J.P.Morgan

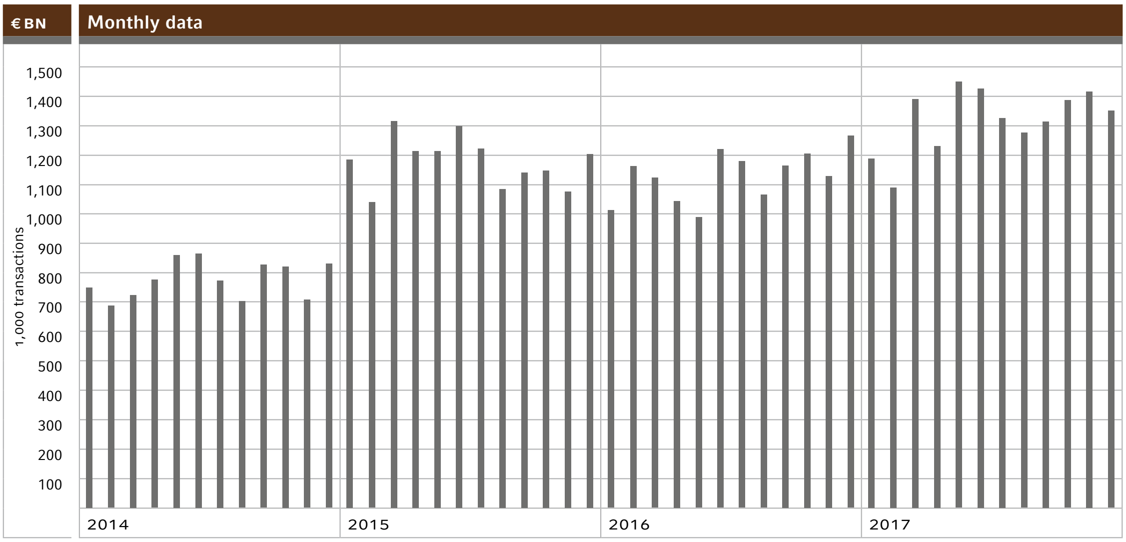
ANNUAL REPORT 2017 OF J.P. MORGAN AG

INDICATORS J.P. MORGAN AG

€ M	2017	2016	2015	2014
Net Revenue	135.0	128.7	136.4	118.7
Net interest income	7.9	14.9	29.7	13.6
Net commission income	85.6	77.0	73.4	63.3
Total expenses	115.2	107.1	119.3	105.3
Income before Tax and extraordinary items	19.9	21.6	17.1	13.5
Net income	13.7	15.5	8.1	10.9
Equity	**659**	**645**	**629**	**621**
Return on Equity (RoE)	2.1 %	2.4 %	1.30 %	1.80 %
Return on Investment	0.09 %	0.07 %	0.06 %	0.08 %
Cost-Income Ratio	85.30 %	83.25 %	87.46 %	88.71 %
Pre-tax profit margin	14.70 %	16.77 %	12.55 %	11.37 %
Tier 1 capital ratio	39.3 %	72.6 %	88.9 %	115.1 %
Total capital ratio	50.5 %	93.3 %	114.3 %	143.9 %

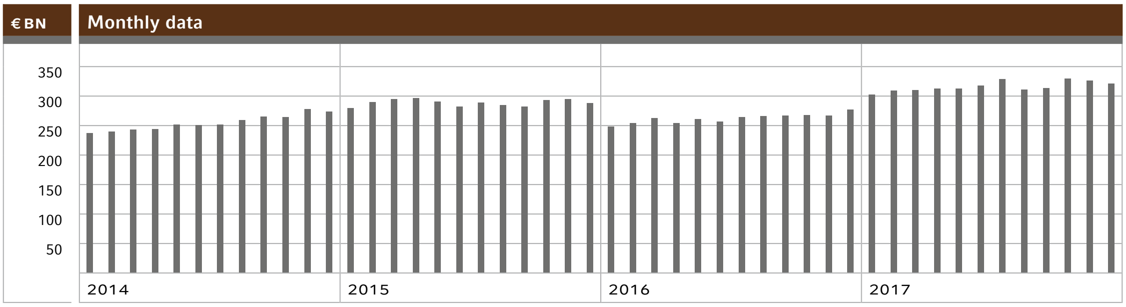
HIGH VALUE PAYMENTS

> PAGE 3: TREASURY SERVICES



ASSETS UNDER CUSTODY

> PAGE 3: INVESTOR SERVICES



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MANAGEMENT REPORT AS OF DECEMBER 31, 2017

Business and General Conditions

ORGANISATION AND LEGAL STRUCTURE

J.P. Morgan AG with its registered office in Frankfurt am Main is a 100% indirect subsidiary of JPMorgan Chase & Co. with its registered office in Columbus, Ohio, in the United States of America. The Bank has a full banking license in accordance with § 1 par. 1 of the KWG [Kreditwesengesetz – German Banking Act] (Nos. 1 to 5 and 7 to 9) and conducts banking business with institutional clients, banks, corporate clients and clients from the public sector. The shares of J.P. Morgan AG are held directly by the J.P. Morgan International Finance Limited with its registered office in Newark, United States of America.

J.P. Morgan AG is run by a two-member Management Board, front and back office, and controlled by a six-member Supervisory Board. In principle, the Management Board meets monthly, while the Supervisory Board meets at least four times a year; the Supervisory Board held five meetings in 2017 – and two meetings in the course of the year to date. The Risk Committee of the Supervisory Board met four times in 2017 and thus far twice in 2018. The Internal Auditor also informs the Supervisory Board in writing on a quarterly basis concerning audits that have been conducted and their results. The names of the members of the Management Board and the Supervisory Board are listed in the Notes.

For the meetings of the Management Board, a thorough presentation is created by the two business units Treasury Services and Investor Services – and, since April 2017, the Markets business segment as well – that contains all of the events of the preceding month that are important with respect to the discussion of the course of business. It also contains the development of Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs). In addition, the meeting is provided with information on the financial trends, a detailed risk report and a report from the Corporate Functions, especially Compliance and Internal Audit, for discussion, review and decision. The minutes of the Management Board meetings are kept by an employee from the Legal Department.

For its meetings, the Supervisory Board receives a current summary of the topics discussed at the Management Board meetings, in order to gain a detailed overview – for discussion, debate, and resolution adoption – with respect to the course of business, new planned business activities, the financial development, the risk-bearing capacity, the dialogue with regulators, the status of current projects, and the work of Corporate Functions.

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

The Supervisory Board's Audit Committee normally meets with the statutory auditor twice a year to discuss the audit plan as well as the annual financial statements and audit report.

The Supervisory Board's Remuneration Committee and Nomination Committee met in 2017 when the occasion arose.

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

INTERNAL CONTROL SYSTEM

The Treasury Services and Investor Services business segments are each managed by a member of the Management Board (Front Office) and controlled by a Member of the Management Board (Back Office). Since March 2017, Mr. Stefan Behr has also been responsible for the newly defined Markets business segment in addition to the Treasury Services business segment. With the departure of Ms. Michelle Grundmann at the end of October 16, 2017, Mr. Stefan Behr has also taken on the Investor Services business segment on an interim basis.

In addition to the regular meetings of the Management Board and the Supervisory Board, the Local Operational Risk & Control Committee, representing all functions subordinated to the CFO/COO Management Board, 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. In addition, there is an Outsourcing Committee, which evaluates planned outsourcing projects from risk standpoint in terms of their adequate organisational set-up, monitors compliance with regulatory requirements, and serves as the escalation instance in case of poor performance by the service provider. In addition, a regular forum for identifying new legal provisions and standards was introduced under the leadership of the MaRisk Compliance Officer.

In addition to the primary management variables of net interest income and net commission income, a conservative risk policy that limits the possible credit and counterparty risk provides the basis for successful management of J.P. Morgan AG by the Management Board. Under the sub-delegation of the Management Board, the Risk Oversight Committee of J.P. Morgan AG discusses methodologies for assessing the riskbearing capacity, the risk profile of J.P. Morgan AG, and individual risk events.

The course of business, KPIs and KRIs, feedback from our clients, strategic projects, industry trends, and changes in the legal and regulatory environment and their impact on the respective business segments are discussed at monthly meetings of the Business Forums, at which Sales, Operations, and Control functions meet and which the international Business Control Officers also attend. In addition, treasury activities are discussed and reviewed each month at the European Asset & Liability Committee. The Management Board is thus enabled to identify changes or risks in business performance in a timely manner and to make appropriate decisions and take necessary actions.

In addition to this, the Management Board receives daily detailed reports from the Credit as well as from the Finance department about draw-downs, overdrafts, the collateral position, and the key COREP indicators. These reports are continuously being enhanced to meet the increasing regulatory requirements.

SEGMENTS AND ESSENTIAL PRODUCTS AND PROCESSES

J.P. Morgan AG is an integral part of the worldwide J.P. Morgan Group and constitutes the core of group activities in Germany. The full integration of the Bank into J.P. Morgan's global Treasury Services and Investor Services segments of the Group's Corporate & Investment Bank plays a crucial role, as it provides us with the necessary international network to deliver client services that do justice to J.P. Morgan's mission

"First class business in a first class way". In 2017 the Bank continued to focus on its core activities, in order to fulfil the roles as the Group's central clearer for euro payment transactions, as well as custodian and Global Custodian for the German investment market, operating out of Frankfurt am Main.

Again in 2017, customer satisfaction, increased efficiency and effective controls in our operational processes were in focus, in order to improve our residual risk profile as well as to also further improve our interactions with our clients. The trends in our KPIs and KRIs, together with individual feedback from clients, encourage us, so that we will continue to pursue these objectives in 2018, while also placing an increased focus on the quality of our outsourced processes.

Treasury Services
Within the Group J.P. Morgan AG is globally responsible for the area of euro-clearing operations. Given the standardisation of European payment processing and our high level of investment in technology, we expect over the next few years to roll out our world-leading technology and our customer service in the area of low-value payments, to both wholesale corporate clients and also to other financial institutions, both centrally through J.P. Morgan AG, as well as in close collaboration with our sister companies. We continue to expand our top position as euro clearer in TARGET2 and EBA with improved offerings for our multinational corporate clients and financial institutions domestically and abroad.

With these transactional services as our backbone, our sales teams offer highly advanced solutions in the area of cash and treasury management as well as trade finance for corporates, insurances, asset managers, and financial institutions. Advanced technology and geographical expansion of the Group as part of the Global Corporate Banking strategy enable our sales teams to offer more comprehensive global cash management solutions that provide notable advantages in the management of liquidity, particularly for our international clients. Together with our highly developed service concept, this allowed us to continue to grow with selected, international target clients, above all in global cash management and in trade finance management.

Since January 23, 2017, J.P. Morgan AG has also taken on the role of the central cash agent in Target2Securities (T2S) for selective sister companies within the Group. The scope of activities was limited to a few selected markets in 2017, but will further expand in 2018. This development underlines the global role of J.P. Morgan AG within the Group.

Investor Services
In the J.P. Morgan Group's global Investor Services – Custody & Fund Services (CFS) business segment, J.P. Morgan AG of Frankfurt am Main acts as a fully-licensed and regulated custodian in Germany, providing global custody and custodian bank services to institutional clients since 1995. In this function, J.P. Morgan AG currently manages a total volume of € 320 billion for its clients.

One of the core functions as custodian is the performance of various control functions to protect the investment assets and the investor, in addition to the custody of assets, the maintenance of an up-to-date inventory list (with regard to non-custodial assets), as well as the settlement of orders. Within the framework of its control functions as regulated custodian, J.P. Morgan AG ensures an effective supervision of the capital management company's day-to-day activities in a timely manner with respect to the relevant details and checks its compliance with the statutory provisions, regulatory obligations, and contractual provisions.

In addition to the regulatory monitoring requirements and obligations in connection with the safeguarding of assets and settlement of trades, the broader service offerings include a comprehensive range of products, additional services, and above all, client reporting.

It can be stated that institutional investors are highly flexible in their search for returns and will examine and implement alternative investment solutions. This trend is intensified by the current low-interest rate environment. As a custodian, J.P. Morgan AG is supporting this strategic direction and subsequent challenges by adjusting its product offerings as well as operational processes.

Markets

With the enactment of the US and EU Non-Cleared Margin Rules (NCMR) Phase II, J.P. Morgan AG entered a new business segment in March 2017, in which it acts as booking unit for selected client segments for over-the-counter (OTC) derivatives for hedging purposes. Completely in the spirit of its conservative risk policy, J.P. Morgan AG transfers the resulting market risk and counterparty credit risk directly to the Group's central risk management units. These activities were able to be expanded on a continuing basis in the course of 2017.

MARKETS AND COMPETITIVE POSITION

When it comes to Treasury Services, it is necessary to distinguish between client relationship management and the operational hub for euro-clearing operations. In relationship management, J.P. Morgan AG is responsible for institutional clients, banks, corporate clients and public sector clients primarily based in Germany or Austria. This also includes subsidiary companies based in Germany or Austria whose parent companies have their headquarters in other countries.

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

The Investor Services – CFS segment predominantly serves open domestic special alternative investment funds (AIF) which are governed by the Capital Investment Act, and direct investments by institutional investors and global custody mandates. The J.P. Morgan Group's focus on client-oriented and innovative product solutions utilising economies of scale of standardised processes is being strengthened on an ongoing basis. J.P. Morgan AG is among the largest custodians in Germany this year as well.

Target clients in the Markets area are a specific segment of Special Purpose Vehicles (SPVs) that aim to utilise the relief under the EU NCMR compared to the US regulations.

KEY LEGAL AND ECONOMIC INFLUENCE FACTORS

In 2017 the legal and regulatory environment was characterised by a series of regulatory changes, particularly EU initiatives. Their implementation did not, however, have any material influence on the core business or client relationships of J.P. Morgan AG. With the enactment of the US and EU Non-Cleared Margin Rules (NCMR) Phase II, however, J.P. Morgan AG was able – as already mentioned – to open up a new business segment in March 2017 within the framework of the Group strategy.

