Remuneration

Pillar 3 Annual Disclosure Report 2016

Performance Year ended 31.12.2015

27 May 2016

Contents

Background

This document sets out the qualitative remuneration disclosures required under Paragraphs 1 (a) – (f) of Article 450 of the Capital Requirements Regulation (the "**CRR**")[1] in respect of the performance year ending 31 December 2015. The quantitative disclosures required under Paragraphs (g) – (i) of Article 450 of the CRR are included in the individual disclosures for each relevant legal entity[2].

These disclosures relate to staff in J.P. Morgan's businesses operating in EMEA subject to the CRR, including the Corporate & Investment Bank, Global Wealth Management, and Global Investment Management (together, the "**EMEA Business**").

In this document, the terms "**J.P. Morgan**" or "**Firm**" refers to the J.P. Morgan Chase & Co. group of companies, and each of the entities in that group globally, unless otherwise specified. As part of the Firm, the EMEA Business is governed by J.P. Morgan's global compensation practices and principles. This Policy should therefore be read together with the Firm's U.S. Proxy Statement[3] (the "**Proxy Statement**").

This document sets out general principles. Details of specific remuneration programmes are set forth in the relevant plan terms and conditions as in force from time to time.

[1] Regulation (EU) No. 575 / 2013
[2] These disclosures are available at: http://investor.shareholder.com/jpmorganchase/basel.cfm
[3] 2016 Proxy Statement is available at : http://investor.shareholder.com/jpmorganchase/index.cfm

Section One: Governance of Remuneration Policy

The Firm's Compensation & Management Development Committee ("CMDC")

The Firm strongly believes that its remuneration policy and its implementation should foster proper governance and regulatory compliance. That policy is subject to independent oversight and control by the CMDC, a committee of the board of J.P. Morgan Chase & Co, the ultimate parent company of the Firm.

The CMDC is composed entirely of independent directors and met formally 6 times in relation to the 2015 performance year. The CMDC's charter and current membership can be found on the Firm's website[4]. Its activities include:

- Defining the Firm's compensation philosophy
- Reviewing and approving overall incentive compensation pools (including percentage paid in equity/cash)
- Reviewing and approving compensation for our Operating Committee and, for the CEO, making a recommendation to the Board for consideration and ratification by the independent directors
- Reviewing and approving the terms of compensation awards, including recovery/clawback provisions
- Reviewing the Firm's compensation practices and the relationship among risk, risk management and compensation in light of the corporation's objectives, including its safety and soundness and the avoidance of practices that would encourage excessive risk
- Adopting pay practices that comply with applicable rules and regulations, both in the U.S. and worldwide
- Reviewing the compensation awards to certain regulated employees, including Identified Staff (as defined below), including any performance adjustment to those awards
- Oversight of the Firm's Culture and Conduct programs

The CMDC performs the aforementioned roles on an ongoing basis so that our compensation program is proactive in addressing both current and emerging challenges. Additionally, each year the CMDC meets with the Risk Policy Committee and the Chief Risk Officer to review the Firm's compensation programs with the objective of ensuring that such compensation programs do not encourage unnecessary or excessive risk-taking.

In addition, we have Control Forums facilitated by Human Resources at the Firm, line-of-business and regional levels ("**HR Control Forums**"), the outcomes of which, when appropriate, may lead to a recommendation that human resources-related remedial actions be initiated, including but not limited to performance rating and compensation impacts. These processes are discussed below in more detail.

For performance year 2015, the CMDC and Board of Directors did not engage the services of a compensation consultant. Instead, the Firm's Human Resources department provided the CMDC and the Board with both internal and external compensation data and regular updates in an effort to comply with relevant rules and guidance from our regulators and applicable laws.

Compensation Philosophy

Our compensation philosophy provides guiding principles that drive compensation-related decision-making across every level of our Firm, including the EMEA Business.

The table below sets forth a summary of our compensation philosophy:

[4] CMDC Charter and current membership is available at: https://www.jpmorganchase.com/corporate/About-JPMC/ab-compensation-management.htm

