J.P.Morgan

DISCLOSURE REPORT AS AT DEC. 31, 2012
PURSUANT TO THE GERMAN SOLVABILITY DECREE (SOLVV) SECTION 5

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DISCLOSURE REPORT AS AT DEC. 31, 2012

1. Introduction

With this report J.P. Morgan AG fulfills the disclosure requirements according to The Solvency Decree (SolvV) Part 5 (sections 319 – 337 SolvV), which defines the disclosure requirements. It includes the risk profile, provision for risks, the ability to absorb risks (risk capacity) and the organizational structure of a bank's risk management.

2. Organization

J.P. Morgan AG is a wholly-owned indirect subsidiary of JPMorgan Chase & Co. and JPMorgan Chase Bank, National Association and is a fully licensed bank under the supervision of the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") and the German Central Bank ("Deutsche Bundesbank").

Governance and business responsibility resides with the Members of the Management Board (three members), controlled by a Supervisory Board (six members), and audited by external auditors as well as a fully fledged internal audit function.

The Management Board meets generally monthly and the Supervisory Board at least four times a year. The Audit Committee meets normally twice a year to discuss the audit planning as well as the financial statements and audit reports. During the financial year 2012 the Supervisory Board held four meetings while the Audit Committee held two meetings.

The Supervisory Board receives a written risk report on a quarterly basis in compliance with the minimum requirements for risk management (MaRisk).

For the monthly Management Board meetings a detailed presentation is being prepared by the two divisions Treasury Services and Worldwide Securities Services in the form of scorecards containing all of the transactions essential to the discussion of business performance of the past month. Similarly, the COO and CFO prepare corresponding presentations on financial performance, all-inclusive risk and scorecards of the corporate functions for purposes of discussion, consideration and passing resolutions.

The Supervisory Board receives an up-to-date summary of the business division scorecards, a presentation on financial performance, the complete MaRisk reports and a summary of the scorecards of the corporate functions – for purposes of discussion, consideration, and passing resolutions.

A list with names of the Management Board and Supervisory Board is to be found at the end of the Annual Report.

Thanks to its full integration into J.P. Morgan's global Treasury & Securities Services (TSS) segment the Bank can rely on the necessary international production network to deliver client services that do full justice to J.P. Morgan's mission of doing "First class business in a first class way".

In 2012, the Bank continued to focus on its core business, namely to achieve the corporate objective of being the Euro Clearing Operations Hub for the J.P. Morgan Group worldwide, financial institutions and corporate clients alike, and to act as the global custodian for the German investment market. At the same time the Bank invested decisively in human capital and technology in order to be able to meet the increased demands of global customer service and provide the full spectrum of products available for transaction banking out of Frankfurt.

3. Business Strategy

The business of J.P. Morgan AG is primarily influenced by global economic trends and the level of interest rates in regards to its Treasury Services segment, whereas the Worldwide Securities Services segment business is primarily exposed to trends in the world's capital markets. In 2012, J.P. Morgan AG's business in general benefited from the macroeconomic developments; however, the results are still suffering from the zero interest rate policy introduced by the central banks. Earnings from business operations from the two divisions have improved in 2012 compared to the previous year. The key factors influencing interest income were the decreased spreads that could be achieved placing the customer deposits. In comparison to the budget for the financial year, interest income proved to be weaker and commission income slightly weaker than expected.

Overall the year was a positive one since the operating result of € 22.4 million was 57 % higher compared to 2011. The Bank was able to retain existing business as well as gain new clientele in both business areas as well as successfully expand business with our existing customer base. Even though the Bank once more was able to avoid any credit losses due to its conservative credit policy, the result is satisfactory only with some qualification, as interest income continues to remain below historic levels.

As the firm's flagship bank for Treasury & Securities Services activities in Germany & Austria – and increasingly also for parts of Continental Europe – J.P. Morgan AG focuses its operations on transaction banking with financial service providers and corporate clients. Within this range of operations, J.P. Morgan AG deploys the following material business franchises:

- Euro Clearing Operations
- Depotbank
- Trade Finance & Trade Finance Operations
- Treasury

EURO CLEARING OPERATIONS

As the firm's access point to the € Clearing markets under TARGET2 and EBA, J.P. Morgan AG has the responsibility for the operational management of € Clearing, both high and low value payments, for the J.P. Morgan Group worldwide. This encompasses the cash management and the global funds control function for all payment flows in €, both for the firm's own transactions as well as clients' transactions. The operations team is supported by operations groups in Mumbai and Manila, who report into the Head of Operations at J.P. Morgan AG.

€ accounts are held with J.P. Morgan AG by a wide range of FI (Financial Institutions), NBFI (Non-bank Financial Institutions), Corporate clients, and J.P. Morgan sister companies from all over the world.

J.P. Morgan is the world leader in US-$ Clearing and expects visible growth in the € business following a more comprehensive, level playing field with European banks and local banks in the € zone after the final introduction of SEPA. Special product offerings and technological advance with the iDDA and the iPay platforms combined with further improvements in the client service applications will give J.P. Morgan AG a growing number of FI, NBFI and Corporate clients to use its € Clearing services.