Discussions with clients focussed, on the one hand, on the question how to invest excess liquidity in the light of growing pressure to pass on the European Central Bank's negative interest rates, and on the other hand, on our clients' expectation of further price reductions by J.P. Morgan AG passing on the benefits of internal efficiency improvements.

Topics that we are looking at now with an eye to the near future are increasing digitalisation and its effects on our business processes, IT security because of the growing threats from cyber crime, the impact of Brexit on the business models of the Group and, last but not least, the implementation of new regulatory requirements.

PERSONNEL DEVELOPMENT

The number of employees of J.P. Morgan AG increased in 2017 from 269 to an average of 275[1] compared to the previous year. The fluctuation rate rose from 6.6% in 2016 to 9% and was thus at the lower end of our target corridor of 8% – 12%. Of the total number of employees, 26% had contractually agreed flexible working time arrangements; in the previous year it was 27%.

In line with our business concept, we continue to put the highest emphasis on the qualitative selection of new hires and continued training and education programs for our staff.

The J.P. Morgan AG human resources policy focuses on the highest level of quality and diversity among employees, and is simultaneously committed to adjusting to the needs of our employees.

The remuneration system of J.P. Morgan AG is integrated into the remuneration system for employees in the EMEA region ("EMEA Remuneration Policy"). A summary of this remuneration system can be found in the most current publication of the "EU Remuneration Disclosure" at http://investor.shareholder.com/jpmorganchase/basel.cfm. Additional J.P. Morgan AG-specific information concerning the remuneration system is also contained in the "J.P. Morgan AG Disclosure" that is also published there.

BUSINESS DEVELOPMENT

2017 was a year for J.P. Morgan AG with a stable result compared to the previous year.

Our net interest income continued to suffer from the policy of the European Central Bank of ongoing low interest rates and fell substantially compared to the previous year. This devlopment is, firstly, a result of the sales of securities of the liquidity reserve conducted in 2016 and 2017 and, secondly, a result of the decreased opportunities to invest our liquidity surplus in securities via so-called reverse repos.

The development of net commission income was highly pleasing in the light of an increase by about 11% in total

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

compared to 2016; the new Markets business segment was able to contribute about 3%. The overall increase was higher than our prudent expectations and shows the confidence our clients have in entrusting more business to us.

As a result of the sale of securities of the liquidity reserve, we had extraordinary income in 2017 in the amount of € 9.4 million, which was posted in the other operating result.

Our other operating income fell by 7.6% in 2017 compared to the previous year. A series of effects was responsible for this, primarily: (a) clearly lower level of services billed to other J.P. Morgan companies and (b) the loss of the one-time effect from 2016 as a result of the statutory change of the calculation basis for the discount factor for the valuation of pension liabilities.

In spite of disciplined cost management, we had not been able to keep the intra-group project and administrative costs at previous year's level, but instead costs rose by about 7% compared to 2016. This is due to increased project-related costs for the implementation of new regulatory requirements as well as for new systems and applications.

On December 31, 2017 the balance sheet total fell substantially by 30% in comparison to the December 31, 2016 closing date. The key driver was the repayment of Euro-denominated liquidity to the Group, which had been left at Bundesbank.

From an overall perspective, we consider the year 2017 as cautiously positive. The business developments of our core activities in Treasury Services and Investor Services met our expectations; the focus in 2018, particularly in the Investor Services segment, will be on cost management. The business development in Markets has also been in line with our expectations.

Earnings, Financial and Assets Position

EARNINGS

Thanks to the intensification of our activities with existing clients, J.P. Morgan AG managed to increase its net commission income in 2017. During the fiscal year, net commission income was 11.2% above the previous year's value, with a total of € 85.6 million. Net interest income fell back compared to the prior year and was at € 7.9 million, being € 6.9 million lower than in 2016. The significant factor that influenced the interest income is first and foremost the lack of investment opportunities in securities in the form of reverse repos for our liquidity surplus. The target figures for 2017 were slightly exceeded both in terms of net interest income and net commission income. Other operating income rose by 7.6% to € 39.7 million for 2017. In particular, the positive effect of the sale of securities of the liquidity reserve in the amount of € 9.4 million made a positive contribution to this development.

Personnel and administrative expenditures increased by 6.7 % compared to 2016. The increase is primarily due to greater expenditures for the rendering of service of other Group companies. The result of ordinary business activity thus declined by 8.0 % to € 19.9 million. The annual profit for the 2017 fiscal year is € 13.7 million after taxes.

The result translates into a return on equity of 2.1 % after 2.4 % in the previous year.

FINANCIAL POSITION

Principles and Objectives

The balance sheet of J.P. Morgan AG is driven by deposits of its institutional clients and banks in the Treasury Services and Investor Services segments and shows a markedly stable financial situation in 2017. J.P. Morgan AG is solely extending credit in the form of intra-day lines and short-term overnight overdrafts in the event of settlement gaps in both business segments. Excess liquidity which is generated as result of this deposit-driven business model, is invested mainly in reverse repo-transactions with JPMorgan Chase Bank, N.A. The bond portfolio, consisting of securities of first-class issuers, was further reduced in the course of 2017, such that only one security remained in the portfolio at the end of the fiscal year.

J.P. Morgan AG held sufficient liquidity at all times in 2017. The Bank manages liquidity conservatively. The liquidity ratio reached 1.79 as of December 31, 2017 and averaged 1.87, while the liquidity coverage ratio was 154.5 %.

Capital Structure

In comparison to December 31, 2016, the liable equity capital grew by the 2016 profit carried forward. On the balance sheet as of December 31, 2017, this results in a Tier 1 capital ratio of 39.3 % and a total capital ratio of 50.5 %. With this amount of capital available, J.P. Morgan AG remains in a comfortable position to support existing business activities, as well as the planned business growth as required.

J.P. Morgan AG's regulatory equity capital was composed of the following components as at the reporting date of December 31, 2017:

Tier 1:	€ 649	million share capital, reserves and funds for general banking risks
Upper Tier 2:	€ 0	million
Lower Tier 2:	€ 186	million subordinated loans
Total Tier 2:	€ 186	million

Off-Balance Sheet Business

Within the segment of Trade Finance, credit risks which J.P. Morgan AG took on itself in the form of contingent liabilities, are, on an unchanged basis, collateralised for the most part directly on an intra-group basis. For the note issued by J.P. Morgan AG, we hold a total return swap to cover the risk. In addition we hold an interest swap with JPMorgan Chase Bank N.A. to cover the risks of changing interest rates arising from the securities portfolio.

ASSET SITUATION

With respect to our clients, receivables increased on the closing date by € 55.4 million to € 260 million as a result of greater use of short-term overdraft facilities. Deposits rose by € 614 million to € 6,703 million on the balance sheet closing date. With respect to credit institutions, receivables declined as a result of reduced treasury activities by € 7,079 million to € 14,950 million (portion thereof consisting of balances with Bundesbank: € 7,822 million). The liabilities to credit institutions declined by € 7,844 million to € 7,714 million on the balance sheet closing date. The balance sheet total of J.P. Morgan AG thus declined substantially and was at a level of € 15,746 million on the balance sheet closing date. The total capital ratio on December 31, 2017 was 50.5% and totalled 81.69% on average for 2017.

The securities portfolio with first-class bonds was further reduced in the course of the year and has shrunk by € 197 million to a book value of € 51 million compared to December 31, 2016.

Financial and Non-financial Performance Indicators

FINANCIAL PERFORMANCE INDICATORS

Financial performance indicators, defined for internal control of J.P. Morgan AG, comprise in particular absolute KPIs (Key Performance Indicators) such as the net interest income, net commission income, and income before tax and extraordinary items. In addition, return on equity, cost-income ratio, and the pre-tax profit margin are used to measure performance. The KPIs are derived directly from the information on the balance sheet and income statement of the annual financial statement and are as follows for the current and previous financial years:

€ M	2017	2016
Net Revenue	135.0	128.7
Net interest income	7.9	14.9
Net commission income	85.6	77.0
Total expenses	115.2	107.1
Income before Tax and extraordinary items	19.9	21.6
Net income	13.7	15.5
Equity	**659**	**645**
Return on Equity (RoE) (Net income/average equity)	2.1 %	2.4 %
Return on Investment (Net income/balance sheet total)	0.09 %	0.07 %
Cost-income ratio (Total expenses/Net revenue)	85.30 %	83.25 %
Pre-tax profit margin (Result of ordinary business activity/ Net income)	14.70 %	16.77 %
Tier 1 capital ratio	39.3 %	72.6 %
Total capital ratio	50.5 %	93.3 %

The decline in interest earnings of slightly over 45 % compared to the prior year is explainable mainly as a result of the reduction of the bond portfolio and the lack of investment opportunities in reverse repo transactions.

The development of net commission income, on the other hand, was very positive with an increase of around 11 %. The Treasury Services and Investor Services segments each contributed to this positive development. In addition, the first-time commissions earned from the Markets segment also had a positive effect on commission income. Additional earnings from new client acquisition did not play a significant role in either segment in 2017.

Despite the unsatisfactory trend in net interest income, the net earnings target of € 124 million was surpassed with € 135.0 million.

In spite of this increase, the operating result declined by about 8 % to € 19.9 million compared to the previous year. Personnel and administrative costs, which rose by 6.7 %, had a significant influence on this reduction.

The cost-income ratio increased slightly from 83.25 % to 85.30 %.

The return on equity (RoE) declined from 2.4 % in the previous period to 2.1 % and is nevertheless above the forecasted plan value of below 2 %. The Tier 1 and total equity capital ratios fell as expected in comparison with December 31, 2016 as a result of the changes, but remained in a comfortable range.

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators focus on the role of J.P. Morgan AG as a transactional bank in euro payment clearer as well as a custodian. Along with the actual volumes settled by J.P. Morgan AG for its clients, we focus on the degree of automation and the actual losses from operational errors. In addition, we measure the fluctuation rate as an indicator of stability of our operational platform from an employees' perspective.

	2017	2016
Number of payment instructions – High Value (TARGET2 & EBA EURO1)	4.7 million	4.5 million
Number of payment instructions – Low Value (STEP2 only)	66 million	63 million
Straight-through processing rate	98.39 %	98.34 %
Assets under Custody (in € billion)	320	309
Customer satisfaction – Custodian bank (Internal Score)	100 %	100 %
Operative losses (in € million)	0.1	0.1
Fluctuation rate	9 %	5 %
Gender Diversity (VP-Level)	37 %	35 %

The non-financial performance indicators that describe the business volume of J.P. Morgan AG show a stable environment with slight growth in all core areas and further improvement of the level of automation in payment transactions at an already extremely high level.

In the area of the custodian, we were able to maintain the extraordinay result of our internal scoring model from the previous year with respect to client satisfaction thanks to the high level of reliability and quality of our client service and operations function in handling client inquiries and instructions. This constant positive trend is also reflected in the increased value of assets that our clients in the custodian entrusted to us in 2017.

From an operations perspective, we continue to aim for greater automation, which goes hand-in-hand with efficiency enhancement, cost savings as well as with the reduction of sources of error.

The operational losses in 2017 stayed within a range that was below our already ambitious targets. "Operational excellence" remains our guiding principle, and is connected with our efforts to achieve constant improvements in our technology platforms, the internal control systems and the ongoing training of our employees. It is important to us that we analyse operational errors in detail and draw the necessary consequences for the future. It is for this reason that we have a particularly strong commitment to an open "risk and error culture".

The fluctuation rate rose in 2017 compared to the previous year, but within the range of our target corridor. With an intensified competition for "talent" at the Frankfurt financial centre, we see this low rate as an affirmation of our efforts to steadily improve the work environment and our employees' development opportunities. One of our priorities remains to decisively work towards a "great team & winning culture". In addition to the Group-wide "Leadership Edge" training programme, which was already implemented at the Frankfurt location in 2016, the focus in 2017 was on the overhaul of the staff appraisal system and further training of managers. In addition, we are proud that we were able to take additional steps towards the active support of our "Diversity" agenda through the business resource groups in the location.

For 2018, we expect – as in the previous years as well – a moderate increase in the number of payment instructions in the high-value area, SEPA payments, and transactions with OTC derivatives, and moderate growth in assets under custody. The Straight-Through-Processing-Rate in payment transactions should remain at the extremely high level of the previous year in 2018, while it is our objective to improve the level of automation when it comes to the handling of client orders in the Investor Services segment. In addition, it is important to us to continue to strengthen the quality and efficiency of our client service on a sustainable basis. With respect to the fluctuation rate, we expect to be able to maintain the 2017 level, since we are convinced that we will remain attractive to talented people as a result of the Group's strong competitive position, outstanding career and development opportunities, inclusive work environment, and job flexibility.

BUSINESS PRINCIPLES "HOW WE DO BUSINESS"

J.P. Morgan AG is completely integrated into the corporate culture of JPMorgan Chase & Co., whose guiding principles are convincingly described by the four pillars of the Group-wide business principles:

- Exceptional Client Service
- Operational Excellence
- A Commitment to Integrity, Fairness and Responsibility
- A Great Team and Winning Culture

For further details please visit the website of JPMorgan Chase & Co.:
https://www.jpmorganchase.com/corporate/About-JPMC/ab-business-principles.htm

Relationships with related enterprises and persons

We have identified our parent company J.P. Morgan International Finance Ltd. and JPMorgan Chase Bank, N.A., as affiliated companies of J.P. Morgan AG. We consider the members of the Management Board and the Supervisory Board of J.P. Morgan AG and their family members as related persons.

The following financial transactions are carried out with related companies:

– Money market transactions, investing and borrowing money
– Transactions in total return swaps and OTC derivatives
– Reverse Repos
– Nostro accounts
– Provision of subordinated capital
– Purchasing and supplying corporate services

All transactions have been closed on normal market terms. J.P. Morgan AG received appropriate compensation for every legal transaction with associated companies that were known to J.P. Morgan AG at the time at which the legal transactions were undertaken. There are no transactions conducted with related persons.