Tying pay to performance and aligning with shareholders' interests	• In making compensation related decisions, we focus on multi-year, long-term, risk-adjusted performance and reward behaviours that generate sustained value for the Firm. This means compensation should not be overly rigid, formulaic or focused on the short term.
Encouraging a shared success culture	• Teamwork should be encouraged and rewarded to foster a "shared success" culture. • Contributions should be considered across the Firm, within business units, and at an individual level when evaluating an employee's performance.
Attracting and retaining top talent	• Our long-term success depends on the talents of our employees. Our compensation system plays a significant role in our ability to attract, motivate and retain top talent. • Competitive and reasonable compensation should help attract and retain the best talent to grow and sustain our business.
Integrating risk management and compensation	• Risk management, compensation recovery, and repayment policies should be robust and disciplined enough to deter excessive risk-taking. • HR Control Forums should generate honest, fair and objective evaluations and identify individuals responsible for meaningful risk-related events and their accountability. • Recoupment policies include recovery of cash and equity compensation. • Our pay practices must comply with applicable rules and regulations, both in the U.S. and worldwide.
No special perquisites and non-performance based compensation	• Compensation should be straightforward and consist primarily of cash and equity incentives. • We do not have special supplemental retirement or other special benefits just for executives, nor do we have any change in control agreements, golden parachutes, merger bonuses, or other special severance benefit arrangements for executives.
Maintaining strong governance	• Our CMDC is composed entirely of independent directors. We believe independent director oversight of the Firm's compensation practices and principles and their implementation fosters proper governance and regulatory compliance. • The CMDC defines the Firm's compensation philosophy, reviews and approves the Firm's overall incentive compensation pools, and approves compensation for our Operating Committee, including the terms of compensation awards.
Transparency with shareholders	• We believe that transparency to shareholders relating to our executive compensation program is essential. In order to provide shareholders with enough information and context to assess our program and practices, and their effectiveness, we disclose all material terms of our executive pay program, and any actions on our part in response to significant events, as appropriate.

Alignment of pay practices with compensation philosophy

We believe the effectiveness of our compensation program is dependent on the alignment of our pay practices with our compensation philosophy. The table below illustrates the strong alignment and further underscores our commitment to maintaining a program that is consistent with best practice.

• **Compensation philosophy** We believe our compensation principles promote a best practice approach to compensation, including: (i) tying pay to performance and aligning with shareholder interests; (ii) attracting, retaining properly motivating top talent; (iii) integrating risk with compensation; (iv) maintaining strong governance; (v) transparency.	• **Hedging/pledging policy** All employees are prohibited from the hedging of unvested restricted stock units, and unexercised options or stock appreciation rights.
• **Pay at risk** The majority of Operating Committee compensation is "at-risk" and contingent on achievement of business goals that are integrally linked to shareholder value and safety and soundness.	• **Strong clawback policy** Comprehensive recovery provisions enable us to cancel or reduce unvested awards, or require repayment of cash or equity compensation already paid.
• **Variable compensation in deferred equity** Annual incentive compensation is comprised of both current cash and deferred awards. Final payout levels are based on our stock price at time of vesting (i.e., if our stock price goes down, award value goes down and vice-versa).	• **Competitive benchmarking** To make fully informed decisions on pay levels and pay practices, we benchmark ourselves against our peer groups. We believe external market data is an important component of maintaining pay practices that will attract and retain top talent, while driving shareholder value.
• **Risk events impact pay** In making pay decisions, we consider material risk and control issues, at both the Firm and line-of-business levels, and make adjustments to compensation, when appropriate.	• **Responsible use of equity** We manage our equity program responsibly, using only approximately 1% of weighted average diluted shares in 2015. In addition, our share buyback program significantly reduces shareholder dilution.
• **Encouraging a shared success culture through equity** The percentage of incentive compensation being deferred and awarded in equity is higher for more highly compensated employees.	• **Shareholder outreach** Each year, we solicit feedback from our investors on our compensation programs and practices. The CMDC considers this feedback when making compensation decisions.

Regulatory considerations

As a financial services business operating in Europe, the EMEA Business and its subsidiaries are subject to multiple European regulations on remuneration. The CMDC receives updates on material regulatory developments which may impact remuneration structure or practice to understand the Firm's obligations in this area, including in relation to the EMEA Business.

The Firm's remuneration policy, and its implementation, are reviewed at least annually by the CMDC to ensure that it remains aligned to the Firm's risk appetite, business strategy and long-term interests, and complies with the relevant requirements. The latest review in September 2015 found that no material changes were required to the policy and was satisfied with its implementation.

Employees of the EMEA Business designated as "material risk takers" (also referred to as "**Identified Staff**") are governed by more prescriptive rules in respect to their compensation, including the structure of their variable compensation. In relation to the Capital Requirements Directive IV ("**CRD IV**"), individuals are categorised as Identified Staff based on the criteria set out by the European Banking Authority, including any applicable local regulations. This Identified Staff group is reviewed on an ongoing basis and Identified Staff are notified of their status and the impact on their remuneration structure.