DEPOTBANK

J.P. Morgan AG holds a license to provide global custodian services ("Depotbankgeschäft") to institutional clients in Germany. The Bank provides a wide range of services as the custodian bank, according to the German Investment Act, for a total of 152 German Special Funds ("Spezialfonds"), Mutual Retail Funds ("Publikumsfonds") and direct investments owned by German FI, NBFI and corporate clients with 551 segments. The services range from core custody (including safekeeping, trade settlement, payments, corporate actions, income, tax), to fund accounting, liquidity, FX and to security lending. Local custodian services are outsourced to JPMCB, London Branch in Bournemouth with specialist providers around the world. With the deposit insurance scheme of a private German bank, the global custodian business provides additional liquidity through client deposits with the Bank.

TRADE FINANCE & TRADE FINANCE OPERATIONS

Trade Finance at J.P. Morgan is part of the Treasury Services business. Following client demand especially for GCB clients, subsidiaries of US MNCs and Midmarket companies (so called Commercial Bank clients) are being offered trade finance services through J.P. Morgan AG. The credit exposure in this context will be born by J.P. Morgan AG (in case we take a direct exposure), or by other JPM entities with appropriate credit limits and/or collateral for these clients by either issuing out of these entities or obtaining a risk participation through these entities. It is foreseen to broaden these activities for the GCB clients in Germany & Austria, for US MNCs, and for Commercial Bank clients, gradually expanding the latter into Continental Europe.

TREASURY

J.P. Morgan AG functions as a core treasury vehicle for the corporation in EMEA and particularly for the € market. As the Group's central access point to the ECB, and utilizing its status as a fully licensed bank inside the Euro Zone, JPMAG's treasury function supports a number of ECB products and initiatives, which are channeled through EMEA Treasury to specific areas of the Investment Bank.

Given these J.P. Morgan AG business activities, the company's balance sheet is liability rather than asset-driven, which reduces the liquidity risk of the operations significantly. Moreover, interest-rate gap positions and foreign exchange positions are only held at the minimum level of remaining open positions, and market risk is generally hedged as described above. The main and material risk categories to which the Bank is exposed through the above-described business activities consist of:

– Operational risk
– Liquidity risk
– Credit risk

J.P. Morgan AG's strategy is based on the key factors of transactions banking: size, coverage, global appearance and local operating experience. These form the basis for a successful operation in the different markets under consideration of the underlying risks.

We are well positioned to profit disproportionately from our work in previous years in technology investments and product leadership. At the same time the Bank is also profiting from the strength of a global corporate network with a fast growing international footprint, a first class customer basis and a clear commitment to our footprint in Germany, as well as an inimitable risk management and a motivated team of employees.

J.P. Morgan AG is embedded in the Group's long term strategic-, planning- and controlling-process. The strategic process is based on continuing management feedback resulting from contacts with our customers, competitors and regulators.

Our strategy is based on assumptions of the economic development. These are a temporary decrease of the global economy with a gradual increase of the economic growth in 2013 and the following years and the successful political management of the various risks and crises.

We also expect that the ECB will only gradually be able to introduce an exit strategy, so a significant increase in interest rates will not happen, which would have an impact on higher spreads on customer deposits.

4. Risk Management (section 322 SolvV)

4.1. ORGANIZATION & CONTROLLING

The J.P. Morgan AG Management Board is responsible for the adequate organization of its risk management function, which is defined and documented in the firm's Business and Risk Strategy.

All aspects of the business segments are transparently covered by a wide-ranging set of scorecards and controlled by the means of key risk and key performance indicators on a monthly basis in meetings of business control committees together with the inclusion of international risk managers of the Group. This enables the Management Board in a timely manner to identify changes and risks on an informed basis and to respond by taking corrective decisions.

Over and above this, all data representing loan utilization, overdrafts, level of collateral and key ratios according to SolvV and LiqV are produced on a daily basis by the Finance and Credit teams for the Management Board. These reports have continuously been advanced to reflect an increased focus on operational risk.

Control functions that are independent of J.P. Morgan AG's front office departments are responsible for the operational implementation of the risk control and monitoring and take the Group-wide infrastructure and policies into account. The control functions at J.P. Morgan AG include, among others, the Chief Risk Officer, who is the member of the board responsible for the back office, the Credit Officer, who controls and monitors credit risks, the Treasury & Credit Control, in charge for market price and liquidity risk and the Local Operational Risk Manager (LORM), responsible for operational risks as well as the Risk manager for overall risk governance.

The risk strategy is derived directly from J.P. Morgan AG's business strategy. It is defined by the Management Board of J.P. Morgan AG and is approved each year 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.

Risk controlling and monitoring in J.P. Morgan AG rest on the following principles:
- The risk strategy is directly derived from the J.P. Morgan AG Business Strategy as defined by the Management Board. It is implemented through local policies that take the J.P. Morgan AG's integration into the J.P. Morgan Group into consideration.
- The organizational structure and respective processes have been documented for all risk categories, thus defining responsibilities and competencies for all functions involved.
- The J.P. Morgan AG organizational and operational structure is based on the principle of a clear segregation of front office ("Markt") and back office ("Marktfolge") duties in order to avoid conflicts of interest.

