J.P.Morgan

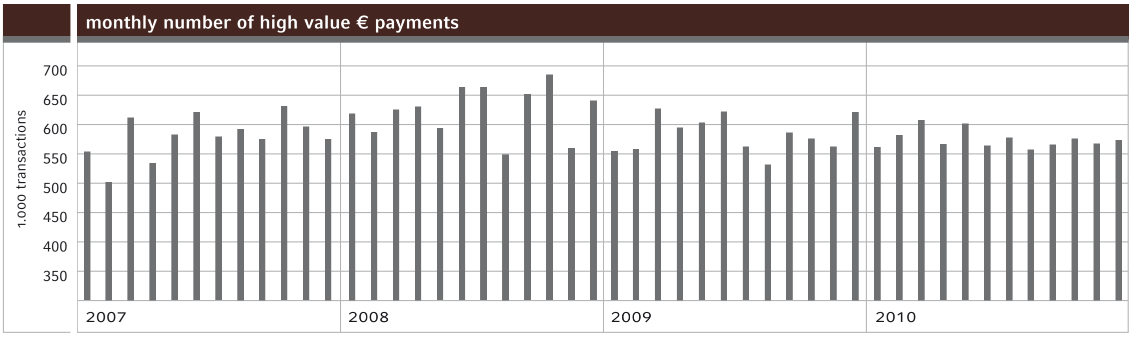
ANNUAL REPORT 2010 OF J.P. MORGAN AG

KEY FIGURES J.P. MORGAN AG

€ MILLION	2010	2009	2008	2007
Total net revenues	90.9	96.8	120.0	116.3
Total expenses	68.8	80.8	94.0	87.4
Income before tax	22.1	24.6	25.9	29.0
Net income	22.1	16.0	25.9	28.9
Equity	**305.0**	**291.1**	**149.0**	**143.5**
ROE	7 %	6 %	17 %	20 %
Overhead ratio	76 %	83 %	78 %	75 %
Pretax margin ratio	24 %	25 %	22 %	25 %

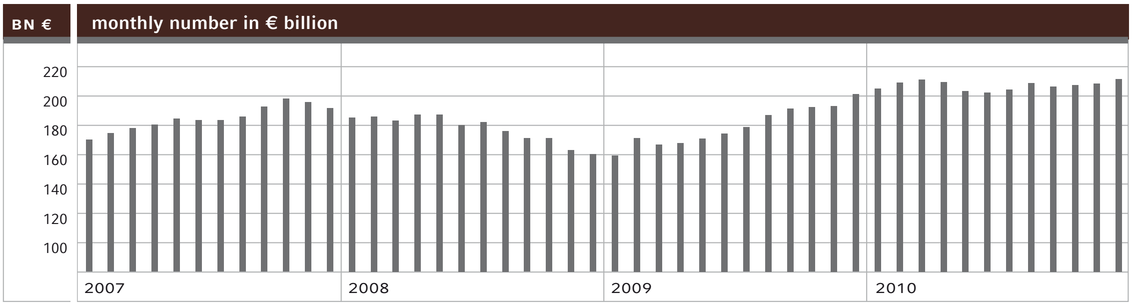
HIGH VALUE PAYMENTS

> PAGE 2: TREASURY SERVICES



ASSETS UNDER CUSTODY

> PAGE 3: WORLDWIDE SECURITIES SERVICES



CONTENT

Annual Report 2010

MANAGEMENT REPORT 2010

Business and Regulatory Framework

ORGANIZATION AND LEGAL STRUCTURE

J.P. Morgan AG, resident in Frankfurt am Main, is an indirectly owned 100 % subsidiary of JPMorgan Chase & Co. resident in Columbus, Ohio, USA. J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH in Frankfurt am Main is the direct shareholder of J.P. Morgan AG with whom a control and profit/loss transfer agreement exists.

J.P. Morgan AG is managed by a Management Board "Vorstand", consisting of three members and controlled by a Supervisory Board "Aufsichtsrat" with six members. The Management Board meets at least once a month, whereas the Supervisory Board meets at least twice a year. In addition, since 2010, the Supervisory Board together with the Management Board and the Functional Heads meet twice a year to discuss the risk reports. Likewise, since 2010, an Audit Committee of the Supervisory Board exists. The Supervisory Board is also informed on a quarterly basis by means of a risk report in compliance with the MaRisk (Minimum Requirements for Risk Management). The individual names of all Board Members are listed in the Notes.

The Bank has a full license according to section 1 para. 1 German Banking Act (KWG, nos. 1 to 5 and 7 to 9) and conducts banking business with institutional clients, banks, corporate clients and public-sector clients.

BUSINESS SEGMENTS AND ESSENTIAL PRODUCTS & PROCESSES

J.P. Morgan AG is an integral part of the global J.P. Morgan Group and forms the backbone of J.P. Morgan's operations in Germany. The full integration into J.P. Morgan's global Treasury & Securities Services segment is of crucial importance, as it provides us with the necessary international production network to deliver client services that do full justice to J.P. Morgan's mission "First class business in a first class way". In 2010, the Bank further continued to concentrate on its core businesses in order to meet J.P. Morgan's endeavor to develop its Frankfurt base into its European flagship bank for €-payment transactions and its global custodian for the German investment market.

TREASURY SERVICES

J.P. Morgan AG is globally responsible for the Group's €-clearing operations. In coming years, alongside political developments to generate a unified payment area in Europe and ongoing high investments into our technology, we expect to deliver our leading global technology and our client service to a growing number of corporate clients and financial institutions in the mass payment market in Europe, centrally managed from J.P. Morgan AG and in close cooperation with our sister companies and to achieve substantial business growth.

On the basis of our global infrastructure capabilities, 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 substantial enlargement of our international footprint within our Global Corporate Banking concept enable our sales teams to offer ever more far-reaching global cash management concepts with notable advantages in the management of liquidity, particularly for our international clients. Together with our service concept, which we have moved forward, this has in turn sparked further growth in cash management and supply chain financing with selected target clients.

WORLDWIDE SECURITIES SERVICES

Within the Group's global Worldwide Securities Services segment, the Bank plays the role of a fully-licensed custody bank, and has been offering services as a global custodian to German institutional clients since as long as 1995. As a global custodian the Bank services 156 investment funds across 546 different segments on behalf of its clients. Alongside global custody services relating to securities safekeeping and trade transaction settlement, our extended service range includes diversified products and additional services, in particular client reporting.

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.

KEY SALES MARKETS AND COMPETITIVE SITUATION

In Treasury Services we differentiate between relationship management and our function as global operating hub for € Clearing Operations. In relationship management, J.P. Morgan AG is responsible for institutional clients, banks, corporate clients and public-sector clients domiciled in Germany or Austria, including subsidiary companies domiciled in these two countries whose parent companies are registered elsewhere.

Based on our global worldwide responsibility in the group for € Clearing Operations, which we manage with a core team in Frankfurt am Main and teams in sister companies of the Group in Mumbai (India) and in Manila (Philippines), J.P. Morgan AG services clients from the multitude of countries where the J.P. Morgan Group is active. Measured by payment values in TARGET2 and EBA, J.P. Morgan AG belongs to the three largest € clearers in Germany in terms of the scale of daily payments settled daily.

In Worldwide Securities Services we offer our services as a custodian bank according to the German Investment Act foremost to special funds under German law and for direct investments by institutional clients, corporate clients and public-sector clients in Germany, including subsidiary companies domiciled in Germany whose parent companies are registered elsewhere. J.P. Morgan AG is one of the top three custodian banks in Germany.

KEY LEGAL AND BUSINESS FACTORS

In regards to its Treasury Services segment, the business of J.P. Morgan AG is primarily influenced by global economic trends and the level of interest rates, 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.

