J.P.Morgan

J.P. Morgan AG, Frankfurt am Main
Junghofstraße 14
60311 Frankfurt am Main, Germany

J.P.Morgan

DISCLOSURE REPORT AS AT DEC. 31, 2010
PURSUANT TO THE GERMAN SOLVABILITY DECREE (SOLVV) SECTION 5

J.P.Morgan

TABLE OF CONTENT

DISCLOSURE REPORT AS AT DEC. 31, 2010

1. Introduction

With the new Basel Framework for the International Convergence of Capital Measurement and Capital Standards (Basel II), the Basel Committee introduced international standards for bank capital adequacy requirements. The new Basel Framework is divided into three pillars:
Pillar 1 defines the minimum capital requirements, which include capital requirements for credit risk, market risk and operational risk.
Pillar 2 adds a qualitative element to the quantitative minimum capital requirements of Pillar 1.
Pillar 3 defines the obligation to disclose information about a bank's capital resources, capital requirements and the associated risks to the public.

The European directives, namely the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC), have been translated into German law with the introduction of the Solvency Decree (SolvV) and the changes to the German Banking Act (section 26a KWG). Section 26a KWG forms the legal basis for the present disclosure. The Solvency Decree (SolvV) Part 5 (sections 319–337 SolvV) defines the disclosure requirements, whereby this includes the risk profile, provision for risks, the ability to absorb risks (risk capacity) and the organizational structure of a bank's risk management.

2. Organization

J.P. Morgan AG is an integral part of the global JPMorgan Group and forms the backbone of JPMorgan's operations in Germany. It is a wholly-owned subsidiary of JPMorgan Chase & Co., Columbus, Ohio, U.S.A.

J.P. Morgan AG business is run by the Management Board (two members; since April 1st, 2010: three members) and controlled by the Supervisory Board (six members). The Management Board meets at least monthly and the Supervisory Board at least twice a year. The Supervisory Board is informed about the business on a quarterly basis in the form of a business report and a risk report that complies with minimum requirements for risk management (MaRisk).

Since 2010 the Supervisory Board is meeting twice a year with Heads of all lines of business to discuss the risk reports. In addition the Supervisory Board constituted an audit committee in 2010. A list with names of the Management Board and Supervisory Board is to be found at the end of the Annual Report.

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

In 2010, the Bank continued to focus on its core business, namely to achieve the corporate objective of being the € Clearing Operations Hub for the JPMorgan Group worldwide, financial institutions and corporate clients alike, and to act as the global custodian for the German investment market.

3. Business Strategy

The business of J.P. Morgan AG is primarily influenced by global economic trends and the level of interest rates as regards its Treasury Services segment, whereas the Worldwide Securities Services segment business is primarily exposed to trends in the world's capital markets. Both key segments depend essentially on regulatory developments for the banking industry. The Bank is well positioned with regard to the BaFin circular 06/2010 (WA) from 2 July 2010, describing tasks and responsibilities of depot banks under §§ 20 following InvG to be implemented by 30 June 2011.

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

- Sales of Cash Management and Trade products to German & Austrian clients including Customer Services for Cash and an Operations Window for Trade
- € Clearing operations hub
- Custodian bank
- Treasury function
- Trade Finance and € Cash Management for German corporate clients and subsidiaries of US corporate clients in Continental Europe
- Issuance of structured notes to German institutional clients

SALES OF CASH MANAGEMENT AND TRADE PRODUCTS TO GERMAN & AUSTRIAN CLIENTS INCLUDING CUSTOMER SERVICES FOR CASH AND AN OPERATIONS WINDOW FOR TRADE

Embedded into the worldwide divisional management structure of the firm with hubs and spokes, J.P. Morgan AG is the sales and service office for clients in Germany and Austria as well as for specific products in other European countries. Sales and service activities encompass all products provided by the worldwide TSS organization as shown below:

TS and WSS Product Companies		
	TS	WSS
	Core Cash Management	Investor Services
	Liquidity & Investment Products, Foreign Exchange	Financing & Market Products
	Trade, e-Payables & Card Solutions	Clearance & Agency

€ CLEARING OPERATIONS HUB

As the firm's access point to the € Clearing markets under TARGET2 and SEPA, J.P. Morgan AG is responsible for the operational management of € Clearing for the JPMorgan Group worldwide. This includes the cash management and the global funds control function for all payment flows in €, for both the corporation's own transactions and those of clients. € accounts are held with J.P. Morgan AG by a wide range of financial institutions (FI), non-bank financial institutions (NBFI), corporate clients, and JPMorgan sister companies from all over the world.