– The firm has put the necessary processes in place to identify, assess, treat, monitor and communicate risks in compliance with its risk policies in order to identify material risks at an early stage based on regular scenario analyses.
– Appropriate ceilings for all significant risk categories have been adequately set and are effectively controlled.

The risk bearing capacity analysis is a core component of risk steering at J.P. Morgan AG. J.P. Morgan AG is using a going-concern approach that is allowing the Bank to continue the core business activities even if all items of the defined risk covering potential were consumed through exposure to risks. The risk covering potential is defined as the target profit for the subsequent 12 months, less a deduction as a safety buffer for deviations from target.

The quantification of the capital requirement for the occurring risks is done based on internal, institute-specific calculation approaches, where all risk types defined as significant during the risk inventory are taken into consideration. The actual calculation of the risk bearing ability is performed on a quarterly basis.

Stress scenarios were defined for each risk type to review the risk bearing ability. Some of the scenarios are analyzed on a monthly basis, others on a quarterly. We will continue to work on developing our risk bearing capacity and stress testing concept in 2013. The risk bearing capacity concept and the stress tests are being validated on an annual basis.

The regulatory capital requirement for the individual risk types must be monitored by the Chief Financial Officer (CFO) on a daily basis and is shown for the financial year in the table below (all figures in thousands). The economic capital requirement pursuant to the going concern approach is being calculated by the Chief Risk Officer on a quarterly basis. In 2013 we will undertake a number of substantial changes to the risk capacity concept.

The economic capital used for the various risk categories is shown in the table below (all amounts in € thousand).

TABLE 1:

			Regulatory			Economic
	31.12.2011	30.06. 2012	31.12.2012	31.12. 2011	30.06.2012	31.12.2012
Risk Categories	T€	T€	T€	T€	T€	T€
Credit risk	124.0	111.7	47.1	1.7	2.5	2.6
Operational risk	15.1	14.1	14.1	2.4	2.3	2.2
Liquidity risk	–	–	–	3.8	2.5	1.9
Market risk	15.4	10.9	9.1	0.4	–	–
Capital requirement	**154.5**	**136.7**	**70.2**	**8.3**	**7.3**	**6.7**
Risk covering potential	661.8	631.7	631.7	25.3	21.4	23.3

The firm has an independent internal audit function reporting directly to the Chairman of the Management Board.

Based on a regularly updated risk assessment, the Internal Audit function lays out an annual audit plan designed to ensure the effectiveness and appropriateness of the internal control system and compliance with regulatory requirements.

The Internal Audit function reviews the firm's business activities using a risk-oriented audit approach, covering all in-house and outsourced activities and processes. In addition, J.P. Morgan AG relies on the Group-wide internal audit activities of JPMorgan Chase & Co., New York.

4.2. RISK CATEGORIES

4.2.1. Credit Risk

Credit or counterparty default risk is the most significant risk category in J.P. Morgan AG due to its core activities, as a result of the potential drawdown of overdraft facilities by clients who hold their transactional cash account for € Clearing or Global Custody activities with J.P. Morgan AG. Depending on the credit rating of the client, the allocation of overdraft facilities is accompanied by the implementation of defined risk mitigation steps, such as the provision of collateral.

For the trade finance business the main part of the risks taken by J.P. Morgan AG are collateralized by other JPMorgan Chase entities. There are no major draw down risks.

Due to the business model, the main credit risk concentrations are intercompany transactions. We do not expect to see any changes in the creditworthiness here.

Since J.P. Morgan AG does not run an active trading book and has a credit portfolio consisting of only one loan, other credit risk categories, such as issuer risk, replacement risk and settlement risk, play a minor role in the firm's risk profile.

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 regards to its clients and credit products. Moreover, credit organization and processes for risk steering, potential measures to minimize 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 takes credit decisions on the basis of the clearly defined separate responsibilities for "Markt" and "Marktfolge".

J.P. Morgan AG uses a basic scenario to calculate the economic capital in which a customer's rating and exposure are considered. A series of scenarios with varying gravity are considered during the credit risk stress tests. These scenarios assume that the customer ratings will worsen considerably over time. The effects of the default of a portion of the portfolio are also examined.

Stress tests and their results are validated on a regular basis. J.P. Morgan AG uses the credit risk standard approach (KSA) for the regulatory quantification of the credit risk.

Daily monitoring of counterparty default 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 utilization at the account level and / or at the level of single borrower units ("Kreditnehmereinheit"). The system does not allow unauthorized intra-day limit breaches. Daily activities mainly focus on the monitoring of intra-day lines of credit and overdraft facility usage. A daily report of exposures, utilizations, all new accounts and facilities, and all changes of existing facilities is being daily presented for approval to the COO as well as the Management Board.

Moreover, compliance with the approved limit structure, the monitoring of J.P. Morgan AG's risk capacity as well as the analysis of the Bank's portfolio (e. g., maturities, credit products, segments and countries) including concentration risk is summarized in monthly or quarterly reports to the Management Board.

The following charts show the industry and country risk concentration as of Dec 31st, 2012.