INTERNAL CONTROL SYSTEM AND KEY INDICATORS

In addition to regular meetings of the Management Board and the Supervisory Board, a local operating committee with all key corporate functions represented on it manages corporate governance in everyday business 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.

The Treasury Services and Worldwide Securities Services segments are each managed by one Member of the Board ("Markt") and are controlled by a Member of the Board ("Marktfolge"), respectively. In addition to the key controlling variables of interest income and commission income, a conservative risk policy that in particular narrowly limits credit and counterparty risk provides the basis for successful management of J.P. Morgan AG by the Management Board.

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

Over and above this, all data representing loan utilization, overdrafts, level of collateral and key ratios according to SolvV and LiqV are produced on a daily basis by the Finance and Credit teams for the Management Board. These reports were completely redesigned in the year under review and will continuously be advanced to reflect the increased operational risk in the wake of the financial crisis.

All new governance regulations called for by the new large exposure regime (GroMiKV), as well as the new requirements for Compliance (MaComp) have been implemented before year-end and have been fully documented by 31 March 2011. The expanded requirements under the MaRisk guidelines (minimum requirements for risk management) are under implementation, to be completed by 31 August 2011 at the latest.

BUSINESS DEVELOPMENT

In 2010, J.P. Morgan AG's business in general benefited from the macroeconomic developments, however, our results are still suffering from the zero interest rate policy introduced by the central banks. Although the migration of funds for a large investor has lead to a slight decrease in the number of funds in Worldwide Securities Services, we were able to grow assets under custody through successful new business. Due to the time lag between migration and new business, however, revenues have slightly decreased. In Treasury Services we were able to consequently enlarge our client – and business base, leading to higher revenues. Total assets increased strongly, mainly on the back of Treasury transactions and increasing deposits from banks.

Total operating profit before taxes reached € 22.1 million, an increase of nearly 38 % against the year before. Components of this result have developed very differently. With fee income growing steadily, our net interest income fell massively again, leaving us with a net operating income of 10 % below the year before. The overall increase of the operating profit before taxes is exclusively the result of the discontinuation of the extraordinary expenses occurred last year for the adjustments under BilMoG. Even though the Bank once more was able to avoid any credit losses due to its conservative credit policy, the result is not really satisfactory given the slump of our net interest result.

PERSONNEL

Despite the business growth the number of employees at J.P. Morgan AG increased only slightly by 1 % from 245 to 248 as at year-end. In 2010, the attrition rate could be reduced from 20 % to 10 %, reaching a more normal level. 12 % of all employees made use of flexible work arrangements offered.

In line with our business concept we continue to put the highest emphasis on the qualitative selection of hires and continued learning and training programs for our staff. The J.P. Morgan AG human resources policy focuses on the highest level of quality and diversity, and the Bank is simultaneously committing to adjusting to the needs of our employees as far as possible.

Earnings, Financial and Assets Position

EARNINGS

Despite continued business growth, as reflected in an increase of 2.6 % in commission income reaching € 62.0 million, in the year under review J.P. Morgan AG was affected by the central banks' near-zero interest rate policy, with interest income again falling sharply by 50 % on the year (from € 16.8 million to € 8.3 million). Other operating income, first and foremost entailing services to other group units, grew by 6.7 % to reach € 17.9 million.

Under strict cost management and the further use of group wide production platforms administrative expenses could be reduced by 4.2 % against year before. Earnings before taxes increased by 38 % or € 6.1 million to € 22.1 million, primarily based on the discontinuation of the extraordinary expenses incurred last year. Taxes on income are consolidated for the Bank and its sole shareholder J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main, with which a control and profit/loss transfer agreement exists.

FINANCING & LIQUIDITY

Principles and Objectives

J.P. Morgan AG's balance sheet is driven by deposits provided by our institutional clients and banks through the € Clearing segment and the custodian bank business. Clients are enabled to utilize credit solely in the form of intra-day lines and short-term overnight overdrafts to cover technical shorts in cash positions in both business segments. Excess liquidity generated by these deposits in both business segments is placed in short-term deposits either within the Group or with first-class banks and through GC Pooling at EUREX.

In principle, our general objectives indubitably include permanent liquidity and a risk-averse credit policy for the excess liquidity generated. It is our conscious business policy to waive potential opportunities to take higher interest income through increased counterparty risk or through term transformation.

In the year under review, J.P. Morgan AG at all times held sufficient liquidity despite the ongoing imbalances on the money markets caused by the central banks in response to the financial crisis. The liquidity ratio is managed conservatively; it reached 1.40 at year end and averaged 1.67 for the year.

Capital Structure

After attestation of the year end accounts the regulatory capital of J.P. Morgan AG has increased by € 13.9 million to € 661 million and is subdivided as follows as per 31 December 2010:

Tier 1:	€ 347	million share capital, reserves and reserves for general banking risks
Upper Tier 2:	€ 150	million profit participation loan
Lower Tier 2:	€ 150	million subordinated loan
Total Tier 2:	€ 300	million

Off Balance Sheet Business

Within the business of Trade Finance most credit risk exposure in the form of contingent liabilities taken on J.P. Morgan AG's own books continue to be directly collateralized through sister companies within the Group.

Cash Flow

in € thousands	2010	2009
Cash position at the end of previous year	384	37,038
Cash flow from operating activities	925,833	−340,142
Cash flow from investment activities	−595,724	447
Cash flow from financing activities	10	302,981
Effects of exchange-rate changes	−10	60
Cash position at the end of the year	**330,493**	**384**

Assets & Liabilities

Receivables from clients decreased by € 1,923 million to € 113 million owing to reduced utilization of short-term overdraft lines; deposits by clients fell by € 680 million to € 4,125 million by year-end. Assets from banks grew by € 5,342 million to € 12,910 million, and liabilities grew by € 5,037 million to € 8,898 million by year-end. The high increase for assets and liabilities from banks is primarily caused by Treasury activities.

J.P. Morgan AG's balance sheet thus grew again reaching € 13,997 million at year-end 2010. The solvability ratio was at 33.56 at year-end and averaged 27.58 for the year.

Endorsement

There are no reportable events after the close of business 2010.

Risk Report

MANAGEMENT AND CONTROLLING

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

Control functions which are independent of J.P. Morgan AG's front-office departments are in charge of the operational implementation of the risk control and monitoring, taking into account the Group-wide infrastructure and policies. Control functions in J.P. Morgan AG comprise, in particular, the Chief Credit Officer (CCO) for the controlling and monitoring of credit risks and the Chief Operating Officer (COO) for global risk management including the controlling of market price, liquidity as well as operational risks.

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

- The risk strategy is directly derived from the business strategy of J.P. Morgan AG and is defined accordingly by the Management Board. Both the business and the risk strategy are approved each year by the Supervisory Board. Actual implementation takes into consideration the Group's policies.
- There are clearly defined organizational structures and documented processes for all risk categories, and from these the responsibilities and competencies of all functions involved are then derived.
- The organizational and operational structure of J.P. Morgan AG follows the principle of a clear segregation of duties between Front Office ("Markt") and Back Office ("Marktfolge") in order to avoid conflicts of interest.
- The Bank has defined and put in place the necessary processes for identifying, aggregating, managing, monitoring and communicating risks in light of the Group-wide infrastructure.
- Appropriate limits for all significant risk categories have been adequately defined and are effectively controlled.

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 CCO and the COO he reports directly to the member of the J.P. Morgan AG Board representing the Back Office ("Marktfolge").

A timely and independent system of reporting to the Management Board, covering the risk categories of credit risk, market price risk, liquidity risk and operational risk has been established on a daily, weekly, and monthly basis, with quarterly summaries in the form of the MaRisk Report issued by the COO.

