J.P.Morgan

ANNUAL REPORT 2018 OF J.P. MORGAN AG

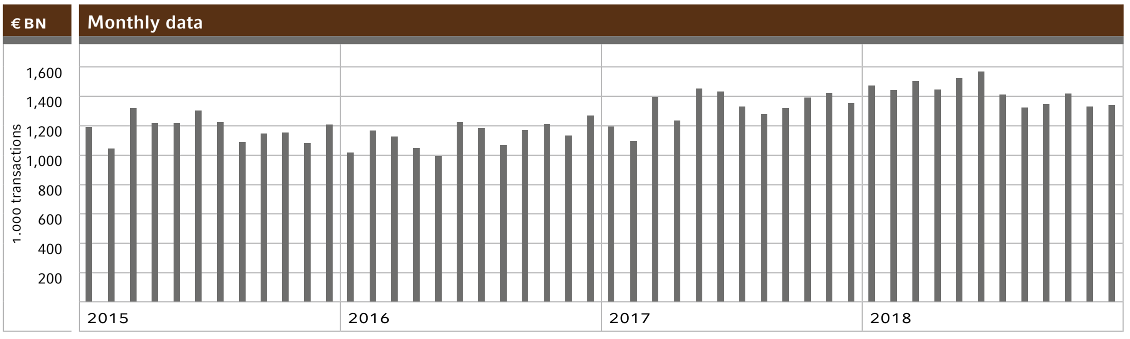
J.P. Morgan

INDICATORS J.P. MORGAN AG

€ M	2018	2017	2016	2015
Net Revenue	146.8	135.0	128.7	136.4
Net interest income	9.9	7.9	14.9	29.7
Net commission income	90.6	85.6	77.0	73.4
Total expenses	141.0	115.2	107.1	119.3
Result from ordinary course of business	5.8	19.9	21.6	17.1
Net income	−8.8	13.7	15.5	8.1
Equity	**2,367**	**659**	**645**	**629**
Return on Equity (RoE)	−0.4 %	2.1 %	2.4 %	1.3 %
Return on Investment	−0.04 %	0.09 %	0.07 %	0.06 %
Cost-Income Ratio	96.07 %	85.30 %	83.25 %	87.46 %
Pre-tax profit margin	3.93 %	14.70 %	16.77 %	12.55 %
Tier 1 capital ratio	169.7 %	39.3 %	72.6 %	88.9 %
Total capital ratio	183.1 %	50.5 %	93.3 %	114.3 %

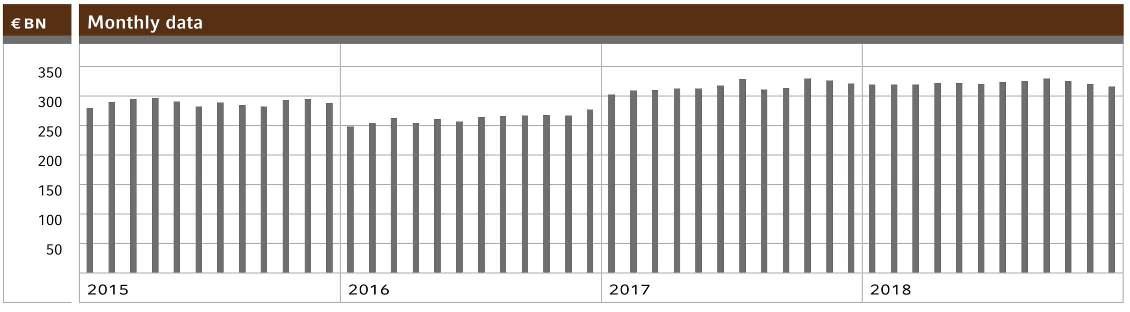
HIGH VALUE PAYMENTS

> PAGE 4: TREASURY SERVICES



ASSETS UNDER CUSTODY

> PAGE 4: SECURITIES SERVICES



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MANAGEMENT REPORT AS OF DECEMBER 31, 2018

Business and General Conditions

ORGANIZATION 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. The Bank has a full banking license in accordance with § 1 Para. 1 of the KWG [Kreditwesengesetz – German Banking Act] and conducts banking business with institutional clients, banks, corporate clients and clients from the public sector. The shares of J.P. Morgan AG are held directly by the J.P. Morgan International Finance Limited with its registered office in Newark, United States of America.

Until April 30, 2018, J.P. Morgan AG was managed by a two-member management board, Front Office and Back Office, which was expanded on May 1, 2018 by further two board members. It continues to be monitored by a six-member Supervisory Board. The Management Board generally meets monthly, while the Supervisory Board meets at least four times a year. In 2018, the Supervisory Board held six meetings – and three meetings have been held so far in 2019. The Risk Committee of the Supervisory Board met five times in 2018, and so far twice in 2019. The Internal Auditor also informs the Supervisory Board in writing on a quarterly basis concerning audits that have been conducted and their results. The names of the members of the Management Board and the Supervisory Board are listed in the Notes.

The Treasury Services, Securities Services and Markets divisions prepare a detailed presentation for the meetings of the Management Board, which covers all material events in the past month relating to the discussion of the course of business, as well as the trends in Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) for their business segments. In addition, the meeting covers the financial trends, a detailed risk report and a report from the Corporate Functions, especially Compliance and Internal Audit, for discussion, review and decision. In addition, sufficient time was set aside to discuss and review the individual new product initiatives and the implementation of the Group-wide Brexit strategy by J.P. Morgan AG. The minutes of the Management Board meetings are kept by an employee from the Legal Department.

The Supervisory Board receives an up-to-date summary of the topics discussed at the Management Board meetings in order to form its own opinion – for discussion, review and decision-making – of the course of business, planned new business activities, financial trends, risk-bearing capacity, communications with supervisory bodies, the status of current projects, in particular the implementation of the Group-wide Brexit strategy, as well as the work of the corporate functions.

The Supervisory Board's Risk Committee meets at least four times a year and forms an opinion of the risk-bearing capacity of J.P. Morgan AG and of the trends in the risk profiles in the various risk categories. In addition, the Risk Committee is also closely involved in defining the recovery scenarios and the analysis thereof.

The Supervisory Board's Audit Committee normally meets with the auditors twice a year to discuss the audit plan and the annual financial statements and audit opinion.

The Supervisory Board's Remuneration Committee and Nomination Committee met in 2018 when required.

Minutes of the meetings of the Supervisory Board and its committees are taken by an employee from the Legal Department or an external lawyer.

INTERNAL CONTROL SYSTEM

The Treasury Services, Securities Services and Markets business segments are managed by a member of the Management Board – Front Office – and reviewed by a member of the Management Board – Back Office. Since May 1, 2018 this has been performed by Nicholas Conron as Chief Risk Officer, who took over this role from Mr Burkhard Kübel-Sorger, who now focuses on the roles of Chief Financial Officer and Chief Operating Officer.

In addition to regular meetings of the Management Board and the Supervisory Board, the Local Operational Risk & Control Committee, which brings together Operations, all control functions and all Corporate Functions, and which is managed by the CFO, manages the day-to-day Corporate Governance on behalf of the Management Board. J.P. Morgan AG's corporate functions continue to support not only the Bank's business segments but also all other Group units in Frankfurt am Main. In addition, there is an Outsourcing Forum that evaluates planned outsourcing projects for their risk aspects to ensure a proper business organization, monitors compliance with regulatory requirements and serves as an escalation point in case of inadequate performance by the outsourcing companies. Furthermore, there is a regular forum for the identification of new legal regulations and requirements under the management of the MaRisk Compliance Officer. Finally, the Technology Forum was also introduced in 2018, in which compliance with BAIT regulations is monitored, potential system failures and resulting measures are assessed, audit opinions and their findings as well as new technology projects are discussed.

In addition to net interest income and net commission income as KPIs, 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 by the Management Board. 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 instruction in the Risk Oversight Committee for J.P. Morgan AG.

In the monthly meetings of the Business Forums, in which Sales, Operations, and Control Functions including the international Business Control Manager all participate, the business process, KPIs and KRIs, feedback from our customers, strategic projects, industry trends and changes in the legal or regulatory environment and their impact on the respective business units are discussed. In addition, treasury activities are discussed and reviewed in the monthly 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.

In addition to this, the Management Board receives daily detailed reports from the lending and financial division about draw-downs, overdrafts, the situation with regard to collateral, and the key COREP indicators. These reports are continuously being enhanced to meet the increasing regulatory requirements.

SEGMENTS AND ESSENTIAL PRODUCTS AND PROCESSES

J.P. Morgan AG is an integral component of the worldwide J.P. Morgan Group and constitutes the core of group activities in Germany. Embedding the bank in the global segments of

Treasury Services, Securities Services and Front Office of the Corporate & Investment Bank of the Group plays a major role in this, as it is only thanks to the international network of our services that we are able to live up to the J.P. Morgan Group mission: "First class business in a first class way". In 2018 as well, the bank continued to focus on its core business, in order to fulfil the roles as the group's central bank for euro payment transactions, as well as custodian and Global Custodian for the German investment market, operating out of Frankfurt am Main.

Again in 2018, 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 continue to improve our interactions with clients. The trends in our KPIs and KRIs encourage us to continue down this road in 2019, while continuing to maintain a strong focus on the quality of our outsourced processes.

Treasury Services

J.P. Morgan AG bears global responsibility within the Group for the area of euro-clearing operations. In view of the standardization of European payment transactions and our significant technology investments, we expect to deliver our payment handling products and services in the bulk payment markets centrally from J.P. Morgan AG, in cooperation with our sister companies in the next few years, to both corporate customers as well as financial institutions. We continue to expand our top position as euro clearer in TARGET2 and EBA with improved offerings for our multinational corporate clients and financial institutions 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 more comprehensive global cash management solutions that provide notable advantages in liquidity management, 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.

J.P. Morgan AG also continues in its role of central cash agent in Target2Securities (T2S) for a number of sister companies within the Group. Furthermore, J.P. Morgan AG began expanding the product range in the Treasury Services division in Q4 2018. The expansion of the product range should be completed in the course of Q2 2019. This includes, in particular, additional currencies and an associated expanded product range relating to the multi-currency clearing area.

In the area of Payment Services, there have still not been any major structural competitive shifts, but our customers are already expecting banks to support global, professional cash management without accepting to make any compromises in local processing. In addition, our customers expect faster, more transparent and lower cost of settlement for international payments given extremely rapid technological changes. This requires a major investment effort, and increasingly a large international presence, which will lead to concentration in the market in the medium term.

Securities Services

In the global Securities Services business unit of the J.P. Morgan Group, J.P. Morgan AG acts as a regulated custodian in Germany and has been providing Global Custody and Custodian Services for institutional customers since 1995. In this role, J.P. Morgan AG currently manages a total volume of € 316 billion for its customers, and this year again is one of the largest custodians in Germany.

The custodian plays a special role in protecting both investors and fund assets in the investment triangle. In addition to the custody of assets and the maintenance of a current inventory list (with regard to non-custodial assets), as well as settlement of ordered transactions, one of the core functions of the custodian is the performance of various control functions to protect the relevant investment assets and the investor. Within the framework of its control functions, J.P. Morgan AG makes sure in its role of custodian to supervise the capital management company's day-to-day activity in a prompt manner with respect to the relevant details and check its compatibility with the statutory provisions, supervisory law standards, and contractual provisions.

In addition to regulatory control tasks and services relating to the custody of securities and settlement of trading transactions, we offer a comprehensive range of additional services, such as the reporting system, as part of the wider services on offer to customers.

In addition, in the last few years the German custodian market has been characterized by more and more new legal and regulatory requirements and continuously growing competition. For custodians, one of the challenges is to be able to handle and comply efficiently with the plethora of legal and regulatory requirements, which have been introduced in the recent past for the different types of funds and investor groups.

On the other hand, the risk appetite of institutional investors has increased in the last few years due to the low interest rate environment. In their search for returns it can be seen that institutional investors are highly flexible and will examine and implement alternative investment solutions. For a custodian, it is imperative to accept this strategic orientation and apply the resulting product-related and operational adjustments. A balancing act is needed between specialization and the demand for modelling all products.

As a custodian, J.P. Morgan AG has accepted this strategic focus and is implementing the resulting product-related and operational adjustments.

Markets

Since the enactment of the US and EU non-cleared margin rules (NCMR) Phase II in March 2017, J.P. Morgan AG has offered selected customers who do not want to contract with a US broker-dealer, the option of trading over the counter (OTC) derivatives for hedging purposes via J.P. Morgan AG. In this case, J.P. Morgan AG transfers the resulting market risk directly to the central risk management units of the Group, totally in line with its conservative risk policy. During 2018, the transaction volume in this business area grew continuously, with the transaction volume posted in 2018 being significantly higher than expected due to the major restructuring of an individual customer on the one hand, and due to the expansion of customer segments compared to the prior year on the other hand.

New Product Areas

As part of the implementation of the Group-wide Brexit strategy to establish J.P. Morgan AG as the future central legal entity for the Banking and Markets business of the Corporate & Investment Bank within the European Union, J.P. Morgan AG was able to start product operations for the following business activities in 2018.

Since October 2018, J.P. Morgan AG has started to migrate the existing memberships of European exchanges and Central Clearing Counterparty Houses ("CCPs") of the Global Clearing segment in J.P. Morgan Securities plc ("JPMS plc") based in London, and to carry out the execution and clearing of orders from exchange traded derivatives (futures & options) on behalf of JPMS plc. The transfer of all relevant memberships to J.P. Morgan AG along with the subsequent migration of customers will take place during the first half of 2019.

In December 2018, the Cash Equities segment, which includes execution of stock orders on behalf of customers, started production operations. Here too, the memberships of European stock exchanges were transferred from JPMS plc to J.P. Morgan AG and the first trades of JPMS plc were processed through J.P. Morgan AG's newly established stock exchange memberships.

In addition, in the Lending segment in December 2018, an initial customer was added in preparation for the transfer of the credit portfolio from other JPM companies.

MARKETS AND COMPETITIVE POSITION

In the Treasury Services segment, we need to distinguish between relationship management and the operational hub for euro-clearing operations. With regard to relationship management, J.P. Morgan AG covers institutional clients, banks, corporate clients and public sector clients primarily based in Germany or Austria. This also includes subsidiaries based in Germany or Austria whose parent companies have their headquarters in other countries.

With global responsibility for the euro-clearing operations area within the Group, which, in addition to the core team in Frankfurt am Main, also encompasses teams in sister companies of the Group in Mumbai (India) and Manila (Philippines), J.P. Morgan AG serves clients from different countries in which the J.P. Morgan Group is active. In its function as euro clearer in TARGET2 and EBA, and measured in terms of the value of the payments executed on a daily basis, J.P. Morgan AG is among the largest providers of payment services in Germany.

