chase & Co.'s (the Firm's) liquidity management framework. The primary objectives of effective liquidity management are to ensure that the Firm's core businesses and material legal entities are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles as well as during stress events, to manage an optimal funding mix, and availability of liquidity sources.

The Firm manages liquidity and funding using a centralised, global approach across its entities, taking into consideration both their current liquidity profile and any potential changes over time, in order to optimise liquidity sources and uses.

In the context of liquidity management for J.P. Morgan AG, EMEA Corporate Treasury is responsible for:

- Analysing and understanding the liquidity characteristics of each line of business assets and liabilities, taking into account legal, regulatory, and operational restrictions;
- Defining and monitoring liquidity strategies, policies, guidelines, and contingency funding plans;
- Managing liquidity within regulatory requirements and approved internal liquidity risk limits.

Liquidity Risk Oversight

The Firm has an independent liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk across the Firm. Liquidity Risk Oversight's responsibilities include, but are not limited to:

- Establishing and monitoring limits and indicators, including liquidity risk appetite;
- Defining and monitoring internal Firmwide and material legal entity 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 Governance

The specific committees responsible for liquidity risk governance for these entities include the EMEA ALCO and J.P. Morgan AG Risk Oversight Committee.

Internal Stress Testing

J.P. Morgan AG's liquidity stress tests are intended to ensure that the legal entity has sufficient liquidity under a variety of adverse scenarios, including scenarios analysed as part for resolution and recovery planning. Results of stress tests are therefore considered in the formulation of J.P. Morgan AG's funding plan and assessment of its liquidity position.

Liquidity stress tests assume that all of the legal entity's contractual obligations are met and take into consideration varying levels of access to unsecured and secured funding markets. Additionally, estimated non-contractual and contingent outflows and potential impediments to the availability and transferability of liquidity between jurisdictions and legal entities such as regulatory, legal or other restrictions are considered. Liquidity outflow assumptions are modelled across a range of time horizons and contemplate both market and idiosyncratic stress. Standard liquidity stress tests are performed on a regular basis and ad-hoc stress tests are performed in response to specific market events or concerns.

In all scenarios performed in 2016, J.P. Morgan AG had sufficient liquidity to meet regulatory requirements and support its assets and liabilities.

Market Risk

Market risk 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:

- 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;
- Foreign Exchange Rates – Foreign exchange rate risks result from exposures to changes in prices and volatility of currency rates;
- Equity Prices – Equity price risks result from exposures to changes in prices and volatility of individual equities, equity baskets and equity indices;
- Credit Spreads – Credit spreads are the difference between yields on corporate debt subject to default risk and government bonds;
- 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.

Market Risk Management monitors market risks throughout the Firm and defines market risk policies and procedures. The Market Risk Management function reports to the Firm's CRO.

The Firmwide Risk Executive (FRE) Market Risk and Line of Business (LOB) CROs are responsible for managing Firmwide market risk. The LOB Market Risk functions are responsible for establishing methodologies and procedures to measure, monitor and control market risk, using information provided by the Firm's risk infrastructure. The J.P. Morgan AG. CRO and Market Risk Officer (MRO) are responsible for the application of these processes at the legal entity level.

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

Market Risk is responsible for the following functions:

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

Market Risk monitors market risk exposures in J.P. Morgan AG and defines the market risk framework. The scope for managing market price risk is defined by the Management Board in the business and risk strategy and defined more closely in the Limits and the Triggers Guidance.

Risk Measurement

As no single measure can reflect all aspects of market risk, Market Risk uses various metrics, both statistical and non-statistical, to capture market risk, including, but not limited to:

- Value at Risk ("VaR")
- Economic-value stress testing
- Non-statistical risk measures
- Loss advisories/Profit and loss drawdowns
- Single Name Position Risk (SNPR)

Risk Monitoring and Control
Market risk exposure is managed primarily through a series of limits set in the context of the market environment and business strategy.

J.P. Morgan AG maintains different levels of limits which include VaR and Stress limits. Limits may be set at the legal entity as well as at the portfolio level.

Limits are set by Market Risk and are regularly reviewed and updated as appropriate. J.P. Morgan AG's CRO and MRO are responsible for reviewing and approving these risk limits on an ongoing basis. The lines of business 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. In the event of a breach, the MRO consults with J.P. Morgan AG's CRO 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.

	Value at Risk (in US $)		
T$	12/31/2016	12/31/2015	12/31/2014
Reporting date	976	182	1,773
60-day trend	1,059	180	2,129
One-year average	1,443	187	1,937

INTEREST RATE RISKS OF THE BANKING BOOK

IRRBB is defined as Interest Rate Risk ("IRR") resulting from the Firm's traditional banking activities (accrual accounted on and off balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as 'non-trading' activities); and also the impact from the Chief Investment Office ("CIO") investment portfolio and other related CIO Treasury activities. IRR from non-trading activities can occur due to a variety of factors, including but not limited to:

– Differences in the timing among the maturity or re-pricing of assets, liabilities and off-balance sheet instruments;
– Differences in the balances of assets, liabilities and off-balance sheet instruments that re-price at the same time;
– Differences in the amounts by which short-term and long-term market interest rates change; and
– Impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change.

In order to quantify the IRRBB, J.P. Morgan AG uses the result of the interest rate shock specified by the banking supervisory authorities of +/−200 basis points currently.

To calculate interest rate change risk for its investment portfolio, J.P. Morgan AG likewise uses the price value of a basis point interest approach. Exceeded limits are generally escalated to the Management Board. In addition to the year-end value, the table below also shows the maximum, minimum and average values (always absolute values) of a basis point interest approach for the market risk.

€M	200 BP Interest Rate Shock
12/31/2016	27.3
Minimum 2016	16.1
Maximum 2016	44.6
Average 2016	27.2

Pension Risk
J.P. Morgan AG defines Pension risk as the risk caused by contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). Pension risk is driven by market and demographic risk where the pension scheme may be unable to meet future expected benefit payments. Pension risk is thus the potential necessity of increasing pension reserves. The pension risks are determined on the basis of a VaR model but are considered in an additional calculation in the quantification of the risk-bearing capacity. If the VaR should exceed the excess of planned pension assets, this position would be deducted from the risk cover potential.

Business Risk
J.P. Morgan AG defines Business risk as any risk arising from changes in its business, including: the acute risk to earnings posed by falling or volatile income; and the broader risk of a firm's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors; or its remuneration policy. Regular plan monitoring and if necessary the appropriate adjustments ensure that these deviations are minimised.

Reputation Risk
Reputation risk is the risk that an action, transaction, investment or event will reduce trust in the J.P. Morgan AG's and the Firm's integrity or competence by our various constituents, including clients, counterparties, regulators, employees and the broader public.

Risk Management
Maintaining the Company's reputation is the responsibility of each individual employee. The Firm's Reputation Risk Governance policy explicitly vests each employee with the responsibility to consider the reputation of the Firm when engaging in any activity.