The risk capacity is controlled on an on-going basis. The economic capital used for the various risk categories in the year under review is shown in the table below (all amounts in € thousand). Fluctuations in the utilization of the liable equity capital, in particular owing to credit risk, mainly arise owing to the scale of excess liquidity and counterparty classification for the investment of the surplus liquidity.

The Internal Audit function reports directly to the Chairman of the Management Board and reviews the Bank's business activities based on a risk-oriented audit approach, covering all inhouse and outsourced activities and processes. In addition, J.P. Morgan AG relies on the group-wide internal audit activities of J.P. Morgan Chase Bank, N.A., London. In 2010, we ini-

in € thousands	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009
Risk category					
Credit risk	120,514	139,474	117,250	141,043	135,820
Operational risk	16,519	16,519	16,519	16,699	16,699
Market risk	17,277	16,831	17,401	10,324	9,763
Economic capital	**154,310**	**172,824**	**151,170**	**168,066**	**162,282**
Risk covering potential	647,400	647,400	647,400	631,389	631,389

tiated an external assessment of our Internal Audit function, the result of which was positive.

RISK CATEGORIES

Credit Risk

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

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 for 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 Bank's overall approach to risk management.

By means of its credit risk strategy, the Management Board defines the risk profile in regards to its clients and credit products. Moreover, credit organization and processes for risk management, potential measures to minimize risk and risk reporting are defined more closely in the Group-wide policies and in the J.P. Morgan AG MaRisk Guidelines. The Management Board takes credit decisions on the basis of the clearly defined separate responsibilities of "Markt" and "Marktfolge".

Worst-case scenarios are calculated regularly. Even assuming an extreme scenario of complete usage of intra-day settlement limits by all clients at the same time, the liable equity capital of J.P. Morgan AG is sufficient to comply with the GroMiKV and SolvV regulations.

Daily monitoring of counterparty default risk at the individual client level is done by Treasury & Credit Control, using the Group-wide credit limit control system, which records individual limits and utilization at the account level and/or at the level of single borrower units ("Kreditnehmereinheit"). Daily activities mainly focus on the monitoring of intra-day and overdraft facility usage. A new form of daily reporting was developed in 2009 for the daily exposures, all new accounts and facilities, and all changes of existing facilities; the report is controlled and approved on a daily basis by either the COO or the respective Member of the Board depending on the responsibilities assigned.

Moreover, compliance with the approved limit structure, the monitoring of J.P. Morgan AG's risk capacity as well as the analysis of the Bank's portfolio (e. g., maturities, credit products, segments and countries) including concentration risk is summarised in monthly and quarterly reports to the Management Board. J.P. Morgan AG has procedures for intensified loan management as well as the treatment of problematic loans, but did not require the application of these procedures during 2010.

Operational Risk

Operational Risk is defined under supervisory regulations as the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. This definition also covers legal risk which is defined as the risk of loss resulting from failure to comply with the framework set down by law and legal judgements owing to a lack of knowledge, insufficiently careful application of the laws or no timely response to changes in the legal framework. The necessary processes for identifying, measuring, aggregating, managing, monitoring and communicating risks are stipulated in Group-wide risk policies and guidelines and stated in the J.P. Morgan AG OpsRisk Manual, for which the Chief Operating Officer and the local operational risk manager are responsible.

J.P. Morgan AG calculates the Operational Risk Capital Requirement (ORCR) using the basic indicator approach (BIA). As part of risk monitoring, J.P. Morgan AG simulates the possible interest loss from delays in daily settlements by the Treasury Services and Worldwide Security Services segments.

A regular inventory of all processes is carried out to monitor the quality of operational risks. The inherent risks of the inventory are likewise reviewed and allows for an in-depth analysis of inherent risks. The final assessment of the residual risks and of possible weaknesses in individual processes is based on the results of the institutionalised damage report assessment, which stores quantitative information on OpsRisk events and on the results of a control self assessment. For those processes, corresponding risk mitigation action plans are then defined. The COO provides a summary of these results and possible risk events to the J.P. Morgan AG Board in his quarterly MaRisk Report.

Independent whether functions are out-sourced or merely off-shored within the wider JPMorgan Group; all such functions and processes will be judged according to complexity and risk potential within risk-oriented outsourcing controlling. The result of such an assessment forms the basis of a decision on the intensity of the outsourcing controlling and may result in monthly controls and discussions at the Governance meetings.

Operational risks are essentially limited in the framework of business continuity, destined to enable due operation of critical processes, such as to give J.P. Morgan AG the resiliency to recover from an incident which may impact the business. The resiliency risk scenarios include loss of people, unavailability of IT systems as well as the closure of its office building. Corresponding recovery plans have been developed incorporating the group-wide infrastructure and are tested on a regular basis.

Liquidity Risk

J.P. Morgan AG defines liquidity risk as the risk of loss arising from the firm's inability to meet its current or future commitments in total or when they come due.

The management and monitoring of liquidity risk is defined in binding fashion by the Management Board of J.P. Morgan AG in the Bank's business and risk strategy, whereas the treasury policy defines the framework for implementation of J.P. Morgan's liquidity risk strategy and includes, among other things, daily control of J.P. Morgan AG's liquidity position and measures to preserve such.

The J.P. Morgan AG Management Board has decided to set aside a fixed amount of € 100 million to cover liquidity risk. Additionally, the treasury policy defines a number of stress scenarios which analyse the effects of sudden withdrawals of liquidity on the liquidity situation and thus J.P. Morgan AG's capacity to act. Stress scenarios include both the sudden outflow of liquidity as well as a sudden increase in utilization of credit lines. Scenarios are then calculated assuming the day of lowest excess liquidity in the given quarter. In both scenarios, J.P. Morgan AG's liquidity needs are covered.

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

Market Price Risk

J.P. Morgan AG defines market price risk as the risk of loss due to changed market prices. Given J.P. Morgan AG's business activities, only interest rate risks as well as exchange-rate risks have an impact, if a limited one, while share price and commodity price risks have no importance whatsoever for the Bank's risk profile.

Since J.P. Morgan AG has no active trading ledger, interest rate risks arise solely in treasury management of € liquidity. Exchange-rate risks are solely generated through the settlement of FX payments on behalf of clients who hold a payments transaction or deposit account with J.P. Morgan AG and from intra-Group settlements in US $.

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

To calculate interest rate risk for its investment ledger, J.P. Morgan AG uses the basis point-interest approach. To monitor risk in regards to risk capacity, J.P. Morgan AG calculates the impact of a shift of 200 basis points as a stress scenario for the interest rate risk. Given the low exposure exchange-rate risks are solely limited by ceilings for spot positions.

The basis point-interest approach is also used to monitor interest risks in the debentures portfolio and the related interest swaps and total return swaps, with separate limits.

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

RISK CONTROL AND MONITORING

Risk Capacity

The CFO is responsible for the daily monitoring of the Bank's risk capacity and compliance with regulatory capital requirements. He reports directly to the member of the J.P. Morgan AG Board representing the Back Office ("Marktfolge"). In order to calculate the economic capital requirements, J.P. Morgan AG applies (a) the credit risk standard approach, (b) the basis indicator approach for operational risk and, (c) the basis point-interest approach for market price risks.

A detailed analysis of the Bank's risk capacity, using various scenario analyses and stress scenarios, is performed on a quarterly basis for all risk categories. The results of this regular analysis is summarised in the quarterly MaRisk Report and presented to the Management Board of J.P. Morgan AG by the COO.