Measures taken to avoid conflicts of interest

The Firm's compensation governance practices contain a number of measures to avoid conflicts of interest, including the following:

- The CMDC is composed entirely of independent directors and provides both independent oversight and control of the Firm's remuneration policy
- The Firm conducts robust performance management reviews for members of Identified Staff. Part of this process includes soliciting feedback directly from risk and control professionals who independently assess employees' risk and control behaviour
- Personal hedging / pledging strategies which may undermine the risk alignment effects of variable remuneration are not permissible (e.g. entering into an arrangement with a third party under which payments will be linked to the amounts by which the person's remuneration may be subject to reductions)
- There is active engagement, transparency and assessments of risk and control issues by control function heads, senior management and subject matter experts across the Firm
- Remuneration for Risk, Compliance, Internal Audit and other key Control Functions is assessed against independent market data. Their performance is assessed by reference to independent objectives and the incentive compensation allocations for these groups are managed separately from the LOBs that the functions support
- Strong clawback and recovery provisions cover all forms of incentive compensation combined with formal and disciplined processes for review and determinations

Section Two: Remuneration System Design

Components of compensation

Our compensation structure is designed to contribute to the achievement of the Firm's short-term and long-term strategic and operational objectives, while avoiding excessive risk-taking inconsistent with the Firm's risk management strategy. This is accomplished in part through a balanced total compensation program comprised of a mix of fixed compensation (including base salary and, for certain employees, a fixed cash allowance), and variable compensation in the form of cash incentives and long-term, equity based or fund-tracking incentives that vest over time.

The Firm has obtained the relevant shareholder approvals in accordance with Article 94(1)g of CRD IV (and its local implementation) to pay CRD IV Identified Staff in the EMEA Business, including senior management, a maximum ratio of fixed to variable compensation of 1 : 2.

Variable compensation (annual and long-term incentives)

We believe that our variable compensation programs serve a fundamental role in motivating our employees to deliver sustained shareholder value and rewarding them with an appropriate mix of short- and long-term incentives aligned to performance.

Incentive compensation can be composed of the following:

- Upfront cash
- Retained Stock (vested at grant, subject to a 6 month holding period – only currently awarded to Identified Staff)
- Restricted Stock Units (vesting period 24 and 36 months post grant for the majority of staff)
- Deferred cash (awarded to Identified Staff only)

- Mandatory Investor Plan (deferred cash award based on certain notional fund investments, vesting period 24 and 36 months post grant)

In addition to the above, in January 2016 the CMDC approved a new long-term incentive compensation program – Performance Share Units ("**PSUs**"). These have only been awarded to members of the Firm's Operating Committee. Further details are set out in the Firm's 2016 Proxy Statement.

Restricted Stock Units ("RSUs")

The equity portion of incentive compensation is awarded in the form of RSUs. Each RSU represents a right to receive one share of common stock on the vesting date.

The percentage of incentive compensation being deferred and awarded is higher for more highly compensated employees, thus increasing the aggregate value subject to the continued performance of the Firm's stock (save for the Investor population, as to which see the "Mandatory Investor Plan" below). For 2015, Managing Directors were subject to a 35% minimum deferral irrespective of their level of compensation. Senior executives of the Firm received at least 50% (and in some cases, substantially more) of their incentive compensation in stock.

For Identified Staff, the proportion deferred is at least in line with the applicable deferral rules as defined in the regulation under which they are Identified, and may be greater for certain employees in certain circumstances.

Generally, 50% of the RSU portion of the award vests on the second anniversary of the grant date and 50% vests on the third anniversary of the grant date. Awards are subject to the Firm's right to cancel an unvested or unexercised award (malus), and to require repayment of the value of certain shares distributed under awards already vested (clawback) in certain circumstances, as further described below.

Deferred Cash

For Identified Staff, deferred incentives may also be awarded in the form of deferred cash which vests over a 3-year period subject to terms and conditions (e.g., in respect of forfeiture and clawback) consistent with RSUs awarded in respect of the same performance year. Vesting of deferred cash awards are subject to the same rights of the Firm in relation to malus and clawback as RSUs, as set out below.