The segment Securities Services currently mainly focuses on open domestic special alternative investment funds (AIFs), which are legally subject to the capital investment act, as well as on direct investments by institutional customers, along with Global Custody mandates. J.P. Morgan Group's focus on client-oriented and innovative product solutions, while realizing economies of scale thanks to standardized processes, is being continuously reinforced. J.P. Morgan AG is again among the largest custodians in Germany this year.

Target customers in the Markets segment are a specific segment of Special Purpose Vehicles (SPVs) that want to use the relief under the EU NCMR compared to the US regulations.

With regard to the new business activities initiated in the 4th quarter in the area of Global Clearing and Cash Equities, our target customers are those customers who are located in the European Union and who will no longer be able to trade with J.P. Morgan units in the UK in future, due to the expected impact of a Hard Brexit. In addition, J.P. Morgan AG will also allow customers who have so far been able to access the continental European trading venues and CCPs through J.P. Morgan Securities plc with registered offices in London, to continue to do so.

KEY LEGAL AND ECONOMIC INFLUENCE FACTORS

The legal and supervisory environment was characterized in 2018 by a series of supervisory changes, particularly EU initiatives, whose implementation did not, however, have any substantial influence on the core business or client relationships of J.P. Morgan AG.

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.

However, the number one topic of 2018 was the political process relating to the planned departure of the United Kingdom from the European Union, and all the associated, extensive preparatory measures within the financial sector. Due to the role planned for J.P. Morgan AG within the Group as a central booking location for customers with headquarters within the European Union, it was not only our existing customers who were interested in our preparatory measures, but we also developed an intensive dialogue with our future target customers.

Topics that have kept us busy in 2018, and are still keeping us busy when we look to the next few years, are increasing digitization and its impact on our business processes, IT security with an ever-growing threat from cybercrime, and finally the implementation of the new regulatory requirements.

PERSONNEL DEVELOPMENT

The number of employees of J.P. Morgan AG increased in 2018 compared to the previous year, from 275 to an average of 305[1]. The staff turnover rate rose from 9 % in 2018 to 12 %, so was within our target range of 8 % – 12 %. 26 % of all employees made use of flexible work arrangements, as in the previous year.

In line with our business concept, we continue to pay the greatest attention to the selection of quality in new hires, and to the continuous training and education programs for our staff.

The J.P. Morgan AG human resources policy is based on the highest quality and diversity of employees, and reflects our clear commitment to aligning to the needs of our employees.

The remuneration system of J.P. Morgan AG is integrated into the remuneration concept for employees in the EMEA region ("EMEA Remuneration Policy").

BUSINESS DEVELOPMENT

2018, for J.P. Morgan AG, was a year with a stable result compared to the previous year, however, the negative trend in earnings of our pension plans due to volatile equity markets, especially in the 4th quarter of 2018, cast a clear shadow.

We managed to stabilize our interest income, despite the continuing low-interest policy of central banks and it rose by 24 % – albeit from a low level – especially thanks to better investment opportunities for our liquidity surplus.

The trend for commission income was also very positive in 2018. After an increase of around 12 % in 2017, the commission earnings grew by another 6 % compared to the previous year, particularly in the Markets division. This increase was higher than our expectations and shows the willingness of our customers to entrust more business to us.

Taken overall, we judge 2018 to be a positive year. The business developments in all of our three core segments have met our expectations, especially in the field of Securities Services 2018 where the focus was on cost management. Business

[1] Employees that have been seconded or placed on leave or are on parental leave are not included herein.

development in the Markets sector likewise met and even exceeded our expectations.

As part of the implementation of the Group-wide Brexit strategy, J.P. Morgan AG began product sales in the 4th quarter of 2018 for a series of new business activities, but this has as yet had no significant influence on the business earnings of J.P. Morgan AG.

Earnings, Financial and Assets Position

EARNINGS

Thanks to the intensification of our activities with existing clients, J.P. Morgan AG managed to increase its commission income in 2018. For this financial year, commission income was 6 % above the previous year, with a total of € 90.6 million. Compared with the previous year, interest income has also shown a slightly positive trend, and at € 9.9 million is € 1.9 million higher than in the previous year. The material factor that influenced the interest income were first and foremost the improved investment opportunities for our liquidity surplus in securities. The budget figures for 2018 were slightly exceeded both in terms of net interest income and net commission income.

The trading result, totalling € 7.1 million, was significantly above that of the prior year, by € 5.3 million. The trading result essentially comprises debit valuation adjustments (DVA), funding valuation adjustments (FVA) and credit valuation adjustments (CVA). Our other operating income has continued to be relatively stable and only declined slightly by 1.3 % compared to the previous year.

Our total expenditure rose by around 22 % in spite of a slight decline in the recharging of intercompany project and management costs. The reason for this is on the one hand, additional resources as part of the implementation of the Brexit strategy and on the other hand a significantly worse pension result.

The earnings from normal business activity thus fell significantly from € 19.9 million to € 5.8 million. The annual result for the 2018 financial year is a loss totalling € 8.8 million.

This result means a Return on Equity of −0.4 % after 2.1 % in the prior year.

FINANCIAL POSITION

Principles and Objectives

The balance sheet at J.P. Morgan AG is shaped by the deposits of its institutional clients and banks as part of the euro-clearing business and the custodian business, and shows a markedly stable financial situation in 2018. We only generate exposure towards our clients in both business segments in the form of uncommitted intra-day lines and short-term overnight overdrafts in the event of cash management issues. Surplus liquidity generated by this deposit-driven business policy is invested mainly in reverse repo-transactions with JPMorgan Chase Bank, N.A.

The total assets as at December 31, 2018 rose significantly by 31 % compared to the balance sheet as of December 31, 2017. The fundamental drivers were on the one hand the completed capital increase totalling € 1.7 billion, and on the other hand an increase in intercompany balances, partly due to the new Global Clearing segment.

J.P. Morgan AG was supplied with sufficient liquidity at all times in 2018 as well. The bank manages liquidity conservatively. The liquidity coverage ratio was 155.4 %.

Capital Structure

In comparison to December 31, 2017, the liable equity capital had increased by the profit of the previous year, which was transferred to retained earnings, but above all by the capital increase completed in September 2018 in the form of a simple cash contribution by J.P. Morgan International Finance Limited as sole shareholder, totalling € 1.7 billion. On the balance sheet at December 31, 2018, this results in a Tier 1 capital ratio of 169.7 % and a total capital ratio of 183.1 %. This capital investment places J.P. Morgan AG in a very comfortable position when it comes to providing capital to comply with regulatory requirements both for current business and for the first new business activities that J.P. Morgan AG will take on as part of the implementation of the Group-wide Brexit strategy. J.P. Morgan AG's regulatory equity was made up of the following components as at the reporting date of December 31, 2018:

Tier 1:	€ 2,354	million	share 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 Trade Finance area, the credit risks assumed by J.P. Morgan AG itself in the form of contingent liabilities are, on an unchanged basis, collateralised for the most part directly on an intra-group basis. For the notes issued by J.P. Morgan AG, we signed a total return swap to secure the risk and concluded an interest-rate swap with JPMorgan Chase Bank, N.A., to secure the risks of changing interest rates arising from the securities portfolio. In addition, in the lending area there is an irrevocable loan commitment totalling € 12 million, which is associated with the transfer of an initial customer from the lending business of another JPM company, in connection with the transfer of additional customer portfolios.

ASSET SITUATION

The receivables from our customers reduced as a result of the lower use of short-term overdraft loans by € 88 million to € 172 million, while the deposits rose slightly by € 177 million to € 6,880 million as of the balance sheet date. Receivables from banks increased thanks to more treasury activities by € 3,697 million to € 18,648 million (of which, balances at central banks: € 11,766 million). Liabilities to banks increased at the same time by € 1,991 million to € 9,705 million at the balance sheet date. Other reasons for the expansion of the balance sheet included the initial recognition of trust assets and trust liabilities arising from the new Global Clearing activities totalling € 608 million. The securities portfolio with first-class bonds remained unchanged at a book value of € 51 million as of December 31, 2018.

The total assets of J.P. Morgan AG thus rose by around 31 % compared to the balance sheet date of the previous year, and stood at € 20,551 million as of December 31, 2018. The total capital ratio was 183.1 % as of December 31, 2018 with the average for 2018 being 114.04 %.

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 on the balance sheet and income statement of the annual financial statement and are as follows for the current and previous financial years:

€ M	2018	2017
Net Revenue	146.8	135.0
Net interest income	9.9	7.9
Net commission income	90.6	85.6
Total expenses	141.0	115.2
Result from ordinary course of business	5.8	19.9
Net income	−8.8	13.7
Equity	**2,367**	**659**
Return on Equity (RoE) (Earnings after tax result/equity)	−0.4 %	2.1 %
Return on Investment (Net income/balance sheet total)	−0.04 %	0.09 %
Cost-Income Ratio (Total expenses/net earnings)	96.07 %	85.30 %
Pre-tax profit margin (Income from normal business activities/ Net revenue)	3.93 %	14.70 %
Core capital ratio	169.7 %	39.3 %
Total capital ratio	183.1 %	50.5 %

The positive trend in interest income compared to the previous year, despite the continuing low interest rate environment, and also positive movement in the net commission income are extremely pleasing, but this positive earnings position is not reflected in the overall result due to the effect of extraordinary items: on the one hand, the negative result of our pension plans due to volatile equity markets, and on the other hand the additional project and implementation costs of the Group-wide Brexit strategy. In addition, the capital increase effected in September 2018 when combined with the Group-wide Brexit strategy leads to a distortion of the financial performance indicators. The result after tax was negatively influenced by additional tax payments which relate to prior periods.

The cost-income ratio shifted from 85.3 % in the prior year, to around 96.1 %. The return on equity (RoE) fell from 2.1 % in the previous year to −0.4 %. These values would fall outside of the range of our original budgets, based on the extraordinary items mentioned above and the unanticipated result after tax.

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators for 2018 are focused on the role of J.P. Morgan AG as a transactional bank working in euro payment processing, and also as a 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 operational errors. In addition, we measure the fluctuation rate as an indicator of stability of our operating platform from the point of view of employees.

	2018	2017
Number of payment instructions – High Value (TARGET2 & EBA EURO1)	5.1 million	4.7 million
Number of payment instructions – Low Value (STEP2 only)	83 million	66 million
Straight-through processing rate	98.28 %	98.39 %
Assets under Custody (in € billion)	316	320
Customer satisfaction – Custodian (Internal Score)	100 %	100 %
Operational losses (in € million)	0.1	0.1
Fluctuation rate	12 %	9 %
Gender Diversity (VP-Level)	42 %	37 %

The non-financial performance indicators, which describe the volume of business at J.P. Morgan AG, show healthy growth in 2018 as well, for the euro payment processing, and a continued very low level of errors which is the result of a very high level of automation.

In the area of the custodian bank, we were able to maintain the extremely good result of our internal scoring model from the previous year with respect to client satisfaction thanks to the high level of reliability and quality of our customer service and operations function in the handling of client inquiries and instructions. We were able to maintain the high value of assets that our customers entrusted to us as custodian thanks to our Customer Focus and Operational Excellence, although we were not able to increase it.

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

The operational losses in 2018 stayed within a range that was 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".

The fluctuation rate was indeed significantly higher in 2018 compared to the previous year, but within our target ranges and expectations, as we are clearly facing intensified competition in recruiting talent in the financial sector in Frankfurt, given the Brexit plans of many our competitors to increase their presence in Frankfurt. We see this result as an affirmation of our efforts to continuously improve the working environment and our employees' development opportunities. One of our priorities will continue to be the decisive implementation of a "great team & winning culture". In addition to the Group-wide "Leadership Edge" training programme, the implementation of a revised employee evaluation system, which should significantly improve the feedback culture within the Group, there is a further focus on the subject of "diversity". Our intention here is to make a further effective step within our organization through the active support of the various business resource groups of the Group, in providing a platform to meet the individual needs of our employees and to enable improvements in balancing the private and professional environments.

For 2019, we expect – as in previous years – a moderate increase in the number of payment instructions in the high-value area and SEPA payments, and moderate growth in assets under custody. The straight-through processing rate for payment transactions should remain at the extremely high level of the previous year in 2019, while our goal is to improve the level of automation in custodian handling of client orders in 2019. In addition, it is important to continue to sustainably strengthen the quality and efficiency of our customer service. With respect to the fluctuation rate, we expect to be able to maintain the level of the previous year, because we are convinced that we will remain attractive to talented people as a result of the group's strong competitive position, outstanding career and development opportunities, inclusive work environment, and job flexibility.

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

Relationships with Related Companies and Persons

We identified our parent company, J.P. Morgan International Finance Ltd., and also J.P. Morgan Securities plc and JPMorgan Chase Bank, N.A., as 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 and OTC derivatives
- Transactions in the Global Clearing and Cash Equity sector
- Reverse Repos
- Nostro accounts
- Provision of subordinated capital
- Purchasing and supplying corporate services

All transactions have been closed on normal market terms.

The Management Board hereby declares that JPM AG has received an appropriate consideration for each legal transaction in accordance with the circumstances that were known to it at the time when that individual legal transaction was entered into or the step undertaken or refrained from, and was not placed at a disadvantage due to the measure being taken or refrained from.

Outlook

SIGNIFICANT OPPORTUNITIES AND RISKS FOR THE UPCOMING FINANCIAL YEARS

With regard to economic development in Germany, for 2019 and 2020 we are assuming weaker growth in the gross domestic product compared to 2018. In particular, the trade disputes originating in the USA with China, and the upcoming exit of the UK from the European Union (Brexit) lead to a cooling off in sentiment. However, thanks to further falls in unemployment figures, private consumption has become an important support for growth in gross domestic product.

In terms of inflation rates, we are assuming that these will remain significantly below 2 % and will remain below the level of the previous year of 1.8 %. In December 2018, Mario Draghi confirmed once again as President of the European Central Bank that the recent low interest rate policy will continue through the summer of 2019 and for as long as necessary. We assume that a change could occur in the ECB's interest policy at the end of 2019, which would lead to a phased increase in the leading interest rate in 2020.

For the banking sector in Europe, the political uncertainties from the UK leaving the European Union and the investment costs for preparations for Brexit and the related extensive organizational changes are some of the major challenges for 2019. This will not only lead to additional investment costs in the short term, but will also create an ongoing higher cost basis in the medium term, without delivering any tangible "value added" such as an adjustment or further development of the services offered by the banks to their customers. As a result, the ongoing price competition will be further accelerated given the increased willingness of customers to change providers. It will continue to be important to step up the dialogue with our customers, and to do more to meet changed customer needs. Investment in technology, adjustments to business processes, and the retention of experts and talented employees all play an important part in this, if we wish to retain or even improve our competitive position.