Definition of Limits

A series of limits were defined, complementary to the regulatory limits of LiqV and SolvV, and monitored on a timely and daily basis, especially for the controlling of the Bank's liquidity risks. These limits are defined in the J.P. Morgan AG treasury policy and comprise deposit guidance limits, bidding limits, position limits as well as J.P. Morgan AG minimum liquidity warning thresholds.

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

Approval of New Products & Markets

The introduction of new products and the expansion of business into new markets occurs in line with the Group-wide "New Business Initiative Policy". The COO is responsible for an analysis of the potential risks, the design of the operative processes, their regulatory impact, and their impact on J.P. Morgan AG's risk capacity. If the product involves an expansion of trading activities, the COO 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 and Risk Management as co-ordinated by the COO guarantees a review of the planned product launch independent of the trading function. This committee documents its findings along with a recommendation, which are then submitted for discussion and approval by the Management Board as a whole. Only after approval, is the initiative integrated into real production at J.P. Morgan AG.

INTERNAL CONTROL SYSTEM

General remarks

The internal control system (IKS) and the risk management system, that cover the J.P. Morgan AG accounting processes, focus on the guidelines, procedures and measures taken to ensure the efficacy, economic viability and orderliness of the accounting as well as to guarantee adherence to the key statutory regulations. The internal control system consists of two areas, Control and Monitoring. In organizational terms, the Financial Control section is responsible for IKS management.

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 P&L account are examined to assess their correct presentation and the risks, and the validity then confirmed. 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 the due expertise

(Head of Finance) and specialist functions such as Financial Control and Internal Audit take part in the process-integrated monitoring and control functions.

The Management and Supervisory Boards (in particular the Audit Committee) as well as an auditing company 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 the 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.

Use of IT

The software used in the Bank to input accounting processes is made up of the IT systems 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 auditors check the due operation of the accounting-relating applications at all computer center 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 debts 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 Standard Boards 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 regards to the intra-Group settlement policies. In the framework of preparing the individual financial statements of J.P. Morgan AG, a reconciliation statement is prepared from US-GAAP to the annual financial statements under HGB, compiled in 2009 in concurrence with the new regulations of BilMoG. Here, local work directives cover the details of the formal requirements for the individual financial statements.

Outlook

FUNDAMENTAL CHANCES AND RISKS FOR THE COMING YEARS

J.P. Morgan AG is very well positioned to benefit enduringly and over-proportionally in coming years due to the various initiatives on sharpening the profile, in corporate governance and risk management carried out in recent years, and which we constantly adapt to reflect the market and new regulatory requirements.

This situation is supported by the leading position of J.P. Morgan globally and the Group's continued investments in the technology used in our business and not least our constant local effort to provide highest-quality services, best people management and a prime customer focus. Risks to our business are limited in our view to a potential overreaction of regulators after the experience of the financial crisis. However, we assume that regulators world-wide will develop and introduce a coordinated and measured concept for the regulation of financial markets in such a way as to avoid negative consequences for economic and capital market activity.

Expectations on the Bank's future performance

Staying with our on-going and consistent conservative credit policy during the next two years with a continued recovery of the economy we do not expect credit losses. We expect an increase in our commission income due to re-newed growth in business and capital market activities. With regard to interest income, we only expect consolidation at the low level due to the low nominal interest rate environment and our continued conservative credit policy without any term transformation, as well as a certain recovery of our interest income in the course of 2011 and 2012 after a first interest rate increase early 2011.

Assumptions

These expectations are based on our assumption of a continuation of a recovery of the economy in coming years as well as a finally successful management of the various risks and crises by politics. We also believe that the ECB will only be able to start a slow exit strategy and expect gradual increases in the levels of interest rates only.

Development of Segments

Based on the scenario described above we will continue to implement rigorous cost discipline in both segments. Last year, we started to enhance efficiencies without sacrificing the quality of our services or the investments into technology. We will continue to expand our efforts to win new clients. Last year, we invested significantly in upgrading our client service areas in both segments, and expect further returns on these investments this business year.

Liquidity & Solvency

J.P. Morgan AG is solvent at all times owing to the business-model-driven structure of our balance sheet. In addition, the Bank will continue to manage a high liquidity ratio, which came to 1.58 on March 25, 2011, and will continue to stay away from term transformation to achieve an additional interest rate margin.

Assurance by the Board

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

Frankfurt am Main, April 14, 2011

J.P. Morgan AG
Frankfurt am Main
The Board

THOMAS MEYER

OLIVER BERGER

BURKHARD KÜBEL-SORGER

Financial statements for 2010 J.P. Morgan AG

BALANCE SHEET AS AT DECEMBER 31, 2010 OF J.P. MORGAN AG, FRANKFURT AM MAIN

ASSETS

in € thousands	Note	2010	2009
Cash	2.1.	330,493	384
Receivables from banks	2.2.	12,910,414	7,568,804
Receivables from clients	2.3.	113,816	2,036,415
Bonds and other fixed income securities	2.5.	601,570	0
Shares and other non fixed income securities		0	0
Participations	2.4.	244	244
Fixed Assets	2.6.	9,316	11,823
Other Assets		7,155	12,260
Prepaid and deferred expenses		91	38
Capitalized difference from netting assets	2.7	23,463	16,199
Total		**13,996,562**	**9,646,167**

LIABILITIES AND STOCKHOLDERS EQUITY

in € thousands	Note	2010	2009
Liabilities due to banks	2.9.	8,897,890	3,860,478
Liabilities due to clients	2.10.	4,125,175	4,805,586
Securitized liabilities	2.11.	256,596	265,546
Other liabilities	2.12.	44,566	57,467
Deferred income		21	108
Reserves	2.13.	10,922	9,550
Subordinated debt	2.14.	150,043	150,032
Profit participation rights	2.15.	150,000	150,000
Fund for general banking risks	2.16.	56,300	56,300
Paid-in capital	2.18.	305,049	291,100
Total		**13,996,562**	**9,646,167**
Contingent liabilities	2.21.	139,773	144,465
Other commitments		0	0

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

FOR THE PERIOD JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

in € thousands	Note	2010	2009
Interest income		58,006	81,447
Interest expense		49,672	64,686
Interest subtotal	**3.1.**	**8,334**	**16,761**
Income from shares and other variable rate securities		2	42
Income from investments		4	
Investment subtotal		**6**	**42**
Commission income		70,870	70,171
Commission expenses		8,853	9,719
Commission subtotal	**3.2.**	**62,017**	**60,452**
Net income from financial transaction		–	223
Other operating income	3.3.	17,912	16,789
General administrative expenses	3.4.	65,895	68,755
Amortization and depreciation of fixed and intangible assets		2,630	3,317
Other operating expenses		264	134
Amortization and value impairments on receivables and specific securities as well as allocation to loans-business accruals		–	–
Income from allocations to receivables and speficifc securities as well as allocations to loans-business accruals	3.5.	2,624	2,538
Other subtotal		**−48,253**	**−52,656**
Net operating income		**22,104**	**24,599**
Extraordinary income		–	0
Extraordinary expenses	3.6.	–	8,574
Extraordinary result		**–**	**−8,574**
Income tax expense (benefit)			
Other taxes		13	14
Profits transferred as a result of a profit transfer of partial profit transfer agreement	2.12.	8,142	–
Net income for the year		**13,949**	**16,011**
Retained earnings		**16,011**	
Unappropriated profit		**29,960**	**16,011**

J.P. MORGAN AG, FRANKFURT AM MAIN, APPENDIX FOR FINANCIAL STATEMENTS 2010

1. General Remarks

1.1. GENERAL PRINCIPLES

J.P. Morgan AG, Frankfurt am Main, is a registered stock corporation under German law active in Germany in the main segments of transaction banking, securities custody and deposit and loans business.