CHART 1:

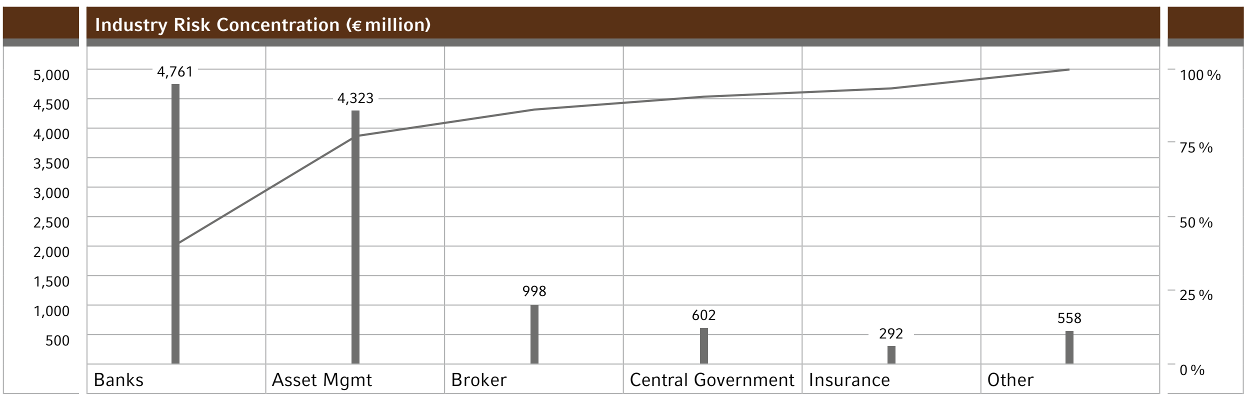
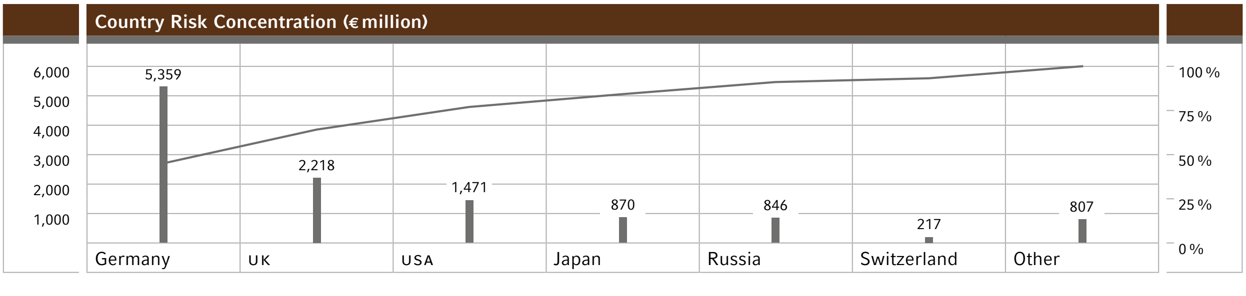


CHART 2:



J.P. Morgan AG has procedures for intensified loan management as well as for treating problem loans, but had no need to apply these during 2012.

The Bank defines loans as non-performing and to be in default according to the definition identified in the Basel II regulation. The following events are determining factors for a default:
– Customer insolvency
– Obligor is past due more than 90 days
– Bank cancels loan agreement

4.2.2. Operational Risk
Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. An "Operational Risk Event" is an incident or occurrence that prevents successful completion of a defined business process or activity and is therefore relevant for all processes and activities within J.P. Morgan AG. This definition also covers legal risk, which is defined as the risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. The legal department is generally involved in case of legal risks. The legal department decides whether an external law firm needs to be mandated.

The necessary processes for identifying, measuring, aggregating, managing, monitoring and communicating risks are stipulated in Group-wide risk policies and guidelines and stated in the J.P. Morgan AG OpsRisk Manual, for which the Chief Operating Officer and the Local Operational Risk Manager are responsible.

J.P. Morgan AG calculates the Operational Risk Capital Requirement (ORCR) for Pillar 1 & Pillar 2 purposes using the Basic Indicator Approach (BIA). For the purpose of risk capacity calculation under MaRisk J.P. Morgan AG uses an institute-specific approach. Under this approach, the operational risks are assessed on the product level based on a regular assessment and analysis of the end-to-end processing by all of the control functions at J.P. Morgan AG. The residual risk assessment is then used to derive a loss probability on the product level, which is required for the final calculation of the loss potential or the economic capital requirement for J.P. Morgan AG's operational risks. Information from the institutionalized loss event database, the qualitative results from the regular Control Self Assessments, the definition of the risk-based Outsourcing Controlling, the results from the Internal Audit, as well as the Control Testing by the Compliance Department and the Local Operational Risk Manager are then used to calculate the amount of the loss event. The assumptions made using this approach are scrutinized during the scenario analysis (stress test) on the product level and their effectiveness on the economic risk capital reviewed. A summary of the results is presented to the Management Board as part of the quarterly MaRisk reports.

To monitor and control operational risk, J.P. Morgan AG makes use of the Group-wide system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels commensurate with the firm's financial strength, the nature of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

J.P. Morgan AG also includes resiliency risk under the operational risk category. Resiliency risk is the risk that a firm carries in its day-to-day operations to be able to recover from a business-impacting incident and continue critical functions in such a manner that legal, regulatory or customer obligations can be met on a timely basis. J.P. Morgan AG undertakes regular business impact assessments, which determine the recovery time objectives as well as the appropriate business continuity and recovery plan for each line of business. The recovery plans implemented, which take into account various scenarios, such as loss of people, unavailability of IT systems, and the closure of its office building, are successfully tested on an annual basis.