Mandatory Investor Plan

In our Global Investment Management business, the Investor population (Portfolio Managers and Research Analysts) on a selective basis are subject to a mandatory deferral of long-term incentive compensation under a Mandatory Investor Plan (**"MIP"**). MIP awards provide for a rate of return equal to that of the funds that the Investors manage. The goal of MIP is to align the Investors' pay with that of their client's experience and to provide a direct link between how the Investors perform to how they are paid. 100% of the Investor's long term incentive compensation is eligible for MIP and depending on the level of compensation, 20% or 50% is required to be in invested in the specific fund they manage as determined by their respective Investment Committee member. The remaining portion of the overall amount is electable and may be treated as if invested in any of the other funds available in the plan or can take the form of RSUs. Sales employees may also participate in the MIP on a voluntary basis.

Other non-cash benefits

No non-cash benefits are provided as part of variable compensation.

<u>Performance measurement against financial and non-financial criteria</u>

The Firm has a rigorous and disciplined performance management process, which actively manages the performance of its employees through the year. To that end, we use both financial and non-financial criteria to assess performance during the compensation cycle, and to then inform individual compensation determinations.

A balanced assessment of employees' performance is undertaken taking account of business and financial results, risk and control outcomes, client/customer goals, and other priorities including people and leadership objectives as appropriate. Risk and control is a key focus for the Firm and there are three expectations specific to this assessment:

(1) Drives a robust risk/control environment, (2) Demonstrates expected risk/control behaviours, and (3) Identifies, escalates and remediates issues.

These four performance categories appropriately consider short-, medium- and long-term goals that drive sustained shareholder value, while accounting for risk and control outcomes. There is no specific weighting assigned to any one factor, metric or component.

Given the diverse nature of our Firm, our evaluation of the Firm does not lend itself to a simple formulation to determine a single "score" or outcome that is indicative of overall performance. The CMDC therefore utilizes a balanced and disciplined approach so that its performance assessment reflects Firm, line of business and individual performance over a multi-year period.

Risk adjustment

To encourage a culture of risk awareness and personal accountability, we approach our incentive compensation arrangements through an integrated risk, finance, compensation and performance management framework.

Pay and performance for our senior employees is also tied to extensive risk and control features that perform the following functions:

- Performance review processes to evaluate risk and control behaviours and to hold executives accountable
- Active engagement, transparency and assessments of risk and control issues by control function heads, leaders and subject matter experts across the Firm
- Strong clawback and recovery provisions cover all forms of incentive compensation combined with formal and disciplined processes for review and determinations

We believe that disciplined risk management, compensation recovery, and repayment policies should be robust enough to deter excessive risk-taking. Risk disciplines and control forums should generate honest, fair and objective evaluations and identify individuals responsible for any risk-related events and their accountability.

Risk & control review process

Our executive compensation program is designed to hold executives accountable, when appropriate, for meaningful actions or issues that negatively impact business performance in current or future years.

The Firm reviews accountability for meaningful risk and control issues through our HR Control Forum process. These issues may have surfaced in other committees (e.g. Risk Committees and Business Control Committees) and the forums review potential individual accountability and discuss any proposed attendant impact to an individual, a group, or a compensation pool. HR Control Forums are conducted on a quarterly basis in each LOB, region and for corporate functions.

- **Line of Business / Corporate Control Forums** — Each line of business ("**LOB**") reviews meaningful risk and control issues related to its specific line of business and firmwide that may have potential individual or group accountability
- **Regional Control Forums** — Issues that arise in a given geography (both within and across LOBs / Corporate) are also identified and assessed in Regional Control Forum meetings. Issues are referred to LOB / Corporate forum or escalated to the Firmwide forum, as appropriate
- **Firmwide Control Forums** — Aggregate findings, including actions recommended or taken by from LOB, Corporate, and Regional Forums, are reviewed and the CMDC is provided a summary of overall outcomes and receives more detailed information on significant items

To hold individuals responsible for taking risks inconsistent with the Firm's risk appetite and to discourage future imprudent behaviour, the Firm has policies and procedures that enable us to take prompt and proportionate actions with respect to accountable individuals including:

- Reduction of annual incentive compensation (in full or in part);
- Cancellation of unvested awards (in full or in part);
- Recovery of previously paid compensation (cash and/or equity); and
- Taking appropriate employment actions (e.g., termination of employment, demotion, negative rating).

The precise actions we take with respect to accountable individuals are based on the nature of their involvement, the magnitude of the event and the impact on the Firm. A description of our recovery provisions is set out below.

Performance management reviews for Identified Staff and Tier 1 employees

In addition to the HR Control Forums, the Firm also conducts robust performance management reviews for Identified Staff and "Tier 1" employees identified under guidance of the Federal Reserve in the U.S..