The J.P. Morgan AG balance sheet and the P&L account have been prepared according to the regulations of the German Commercial Code (HGB) and the Decree on Accounting for Banks and Financial Service Providers.

The new regulations of the HGB as outlined in the Balance Sheet Law Modernization Act (BilMoG) in the version of May 25, 2009 as well as the related section 66 para. 2 sentence 1 EGHGB in the new amended version are applied since the annual financial statements of 2009.

Given our classification as a corporation focused on the capital market as per section 264d HGB, we are obliged to prepare a cash flow statement and a schedule of movements in equity.

The structure of the balance sheet and the P&L account are unchanged over the prior year.

1.2. CHANGED ACCOUNTING AND VALUATION METHODS

The balance sheet and income statement formats are consistent with those in the previous year.

1.3. FOREIGN CURRENCY TRANSLATION

Foreign-currency receivables and liabilities have been converted using the European Central Bank reference rates applicable at year-end. Transactions denominated in foreign currency were translated at the end-of-month rate for the month in which the business was transacted. Currency gains/losses are booked to the P&L item for “Other operating income”.

2. Key accounting and valuation principles and explanations

2.1. CASH RESERVE

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Cash reserve	**330,493**	**384**
Cash balances	–	–
Credit with Central Bank	330,493	384
of which: with Deutsche Bundesbank	330,493	384

Liquid funds are carried at nominal values. At year-end, the liquidity was deposited with Deutsche Bundesbank.

2.2. RECEIVABLES FROM BANKS

in € thousands (§ 9 RechKredV)	Dec. 31, 2010	Dec. 31, 2009
Receivables from banks	**12,910,414**	**7,568,804**
of which: Receivables from affiliates	10,184,942	5,481,426
Structure of maturity		
– due daily	9,824,797	1,909,108
– other maturity	3,085,616	–
1. up to three months,	3,085,616	4,856,971
2. three months up to one year,	–	802,725
3. one year up to five years,	–	–
4. more than five years	–	–

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

2.3. RECEIVABLES FROM CLIENTS

in € thousands (§ 9 RechKredV)	Dec. 31, 2010	Dec. 31, 2009
Receivables from clients	**113,816**	**2,036,415**
of which: Receivables from affiliates	92,456	8,983
Structure of maturity		
– due daily	113,816	34,333
– other maturity	–	
1. up to three months,	–	2,000,399
2. three months up to one year,	–	–
3. one year up to five years,	–	–
4. more than five years	–	1,684

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

2.4. PARTICIPATIONS

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Participations	**244**	**244**
of which: in banks	89	89

The participations are carried at acquisition cost. There is an obligation to retroactively pay € 600,000 relating to a participation with banks.

2.5. BONDS AND OTHER FIXED INCOME SECURITIES

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Bonds and other fixed income securities	**601,570**	**–**
maturing in 2011	–	–
bonds	–	–
public sector bonds	601,570	–
of which: eligable as collateral with Deutsche Bundesbank	601,570	–
of which are marketable on a stock exchange	601,570	–
Listed	601,570	–
Not listed	–	–

All “Bonds and other fixed income securities” are classified as held-to-maturity.

The Bonds are carried at amortized cost. The premium was capitalized with the amortized cost because the option according to § 340e para. 2 HGB was not utilized.

The Bonds are listed on the Luxembourg and German Stock Exchanges in Frankfurt and Berlin.

2.6. CHANGE IN FIXED ASSETS

in € thousands	Other Plant and Business Equipment	Technical Plant and Equipment	Total
Cumulative purchase costs as at January 1, 2010	**20,432**	**7,566**	**27,998**
Additions	36	143	179
Disposals	163	573	736
Cumulative purchase costs as at December 31, 2010	**20,305**	**7,135**	**27,440**
Scheduled depreciation in the current year	2,082	548	2,630
Cumulative depreciation as at December 31, 2010	12,225	5,899	18,124
Status at December 31, 2010	**8,080**	**1,236**	**9,316**
Net book value as at December 31, 2009	**10,157**	**1,665**	**11,823**

Fixed assets refer exclusively to operating and business equipment.

Tangible assets are posted at purchase cost less scheduled straight-line depreciation. The addition of minor-value assets is valued and written back in line with section 6 para. 2a German Income Tax Act (EStG).

2.7. CAPITALIZED DIFFERENCE FROM NETTING ASSETS

In line with the valuation method stated in section 246 para. 2 sentence 2 BilMoG assets that serve to cover debts from pension obligations and similar non-current obligations must be netted against the liabilities. The excess carrying value of the balance is then entered under the item for “Capitalized differences from netting assets”. No use was made of the transitional option as per section 67 para. 1 EGHGB. The calculation for the actuarial expert report was based on the Prof. Dr. Klaus Heubeck 2005 G actuarial death tables.

The income from discounting (section 277 para. 5 HGB) pension obligations was entered in the P&L account under the item for “welfare contributions” (section 67 para. 7 EGHGB).

€		2010
Schedule of "Capitalized difference from netting assets"		
Pension and pre-pension part-time obligations	**Jan. 1, 2010**	**123,927,231**
Allocation		7,396,492
Allocation from (deferred compensation)		934,964
Use (pension disbursements)		−10,110,078
Pension obligations	**Dec. 31, 2010**	**122,148,610**
Assets	**Jan. 1, 2010**	**140,126,551**
Additions		673,814
Disposals		−4,022,020
Revaluation for risen partial assets		985,647
Market value above purchase costs		7,847,126
Assets	**Dec. 31, 2010**	**145,611,117**
Capitalized difference from netting assets	**Jan. 1, 2010**	**16,199,320**
Capitalized difference from netting assets	**Dec. 31, 2010**	**23,462,507**
Purchase costs – assets	**Jan. 1, 2010**	**119,373,817**
Purchase costs – assets	**Dec. 31, 2010**	**116,025,611**
Trend for allocations to pension obligations		
Allocation		7,396,492
Allocation – realized profit from asset sales – posted under "Income from write-ups of receivables and specific securities"		−2,572,137
Revaluation from prior write-downs on partial assets from prior years		−985,647
Allocation – pre-pension part time work – posted under "Wages and Salaries"		221,807
Market valuation – pre-pension part time work – posted under "Wages and Salaries"		829
Market valuation assets over purchase costs – blocked disbursements		−7,847,126
Allocation to pension obligations	**Jan. 1 – Dec. 31, 2010**	**−3,785,782**

	2010	2009
Valuation parameters (BilMoG)		
– for pension obligations:		
Discount rate	5.15 %	5.25 %
Growth in commitments	3.00 %	3.00 %
Growth in pension	2.00 %	2.00 %
Fluctuation: for staff turnover, age and gender based probabilities are considered	Mercer Standard	Mercer Standard
– Pre-retirement employment:		
Discount rate	5.15 %	5.25 %
Growth in commitments	3.00 %	3.00 %
Growth in pension	0.00 %	0.00 %
– Accruals for jubilee:		
Discount rate	5.15 %	5.25 %
Growth in commitments	3.00 %	3.00 %
Growth in pension	0.00 %	0.00 %
Fluctuation: for staff turnover, age and gender based probabilities are considered	Mercer Standard	Mercer Standard

	2010
Investment measures pursuant to section 285 no. 26	
– for Special Assets I	**JPMC I-Universal Fund**
Legal basis	German Investment Act
Risk management method	Qualified method
Calculation based on	Market value (NAV) of the assets
Reinvestment	Compounded investments
Section 253 para. 3 sen. 4	No write-downs as valued as per section 246 (2) HGB
Term	No limit in daily redemption
Valuation as per section 36 InvG at year end	€ 129,297 thousand; shares 1,078,462
Invested capital	not eligible for exchange listing / not listed
– for Special Assets II	**Universal-CMB II Fund**
Legal basis	German Investment Act
Risk management method	Qualified method
Calculation based on	Market value (NAV) of the assets
Reinvestment	Compounded investments
Section 253 para. 3 sen. 4	No write-downs as valued as per section 246 (2) HGB
Term	No limit in daily redemption
Valuation as per section 36 InvG at year end	shares were merged into JPMC I-Universal Fund
Invested capital	not eligible for exchange listing / not listed
– Mutual fund	**JPM GLOBAL BOND FUND (EUR) – C (ACC) – EUR**
Legal basis	German Investment Act
Risk management method	Qualified method
Calculation based on	Market value (NAV) of the assets
Reinvestment	Compounded investments
Section 253 para. 3 sen. 4	No write-downs as valued as per section 246 (2) HGB
Term	No limit in daily redemption
Valuation as per section 36 InvG at year end	€ 68,607 thousand; shares 330,000
Invested capital	listed on the stock exchange

All pension assets are held to hedge pension benefits granted to employees. Assets and liabilities are segregated into a pension trust. Only the net funding position is reported on the balance sheet.