Since the types of events that could harm the Firm's reputation are so varied across the Firm's lines of business, each line of business has a separate reputation risk governance infrastructure in place, which consists of three key elements:

- clear, documented escalation criteria appropriate to the business,
- a designated primary discussion forum – in most cases, one or more dedicated reputation risk committees;
- a list of designated contacts, to whom questions relating to reputation risk should be referred.

For any reputational risk item impacting J.P. Morgan AG the CRO would be involved directly.

Line of business reputation risk governance is overseen by a Firmwide Reputation Risk Governance function, which provides oversight of the governance infrastructure and process to support the consistent identification, escalation, management and monitoring of reputation risk issues Firmwide.

Summarising Presentation
The conservative risk policy and the solid capital resources ensure the very comfortable risk position of J.P. Morgan AG going forward.

The quantification of the capital requirement for the occurring risks takes place through internal, institute-specific calculation approaches. The calculation of the risk bearing capability takes place on a quarterly basis. As per December 31, 2016 utilisation stood at 39.3 %. As part of the integrated stress testing, the risk bearing capability was guaranteed at any time.

The following key performance and risk indicators essentially represent the risk profile of J.P. Morgan AG:

€ M	2016	2015	2014
RWA Overall	**901**	**679**	**571**
Total capital	840	834	821
Tier 1 capital ratio	73 %	95 %	115 %
Total capital ratio	93 %	122 %	144 %
Liquidity ratio	1.48	1.91	1.95
Leverage Ratio	2.89 %	4.91	4.31
Liquidity Coverage Ratio	121 %	149 %	149 %
Net Stable Funding Ratio	400 %	161 %	107 %
Risk capital requirement Going-Concern	49.2	60.7	63
Risk cover potential Going-Concern	125.3	99.2	141.9
Risk capital requirement Gone-Concern	327.3	222.8	291.6
Risk cover potential Gone-Concern	836.9	801.7	684.3

In 2016, as in previous years, J.P. Morgan AG did not observe any credit default.

RISK CONTROL AND MONITORING

Timely, independent and risk-based reporting the risk categories credit risk, market price risk, liquidity risk and operational risk is provided to the Management Board on a daily, weekly and monthly basis; Risk Management summarises said reports as part of the quarterly MaRisk reports.

The various control functions at J.P. Morgan AG – mainly the Internal Audit, Compliance and Risk Management departments – create an annual review and audit plan based on the results of the risk assessment of the operational risks, particularly in order to ensure the effectiveness of the defined controlling measures.

The Internal Audit department of J.P. Morgan AG is an integral component of Group auditing and reports directly to the Chairperson of the Management Board. It is responsible for the review of the business operations at J.P. Morgan AG based on a risk-oriented audit approach, which covers all activities and processes at J.P. Morgan AG and thus the outsourced activities as well. The Group auditing department of JPMorgan Chase Bank, N.A., London, is generally involved when this type of audit is performed.

DEFINITION OF LIMITS

In addition to regulatory limits, the Management Board at J.P. Morgan AG defined a series of early-warning indicators, which are monitored daily and in a timely manner. These limits are defined in the Limit and Trigger Guidance and include, among others, renovation indicators, credit limits, investment limits, bidding limits, as well as the minimum liquidity of J.P. Morgan AG.

The risk-based framework of J.P. Morgan AG is approved by the Management Board and updated on a regular basis. It defines roles and responsibilities as well as escalation procedures in the event that critical threshold values are exceeded or fallen short of, or that defined limits are breached.

CHANGE PROCESSES

The introduction of new products and the expansion of business into new markets occurs in line with the Group-wide "New Business Initiative Policy". Under the responsibility of the Management Board member "Back Office" in its role as CRO, an analysis takes place of the potential risks, the design of the operative processes, their regulatory impacts, and their impact on J.P. Morgan AG's risk capacity. If the product involves an expansion of trading activities, the CRO shall also ensure that there is a sufficient test phase prior to introduction in real production.

Integrating various functions such as Financial Control, Tax, Legal, Compliance Internal Review and Risk as coordinated by the CRO guarantees a review of the planned product launch independent of the trading function. This committee documents its findings along with a recommendation for approval, which are then submitted for discussion to the general management. Only after approval is the initiative integrated into real production at J.P. Morgan AG.

Internal control system

GENERAL REMARKS

Please refer to the explanations provided in the risk report for a presentation of the risks and the measures for limiting risks. The internal control system (ICS) and the risk management system, which cover the J.P. Morgan AG accounting process, focus on the guidelines, procedures and measures taken to ensure the efficacy, economic viability and orderliness of the accounting as well as guaranteeing adherence to the key statutory regulations. The internal control system consists of two areas, Control and Monitoring. In organisational terms, the Financial Control & Tax division is responsible for the control.

The monitoring measures consist of elements integrated into the process and external, independent elements. Among other things, the integrated measures include a monthly control process covering all the Bank's activities, during which the balance sheet as at that date and the income statement are examined to assess and confirm their correct presentation and risks. Moreover, in all instances the four-eye principle is applied, along with technical controls, mainly by software-controlled audit mechanisms. Furthermore, qualified staff members with due expertise and specialist functions such as Financial Control & Tax take part in the process-integrated monitoring and control functions.

The Management Board and the Supervisory Board (in particular the Audit Committee) as well as the internal audit department are involved in the internal monitoring system in the form of process-independent audit measures. The audit of the annual financial statements constitutes a key element of process-independent monitoring.

With a view to the accounting, the risk management system is geared to identify, evaluate and communicate risks from faulty bookkeeping, accounting, and reporting in a timely manner.

IT USE

The software used by the bank to input accounting transactions is made up of IT systems used throughout the Group. The orderly functioning of the programs and interfaces utilised is regularly assessed and confirmed. As part of the examination of our IT, the group auditors check the due operation of the accounting-related applications at all computer centre locations. The complete IT system, including that for accounting, is secured against unauthorised access.

KEY REGULATIONS AND CONTROL ACTIVITIES TO ENSURE DUE, ORDERLY AND RELIABLE ACCOUNTING

The internal control system's structure and measures ensure that business transactions are entered swiftly and completely in line with the statutory and the internal regulations and that assets and liabilities are accurately calculated, valued and carried in the annual financial statements. The booking documentation provides a reliable information base and a clear paper trail.

The rules of the Financial Accounting Standards Board are applied within the J.P. Morgan Group as uniform valuation and accounting principles according to US-GAAP, supplemented and commented on by the Group's "Accounting Policies" section. Here, again, stipulations are made with regard to the intra-Group settlement policies. As part of the preparation of the individual financial statements for J.P. Morgan AG, a reconciliation statement is prepared under US-GAAP to the annual financial statements prepared in accordance with the German Commercial Code. Here, local work directives cover the details of the formal requirements and the tangible data for the individual financial statements.

Pursuant to the country-specific reporting under § 26a para 1 S. 2 KWG, J.P. Morgan AG has neither foreign branch offices nor subsidiaries in this sense.