Outlook

SIGNIFICANT OPPORTUNITIES AND RISKS FOR THE UPCOMING FINANCIAL YEARS

Our outlook from recent years substantially retains its validity for the coming year:

With reference to economic trends in Germany, we are assuming continued positive growth in the 2018 Gross Domestic Product in comparison to 2017; the outlook for 2019 is also pleasantly positive. This means that we expect the economy in Germany to remain buoyant for the foreseeable future. We see the European economy continuing on a path of solid growth, with falling unemployment figures and an inflation rate well below 2 %. Thus, the pressure on inflation is not yet great enough for a key interest rate increase by the European Central Bank in 2018. However, this picture can change in 2019. The long-term consequences of Brexit and the current uncertainty with respect to the British government's negotiations with the European Union, the political tendency toward national protectionism, which weakens the European Union as a stabilising force in the political canon, and the simmering trade conflict between the United States and China, which would also negatively affect the European Union, involve possible risks.

Also over the next years we expect to see a continuation of the trend towards professionalising cash management in companies, pension funds and insurers, with the goal of further integration of the value-added chain in the liquidity management of a company for continued income optimisation. In light of the negative rate interest environment, which, in our opinion, will not substantially change in 2018, the focus of the dialogue between banks and clients will continue to be the banks' opportunity to raise "non-operating liquidity" of clients, as well as our clients' earnings and risk goals.

For the banking sector in Germany, but also more widely, implementation of the legal regulations and optimisation of overall bank controlling remain the greatest challenges. In addition, there are the consequences of Brexit, which will lead in the short term to additional investment costs, but also a sustained higher cost base in the medium term, without having achieved a tangible "value added" through an adjustment or further development of our service offerings for our clients. In addition, there is a sustained price competition with respect to standard products in an extremely unfavourable negative interest rate environment. The increased willingness of clients to switch shows how important it is, in spite of the multitude of internal bank projects, to continue to intensify the dialogue with our clients and continue to address changed client needs. In this regard, investments in technology and adaptation of business processes, but also the retention of specialists and talented people, will play an important role, in order to maintain or even strengthen our own competitive position.

As an intra-group service provider, J.P. Morgan AG is well positioned as a euro payment clearer and was able to further strengthen its position through the new role as cash agent in Target2Securities. For 2018 we also plan an expansion, and thus the completion, of our range of services in payment transactions, in order to thereby create the basis for the acquisition of new clients in later years.

The trend of the large institutional investors toward adapting their investments to the changed picture of an increasingly globalised economy and the resulting demand for Global Custodian services will continue in 2018 as well. This could lead to opportunities for growth in the custodial business, which could be up to 10 % in assets under custody. In order to be able to better profit from the potential economies of scale of our highly complex platform, an expansion of our target segments in the coming two years is thoroughly conceivable.

As a result of the decision in March 2017 to also act in the future as a booking unit for OTC derivatives for selected client segments and thereby take over existing activities from other J.P. Morgan units in Great Britain – and thanks to an outstanding rating by Moody's (A1/P-1), Standard & Poor's (A+/A-1) and Fitch (AA–/F1+) – we also see opportunities to further expand this new business sector.

With reference to the United Kingdom's exit from the European Union ("Brexit") and the associated necessity of banks to restructure in order to be able to continue to offer financial products and services in the EU market, J.P. Morgan AG sees itself as well positioned to take on a greater role here in the implementation of the Group's Brexit strategy. J.P. Morgan AG has already initiated some concrete steps. This includes, among other things, an expansion and associated strengthening of the Management Board, preparation of a capital increase, registration of stock exchange memberships, and planned implementation of capital models.

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

Opportunities to pass these costs on to our clients are only possible on a highly limited basis in light of the increasing pressure on prices in a transaction business with many competitors. Even if we were able to pass on the liquidity costs to our customers for the most part, this step would not increase the dwindling interest income that arises from the lack of investment opportunities that match our risk profile.

We see further risks in the political destabilisation of some countries or regions, which could lead to a clear deterioration of the market situation, with potential negative effects on the solvency of our clients, and resulting sustained losses.

EXPECTATIONS FOR THE BANK'S FUTURE PERFORMANCE

Thanks to our consistent conservative risk policy, we do not expect any risk-related losses for the next two years, as well.

For 2018 we are expecting an increase in our commission earnings in CFS, but also in Treasury Services, thanks to the expanded role for J.P. Morgan AG within the Group as the cash agent in Target2Securities. In addition, we assume that we will also see a rise in commissions in the Markets area. With respect to net interest income, we expect a slight decline to the level of € 6 million in light of the meagre investment opportunities. For the other result, we expect a decline as a result of the one-time effect achieved in 2017 from the sale of the security of the liquidity reserve.

Thanks to continued disciplined cost management, we expect costs to decline slightly compared to the previous year, such that the planned result will be at € 5 million.

ASSUMPTIONS

These expectations are based on the assumptions of a stable political environment in Germany and Europe with successful crisis management, as well as a sustained rise in the economic performance of the euro zone over the coming two years. For Germany, we expect an average annual economic growth of 2.4 % – based on the published Economic Research Reports of the J.P. Morgan Group.

With respect to the world economy, we assume that the US economy will develop more strongly in 2018 than in the previous year thanks to the positive effects of the tax reform; however, this development will weaken slightly in the coming year. The emerging countries paint an uneven picture as a result of the persistent geopolitical uncertainties and the declining domestic demand in several important countries. Overall, China and India remain important growth engines with annual growth between 6.4% and 7.3%.

In addition, we assume that the ECB will adhere to its negative interest rate policy in 2018 and that they might end the negative interest policy incrementally in 2019 through initial interest rate measures. In addition, we made the assumption that the average trend of the euro in relation to the US dollar will, with fluctuations, be at the level of the beginning of 2018.

DEVELOPMENT OF SEGMENTS

In the planning calculation for the next few years, we are assuming growth in overall profits for the CFS segment averaging 2 % p.a. For the Treasury Services segment we see a rise in total revenues by about 3 % in 2018, which, however, can be increased in 2019 thanks to the expansion of the range of services. Overall, we assume an average growth of net commission income of 4 % p.a. for 2018 and 11 % for 2019.

Based on the planning, we expect net revenues in the amount of € 118 million in 2018 compared to € 135.0 million in the prior year.

Thus, in 2018, the return on equity will be below 1 %; the profit margin is expected to be below 4%, and the cost-income ratio is expected to be 96 %. We expect the Tier 1 capital and total capital ratios to remain unchanged compared to the previous year.

FINANCIAL SOLVENCY

Based on our business model and thanks to our extremely conservative investment strategy with a very limited change in the maturity transformation for achieving an additional interest margin, the Bank continues to have a markedly high liquidity ratio (1.79; status date 12/31/2017), which leaves no doubt as to the solvency of J.P. Morgan AG. With liquidity coverage ratio of 154.5 % as of December 31, 2017, this also lies markedly above the minimum ratio of 80 % that has been mandatory since January 1, 2017.

Risk Report

Introduction

Risk is an inherent part of J.P. Morgan AG's business activities. When J.P. Morgan AG offers products or services, it takes on some degree of risk. J.P. Morgan AG's overall objective is to manage its business, and the associated risks, in a manner that balances serving the interest of its clients, customers and investors and protects the safety and soundness of J.P. Morgan AG.

RISK STRATEGY AND RISK MANAGEMENT

The risk strategy is derived directly from J.P. Morgan AG's business strategy. It defines the leading principles for risk management in J.P. Morgan AG and is defined by the Management Board of J.P. Morgan AG and is approved annually by the Supervisory Board.

The risk strategy defines how J.P. Morgan AG will manage the risks it has taken as part of its business activities. By limiting and managing the risks, risk-bearing capacity and liquidity are ensured at all times. The risk strategy covers all main risks and is, if necessary, further specified for individual risk categories in the form of partial risk strategies and then made concrete and operational using policies, guidelines and operating procedures. The completeness and suitability of the risk strategy is reviewed annually. Basis for the review is the annual risk inventory (also completed on an ad-hoc basis if required). This ensures that the risk strategy takes into consideration all material risks faced by J.P. Morgan AG.

The classification of individual risk categories as a material risk is based on whether the occurrence of the risk could have a serious negative effect on J.P. Morgan AG's risk-bearing capacity, liquidity or capital situation.

As per the risk inventory, in 2017 the following risk categories are considered material for J.P. Morgan AG:

– Strategic Risk including Liquidity risk and Business risk,
– Credit risk,
– Market risk, including Interest rate risks of the banking book,
– Operational risks,
– and Pension risk.

Risk appetite was defined by allocating the available risk covering potential to the individual risk categories. This facilitates compliance with the limits and allows for the monitoring of that compliance throughout the financial year.

The following principles apply for risk management and monitoring:

- Clearly defined organisational structures and documented processes are in place for all risks and respective business, from which the responsibilities and competencies of all functions involved are derived.
- There is a clear segregation of duties between first (front office) and second line (back office) of defence in order to avoid potential conflicts of interest.
- For the risk identification, measuring, aggregation, managing, monitoring and communicating of the risk categories, suitable procedures are defined and implemented in J.P. Morgan AG, including the Groupwide infrastructure.
- Appropriate limits for all significant risk categories have been adequately defined and are effectively controlled.

No major changes to the risk management system in J.P. Morgan AG have taken place in 2017.

RISK ORGANISATION

The Management Board member "Back Office" is responsible for risk management at J.P. Morgan AG, with regular reporting to the general management, as well as to J.P. Morgan AG's Supervisory Board. J.P. Morgan AG classifies a risk as a potential loss or a failure to realise a profit due to internal or external factors, and manages these in the context of risk management.

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

The Independent Risk Management ("IRM") function, comprised of the Risk Management and Compliance functions in J.P. Morgan AG, is independent of the businesses. The IRM function sets and oversees various standards for the risk management governance framework, including risk policy, identification, measurement, assessment, testing, limit setting (e. g., risk appetite, thresholds, etc.), monitoring and reporting, and conducts independent challenge of adherence to such standards.

- J.P. Morgan AG places key reliance on each of its LOBs and other functional areas giving rise to risk. Each LOB or other functional area giving rise to risk. Each LOB is expected to operate within the parameters identified by the IRM function, and within their own management-identified risk and control standards. The LOBs are the "first line of defense" within the J.P. Morgan AG's risk governance framework in identifying and managing the risk in their activities, including but not limited to applicable laws, rules and regulations.
- The Location Control Officer that is part of the Firmwide Oversight and Control Group ("O&C") has a central oversight function. O&C is charged with enhancing the Firm's control environment by looking within and across the lines of business and corporate functions to help identify and remediate control issues. O&C enables the Firm to detect control problems more quickly, escalate issues promptly and engage other stakeholders to understand common themes and interdependencies among the various parts of the Firm.

– The IRM function is independent of the businesses and forms "the second line of defense" as independent control function.
– The Internal Audit function operates independently from other parts of the Firm and performs independent testing and evaluation of firmwide processes and controls across the entire enterprise as the Firm's "third line of defense" in managing risk.

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

The IRM functions report directly to the Management Board member "Back Office" as the Chief Risk Officer (CRO). These include, in particular, the Market and Credit Risk Officer for the risk monitoring of credit and market price risks, the Risk Governance Officer as risk controller, the Legal Entity Risk Reporting for the monitoring of credit, liquidity and market price risks, and the Location Control Officer for monitoring the operational risks.

RISK MEASUREMENT AND REPORTING

Risk measurement and reporting take place in J.P. Morgan AG according to risk category on a daily (credit, market and liquidity risk), monthly (operational and earnings risks) or quarterly cycle (pension risks). The risk-bearing capacity is analysed on a monthly basis.

In addition to regulatory limits, the Management Board at J.P. Morgan AG defined a series of early-warning indicators, which are monitored daily and in a timely manner. Indicators and risk limits include, among others, recovery indicators, credit limits, investment limits, bidding limits, position limits as well as the minimum liquidity of J.P. Morgan AG, and are clearly documented. These also consider the concentration risk with respect to other J.P. Morgan entities.

For its monthly meetings, the Management Board receives a detailed overview of the development of the business areas, information on financial trends, a detailed risk report as well as a report from the Corporate Functions. The scope of the quarterly risk report extends considerably beyond the monthly reporting and presents the risk situation in more detail.

For its meetings, the Supervisory Board receives a current summary of the topics discussed in the meetings of the Management Board, including a summary of the risk report.

RISK-BEARING CAPABILITY AND STRESS TESTING

The risk-bearing capability analysis is a core component of the overall bank control of J.P. Morgan AG, with the goal of guaranteeing a suitable risk profile and adequate capital at all times. J.P. Morgan AG decided on a Going-Concern approach, whereby it could continue the core business activities even if all items of the defined risk covering potential were consumed through exposure to risks. The confidence level of 95 % corresponds to the underlying assumptions of the Going-Concern approach; risk coverage potential and the economic capital model are configured accordingly. The observation period lasts one year. As a secondary control circuit, a Gone-Concern approach is analysed in parallel, with a confidence level of 99.91 %.

According to the risk inventory credit risks, market risks, operational risks, pension risks, business risks and interest rate risks in the banking book are quantified as relevant risk

€M	12/31/2015	12/31/2016	12/31/2017	12/31/2015	12/31/2016	12/31/2017
			Regulatory			Economic
Type of risk						
Credit risk	35.7	49.3	109.2	12.6	28.8	16.5
Operational risk	16.2	19.2	24.6	15.0	16.6	17.3
Market risk	3.6	8.2	9.6	5.3	2.9	0
CVA	–	–	26.1	–	–	–
IRBB	**–**	**–**	**–**	**27.8**	**1.0**	**0.6**
Capital requirement	**55.5**	**72.0**	**169.5**	**60.7**	**49.2**	**34.4**
Risk coverage pool	834.2	840.0	835.0	99.2	125.3	122.8

categories in the context of the risk-bearing capacity calculation. Liquidity risk is full captured as part of the liquidity stress testing.

The risk bearing capital essentially consists of J.P. Morgan AG's retained earnings, the § 340g HGB reserve for general banking risks, accumulated profits and the profits achieved in the financial year as well as the planned retained profits of the following years. The quantification of the business risk, which is primarily meant to delineate planning uncertainty, is deducted from this capital. The quantification of the capital requirement for the occurring risks takes place through internal, institute-specific calculation approaches. The calculation of the risk-bearing capability takes place on a monthly basis.