2.8. OTHER ACCOUNTING AND VALUATION METHODS

Other assets are strictly valued at the lower of cost and market.

Expenses and income deferrals have been formed and allocated to the respective balance-sheet item.

Liabilities are carried at the sums repayable and securitized liabilities are entered at nominal value.

Appropriate provisions have been made for uncertain liabilities; there were no threatened losses from pending business.

Accruals are valued at the sum to be met, factoring in expected increases in prices and costs.

Accruals with a remaining term of more than one year have been discounted/revalued at the average market interest rates as calculated and announced by Deutsche Bundesbank (section 253 para. 2 HGB).

Income and expenses from discounting and revaluing are entered without netting under the respective interest income/interest expense item (section 277 para. 5 HGB).

The interest for interest swaps and total return swaps are charged on a pro rata temporis basis and carried as receivables/liabilities, with interest claims being netted against interest obligations for the respective transaction. The interest swaps have been entered at cash value, with the future cash outflow discounted at market interest as at year-end and netted for each swap. No accrual had to be formed for unrealized losses. Unrealized losses from cover transactions for which there are liabilities on the balace sheet have not been taken into account in the annual financial statements.

Valuation units were set up for bearer debentures and notes issued that are hedged by total return swaps against market price risk. The TRS are concluded in a clear relationship to the respective liability and their effectiveness tested. Owing to the clear hedge relationship, the transactions involved are micro-hedges that represent an efficient and perfect hedge relationship for the entire term. The fair values covered by the total return swaps in relation to the underlying liabilities are calculated using customary valuation models. Efficiency is measured by juxtaposing the market valuation for the liability to that of the respective total return swap.

The fair value of all Total Return Swaps at December 31, 2010 was € 58,834 thousand.

The valuation was done using internal models. J.P. Morgan uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The terms of the individual TRS matches that of the liabilities hedged and was as follows at December 31, 2010:

in € thousands	Total Return Swap	Liability
Overview Total Return Swaps		
Term		
2011	46,844	46,844
2012	29,800	29,800
2013	41,510	41,510
2014	93,697	93,757
2015	83,945	83,945
2016	73,127	73,127
2017	94,090	94,090
2018	90,000	90,000
2020	150,000	150,000
2022	110,000	110,000

In total, 33 valuation units were formed, and 36 total return swaps established to cover 45 liability items.

2.9. LIABILITIES DUE TO BANKS

in € thousands (§ 9 RechKredV)	Dec. 31, 2010	Dec. 31, 2009
Liabilities due to banks	**8,897,890**	**3,860,478**
of which: Liabilities to affiliates	7,650,899	1,802,954
Structure of maturity:		
– due daily	2,696,597	1,590,342
– other maturity	6,201,293	–
1. up to three months,	6,201,293	681,901
2. three months up to one year,	–	1,303,422
3. one year up to five years,	–	–
4. more than five years	–	284,813

2.10. LIABILITIES DUE TO CLIENTS

in € thousands (§ 9 RechKredV)	Dec. 31, 2010	Dec. 31, 2009
Other liabilities due to clients	**4,125,175**	**4,805,586**
of which: Liabilities to affiliates	205,982	217,769
Structure of maturity:		
– due daily	3,202,218	2,617,770
– other maturity	922,957	–
1. up to three months,	441,044	1,684,002
2. three months up to one year,	245,403	369,368
3. one year up to five years,	41,510	69,446
4. more than five years	195,000	65,000

2.11. SECURITIZED LIABILITIES

in € thousands (§ 9 RechKredV)	Dec. 31, 2010	Dec. 31, 2009
Securitized liabilities	**256,596**	**265,547**
of which: Own bills accepted and bills in circulation	–	–
Structure of maturity:		
Debentures issued	256,596	265,547
– of which due the following year	256,596	265,547
Other securitized liabilities with agreed term or termination point	–	–
1. up to three months,	–	–
2. three months up to one year,	–	–
3. more than five years	–	–

Securitized liabilities result from bearer debentures issued. The possibility of their termination before maturity was taken into consideration when grouping them by remaining term.

In the financial year 2010 no further debentures were issued.

2.12. OTHER LIABILITIES

in € thousands (§ 9 RechKredV)	Dec. 31, 2010	Dec. 31, 2009
Other liabilities:	**44,566**	**57,467**
– Profit transfer	8,142	0
– Interest for profit participation rights (J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH)	4,128	133
– Withholding tax	–	48,026
– Turnover tax	2,194	7,928
– Other liabilities	38,244	1,380

The interest for the profit participation rights was paid to J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main. According to § 268 para. 8 sentence 3 HGB € 8,142,200.89 will be remitted to J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH. For 2010 € 13,949,366.90 were blocked from disbursement by law. The total amount blocked from disbursement by law, including unremitted profits of € 16,010,915 from 2009, is € 29,960,282.

2.13. RESERVES

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Reserves	**10,922**	**9,550**
of which for		
– Other accruals	10,922	9,550

The reserves carried contain all obligations discernible as at year-end relating to past business transactions or past occurrences, valued in line with section 253 HGB.

Reserves with a remaining term of more than one year have been discounted / revalued at the average market interest rates as calculated and announced by Deutsche Bundesbank (section 253 para. 2 HGB).

Income and expenses from discounting and revaluing are entered without netting under the respective interest income / interest expense item.

Reserves for jubilees contained in the figure were calculated using an actuarial expert opinion and on the basis of the Prof. Dr. Klaus Heubeck 2005 G actuarial death tables and in line with the valuation method as per section 253 para. 1 HGB.

Other reserves consist of reserve regarding personnel expenditure and leasehold remediation cost.

2.14. SUBORDINATED DEBT

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Subordinate debt	**150,043**	**150,033**
of which: Subordinate debt due to affiliates	150,043	150,033

The subordinated debt posted at year end 2010 amounted to € 150,000,000 entered into on December 21, 2009. Interest payments are made quarterly starting on Dec. 21, 2009. Interest is calculated on the basis of the respective 3-month EURIBOR (European Inter-Bank Offered Rate) interest rate. Pro-rated interested deferrals of € 42,625 have likewise been entered under the item for "Subordinated debt". The subordinated debt is guaranteed for 30 years as of closure of the contract.

The subordinated debt meets the requirements of section 10 para. 5a German Banking Act (KWG).

2.15. PROFIT PARTICIPATION RIGHTS

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Profit-participation rights	**150,000**	**150,000**
J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main	150,000	150,000

As per contractual agreement of Dec. 21, 2009 J.P. Morgan AG was issued new profit-participation rights of € 150,000 thousand, which are again held by J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main.