Assurance by the Management Board

We hereby assure that to the best of our knowledge and in line with the applicable accounting principles for financial reporting, this report offers a fair picture of the Bank's assets, financial/liquidity and earnings situation that corresponds to the facts and that the course of business, the business results and the Bank's position are presented in such a way as to convey a true and fair picture, and that the material opportunities and risks of the Bank's presumable future performance in the remainder of the current business year are described.

Frankfurt am Main, April 20, 2017

J.P. Morgan AG
Frankfurt am Main
The Management Board

BURKHARD KÜBEL-SORGER

STEFAN BEHR

MICHELLE GRUNDMANN

Financial statements 2016 of J.P. Morgan AG

ANNUAL BALANCE SHEET AS OF DECEMBER 31, 2016 OF J.P. MORGAN AG, FRANKFURT AM MAIN

ASSETS

€				Notes	2016 €	2015 T€
Cash reserves						
– Cash on hand			100			–
– Credits with central banks			13,195,114,892			1,961,334
incl.: with Deutsche Bundesbank	13,195,114,892					1,961,334
				2.1.	**13,195,114,992**	**1,961,334**
Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks:						
– Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions			–			–
incl.: eligible for refinancing with Deutsche Bundesbank	–					–
– Bill of exchange			–			–
incl.: eligible for refinancing with Deutsche Bundesbank	–				–	–
Receivables from credit institutions						
– due daily			8,804,762,485			9,900,886
– other receivables			29,855,799			15
				2.2.	**8,834,618,284**	**9,900,901**
Receivables from clients				**2.3.**	**204,687,782**	**222,195**
incl.: secured by mortgage	–					–
incl.: municipal credits	–					–
Bonds and other fixed-interest securities						
– Money market instruments						
from public issuers		–				–
incl.: eligible as collateral with Deutsche Bundesbank	–	–				–
from other issuers		–				–
incl.: eligible as collateral with Deutsche Bundesbank	–	–				–
			–			–
– bonds and debt securities						
from public issuers		247,994,056				358,791
incl.: eligible as collateral with Deutsche Bundesbank	247,994,056					358,791
from other issuers		–				–
incl.: eligible as collateral with Deutsche Bundesbank	–	–				–
			247,994,056			358,791
– own debt securities			–			
Nominal amount	–		–			–
				2.4.	**247,994,056**	**358,791**

ASSETS (CONTINUED)

€				Notes	2016 €	2015 T€
Shares and other non-fixed interest securities					–	–
Investments				2.5.	–	159
incl.: in credit institutions	–					
incl.: in financial service institutions	–					–
Shares in affiliated companies						
incl.: in credit institutions	–					–
incl.: in financial service institutions	–					–
Trust assets						
incl.: fiduciary loans	–					–
Tangible assets				2.6.	14,724,719	16,250
Other assets				2.7.	4,249,991	3,296
Accrued and deferred expenses				2.8.	1,116,343	909
Excess of plan assets over pension liability				2.9.	64,957,787	52,100
Total assets					22,567,463,954	12,515,936

LIABILITIES

€				Notes	2016 €	2015 T€
Liabilities to credit institutions						
– due daily			4,156,770,830			2,927,128
– with agreed maturity or notice period			11,401,391,519			2,442,224
				2.11.	**15,558,162,349**	**5,369,352**
Liabilities to clients						
– savings deposits						
with agreed notice period of three months		–				–
with agreed notice period of more than three months		–				–
			–			–
– other liabilities						
due daily		6,078,551,280				**6,193,442**
with agreed maturity or notice period		10,000,000				50,447
			6,088,551,280	**2.12.**	**6,088,551,280**	**6,243,889**
Securitised liabilities						
– issued debt instruments			–			–
– other securitised liabilities			–			–
						–
incl.: money market instruments	–					–
incl.: acceptances and promissory notes outstanding	–					–
Trust liabilities					–	–
incl.: fiduciary loans	–					–
Other liabilities				**2.13.**	**16,405,503**	**13,667**
Deferred income					**67,695**	**64**
Provisions						
– Provisions for pensions and similar obligations			–			–
– Tax provisions			4,302,888			4,475
– Other provisions			13,089,021			12,923
				2.14.	**17,391,909**	**17,398**
Subordinated liabilities				**2.15.**	**185,376,434**	**185,604**
Profit participation right					–	–
incl.: maturity after less than two years	–				–	–

LIABILITIES (CONTINUED)

€				Notes	2016 €	2015 T€
Fund for general banking risks				**2.16.**	**56,300,000**	**56,300**
Equity						
– Called-in capital						
Subscribed capital			160,000,000	**2.17.**		**160,000**
minus unclaimed outstanding deposits			–			–
– Capital reserves			418,681,895			418,682
– Retained earnings						
Legal reserves		6,000,000				6,000
Reserve for interests in a dominant or majority stake holding company		–				–
Reserves as stated in the Articles of Association		–				–
Other revenue reserves		44,979,529				36,885
			50,979,529			42,885
– Balance sheet profit			15,547,360			**8,095**
					645,208,784	**629,662**
Total liabilities					**22,567,463,954**	**12,515,936**
Contingent liabilities						
– Contingent liabilities from rediscounted, settled bills			–			–
– Liabilities from guarantees and indemnity agreements			438,030,230			149,571
– Collateral provided for third-party liabilities			–			–
				2.20.	**438,030,230**	149,571
Other commitments						
– Repurchase obligations under reverse repurchasing agreements			–			–
– Placement and underwriting obligations			–			–
– Irrevocable loan commitments			–			–
					–	–

INCOME STATEMENT OF J.P. MORGAN AG, FRANKFURT AM MAIN

FOR THE PERIOD FROM JANUARY 1, 2016 TO DECEMBER 31, 2016

€				Notes	2016 €	2015 T€
Interest income from						
– lending and money-market transactions	25,448,440					
– less negative interest arising from lending and money-market transactions	−38,827,323	−13,378,883				16,690
– fixed-income securities and debt register claims	2,263,435					
– less negative interest arising from debt register claims	–	2,263,435				13,600
– Total interest income			−11,115,447			30,290
Interest expenses from						
– lending and money-market transactions	2,537,825					
– less positive interest arising from lending and money-market transactions	−29,274,996	−26,737,171				−8,616
– fixed-income securities and debt register claims	768,214					9,183
– less positive interest arising from debt register claims	–	–				
– Total interest expenses			−25,968,957			−567
				3.1.	**14,853,509**	**29,723**
Current income from						
– equities and other non-fixed-income securities			–			–
– investments			23,055			24
– shares in affiliated companies			–			–
					23,055	**24**
Commissions income			78,661,307			74,640
Commissions expenses			1,660,778			1,271
				3.2.	**77,000,529**	**73,369**
Net income from trading portfolio					–	–
Other operating income				**3.3.**	**36,848,318**	**33,273**
General administrative expenses						
– Personnel expenses						
Wages and salaries		25,662,408				26,246
Social security contributions and expenses for pension provisions and benefits		3,278,464	28,940,872			3,357
incl.: for retirement benefits	62,024					464
– other administrative expenses			74,777,782			83,027
				3.4.	**103,718,654**	**112,630**