CUSTODIAN BANK

J.P. Morgan AG holds a license to provide global custodian services ("Depotbankgeschäft") to institutional clients in Germany. The Bank provides a wide range of services as the custodian bank for a total of 156 German Special Funds ("Spezialfonds"), Mutual Retail Funds ("Publikumsfonds") and direct investments owned by German FI, NBFI and corporate clients with 546 segments. These services range from fund accounting, corporate actions, liquidity, and FX to securities lending. Local custodian services are outsourced to specialist providers around the world. The global custodian business provides additional liquidity through client deposits with the Bank.

Providing a cutting-edge technological infrastructure and ensuring a strong client focus are essential elements of our strategy of generating future organic growth in additional client segments. Through the internet access portal J.P. Morgan ACCESS™ we offer clients and asset managers alike countless report compilation opportunities and reporting functions tailored to the needs and wishes of their respective customers while also supplying data and reports. Moreover, our transaction management module provides asset managers and investment companies who do not have their own link to the S.W.I.F.T. network with direct and efficient access to J.P. Morgan AG when placing their business instructions and payment orders.

TREASURY FUNCTION

J.P. Morgan AG functions as a core treasury vehicle for the corporation in EMEA and particularly for the € market. The Treasury function is based on (i) the flows resulting from € Clearing, (ii) the corporation's access point to the European Central Bank, the German Bundesbank, EUREX and others to fund or to place € liquidity, and (iii) liquidity provided by Treasury Services (TS) client accounts as well as client deposits with Worldwide Securities Services (WSS). J.P. Morgan AG

also has the capacity to re-channel liquidity from Far Eastern market activities into the firm's Central European treasury desk in London.

TRADE FINANCE AND € CASH MANAGEMENT FOR GERMAN CORPORATE CLIENTS AND SUBSIDIARIES OF US CORPORATE CLIENTS IN CONTINENTAL EUROPE

Trade finance at JPMorgan is part of the Treasury Services business. Following client demand for trade finance, J.P. Morgan AG was granted approval for a new product, namely to issue guarantees and letters of credit on behalf of German corporate clients, in the course of 2007. One year later, the Bank enlarged its client base to include Austrian and Swiss corporate clients. Moreover, subsidiaries of US MNCS and Midmarket companies (so-called commercial bank clients) are being offered Trade Finance and € Cash Management services through J.P. Morgan AG. The credit exposure that arises in this context is borne by other JPM entities with appropriate credit limits and / or collateral set for these clients. First business was transacted in 2008, and the plan is to broaden these activities in Germany and gradually expand them into Continental Europe.

ISSUANCE OF STRUCTURED NOTES TO GERMAN INSTITUTIONAL CLIENTS

Exclusively in response to client demand, J.P. Morgan AG also draws on the liabilities side of its balance sheet to issue structured notes in the form of "Schuldscheindarlehen" and structured bonds to German institutional investors. The Bank hedges all the market risk and interest rate risk incurred through Total Return Swaps with other JPMorgan entities in Great Britain or the United States.

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

– Operational risk
– Liquidity risk
– Credit risk
– Reputational risk

4. Risk Management (Section 322 SolvV)

4.1. ORGANIZATION & CONTROLLING

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

Control functions, that are deliberately independent of J.P. Morgan AG's front office departments, are responsible for the operational implementation of the risk strategy, and take the group-wide infrastructure and policies into account. The control functions at J.P. Morgan AG include, among others, the Credit Officer, who controls and monitors credit risks, and the Chief Operating Officer (COO), who is in charge of controlling and monitoring operational, liquidity and market risks.