J.P. Morgan AG remains well positioned as a Group-internal service provider in Euro payment handling. In 2018, we started with the expansion and therefore the completion of our range of services for payment-related services, and will have completed this in the first half of 2019. In addition to the Euro, J.P. Morgan AG now also offers accounts in 37 foreign currencies with a large number of new services in low-value payment handling, and plans in 2019 to become the first subsidiary of an American bank in Germany to offer SEPA Instant from within Germany. Thanks to our vast investments, we believe that we have created a good basis for successful new customer acquisition, the expansion of existing customer relationships at J.P. Morgan AG, and the migration of existing customer relationships from J.P. Morgan Chase Bank, N.A., London Branch, to J.P. Morgan AG in 2019 and the following years.

The trend of the large institutional investors toward adapting their investments to the changed picture of an increasingly globalised economy and the resulting demand for Global Custodian services will continue in 2019 as well. This will raise the price pressure considerably and increase the need to reduce our operating costs, on the one hand by implementing possible economies of scale from the Group-wide infrastructure, and on the other hand by optimising the value creation chain. On the other hand, our task will be to work on intelligent solutions together with our customers, on how we can better match our customer needs. In addition, plans to expand our target segments over the next two years remain on the table.

With reference to the United Kingdom's exit from the European Union ("Brexit"), and the associated need for banks to restructure in order to be able to continue to offer financial products and services in the internal market, J.P. Morgan AG sees itself as well positioned to take on a greater role in the implementation of the Group's Brexit strategy.

In future, J.P. Morgan AG will take over business relationships with customers in the European Union for the "Banking" and "Markets" areas in the future – in the event of a "Hard Brexit". J.P. Morgan AG also started back in October 2018 to apply to take over existing memberships of stock exchanges and CCPs within the European Union, and to implement this in full in the first half of 2019. This means that J.P. Morgan AG will not only be dealing with the transactions of its own customers, but also the customer transactions for the other JPM Group companies. Furthermore, by the end of March 2019, J.P. Morgan AG has already opened nine branches in the EEA as well as a branch in London where employees from trading and sales will be located. This means that the number of employees at J.P. Morgan AG can increase from average 305, to over 1,000 employees in 2019.

The first practical measures that J.P. Morgan AG had already initiated in 2018, such as the expansion and therefore strengthening of the Management Board, the first capital increase of around € 1.7 billion, and the implementation of capital models, will continue to be rolled out in 2019. In line with this, a further capital increase of € 1.8 billion was made in February 2019 and the dialogue with the banking supervisory authority was intensified with the goal of an optimized calculation of capital utilization.

We continue to see risks for our business in the disproportional regulation of the financial markets, the political uncertainties of the ongoing Brexit negotiations, but above all the fundamental "execution risk" within the entire European banking sector, which could endanger the stability of the financial markets. In addition, we also see, above all, a further burden through an intensification of the monitoring duties and reporting obligations – triggered by new regulations – that have to be offset by cost-cutting in the operative areas in order to not negatively impair J.P. Morgan AG's earning situation on a lasting basis.

We see further risks in the political destabilization of individual countries or regions that could lead to a significant worsening of the market situation which would negatively affect the creditworthiness of our customers and so lead to sustainable loss of earnings.

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.

Based on the Brexit planning and the goal of J.P. Morgan AG taking over in future the business relationships with customers in the European Union – in the event of a Hard Brexit – for the areas of "Banking" and "Markets", it will be both net interest and commission income that will change significantly, as well as net trading income for 2019. For the existing segments of Securities Services and Treasury Services, we are assuming stable growth and expect a moderate increase in Treasury Services. We expect that based on the underlying planning, the cost items in the areas of "Banking" and "Markets" will also increase, and remain stable in existing areas.

ASSUMPTIONS

These expectations are based on the assumptions of a stable political environment in Germany and Europe with effective crisis management and a slightly improving economic performance of the Eurozone over the next two years. For Germany – based on the Economic Research Reports published by the J.P. Morgan Group – we expect average annual economic growth of 1.5 %.

With respect to the global economy, we assume that the US economy will grow more strongly in 2019 than in the previous year thanks to the positive effects of the tax reform; however, this development will weaken again slightly in the coming year. The emerging countries paint an uneven picture, including as a result of the persistent geopolitical uncertainties and the declining domestic demand in several important counties. Overall, China and India remain important engines for growth, with annual growth between 6.2 % and 7.4 %.

In addition, we are assuming that the ECB will continue to adhere in 2019 to their negative interest policy, and only end the negative interest policy towards the end of 2019 through initial gradual interest rate increases. In addition, we have made the assumption that the average trend of the euro in relation to the US dollar, with fluctuations, will remain at the level as of the beginning of 2019.

DEVELOPMENT OF SEGMENTS

In our planning calculations for the next few years, we have assumed stable growth in total revenues for the areas of Securities Services and Treasury Services. The "Banking" and "Markets" areas will, we assume, have a significant impact on the trend in total revenues and will contribute the lion's share of the increase of a total of approx. € 1,194 million.

The return on equity will therefore increase to more than 3 % in 2019, profit margin will rise to over 40 % and the cost-income ratio is expected to be 59 %. We expect significant changes compared to the prior year in the core capital and overall capital ratios. We expect the core capital ratio for 2019 to reach 24 % and the total capital ratio 25 %.

FINANCIAL SOLVENCY

With a liquidity coverage ratio of 155.4 % as of December 31, 2018 we are well above the mandatory minimum ratio of 100 % that applies since January 1, 2018.

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. It defines the leading principles for risk management in J.P. Morgan AG and is defined by the Management Board of J.P. Morgan AG and is approved annually by the Supervisory Board. In line with its Business Strategy J.P. Morgan AG has developed a Risk Appetite Framework that sets out and operationalizes its Risk Strategy.

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 main 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 operating procedures. The completeness and suitability of the risk strategy is reviewed annually. Basis for the review is the annual risk inventory (also completed on an ad-hoc basis if required). This ensures that the risk strategy takes into consideration all material risks faced by J.P. Morgan AG.

Risk Appetite is expressed in terms of both quantitative parameters and qualitative factors, and where applicable, a corresponding risk appetite is set for these parameters.

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 capacity, liquidity or capital situation.

As per the risk inventory, in 2018 the following risk categories are considered material for J.P. Morgan AG:

- Strategic risk including Business risk, Capital risk, Group risk, Liquidity risk and Reputational risk,
- Credit risk,

– Market risk, including Interest rate risks of the Banking Book,
– Operational risks,
– and Pension risk

As a result of the analysis, the risk appetite for the individual risk types is also determined. Risk appetite is always defined to be below risk capacity which is the maximum level of risk J.P. Morgan AG could bear without breaching constraints imposed by regulatory capital or liquidity requirements, other regulatory restrictions, or obligations owed to third parties which impact capital.

Not all material risks have risk appetite parameters set on a quantitative level. These include:

– Business Risk: J.P. Morgan AG aims to minimize business risks through an oversight and control processes.
– Group Risk: J.P. Morgan AG manages group risk as part of its credit, market, liquidity and operational risk frameworks.
– Reputation Risk: J.P. Morgan AG is part of the firmwide reputation risk management.
– Operational Risk: J.P. Morgan AG aims to minimize operational risks through established oversight and control processes and the implementation of key controls. J.P. Morgan AG applies the Operational Risk Management Framework ("ORMF") of the firm which comprises governance oversight, risk assessment, capital measurement, and reporting and monitoring.
– Pension Risks: J.P. Morgan AG aims to minimize its exposure to Pension Risks. This is reflected in the dedicated pension risk governance set up for the Frankfurt location.

Where applicable, risk appetite quantitative parameters are expressed as losses under stress for individual risk stripes that can be used by those risk functions to propose more granular limits and policies that are calibrated to these risk appetite levels. Quantitative parameter are set for Market, Credit, Liquidity and Capital Risk and follow the following principles.

Market Risk: J.P. Morgan AG maintains an active Trading Book to facilitate the Markets business and support Treasury. Where possible positions are mostly traded back to back to other J.P. Morgan entities to remain flat market risk for the trading book.

Credit Risk: In line with the bank's above overall strategy, J.P. Morgan AG provides credit, where necessary, as part of building an overall successful and profitable relationship. J.P. Morgan AG extends credit where required to support the Treasury Services ("TS"), Securities Services, Trade or Markets business mainly through the provision of cash management lines ("Intraday Overdraft Lines" ["IDL"], "Line-Overdrafts" ("ODL")), derivative lines or trade lines/guarantees and loans. Being focused on TS and Securities Services historically the booking of loans/committed lines to J.P. Morgan AG have (re-) added in the end of 2018.

Liquidity Risk: The firm manages liquidity and funding using a centralized global approach in order to optimize liquidity sources and uses. Liquidity management is intended to ensure that J.P. Morgan AG has the appropriate amount, composition and tenor of funding and liquidity in support of its assets. The EU Treasurer is responsible for the liquidity management of J.P. Morgan AG.

Capital Risk: J.P. Morgan AG has the objective of holding sufficient capital (i.e. capital and eligible intercompany debt).

The following principles apply for overall risk management and monitoring:

- Clearly defined organzational structures and documented processes are in place for all risks and respective business, from which the responsibilities and competencies of all functions involved are derived.
- There is a clear segregation of duties between first ("Markt") and second line ("Marktfolge") of defence 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 Groupwide infrastructure.
- Appropriate limits for all significant risk categories have been adequately defined and are effectively controlled.

RISK ORGANIZATION

The Management Board member Chief Risk Officer ("CRO") 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 realize a profit due to internal or external factors, and manages these in the context of risk management.

Drivers of risk include, but are not limited to, the economic environment, regulatory or government policy, competitor or market evolution, business decisions, process or judgment error, deliberate wrongdoing, dysfunctional markets, and natural disasters. There may be many consequences of risks manifesting, including quantitative impacts such as reduction in earnings and capital, liquidity outflows, and fines or penalties, or qualitative impacts, such as reputation damage, loss of clients, and regulatory and enforcement actions.

The Independent Risk Management ("IRM") function, comprised of the Risk Management and Compliance functions in J.P. Morgan AG, is independent of the businesses. The IRM function sets and oversees 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, and conducts independent challenge of adherence to such standards:

- J.P. Morgan AG places key reliance on each of its Lines Of Business ("LOBs") and other functional areas giving rise to risk. Each LOB is expected to operate within the parameters identified by the IRM function, and within their own management-identified risk and control standards. The LOBs are the "first line of defense" within the J.P. Morgan AG's risk governance framework in identifying and managing the risk in their activities, including but not limited to applicable laws, rules and regulations.
- The Location Control Manager that is part of the Firmwide Oversight and Control Group ("O&C") has a central oversight function. O&C 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. O&C 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.
- The IRM function is independent of the businesses and forms "the second line of defense" as independent control function.
- The Internal Audit function operates independently from other parts of the Firm and performs independent testing and evaluation of firmwide processes and controls across the entire enterprise as the Firm's "third line of defense" in managing risk.

The independent status of the IRM function is supported by a governance structure that provides for escalation of risk issues to senior management, the J.P. Morgan AG Risk Oversight Committee, or the J.P. Morgan AG Management Board.

Based on a delegation by the J.P. Morgan AG Management Board the J.P. Morgan AG Risk Oversight Committee reviews J.P. Morgan AG's overall risk situation on a monthly basis in the light of current market conditions and identifies and mitigates future risk concerns. The J.P. Morgan AG ROC provides oversight of any risk issues in relation to risk-bearing capacity and the J.P. Morgan AG ICAAP process, where appropriate or required.

If necessary the J.P. Morgan AG Risk Oversight Committee escalates issues to the EMEA Risk Committee ("ERC") and/or the J.P. Morgan AG Management Board and/or the Risk Committee of the J.P. Morgan AG Supervisory Board and/or the J.P. Morgan AG Supervisory Board. The J.P. Morgan AG Oversight Risk Committee feeds into the ERC in order to ensure that the J.P. Morgan AG governance structure is closely aligned to the firm-wide governance.

RISK MEASUREMENT AND REPORTING

Risk measurement and reporting take place in J.P. Morgan AG according to risk category on a daily (credit, market and liquidity risk), monthly (business risks) or quarterly cycle (operational and 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, concentration 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 meetings, 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. The scope of the quarterly risk report extends considerably beyond the monthly reporting and presents the risk situation in more detail.

For its meetings, 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.

RISK-BEARING CAPABILITY AND STRESS TESTING

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 %.

Throughout the fiscal year 2019 the Going-Concern historically chosen as basis for its primary risk-bearing capacity model approach will be retired since the approaches to ICAAP will change to normative and economic perspective in line with updated regulatory requirements from the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European

			Regulatory			Economic Going-Concern
€M	12/31/2018	12/31/2017	12/31/2016	12/31/2018	12/31/2017	12/31/2016
Type of risk						
Credit risk	82.0	85.2	46.3	22.3	16.5	28.8
Operational risk	20.0	19.2	18.0	23.6	17.3	16.6
Market risk	6.7	7.5	7.7	0.0	0.0	2.9
CVA	2.3	20.4	–	–	–	–
IRRBB	**–**	**–**	**–**	**1.0**	**0.6**	**1.0**
Capital requirement	**182.2**	**169.5**	**90.3**	**46.9**	**34.4**	**49.2**
Risk coverage pool	2,539	835	840	136.7	122.8	125.3

Central Bank (ECB). Looking towards the implementation of the normative perspective this aligns closely to the Pillar 1 regulatory requirements and the current Gone-Concern approach is a good approximation for the economic perspective.

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 risk (including intraday liquidity risk) is fully captured as part of the liquidity stress testing.

The risk bearing capital essentially consists of J.P. Morgan AG's retained earnings, the § 340g HGB reserve for general banking risks, as well as projected operating result before tax of the next twelve months. The quantification of the business risk, which is primarily meant to delineate planning uncertainty, is deducted from this capital as well as potential excesses of pension risk capital requirements over the defined benefit pension fund assets.

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.

The changes in going concern capital requirements are driven by the introduction of a scenario based approach for operational capital requirements. The Credit Risk Capital requirements increased in the end of 2018 due to the phase-in of Global Clearing activities and the associated establishment of limits.

With regard to regulatory capital requirements, the decrease in Credit Value Adjustment ("CVA") year-on-year is driven by a review and update of CVA exemptions based on the European Market Infrastructure Regulation ("EMIR") clearing thresholds for non-financial corporates (NFC+/NFC–) in Q4'18. Following this review, a good number of counterparties driving the CVA charge were certified as being NFC– (i.e. falling below the EMIR clearing threshold) and thus exempted from CVA. In addition overall increase is driven by increased capital buffers 2017 vs. 2018 (€ 37.2 mn to € 71.3 mn) which is mainly driven by the increase in Supervisory Review and Evaluation ("SREP") add-on from 1 % to 3.25 %. Furthermore, the capital conservation buffer was further phased-in and increased by 0.625 % to 1.875 %.

For the verification of the risk bearing capacity, a set of combined stress scenarios has been defined for as part of integrated macroeconomic stress scenarios encompassing different risk categories. They are calculated and analyzed 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 2018, we further developed the risk-bearing capacity concept of J.P. Morgan AG. This primarily concerns the introduction of a new interest-rate risk from the banking book framework and capitalization model as well as the further development of the quantification of operational risk.