2.16. FUNDS FOR GENERAL BANKING RISKS

in € thousands	Total
Status at January 1, 2010	**56,300**
Addition	–
Disposal	–
Status at December 31, 2010	**56,300**

2.17. CHANGE IN CAPITAL LEGALLY BLOCKED FROM DISBURSEMENT

in € thousands	Valuation above acquisition cost	Legally blocked disbursements
Disbursements blocked by law at Jan. 1, 2009		**0**
Mark-to-market above cost of acquistion 2009	22,113	−22,113
Retained earnings of 2009 because of blocked disbursement		16,011
Disbursements blocked by law at Dec. 31, 2009	**22,113**	**−6,102**
Disbursements blocked by law at Jan. 1, 2010	**22,113**	**−6,102**
Mark-to-market above cost od acquistion 2010	7,847	−7,847
Total disbursements blocked by law		**−13,949**
Annual net profit 2010		22,091
Profits exceeding disbursement block and transfered to JPM BV		−8,142
Disbursements blocked by law Dec. 31, 2010	**29,960**	**0**

2.18. PAID-IN CAPITAL

The capital stock is € 160,000,000, subdivided into 160,000,000 unit shares. All 160,000,000 unit shares are held by J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main, and are wholly paid in.

2.19. OTHER ITEMS DUE TO AFFILIATES

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Other items due to affiliates		
Other Assets	781	796
Other Liabilities	4,128	133

2.20. FOREIGN CURRENCY ASSETS AND DEBTS

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Foreign-currency assets and debts		
Assets	1,227,231	1,180,060
Debts	1,221,847	1,179,659

2.21. CONTINGENT LIABILITIES

in € thousands	Dec. 31, 2010	Dec. 31, 2009
Contingent liabilities		
Liabilities from Warranties and Guarantee Agreements	139,773	144,465

The decrease stems from conversion differences of foreign currencies. Guarantees were secured using cash collateral to the amount of €5,005,600.88.

3. Notes to the Income Statement

3.1. NET INTEREST INCOME

in € thousands	Jan. – Dec. 2010	Jan. – Dec. 2009
Net interest income	**8,334**	**16,761**
Interest income from	**58,006**	**81,447**
Loan and money-market transactions	36,090	81,447
Fixed-income securities and receivables in debt	21,916	–
Interest expenses	**49,672**	**64,686**

Net interest income declined due to lower volume as well as the still low level of interest rates. Furthermore, interest expenses of €4,128 thousand for the issued profit participation right on December 21, 2009 were recorded.

3.2. NET COMMISSION INCOME

in € thousands	Jan. – Dec. 2010	Jan. – Dec. 2009
Net commission income	**62,017**	**60,452**

Commission income went up by 2.6 % in 2010. Revenues from transaction banking continued to rise while custody business showed slight decline despite an influx of new customers.

3.3. OTHER OPERATING INCOME

in € thousands	Jan. – Dec. 2010	Jan. – Dec. 2009
Other operating income	**17,913**	**16,789**
of which from		
Services rendered for group units	17,345	16,622
Other operating income	567	166

Other operating income mainly includes services performed for group entities. Since 2010 it also includes net income from FX conversion which was reported under net income from financial transactions in previous years.

3.4. GENERAL ADMINISTRATIVE EXPENSES

in € thousands	Jan. – Dec. 2010	Jan. – Dec. 2009
General administrative expenses	**65,894**	**68,755**
• of which for personnel expenses	23,796	
– wages and salaries	23,482	22,703
– welfare payments and expenses, old-age provisions and support	314	–2,805
of which: for old-age provisions	3,786	5,375
• other administrative expenses	42,098	48,857

Welfare payments and expenses for old-age provisions and support contain valuation changes for assets to reflect the current fair values. According to BilMoG, valuation changes for obligations and assets are netted.

3.5. AMORTIZATION AND VALUE IMPAIRMENTS ON RECEIVABLES AND SPECIFIC SECURITIES AS WELL AS ALLOCATIONS TO LOANS-BUSINESS ACCRUALS

in € thousands	Jan. – Dec. 2010	Jan. – Dec. 2009
Income from allocations to receivables and specific securities as well as allocations to loans-business accrual	**2,624**	**2,538**

The amount of € 2,572 thousands represents a realized profit from the sale of shares from a special fund.

3.6. EXTRAORDINARY EXPENSES

in € thousands	Jan. – Dec. 2010	Jan. – Dec. 2009
Extraordinary expenses	**0**	**8,574**
of which from:		
Difference from BilMoG valuation method	–	8,574
for pension commitments	–	8,434
for accruals for jubilees	–	147
for pre-retirement part-time commitments	–	–7

Extraordinary expenses in 2009 result exclusively from the transition to BilMoG and the new valuation of pension obligations and related assets. No use was made of the option of the transition as per section 67 para. 1 EGHGB and the difference calculated as at Jan. 1, 2009 between the valuation as per section 6a EStG and that as per BilMoG of € 8,573,995 was directly written back. Therefore, no further extraordinary expenses are to be recorded in the subsequent years from 2009 onwards.

4. Other Information

	Fair market value as at Dec. 31, 2010		Fair market value as at Dec. 31, 2009	
in € thousands	Positive	Negative	Positive	Negative
Total Return Swaps	46,308	105,142	50,557	99,142

Forward transactions which were not yet settled at year end consisted only of total return swaps.

The total return swaps were concluded to hedge against market risks.

As at Dec. 31, 2010 there were no foreign currency swaps.

4.1. RELATIONS TO AFFILIATED COMPANIES

J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH, Frankfurt am Main, is the sole shareholder and a profit transfer agreement exists with it. Therefore, no dependent companies report pursuant to section 312 German Stock Corporation Act (AktG) needs to be compiled.

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

The Bank is a member of the Deposit Security Fund of Bundesverband deutscher Banken e.V.

4.2. NUMBER OF EMPLOYEES

On average for the year there were 248 employees, the composition was as follows:

Number of employees	2010	2009
Annual average	**248**	**258**
Spread of employees		
Holding full power of attorney	15	20
Holding commercial power of attorney	136	127
Commercial staff	97	111

Staff postings have, as of 2009, no longer been included in the figures.

4.3. TOTAL EMOLUMENT OF ACTIVE BOARD MEMBERS

Total emolument for management board members was € 1,352 thousand, of which € 230 thousand is attributable to restricted stock units.

Supervisory Board member remuneration came to € 5 thousand.

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

4.4. TOTAL EMOLUMENTS FOR FORMER BOARD MEMBERS AND THEIR DEPENDENTS

Pension obligations for these persons totalled € 19,297 thousand as at Dec. 31, 2010. Total emoluments for former Board members and their dependents came to € 7,194 thousand.

4.5. FEE EXPENSES

in € thousands	2010	2009
Fees expense entered for the business year for the audit of the financial statements	259	386

4.6. EXPLANATORY NOTES ON OTHER FINANCIAL COMMITMENTS

The company avails itself of services from various group member companies as part of its outsourcing functions. The business procurement contracts have a notice period of three months.

The rental contract for the business premises runs until Dec. 31, 2014.