FOR THE PERIOD FROM JANUARY 1, 2016 TO DECEMBER 31, 2016 (CONTINUED)

€				Notes	2016 €	2015 T€
Depreciation, amortisation and valuation adjustments of intangible and tangible fixed assets				**2.6.**	**2,249,111**	2,190
Other operating expenses				**3.5.**	**1,179,442**	4,451
Depreciation and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks			–	**3.7.**		
Income from allocations to receivables and specific securities as well as allocations to loan transaction accruals			–	**3.6.**		
						–
Depreciation, amortisation and write-downs of equity investments, shares in affiliated companies and securities classified as fixed assets			–			–
Income from reversals of investments, shares in affiliated companies and securities classified as fixed assets			–			–
					–	–
Income before Tax and extraordinary items					**21,578,204**	**17,118**
Extraordinary income			–			–
Extraordinary expenses			–			–
Extraordinary result					**–**	**–**
Taxes on income and revenue			6,018,644			9,011
including changes in deferred taxes:	–					
Other taxes, not shown under other operating expenses			12,200			13
				3.8.	**−6,030,844**	**− 9,024**
Profit transferred on the basis of profit pooling, profit and loss transfer, or partial profit transfer agreements					–	–
Annual net profit					**15,547,360**	**8,095**
Profit/loss carried forward				**3.9.**		**0**
Retained profit					**15,547,360**	**8,095**

J.P. MORGAN AG, FRANKFURT AM MAIN
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2016

1. General remarks

1.1. GENERAL PRINCIPLES

J.P. Morgan AG, Frankfurt am Main, is a registered public stock corporation under German Law, registered in the Trade Register of the Frankfurt District Court under number HRB 16861, which is active in Germany in the main business segments of transactional banking, security custody and deposit and loan business.

The annual financial statements for J.P. Morgan AG have been prepared under the rules laid down in the German Commercial Code (HGB), the Companies Act (Aktiengesetz) and the Accounting Regulation for Credit Institutions and Financial Service Institutions (RechKredV).

The structure of the balance sheet and the income statement is unchanged as compared to the prior year.

There were no significant changes after the balance sheet date.

1.2. CHANGED ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods adopted for the 2016 annual financial statements were used as for the previous year. Changes required by the Implementation of the Accounting Directive Implementation Act (BilRuG) were applied, these did not cause any changes in the accounting and valuation methods used, but did add some additional information in the Notes to the Accounts and the Management Report.

The 10-year average interest rate was used for the calculation of provisions for retirement pensions. The difference, as defined in § 253 para. 6 HGB to the application of the 7-year average interest rate was € 9,256,129. As laid down in § 253 para. 6 S. 3 HGB, this amount may not be paid out in dividends.

1.3. FOREIGN CURRENCY CONVERSION

Foreign-currency receivables and liabilities have been converted using the European Central Bank reference rates applicable at the reporting date. Transactions denominated in foreign currency are translated at the end-of-month rate for the month in which the business was transacted. Exchange gains/losses are reported in profit or loss under other income.

2. Key accounting and valuation principles and explanations

2.1. CASH RESERVES

T€	12/31/2016	12/31/2015
Cash reserves	**13,195,115**	**1,961,334**
Cash on hand	–	–
Credit with central banks	13,195,115	1,961,334
incl.: with Deutsche Bundesbank	13,195,115	1,961,334

Liquid funds are reported at nominal value. As at the reporting date, there is € 100 in liquid funds in the cash on hand, and liquidity was deposited with the Deutsche Bundesbank.

2.2. RECEIVABLES FROM CREDIT INSTITUTIONS

T€	12/31/2016	12/31/2015
Receivables from credit institutions	**8,834,618**	**9,900,901**
incl.: receivables from affiliated companies	8,354,653	9,808,418
Breakdown by remaining maturity:		
a) due daily	8,804,762	9,900,886
b) other receivables	29,856	15
1. up to three months,	29,856	15
2. more than three months to one year,	–	–
3. more than one year to five years,	–	–
4. more than five years	–	–

Receivables from banks are reported at the nominal value or at the lower cost of acquisition plus accrued interest.

2.3. RECEIVABLES FROM CLIENTS

T€	12/31/2016	12/31/2015
Receivables from clients	**204,688**	**222,195**
incl.: receivables from affiliated companies	71,920	134,790
Breakdown by remaining maturity:		
a) due daily	36,473	27,817
b) undefined maturity	168,214	194,060
c) other receivables	–	318
1. up to three months,	–	–
2. more than three months to one year,	–	318
3. more than one year to five years,	–	–
4. more than five years	–	–

Receivables from clients are reported at nominal value or at the lower cost of acquisition plus accrued interest.

2.4. BONDS AND OTHER FIXED-INTEREST SECURITIES

T€	12/31/2016	12/31/2015
Bonds and other fixed-interest securities	**247,994**	**358,791**
maturing in the following year	–	–
Bonds and debt securities		
from public issuers	247,994	358,791
incl.: eligible as collateral with Deutsche Bundesbank	247,994	358,791
including marketable securities	247,994	358,791
listed on the stock exchange	247,994	358,791
not listed on the stock exchange	–	–

This position includes only listed bonds. Bonds and other fixed-income securities are valued at acquisition with the acquisition cost.

Since 2013 the securities have formed part of the liquidity reserves. The securities are valued according to the strict lowest value principle defined in § 253 para. 4 HGB. Depreciations and write-ups of the securities in the liquidity reserve are reported in the income statement under "Depreciation and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks" as well as "Allocations to loans-transaction accruals" or "Income from allocations to receivables and specific securities" as well as "Reversal of loans-transaction accruals".

To hedge the risk of changes in interest rates, a security and an interest hedging instrument were combined to form a micro-valuation unit. The change in market price that would be caused by a change in interest rates that is hedged by an interest rate swap at the balance sheet date was worth € 5.7 million. On the basis of a monthly effectiveness test this is an effective relationship. The valuation unit terminates on the maturity date of the security in 2024.

As of December 31, 2016, there were hidden reserves totalling € 14.5 million in the securities of the liquidity reserve, taking into account the existing valuation units. Due to the classification of all securities as liquidity reserve, no hidden liabilities exist.

2.5. INVESTMENTS

T€	12/31/2016	12/31/2015
Investments	**0**	**159**
incl.: in credit institutions	0	0

The holding in ÖPP Deutschland Beteiligungsgesellschaft mbH was returned at the end of financial year.