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 J.P. Morgan Legal Entity Risk ("LE Risk") on a monthly basis.

As per December 31, 2018 utilization of the Going-Concern approach stood at 34.3 %.

RISK CATEGORIES

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 minimized. Business Risk is estimated by utilizing an adverse P&L estimation.

Liquidity Risk

Liquidity risk is the risk that J.P. Morgan AG will be unable to meet its contractual and contingent financial obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities. The Firm's contractual and contingent obligations can be split into end-of-day ("EOD") obligations and obligations required to be met prior to EOD (referred to as "intraday obligations").

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.

The risk mitigating instruments here include J.P. Morgan AG specific liquidity risk limits and indicators along with specific breach escalation protocol.

J.P. Morgan AG's primary source of liquidity is driven by customer deposits. The liquidity is mainly invested in JPMCB London Branch in the form of reverse repos or held at Central bank for liquidity management purposes. Majority of the reverse repos have an overnight maturity.

J.P. Morgan AG's liquidity and funding management is integrated into firmwide 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, to manage an optimal funding mix, and availability of liquidity sources.

In the context of liquidity management for J.P. Morgan AG, the EU Treasurer is responsible for:

- Analysing and understanding the liquidity characteristics, lines of business and legal entities' assets and liabilities, taking into account legal, regulatory, and operational restrictions;
- Defining and monitoring firmwide and legal entity-specific liquidity strategies, policies, guidelines, reporting and contingency funding plans;
- Managing liquidity within approved liquidity risk appetite tolerances and limits; and
- Setting transfer pricing in accordance with underlying liquidity characteristics of balance sheet assets and liabilities as well as certain off-balance sheet items.

EBA LCR

From October 1, 2015, J.P. Morgan AG was expected to comply with the liquidity coverage ratio ("LCR") guidance set out in the Delegated Act (Commission delegated regulation [EU] 2015/61). The LCR is intended to measure the amount of "high quality liquid assets ("HQLA") held by the bank in relation to estimated net liquidity outflows within a 30 calendar day stress period. The LCR is required to be 80 %. In 2018, the J.P Morgan AG was compliant with the LCR requirements.

NSFR

The Basel Committee final standard for net stable funding ratio ("Basel NSFR") is intended to measure the "available" and "required" amounts of stable funding over a one-year horizon. On November 23, 2016, the European Commission introduced its legislative proposal for the NSFR ("EU NSFR+"). The proposal is subject to approval from the European Parliament and Council of the EU.

JPMAG complied in 2018 to all NSFR requirements given its current interpretation of the standard..

Key ratios monitored for liquidity risk are:

	12/31/2018	12/31/2017	12/31/2016
Liquidity Coverage Ratio	155 %	155 %	121 %
Net Stable Funding Ratio [1]	437 %	346 %	400 %

[1] As soon as the rules have been defined, the NSFR will be part of the liquidity and risk framework approved by the J.P. Morgan AG board of directors.

Liquidity Risk Oversight ("LRO")

J.P. Morgan AG has an independent liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk, including intraday liquidity risk. Liquidity Risk Oversight's responsibilities include, but are not limited to:

- Establishing and monitoring limits and indicators, including liquidity risk appetite tolerances;
- Monitoring and reporting internal liquidity stress tests as well as regulatory defined liquidity stress tests;
- Monitoring liquidity positions, balance sheet variances and funding activities;
- Conducting ad hoc analysis to identify potential emerging liquidity risks; and
- Performing independent review of liquidity risk management processes.

Risk Governance and Measurement

The specific committees responsible for liquidity risk governance for these entities include the EU Asset and Liability

Committee ("EU ALCO") and J.P. Morgan AG Risk Oversight Committee ("ROC").

The EU ALCO is responsible for overseeing J.P. Morgan AG's asset and liability management activities and the management of liquidity risk, balance sheet and interest rate risk, the oversight of liquidity risk and interest rate risk of EU entities, including J.P. Morgan AG; with a specific focus on balance sheet and funding management considerations. The EU ALCO includes representatives of both first and second lines of defence and is chaired by the EU Treasurer.

Intraday Liquidity Risk Governance

Intraday Liquidity Risk is managed centrally using the Intraday Dashboard (IDL Dashboard).

The IDL Dashboard provides real time transparency into activity at key central banks, key financial market utilities and key correspondent banks. The IDL Dashboard provides real time views into credit extended at a Firmwide level and also at a detailed level for J.P. Morgan AG. The dashboard also provides various analytical capabilities on the historical data to help understand trends, averages, extremes and standard deviation activity.

The IDL Dashboard also provides automated alerting should balances exceed an agreed target balance or should the daily net movement exceed an agreed tolerance. The target balances and movement tolerances are defined by LRO as part of the Firmwide Limits and indicators policy.

Intraday liquidity alerts initiate a defined response involving collaboration from various teams representing at mainly EMEA hub cash management, EMEA Treasury front office, LRO, impacted lines of business, Intraday Liquidity team and correspondent J.P. Morgan AG functions. The response process is designed to quickly understand the drivers of the liquidity alert and guide management into what action should be taken (if any) to restore liquidity. There are some pre-approved actions to take in the event of limit breaches. The process has level indicators defined on different levels.

Internal Stress Testing

Liquidity stress tests are intended to ensure that the Company has sufficient liquidity under a variety of adverse scenarios, including scenarios analysed as part of the Firm's resolution and recovery planning. Stress scenarios are produced for the Company on a regular basis and ad hoc stress tests are performed, as needed, in response to specific market events or concerns.

Liquidity stress tests assume all of the Company's contractual financial obligations are met and take into consideration:

- Varying levels of access to unsecured and secured funding markets;
- Estimated non-contractual and contingent cash outflows;
- Potential impediments to the availability and transferability of liquidity between jurisdictions and material legal entities such as regulatory, legal or other restrictions; and
- Intraday Liquidity Stress Assumptions contemplate key risks to intraday sources and uses of funds.

Liquidity outflow assumptions are modelled across a range of time horizons and currency dimensions and contemplate both market and idiosyncratic stress.

Results of stress tests are considered in the formulation of the Company's funding plan and assessment of its liquidity position.

In all scenarios performed in 2018, J.P. Morgan AG had sufficient liquidity to meet regulatory requirements and support its assets and liabilities.

Reputation Risk

Reputation Risk is the potential that an action, inaction, transaction, investment or event will reduce trust in the firm's integrity or competence by its various constituents, including clients, customers, investors, regulators, employees or 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.

Credit Risk

Credit risk is the risk associated with the default or change in credit profile of a client, counterparty or customer. J.P. Morgan AG provides credit through its operating services activities (such as custodian banking function and clearing activities), markets activity from the SPV derivatives business and cash placed with banks particularly in the context of Treasury activities.

Whilst J.P. Morgan has established a comprehensive Firmwide risk policy framework, this is supplemented as required by legal entity-specific risk policies. As such, J.P. Morgan AG's credit risk governance supplements the Firmwide risk policy framework and is approved by the J.P. Morgan AG Risk Oversight Committee ("ROC") and J.P. Morgan AG Management Board. The J.P. Morgan Credit Risk Framework defines, that credit decisions are made on the basis of the clearly defined separate responsibilities for "Front Office" ("Markt") and "Back Office" ("Marktfolge") as well as the process of assigning and managing credit authorities in connection with the approval of all credit exposure.

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 Exposure at Default (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 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, income from securities, drawing behaviour, portfolio concentrations or correlations could significantly worsen over the course of time. There is thus a regular validation of the stress tests and their results.

Risk Monitoring and Management
J.P. Morgan AG's credit risk governance establishes credit approval authorities, concentration limits, and guidelines for management of distressed exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the line of businesses.

Credit risk is monitored regularly at an aggregate portfolio, industry, and individual client and counterparty level with established concentration limits that are reviewed and revised as deemed appropriate by management, typically on an annual basis. Industry and counterparty limits, as measured in terms of exposure and economic risk appetite, are subject to stress-based loss constraints.

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 utilization at account level and / or at the level of single borrower units. The system does not allow unauthorized intraday 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
- Master netting agreements
- Collateral and other risk-reduction techniques

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.

J.P. Morgan AG has started to run an active trading book in 2017, however, due to the still limited nature of the business in 2018 issuer risk, replacement risk, and settlement risk are not considered as material.

Risk Reporting
Detailed portfolio reporting of industry; clients, counterparties and customers; product and geographic concentrations

occurs monthly. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with J.P. Morgan AG CRO, ROC, and the Management Board as appropriate.

A corresponding report of daily exposures and all new accounts and lines and/or all changes of existing lines is being presented daily to J.P. Morgan AG Credit Officers. 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 summarized in monthly reports to the Management Board.

J.P. Morgan AG's credit risk profile changed significantly in 2017 through the inclusion of the SPV derivatives business in 2017. Further changes in 2018 include the implementation of CCP limits to support the Global Clearing activities from Q4 2018 onwards. Key values of the loan portfolio include:

€	12/31/2018	12/31/2017	12/31/2016
Lines of payment transaction (Intra-Day)	20.9 bn	20.6 bn	24.1 bn
Lines of payment transaction (Overnight)	1.3 bn	1.3 bn	4.2 bn
Lines for Derivative Transactions	1.3 bn	0.5 bn	–
Lines for CCPs	0.2 bn	–	–
RWA for credit risk	1,024.7 mn	1,065.3 mn	578.8 mn
RWA for CVAs	28.8 mn	254.6 mn	–
RTF Going-Concern	22.3 mn	16.5 mn	28.8 mn
RTF Gone-Concern	130.4 mn	149.3 mn	269.3 mn

Market Risk

The following sections detail the market risk management framework at both the Firmwide and J.P. Morgan AG level:

Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.

Market Risk Management

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, and seeks to manage risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the firm's market risk profile. J.P. Morgan AG's CRO appoints an Market Risk Officer ("MRO") who is responsible for establishing an effective market risk organization that measures, monitors and controls market risk.

Risk Governance & Policy Framework

J.P. Morgan AG's approach to market risk governance mirrors the Firmwide approach and is outlined in J.P. Morgan AG's Market Risk Framework. J.P. Morgan AG's Market Risk Framework outlines the following:

- Responsibilities of the J.P. Morgan AG CRO and MRO
- Market Risk measures utilized such as VaR, Stress and non-statistical measures
- Controls such as J.P. Morgan AG's market risk limit framework (limit levels, limit signatories, limit reviews and escalation)

The J.P. Morgan AG Market Risk Framework is subject to approval by the J.P. Morgan AG Management Board, at a minimum, annually, after recommendation from the J.P. Morgan AG ROC. The J.P. Morgan AG Management Board delegates approval of non-substantive changes to the J.P. Morgan AG Market Risk Framework to the J.P. Morgan AG ROC.

Risk Measurement

There is no single measure to capture market risk and therefore the Firm and J.P. Morgan AG use various metrics both statistical and non-statistical to assess risk. As the appropriate set of risk measures utilized for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases.

VaR

The Firm utilizes Value-at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment. The Firm has a single VaR framework used as a basis for calculating Risk Management VaR and Regulatory VaR.

The framework is employed across the Firm using historical simulation based on data for the previous twelve months. Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. J.P. Morgan AG utilizes Risk Management VaR, these results are reported to senior management.

J.P. Morgan AG applies the firmwide approach for Risk Management VaR as described above. For the risk-bearing capacity concept this is scaled to a ten day holding period using the square root of time (10). J.P. Morgan AG does not calculate Regulatory VaR for capital purposes since it uses the standardized approach to calculate capital.

The table below shows the result of J.P. Morgan AG's Risk Management VaR:

T$	12/31/2018
95% VaR	2

Stress Testing

Along with VaR, Stress Testing is an important tool in measuring and controlling risk. The Firmwide Stress Infrastructure ("FSI") is intended to capture the Firm's (including J.P. Morgan AG's) exposure to unlikely but plausible events in abnormal markets. The Firm and J.P. Morgan AG run weekly Stress Tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

The Firm and J.P. Morgan AG use a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential Stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. The flexibility of the Stress Testing framework allows risk managers to construct new, specific scenarios that can be used to form decisions about future possible stress events.

Stress Testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realized, and to stress test the relationships between market prices under extreme scenarios. Stress Test results, trends and qualitative explanations based on current market risk positions are reported to the respective LOB, Firm and J.P. Morgan AG senior management to allow them to better understand the sensitivity of positions to certain defined events and to enable them to manage their risks with more transparency.

Stress scenarios are defined and reviewed by Market Risk, and significant changes are reviewed by the relevant LOB Risk Committees and may be redefined on a periodic basis to reflect current market conditions.

The table below shows J.P. Morgan AG's Stress Testing results (Worst Case Stress Loss) at reporting date:

T$	12/31/2018
Worst Case Stress Loss	–21

Other Non-Statistical

Aside from VaR and stress testing, other specific risk measures are also utilized within specific market context and aggregated across businesses as required.

J.P. Morgan AG has risk monitoring capability across all the main benchmark market risk sensitivities (Equities, Credit, Rates, FX, Commodities).

Risk Monitoring and Control

Limits

Market risk limits are employed as the primary control to align the Firm's market risk with certain quantitative parameters within the firm's Risk Appetite framework.

Senior management, including the Firm's Chief Executive Officer ("CEO"), CRO and Market Risk Management are responsible for reviewing and approving limits on an ongoing basis. Limits that have not been reviewed within a specified time period by Market Risk Management are escalated to senior management.

Limit breaches are required to be reported in a timely manner to limit signatories. Market Risk Management and senior management as appropriate determine the course of action required to return to compliance, such as a reduction in risk or the granting a temporary increase in limits. Aged and significant limit breaches are escalated to the J.P. Morgan AG ROC and to the ERC.

Additional controls beyond market risk limits – including but not limited to Authorized Instruments, Pre-Trade Governance and E-Trading Control – are also employed as a means to control market risk.

J.P. Morgan AG limits include VaR and Stress limits defined both at the legal entity level and at the Business Area/ Sub-Business Area level. Market Risk reviews all J.P. Morgan AG market risk limits at least semi-annually. Limit reviews appropriately consider the underlying trading, investing and hedging strategies of the business.

Market Risk limits are set in accordance with J.P. Morgan AG's Risk Appetite Framework. J.P. Morgan AG's Risk Framework leverages the Firm's Risk Appetite framework; differences in quantitative parameters, qualitative factors and/or governance structure are defined in the J.P. Morgan AG Risk Strategy. The J.P. Morgan AG Management Board is responsible for defining the J.P. Morgan AG Risk Appetite Framework.