For the verification of the risk bearing capacity, a set of combined stress scenarios has been defined for as part of integrated macroeconomic stress scenarios encompassing different risk categories. They are calculated and analyzed on a monthly basis. As part of the integrated stress testing, the risk-bearing capability was guaranteed at any time.

The risk-bearing capability concept and the stress tests are validated annually, building on the risk inventory. In fiscal year 2017, we further developed the risk-bearing capacity concept of J.P. Morgan AG. This primarily concerns the introduction of a new interest-rate risk from the banking book framework, the further development of the quantification of operational risk. Both initiatives will impact the risk bearing capacity concept in 2018.

The regulatory capital requirement for the individual risk categories is monitored by the Regulatory Reporting Team on a daily basis and is shown in the table above (all figures given in million €). The economic capital requirement pursuant to the Going-Concern and Gone-Concern approaches is additionally calculated by Risk Governance on a monthly basis.

As per December 31, 2017 utilisation of the Going-Concern approach stood at 39.3 %.

RISK CATEGORIES

Credit Risk

Credit risk is the risk associated with the default or change in credit profile of a client, counterparty or customer. J.P.

Morgan AG provides credit through its operating services activities (such as custodian banking function and clearing activities), markets activity from the SPV derivatives business and cash placed with banks particularly in the context of Treasury activities.

Credit risk management is overseen by the Credit Officer and implemented within the lines of business. JPMAG's credit risk management consists of:

- A comprehensive credit risk policy framework. By means of its credit risk strategy, which is derived from the general business and risk strategy, the Management Board defines the risk profile in regard to its clients and credit products. Moreover, structural organisation and processes for risk steering, potential measures to minimise 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 makes credit decisions on the basis of the clearly defined separate responsibilities for "Front Office" and "Back Office".
- Monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- Assigning and managing credit authorities in connection with the approval of all credit exposure

The Credit Risk Strategy aims to protect JPMAG from losses due to credit risk through:

- A conservative and well-defined approval process for intraday and overdraft lines
- A defined process of exposure reduction in case of excessive overdrafts of high-risk counterparties
- An ongoing analysis of unwanted concentration risks for certain counterparty groups
- Procedures for intensified loan management as well as the treatment of problematic loans exist but continued not to require application during the financial year 2017. In line with previous years we expect no defaults for 2018 due to the lack of a traditional credit portfolio, in line with that no loan loss provisions are booked.

Risk Measurement

The Credit Risk Management function measures, limits, manages and monitors credit risk across the J.P Morgan AG's businesses. Credit risk measurement is based on the probability of default of an obligor or counterparty, the loss severity given a default event and the exposure at default.

J.P. Morgan AG uses an unexpected loss model with a confidence level of 95 % (99.91 % in Gone-Concern) to calculate the economic capital requirement. As the basis for the Exposure at Default (EAD), the client's drawing behaviour is estimated for the payment transactions accounts on the basis of historical data, or otherwise market value positions per the reporting date are taken into consideration. Concentration risks are quantified for all relevant portfolios on the basis of the Herfindahl Hirschman Index.

J.P. Morgan AG uses the credit risk standard approach (KSA) for the regulatory quantification of the credit risk.

Stress Testing

Stress testing is important in measuring and managing credit risk in the J.P. Morgan AG's credit portfolio. The process assesses the potential impact of alternative economic and business scenarios on estimated credit losses for the J.P. Morgan AG.

A series of different scenarios are considered within the scope of the credit risk stress test that assume that client ratings, income from securities, drawing behaviour, portfolio concentrations or correlations could significantly worsen over the course of time. There is thus a regular validation of the stress tests and their results.

Risk Monitoring and Management

Daily monitoring of credit risk at the individual client level is done by Treasury & Credit Control, using the Group-wide credit limit control system, which records individual limits and utilisation at account level and/or at the level of single borrower units. The system does not allow unauthorised intraday limits. In essence, the main focus is on the monitoring of so-called intraday lines of credit and overdraft facility usage.

Management of J.P. Morgan AG's credit risk exposure is accomplished through a number of means, including:

– Credit approval process
– Collateral

Within Trade Finance, the credit risks in the form of contingent liabilities taken on J.P. Morgan AG's own books are for the most part directly collateralised within the Group. There are no significant call risks.

Risk reduction strategies are deployed in the same way with respect to other JPM Group companies.

On the basis of J.P. Morgan AG's business model as a Group-wide service provider in € payment transactions, but also as a custodian bank with a focus on special funds, concentration risks exist that are likewise taken into account in J.P. Morgan AG's risk-bearing capacity concept. Here, we expect no significant changes in the coming year.

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

Risk Reporting

A corresponding report of daily exposures and all new accounts and lines and/or all changes of existing lines is being presented daily for approval to the Credit Officer and if required additional approvers. Moreover, compliance with the approved limit structure, the monitoring of the risk-bearing capability as well as the analysis of the portfolio structure (e.g., maturities, credit products, segments and countries) including concentration risk is summarised in monthly reports to the Management Board.

J.P. Morgan AG's credit risk profile changed significantly in 2017 through the inclusion of the SPV derivatives business. Key values of the loan portfolio include:

€ M	12/31/2017	12/31/2016	12/31/2015
Lines of payment transaction (Intra-Day)	20.6bn	24.1bn	25.9bn
Lines of payment transaction (Overnight-Day)	1.3bn	4.2bn	4.2bn
Lines for Derivative Transactions	0.5bn	–	–
RWA for credit risk	1,065.3	579	446
RWA for CVAs	254.6	–	–
RTF Going-Concern	16.5	28.8	12.6
RTF Gone-Concern	149.3	269.3	119.5

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market- nor credit-related. Operational risk is an inherent part of the activity of J.P. Morgan AG and its LOBs, and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage. The goal is to keep operational risk at appropriate levels in light of J.P. Morgan AG's financial strength and the characteristics of its businesses.

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

Risk Governance

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

These committees escalate operational risk issues to the Firmwide Control Committee ("FCC"), as appropriate. The Firmwide Risk Executive for Operational Risk Governance ("ORG"), a direct report to the Chief Risk Officer of the Firm, is responsible for defining the ORMF and establishing minimum standards for its execution which have also been adopted by J.P. Morgan AG.

The Risk Governance and Location Control Officer, as direct reports to the CRO of J.P. Morgan AG, are jointly responsible for the J.P. Morgan AG's Operational Risk Manual which details the local application of the ORMF.

Risk Identification and Assessment

The Firm utilizes several tools to identify, assess, mitigate and manage its operational risk. One such tool is the RCSA program which is executed by LOBs and corporate functions in accordance with the minimum standards established by ORG. As part of the RCSA program, lines of business and corporate functions identify key operational risks inherent in their activities, evaluate the effectiveness of relevant controls in place to mitigate identified risks, and define actions to reduce residual risk. Action plans are developed for identified control issues and businesses are held accountable for tracking and resolving issues in a timely manner. Operational Risk Officers independently challenge the execution of the RCSA program and evaluate the appropriateness of the residual risk results.

In addition to the RCSA program, the Firm tracks and monitors events that have or could lead to actual operational risk losses, including litigation-related events. Responsible businesses and corporate functions analyze their losses to evaluate the efficacy of their control environment to assess where controls have failed, and to determine where targeted remediation efforts may be required. ORG provides oversight of these activities and may also perform independent assessments of significant operational risk events and areas of concentrated or emerging risk.

Measurement

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

The primary component of the operational risk capital estimate is the Loss Distribution Approach ("LDA") statistical model, which simulates the frequency and severity of future operational risk loss projections based on historical data. The LDA model is used to estimate an aggregate operational risk loss over a one-year time horizon, at a 99.9% confidence level. The LDA model incorporates actual internal operational risk losses in the quarter following the period in which those losses were realized, and the calculation generally continues to reflect such losses even after the issues or business activities giving rise to the losses have been remediated or reduced.

As required under the Basel III capital framework, the Firm's operational risk-based capital methodology, which uses the Advanced Measurement Approach, incorporates internal and external losses as well as management's view of tail risk captured through operational risk scenario analysis, and evaluation of key business environment and internal control metrics.

The Firm considers the impact of stressed economic conditions on operational risk losses and develops a forward looking view of material operational risk events that may occur in a stressed environment. The Firm's operational risk stress testing framework is utilized in calculating results for the Firm's Comprehensive Capital Analysis and Review ("CCAR") framework and Internal Capital Adequacy Assessment Processes ("ICAAP").

Risk Monitoring and Reporting

ORG has established standards for consistent operational risk reporting. The standards also reinforce escalation protocols to senior management and to the Management Board. Operational risk reports are produced on a firmwide basis as well as by line of business and corporate function. For JPMAG Operational Risk reporting is part of the monthly Management Board reporting.

Key values for operational risk are:

€M	12/31/2017	12/31/2016	12/31/2015
Losses arising from operational risks	0.1	0.1	0.6
Regulatory capital requirement	240	226	203
RTF Going-Concern	17.3	16.6	15.0
RTF Gone-Concern	32.4	31.2	28.2

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

Legal Risk Management

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

The global Legal function ("Legal") provides legal services and advice to the Company and the Firm. Legal is responsible for:

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

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

Employee Risk

Human Resource risks are those associated with the employment of staff for example, the cost of employment, health and safety issues; over-reliance on key individuals and inadequate succession planning; the cost and reputational damage of litigation by employees and/or arising from employee misconduct; and the risks associated with inappropriate compensation practices. JPMAG tries to minimize operational risks through established oversight and control processes and the implementation of key controls.

IT Risk

The systems used in JPMAG are part of JPMC's IT Infrastructure. As such JPMAG utilizes a number of critical applications to access market infrastructure (e.g. for the Euro-Clearing) or to service internal and external clients. One of the core requirements for JPMAG's business is a functioning

IT infrastructure. JPMAG tries to minimize operational risks through a standardized business continuity planning and testing, as well as the IT development are established firm-wide processes.

Process Risk

Process risk means the risk of loss resulting from inadequate or failed internal processes. Core activities in JPMAG, such as payment services and custody services define the entity as a transactional bank, process risk is highly relevant. JPMAG tries to minimize operational risks through established oversight and control processes and the implementation of key controls.

Losses incurred when a force of nature or an individual(s) causes damage or injury to the Firm's employees, clients, and/or physical assets. JPMAG manages this risk through extensive business continuity planning intended to guarantee the orderly operation of critical processes. The threat scenarios considered include the unavailability of employees, the breakdown of support systems, and the inability to use the building. The appropriate emergency plans were developed with the inclusion of Group-wide infrastructure and are regularly tested.

Liquidity Risk

Liquidity risk is the risk that J.P. Morgan AG will be unable to meet its contractual and contingent financial obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities. The JPMAG Board has ultimate responsibility for the liquidity and risk within the entity. The Board reviews and establishes an appropriate level of liquidity risk appetite, and it also reviews and periodically approves relevant frameworks and policies that specify how liquidity risk is managed in relation to the entity.

The risk mitigating instruments here include JPMAG specific liquidity risk limits and indicators along with LE specific breach escalation protocol. J.P. Morgan AG's primary source of liquidity is driven by customer deposits. The liquidity is mainly invested in JPMCB London Branch in the form of reverse repos. Majority of the reverse repos have an overnight maturity.

JPMAG's liquidity and funding management is integrated into JPMorgan Chase & Co.'s (the Firm's) liquidity management framework. The primary objectives of effective liquidity management are to ensure that the Firm's core businesses and material legal entities are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles as well as during stress events, to manage an optimal funding mix, and availability of liquidity sources.

The Firm manages liquidity and funding using a centralised, global approach across its entities, taking into consideration both their current liquidity profile and any potential changes over time, in order to optimise liquidity sources and uses. In the context of liquidity management for JPMAG, EMEA Corporate Treasury is responsible for:

- Analysing and understanding the liquidity characteristics, lines of business and legal entities' assets and liabilities, taking into account legal, regulatory, and operational restrictions;

- Defining and monitoring firmwide and legal entity-specific liquidity strategies, policies, guidelines, reporting and contingency funding plans;
- Managing liquidity within approved liquidity risk appetite tolerances and limits; and
- Setting transfer pricing in accordance with underlying liquidity characteristics of balance sheet assets and liabilities as well as certain off-balance sheet items.

EBA LCR

From 1 October 2015, JPMAG was expected to comply with the liquidity coverage ratio ("LCR") guidance set out in the Delegated Act (Commission delegated regulation [EU] 2015/61). The LCR is intended to measure the amount of "high quality liquid assets ("HQLA") held by the Company in relation to estimated net liquidity outflows within a 30 calendar day stress period. The LCR was required to be 80 % at 1 October 2015, rising to 90 % on 1 January 2017 until reaching the 100 % minimum by 1 January 2018. In 2017, the Company was compliant with the fully phased-in LCR.

NSFR

The Basel Committee final standard for net stable funding ratio ("Basel NSFR") is intended to measure the "available" and "required" amounts of stable funding over a one-year horizon. On 23 November 2016, the European Commission introduced its legislative proposal for the NSFR ("EU NSFR"), amending Regulation (EU) No 575/2013. The proposal is subject to approval from the European Parliament and Council of the EU. The Company is expected to comply with the EU NSFR at a level of 100 % two years after the date of entry into force of the proposed regulation, as is permitted.

Key ratios monitored for liquidity risk are:

	12/31/2017	12/31/2016	12/31/2015
BaFin Liquidity Ratio	1.79	1.48	1.91
Liquidity Coverage Ratio	155 %	121 %	149 %
Net Stable Funding Ratio [1]	346 %	400 %	161 %

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

Liquidity Risk Oversight

The Firm has an independent liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk across the Firm. Liquidity Risk Oversight's responsibilities include, but are not limited to:

- Establishing and monitoring limits and indicators, including liquidity risk appetite;
- Defining and monitoring internal firmwide and material legal entity stress tests and monitoring and reporting regulatory defined liquidity stress testing;
- Monitoring and reporting liquidity positions, balance sheet variances and funding activities;
- Conducting ad hoc analysis to identify potential emerging liquidity risks.