2.6. CHANGE IN FIXED ASSETS

T€	Other equipment and office equipment	Technical equipment and machinery	Total
Cumulative acquisition costs as at 01/01/2016	**16,373**	**2,758**	**19,131**
Additions	672	62	734
Disposals	0	−19	−19
Transfers	696	−696	0
Cumulative acquisition costs as at 12/31/2016	**17,741**	**2,105**	**19,846**
Cumulative depreciation as at 01/01/2016	**1,913**	**968**	**2,881**
Scheduled depreciation in the current year	1,680	489	2,169
Additions	74	15	89
Disposals	0	−18	−18
Transfers	182	−182	0
Cumulated planned depreciation as at 12/31/2016	3,849	1,272	5,121
Residual book value as at 12/31/2016	**13,892**	**833**	**14,725**
Residual book value as at 12/31/2015	**14,460**	**1,790**	**16,250**

Tangible assets are valued at acquisition cost minus scheduled straight-line depreciation. The value of the used parts of buildings amounts to € 10.7 million, while that of operating and business equipment amounts to € 4.0 million.

2.7. OTHER ASSETS

T€	12/31/2016	12/31/2015
Other assets	**4,250**	**3,296**

The main values here are € 1.4 million in VAT receivables, plus tax receivables for corporate tax and local business tax amounting € 0.3 million. In addition, there are € 0.7 million from the asset value of the pension insurance cover and receivables from payment processing services worth the amount of € 0.4 million.

2.8. ACCRUED AND DEFERRED EXPENSES

T€	12/31/2016	12/31/2015
Accrued and deferred expenses	**1,116**	**909**

Accrued and deferred expenses include € 1.1 million for the monthly pension payments already made in 2016 for accounting reasons.

2.9. EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

In line with § 246 para. 2 S. 2 HGB, assets that serve to cover debts from pension obligations and similar long-term obligations were netted against the liabilities. The excess carrying value of the balance is then entered under the item for “Positive consolidation difference from asset offsetting”. The actuarial report was calculated using the mortality tables from Prof. Dr. Klaus Heubeck 2005 G.

The evaluation was carried out in accordance with the accepted principles of actuarial mathematics using the so-called “Projected Unit Credit Method” (PUC method).

T€	12/31/2016	12/31/2015
Valuation parameters (BilMoG [Bilanzrechtsmodernisierungsgesetz – German Accounting Law Modernisation Act])		
Pension obligations:		
Actuarial interest rate	4.01 %	3.89 %
Future increase of benefits	3.00 %	3.00 %
Increase of pension	1.75 %	1.75 %
In order to account for fluctuation, age-specific and gender-specific fluctuation probabilities were used	Mercer Standard	Mercer Standard
Partial retirement:		
Actuarial interest rate	4.01 %	3.89 %
Future increase of benefits	3.00 %	3.00 %
Increase of pension	0.00 %	0.00 %

€		12/31/2016
Pension obligations	**01/01/2016**	**145,623,198**
Allocations		2,941,679
Allocations from deferred compensation		0
Consumption (pension payments)		− 8,511,279
Pension obligations	**12/31/2016**	**140,053,598**
Assets	**01/01/2016**	**197,723,487**
Additions		750,049
Disposals		0
Reversal of impairment on part values that have risen again		0
Market valuation in relation to acquisition costs (under other operating costs)		6,537,849
Assets	**12/31/2016**	**205,011,385**
Excess of plan assets over pension liabilities	**01/01/2016**	**52,100,289**
Excess of plan assets over pension liabilities	**12/31/2016**	**64,957,787**
Acquisition costs of assets	**01/01/2016**	**120,287,495**
Acquisition costs of assets	**12/31/2016**	**121,415,325**
Trend for allocations to pension provisions		
Allocations		2,941,679
Details of costs of partial retirement under “Wages and salaries”		−33,022
Proof of change in the discount rate and discounting/compounding of pension liabilities under other operative income		− 3,928,571
Allocations to pension provisions	**01/01/ – 12/31/2016**	**−1,019,914**

	2016
Asset investment measures pursuant to § 285 No. 26	
– Special Institutional Funds	**JPMC I Universal Fund**
Legal basis:	Risk management approach:
Basis of the calculation:	Market value (NAV) of assets
Reinvestment:	Capitalisation funds
§ 253 Para. 3 S. 4:	No amortisation, as valued according to § 246 Para. 2 HGB
Term:	No restriction on the daily return
Valuation as per §§ 168, 278 KAGB [Capital Investment Act] or equivalent foreign law as at balance sheet date:	T€ 180,859; shares 1,087,629
Capital assets:	Not eligible for listing on the stock exchange/ unlisted
– Mutual funds	**JPMorgan Funds – Global Unconstrained Equity**
Legal basis:	Luxembourg law
Basis of the calculation:	Market value (NAV) of assets
Reinvestment:	Capitalisation funds
§ 253 Para. 3 S. 4:	No amortisation, as valued according to § 246 Para. 2 HGB
Term:	No restriction on the daily return
Valuation as per §§ 168, 278 KAGB [Capital Investment Act] or comparable foreign law as at balance sheet date:	T€ 215,100; shares 14,275,572
Capital assets:	Not eligible for listing on the stock exchange/ unlisted

All pension assets are held to hedge pension benefits granted to employees. The primary investment target of the funds is to cover long term financial obligations.

The fund unit prices are calculated as follows: A net asset value (NAV) is allocated to each share class – this is the value of the assets of a share class minus the liabilities for that class. The NAV is then divided by the total number of current shares belonging to that share class to arrive at the unit price.

2.10. OTHER ACCOUNTING AND VALUATION METHODS

Other assets are valued under consideration of the strict lowest value principle.

Provisions for expenses and income have been created and allocated to the respective balance sheet items. No significant costs or income relating to other periods were recorded.

Liabilities are carried at the sums repayable and securitised liabilities are held at their nominal value.

Appropriate provisions have been made for uncertain liabilities, including imminent losses in the amount of T€ 76.

Interest driven business, in the banking book, was valued using the periodical approach (P&L based method) for loss-free valuation. In accordance with this method, it was not required to form a provision for contingent losses.

The amount that may not be disbursed as dividends under § 268 para. 8 S. 3 HGB totalled, as of December 31, 2016, € 83.6 million. This is the difference between the fair value and the purchase costs of the plan assets. Another item that is barred from disbursement is a part of the difference of the retirement pension commitments under § 253 para. 6 S. 2 HGB, totalling € 9.3 million. Free reserves in the meaning of § 268 para. 8 HGB existed for a total of € 463.6 million.

Provisions were valued at the settlement amount, factoring in expected increases in prices and costs.

Provisions with a remaining term of more than one year have been discounted/revalued at the average market interest rates as calculated and published by Deutsche Bundesbank (§ 253 para. 2 HGB). Income and expenses from the discount or revaluing are shown gross, not netted off, depending on whether provisions were created for the lending business or the non-banking business, under the interest income/interest expense (§ 277 para. 5 HGB) or alternatively in the other operating income/expenditure (§ 340a para. 2 combined with § 277 para. 5 HGB).