Risk Reporting

J.P. Morgan AG has its own set of regular market risk reports and where applicable, comprises of granular market risk metrics which provide transparency into potential risk concentrations. Limit utilizations and notifications of market risk limit breaches are documented and sent to appropriate limit signatories daily.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book ("IRRBB") is defined as interest rate risk 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 Treasury and Chief Investment Office ("T/CIO") investment portfolio and other related T/CIO activities. Interest Rate Risk ("IRR") from non-trading activities can occur due to a variety of factors, including but not limited to:

– difference in the timing of 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;
– impact of changes in the duration of various assets, liabilities or off-balance sheet instruments as interest rates change

Risk Oversight and Governance

Governance for Firmwide IRR is defined in the IRR Management policy which is approved by Directors' Risk Policy Committee (DRPC). The CIO, Treasury and Other Corporate Risk Committee (CTC RC) is the governing committee with respect to IRRBB. It

– reviews the IRR Management policy;
– reviews the IRR profile of the Firm and compliance with IRR limits;
– provides Governance on legal entity related exposures; and
– reviews significant models and/or assumptions including the changes related to IRR management.

IRR exposures, significant models and/or assumptions including the changes are reviewed by ALCO. The ALCO provides a framework for overseeing the IRR of LOBs, foreign jurisdictions and key legal entities to appropriate local governance bodies. In the case of J.P. Morgan AG this is monitored through the EU ALCO.

In addition, oversight of IRRBB is managed through IRR Management, a dedicated risk function reporting to the CTC CRO IRR Management, is responsible for, but not limited to:

– measuring and monitoring IRR and establishing limits
– creating and maintaining governance over IRR assumptions

At J.P. Morgan AG level, oversight of IRRBB risk, risk governance and risk control framework is exercised through the J.P. Morgan AG ROC.

T/CIO manages IRRBB exposure on behalf of the Firm by identifying, measuring, modelling and monitoring IRR across the

Firm's balance sheet. T/CIO identifies and understands material balance sheet impacts of new initiatives and products and executes market transactions to manage IRR through T/CIO investment portfolio's positions. Execution by T/CIO will be based on parameters established by senior management, per the T/CIO Investment Policy. Lines of businesses are responsible for developing and monitoring the appropriateness of LOB specific IRR modelling assumptions.

More specifically at J.P. Morgan AG, EU Treasury (part of T/CIO) manages the IRRBB exposure of the EU entities including J.P. Morgan AG. EU Treasury responsibilities include:

- Monitoring of IRRBB exposure and execution of transactions to manage IRRBB
- Ensuring compliance with relevant regulations applicable to J.P. Morgan AG
- Review and sign-off of monthly IRRBB reports, as well as all IRRBB regulatory submissions

Risk Measurement

Measures to manage IRR include:

- Earnings-at-Risk ("EaR"): Primary metric used to gauge the firm's shorter term IRR exposure which measures the sensitivity of pre-tax income to changes in interest rates over a rolling twelve months compared to a base scenario.
- Economic Value Sensitivity ("EVS"): EVS is an additional Firmwide metric utilized to determine changes in asset/liability values due to changes in interest rates.

The impact of 200bps parallel rates increase and decrease on the EVS and EaR of J.P. Morgan AG has been calculated at December 31, 2018; the results are in the tables below.

€ MN		
Scenario	EVS	EAR
+200bps	165	95
–200bps[1]	–50	60

[1] –200bps EVS includes EBA zero rates floor.

Operational Risk

Operational risk is the risk associated with inadequate or failed internal processes, people and systems, or from external events and includes compliance risk, conduct risk, legal risk, and estimations and model risk. Operational risk is inherent in the Firm's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, cybersecurity attacks, inappropriate employee behaviour, failure to comply with applicable laws, and regulations or failure of vendors to perform in accordance with their agreements. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Firm. The goal is to keep operational risk at appropriate levels in light of the Firm's financial position, the characteristics of its businesses, and the markets and regulatory environments in which it operates.

To monitor and control operational risk, J.P. Morgan AG utilizes the Firm's Operational Risk Management Framework ("ORMF") which is designed to maintain a sound and well-controlled operational environment. The ORMF has four main components: Governance, Operational Risk Identification and Assessment, Operational Risk Measurement, and Operational Risk Monitoring and Reporting.

Risk Governance

The lines of business and corporate functions are responsible for owning and managing their operational risks. The Firmwide Oversight and Control Group consists of control officers within each line of business and corporate function, which also cover the business activities in J.P. Morgan AG. They are 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. For this purpose, J.P. Morgan AG has installed the Frankfurt Location Operational Risk and Control Committee ("LORCC") with monthly reporting into the JPMAG Management Board and defined escalation routes into the regional governance committees in EMEA.

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 Chief Risk Officer of the Firm, is responsible for defining the ORMF and establishing minimum standards for its execution which have also been adopted by J.P. Morgan AG.

J.P. Morgan AG's Operational Risk Manual details the local application of the ORMF.

Operational Risk Identification and Assessment
The Firm utilizes a structured risk and control self-assessment process which is executed by the lines of business and Corporate in accordance with the minimum standards established by ORM, to identify, assess, mitigate and manage its operational risk. As part of this process, lines of business and Corporate identify key operational risks inherent in their activities, address gaps or deficiencies identified, and define actions to reduce residual risk. Action plans are developed for identified control issues and lines of business and Corporate are held accountable for tracking and resolving issues in a timely manner. Operational Risk Officers independently challenge the execution of the self-assessment and evaluate the appropriateness of the residual risk results.

In addition to the self-assessment process, the Firm tracks and monitors events that have led to or could lead to actual operational risk losses, including litigation-related events. Responsible lines of business and Corporate analyse their losses to evaluate the effectiveness of their control environment to assess where controls have failed, and to determine where targeted remediation efforts may be required. ORM provides oversight of these activities and may also perform independent assessments of significant operational risk events and areas of concentrated or emerging risk.

Operational Risk Measurement
J.P. Morgan AG calculates the Operational Risk Capital Requirement for Pillar 1 using the Basic Indicator Approach (BIA) as set out under Basel III. The BIA sets the required level of operational risk capital as 15 % of the bank's annual positive gross income averaged over the previous three years.

J.P. Morgan AG introduced in 2018 a scenario based model to calculate the economic capital requirement.

Operational risk scenarios focus on exceptional but plausible operational risk events which may or may not have previously impacted J.P. Morgan AG. Such operational risk events result from inadequate or failed internal processes or systems, human factors, or due to external events. They include legal risk and regulatory fines and exclude business strategy and reputational risk.

The probability of occurrence for each of these scenarios is considered to be rare. They can be assumed to be less likely than a one in twenty year event. This can then be considered an appropriate assessment of internal capital adequacy requirements for operational risk under a Going-Concern Approach.

Making the assumption that these scenarios are not significantly correlated, then the probability of the two largest scenarios occurring in the same year would represent at least a 1 in 400 year loss. This can then be considered an appropriate assessment of internal capital adequacy requirements for operational risk under a Gone-Concern Approach.

The scenario analysis process is an important tool for assessing the operational risk exposure, thereby providing a forward looking view to the Board and senior management of potential future losses based on the risk profile of J.P. Morgan AG.

Firmwide scenario analysis standards have been leveraged when creating and assessing the J.P. Morgan AG scenarios. The following stages are undertaken in order to build the inventory: Material Risk Identification, Scenario Segmentation, Scenario Quantification, Approval & Oversight and finally Inventory of Scenarios.

In 2018 five relevant scenarios (Large Value Transfer Fraud, Large Value Transfer Error, Data Availability, System Failure, Business Application Error) have been identified and quantified through the exceptional but plausible loss amount.

In addition to the level of actual operational risk losses, operational risk measurement includes operational risk-based capital and operational risk loss projections under both baseline and stressed conditions.

Risk Monitoring and Reporting

ORM has established standards for consistent operational risk monitoring and reporting. Operational risk reports are produced on a firmwide basis as well as by line of business and Corporate. Reporting includes the evaluation of key risk indicators against established thresholds as well as the assessment of different types of operational risk against stated risk appetite. The standards reinforce escalation protocols to senior management and to the Board of Directors. J.P. Morgan AG prepares operational risk reporting monthly and quarterly to the Management Board as described in section Risk Monitoring and Reporting above.

Key values for operational risk are:

€ M	12/31/2018	12/31/2017	12/31/2016
Losses arising from operational risks	0.1	0.1	0.1
Regulatory capital requirement	250	240	226
RTF Going-Concern	23.6	17.3	16.6
RTF Gone-Concern	47.4	32.4	31.2

In addition to the RCSA process references within the Risk Assessment section, an Operational Risk Inventory for J.P. Morgan AG is prepared annually involving the business, location subject matter experts and legal entity stakeholders.

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 JPMC's IT infrastructure. As such J.P. Morgan AG utilizes a number of critical applications to access market infrastructure (e.g. for the Euro-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, 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.

Legal Risk
Legal risk is the risk of loss primarily caused by the actual or alleged failure to meet legal obligations that arise from the rule of law in jurisdictions in which the Firm and the Company operates, agreements with clients and customers, and products and services offered by the Company and the Firm.

Legal is responsible for:

- Managing actual and potential litigation and enforcement matters, including internal reviews and investigations related to such matters;
- Advising on products and services, including contract negotiation and documentation;
- Advising on offering and marketing documents and new business initiatives;
- Managing dispute resolution;
- Interpreting existing laws, rules and regulations, and advising on changes thereto;
- Advising on advocacy in connection with contemplated and proposed laws, rules and regulations; and
- Providing legal advice to the LOBs, inclusive of LOB aligned Operations, Technology and Oversight & Controls (the "first line of defense"), Risk Management and Compliance (the "second line of defense"), and the Internal Audit function (the "third line of defense").

Legal selects, engages and manages outside counsel on all matters in which outside counsel is engaged. In addition, Legal advises the Firm's Conflicts Office which reviews the Firm's wholesale transactions that may have the potential to create conflicts of interest for the Firm.

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.

Risk Governance

J.P. Morgan AG manages Pension Risk with dedicated Pension governance. This includes regular reporting, a dedicated pension committee and a corresponding investment committee.

Risk Measurement

The pension risks are determined on the basis of a VaR model, annually evaluated by J.P. Morgan AG's pension administrator, 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. Two different approaches to quantify pension risks are used: a deterministic and a stochastic approach at different confidence levels with a one year holding period.

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 monthly basis. As per December 31, 2018, utilization stood at 34 %. 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	2018	2017	2016
RWA Overall	**1,387**	**1,654**	**901**
Total capital	2,539	835	840
Tier 1 capital ratio	170 %	39 %	73 %
Total capital ratio	183 %	50 %	93 %
Leverage Ratio	9.9 %	4.2 %	2.9 %
Liquidity Coverage Ratio	155 %	155 %	121 %
Net Stable Funding Ratio	437 %	346 %	400 %
Risk capital requirement Going-Concern	46.9	34.4	49.2
Risk cover potential Going-Concern	136.7	122.8	125.3
Risk capital requirement Gone-Concern	257.8	183.1	327.3
Risk cover potential Gone-Concern	2,503.4	821.7	836.9

In 2018, 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 summarizes said reports as part of the monthly MaRisk report.

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 CFO 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.

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 CRO, an assessment takes place of the potential risks, and their impact on J.P. Morgan AG's risk bearing capacity. If the product involves an expansion of trading activities, the CRO shall also ensure 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 the Risk functions coordinated by the CRO guarantees a review of the planned product launch independent of the trading function. Their findings and recommendations for approval along with pre and post go-live conditions are stored and maintained centrally. Following the functional review the initiative is then submitted for discussion to the Management Board. Only after approval and pre go-live condition completion 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 organizational 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 in the Bank to support accounting processes is made up of the IT applications used throughout the Group. The orderly functioning of the programs and interfaces utilized 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 unauthorized 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 regulations 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 of J.P. Morgan AG, a reconciliation statement is prepared from US-GAAP to the annual financial statements in accordance with the German Commercial Code. Here, local work directives regulate in detail the formal requirements and material information in the annual financial statements.

Regarding the country-specific reporting under § 26a Para. 1 sentence 2 KWG, we refer to the annex: Country-by-Country Reporting 2018, in this annual report. The foreign branches registered in 2018 are listed there. J.P. Morgan AG has no subsidiaries in this respect.

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, its financial, liquidity and earnings situation that corresponds with 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 for the remainder of the current business year are described.

Frankfurt am Main, April 9, 2019

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

DOROTHEE BLESSING | STEFAN BEHR

NICHOLAS CONRON | BURKHARD KÜBEL-SORGER

Financial statements 2018 of J.P. Morgan AG

ANNUAL BALANCE SHEET FOR THE PERIOD ENDED DECEMBER 31, 2018 OF J.P. MORGAN AG, FRANKFURT AM MAIN

ASSETS

€				Notes	2018 €	2017 T€
Cash reserves						
– Cash in hand			100			0
– Credits with central banks			11,766,110,687			7,822,448
incl.: with Deutsche Bundesbank	11,766,110,687					7,822,448
				3.1.	**11,766,110,787**	7,822,448
Receivables from credit institutions						
– due daily			6,864,950,540			7,099,858
– other receivables			16,768,904			28,178
				3.2.	**6,881,719,444**	**7,128,036**
Receivables from clients				**3.3.**	**172,362,776**	**260,071**
Bonds and other fixed-interest securities						
– bonds and debt securities						
from public issuers		50,636,007				50,636
incl.: eligible as collateral with Deutsche Bundesbank	50,636,007					50,636
			50,636,007			50,636
				3.4.	**50,636,007**	**50,636**
Trading portfolio				**3.5.**	**187,296,408**	**385,643**
Trust assets				**3.6.**	**607,595,109**	**–**
incl.: trust loans	–					–
Tangible assets				**3.7.**	**12,725,000**	**12,573**
Other assets				**3.8.**	**802,633,236**	**6,749**
Accrued and deferred expenses				**3.9.**	**2,580,423**	**3,078**
Excess of plan assets over pension liabilities				**3.10.**	**67,074,062**	**76,630**
Total assets					**20,550,733,252**	**15,745,865**

LIABILITIES

€				Notes	2018 €	2017 T€
Liabilities to credit institutions						
– due daily			6,081,664,184			4,743,375
– with agreed maturity or termination notice period			3,623,596,302			2,971,015
				3.11.	**9,705,260,486**	**7,714,390**
Liabilities to clients						
– other liabilities						
due daily			6,869,757,434			6,692,867
with agreed maturity or termination notice period			10,000,000			10,000
				3.12.	**6,879,757,434**	**6,702,867**
Trading portfolio				**3.5.**	**680,848,193**	**383,658**
Trust liabilities				**3.6.**	**607,595,109**	**–**
incl.: trust loans		–				–
Other liabilities				**3.13.**	**39,227,390**	**24,013**
Accrued and deferred expenses				**3.14.**	**985,822**	**58**
Provisions						
– tax provisions			12,728,065			8,116
– other provisions			14,265,014			12,453
				3.15.	**26,993,079**	**20,569**
Subordinated liabilities				**3.16.**	**185,822,070**	**184,888**
Fund for general banking risks				**3.17.**	**57,064,037**	**56,500**
Equity						
– Called-in capital						
Subscribed capital			160,000,000	**3.18.**		160,000
– Capital reserves			2,135,714,862			418,682
– Retained earnings						
Legal reserves		6,000,000				6,000
other revenue reserves		74,240,102				60,527
			80,240,102			66,527
– Balance Sheet profit/loss			–8,775,332			13,713
					2,367,179,632	**658,922**
Total liabilities					**20,550,733,252**	**15,745,865**
Contingent liabilities						
– Liabilities from guarantees and indemnity agreements			114,389,153			161,922
				3.22.	**114,389,153**	161,922
Other commitments						
– Irrevocable loan commitments				**3.23.**	**11,979,286**	–