Risk Governance and Measurement

The specific committees responsible for liquidity risk governance for these entities include the EMEA ALCO and JPMAG Risk Oversight Committee.

Internal Stress Testing

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

- Varying levels of access to unsecured and secured funding markets;
- Estimated non-contractual and contingent cash outflows; and
- Potential impediments to the availability and transferability of liquidity between jurisdictions and material legal entities such as regulatory, legal or other restrictions.

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

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

In all scenarios performed in 2017, JPMAG had sufficient liquidity to meet regulatory requirements and support its assets and liabilities.

Market Risk

Market risk is the exposure to an adverse change in the market value of financial instruments caused by a change in market parameters. The primary categories of market parameters are:

- Interest Rates: Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, and mortgage prepayment rates;
- Foreign Exchange Rate: Foreign exchange rate risks result from exposures to changes in prices and volatility of currency rates;
- Equity Prices: Equity price risks result from exposures to changes in prices and volatility of individual equities, equity baskets and equity indices;
- Credit Spreads: Credit spreads are the difference between yields on corporate debt subject to default risk and government bonds;
- Commodity Prices: Commodity price risks result from exposures to changes in prices and volatility of commodities, such as natural gas, crude oil, petroleum products, precious and base metals and electricity;
- Market risk management in J.P. Morgan AG is fully embedded into the Market Risk Management framework of the Firm, when it comes to risk measurement, stress testing, risk monitoring and limit control.

Market Risk Management

As per the Firmwide Market Risk Management Policy framework, the Market Risk Firmwide Risk Executive (FRE) and Line Of Business Chief Risk Officers (LOB CROs) are responsible for establishing an effective market risk organization. The FRE, LOB Heads of Market Risk establish the framework to measure, monitor and control market risk.

The Market Risk function is scaled and organised according to the amount and complexity of market risk arising from the business activity. Market risk management may be the responsibility of a dedicated Market Risk group or may be performed as part of the broader Risk Management function.

In addition to the Risk Governance framework detailed in the Risk Governance policy, additional senior Market Risk management risk oversight is provided via two Forums, which typically convene monthly:

Firmwide Market Risk Forum:
Platform for discussion of strategic market risk initiatives, market risk measurement and methodology changes (e.g., stress test shocks), policy and procedures and other matters as appropriate. The Firmwide Market Risk Forum is not intended to discuss current market risk events or positions, as these are discussed at LOB Risk Committees, as well as various business as usual MR meetings, as appropriate.

Market Risk Control Forum:
Platform for discussion of operational control issues impacting the end-to-end Market Risk organization. The Market Risk Control Forum provides appropriate governance, transparency and escalation of material control issues.

Risk Measurement
Multiple measures are used to capture market risk and set limits as appropriate. These measures include, but are not limited to, VaR, Stress Testing, Non-statistical measures, Profit & Loss (P&L) Drawdowns/Loss Advisories, Single Name Position Risk (SNPR). As the appropriate set of risk measures utilized for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases.

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

The framework is employed across the Firm using historical simulation based on data for the previous 12 months. The framework's approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. The Firm believes the use of Risk Management VaR provides a stable measure of VaR that closely aligns to the day-to-day risk management decisions made by the lines of business, and provides the necessary and appropriate information needed to respond to risk events on a daily basis.

Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95 % confidence level. VaR provides a consistent framework to measure risk profiles and levels of diversification across product types and is used for aggregating risks across businesses and monitoring limits. These VaR results are reported to senior management, the Board of Directors and regulators.

The Firm's VaR model calculations are periodically evaluated and enhanced in response to changes in the composition of the Firm's portfolios, changes in market conditions, improvements in the Firm's modelling techniques and other factors. Such changes may also affect historical comparisons of VaR results. Model changes undergo a review and approval process by the Model Review Group prior to implementation into the operating environment.

The Firm calculates separately a daily aggregated VaR in accordance with regulatory rules (Regulatory VaR), which is used to derive the Firm's regulatory VaR-based capital requirements under Basel III. This Regulatory VaR model framework currently assumes a ten business-day holding period and an expected tail loss methodology which approximates a 99 % confidence level. Regulatory VaR is applied to "covered" positions as defined by Basel III, which may be different than the positions included in the Firm's Risk Management VaR.

Stress Testing

Along with VaR, stress testing is an important tool in measuring and controlling risk. While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behaviour as an indicator of losses, stress testing is intended to capture the Firm's exposure to unlikely but plausible events in abnormal markets. The Firm runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

The Firm uses a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. For example, certain scenarios assess the potential loss arising from current exposures held by the Firm due to a broad sell off in bond markets or an extreme widening in corporate credit spreads. The flexibility of the stress testing framework allows risk managers to construct new, specific scenarios that can be used to form decisions about future possible stress events. The stress testing framework is known as Firmwide Stress Infrastructure (FSI) which is a risk management tool that simulates changes to the prices of trading assets across a range of economic and market scenarios. It is used to measure the Firm's vulnerability to losses under a range of stressed but plausible market environments and to understand the risk factors and assets responsible for those losses.

Stress testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realized, and to stress test the relationships between market prices under extreme scenarios.

Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the respective Lines of Business (LOB) and Firm's senior management to allow them to better understand the sensitivity of positions to certain defined events and to enable them to manage their risks with more transparency. In addition, results are reported to the Board of Directors.

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

Risk Monitoring and Control

In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity and accommodation of client business and management experience. The Firm maintains different levels of limits. Corporate level limits include VaR and stress limits. Similarly, LOB limits include VaR and stress limits and may be supplemented by loss advisories, non-statistical measurements and P&L drawdowns. Limits may also be set within the LOBs, as well at the portfolio or legal entity level.

Limits are set by Market Risk and are regularly reviewed and updated as appropriate, with any changes approved by LOB management and Market Risk. Senior management, including the Firm's CEO and CRO, are responsible for reviewing and approving certain of these risk limits on an ongoing basis. All limits that have not been reviewed within specified time periods by Market Risk are escalated to senior management. The LOBs are responsible for adhering to established limits against which exposures are monitored and reported.

Limit breaches are required to be reported in a timely manner to limit approvers, Market Risk and senior management. In the event of a breach, Market Risk consults with Firm senior management and the LOB senior management to determine the appropriate course of action required to return to compliance, which may include a reduction in risk in order to remedy the breach. Certain Firm of LOB-level limits that have been breached for three business days or longer, or by more than 30 %, are escalated to senior management and the Firmwide Risk Committee.

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

Legal Entity Market Risk Management

J.P. Morgan AG maintains different levels of limits which include VaR and Stress limits. Limits are may be set at the legal entity as well as at the portfolio level. J.P. Morgan AG maintains an active Trading Book to facilitate the Markets business with the issuance of derivatives to SPVs. Where possible positions are is mostly traded back to back to JPMCB, London Branch or JPMs plc to remain flat market risk for the trading book.

JPMAG CRO is responsible for the application of the Firmwide market risk management processes to JPMAG. Limits are set by Market Risk and are regularly reviewed and updated as appropriate. J.P. Morgan A.G.'s CRO and MRO are responsible for reviewing and approving certain of these risk limits on an ongoing basis. The lines of business are responsible for adhering to established limits against which exposures are monitored and reported.

Market Risk monitors market risk exposures in JPMAG and defines the market risk framework, which is established in the context of the business strategy employed by trading businesses operating out of the legal entity.

Limit breaches are required to be reported in a timely manner to limit approvers, Market Risk. In the event of a breach, the MRO consults with J.P. Morgan AG's senior management to determine the appropriate course of action required to return to compliance, which may include a reduction in risk in order to remedy the breach.

	Value at Risk (in US $)		
T$	12/31/2017	12/31/2016	12/31/2015
Reporting date (10Q)	2,769	15,462	12,985

Structural Interest Rate Risk

Structural Interest Rate Risk is the Interest Rate Risk in the Banking Book ("IRRBB") and is defined as Interest Rate Risk ("IRR") resulting from the Firm's traditional banking activities (accrual accounted on and off balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as 'non-trading' activities); and also the impact from Chief Investment Office

("CIO") investment portfolio and other related CIO, Treasury activities. IRR from non-trading activities can occur due to a variety of factors, including but not limited to:

- Difference in the timing among the maturity or re-pricing of assets, liabilities and off-balance sheet instruments;
- Differences in the balances of assets, liabilities and off-balance sheet instruments that re-price at the same time;
- Differences in the amounts by which short-term and long-term market interest rates change; and
- Impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change.

JPMAG leverages the Firmwide risk framework to manage IRR.

Treasury and Chief Investment Office ("T/CIO") manages IRRBB exposure on behalf of the Firm by identifying, measuring, modelling and monitoring IRR across the Firm's balance sheet. T/CIO identifies and understands material balance sheet impacts of new initiatives and products and executes market transactions to manage IRR through T/CIO investment portfolio's positions.

In order to quantify the IRRBB, J.P. Morgan AG uses as of 12/31/2017 the result of the interest rate shock specified by the banking supervisory authorities of +/−200 basis points currently.

€ MN	BPV
12/31/2017	31.1
Minimum 2017	0.2
Maximum 2017	42.7
Average 2017	15.7

Pension Risk

J.P. Morgan AG defines Pension risk as the risk caused by contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). Pension risk is driven by market and demographic risk where the pension scheme may be unable to meet future expected benefit payments.

Pension risk is thus the potential necessity of increasing pension reserves. The pension risks are determined on the basis of a VaR model but are considered in an additional calculation in the quantification of the risk-bearing capacity. If the VaR should exceed the excess of planned pension assets, this position would be deducted from the risk cover potential.

Business Risk

J.P. Morgan AG defines Business risk as any risk arising from changes in its business, including: the acute risk to earnings posed by falling or volatile income; and the broader risk of a firm's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors; or its remuneration policy. Regular plan monitoring and if necessary the appropriate adjustments ensure that these deviations are minimised.

Reputation Risk

Reputation risk is the risk that an action, transaction, investment or event will reduce trust in the J.P. Morgan AG's and Firm's integrity or competence by our various constituents, including clients, counterparties, regulators, employees and the broader public.

Risk Management

Maintaining the Company's reputation is the responsibility of each individual employee. The Firm's Reputation Risk Governance policy explicitly vests each employee with the responsibility to consider the reputation of the Firm when engaging in any activity.

Since the types of events that could harm the Firm's reputation are so varied across the Firm's lines of business, each line of business has a separate reputation risk governance infrastructure in place, which consists of three key elements: clear, documented escalation criteria appropriate to the business; a designated primary discussion forum – in most cases, one or more dedicated reputation risk committees; and a list of designated contacts, to whom questions relating to reputation risk should be referred. For any reputational risk item impacting JPMAG the CRO would be involved directly.

Line of business reputation risk governance is overseen by a Firmwide Reputation Risk Governance function, which provides oversight of the governance infrastructure and process to support the consistent identification, escalation, management and monitoring of reputation risk issues Firmwide.

Summarising Presentation

The conservative risk policy and the solid capital resources ensure the very comfortable risk position of J.P. Morgan AG going forward. The quantification of the capital requirement for the occurring risks takes place through internal, institute-specific calculation approaches. The calculation of the risk bearing capability takes place on a monthly basis. As per 31 December, 2017, utilisation stood at 28 %. As part of the integrated stress testing, the risk bearing capability was guaranteed at any time.

The following key performance and risk indicators essentially represent the risk profile of J.P. Morgan AG:

€ M	2017	2016	2015
RWA Overall	**1,654**	**901**	**679**
Total capital	835	840	834
Tier 1 capital ratio	39 %	73 %	95 %
Total capital ratio	50 %	93 %	122 %
Liquidity ratio	1.79	1.48	1.91
Leverage Ratio	4.20 %	2.89 %	4.91 %
Liquidity Coverage Ratio	155 %	121 %	149 %
Net Stable Funding Ratio	346 %	400 %	161 %
Risk capital requirement Going-Concern	34.4	49.2	60.7
Risk cover potential Going-Concern	122.8	125.3	99.2
Risk capital requirement Gone-Concern	183.1	327.3	222.8
Risk cover potential Gone-Concern	821.7	836.9	801.7

In 2017, as in previous years, J.P. Morgan AG did not observe any credit default.

RISK CONTROL AND MONITORING

Timely, independent and risk-based reporting the risk categories credit risk, market price risk, liquidity risk and operational risk is provided to the Management Board on a daily, weekly and monthly basis; Risk Management summarises said reports as part of the quarterly MaRisk reports.

The various control functions at J.P. Morgan AG – mainly the Internal Audit, Compliance and Risk Management departments – create an annual review and audit plan based on the results of the risk assessment of the operational risks, particularly in order to ensure the effectiveness of the defined controlling measures.

The Internal Audit department of J.P. Morgan AG is an integral component of Group auditing and reports directly to the Chairperson of the Management Board. It is responsible for the review of the business operations at J.P. Morgan AG based on a risk-oriented audit approach, which covers all activities and processes at J.P. Morgan AG and thus the outsourced activities as well. The Group auditing department of JPMorgan Chase Bank, N.A., London, is generally involved when this type of audit is performed.

DEFINITION OF LIMITS

In addition to regulatory limits, the Management Board at J.P. Morgan AG defined a series of early-warning indicators, which are monitored daily and in a timely manner. These limits are defined in the Limit and Trigger Guidance and include, among others, renovation indicators, credit limits, investment limits, bidding limits, as well as the minimum liquidity of J.P. Morgan AG.

The risk-based framework of J.P. Morgan AG is approved by the Management Board and updated on a regular basis. It defines roles and responsibilities as well as escalation procedures in the event that critical threshold values are exceeded or fallen short of, or that defined limits are breached.

CHANGE PROCESSES

The introduction of new products and the expansion of business into new markets occurs in line with the Group-wide "New Business Initiative Policy". Under the responsibility of the Management Board member "Back Office" in its role as CRO, an analysis takes place of the potential risks, the design of the operative processes, their regulatory impacts, and their impact on J.P. Morgan AG's risk capacity. If the product involves an expansion of trading activities, the CRO shall also ensure there is a sufficient test phase prior to introduction in real production.