Risk controlling and monitoring in J.P. Morgan AG rest on the following principles:

– The risk strategy is directly derived from the J.P. Morgan AG Business Strategy as defined by the Management Board. It is implemented through local policies that take the J.P. Morgan AG's integration into the JPMorgan Group into consideration.
– The organizational structure and respective processes have been documented for all risk categories, thus defining responsibilities and competencies for all functions involved.
– The J.P. Morgan AG organizational and operational structure is based on the principle of a clear segregation of front office ("Markt") and back office ("Marktfolge") duties in order to avoid conflicts of interest.
– The firm has put the necessary processes in place to identify, assess, treat, monitor and communicate risks in compliance with its risk policies in order to identify material risks at an early stage based on regular scenario analyses.
– Appropriate ceilings for all significant risk categories have been adequately set and are effectively controlled.

The Chief Financial Officer (CFO) is responsible for monitoring the firm's risk capacity and compliance with regulatory capital requirements on a daily basis. Like the Credit Officer and the COO, he reports directly to the member of the J.P. Morgan AG Management Board who is responsible for the back office ("Marktfolge").

Timely and independent reporting to the Management Board, covering the various risk categories, is performed on a daily, weekly, monthly and quarterly basis.

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

TABLE 1:

Economic Capital	December 31, 2009	June 30, 2010	September 30, 2010	December 31, 2010
Risk category	T€	T€	T€	T€
Credit risk	135,820	117,250	139,474	120,514
Operational risk	16,699	16,519	16,519	16,519
Market risk	9,763	17,401	16,831	17,277
Economic capital	**162,282**	**151,170**	**172,824**	**154,310**

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

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

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

4.2. RISK CATEGORIES

4.2.1. Credit Risk

Given the company's core activities, resulting in the potential drawdown of overdraft facilities by clients who hold their transactional cash account for € payments or global custody activities with J.P. Morgan AG, counterparty risk is the single most important risk category at J.P. Morgan AG. The allocation of overdraft facilities can, in the event of an unfavorable client rating, be contingent on the implementation of defined risk mitigation steps, such as collateral being furnished.

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

The credit risk strategy is derived from the J.P. Morgan AG's business strategy and is an integral component of the firm's overall approach to risk management, defining the risk profile with regard to client groups, industries, countries and products. Moreover, the MaRisk Guidelines for J.P. Morgan AG set out the credit organization, processes for risk controlling, possible steps for risk mitigation as well as mandatory credit risk reporting. These guidelines complement the group-wide credit policies.

The Board of J.P. Morgan AG makes its credit decisions on the basis of the clear division of distinct responsibilities between the Front Office ("Markt") and Back Office ("Marktfolge").

The Risk Grading System is an integral part of the credit risk management process. J.P. Morgan AG adopts the group-wide systematic methodology in order to ensure the uniform analysis of credit risk across the JPMorgan Group. The objective of the Risk Grading System is to categorize all credit facilities according to their expected loss by assigning a default grade to each facility to indicate the firm's assessment of the obligor's likelihood of default. Based on the combination of Default Grade and Loss Given Default estimate, a final Facility Grade is defined, which signifies the firm's comprehensive assessment of the facility's expected loss.

JPMorgan Chase uses historical default statistics compiled by Moody's, Standard & Poor's, and KMV as the basis for default probability assumptions applicable to the firm's own customers. The Moody's and Standard & Poor's default statistics relate historical defaults to the agencies' own public rating categories, while KMV produces statistical default estimates for individual obligors

without assigning its own set of rating classifications. JPMorgan Group uses a blend of Moody's, Standard & Poor's and KMV default estimates for each rating category to calibrate default estimates for our own internal risk grades.

Worst-case scenarios are calculated regularly. Treasury & Credit Control conducts daily monitoring of counterparty risks at the client level, whereby it relies on the group-wide exposure control system that records individual limits and their use in accounts and by single borrower units ("Kreditnehmereinheit"). Daily activities mainly focus on monitoring intra-day and overdraft facility use. With the introduction of the Capital Requirements Directive II (CRD II), on December 31st, 2010, J.P. Morgan AG established a procedure to monitor any Legal Lending Limit (LLL) overdrafts and mitigate them with cash collateral.

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

J.P. Morgan AG has procedures for intensified loan management as well as for treating problem loans, but had no need to apply these during 2010.