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

FOR THE PERIOD FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

€				Notes	2018 €	2017 T€
Interest income from						
– lending and money-market transactions	26,147,885					
– less negative interest arising from lending and money-market transactions	−43,613,942	−17,446,057				−21,606
– fixed-interest securities and debt register claims	1,187,500					
– minus negative interest arising from debt register claims	–	1,187,500				1,538
– Total interest income			−16,278,557			−20,068
Interest expenses from						
– lending and money-market transactions	9,877,064					
– less positive interest arising from lending and money-market transactions	−37,110,222	−27,233,158				−28,361
– fixed-interest securities and debt register claims	1,097,616					
– minus positive claims arising from debt register claims	–	1,097,616				360
– Total interest expenses			−26,135,542			−28,001
				4.1.	**9,856,985**	**7,933**
Current income from						
– investments			–			2
					–	**2**
Commissions income			119,840,458			87,586
Commissions expenses			29,191,508			1,946
				4.2.	**90,648,950**	**85,640**
Net income from trading portfolio				**4.3.**	**7,121,459**	**1,798**
Other operating income				**4.4.**	**39,147,758**	**39,659**
General administrative expenses						
– Personnel expenses						
Wages and salaries		32,219,956				26,782
Social security contributions and expenses for pension provisions and benefits		8,343,023	40,562,979			4,879
incl.: for retirement benefits	4,877,922					1,549
– other administrative expenses			79,807,020			78,989
				4.5.	**120,369,999**	**110,650**

FOR THE PERIOD FROM JANUARY 1, 2018 TO DECEMBER 31, 2018 (CONTINUED)

€				Notes	2018 €	2017 T€
Depreciation, amortization and valuation adjustments of intangible and tangible fixed assets				**3.7.**	**2,194,259**	**2,218**
Other operating expenses				**4.6.**	**18,415,724**	**2,312**
Depreciation and impairments on receivables and specific securities and allocations to provisions for credit risks					**20,753**	**–**
Result from ordinary course of business					**5,774,417**	**19,852**
Taxes on income and revenue			14,548,796			6,126
of which deferred taxes:	–					–
Other taxes, not shown under other operating expenses			953			13
				4.7.	**–14,549,749**	**–6,139**
Annual net profit/annual net loss					**–8,775,332**	**13,713**
Profit/loss carried forward from previous year				**4.8.**	**0**	**0**
Balance sheet profit/loss					**–8,775,332**	**13,713**

J.P. MORGAN AG, FRANKFURT AM MAIN
NOTES TO THE 2018 ANNUAL FINANCIAL STATEMENTS

1. General remarks

1.1. GENERAL PRINCIPLES

J.P. Morgan AG, with registered offices in Frankfurt am Main, is a public limited liability company 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, the securities custody business and depository and loan business, and the business with over-the-counter derivatives.

In the 4th quarter of 2018, the global clearing business, which includes the execution and clearing of exchange traded derivatives, as well as cash-equities business, including equity trading on behalf of customers, was started on a limited scale.

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 mainly unchanged as compared to the prior year. Only positions for trust assets and trust liabilities were added, to record both collateral received and provided for stock exchange transactions related to the global clearing business that was launched in the 4th quarter of 2018.

1.2. ADDENDUM REPORT

Significant changes after the balance sheet date arose from the ongoing preparations by J.P. Morgan AG for the exit of the United Kingdom from the European Union (“Brexit”). J.P. Morgan AG plays a major role in implementing the Group’s Brexit strategy. This will result in the relationships with affiliated companies being strengthened in future.

In the event of a “Hard Brexit”, J.P. Morgan AG will take over business relationships with customers in the European Union for the “Banking” and “Markets” areas in the future. J.P. Morgan AG also started back in October 2018 to apply to take over existing memberships of stock exchanges and CCPs within the European Union, and to implement this in full in the first half of 2019. This means that J.P. Morgan AG will not only be processing the transactions of its own customers, but also customer transactions for the other JPM group companies. Furthermore, J.P. Morgan AG has already opened nine branches in the EEA as well as a branch in London where employees from trade and sales will potentially be located.

In February 2019, another capital increase was made of € 1.8 billion. In addition, the global clearing and cash equities business, which were both started last year, were further expanded. Furthermore, a number of loans and irrevocable credit commitments from JPM affiliates to J.P. Morgan AG were transferred to J.P. Morgan AG, and steps were taken in other areas of “Banking” and “Markets” to start the client migration from JPM affiliate companies to J.P. Morgan AG.

2. Accounting and valuation principles

2.1. CHANGED ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods of the annual financial statements in 2018 were maintained unchanged to the previous year, except for the following points.

Offsetting positive and negative fair values of financial instruments in the trading portfolio has been applied for the first time in the reporting year due to the increase in business volume.

Trust assets and liabilities are recognized at market value and are related to collateral for stock exchange transactions.

Commission income and expenses in the Depository Services area are reported on a gross basis for the first time in this financial year.

2.2. OTHER ACCOUNTING AND VALUATION METHODS

Liquid funds are reported at nominal value. Receivables from banks are reported at the nominal value plus accrued interest. Receivables from customers are in principle reported at nominal value or if lower, cost of acquisition plus accrued interest. Receivables from customers transferred from J.P. Morgan affiliates to J.P. Morgan AG are shown at acquisition cost. Should the difference in the amount between the nominal value and the acquisition costs of the receivable be related to interest, this is deducted from the acquisition costs and accrued as deferred item. It is amortized to the income statement over the term of the contract. Specific and general bad debt provisions are calculated based on generally accepted calculation methods, and shown in the HGB accounts, and deducted from the nominal value/cost of acquisition.

Bonds and other fixed-interest securities are valued on purchase at acquisition cost and are assigned to the liquidity reserve. Therefore, they are valued using the strict lower-of-cost-or-market value principle as defined in § 253 Para. 4 HGB. Depreciation 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 in connection with lending business interests” or “Income from write-ups to receivables and specific securities” as well as “amortization of provisions in connection with lending business interests”.

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 record a provision for contingent losses.

The financial instruments in the trading portfolio are valued at fair value minus a risk discount under § 340e Para. 3 HGB. In accordance with § 255 Para. 4 HGB, fair value means mark-to-market price. The fair value is defined as the amount for which a financial instrument could be traded between knowledgable and independent business partners seeking to trade, at the closing date of the financial statement as a normal transaction not requiring a mandatory sale or an emergency settlement. Where available, fair value is based on observable market prices or derived from observable prices or parameters. The availability of observable data varies according to product and market and may change over time. If no observable stock market prices or information are available, valuation models that correspond to market standards are used. As part of the valuation of financial instruments at fair value, adjustments are included for settlement costs, liquidity risks and counterparty risks, as well as the financing costs for unsecured trading derivatives. The value-at-risk is determined for financial instruments in the trading book and deducted in the balance sheet from the trading assets or added to the trading liabilities, depending which side has the higher balance. The calculation of the value-at-risk discount is based on a holding period of ten days and a confidence level of 99 %. The observation period is 264 trading days. An allocation under § 340e Para. 4 HGB is charged against the net income from the trading portfolio, and increases the item for Fund for general banking risks.

Offsetting positive and negative fair values for financial instruments in the trading portfolio for the same counterparty has been applied in this financial year by offsetting the positive and negative fair values and their related compensation payments (cash security deposits) against each other. As a first step, positive fair values from derivative financial instruments are offset against negative fair values. In a second step, the collateral payments recorded as liabilities to banks are offset with the positive fair values from derivative financial instruments. The prerequisite for offsetting is a framework contract with an enforceable collateral appendix and a daily exchange of cash collateral which leaves only an insignificant credit or liquidity risk remaining.

Within the financial year, no changes were made to the criteria laid down by the institution for allocation to the trading portfolio.

Margin payments received and margin payments provided for stock exchange transactions are reported as trust assets and trust liabilities. They were related to the global clearing business started in the 4th quarter of 2018.

Tangible fixed assets are valued at acquisition cost and depreciated on a straight-line basis as scheduled over the expected useful life. The useful life of tangible assets is based on the official depreciation tables of the tax administration. Low-value assets are fully written off in the year of purchase.

Other assets are valued at acquisition cost (nominal value) in compliance with the strict lower-of-cost-or-market value principle.

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 liabilities 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 trade tax rate of 16.10 % were assumed. The deferred tax assets amount to € 22.6 million (prior year: € 19.5 million) and deferred tax liabilities total € 8.0 million (prior year: € 11.6 million). The right available under § 274, Para. 1, S. 2, HGB, to capitalize deferred taxes is not applied.

In line with § 246 Para. 2 S. 2 HGB, assets that serve to cover debts arising from pension commitments and similar long-term obligations were netted off against the liabilities. If the fair value of the assets exceeds the amount of the debts arising from retirement benefit commitments and similar long-term obligations, the excess amount is shown in the item "Excess of plan assets over pension liabilities." The actuarial report was calculated based on the guidelines of Prof. Dr. Klaus Heubeck 2018 G. The assessment was carried out following recognized actuarial principles using the so-called "Projected Unit Credit Method" (PUC method).

The accounts payable are recognized at fulfilment amounts.

The provisions that are shown cover all identifiable obligations as of the balance sheet closing date that are based on past business transactions or past events and are valued in accordance with § 253 Para. 2 HGB. 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 were discounted / compounded using the average market interest rates determined and published by the German Bundesbank (based on 10-year averages) (§ 253 Para. 2 HGB). This applies in particular to pension provisions, for which a flat-rate remaining term of 15 years is applied. Income and expenses arising from the discounting or compounding are recorded, with no offsetting, depending on whether provisions were related to the lending business or to non-banking business, as either interest income / interest expense (§ 277 Para. 5 HGB) or as other operating income / expense (§ 340a Para. 2 combined with § 277 Para. 5 HGB). Provisions for work anniversaries contained in the figure were calculated using an actuarial report, and on the basis of the mortality tables of Prof. Dr. Klaus Heubeck 2018 G, and in line with the valuation method as per § 253 Para. 1 HGB.

Accruals 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.

2.3. VALUATION UNITS

A valuation unit was created for an issued promissory note, which is hedged against market price risks using a Total Return Swap (TRS). In addition, a fixed-interest security was combined with an interest-rate swap as hedging instrument into another valuation unit. The TRS and the interest-rate swap were combined with the underlying transactions on individual transaction level to a distinct hedge relationship and tested for their hedge effectiveness. Owing to the clear hedging relationship, the transactions involved are Micro-Hedges that represent an efficient and perfect hedging relationship for the entire term. To calculate the market values the Total Return Swap was compared to its underlying liability, and the interest-rate swap to the promissory note. In particular, the freeze-method is applied to report the effective parts of the valuation units on the balance sheet. Effectiveness is measured by using the dollar offset method, or with the use of suitable statistical procedures such as regression analysis.

The fair values of the swaps are calculated based on internal valuation procedures. The Group uses valuation procedures to establish the fair value of financial instruments in cases where no prices are available on active markets. 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.

Interest income from the fixed-interest security and the interest expense from the interest swap are shown gross in the income statement.

2.4. 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 operating income. Losses arising from foreign currency conversion in 2018 totalling T€ 193 are shown in the other operating result.

3. Notes to individual items of the balance sheet

3.1. CASH RESERVES

T€	12/31/2018	12/31/2017
Cash reserves	**11,766,111**	**7,822,448**
Cash in hand	0	0
Credit with central banks	11,766,111	7,822,448
incl.: with Deutsche Bundesbank	11,766,111	7,822,448

On the closing date there was € 100 in liquid assets in the cash on hand.

3.2. RECEIVABLES FROM CREDIT INSTITUTIONS

T€	12/31/2018	12/31/2017
Receivables from credit institutions	**6,881,719**	**7,128,036**
incl.: receivables from affiliated companies	6,388,299	7,013,400
Breakdown by remaining maturity:		
a) due daily	6,864,951	7,099,858
b) other receivables	16,769	28,178
up to three months	16,769	28,178

The majority of the receivables totalling € 5,298 million is made up of intra-group reverse repo transactions.

3.3. RECEIVABLES FROM CLIENTS

T€	12/31/2018	12/31/2017
Receivables from clients	**172,363**	**260,071**
incl.: receivables from affiliated companies	218	20,861
Breakdown by remaining maturity:		
a) due daily	0	16,859
b) undefined maturity	172,363	243,212

The majority of the receivables totalling € 170 million consists of allowed overdrafts of customers in the Securities Services division.

3.4. BONDS AND OTHER FIXED-INTEREST SECURITIES

T€	12/31/2018	12/31/2017
Bonds and other fixed-interest securities	**50,636**	**50,636**
Bonds and debt securities		
from public issuers	50,636	50,636
incl.: eligible as collateral with Deutsche Bundesbank	50,636	50,636
including marketable securities	50,636	50,636
listed on the stock exchange	50,636	50,636

This position includes only listed bonds.

To hedge interest rate risks, a security was combined with an interest-rate swap for a nominal value of € 50 million into a micro-valuation unit. The fair value of the interest rate swap was € −5.1 million as of December 31, 2018, and the hedged interest-induced market price change was € −4.5 million. Monthly effectiveness tests show that this is an effective relationship. The valuation unit terminates on the maturity date of the security in 2024.

As of December 31, 2018, the securities in the liquidity reserve, including the existing valuation units, included hidden reserves totalling € 1.3 million. As a result of the allocation of all securities to the liquidity reserve there are no hidden losses.

3.5. TRADING PORTFOLIO

Only financial derivative instruments are listed as financial instruments of the trading portfolio.

T€	12/31/2018	12/31/2017
Trading portfolio assets		
Derivative financial instruments	187,296	385,648
Risk discount	–	–5
In total	**187,296**	**385,643**
Trading portfolio liabilities		
Derivative financial instruments	680,842	383,658
Risk discount	6	–
In total	**680,848**	**383,658**

The amount, timing and certainty of future cash flows are mainly influenced by the interest rate environment, developments on the equity and bond markets, and developments in spreads, and default probabilities.

In this financial year positive and negative market values totalling € 845 million were offset. In addition, positive market values and related liabilities from collateral totalling € 503 million were offset.