Integrating various functions such as Financial Control, Tax, Legal, Compliance Internal Review and Risk as coordinated by the CRO guarantees a review of the planned product launch independent of the trading function. This committee documents its findings along with a recommendation for approval, which are then submitted for discussion to the general management. Only after approval is the initiative integrated into real production at J.P. Morgan AG.

Internal Control System

GENERAL REMARKS

Please refer to the explanations provided in the risk report for a presentation of the risks and the measures for limiting risks. The internal control system (ICS) and the risk management system, which cover the J.P. Morgan AG accounting process, focus on the guidelines, procedures and measures taken to ensure the efficacy, economic viability and orderliness of the accounting as well as guaranteeing adherence to the key statutory regulations. The internal control system consists of two areas, Control and Monitoring. In organisational terms, the Financial Control & Tax division is responsible for the control.

The monitoring measures consist of elements integrated into the process and external, independent elements. Among other things, the integrated measures include a monthly control process covering all the Bank's activities, during which the balance sheet as at that date and the income statement are examined to assess and confirm their correct presentation and risks. Moreover, in all instances the four-eye principle is applied, along with technical controls, mainly by software-controlled audit mechanisms. Furthermore, qualified staff members with due expertise and specialist functions such as Financial Control & Tax take part in the process-integrated monitoring and control functions.

The Management Board and the Supervisory Board (in particular the Audit Committee) as well as the internal audit department are involved in the internal monitoring system in the form of process-independent audit measures. The audit of the annual financial statements constitutes a key element of process-independent monitoring.

With a view to the accounting, the risk management system is geared to identify, evaluate and communicate risks from faulty bookkeeping, accounting, and reporting in a timely manner.

IT USAGE

The IT environment to support accounting processes in J.P. Morgan AG is made up of the IT applications which have been deployed throughout the Group. The orderly functioning of the programs and interfaces utilised is regularly assessed and confirmed. As part of the examination of our IT, the Group auditors check the due operation of the accounting-related applications at all computer centre locations. The complete IT system, including that for accounting, is secured against unauthorised access.

KEY REGULATIONS AND CONTROL ACTIVITIES TO ENSURE DUE, ORDERLY AND RELIABLE ACCOUNTING

The internal control system's structure and measures ensure that business transactions are entered swiftly and completely in line with the statutory and the internal regulations and that assets and liabilities are accurately calculated, valued and carried in the annual financial statements. The booking documentation provides a reliable information base and a clear paper trail.

The regulations of the Financial Accounting Standards Board are applied within the J.P. Morgan Group as uniform valuation and accounting principles according to US-GAAP, supplemented and commented on by the Group's "Accounting Policies" section. Here, again, stipulations are made with regard to the intra-Group settlement policies. As part of the preparation of the individual financial statements of J.P. Morgan AG, a reconciliation statement is prepared from US-GAAP to the annual financial statements in accordance with the German Commercial Code. Here, local work directives regulate in detail the formal requirements and material information in the annual financial statements.

With respect to the country-specific reporting under § 26a Para. 1 sentence 2 KWG [Banking Act], J.P. Morgan AG has neither foreign branch offices nor subsidiaries in this sense.

Assurance by the Management Board

We hereby assure that to the best of our knowledge and in line with the applicable accounting principles for financial reporting, this report offers a fair picture of the Bank's assets, financial/liquidity and earnings situation 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 19, 2018

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

BURKHARD KÜBEL-SORGER STEFAN BEHR

Financial statements 2017 of J.P. Morgan AG

ANNUAL BALANCE SHEET FOR THE PERIOD ENDED DECEMBER 31, 2017 OF J.P. MORGAN AG, FRANKFURT AM MAIN

ASSETS

€				Notes	2017 €	2016 T€
Cash reserves						
– Cash in hand			100			0
– Credits with central banks			7,822,448,256			13,195,115
incl.: with Deutsche Bundesbank	7,822,448,256					13,195,115
				2.1.	**7,822,448,356**	**13,195,115**
Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks:						
– Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions			–			–
incl.: eligible for refinancing with Deutsche Bundesbank	–					–
– Bill of exchange			–			–
incl.: eligible for refinancing with Deutsche Bundesbank	–				–	–
Receivables from credit institutions						
– due daily			7,099,858,407			8,804,762
– other receivables			28,177,587			29,856
				2.2.	**7,128,035,994**	**8,834,618**
Receivables from clients				**2.3.**	**260,071,233**	**204,688**
incl.: secured by mortgages	–					–
incl.: municipal credits	–					–
Bonds and other fixed-interest securities						
– Money market instruments						
from public issuers		–				–
incl.: eligible as collateral at Deutsche Bundesbank	–	–				–
from other issuers		–				–
incl.: eligible as collateral at Deutsche Bundesbank	–	–				–
			–			–
– bonds and debt securities						
from public issuers		50,636,007				247,994
incl.: eligible as collateral at Deutsche Bundesbank	50,636,007					247,994
from other issuers		–				–
incl.: eligible as collateral at Deutsche Bundesbank	–	–				–
			50,636,007			247,994
– own debt securities			–			
Nominal amount	–		–			–
				2.4.	**50,636,007**	**247,994**

ASSETS (CONTINUED)

€				Notes	2017 €	2016 T€
Shares and other non-fixed-interest securities					–	–
Trading portfolio				2.5.	385,642,714	0
Investments					–	–
incl.: in credit institutions	–					
incl.: in financial services institutions	–					–
Shares in affiliated companies						
incl.: in credit institutions	–					–
incl.: in financial services institutions	–					–
Trust assets						
incl.: fiduciary loans	–					–
Tangible assets				2.6.	12,573,255	14,725
Other assets				2.7.	6,749,032	4,250
Accrued and deferred expenses				2.8.	3,078,043	1,116
Excess of plan assets over pension liabilities				2.9.	76,629,927	64,958
Total assets					15,745,864,561	22,567,464

LIABILITIES

€				Notes	2017 €	2016 T€
Liabilities to credit institutions						
– due daily			4,743,374,910			4,156,770
– with agreed maturity or notice period			2,971,014,592			11,401,392
				2.11.	**7,714,389,502**	**15,558,162**
Liabilities to clients						
– savings deposits						
with agreed notice period of three months		–				–
with agreed notice period of more than three months		–				–
			–			–
– other liabilities						
due daily			6,692,867,409			6,078,551
with agreed maturity or termination notice period			10,000,000			10,000
				2.12.	**6,702,867,409**	**6,088,551**
Securitised liabilities						
– issued debt instruments			–			–
– other securitised liabilities			–			–
						–
incl.: money market instruments	–					–
incl.: acceptances and promissory notes outstanding	–					–
Trading portfolio			**–**	**2.5.**	**383,658,081**	**0**
Trust liabilities					**–**	**–**
incl.: trust loans	–					–
Other liabilities				**2.13.**	**24,012,574**	**16,406**
Accrued and deferred expenses					**58,242**	**68**
Provisions						
– Provisions for pensions and similar obligations			–			–
– tax provisions			8,116,185			4,303
– other provisions			12,452,846			13,089
				2.14.	**20,569,031**	**17,392**
Subordinated liabilities				**2.15.**	**184,887,920**	**185,376**
Profit participation right					**–**	**–**
incl.: maturity after less than two years	–				–	–

LIABILITIES (CONTINUED)

€				Notes	2017 €	2016 T€
Fund for general banking risks				**2.16.**	**56,499,805**	**56,300**
Equity						
– Called-in capital						
Subscribed capital			160,000,000	**2.17.**		160,000
minus unclaimed outstanding deposits			–			–
– Capital reserves			418,681,895			418,682
– Retained earnings						
Legal reserves		6,000,000				6,000
Reserve for interests in a dominant or majority stake holding company		–				–
Reserves as stated in the Articles of Association		–				–
Other revenue reserves		60,526,889				44,980
			66,526,889			50,980
– Balance sheet profit			13,713,213			15,547
					658,921,997	**645,209**
Total liabilities					**15,745,864,561**	**22,567,464**
Contingent liabilities						
– Contingent liabilities from rediscounted, settled bills			–			–
– Liabilities from guarantees and indemnity agreements			161,922,269			438,030
– Collateral provided for third-party liabilities			–			–
				2.20.	**161,922,269**	**438,030**
Other commitments						
– Repurchase obligations under reverse repurchasing agreements			–			–
– Placement and underwriting obligations			–			–
– Irrevocable loan commitments			–			–
					–	–

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

FOR THE PERIOD FROM JANUARY 1, 2017 TO DECEMBER 31, 2017

€				Notes	2017 €	2016 T€
Interest income from						
– lending and money-market transactions	23,632,280					
– less negative interest arising from lending and money-market transactions	−45,238,250	−21,605,970				−13,379
– fixed-income securities and debt register claims	1,537,848					
– less negative interest arising from debt register claims	–	1,537,848				
– Total interest income			−20,068,122			−11,115
Interest expenses from						
– lending and money-market transactions	1,694,940					
– less positive interest arising from lending and money-market transactions	−30,055,455	−28,360,515				−26,737
– fixed-interest securities debt register claims	359,865					768
– less positive interest arising from debt register claims	–	–				
– Total interest expenses			−28,000,650			−25,969
				3.1.	**7,932,528**	**14,854**
Current income from						
– equities and other non-fixed-income securities			–			–
– investments			1,951			23
– shares in affiliated companies			–			–
					1,951	**23**
Commissions income			87,585,528			78,661
Commissions expenses			1,945,884			1,661
				3.2.	**85,639,644**	**77,000**
Net income from trading portfolio				**3.3.**	**1,798,241**	**0**
Other operating income				**3.4.**	**39,659,298**	**36,848**
General administrative expenses						
– Personnel expenses						
Wages and salaries		26,782,298				25,662
Social security contributions and expenses for pension provisions and benefits		4,878,816	31,661,114			3,279
incl.: for retirement benefits	1,548,532					62
– other administrative expenses			78,988,476			74,778
				3.5.	**110,649,590**	**103,719**

FOR THE PERIOD FROM JANUARY 1, 2017 TO DECEMBER 31, 2017 (CONTINUED)

€				Notes	2017 €	2016 T€
Depreciation, amortisation and valuation adjustments of intangible and tangible fixed assets				**2.6.**	**2,217,715**	**2,249**
Other operating expenses				**3.6.**	**2,312,110**	**1,179**
Depreciation and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks			–			
Income from allocations to receivables and specific securities as well as allocations to loan transaction accruals			–			
					–	
Depreciation, amortisation and write-downs of equity investments, shares in affiliated companies and securities classified as fixed assets			–			–
Income from reversals of investments, shares in affiliated companies and securities classified as fixed assets			–			–
					–	–
Income before Tax and extraordinary items					**19,852,247**	**21,578**
Extraordinary income			–			–
Extraordinary expenses			–			–
Extraordinary result					**–**	**–**
Taxes on income and revenue			6,125,924			6,019
including changes in deferred taxes:	–					
Other taxes, not shown under other operating expenses			13,110			12
				3.7.	**−6,139,034**	**− 6,031**
Profit transferred on the basis of profit pooling, profit and loss transfer, or partial profit transfer agreements					–	–
Annual net profit					**13,713,213**	**15,547**
Profit/loss carried forward				**3.8.**	**0**	**0**
Retained profit					**13,713,213**	**15,547**

J.P. MORGAN AG, FRANKFURT AM MAIN
NOTES TO THE 2017 ANNUAL FINANCIAL STATEMENTS

1. General Remarks

1.1. GENERAL PRINCIPLES

J.P. Morgan AG, with registered offices in Frankfurt am Main, is a public limited liability company under German Law registered in the Trade Register of the Frankfurt District Court under number HRB 16861, which is active in Germany in the main business segments of transactional banking, the securities custody business and depository and loan business, and the business with over-the-counter derivatives.

The annual financial statements for J.P. Morgan AG have been prepared under the rules laid down in the German Commercial Code (HGB), the Companies Act (Aktiengesetz) and the Accounting Regulation for Credit Institutions and Financial Service Institutions (RechKredV).

The structure of the balance sheet and the income statement is mainly unchanged as compared to the prior year. Only the items for the trading portfolio were supplemented.

1.2. ADDENDUM REPORT

There were no significant changes after the balance sheet date.

1.3. CHANGED ACCOUNTING AND VALUATION METHODS

The balance sheet preparation and valuation methods adopted in the 2017 annual financial statements were retained without change compared to the previous year.

The financial instruments of the trading portfolio are valued according to the fair value minus a deduction for risk pursuant to § 340e Para. 3 HGB. In accordance with § 255 Para. 4 HGB the fair value corresponds to the market price.

1.4. FOREIGN CURRENCY CONVERSION

Foreign-currency receivables and liabilities have been converted using the European Central Bank reference rates applicable at the reporting date. Transactions denominated in foreign currency are translated at the end-of-month rate for the month in which the business was transacted. Exchange gains/losses are reported in profit or loss under other income. The losses incurred from foreign currency conversion in 2017 in the amount of € 374,299 are shown under Other Expenses.

2. Key Accounting and Valuation Principles and Explanations

2.1. CASH RESERVES

T€	12/31/2017	12/31/2016
Cash reserves	**7,822,448**	**13,195,115**
Cash on hand	0	0
Credit with central banks	7,822,448	13,195,115
incl.: with Deutsche Bundesbank	7,822,448	13,195,115

Liquid funds are reported at nominal value. As of the reporting date there was € 100 in liquid assets in the cash on hand.

2.2. RECEIVABLES FROM CREDIT INSTITUTIONS

T€	12/31/2017	12/31/2016
Receivables from credit institutions	**7,128,036**	**8,834,618**
incl.: receivables from affiliated companies	7,013,400	8,354,653
Breakdown by remaining maturity:		
a) due daily	7,099,858	8,804,762
b) other receivables	28,178	29,856
1. up to three months	28,178	29,856

The receivables from credit institutions are listed at the nominal values or the lower cost of acquisition plus accrued interest. The majority of the receivables in the amount of € 5.539 billion is made up of intra-group reverse repo transactions.