4.2.3. Liquidity Risk

J.P. Morgan AG defines liquidity risk as the risk of loss arising from the firm's inability to meet its current or future commitments in total or when they come due. In the business and risk strategy, the J.P. Morgan AG Management Board defines the management of liquidity risks, which are specified in detail in the Liquidity Risk Policy. This includes warning thresholds and escalation mechanisms for escalation to the Management Board for the risk-mitigating instruments. The policy defines a number of stress scenarios which analyze the effects of sudden withdrawals of liquidity on the liquidity situation and thus J.P. Morgan AG's capacity to act. Stress scenarios include both the sudden outflow of liquidity as well as a sudden increase in utilization of credit lines. Scenarios are then calculated assuming the day of lowest excess liquidity in the given quarter. In both scenarios, J.P. Morgan AG's liquidity needs are covered. Moreover, J.P. Morgan AG performs a series of simulations to analyze the intra-day liquidity situation, in which a changed payment pattern by market participants and customers is assumed.

Liquidity management is handled by the J.P. Morgan AG Treasury function in compliance with Group-wide policies and J.P. Morgan AG's Treasury Policy. Compliance with these policies as well as defined warning thresholds are monitored daily by Treasury & Credit Control, which reports to the COO.

The liquidity development is summarized in weekly reports and reviewed by the J.P. Morgan AG Management Board on a monthly basis.

4.2.4. Market Risk

J.P. Morgan AG defines market price risk as the risk of loss due to changed market prices. Given J.P. Morgan AG's business activities, only interest rate risks as well as exchange-rate risks have an impact, if a limited one, while share price and commodity price risks have no importance whatsoever for the Bank's risk profile. We refer to J.P. Morgan's published analyses in regard to assessing interest and currency developments. Since J.P. Morgan AG has no active trading book, interest rate risks arise solely in treasury management of €-liquidity.

Exchange-rate risks are solely generated through the settlement of FX payments and from intra-Group settlements.

The management of market risks is defined by the Management Board in the business and risk strategy and defined more closely by the Risk Management Manual, which is setting approved limits for the Bank's risk. These positions are valued and accordingly monitored on an ongoing basis.

To calculate interest rate risk for its investment book, J.P. Morgan AG uses the price value of a basis point (PVBP) approach. Exceeded limits are generally escalated to the management. In addition to the year end value, the table below also shows the maximum, minimum and average PVBP in absolute terms in 2012.

TABLE 2:

Price Value of a Basis Point Value Approach	
	$
31/12/2012	2,136
Minimum 2012	532
Maximum 2012	35,171
Average 2012	11,209

Treasury & Credit Control is responsible for the daily monitoring of the market price risks. Daily adherence to limits and the impact on the Bank's risk capacity is reported to the Management Board of J.P. Morgan AG on a monthly and quarterly basis.

Risks from financial instruments derive from issued products that are hedged by the total return swaps.

4.2.5. Reputational Risk

The outstanding reputation of JPMC is an invaluable, but fragile asset in the interaction with its client base, but also in its interaction with other market participants as well as governmental regulators and authorities.

In this context, J.P. Morgan AG stresses the importance of Compliance, Operational Risk Management, Legal, Financial Control and Internal Audit, and the necessity of their active representation in various governance meetings (i.e. LOC, BCC etc.) in order to ensure compliance with internal JPMC procedures and/or regulatory requirements and to be involved in any client escalation as early as possible.

4.3. RISK CONTROL

The Chief Risk Officer (CRO) determines and proposes the JPMAG Risk Strategy to the JPMAG Board. In this context he ensures that the overall risk management approach is coherent with JPMAG's Business and Risk Strategy and compliant with all regulatory requirements. It is the responsibility of Risk Management to closely coordinate the agreed risk management approach across the various risk functions. This approach is regularly reviewed with regard to appropriateness and is adjusted where deemed necessary.

Timely, independent and risk-based reporting on credit risks, market price risks, liquidity risk and operational risk is being provided to the management on a daily, weekly and monthly basis; Risk Management summarizes 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 – will create an annual review and audit plan particularly in order to ensure the effectiveness of the defined controls and controlling measures.

The Internal Audit department reports directly to the Chairman of the Management Board and is responsible for review of the business operations at J.P. Morgan AG based on a risk-oriented audit approach, which cover 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.

4.3.1. Risk Capacity

JPMAG has developed a JPMAG-specific risk capacity calculation and management approach which defines the focus of the further risk capacity analysis. JPMAG has chosen to adopt the "going concern" approach, i. e. which allows to maintain the core business operations even if the entire allocated risk capital has been absorbed by a series of risk events. JPMAG measures its risks for the Risk Capacity Concept in a simple yet easily understandable risk measurement process.

4.3.2. Definition of Limits

In addition to regulatory limits of LiqV and SolvV the Management Board at J.P. Morgan AG defined a series of limits that are monitored daily and in a timely manner. These limits are defined in various policies and include aspects such as credit limits, deposit guidance limits, bidding limits, position limits as well as J.P. Morgan AG minimum liquidity warning thresholds.