The following table breaks out the nominal amount and the fair value of the derivative financial instruments according to type and scope before risk discount and before credit valuation adjustments (CVA), funding valuation adjustments (FVA) and debit valuation adjustments (DVA).

T€ 12/31/2018	Nominal amount	Positive market values	Negative market values
Products traded over the counter			
Interest-rate related transactions	11,525,644	124,673	61,867
Exchange-rate related transactions	15,254,178	54,729	43,155
Credit derivatives	6,369,230	5,163	578,959
Equity-related transactions	540,172	3,113	7,698
In total	**33,689,224**	**187,678**	**691,679**

3.6. TRUST BUSINESS

T€	12/31/2018	12/31/2017
Trust assets	**607,595**	**0**
Receivables from credit institutions	352,184	0
Other assets	255,411	0
Trust liabilities	**607,595**	**0**
Liabilities to credit institutions	603,956	0
Liabilities to clients	3,639	0

Securities received and provided for stock exchange transactions related to the new Global Clearing business started in the 4th quarter of 2018 are recognized as trust assets and liabilities.

3.7. CHANGE IN FIXED ASSETS

T€	Other equipment and office equipment	Hardware	Total
Cumulative acquisition costs as of 01/01/2018	**17,803**	**2,109**	**19,912**
Additions	2,321	41	2,362
Disposals	–17	0	–17
Transfers	0	0	0
Cumulative acquisition costs as of 12/31/2018	**20,107**	**2,150**	**22,257**
Cumulative depreciation as of 01/01/2018	**5,681**	**1,657**	**7,338**
Scheduled depreciation in the current year	1,934	153	2,087
Additions	44	64	108
Disposals	0	0	0
Transfers	0	0	0
Cumulative depreciation as of 12/31/2018	7,658	1,874	9,533
Residual value as of 12/31/2018	**12,449**	**276**	**12,725**
Residual value as of 12/31/2017	**12,122**	**452**	**12,573**

The value of leasehold improvements amounts to € 9.3 million, and the value of the operating and business fixtures and fittings is € 3.4 million.

3.8. OTHER ASSETS

T€	12/31/2018	12/31/2017
Other assets	**802,633**	**6,749**

Other assets amounting to € 786.9 million of contributions to default funds and margin collateral for stock exchange transactions to central counterparties, which relate to the new Global Clearing business started in the 4th quarter of 2018.

3.9. ACCRUED AND DEFERRED EXPENSES

T€	12/31/2018	12/31/2017
Accrued and deferred expenses	**2,580**	**3,078**

Accrued and deferred expenses include € 2.57 million for pension payments that were paid out in advance for reasons of timing in 2018.

3.10. EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

T€	12/31/2018	12/31/2017
Valuation parameters (BilMoG [Bilanzrechtsmodernisierungsgesetz – German Accounting Law Modernization Act])		
Pension obligations:		
Actuarial interest rate	3.21 %	3.68 %
Future increase of benefits	3.00 %	3.00 %
Increase of pension	1.75 %	1.75 %
In order to provide for staff turnover, age-specific and gender-specific turnover probabilities were used	Mercer Standard	Mercer Standard
Partial retirement:		
Actuarial interest rate	2.32 %	2.80 %
Future increase of benefits	3.00 %	3.00 %
Increase of pension	0.00 %	0.00 %

€		2018
Pension and partial retirement obligations	**1/1/2018**	**139,021,753**
Expenses from the contributions for pension and partial retirement obligations		3,274,685
Interest expense from the discounting of pension and partial retirement obligations		3,216,338
Contribution from effects of change in actuarial interest rate		5,238,514
Consumption (pension payments)		−8,622,711
Pension and partial retirement obligations	**12/31/2018**	**142,128,578**
Assets	**1/1/2018**	**215,651,680**
Additions		951,112
Disposals		0
Reversal of impairment on recovered partial value		0
Market valuation above acquisition cost (shown under other operating expenses)		−7,400,152
Assets	**12/31/2018**	**209,202,640**
Excess of plan assets over pension liabilities	**1/1/2018**	**76,629,927**
Excess of plan assets over pension liabilities	**12/31/2018**	**67,074,062**
Acquisition costs of assets	**1/1/2018**	**122,162,513**
Acquisition costs of assets	**12/31/2018**	**123,115,579**
Expenses arising from the contributions to pension and partial retirement obligations		**11,729,537**
Disclosure of contributions to pension and partial retirement obligations under “Social contributions and expenses for pension and other benefits”		8,454,852
Disclosure of the change in the discount rate and the compounding/discounting of the pension and partial retirement obligations under other operating result		3,274,685

	2018
Asset investment measures under HGB § 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:	Capitalization funds
§ 253 Para. 3 S. 4:	No depreciation because valued in accordance with § 246 Para. 2 HGB
Term:	No restriction on the daily return
Value determined in accordance with §§ 168, 278 KAGB [Capital Investment Act] or comparable foreign law as of balance sheet date:	T€ 152,522; Shares 903,193
Capital assets:	not eligible for listing on a stock exchange/unlisted
– Mutual funds	**JPMorgan Funds – Global Unconstrained Equity**
Legal basis:	Luxembourg law
Basis of the calculation:	Market value (NAV) of assets
Reinvestment:	Capitalization funds
§ 253 Para. 3 S. 4:	No depreciation because valued in accordance with § 246 Para. 2 HGB
Term:	No restriction on the daily return
Value determined in accordance with §§ 168, 278 KAGB [Capital Investment Act] or comparable foreign law as of balance sheet date:	T€ 1,576; shares 195,570
Capital assets:	not eligible for listing on a stock exchange/unlisted

Only investment fund units are held as pension assets and all pension assets are held to hedge pension benefits granted to employees. The primary investment target of the funds is to cover the financial obligations on the long term. The duration of the commitments under all the plans combined is 10.2 years. The fair value of the covering assets is based on the number of shares held and their price at the balance sheet date.

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

3.11. LIABILITIES TO CREDIT INSTITUTIONS

T€	12/31/2018	12/31/2017
Liabilities to credit institutions	**9,705,260**	**7,714,390**
incl.: liabilities to affiliated companies	6,799,828	5,572,194
Breakdown by remaining maturity:		
a) due daily	6,081,664	4,743,375
b) with agreed maturity or notice period	3,623,596	2,971,015
1. up to three months,	3,523,596	2,871,015
2. more than three months to one year,	–	–
3. more than one year to five years,	–	–
4. more than five years	100,000	100,000

The majority of the liabilities totalling € 6,800 million are due to group companies. This includes cash collateral from JPMorgan Chase Bank, N.A., London branch, totalling € 500 million as collateral for credit lines granted, and € 100 million to hedge transactions with derivatives. The remaining liabilities are essentially due to the Treasury Services division.

3.12. LIABILITIES TO CLIENTS

T€	12/31/2018	12/31/2017
Liabilities to clients	**6,879,757**	**6,702,867**
incl.: liabilities to affiliated companies	38,160	126,567
Breakdown by remaining maturity:		
a) due daily	6,869,757	6,692,867
b) with agreed maturity or notice period	10,000	10,000
1. up to three months,	–	–
2. more than three months to one year,	–	–
3. more than one year to five years,	10,000	–
4. more than five years	–	10,000

The majority of the liabilities totalling € 4,999 million consists of customer deposits in the Securities Services division. The remaining part is related to the Treasury Services division.

An issued promissory note forms part of a valuation unit in which a total return swap totalling € 10 million is the hedging element. The fair value of the swap was € 2.4 million as of December 31, 2018. The valuation unit ends with the maturity of the promissory note in 2022.

3.13. OTHER LIABILITIES

T€	12/31/2018	12/31/2017
Other liabilities	**39,227**	**24,013**
consisting of:		
– Value added tax	11,891	8,365
– Liabilities from deliveries and services	21,086	10,782
– other liabilities	6,250	4,866

3.14. ACCRUED AND DEFERRED EXPENSES

T€	12/31/2018	12/31/2017
Accrued and deferred expenses	**986**	**58**

For the first time, a deferred expense was recorded that related to a cash payment from the landlord of the rented office space totalling T€ 986.

3.15. PROVISIONS

T€	12/31/2018	12/31/2017
Provisions	**26,993**	**20,569**
incl.:		
– tax provisions	12,728	8,116
– other provisions	14,265	12,453

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

3.16. SUBORDINATED LIABILITIES

T€	12/31/2018	12/31/2017
Subordinated liabilities	**185,822**	**184,888**
incl.: Subordinated liabilities to associated companies	185,822	184,888

The subordinated capital shown for 2018 comprises a subordinate loan totalling € 150,000,000 taken out on December 21, 2009, as well as another subordinate loan of € 35,790,432, which was transferred to J.P. Morgan AG in the course 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 gained within the context of the merger, on a semi-annual basis. The interest payable is calculated using the relevant three-month EURIBOR (European InterBank Offered Rate) or six month LIBOR interest rate (London InterBank Offered Rate). The expenses incurred for subordinated liabilities total T€ 83 for the financial year.

The subordinated capital to the totalling T€ 150,000 is due on December 21, 2039. The subordinated loan totalling T€ 35,790 has an unlimited term. Both subordinated loans can be terminated by J.P. Morgan AG after prior approval by the competent supervisory authority in whole or in part with one month's notice at the end of any month from March 31, 2020 onwards. In addition, there is a right of termination by J.P. Morgan AG of the entire loan at the time, provided that either its application as regulatory equity or the tax treatment change.

In the event of insolvency, all other lenders will be serviced with priority. There are no early repayment obligations.

If the competent supervisory authorities so decide ("regulatory bail-in"), both subordinated loans can either be reduced in whole or in part of their nominal value, or converted into core capital instruments of J.P. Morgan AG. In this case, all claims by the Lender and obligations on J.P. Morgan AG arising from the loan contracts expire, to the extent of the reduction or conversion.

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

3.17. FUND FOR GENERAL BANKING RISKS

T€	2018	2017
Status as at 01/01	**56,500**	**56,300**
Additions	564	200
Disposals	–	–
Status as at 12/31	**57,064**	**56,500**

The additions to the fund for general bank risks were carried out according to § 340e Para. 4 HGB.

3.18. SUBSCRIBED CAPITAL RESERVE AND RETAINED EARNINGS

The share capital amounts to € 160,000,000 and is divided into 160,000,000 shares (€ 1 per share).

The shares are paid up 100 % and are held directly by J.P. Morgan International Finance Limited, with headquarters in Newark in the United States of America. The capital reserve was increased by € 1.7 billion through a payment by J.P. Morgan International Finance Limited in September 2018. The profit shown on the Balance Sheet in the prior year of totalling € 13.7 million, was transferred by the Annual General Meeting to the retained earnings reserves.

3.19. AMOUNTS UNAVAILABLE FOR DISTRIBUTION

The amount that may not be disbursed as dividends under § 268 Para. 8 S. 3 HGB totalled € 86.1 million at December 31, 2018 (prior year: € 93.5 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 in the retirement pension commitments from applying the 7-year average interest rate, § 253 Para. 6 S. 2 HGB, totalling € 11.3 million (prior year: € 10.5 million). There were free reserves in the meaning of § 268 Para. 8 HGB totalling € 2,201 million (prior year: € 492.9 million).

3.20. OTHER ITEMS DUE TO AFFILIATED COMPANIES

T€	12/31/2018	12/31/2017
Other items due to affiliated companies		
Other liabilities	4,214	1,771

3.21. FOREIGN CURRENCY ASSETS AND LIABILITIES

T€	12/31/2018	12/31/2017
Foreign currency assets and liabilities		
Assets	3,859,500	1,450,612
Liabilities	3,862,308	1,451,620

3.22. CONTINGENT LIABILITIES

T€	12/31/2018	12/31/2017
Contingent liabilities		
Liabilities from guarantees and indemnity agreements	114,389	161,922

The total amount of contingent liabilities from securities and warranty contracts consists essentially of € 51 million for guarantees and € 33 million for securities. Liabilities from securities and warranty contracts exist in relation to affiliated companies totalling € 58 million.

The contingent liabilities shown are mainly covered by corresponding collateral.

The likelihood of a claim, based on past experience, must be assessed as very low. Information in accordance with § 35 Para. 5 RechKredV [Credit Institution Accounting Regulations] does not have to be provided in this context, since J.P. Morgan AG has not transferred any collateral to others.

3.23. OTHER COMMITMENTS

Irrevocable loan commitments shown under other commitments totalling € 12 million relate to the obligation to grant loans to customers and are reported at the nominal value of the agreed amount minus associated provisions. In the normal course of business it is generally likely that loan commitments would be drawn by the clients. If they are drawn, the loan commitment is reversed and a receivable from the customers is posted, both in the amount drawn. Any credit risks arising from the exercise of irrevocable credit commitments are taken into account when assessing of credit risks. If a credit risk is identified, then this is taken into account by creating the appropriate provisions. The amount of the provision is determined using generally accepted calculation methods. Therefore the credit risk is estimated as very low as of the balance sheet date.

4. Explanatory Notes to the Income Statement

4.1. NET INTEREST INCOME

T€	1/1/–12/31/2018	1/1/–12/31/2017
Interest income (net)	**9,857**	**7,933**
Interest income from:	**–16,279**	**–20,068**
a) Lending and money-market transactions	26,148	23,632
less negative interest arising from lending and money-market transactions	–43,614	–45,238
b) Fixed-income securities and debt register claims	1,188	1,538
Interest expenses:	**–26,136**	**–28,001**
a) Lending and money-market transactions	9,877	1,695
less negative interest arising from lending and money-market transactions	–37,110	–30,055
b) Fixed-income securities and debt register claims	1,098	360

Interest income has increased by 24 % over the comparison period. This increase is primarily attributable to reverse repo transactions.

The positive balance of interest received and paid on bonds fell by T€ 1,088 compared to the prior year.

4.2. NET COMMISSION INCOME

T€	1/1/–12/31/2018	1/1/–12/31/2017
Commission income (net)	**90,649**	**85,640**

Net commission income increased by 5.8 % in comparison to the previous year. In particular, increasing commission income from the OTC derivative business contributed to this increase.

4.3. NET INCOME FROM TRADING PORTFOLIO

T€	1/1/–12/31/2018	1/1/–12/31/2017
Net income from trading portfolio	**7,121**	**1,798**

The net income from the trading portfolio totals T€ 7,121. The increase results from the significant increase in activities in the OTC derivative business.

4.4. OTHER OPERATING INCOME

T€	1/1/–12/31/2018	1/1/–12/31/2017
Other operating income	**39,148**	**39,659**
including:		
– Services rendered for Group entities	32,797	29,765
– Miscellaneous other operating income	6,350	9,895

Other operating income is almost unchanged compared to the previous year. Miscellaneous other operating income includes € 2.8 million from the release of provisions.