2.3. RECEIVABLES FROM CLIENTS

T€	12/31/2017	12/31/2016
Receivables from clients	**260,072**	**204,688**
incl.: receivables from affiliated companies	20,861	71,920
Breakdown by remaining maturity:		
a) due daily	16,859	36,473
b) undefined maturity	243,212	168,214
c) other receivables	–	–
1. up to three months	–	–

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

The majority of the receivables in the amount of € 204 million comprises tolerated overdrafts with clients from the Custody and Funds Services business area.

2.4. BONDS AND OTHER FIXED-INTEREST SECURITIES

T€	12/31/2017	12/31/2016
Bonds and other fixed-interest securities	**50,636**	**247,994**
maturing in the following year	–	–
Bonds and debt securities		
from public issuers	50,636	247,994
incl.: eligible as collateral with Deutsche Bundesbank	50,636	247,994
including marketable securities	50,636	247,994
listed on the stock exchange	50,636	247,994
not listed on a stock exchange	–	–

This position includes only listed bonds. Bonds and other fixed-income securities are valued at acquisition with the acquisition cost.

The securities form part of the liquidity reserves. The securities are assessed according to the strict lowest value principle pursuant to § 253, Para. 4 HGB. Depreciations and write-ups of the securities in the liquidity reserve are reported in the income statement under "Depreciation and value adjustments in respect of receivables and specific securities" and "Allocations to provisions in connection with lending business interests" or "Income from write-ups to receivables and specific securities" as well as "amortisation of provisions in connection with lending business interests".

To hedge the risk of changes in interest rates, a security and an interest hedging instrument were combined to form a micro-valuation unit. The interest-induced market price change hedged by means of a swap was € –4.5 million on the closing date. Effectiveness tests conducted monthly show that it is an effective relationship. The valuation unit terminates on the maturity date of the security in 2024.

As at December 31, 2017, hidden reserves amounting to € 2.3 million existed in the securities of the liquidity reserve, taking the existing valuation units into consideration. Due to the classification of all securities as liquidity reserve, no hidden liabilities exist.

2.5. TRADING PORTFOLIO

Only financial derivative instruments are listed as financial instruments of the trading portfolio. The basic assumptions used to determine fair value using recognised valuation methods are presented in § 2.10. “Other accounting and valuation methods”. § 2.10. also deals with the calculation of the value-at-risk-based risk discount.

T€ 12/31/2017	Trading portfolio on the assets side	Trading portfolio on the liabilities side
Trading portfolio		
Derivative financial instruments	385,643	383,658
Risk discount	5	0
In total	**385,648**	**383,658**

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

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

T€ 12/31/2017	Nominal amount	Positive market values	Negative market values
Products traded over the counter			
Interest-rate-linked transactions	4,648,227	232,146	232,146
Exchange-rate-linked transactions	3,416,668	110,038	110,038
Credit derivatives	1,052,615	15,740	15,740
Equity-linked transactions	373,873	27,724	27,724
In total	**9,491,384**	**385,648**	**385,648**

2.6. CHANGE IN FIXED ASSETS

T€	Other equipment and office equipment	Technical equipment and machines	Total
Cumulative acquisition costs as of 01/01/2017	**17,741**	**2,105**	**19,846**
Additions	81	4	86
Disposals	−20	0	−20
Transfers	0	0	0
Cumulative acquisition costs as of 12/31/2017	**17,803**	**2,109**	**19,912**
Cumulative depreciation as at 01/01/2017	**3,849**	**1,272**	**5,121**
Scheduled depreciation in the current year	1,823	384	2,208
Additions	8	1	9
Disposals	0	0	0
Transfers	0	0	0
Cumulated planned depreciation as at 12/31/2017	5,681	1,657	7,338
Residual value as at 12/31/2017	**12,122**	**452**	**12,574**
Residual value as at 12/31/2016	**13,892**	**833**	**14,725**

The fixed assets are valued at acquisition cost and minus scheduled straight line depreciation. The value of the used parts of buildings amounts to € 9.4 million, while that of operating and business equipment amounts to € 3.2 million.

2.7. OTHER ASSETS

T€	12/31/2017	12/31/2016
Other assets	**6,749**	**4,250**

This mainly comprises € 1.3 million in value-added tax receivables, € 0.7 million from the asset value of the pension liability insurance.

2.8. ACCRUED AND DEFERRED EXPENSES

T€	12/31/2017	12/31/2016
Accrued and deferred expenses	**3,078**	**1,116**

The accrued and deferred expenses include € 3.06 million for the pension payments that were paid out in advance for billing reasons in 2017.

2.9. EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

In line with § 246 Para. 2 S. 2 HGB, assets that serve to cover debts from pension liabilities and similar long-term obligations were netted against the liabilities. If the fair value of the assets exceeds the amount of the debts arising from retirement benefit obligations and similar long-term obligations, the excess amount is listed under the item "Excess of plan assets over pension liabilities." The actuarial report was calculated using the mortality tables of Prof. Dr. Klaus Heubeck 2005 G.

The evaluation was carried out in accordance with the accepted principles of actuarial mathematics using the so-called "Projected Unit Credit Method" (PUC method).

T€	12/31/2017	12/31/2016
Valuation parameters (BilMoG [Bilanzrechtsmodernisierungsgesetz – German Accounting Law Modernisation Act])		
Pension obligations:		
Actuarial interest rate	3.68 %	4.01 %
Future increase of benefits	3.00 %	3.00 %
Increase of pension	1.75 %	1.75 %
In order to account for fluctuation, age-specific and gender-specific fluctuation probabilities were used	Mercer Standard	Mercer Standard
Partial retirement:		
Actuarial interest rate	2.80 %	3.24 %
Future increase of benefits	3.00 %	3.00 %
Increase of pension	0.00 %	0.00 %

€		12/31/2017
Pension liabilities	**01/01/2017**	**140,053,598**
Allocations		9,819,430
Allocations from deferred compensation		0
Consumption (pension payments)		−10,851,276
Pension liabilities	**12/31/2017**	**139,021,753**
Assets	**01/01/2017**	**205,011,385**
Additions		745,237
Disposals		0
Reversal of impairment on part values that have risen again		0
Market valuation in relation to acquisition costs (under other operating income)		9,895,058
Assets	**12/31/2017**	**215,651,680**
Excess of plan assets over pension liabilities	**01/01/2017**	**64,957,787**
Excess of plan assets over pension liabilities	**12/31/2017**	**76,629,927**
Acquisition costs of assets	**01/01/2017**	**121,415,325**
Acquisition costs of assets	**12/31/2017**	**122,162,513**
Trend for allocations to pension provisions		
Allocations		9,819,430
Details of costs of partial retirement under “Wages and salaries”		−24,163
Proof of change in the discount rate and discounting/compounding of pension liabilities under other operative income		−9,706,777
Allocations to pension provisions	**01/01–12/31/2017**	**88,490**

	2017
Asset investment measures pursuant to HGB § 285 no. 26 of the assets	
Special Institutional Funds	**JPMC I Universal Fund**
Legal basis:	Risk management approach:
Basis of the calculation:	Market value (NAV) of assets
Reinvestment:	Capitalisation funds
§ 253 Para. 3 S. 4:	No depreciation because listed in accordance with § 246 Para. 2 HGB
Term:	No restriction on the daily return
Valuation as per §§ 168, 278 KAGb [Capital Investment Act] or comparable foreign law as of balance sheet closing date:	T€ 184,366; shares 1,071,094
Capital assets:	Not eligible for listing on the stock exchange/ unlisted
– Mutual funds	**JPMorgan Funds – Global Unconstrained Equity**
Legal basis:	Luxembourg law
Basis of the calculation:	Market value (NAV) of assets
Reinvestment:	Capitalisation funds
§ 253 Para. 3 S. 4:	No depreciation because listed in accordance with § 246 Para. 2 HGB
Term:	No restriction on the daily return
Valuation in accordance with §§ 168, 278 KAGb [Capital Investment Act] or comparable foreign law as of balance sheet closing date:	T€ 323,270; shares 17,457,996
Capital assets:	Not eligible for listing on the stock exchange/ unlisted

All pension assets are held to hedge pension benefits granted to employees. The primary investment target of the funds is to cover long term financial obligations.

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

2.10. OTHER ACCOUNTING AND VALUATION METHODS

Other assets are valued under consideration of the strict lowest value principle.

Provisions for expenses and income have been created and allocated to the respective balance sheet items. No significant costs or income relating to other periods were recorded.

The accounts payable are recognized at fulfilment amounts.

Appropriate provisions have been made for uncertain liabilities, including imminent losses in the amount of T€ 54.

Interest driven business, in the banking book, was valued using the periodical approach (p&l based method) for loss free valuation. In accordance with this method, it was not required to form a provision for contingent losses.

The financial instruments of the trading portfolio are valued according to the fair value minus a risk discount pursuant to § 340e Para. 3 HGB. In accordance with § 255 Para. 4 HGB the fair value corresponds to the market price. Where available, fair value is based on observable market prices or derived from observable prices or parameters. The availability of observable data varies according to product and market and may change over time. If no observable stock market prices or information are available, valuation models that correspond to market standards are used.

Netting of positive and negative fair values of financial instruments were not applied during the reporting period.

The value-at-risk is determined for the financial instruments in the trading book and deducted on the balance sheet within the trading assets. The calculation of the value-at-risk discount is based on a holding period of ten days and a confidence level of 99 %. The observation period is 264 trading days. The value-at-risk is charged to the net income position of the trading result according to § 340e Para. 4 HGB and increased the fund for general banking risks.

The amount that may not be disbursed under § 268 Para. 8 S. 3 HGB totalled € 93.5 million as of December 31, 2017. This is the difference between the fair value and the purchase costs of the plan assets. Another item that is barred from disbursement is a part of the retirement pension commitment difference amount in accordance with § 253 Para. 6 S. 2 HGB, using the 7-year average interest rate, totalling € 10.5 million. Free reserves within the meaning of § 268 Para. 8 HGB existed in the amount of € 492.9 million.

Provisions were valued at the settlement amount, factoring in expected increases in prices and costs.

Provisions with a remaining term of more than one year have been discounted/revalued at the average market interest rates as calculated and announced by Deutsche Bundesbank (§ 253 Para. 2 HGB). Income and expenses from the discount or compounding are shown on an unbalanced basis, depending on whether provisions were created for the lending business interests or the non-banking business, correspondingly under the interest income/expense (§ 277 Para. 5 HGB) or in the other operating income/expenditure (§ 340a Para. 2 in conjunction with § 277 Para. 5 HGB).

Deferred taxes are calculated for temporary differences between the commercial valuations of assets, liabilities and deferred income and their taxable value and tax loss. The underlying temporary differences are mainly due to different valuations of securities, pension liabilities and the valuation of plan assets and provisions and lead to a net deferred tax asset (surplus). For the calculation of deferred taxes, a corporate income tax rate including solidarity surcharge of 15.825 % and an industrial tax rate of 16.10 % were assumed. The right available under § 274, Para. 1, S. 2, HGB for activation of deferred taxes is not exercised.

Valuation units were created for registered bonds and promissory notes that were issued, which were hedged against market prices using a Total Return Swap (TRS). Moreover, parts of the fixed-interest securities were combined into a valuation unit with an interest rate swap as a hedge.

The TRS and the interest swap were each combined into a single hedge transaction with their underlying transaction, and their effectiveness was tested.

Owing to the clear hedging relationship, the transactions involved are Micro-Hedges that represent an efficient and perfect hedging relationship for the entire term. The market values covered by the Total Return Swaps in relation to the underlying liabilities are calculated using customary valuation models. Efficiency is measured by using the dollar offset method, or with the use of suitable statistical procedures such as regression analysis.

The fair market value of the Total Return Swap on December 31, 2017 was T€ 3,696. The value of the interest swap on the closing date is T€ −5,145. Valuation was carried out using internal valuation procedures. The Group uses valuation procedures to establish the fair value of financial instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation procedures are based on observable data derived from prices of relevant financial instruments traded in an active market. The use of these models involves some level of management estimation and judgment, the degree of which will depend on the price transparency for the financial instrument and its market and the instrument's complexity.

The maturity of the TRS corresponds to the hedged liability, and is made up as follows on December 31, 2017:

T€	Total Return Swap	Liabilities
Total Return Swaps Overview (Nominal)		
Maturity		
2022	10,000	10,000

A valuation unit was created that combined a Total Return Swap and a liability item.

The maturity breakdown of the interest swap is shown in the following table, in combination with the bonds:

T€	Interest Rate Swaps	Debt securities
Interest Rate Swap overview (nominal)		
Maturity		
2024	50,000	50,000
2025	–	–

The effective portion of the valuation units formed is presented according to the freezing method.

2.11. LIABILITIES TO CREDIT INSTITUTIONS

T€	12/31/2017	12/31/2016
Liabilities to credit institutions	**7,714,390**	**15,558,162**
incl.: liabilities to affiliated companies	5,572,194	13,028,352
Maturity structure:		
a) due daily	4,743,375	4,156,770
b) with agreed maturity or notice period	2,971,015	11,401,392
1. up to three months,	2,871,015	11,156,392
2. more than three months to one year,	–	145,000
3. more than one year to five years,	–	–
4. more than five years	100,000	100,000

The majority of the accounts payable are against intra-group companies.

The JPMorgan Chase Bank, N.A., London Branch, has furnished a cash security of € 500 million to secure granted lines of credit, as well as a cash security of € 100 million to secure transactions with derivatives.

2.12. LIABILITIES TO CLIENTS

T€	12/31/2017	12/31/2016
Liabilities to clients	**6,702,867**	**6,088,551**
incl.: liabilities to affiliated companies	126,567	317,201
Maturity structure:		
a) due daily	6,692,867	6,078,551
b) with agreed maturity or notice period	10,000	10,000
1. up to three months,	–	–
2. more than three months to one year,	–	–
3. more than one year to five years,	–	–
4. more than five years	10,000	10,000

The majority of the accounts payable in the amount of € 5,238 million comprises client deposits from the Custody and Funds Services business area.