Part of the robust review process includes soliciting feedback directly from risk and control professionals who independently assess employees' risk and control behaviour. This feedback is used to assess whether the employee is meeting our risk/control behaviour expectations and to hold individuals accountable for this aspect of their performance. The feedback from the risk and control process is critical in helping to identify individuals responsible for meaningful risk and control behaviour or conduct issues, supervisory issues (e.g., failure to supervise, anticipate a material issue, or take appropriate action when the issue arose), and other risk and control related issues that impact the Firm.

This input is used in managers' evaluations of Identified Staffs' performance and is considered in determining annual compensation, and when appropriate, any recover or clawback actions taken by the Firm. Components of the enhanced performance evaluation apply to over 15,000 employees of the Firm in an effort to more formally assess risk and control behaviours. We have conducted online training for risk and control reviewers and training for managers in order to further strengthen the process.

Culture and "How We Do Business" framework

The Firm has as an ongoing focus on further strengthening our culture to examine how we can more rigorously and consistently adhere to the high ethical standards that our shareholders, regulators and others expect of us and that we expect of ourselves. Actions taken in 2015 included roll out a global, firmwide Culture and Conduct program which, as mentioned above, is overseen by the CMDC. So that this program remains a key business-driven priority for every line of business and function, the Firm has named senior executives to serve as the Executive Sponsors of the program on behalf of the Firm's Operating Committee. In addition, Conduct Risk Assessments were performed by each line of business and function, also with appropriate action items identified.

The Firm has also focused our attention on embedding our standards throughout the employee lifecycle, starting with the recruiting and onboarding process and extending to training, compensation, promoting and disciplining employees. Two important parts of that effort have been the Firm's "How We Do Business" framework, a set of 20 core business principles which represent four central corporate tenets: exceptional client service; operational excellence; a commitment to integrity, fairness and responsibility; and a great team and winning culture[5]. These principles provide the road map for how all employees at the Firm are expected to behave in their work and will continue to guide the Firm as we move forward.

Alongside this is the Firm's Code of Conduct, which is our core conduct policy document and is designed to provide the direction for essential elements of the Business Principles road map. All new hires must complete Code training shortly after their start date with the Firm. All employees are required to complete additional Code training and provide a new affirmation of their compliance with the Code annually. The Code also underpins the recovery and clawback provisions of the remuneration structure.

[5] The full set of Business Principles is included in our report "How We Do Business – The Report" which is posted on www.jpmorganchase.com under the Investor Relations tab.

Clawback/recovery provisions

We maintain clawback/recoupment provisions on both cash incentives and equity awards, which enable us to reduce or cancel unvested awards and recover previously paid compensation in certain situations. Incentive awards are intended and expected to vest according to their terms, but strong recovery provisions permit recovery of incentive compensation awards in appropriate circumstances. The following table provides details on the extensive clawback provisions that apply to certain regulated employees including Identified Staff.

LONGSTANDING EQUITY CLAWBACK PROVISIONS		AWARD TYPE	
CLAWBACK TYPE	**CLAWBACK TRIGGER**	**VESTED**	**UNVESTED**
Restatement	• In the event of a **material restatement of the Firm's financial results** for the relevant period (under our recoupment policy adopted in 2006) • This provision **also applies to cash incentives**	✓	✓
Misconduct	• If the employee engaged in **conduct detrimental** to the Firm that causes material financial or reputational harm to the Firm	✓	✓
	• If award was based on **materially inaccurate performance metrics**, whether or not the employee was responsible for the inaccuracy	✓	✓
	• If award was based on a **material misrepresentation** by the employee	✓	✓
	• If the employee is terminated **for cause**	✓	✓
Risk-related	• If the employee improperly or with gross negligence **failed to identify**, raise or assess, in a timely manner and as reasonably expected, issues and/or concerns with respect to **risks material to the Firm**	✓	✓
Protection-based vesting (RSUs)[6]	• If a line of business in which the employee is employed or exercises responsibility **did not meet its annual line of business financial threshold** or, in the case of an Operating Committee member, such a trigger is exercised for a participant(s) in a line of business for which they exercise responsibility		✓
	• If for any one calendar year during the vesting period, **pre-provision net income is negative**, as reported by the Firm[7]		✓
	• If, for the three calendar years preceding the vesting date, the Firm **does not meet a 15% cumulative return on tangible common equity**[7]		✓

From January 2015, all IC awards (upfront and deferred) made to Identified Staff regulated in the UK are subject to an extended clawback regime as required by local UK regulations.

[6] These provisions apply to RSUs granted in 2012 and after, and may result in cancellation of up to a combined total of 50% of the award.
[7] These provisions only apply to members of the Firm's Operating Committee.