Deferred taxes are calculated for temporary differences between the commercial valuations of assets, liabilities and deferred income and their taxable value and tax loss. The underlying temporary differences are mainly due to different valuations of securities, pension obligations and the valuation of plan assets and provisions and lead to a net deferred tax asset (surplus). For the calculation of deferred taxes, a corporate income tax rate including solidarity surcharge of 15.825 % and a local business tax rate of 16.10 % were assumed. The right available under § 274 para. 1 S. 2 HGB for capitalisation of deferred taxes is not exercised.

Valuation units were set up for registered bonds, bearer bonds and debentures issued that are hedged by total return swaps (TRS) against market price risk. Moreover, parts of the fixed-interest securities were combined with interest rate swaps as a hedge into a valuation unit.

The TRS and the interest swap were each combined into a single hedge transaction with their underlying transaction, and their effectiveness was tested.

Based on the clear hedging relationship between them, these hedge transactions are micro-hedges, which represent a perfect hedging relationship throughout the entire term. The calculation of the market values at which the Total Return Swap compares to the underlying liabilities, or the interest swap compares to the bonds, is performed using well-known valuation models. Efficiency is measured by using the dollar offset method, or with the use of suitable statistical procedures such as regression analysis.

The fair market value of the Total Return Swap on December 31, 2016 was € 4.071 million. The value of the interest swap at that date was € −6.353 million. Valuation was carried out using internal valuation procedures. The Group uses valuation procedures to establish the fair value of financial instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation procedures are based on observable data derived from prices of relevant financial instruments traded in an active market. The use of these models involves some level of management estimation and judgment, the degree of which will depend on the price transparency for the financial instrument and its market and the instrument's complexity.

The maturity of the TRS corresponds to the hedged liability, and is made up as follows on December 31, 2016:

T€	Total Return Swaps	Liabilities
Total Return Swaps Overview (Nominal)		
Maturity		
2016	–	–
2017	–	–
2018	–	–
2020	–	–
2022	10,000	10,000

A valuation unit was created that combined a Total Return Swap and a liability item.

The maturity breakdown of the interest swap is shown in the following table, in combination with the bonds:

T€	Interest Rate Swaps	Bonds
Interest Rate Swap overview (nominal)		
Maturity		
2022	–	–
2023	–	–
2024	50,000	50,000
2025	–	200,000

The effective portion of the valuation units formed is presented according to the freezing method.

2.11. LIABILITIES TO CREDIT INSTITUTIONS

T€	12/31/2016	12/31/2015
Liabilities to credit institutions	**15,558,162**	**5,369,352**
incl.: liabilities to affiliated companies	13,028,352	4,322,329
Maturity structure:		
a) due daily	4,156,770	2,927,128
b) with agreed maturity or notice period	11,401,392	2,442,224
1. up to three months,	11,156,392	2,342,224
2. more than three months to one year,	145,000	–
3. more than one year to five years,	–	–
4. more than five years	100,000	100,000

The JPMorgan Chase Bank, N.A., London Branch, has furnished a cash security of € 500 million to secure granted lines of credit, as well as a cash security of € 100 million to secure transactions with derivatives.

2.12. LIABILITIES TO CLIENTS

T€	12/31/2016	12/31/2015
Liabilities to clients	**6,088,551**	**6,243,889**
incl.: liabilities to affiliated companies	317,201	101,776
Maturity structure:		
a) due daily	6,078,551	6,193,442
b) with agreed maturity or notice period	10,000	50,447
1. up to three months,	–	15,447
2. more than three months to one year,	–	–
3. more than one year to five years,	–	25,000
4. more than five years	10,000	10,000

2.13. OTHER LIABILITIES

T€	12/31/2016	12/31/2015
Other liabilities	**16,406**	**13,667**
consisting of:		
– Profit transfer	0	0
– Interest for profit participation rights (J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft [J.P. Morgan Holding and Management Corporation] mbH)	0	0
– Value added tax	11,609	7,036
– Liabilities from deliveries and services	3,654	3,442
– other liabilities	1,143	3,189

The other liabilities mainly include liabilities from deliveries and services, as well as value added tax liabilities.

2.14. PROVISIONS

T€	12/31/2016	12/31/2015
Provisions	**17,392**	**17,398**
consisting of:		
– tax provisions	4,303	4,475
– other provisions	13,089	12,923

The provisions shown include all identifiable commitments at the balance sheet date that are based on past business transactions or past events and valued under § 253 HGB.

Provisions for anniversaries included in this figure were calculated using an actuarial report and the mortality tables of Prof. Dr. Klaus Heubeck 2005 G and in line with the valuation method as per § 253 para. 1 HGB.

Other provisions consist for the most part of provisions regarding personnel expenditure and asset retirement obligations for the leased office building.

2.15. SUBORDINATED LIABILITIES

T€	12/31/2016	12/31/2015
Subordinated liabilities	**185,376**	**185,604**
incl.: subordinated liabilities to affiliated companies	185,376	185,604

The subordinated capital posted in financial year 2016 comprises a subordinated loan taken out on December 21, 2009 for € 150,000,000, as well as another subordinated loan of € 35,790,432 which was transferred to J.P. Morgan AG as part of the merger between J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH and J.P. Morgan AG.

Interest payments are made quarterly starting on December 21, 2009, or for the capital acquired within the context of the merger, on a semi-annual basis. Interest to be paid is calculated respectively on the basis of the three-month EURIBOR (European InterBank Offered Rate) or the six-month EURIBOR interest rate. The subordinated capital to the amount of T€ 150,000 is due on December 21, 2039. The subordinated loan to the amount of T€ 35,790 has no term with an option for termination at any time with a notice period of two years. In the event of insolvency, all remaining lenders will be serviced in order of priority. There are no early repayment obligations.

The subordinated liabilities meet the requirements of § 10 para. 5a KWG [Kreditwesengesetz – German Banking Act].

2.16. FUND FOR GENERAL BANKING RISKS

T€	12/31/2016	12/31/2015
Status as of 01/01/2016	**56,300**	**56,300**
Additions	–	–
Disposals	–	–
Status as of 12/31/2016	**56,300**	**56,300**

2.17. SUBSCRIBED CAPITAL, CAPITAL RESERVE AND RETAINED EARNINGS

The share capital amounts to € 160,000,000, split into 160,000,000 individual shares.

The shares are 100 % paid-in. The profit shown on the Balance Sheet in the prior year of amount of € 8.1 million was assigned by the Annual General Meeting to the retained earnings reserves.

2.18. OTHER ITEMS DUE TO AFFILIATED COMPANIES

T€	12/31/2016	12/31/2015
Other items due to affiliated companies		
Other assets	0	0
Other liabilities	1,824	1,913
Liabilities from profit transfer	0	0

2.19. FOREIGN CURRENCY ASSETS AND LIABILITIES

T€	12/31/2016	12/31/2015
Foreign currency assets and liabilities		
Assets	1,984,480	2,016,372
Liabilities	2,378,092	2,023,770

2.20. CONTINGENT LIABILITIES

T€	12/31/2016	12/31/2015
Contingent liabilities		
Liabilities from guarantees and indemnity agreements	438,030	149,571

The contingent liabilities shown are mainly secured through appropriate securities.