4.2.2. Operational Risk

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

The firm has the necessary processes in place to identify, assess, treat, monitor and communicate risks in compliance with the group-wide risk policies in order to identify material risks at an early stage. These processes are outlined in the firm's MaRisk Guidelines, assigning the overall responsibility to the Chief Operating Officer, and are further specified in the firm's Operational Risk Manual.

J.P. Morgan AG calculates the Operational Risk Capital Requirement (ORCR) for Pillar 1 & Pillar 2 purposes using the Basic Indicator Approach (BIA). The calculation of the ORCR is considered to be complementary to the qualitative risk framework. Stress scenarios are available for the core businesses of J.P. Morgan AG.

To monitor and control operational risk, J.P. Morgan AG makes use of the group-wide system of comprehensive policies and a control framework designed to provide a sound and well-con-

trolled operational environment. The goal is to keep operational risk at appropriate levels commensurate with the firm's financial strength, the nature of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

To this end, an inventory has been established of all the functions performed by or on behalf of J.P. Morgan AG. This inventory is regularly reviewed and allows for an in-depth analysis of inherent risks. The final assessment of the residual risk is based on the results of the semi-annual control self-assessment, which records errors, fines and losses, identifies control weaknesses and respective action plans for risk mitigation and minimization. The COO forwards a summary of these results and possible risk events to the J.P. Morgan AG Management- and Supervisory Board in his quarterly MaRisk Report. Key themes are transparency of information, robustness of end-to-end processes, escalation of key issues, accountability for issue resolution, and monitoring of outsourced activities.

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

4.2.3. Liquidity Risk

J.P. Morgan AG defines liquidity risk as the risk of loss arising from the firm's inability to meet its obligations when they come due without incurring unacceptable losses.

The management and monitoring of liquidity risk is defined in binding fashion by the J.P. Morgan AG Management Board in the company business and risk strategy, whereas the treasury policy defines the framework for JPMorgan's treasury management activities and summarizes the daily control of J.P. Morgan AG's liquidity position.

The J.P. Morgan AG Management Board concluded to allocate a fixed amount of € 100 million of risk capital to cover the risk of a sudden outflow of liquidity in the € Clearing business. In addition the treasury policy defines a number of stress scenarios, which analyze the possible contingency funding avenues open to J.P. Morgan AG in order to ensure the necessary liquidity to continue its core activities even under unfavorable market conditions.

Stress scenarios include both the sudden outflow of liquidity as well as a sudden increase in utilization of overdraft lines. Scenarios are then calculated assuming the day of lowest excess liquidity in the given quarter. In all scenarios, J.P. Morgan AG's liquidity needs are covered.

Liquidity management is handled by the Treasury function in compliance with group-wide policies and J.P. Morgan AG's treasury policy. Compliance with these policies as well as defined warning thresholds are monitored daily by Treasury & Credit Control. Escalation procedures have been established for the event of a significant drop in liquidity.

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

4.2.4. Market Risk

J.P. Morgan AG defines market risk as the risk of loss due to changed market conditions and market prices. Interest rate risk as well as currency risk have been classified as secondary risk categories, since J.P. Morgan AG does not maintain an active trading book.

J.P. Morgan AG does not hold any shares or enter into any equity derivatives (e.g., forwards, options, futures). Thus, share price risk is currently fully excluded from the firm's risk strategy.

Interest rate risk result mainly from J.P. Morgan AG's treasury activities in managing its € liquidity, while currency risk is solely generated through the daily coverage of client FX positions at a very limited scale.

The management of market risk is defined in the firm's business and risk strategy and governed by the Treasury Policy, defining limits for J.P. Morgan AG's interest-rate and currency positions. These positions are valued and adequately monitored.

J.P. Morgan AG's interest-rate risk is managed against a basis-point value limit with a view to closing down any risk positions beyond one month. Within the framework of the firm's risk capacity the consequences of a 200 basis point shift is being used as a stress scenario. Only a spot limit has been defined for the management of the currency risk.

Treasury & Credit Control is responsible for the daily monitoring of these limits. Usage of limits and impact on the firm's risk capacity is reported to the J.P. Morgan AG Management Board on a monthly and quarterly basis.