4.5. GENERAL ADMINISTRATIVE EXPENSES

T€	1/1/–12/31/2018	1/1/–12/31/2017
General administrative expenses	**120,370**	**110,650**
incl.:		
Personnel expenses	40,563	31,661
– Wages and salaries	32,220	26,782
– Social security contributions and expenses for pension provisions and benefits	8,343	4,879
• of which for retirement	4,878	1,549
other administrative expenses	79,807	78,988

The increase in general administrative expenses essentially results from the increase in the number of employees and higher expenditures for the provision of services by group companies.

4.6. OTHER OPERATING EXPENSES

T€	1/1/–12/31/2018	1/1/–12/31/2017
Other operating expenses	**18,416**	**2,312**

Other operating expenses include T€ 15,857 interest expense from the changes in pension obligations. The pension obligations include the effects arising in the valuation from the changes in the present value of the cover assets, the change in the discount rate and the effects from the compounding or discounting of the pension commitments.

4.7. TAX ON INCOME AND REVENUE AND OTHER TAXES

T€	1/1/–12/31/2018	1/1/–12/31/2017
Taxes	**14,549**	**6,139**
Industrial tax	8,698	4,073
Corporate tax	5,851	3,839
Other	–	–1,771

4.8. PROPOSED ALLOCATION OF EARNINGS

No statement is required on the proposed allocation of the earnings from the Executive Board under § 170 Para. 2 AktG, because the company has not made a balance sheet profit in this financial year.

5. Other data

5.1. PENDING FUTURES CONTRACTS

	Market value on 12/31/2018		Market value on 12/31/2017		Market value on 12/31/2016	
T€	positive	negative	positive	negative	positive	negative
Total Return Swap	2,432	–	3,696	–	4,071	–
Interest Rate Swaps	–	5,105	–	5,145	–	6,353

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.

5.2. 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 each financial year.

J.P. Morgan Chase & Co. and J.P. Morgan Chase Bank, National Association, have informed us by letter dated January 11, 2019 that an indirect equity interest exists totalling 100 %. J.P. Morgan International Finance Limited informed us in writing on January 11, 2019 that a direct holding exists totalling 100 %.

The group financial statements for the smallest and the largest scope of included companies are prepared by JPMorgan Chase & Co., New York, whose shares are quoted on the New York Stock Exchange as well as on certain European and Asian stock markets. 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.

5.3. NUMBER OF EMPLOYEES

On average for the year there were 305 employees, distributed as follows:

Number	12/31/2018	12/31/2017
Yearly average	**305**	**275**
Distribution of employees		
Authorized signatories	8	9
Authorized officers	146	135
Commercial employees	151	131

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

5.4. TOTAL REMUNERATION OF THE ACTIVE MEMBERS OF THE BOARDS

The remuneration paid to members of the Management Board totalled T€ 9,243. A portion of this came from 43,061 restricted stock units with a fair value on their grant date of T€ 3,575.

The remuneration paid to members of the Supervisory Board totalled T€ 10 in 2018.

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

5.5. TOTAL PAYMENTS TO FORMER BOARD MEMBERS AND THEIR DEPENDENTS

Pension provisions for these persons totalled T€ 16,674 as of December 31, 2018. The total remuneration paid to former members of the Management Board and their dependants amounted to T€ 3,364 as at December 31, 2018.

5.6. FEE EXPENSES[1]

T€	1/1/–12/31/2018	1/1/–12/31/2017
Total auditors' fees billed for the financial year for	**564**	**445**
financial statements auditing services	**444**	**365**
of which, for the previous year	10	5
of which, expenses in the current financial year	0	0
of which, expenses for creating provisions	434	360
Other confirmation services	**120**	**80**
of which, for the previous year	0	0
of which, expenses in the current financial year	0	0
of which, expenses for creating provisions	120	80
Other 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

[1] Net expenses, excluding VAT

The fee for auditing services reflects the annual statements audit services. Other confirmation services essentially include audits under § 89 WpHG and legally prescribed, contractually agreed and voluntary confirmation services (e.g. deposit protection). No tax consultancy services were provided.

5.7. EXPLANATORY NOTES ON OTHER FINANCIAL COMMITMENTS

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

The lease agreement for the business premises has a term until August 1, 2028. The future rent payments amount to € 48 million as at December 31, 2018.

5.8. INFORMATION ON CORPORATE BODIES

Management Board
Dorothee Blessing (from May 1, 2018) Chairperson of the Management Board, Managing Director, J.P. Morgan AG
Stefan Behr Managing Director, J.P. Morgan AG
Nicholas Conron (from May 1, 2018) Managing Director, J.P. Morgan AG
Burkhard Kübel-Sorger Managing Director, J.P. Morgan AG
Supervisory Board
Mark S. Garvin Chairperson, Managing Director, J.P. Morgan Europe Limited
Guy America (since April 26, 2018) Deputy Chairperson, Managing Director, J.P. Morgan Securities plc
Elena Korablina (since April 26, 2018) Managing Director, JPMorgan Chase Bank N.A., London Branch
Olivier Vigneron (since April 26, 2018) Managing Director, JPMorgan Chase Bank N.A., London Branch
Thomas Freise Employee Representative, J.P. Morgan AG
Christoph Fickel Employee Representative, J.P. Morgan AG
Dorothee Blessing (until April 26, 2018) Managing Director, Regional Head Germany/Austria/Switzerland & Vice Chairperson Investment Banking EMEA
Frédéric P. Mouchel (until April 26, 2018) Deputy Chairperson, Managing Director and Chief Executive Officer, JPMorgan Bank Luxembourg, S.A.
Melanie Martin (until April 26, 2018) Managing Director, JPMorgan Chase Bank N.A., London Branch

Directorships or seats on supervisory boards

Management Board
Dorothee Blessing (from May 1, 2018) Management body: J.P. Morgan Securities plc Frankfurt Branch; Supervisory body: A.P. Møller Maersk Group
Stefan Behr; no further mandates
Nicholas Conron; no further mandates
Burkhard Kübel-Sorger Management Board of Whiteshire Debt Solutions GmbH
Supervisory Board
Mark S. Garvin Executive management body J.P. Morgan Securities plc, supervisory body J.P. Morgan Bank Luxembourg S.A. (Chairman of the Board); J.P. Morgan Europe Limited; Euroclear Holding S.A. (no longer Euroclear plc since November 12, 2018)
Dorothee Blessing (until April 26, 2018) Management body: J.P. Morgan Securities plc Frankfurt Branch; Supervisory body: A.P. Møller Maersk Group
Guy America; no further mandates
Elena Korablina (until February 26, 2019) Management Body J.P. Morgan Securities plc
Olivier Vigneron; no further mandates
Thomas Freise; no further mandates
Christoph Fickel; no further mandates

Frankfurt am Main, April 9, 2019

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

DOROTHEE BLESSING

STEFAN BEHR

NICHOLAS CONRON

BURKHARD KÜBEL-SORGER

INDEPENDENT AUDITOR'S REPORT [1]

To J.P. Morgan, Frankfurt am Main

Report on the Audit of the Annual Financial Statements and of the Management Report

AUDIT OPINIONS

We have audited the annual financial statements of J.P. Morgan, Frankfurt am Main, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of J.P. Morgan for the financial year from 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the

[1] Translation of the auditor's report issued in German language on the annual financial statements prepared in German language by the management of J.P. Morgan AG

EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

1 Accounting treatment of business activities transferred as a result of Brexit

Our presentation of this key audit matter has been structured as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matter:

1 Accounting treatment of business activities transferred as a result of Brexit

1 As part of the implementation of the group-wide Brexit strategy and the new role of J.P. Morgan AG as the central office for the Banking and Markets divisions of the Corporate & Investment Bank of the JP Morgan Chase & Co. group within the European Union, during financial year 2018, the Company activated product operations in the following business activities: Futures & Options Execution and Clearing as well as Equity Trading. In the course of 2018, the Company became a member of European exchanges and Central Clearing Counterparty Houses ("CCP") in order to be able to execute and clear orders for exchange-traded derivatives (futures & options) on behalf of customers or on its own account through J.P. Morgan Securities plc ("JPMS plc"), London, United Kingdom, and J.P. Morgan Securities LLC ("JPMS"), New York, USA. Starting in mid-December 2018, initial orders were carried out for a direct non-group customer relationship. In addition, since July 2018, J.P. Morgan AG has established memberships in European stock exchanges and other trading locations for equity trading. As part of a comprehensive test program, various orders were executed as part of proprietary trading with the sister company JPMS plc and trading on own behalf

on various stock exchanges ("Riskless Principal"). The business activity in equity trading had only a very minor impact on the annual financial statements in the 2018 financial year. Business activity in exchange-traded derivatives led to a significant increase in the balance sheet items for loans and advances to banks, loans and advances to customers, liabilities to banks and liabilities to customers as well as other assets and other liabilities. In addition, the Company reports trust assets and liabilities due to segregated customer portfolios (from initial and variation margin) for the first time. Net interest and commission income were positively influenced by the start of new business activities in the fourth quarter of 2018. Due to the particular significance of the new business activities, the volume of the transactions, and the complexity and impact on earnings, these matters were of particular importance for our audit.

2 As part of the audit of the annual financial statements, we analysed the effects of the new business activities on the annual financial statements and assessed the Company's approach to the recognition and measurement of transactions.

We have assessed the appropriateness and effectiveness of the relevant internal control system of J.P. Morgan AG with regard to the accounting of business transactions in the new business activities. In doing so, we have focused on those control activities which are related to the recording of relevant master data and transactions, the reconciliation of portfolios with the relevant nostro banks, stock exchanges and CCPs and the validation of the resulting earnings components.

In addition, we have evaluated the contractual terms with nostro banks, stock exchanges, CCPs, administrators and customers. In particular, we have verified the requirements for the segregation of customer portfolios and checked whether the segregation of customer confirmations has been carried out in accordance with the contractual agreements.

In addition, we have tracked and assessed the accounting and valuation of open positions at balance sheet date and the effects of these transactions on the earnings components of the statement of profit and loss. In our opinion, the valuation methods and assumptions applied by the Company's legal representatives, taking into account the available information, are generally suitable for carrying out a proper valuation of the open positions as of balance sheet date. On the basis of our audit, we were able to satisfy ourselves that the presentation in the balance sheet and statement of profit and loss was generally carried out in a proper manner and adequately justified and documented in the context of the transfer of business activities as a result of Brexit.

3 The Company's information on the balance sheet presentation of the business activities being transferred as a result of Brexit are included in the Notes, in particular in the Notes to the

Balance Sheet and Accounting and Valuation Principles as well as in sections 3.2., 3.3., 3.6., 3.8., 3.11., 3.12., 3.13., 4.1., 4.2. of the Notes.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 hgb and the eu Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (idw) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
– Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on 26 April 2018. We were engaged by the supervisory board on 31 July 2018. We have been the auditor of the J.P. Morgan, Frankfurt am Main, without interruption since the financial year 1983.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Lehmann.

Frankfurt am Main, April 11, 2019

sgd. Christoph Lehmann	sgd. ppa. Kerstin Voeller
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

SUPERVISION AND CONTROL

The Supervisory Board has continuously monitored management on the basis of written and verbal reporting and performed the duties for which it is responsible in accordance with the applicable statutes. The Supervisory Board was informed of important matters of business management in regard to the Bank's economic situation, the business policy, liquidity, capital and risk management. In addition, the Supervisory Board was informed in detail each quarter about risk management.

PERSONNEL CHANGES IN THE MANAGEMENT BOARD

In the 2018 financial year there were two changes in membership of the Management Board. Dorothee Blessing and Nicholas Conron were appointed to the Management Board on 1 May 2018.

CHANGES IN MEMBERSHIP OF THE SUPERVISORY BOARD

On 26 April 2018, Frédéric Mouchel (Deputy Chairman), Melanie Martin and Dorothee Blessing left the Supervisory Board. Guy America, Elena Korablina and Olivier Vigneron were elected in the Supervisory Board on 26 April 2018.

AUDIT COMMITTEE

During the financial year, the Audit Committee discussed the year-end accounts and the audit report on 23 April 2019, and the audit plan on 3 December 2018.

The Audit Committee is responsible for monitoring the accounting process, the effectiveness of the internal control system, the risk management system and 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 recommendations of the Audit Committee (Section 124 Para. 3 sentence 2 Stock Corporation Act (AktG)), at the Extraordinary General meeting auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, were appointed as auditors for the annual financial statement and management report of the financial year 2019, in line with statutory requirements.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements and management report for the 2018 fiscal year, including the bookkeeping, were audited by the auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, which had been selected by the Annual General Meeting. The auditing firm issued an unqualified audit opinion.

The Audit Committee discussed and reviewed the Annual Financial Statements and Management Report with the auditors during the meeting on 23 April 2019. Given the final result of the review by the Audit Committee, the Supervisory Board did not raise any objections. The annual financial statements and management report prepared by the Management Board on 31 December 2018, 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.

25 April 2019

For the Supervisory Board

MARK S. GARVIN
Chairman

ANNEX: COUNTRY-BY-COUNTRY REPORTING 2018

The requirements in Article 89 of the EU Directive 2013/36/EU (Capital Requirements Directive, CRD IV) for country-by-country reporting were implemented into German law by the Banking Act (KWG).

CRR institutions have to publish information on branches and subsidiaries broken down by member states of the EU and third countries.

The following information refers to J.P. Morgan AG and its registered branches registered in 2018.

On December 31, 2018, J.P. Morgan AG had the branch offices listed in the overview. For these branches, registration was complete at the balance sheet date, but no postings were made in these branches at the balance sheet date.

J.P. Morgan AG and its listed branches have not received any public subsidies in this financial year.

Company name	Location
J.P. Morgan AG – Brussels Branch	Brussels
J.P. Morgan AG – Copenhagen Branch	Copenhagen
J.P. Morgan AG – London Branch	London
J.P. Morgan AG – Oslo Branch	Oslo
J.P. Morgan AG – Amsterdam Branch	Amsterdam
J.P. Morgan AG – Milan Branch	Milan
J.P. Morgan AG – Paris Branch	Paris
J.P. Morgan AG – Stockholm Branch	Stockholm

Country	Number of employees [1]	Turnover [2] T€	Profit (or loss) before taxes T€	Taxes on profit or loss T€	Activity
Germany	305	107,627	5,774	14,550	The company operates business activities in the areas of Treasury Services (including Euro Clearing), Securities Services (as a custodian bank and custodian) and markets (acting as an accounting unit for specific customer segments in the OTC derivative business)
Belgium	–	–	–	–	Banking and markets
Denmark	–	–	–	–	Banking and markets
United Kingdom	–	–	–	–	Banking and markets
Norway	–	–	–	–	Banking and markets
Netherlands	–	–	–	–	Banking and markets
Italy	–	–	–	–	Banking and markets
France	–	–	–	–	Banking and markets
Sweden	–	–	–	–	Banking and markets

[1] Number of employees based on the annual average.
[2] Turnover is defined as interest income, commission earnings, investment and trading earnings.

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