The likelihood of a claim, based on past experience, is deemed to be very low.

3. Explanatory Notes to the Income Statement

3.1. NET INTEREST INCOME

T€	01/01/–12/31/2016	01/01/–12/31/2015
Interest income (net)	**14,854**	**29,723**
Interest income from:	**–11,115**	**30,289**
a) Lending and money-market transactions	25,448	22,655
Less negative interest arising from lending and money-market transactions	–38,827	–5,966
b) Fixed-income securities and debt register claims	2,263	13,600
Interest expenses:	**–25,969**	**–566**
a) Lending and money-market transactions	2,538	2,601
Less negative interest arising from lending and money-market transactions	–29,275	–11,218
b) Fixed-income securities and debt register claims	768	9,183

Net interest income fell by 50 % compared to last year. This heavy fall is due in part to reverse repo transactions, which because of negative interest rates led to a reduction in interest income of T€ 16,897.

The positive balance of interest from bonds reduced by T€ 2,922 compared to the prior year.

3.2. NET COMMISSION INCOME

T€	01/01/–12/31/2016	01/01/–12/31/2015
Commission income (net)	**77,001**	**73,369**

The net commission income increased by 5.0 % in comparison to the previous year. In particular, increasing income from payment transactions contributed positively to this increase.

3.3. OTHER OPERATING INCOME

T€	01/01/–12/31/2016	01/01/–12/31/2015
Other operating income	**36,848**	**33,273**
including:		
– Services rendered for Group entities	30,231	27,208
– Miscellaneous other operating income	6,617	6,065

The increase of 11 % in other operating income compared to the prior year is mainly due to the positive valuation result of amount of T€ 2,586 (2015: T€ –8,267) arising from changes in the fair value, and income from the plan assets, changes in the actuarial interest rate and the effects of discounting/compounding pension liabilities. A positive effect was achieved from the sale of securities from the liquidity reserve amount of T€ 1,049 achieved (2015: T€ 11,349). Further, other income included services to companies of the Group.

3.4. GENERAL ADMINISTRATIVE EXPENSES

T€	01/01/–12/31/2016	01/01/–12/31/2015
General administrative expenses	**103,719**	**112,630**
incl.:		
Personnel expenses	28,941	29,603
– Wages and salaries	25,662	26,246
– Social security contributions and expenses for pension provisions and benefits	3,278	3,357
• of which for retirement	62	464
Other administrative expenses	74,778	83,027

The reduction in the general administrative expenses is mainly the result of lower costs for providing services to group companies, lower contributions to deposit guarantee funds, and also lower costs for external consultancy services.

3.5. OTHER OPERATING EXPENSES

T€	01/01/–12/31/2016	01/01/–12/31/2015
Other operating expenses	**1,179**	**4,451**

The other operational expenses primarily include intra-Group expenses for the administration and sale of securities from the liquidity reserve.

3.6. INCOME FROM ALLOCATIONS TO RECEIVABLES AND SPECIFIC SECURITIES AS WELL AS ALLOCATIONS TO LOAN TRANSACTION ACCRUALS

T€	01/01/–12/31/2016	01/01/–12/31/2015
Income from allocations	**0**	**0**

As at the reporting date, no earnings from write-ups had been recorded.

3.7. DEPRECIATION AND VALUE ADJUSTMENTS IN RESPECT OF RECEIVABLES AND SPECIFIC SECURITIES AND ALLOCATIONS TO PROVISIONS FOR CREDIT RISKS

T€	01/01/–12/31/2016	01/01/–12/31/2015
Write-offs of securities in the liquidity reserve	**0**	**0**

On the reporting date there were no expenses arising from the evaluation of the debt securities based on the strict lowest value principle.

3.8. TAX ON INCOME AND REVENUE AND OTHER TAXES

T€	01/01/–12/31/2016	01/01/–12/31/2015
Taxes	**6,031**	**9,024**
Industrial tax	2,967	4,554
Corporate tax	3,052	4,457
Other	12	13

In the fiscal year out-of-period tax expenses in the amount of T€ 12 recorded.

3.9. PROPOSED APPROPRIATION OF PROFITS

The Management Board and the Supervisory Board propose to the Annual General Meeting that the profit for financial year 2016, totalling € 15,547,360 be added to the retained earnings.

4. Other data

T€	Market value on 12/31/2016		Market value on 12/31/2015		Market value on 12/31/2014	
	positive	negative	positive	negative	positive	negative
Total Return Swaps	4,071	–	4,104	8,950	14,205	13,651
Interest Rate Swaps	–	6,353	–	14,951	–	117,104

Forward transactions which were not yet settled at the reporting date consisted of Total Return Swaps and Interest Rate Swaps. The Total Return Swaps and Interest Rate Swaps were concluded to hedge against market risks, or change of interest rate risks.

4.1. RELATIONS WITH AFFILIATED COMPANIES

The sole shareholder of J.P. Morgan AG is J.P. Morgan International Finance Limited, Newark/Delaware, USA. A dependency report under § 312 AktG [Aktiengesetz – German Stock Corporations Act] is issued at the end of the financial year.

J.P. Morgan Chase & Co., J.P. Morgan Chase Bank, National Association, J.P. Morgan International Inc and Bank One International Holdings Corporation have informed us in writing on January 20, 2017 that an indirect holding of 100 % exists. J.P. Morgan International Finance Limited informed us in writing on January 20, 2017 that a direct holding of 100 % exists.

The consolidated annual financial statements for the smallest and largest group of companies is disclosed by JPMorgan Chase & Co., New York, whose shares are traded on the New York Stock Exchange and on some European and Asian exchanges. The consolidated annual financial statements can be obtained on request from J.P. Morgan AG, Frankfurt am Main.

The Bank is a member of the Deposit Protection Fund of the Association of German Banks.

4.2. NUMBER OF EMPLOYEES

On average for the year there were 269 employees, broken down as follows:

Number	12/31/2016	12/31/2015
Yearly average	**269**	**268**
Distribution of employees		
Authorised signatories	12	10
Authorised officers	128	108
Commercial employees	129	150

Employees who are seconded, released from duties and on parental leave are not included in these figures.

4.3. TOTAL REMUNERATION OF THE ACTIVE MEMBERS OF THE BOARDS

The remuneration paid to members of the Management Board amounted to T€ 2,399. A portion of this came from 13,703 restricted stock units which had a fair value on their grant date of T€ 471,000.

The remuneration paid to members of the Supervisory Board in 2016 amounted to T€ 10.

No loans were granted to Board members during the business year.

4.4. TOTAL PAYMENTS TO FORMER BOARD MEMBERS AND THEIR DEPENDENTS

Pension provisions for these persons on December 31, 2016 totalled T€ 21,279. The total remuneration for former members of the Management Board and their dependants on December 31, 2016 amounted to T€ 3,052.