All risk-based policies of J.P. Morgan AG are approved by the Management Board and updated on a regular basis. They define roles and responsibilities as well as escalation procedures in the event of threshold excesses or even limit breaches.

4.3.3. Approval of New Products & Markets

In order to identify and assess the risk associated with the implementation of new products or the expansion into new markets, J.P. Morgan AG has implemented a "New Business Initiative Approval" (NBIA) process. The decision to opt for an NBIA process is made independent from the Front Office function by the Chief Operating Officer, who also submits the initial assessment of the various inherent risks, results of the test phase, and the final recommendation to the Management Board for approval before the products can be migrated into production.

Integrating various functions such as Financial Control, Tax, Legal, Compliance and Risk Management under the coordination of the COO guarantees an independent review. This group documents all results of the process for submission for approval by the Management Board.

The NBIA process within J.P. Morgan AG also foresees a full-fledged implementation review six months after the successful start of new business activities, revisiting the risk profile, determining robustness of operational processes, and examining regulatory considerations as well as the impact on J.P. Morgan AG's risk capacity.

5. Group Consolidation (section 323 SolvV)

J.P. Morgan AG is part of JPMorgan Chase & Co., Columbus, Ohio, U.S.A.

In the meaning of section 10a, paragraph 3 KWG (German Banking Act) J.P. Morgan AG constitutes a parent company and according to section 10a paragraph 12 KWG is responsible for providing adequate internal capital for the Group.

The only company that has to be consolidated is J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH.

J.P. Morgan AG does not have any subsidiaries that need to be consolidated.

6. Own funds structure (section 324 SolvV)

Under German commercial law, own funds consist of subscribed capital, capital and revenue reserves, profit or loss carried forward and the annual net profit or loss respectively, whereas the regulatory term is in accordance with the German Banking Act (KWG).

For solvency purposes J.P. Morgan AG's capital resources pursuant to section 10 KWG, consist of core capital, section 10 para 2a KWG (tier 1 capital) and supplementary capital, section 10 para 2b KWG (tier 2 capital).

Table 3 below shows the structure of own capital:

TABLE 3:

Structure of Own Capital	
	T€
Nominal capital	160,000
Capital reserves	85,663
Profit reserves	29,778
§ 340 g, Reserve for General Banking Risks	56,300
Tier I capital	**331,741**
1st grade	
Profit Part.Rights (J.P. Morgan Beteiligungs- u. Verwaltungsgesellschaft mbH)	150,000
2nd Grade	
Subordinated debt (J.P. Morgan International Finance Limited)	150,000
Tier II capital	**300,000**
Liable capital under banking regulations (Total Tier I + II)	**631,741**

6.1. CORE CAPITAL (TIER I)

6.1.1. Nominal Capital

The nominal capital totaling € 160 million is divided into 160 million shares without a par value and is issued in the name of J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH (JPMBV), Frankfurt/Main.

6.1.2. Capital Reserves

Capital reserves exist in the amount of € 85,663,143.

6.1.3. Profit Reserves

Revenue reserves comprise of a statutory reserve of € 6,000,000 and other revenue reserves of € 23,777,629.

6.1.4. Reserve for General Banking Risks (section 340 g Commercial Code)

The Bank has a special reserve in line with section 340 g Commercial Code in the amount of € 56,300,000.

6.2. SUPPLEMENTARY CAPITAL (TIER II)

The supplementary capital (tier II capital) comprises participation rights (1st grade supplementary capital) and subordinated debt (2nd grade supplementary capital).

The supplementary capital was restructured in December 2009.

6.2.1. Participation Rights

Participation rights in the amount of € 150,000,000 were issued in December 2009 and are held solely by J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt/Main.

The contract has a maturity of 30 years, effective December 21, 2009, and can be terminated with notice of two years as at the end of the Bank's fiscal year, however, it may be so terminated for the first time with effect from the end of the financial year ending on or after the fifth anniversary of said date.

According to clause 2 of the contract, JPMBV participates in the Bank's possible profit and loss. JPMBV is not entitled to any corporate rights according to clause 6 of the contract.

The participation rights meet the stipulations of section 10 para 5 German Banking Act (KWG) to be classified as supplementary capital.

6.2.2. Subordinated Debt

Subordinated debt has been received in the amount of € 150,000,000, creditor J.P. Morgan International Finance Limited, Newark, Delaware, USA. It has been granted for a term of 30 years from Drawdown Date, December 21, 2009. The agreement may be terminated by giving notice of at least two years prior to the end of the Bank's fiscal year, however, it may be so terminated for the first time with effect from the end of the financial year ending on or after the fifth anniversary of said drawdown date.

Interest is calculated on the basis of the 3-month EURIBOR (European Interbank Offered Rate) and paid quarterly. The subordinated debt satisfies the requirements of section 10 para 5a German Banking Act (KWG) to be classified as supplementary capital.