4.3. RISK CONTROL

4.3.1. Risk Capacity

The Chief Financial Officer (CFO) is responsible for the daily monitoring of the firm's risk capacity and compliance with regulatory capital requirements. Like the Credit Officer and the COO he reports directly to the chairman of J.P. Morgan AG's Management Board. In order to calculate the economic capital requirements, J.P. Morgan AG makes use of the standardized credit-risk approach ("Kreditrisiko-Standardansatz"), the basis indicator approach for operational risk, and marked-to-market for market risks.

A detailed analysis of the firm's risk capacity, using various stress scenarios with regard to credit risk and liquidity risk, is undertaken on a quarterly basis. The results of this analysis are summarized in the quarterly MaRisk Report and presented to the J.P. Morgan AG Management- and Supervisory Board.

4.3.2. Definition of Limits

A series of limits have been defined, complementary to the regulatory limits of LiqV and SolvV, which are monitored on a daily basis. The limits are defined in the treasury policy and comprise deposit guidance limits, bidding limits, position limits as well as J.P. Morgan AG minimum warning thresholds.

The treasury policy has been approved by the Management Board and gets updated on a regular basis. In addition, the treasury policy defines roles and responsibilities as well as escalation procedures in the event of threshold excesses or even limit breaches.

4.3.3. Approval of New Products & Markets

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

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

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

5. Group Consolidation (Section 323 SolvV)

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

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

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

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

6. Own Funds Structure (Section 324 SolvV)

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

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

J.P. Morgan AG had increased its capital base in 2009 to accommodate the growth in its business platform and be prepared for imminent changes to the EU Capital Requirements Directive.

Table 2 below shows the structure of own capital:

TABLE 2:

Structure of Own Capital	
	T€
Nominal capital	160,000
Capital reserves	85,311
Profit reserves	59,738
§ 340 g, reserve for general banking risks	56,300
Tier I capital	**361,349**
1st grade	
Profit part.rights (J.P. Morgan Beteiligungs- u. Verwaltungsgesellschaft mbH)	150,000
2nd grade	
Subordinated debt (J.P. Morgan International Finance Limited)	150,000
Tier II capital	**300,000**
Liable capital under banking regulations (Total Tier I + II)	**661,349**

6.1. CORE CAPITAL (TIER I)

6.1.1. Nominal Capital

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

6.1.2. Capital Reserves

Capital reserves exist in the amount of € 85,311,214.

6.1.3. Revenue Reserves

Revenue reserves comprise of a statutory reserve of € 6,000,000 and other revenue reserves of € 23,777,629, as well as profits carried forward of € 29,960,282.

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

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

6.2. SUPPLEMENTARY CAPITAL (TIER II)

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

The supplementary capital was restructured in December 2009.

6.2.1. Participation Rights

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

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

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

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

6.2.2. Subordinated Debt

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

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

7. Capital Adequacy (Section 325 SolvV)

The regulatory capital requirements according to SolvV as of December 31, 2010 were the following:

TABLE 3:

Capital Requirements	
Counterparty credit risk	**T€**
Standardized approach (CRSA)	120,514
thereof:	
Central governments or central banks	25
Institutions	107,034
Corporates	1,305
Retail	1
Investments	20
Collective investments undertakings (CIU)	6,881
Other items	5,248
Market risk	
Standardized approach (SA)	17,277
Operational risk	
Basic indicator approach (BIA)	16,519
Total capital requirements	**154,310**

As at December 31, 2010, the capital ratios for J.P. Morgan AG were as follows:

TABLE 4:

Capital Ratios	Total capital ratio in %	Tier I capital ratio in %
Name		
J.P. Morgan AG, Frankfurt am Main	33.56	18.01

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

8.1. COUNTERPARTY CREDIT RISK (CCR)

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

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

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

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

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

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

TABLE 5:

CCR – Total Exposure	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Total volume of exposures	**14,330,673**	**133,779**	**118,389**

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

TABLE 6:

CCR – Geographical View	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Germany	3,781,397	101,301	0
Europe (without Germany)	10,147,583	32,478	71,510
America	399,886	0	46,879
Asia	1,613	0	0
Australia	135	0	0
Africa	59	0	0
Total volume of exposures	**14,330,673**	**133,779**	**118,389**

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

TABLE 7:

CCR – Total Exposure by Industry	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
Central governments or central banks	3,043,080	0	0
Regional governments	200,468	0	0
Institutions	10,981,983	0	118,389
Corporates	105,127	133,779	0
Retail	15	0	0
Total volume of exposures	**14,330,673**	**133,779**	**118,389**

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

TABLE 8:

CCR – Total Exposure by Residual Maturity	Loans, credit facilities and non-derivative off balance sheet positions	Securities	Derivatives
	T€	T€	T€
< 1 year	13,583,935	0	5,720
1 year – 5 years	685,805	0	53,051
> 5 years – perpetuity	60,933	133,779	59,618
Total volume of exposures	**14,330,673**	**133,779**	**118,389**

8.2. SPECIAL DISCLOSURE OF DERIVATIVE COUNTERPARTY CREDIT RISK

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

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

In order to minimize the credit risk resulting from the derivative positions taken, J.P. Morgan AG has taken cash deposits in USD and EUR from JPMorgan Chase Bank, N.A., London Branch. Utilization of the cash deposit is monitored on a daily basis in order to ensure that the credit risk is always nil. In the event that the cash deposit is not sufficient, an additional cash deposit would

be requested from JPMorgan Chase Bank, N.A., London Branch. The counterparty credit risk is quantified on the basis of the credit equivalent amount, which consists of the positive replacement amount and an add-on.

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

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

TABLE 9:

Positive Gross Value of Derivative Instruments	Gross positive fair value
Type of contract	**T€**
Interest rate	0
Foreign exchange	0
Equity	46,308
Credit derivatives	0
Commodities	0
Other	0
Total	**46,308**

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

TABLE 10:

Regulatory Counterparty Credit Risk	Counterparty credit risk	Netting	Collateral arrangements	Counterparty credit risk with netting and collateral applied	Nominal amount
Type of contract	**T€**	**T€**	**T€**	**T€**	**T€**
Interest rate	0	0	0	0	0
Foreign exchange	0	0	0	0	0
Equity	118,389	0	118,389	0	789,340
Credit derivatives	0	0	0	0	0
Commodities	0	0	0	0	0
Other	0	0	0	0	0
Total	**118,389**	**0**	**118,389**	**0**	**789,340**

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

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

8.3. DISCLOSURE BY CRSA EXPOSURE CLASSES (SECTION 328 SOLV V)

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

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

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

8.4. CREDIT RISK MITIGATION TECHNIQUES (SECTION 336 SOLV V)

To mitigate the credit risk J.P. Morgan AG uses a cash collateral of € 500 million for non-bank chain subsidiaries.

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

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

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

The table below demonstrates the credit risk mitigation effect.

TABLE 11:

Counterparty Credit Risk – Disclosure for CRSA Exposure Classes	Financial collateral	Guarantees and credit derivatives
Asset class	T€	T€
Central governments or central banks	0	0
Institutions	3,799,549	118,389
Corporates	0	5,007
Retail	0	0
Investments	0	0
Collective investments undertakings (CIU)	0	0
Other items	0	0
Total	**3,799,549**	**123,396**

8.5. INVESTMENTS IN THE BANKING LEDGER

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

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

The book value as of Dec. 31, 2010, was € 244,499.

8.6. DISCLOSURE OF MARKET RISK (SECTION 330 SOLV V)

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

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

TABLE 12:

Capital Requirements for Market Risk	Capital requirement
Market risk category	T€
Interest rate risk	0
Equity risk	0
Foreign exchange risk	17,277
Commodities risk	0
Other risks	0
Total	**17,277**

8.7. DISCLOSURE OF OPERATIONAL RISK (SECTION 331 SOLV V)

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

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

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

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

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

TABLE 13:

	Relevant indicator acc. to sec. 271 SolvV			
Capital Requirements for Operational Risk	2009	2008	2007	Capital requirement
	T€	T€	T€	T€
Basic indicator approach	94,267	119,894	116,219	16,519

INDEX OF TABLES