4.5. FEE EXPENSES[1]

T€	01/01/ – 12/31/2016	01/01/ – 12/31/2015
Total fee expenses for the financial year calculated by the auditors for	**289**	**348**
Financial document auditing services	**204**	**254**
of which, for the previous year	2	49
of which, expenses in the current financial year	0	0
of which, expenses for creating provisions	202	205
Other confirmation services	**85**	**95**
of which, for the previous year	2	11
of which, expenses in the current financial year	0	4
of which, expenses for creating provisions	83	80
Tax advisory services	**0**	**0**
of which, for the previous year	0	0
of which, expenses in the current financial year	0	0
of which, expenses for creating provisions	0	0
Other services	**28**	**0**
of which, for the previous year	0	0
of which, expenses in the current financial year	28	0
of which, expenses for creating provisions	0	0

[1] Net expenses, excluding VAT

4.6. EXPLANATORY NOTES ON OTHER FINANCIAL COMMITMENTS

The Company utilises services from various Group member companies as part of its outsourcing functions. The business procurement contracts have a notice period of 3 months.

The rental contract for the business premises runs until September 30, 2024.

Management Board
Burkhard Kübel-Sorger Chairperson of the Management Board, Managing Director, J.P. Morgan AG
Michelle Grundmann Managing Director, J.P. Morgan AG
Stefan Behr Managing Director, J.P. Morgan AG
Supervisory Board
Mark S. Garvin Chairperson, Managing Director, J.P. Morgan Europe Limited
Frédéric P. Mouchel Deputy Chairperson, Managing Director and Chief Executive Officer, J.P. Morgan Bank Luxembourg S.A.
Melanie Martin Managing Director, JPMorgan Chase Bank N.A., London Branch
Dorothee Blessing Regional Head Germany/Austria/Switzerland & Vice Chairman Investment Banking EMEA
Thomas Freise Employee Representative, J.P. Morgan AG
Christoph Fickel Employee Representative, J.P. Morgan AG

Directorships or seats on supervisory boards

Management Board
Burkhard Kübel-Sorger Management Board of Whiteshire Debt Solutions GmbH
Michelle Grundmann No other directorships
Stefan Behr No other directorships
Supervisory Board
Mark S. Garvin Management Board J.P. Morgan Securities plc, Supervisory Board J.P. Morgan Bank Luxembourg S.A. (Chairman of the Board); J.P. Morgan Europe Limited Euroclear S.A.; Euroclear plc
Frédéric P. Mouchel Management Board J.P. Morgan Bank Luxembourg S.A. (Chairman of the Executive Committee), Supervisory Board J.P. Morgan Capital Financing Limited
Melanie Martin No other directorships
Dorothee Blessing Management Board J.P. Morgan Securities plc Frankfurt Branch, Supervisory Board A.P. Moller Maersk Group
Thomas Freise No other directorships
Christoph Fickel No other directorships

Frankfurt am Main, April 20, 2017

J.P. Morgan AG
Frankfurt am Main
The Management Board

BURKHARD KÜBEL-SORGER STEFAN BEHR MICHELLE GRUNDMANN

AUDITOR'S REPORT

We have audited the annual financial statements comprising the balance sheet, the income statement, the notes to the financial statements, together with the bookkeeping system, and the management report of J.P. Morgan AG, Frankfurt am Main, for the financial year from 1 January 2016 to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB, and the generally accepted standards for the audit of financial statements established by the IDW (Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany]). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the principles of proper accounting and in the management report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the Company, as well as expectations as to possible errors were taken into consideration in the determination of the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any cause for objection.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and income of the Company in accordance with the principles of proper accounting. The Management Report is consistent with the annual financial statements, complies with the legal regulations, and overall gives a true view of the company's situation and presents the future opportunities and risks correctly.

Frankfurt am Main, April 20, 2017

PricewaterhouseCoopers GmbH
Audit Company

CHRISTOPH LEHMANN
Auditor

PPA. FATIH AGIRMAN
Auditor

REPORT OF THE SUPERVISORY BOARD

SUPERVISION AND CONTROL

The Supervisory Board monitored the Management Board continuously throughout the year on the basis of written and oral reports and performed its duties in accordance with the law. Important matters of business management were examined by the Supervisory Board in regard to the Bank's economic situation, the business policy, liquidity, capital and risk management. Moreover, the Supervisory Board was informed in detail on the risk management by means of the quarterly MaRisk reports.

PERSONNEL CHANGES IN THE MANAGEMENT BOARD

No personnel changes took place in the Management Board during financial year 2016.

PERSONNEL CHANGES IN THE SUPERVISORY BOARD

No personnel changes took place in the Supervisory Board during financial year 2016.

The members of the Supervisory Board in financial year 2016 were: Mark S. Garvin (Chairperson), Frédéric Mouchel (Deputy Chairperson), Melanie Martin, Dorothee Blessing as well as employee representatives Christoph Fickel and Thomas Freise.

AUDIT COMMITTEE

The Audit Committee discussed on April 24, 2017 the financial statements and the audit report of this financial year, and on October 20, 2016 discussed the planning of the audit.

The Audit Committee is responsible for monitoring the accounting process, the effectiveness of the internal control system, of the risk management system and of the internal audit system as well as the statutory audit, particularly the independence of the auditor and any additional services performed by the auditor.

Based on the recommendation of the Audit Committee (§ 124 para. 3 S. 2 AktG) PriceWaterhouse-Coopers GmbH, Frankfurt am Main, were proposed to the Annual General Meeting as auditors for the annual financial statements and management report for financial year 2017.

ANNUAL FINANCIAL STATEMENT

The annual financial statements and management report for financial year 2016, including the bookkeeping, were audited by the business auditor company PricewaterhouseCoopers GmbH, Frankfurt am Main, appointed by the Annual General Meeting. The auditing firm issued an unqualified audit opinion.

The Annual Financial Statements and the Management Report were discussed and reviewed with the auditors by the Audit Committee during the meeting on April 24, 2017. Based on the final result of the Audit Committee's investigation, the Supervisory Board did not raise any objections. Financial statements and the Management Report per December 31, 2016 presented by the Management Board were approved by the Supervisory Board today. The Annual Financial Statements, as submitted by the Management Board, are hereby approved and established.

The Supervisory Board would like to express its sincere gratitude to the Management Board and all employees of the Bank for their dedication and joint hard work.

April 27, 2017

The Supervisory Board

MARK S. GARVIN
Chairperson

PUBLISHER

J.P. Morgan AG, Frankfurt am Main
Taunustor 1
60310 Frankfurt am Main

LAYOUT/DESIGN

HEISTERS & PARTNER, Corporate & Brand Communication, Mainz, Germany

IMPRINT

Koch. Prepress Print Media GmbH, Wiesbaden, Germany

J.P.Morgan

J.P. Morgan AG, Frankfurt am Main
Taunustor 1
60310 Frankfurt am Main