Management Board:
Thomas Meyer (Banking professional) Chairman of the Board, Treasury & Security Services, Managing Director, J.P. Morgan AG
Oliver Berger (Banking professional) Worldwide Security Services, Managing Director, J.P. Morgan AG
Burkhard Kübel-Sorger (Banking professional) Chief Operating Officer, J.P. Morgan AG (Since April 1, 2010)
Supervisory Board:
Mark S. Garvin (Managing Director) Chairman of Treasury & Securities Services International, JPMorgan Chase Bank, National Association
Alexander Caviezel (Managing Director) Treasury Services EMEA, JPMorgan Chase Bank, National Association
Peter T. Schwicht (Managing Director) Asset Management, J.P. Morgan Asset Management (Europe) S.à r.l. (till June 30, 2010)
Karl-Georg Altenburg (Managing Director) Investment Bank, Senior Country Officer Germany, Austria & Switzerland, JPMorgan Chase Bank National Association, Frankfurt Branch
Alison P. Livesey (Managing Director) Compliance Managing Director, JPMorgan Chase Bank National Association (since July 1, 2010)
Rudolf Wissel (Banking professional) Staff representative of J.P. Morgan AG
Thomas Freise (Commercial professional) Staff representative of J.P. Morgan AG

Frankfurt am Main, April 14, 2011

J.P. Morgan AG
Frankfurt am Main
Management board

THOMAS MEYER　　OLIVER BERGER　　BURKHARD KÜBEL-SORGER

SCHEDULE OF CHANGES IN EQUITY CAPITAL FOR BUSINESS 2010

in € thousands	paid-in capital	capital reserves	statutory reserve	other profit reserves	unappropriated profit	Total	Profit participating capital
Status as at Jan. 31, 2009	**60,000**	**59,236**	**6,000**	**23,777**	**0**	**149,013**	**26,076**
Reclass of profit participation right to capital reserves		26,076				26,076	−26,076
Capital increase on Dec. 21, 2009	100,000					100,000	150,000
Annual profit before profit appropriation					16,011	16,011	
Profit transfer to JPM BV blocked from disbursement by law					0		
Status as at Dec. 31, 2009	**160,000**	**85,312**	**6,000**	**23,777**	**16,011**	**291,100**	**150,000**
Status as at Jan. 1, 2010	160,000	85,312	6,000	23,777	16,011	291,100	150,000
Annual profit before profit appropriation					22,091	22,091	
Profit transfer to JPM BV partially blocked from disbursement by law					−8,142	−8,142	
Status as at Dec. 31, 2010	**160,000**	**85,312**	**6,000**	**23,777**	**29,960**	**305,049**	**150,000**

CASH FLOW STATEMENT 2010

in € thousands	2010	2009
Profit of the year	**22,092**	**16,011**
Non-cash positions in net profit and adjustments to reconcile net profit with net cash provided by operating activities:		
Write-downs, depreciation, adjustments, write-ups to fixed and other assets, changes in provisions and net changes due to hedge accounting	6,608	−1,947
Change in other non-cash positions Profit/loss from the sale of assets	−2,572	−2,518
Profit from the sale of fixed assets	−39	5
Other adjustments (net interest income)	−8,334	−16,761
Subtotal	**4,538**	**−5,210**
Change in assets and liabilities from operating activities after correction for non-cash components:		
Claims on banks	−5,341,610	6,822,160
Claims on customers	1,922,599	98,904
Securities held for trading purposes		
Other assets from operating activities	5,051	−3,963
Liabilities to banks	5,038,103	−6,658,445
Liabilities to customers	−681,103	−503,793
Securitized liabilities	−8,950	−77,129
Other liabilities from operating activities	−21,130	−29,427
Interest and dividends received	58,006	81,447
Interest paid	−49,672	−64,686
Income tax paid		
Net cash provided by operating activities	**925,833**	**−340,142**
Net cash used by investing activities	**−595,724**	**447**
Proceeds from the sale of:		
Financial investments	6,594	6,700
Fixed assets	94	
Payments for the acquisition of:		
Financial investments	−602,244	−6,238
Fixed assets	−168	−15
Effects of changes in the group of companies included in the consolidation		
Payments from the acquisition of subsidiaries		
Net cash provided by financing activities	**10**	**302,981**
Proceeds from capital increases	0	100,000
Dividends paid	0	
Other financing activities (subordinated capital)	10	202,981
Cash and cash equivalents at the end of the previous period	**384**	**37,038**
Net cash provided by operating activities	925,833	−340,142
Net cash used by investing activities	−595,724	447
Net cash provided by financing activities	10	302,981
Effects of exchange-rate changes on cash and cash equivalents	−10	60
Cash and cash equivalents at the end of the period	**330,493**	**384**
of which: cash on hand		
Balances with central banks	330,493	384
Debt issued by public-sector borrowers and bills of exchange rediscountable at central banks		

AUDITOR'S REPORT

(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, Frankfurt am Main.)

We have audited the annual financial statements, comprising the balance sheet, the income statement, the notes to the financial statements, the cash flow statement and the statement of changes in Equity, together with the bookkeeping system, and the management report of the J.P. Morgan AG, Frankfurt am Main, for the business year from January 1 to December 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development

Frankfurt am Main, April 14, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(EVA HANDRICK)	(PPA. MURIEL ATTON)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

SUPERVISORY BOARD REPORT

SUPERVISORY AND CONTROL

The Supervisory Board supervised the Management Board throughout the year on the basis of written and oral reports and discharged its duties according to the law. Important matters of business management were examined by the Supervisory Board and reviewed together with the Management Board. The Supervisory Board met twice to discuss the Bank's economic situation, its strategy and risk management. In particular, the Supervisory Board was informed in detail on the risk management by means of the MaRisk reports quarterly.

PERSONNEL CHANGES OF THE MANAGEMENT BOARD

Burkhard Kübel-Sorger was newly appointed to the Management Board as of 1 April 2010. During the year 2010 the Management Board was comprised of Thomas Meyer (Chairman), Oliver Berger and Burkhard Kübel-Sorger.

PERSONNEL CHANGES OF THE SUPERVISORY BOARD

Peter Schwicht resigned from the Board effective 30 June 2010. Effective 1 July 2010 Alison Livesey, Global Head of TSS Compliance, New York, was appointed to the Supervisory Board by the shareholder. During the year the Supervisory Board was comprised of: Mark S. Garvin (Chairman), Alexander Caviezel (Deputy Chairman), Karl-Georg Altenburg, Peter Schwicht until 30 June 2010), Alison Livesey (effective 1 July 2010) and, elected by the employees, Rudolf Wissel and Thomas Freise.

AUDIT COMMITTEE

The first meeting of the audit committee was held 23 April 2010. The audit committee is responsible for the supervision of the accounting process, the effectiveness of the internal control system, the effectiveness of the risk management system and the effectiveness of the internal audit system as well as the statutory auditor, in particular, the independence of the auditor and any additionally performed services of the auditor.

On the basis of the recommendation of the audit committee (§ 124 [3] 2 AktG) the Supervisory Board proposes to elect PriceWaterhouseCoopers AG, Frankfurt am Main, as statutory auditor for the year-end Financial Statements and the Management Report for the 2011 fiscal year.

ANNUAL STATEMENT OF ACCOUNTS

The year-end Financial Statements and the Management Report for 2010 fiscal year as well as all relevant accounting records have been examined by the duly appointed auditing firm PricewaterhouseCoopers AG, Frankfurt am Main. The auditing firm issued an unqualified audit opinion.

The year-end Financial Statements and the Management Report have been reviewed by the audit committee and has been discussed with the auditors. Based on the final result of the audit committee the Supervisory Board did not raise any objections. Financial Statements as of 31 December 2010 and the Management Report as presented by the Management Board have been approved by the Supervisory Board today. The annual statement of accounts is herewith determined.

PROPOSAL TO THE APPROPRIATION OF PROFITS

The Supervisory Board assents to the proposal made by the Management Board to carry forward the full amount of the balance sheet profits in the amount of €29,960,282.

The Supervisory Board would like to express its thanks to the Board of Management and to all employees for their performance and commitment.

April 26, 2011

The Supervisory Board

MARK S. GARVIN
Chairman

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