7. Capital Adequacy (section 325 SolvV)

The regulatory capital requirements according to SolvV as of December 31, 2012 were the following:

TABLE 4:

Capital Requirements	
Counterparty credit risk	**T€**
Standardized approach (CRSA)	47,059
thereof:	
Central governments or central banks	1
Institutions	35,373
Corporates	1,819
Retail	1
Investments	20
Collective investments undertakings (CIU)	7,480
Other items	2,365
Market risk	
Standardized approach (SA)	9,115
Operational risk	
Basic Indicator Approach (BIA)	14,074
Total capital requirements	**70,248**

As at December 31, 2012, the capital ratios for J.P. Morgan AG were as follows:

TABLE 5:

Capital Ratios	Total capital ratio	Tier I capital ratio
Name	**%**	**%**
J.P. Morgan AG, Frankfurt	71.94	37.78

8. Disclosure of Risk Positions (sections 326 – 336 SolvV)

8.1. COUNTERPARTY CREDIT RISK (CCR)

The majority of risks faced by J.P. Morgan AG can be considered counterparty credit risk.

The following tables provide a detailed overview of the firm's counterparty credit risk pursuant to section 327 SolvV.

The total volume of exposures forms the basis for the tables below, without taking into account the effects of credit risk mitigation.

In the case of derivative instruments, the credit equivalent amount is shown.

The Bank does not have any impaired or past-due exposures.

Total amount of exposures broken down by different types of exposure classes are as follows:

TABLE 6:

CCR – Total Exposure	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Total volume of exposures	**15,522,183**	**145,476**	**79,225**

The following table shows the distribution of the exposure by geographical area:

TABLE 7:

CCR – Geographical View	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Germany	9,417,639	123,869	0
Europe (without Germany)	5,703,428	21,607	58,566
America	390,144	0	20,659
Asia	10,815	0	0
Australia	89	0	0
Africa	68	0	0
Total Amount of Exposures	**15,522,183**	**145,476**	**79,225**

The firm's counterparty credit risk can be sub-divided into the following industry or counterparty type:

TABLE 8:

CCR – Total Exposure by Industry	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Central governments or central banks	8,720,023	0	0
Regional governments	200,198	0	0
Institutions	6,416,584	0	79,225
Corporates	184,869	145,476	0
Retail	509	0	0
Total Amount of Exposures	**15,522,183**	**145,476**	**79,225**

Exposures that make up the counterparty credit risk have the following residual terms:

TABLE 9:

CCR – Total Exposure by Residual Maturity	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
< 1 year	14,900,344	0	8,636
1 year – 5 years	611,106	0	26,848
> 5 years – perpetuity	10,733	145,476	43,741
Total volume of exposures	**15,522,183**	**145,476**	**79,225**

8.2. SPECIAL DISCLOSURE OF DERIVATIVE COUNTERPARTY CREDIT RISK

According to section 326 SolvV, special independent disclosure requirements apply for derivative counterparty credit risk. J.P. Morgan AG uses derivatives to hedge the market risk of debenture bonds on the banking ledger. The derivatives position mainly consists of total return swaps, which the Bank has engaged in as secured party. The counterparties of these trades are JPMorgan Chase Bank, N.A., London Branch and JPMorgan Chase Bank, N.A., New York.

J.P. Morgan AG uses the marked-to-market method to calculate the own funds requirement in line with section 2 item 2 SolvV.

In order to minimize the credit risk resulting from the derivative positions taken, J.P. Morgan AG has taken cash deposits in USD and EUR from JPMorgan Chase Bank, N.A., London Branch. Utilization of the cash deposit is monitored on a daily basis in order to ensure that the credit risk is always nil. In the event that the cash deposit is not sufficient, an additional cash deposit would be requested from JPMorgan Chase Bank, N.A., London Branch. The counterparty credit risk is quantified on the basis of the credit equivalent amount, which consists of the positive replacement amount and an add-on.

Within the framework of the controls of the derivative counterparty credit risk, J.P. Morgan AG evaluates market and counterparty risk separately. Given the elimination of the credit risk, as a result of the cash deposit, the Bank assumes a correlation of zero between the two risk categories. Capital savings arising from the individual calculation of a correlation are not considered.

The table below shows the gross positive fair values of contracts (i.e., positive replacement costs without add-on) before collateral arrangements have been applied.

TABLE 10:

Positive Gross Value of Derivative Instruments	Gross positive fair value
Type of contract	**T€**
Interest rate	0
Foreign exchange	0
Equity	27,420
Credit derivatives	0
Commodities	0
Other	0
Total	**27,420**

J.P. Morgan AG applies the marked-to-market method to calculate the counterparty credit risk (CCR). The following table shows the CCR with applied collateral arrangements and the notional value of the contracts.

TABLE 11:

Regulatory Counterparty Credit Risk	Counterparty credit risk	Netting	Collateral arrangements	Counterparty credit risk with netting and collateral applied	Nominal amount
Type of contract	**T€**	**T€**	**T€**	**T€**	**T€**
Interest rate	0	0	0	0	0
Foreign exchange	0	0	0	0	0
Equity	79,225	0	79,225	0	570,477
Credit derivatives	0	0	0	0	0
Commodities	0	0	0	0	0
Other	0	0	0	0	0
Total	**79,225**	**0**	**79,225**	**0**	**570,477**

The above table shows the volume of the derivatives position and how the risk has already been mitigated by the cash collateral applied.

Only positive-replacement-cost amounts after netting and applied cash collateral have to be covered by equity.

8.3. DISCLOSURE BY CRSA EXPOSURE CLASSES (SECTION 328 SOLVV)

J.P. Morgan AG uses the standardized regulatory reporting tool ABACUS DaVinci to calculate the regulatory ratios. The application receives a feed from Standard & Poor's and Moody's ratings for all counterparties on a daily basis.

If multiple ratings exist, ABACUS DaVinci determines the relevant rating based on the regulatory guidelines for multiple ratings:

– If two ratings exist that represent different risk weightings, then the higher risk weighting is chosen.
– If three or more ratings exist with different risk weightings, then the two ratings with the lowest risk weighting are chosen. If these two risk weightings differ, the rating that leads to a higher risk weighting is applied.

8.4. CREDIT RISK MITIGATION TECHNIQUES (SECTION 336 SOLVV)

To mitigate the credit risk J.P. Morgan AG uses a cash collateral of € 500 million for overdraft above its legal lending limit.

For bank chain entities J.P. Morgan AG applies the group exemption according to section 9 para 2, sentence 2 Large Exposure Regulation (GroMiKV). In addition, the Bank uses cash deposits to minimize the credit risk incurred for derivative positions (see item 8.2 above). In compliance with section 13 para 2, sentence 1 Large Exposure Regulation (GroMiKV) in conjunction with section 154 para 1 no. 1 Solvability Decree (SolvV), cash collateral of $ 50 million and € 250 million has been furnished by JPMorgan Chase Bank, N.A., London Branch.

Within the framework of reverse repo transactions the Bank applies the Comprehensive Method for financial collateral according to section 186 et seq. (SolvV).

Furthermore, the Bank draws on an Euler-Hermes guarantee to cover the credit risk of one remaining loan. The Bank does not grant any new loans.

The table below demonstrates the credit risk mitigation effect.

TABLE 12:

Counterparty Credit Risk – Disclosure for CRSA Exposure Classes	Total Exposure	Financial Collateral	Guarantees and credit derivatives	Net Exposure
Asset Class	T€	T€	T€	T€
Central governments or central banks	8,720,023	0	0	8,720,023
Regional governments and local authorities	200,198	0	0	200,198
Other public-sector entities (PSE)	400,328	0	0	400,328
Institutions	6,079,307	3,743,971	79,225	2,256,111
Corporates	170,340	137,067	0	33,273
Retail	10	0	0	10
Investments	145,476	0	0	145,476
Collective investments undertakings (CIU)	245	0	0	245
Other items	30,957	0	0	30,957
Total Amount	**15,746,884**	**3,881,038**	**79,225**	**11,786,621**

8.5. INVESTMENTS IN THE BANKING LEDGER (SECTION 332 SOLVV)

J.P. Morgan AG does not hold any material investments.

For strategic reasons J.P. Morgan AG keeps two investments on the banking ledger to expand the range of products available for clients. The Bank has acquired an investment in ÖPP Deutschland Beteiligungsgesellschaft mbH, Frankfurt am Main, in the amount of € 155,534 and holds an investment in Liquditäts- u. Konsortialbank, Frankfurt am Main, in the amount of € 88,965.

The investments are entered in the balance sheet at book value.

The book value as of December 31, 2012, was € 244,499.

8.6. DISCLOSURE OF MARKET RISK (SECTION 330 SOLVV)

J.P. Morgan AG uses the regulatory specified standardized approach (SA) to calculate the capital requirements for market risk and foreign exchange risk.

The table below shows the categories for which J.P. Morgan AG provides capital cover:

TABLE 13:

Capital Requirements for Market Risk	Capital requirement
Market risk category	**T€**
Interest rate risk	0
Equity risk	0
Foreign exchange risk	9,115
Commodity risk	0
Other risks	0
Total	**9,115**

8.7. DISCLOSURE OF OPERATIONAL RISK (SECTION 331 SOLVV)

J.P. Morgan AG uses the Basic Indicator Approach (BIA) to determine the supervisory capital charge for operational risk.

According to section 270 SolvV, the capital charge using the BIA is equal to 15 percent of the three-year average for the relevant indicator.

The three-year average for the relevant indicator is calculated on the basis of the last three 12-monthly observations at the end of the Institution's financial year, of which only positive annual amounts are considered.

The three-year average for the relevant indicator is calculated as the sum of the annual positive figures divided by the number of positive annual figures.

The table below presents the calculation of the supervisory capital charge for operational risk:

TABLE 14:

Capital Requirements for Operational Risk	relevant indicator acc. to sec. 271 SOLVV 2011	2010	2009	Capital requirement
	T€	T€	T€	T€
Basic Indicator Approach	98,945	88,259	94,267	14,074

8.8. DISCLOSURE OF INTEREST RATE RISK IN THE BANKING BOOK

For the determination of the interest rate risk in the banking book J.P. Morgan AG uses the basis point model. The impact of a 200 basis point shift is being reviewed as a stress scenario.

Limit breaches are generally escalated to the Management Board.

TABLE 15:

Interest Rate Risk Coefficient	Amounts
	T€
Net present value (NPV)	1,661,250
NPV – interest rate increase	−790
Interest coefficient – interest increase	−0.13
NPV – interest rate decrease	790
Interest coefficient – interest decrease	0.13

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