2.13. OTHER LIABILITIES

T€	12/31/2017	12/31/2016
Other liabilities	**24,013**	**16,406**
consisting of:		
– Value added tax	8,365	11,609
– Liabilities from deliveries and services	10,782	3,654
– other liabilities	2,806	1,143

These mainly comprise liabilities from deliveries and services, as well as value added tax liabilities.

2.14. PROVISIONS

T€	12/31/2017	12/31/2016
Provisions	**20,569**	**17,392**
incl.:		
– tax provisions	8,116	4,303
– other provisions	12,453	13,089

In the provisions that are shown, all recognizable obligations on the balance sheet closing date that are based on past business transactions or past events are reflected and valued in accordance with § 253 Para. 2 HGB.

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

Provisions for anniversaries included in this figure were calculated using an actuarial report and the mortality tables of Prof. Dr. Klaus Heubeck 2005 G and in line with the valuation method as per § 253 para. 1 HGB.

2.15. SUBORDINATED LIABILITIES

T€	12/31/2017	12/31/2016
Subordinated liabilities	**184,888**	**185,376**
incl.: Subordinated liabilities to affiliated companies	184,888	185,376

The subordinated capital shown in 2017 comprises a subordinate loan of € 150,000,000 taken out on 21 December 2009, as well as another subordinate loan of € 35,790,432, which was transferred to J.P. Morgan AG within the scope of the merger between J.P. Morgan Beteiligungs- und Verwaltungsgesellschaft mbH and J.P. Morgan AG.

Interest payments are made quarterly starting on December 21, 2009 or for the capital gained within the context of the merger, on a semi-annual basis. The interest that is payable is calculated on the basis of the respective three-month EURIBOR (European InterBank Offered Rate) or, as the case may be, six-month EURIBOR interest rate. The amount of expenses incurred for subordinated liabilities amounts to T€ 93 for the financial year.

The subordinated capital to the amount of T€ 150,000 is due on December 21, 2039. The subordinated loan to the amount of T€ 35,790 has no term with an option for termination at any time with a notice period of two years. In the event of insolvency, all remaining lenders will be serviced in order of priority. There are no early repayment obligations.

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

2.16. FUND FOR GENERAL BANKING RISKS

T€	12/31/2017	12/31/2016
Status as at 01/01/2017	**56,300**	**56,300**
Additions	200	–
Disposals	–	–
Status as at 12/31/2017	**56,500**	**56,300**

2.17. SUBSCRIBED CAPITAL RESERVE AND RETAINED EARNINGS

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

The shares are 100 % paid-in. The profit shown on the Balance Sheet in the prior year of amount of € 15.5 million was assigned by the Annual General Meeting to the retained earnings reserves.

2.18. OTHER ITEMS DUE TO AFFILIATED COMPANIES

T€	12/31/2017	12/31/2016
Other items due to affiliated companies		
Other liabilities	1,771	1,824

2.19. FOREIGN CURRENCY ASSETS AND LIABILITIES

T€	12/31/2017	12/31/2016
Foreign currency assets and liabilities		
Assets	1,450,612	1,984,480
Liabilities	1,451,620	2,378,092

2.20. CONTINGENT LIABILITIES

T€	12/31/2017	12/31/2016
Contingent liabilities		
Liabilities from guarantees and indemnity agreements	161,922	438,030

The contingent liabilities shown are mainly covered by corresponding hedges.

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

3. Explanatory Notes to the Income Statement

3.1. NET INTEREST INCOME

T€	01/01–12/31/2017	01/01–12/31/2016
Interest income (net)	**7,933**	**14,854**
Interest income from:	**−20,068**	**−11,115**
a) Lending and money-market transactions	23,632	25,448
less negative interest arising from lending and money-market transactions	−45,238	−38,827
b) Fixed-income securities and debt register claims	1,538	2,263
Interest expenses:	**−28,001**	**−25,969**
a) Lending and money-market transactions	1,695	2,538
less negative interest arising from lending and money-market transactions	−30,055	−29,275
b) Fixed-income securities and debt register claims	360	768

Net interest income fell by 47 % compared to the comparison period. This heavy fall is due in part to reverse repo transactions, which because of negative interest rates led to a reduction in interest income by T€ 6,411.

The positive balance of interest from bonds reduced by T€ 317 compared to the prior year.

3.2. NET COMMISSION INCOME

T€	01/01–12/31/2017	01/01–12/31/2016
Commission income (net)	**85,640**	**77,001**

The net commission income increased by 11.2 % in comparison to the previous year. In particular, increasing income from payment transactions and the first collection of commissions receivable from OTC derivative business contributed positively to this increase.

3.3. NET INCOME FROM THE TRADING PORTFOLIO

T€	01/01–12/31/2017	01/01–12/31/2016
Net income from trading portfolio	**1,798**	**0**

The net income from the trading portfolio amounts to T€ 1,798.

3.4. OTHER OPERATING INCOME

T€	01/01–12/31/2017	01/01–12/31/2016
Other operating income	**39,659**	**36,848**
including:		
– Services rendered for Group entities	29,765	30,231
– Miscellaneous other operating income	9,895	6,617

The increase in other operating income is 8 % compared to the previous year. A positive effect was achieved from the sale of securities from the liquidity reserve in the amount of T€ 9,416 (2016: T€ 1,049). The positive effect is partially reduced from T€ 2,586 in 2016 to T€ 188 in 2017 as a result of the valuation result arising from the changes in the present value of the cover assets, the change in the actuarial interest rate, and the effects of discounting and compounding the pension liabilities.

Further, other income included services rendered to Group units.

3.5. GENERAL ADMINISTRATIVE EXPENSES

T€	01/01–12/31/2017	01/01–12/31/2016
General administrative expenses	**110,650**	**103,719**
incl.:		
Personnel expenses	31,661	28,941
– Wages and salaries	26,782	25,662
– Social security contributions and expenses for pension provisions and benefits	4,879	3,278
• of which for retirement	1,549	62
other administrative expenses	78,988	74,778

The increase in general administrative expenses results mainly from increased expenses on services to companies of the Group.

3.6. OTHER OPERATING EXPENSES

T€	01/01–12/31/2017	01/01–12/31/2016
Other operating expenses	**2,312**	**1,179**

The other operational expenses primarily include intra-Group expenses for the administration and sale of securities from the liquidity reserve.

3.7. TAX ON INCOME AND REVENUE AND OTHER TAXES

T€	01/01–12/31/2017	01/01–12/31/2016
Taxes	**6,139**	**6,031**
Industrial tax	4,073	2,967
Corporate tax	3,839	3,052
Other	–1,771	12

In the fiscal year out-of-period tax expenses in the amount of T€ 13 were recorded. The Miscellaneous Taxes item contains € 1.7 million in interest income that results from a completed tax audit.

3.8. PROPOSED APPROPRIATION OF PROFITS

The Management Board and the Supervisory Board propose to the Annual General Meeting that the balance sheet profit for fiscal year 2017, totalling € 13,713,213 be added to the retained earnings.

4. Other Data

T€	Market value on 12/31/2017 positive	Market value on 12/31/2017 negative	Market value on 12/31/2016 positive	Market value on 12/31/2016 negative	Market value on 12/31/2015 positive	Market value on 12/31/2015 negative
Total Return Swap	3,696	–	4,071		4,104	8,950
Interest Rate Swaps	–	5,145	–	6,353	–	14,951

Forward transactions which were not yet settled at the reporting date consisted of Total Return Swaps and Interest Rate Swaps. The Total Return Swaps and Interest Rate Swaps were concluded to hedge against market risks, or change of interest rate risks.

4.1. RELATIONS WITH AFFILIATED COMPANIES

The sole shareholder of J.P. Morgan AG is J.P. Morgan International Finance Limited, Newark/ Delaware, USA. A dependency report pursuant to § 312 AktG [Aktiengesetz – German Stock Corporations Act] is issued.

J.P. Morgan Chase & Co. and J.P. Morgan Chase Bank, National Association, have informed us by letter dated January 15, 2018 that an indirect equity interest of 100 % exists. J.P. Morgan International Finance Limited informed us in writing on January 15, 2018 that a direct holding of 100 % exists.

The group financial statements for the smallest and the largest scope of included companies are prepared by JPMorgan Chase & Co., New York, whose shares are quoted on the New York Stock Exchange as well as on certain European and Asian stock markets. The consolidated annual financial statements can be obtained on request from J.P. Morgan AG, Frankfurt am Main.

The Bank is a member of the Deposit Protection Fund of the Association of German Banks.

4.2. NUMBER OF EMPLOYEES

On average for the year there were 275 employees, distributed as follows:

Number	12/31/2017	12/31/2016
Yearly average	**275**	**269**
Distribution of employees		
Authorised signatories	9	12
Authorised officers	135	128
Commercial employees	131	129

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

4.3. TOTAL REMUNERATION OF THE ACTIVE MEMBERS OF THE BOARDS

The remuneration paid to members of the Management Board amounted to T€ 2,387. A portion of this came from 6,490 restricted stock units which had a fair value on their grant date of T€ 495.

The remuneration paid to members of the Supervisory Board amounted to T€ 10 in 2017.

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

4.4. TOTAL PAYMENTS TO FORMER BOARD MEMBERS AND THEIR DEPENDENTS

Pension provisions for these persons totalled T€ 18,475 as of December 31, 2017. The total remuneration for former members of the Management Board and their dependants amounted to T€ 3,924 as at December 31, 2017.

4.5. FEE EXPENSES[1]

T€	01/01–12/31/2017	01/01–12/31/2016
Total fee expenses for the financial year calculated by the auditors for	**445**	**289**
Financial document auditing services	**365**	**204**
of which, for the previous year	5	2
of which, expenses in the current financial year	0	0
of which, expenses for creating provisions	360	202
Other confirmation services	**80**	**85**
of which, for the previous year	0	2
of which, expenses in the current financial year	0	0
of which, expenses for creating provisions	80	83
Other services	**0**	**28**
of which, for the previous year	0	0
of which, expenses in the current financial year	0	28
of which, expenses for creating provisions	0	0

[1] Net expenses, excluding VAT

The other confirmation services are the WpHG [Securities Trading Act] audit of the custodian bank.

4.6. EXPLANATORY NOTES ON OTHER FINANCIAL COMMITMENTS

The Company utilises 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 September 30, 2024.

Management Board
Burkhard Kübel-Sorger Chairperson of the Management Board, Managing Director, J.P. Morgan AG
Michelle Grundmann (until October 16, 2017) Managing Director, J.P. Morgan AG
Stefan Behr Managing Director, J.P. Morgan AG
Supervisory Board
Mark S. Garvin Chairman, Managing Director, J.P. Morgan Europe Limited
Frédéric P. Mouchel Deputy Chairperson, Managing Director and Chief Executive Officer, J.P. Morgan Bank Luxembourg, S.A.
Melanie Martin Managing Director, JPMorgan Chase Bank N.A., London Branch
Dorothee Blessing Regional Head Germany/Austria/Switzerland & Vice Chairman Investment Banking EMEA
Thomas Freise Employee Representative, J.P. Morgan AG
Christoph Fickel Employee Representative, J.P. Morgan AG

Directorships or seats on supervisory boards

Management Board
Burkhard Kübel-Sorger Management Board of Whiteshire Debt Solutions GmbH
Michelle Grundmann (until October 16, 2017) No other directorships
Stefan Behr No other directorships
Supervisory Board
Mark S. Garvin Executive management body J.P. Morgan Securities plc, supervisory body J.P. Morgan Bank Luxembourg S.A. (Chairman of the Board); J.P. Morgan Europe Limited Euroclear S.A.; Euroclear plc
Frédéric P. Mouchel Executive management body J.P. Morgan Bank Luxembourg S.A. (Chairperson of the Executive Committee), Supervisory body J.P. Morgan Chase Holding Ltd.
Melanie Martin No other directorships
Dorothee Blessing Executive management body J.P. Morgan Securities plc Frankfurt Branch, supervisory body A.P. Møller Maersk Group
Thomas Freise No other directorships
Christoph Fickel No other directorships

Frankfurt am Main, April 19, 2018

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

BURKHARD KÜBEL-SORGER

STEFAN BEHR

AUDITOR'S REPORT

To J.P. Morgan AG, Frankfurt am Main

Note by the Auditor of the Financial Statements

AUDIT JUDGMENTS

We have audited the annual financial statements of J.P. Morgan AG, Frankfurt am Main – consisting of the December 31, 2017 balance sheet and income statement for the fiscal year from January 1 through December 31, 2017, as well as the notes, including the description of the balance sheet preparation and valuation methods. In addition, we have audited the management report of J.P. Morgan AG for the fiscal year from January 1 through December 31, 2017.

According to our evaluation based on the knowledge gained in the course of the audit,

– the attached annual financial statements are in all substantial respects in conformity with the provisions of German commercial law and convey an accurate picture of the corporation's asset and financial situation on December 31, 2017 and its earnings situation for the fiscal year from January 1 through December 31, 2017 in compliance with the principles of proper accounting, and
– the attached management report conveys an accurate picture of the corporation's situation overall. In all substantial respects, this management report is in accord with the annual financial statements, complies with the German statutory provisions, and accurately presents the opportunities and risk of future development.

In accordance with § 322 par. 3 sentence 1 HGB [Commercial Code], we hereby declare that our audit has not led to any objections with respect to the propriety of the annual financial statements or the management report.

BASIS FOR THE AUDIT JUDGMENTS

We conducted our audit of the annual financial statements and management report in accordance with § 317 HGB and the EU Financial Statement Auditing Regulations (no. 537/2014; hereinafter referred to as "EU-APrVO") and in compliance with the German principles of proper auditing of financial statements established by the Institut der Wirtschaftsprüfer [Institute of Auditors] (IDW). Our responsibility under these provisions and principles is described in detail in the "The Financial Statement Auditor's Responsibility for the Audit of the Annual Financial Statements and Management Report" section of our audit certificate. We are independent of the enterprise in accordance with the European and German provisions of commercial and professional law and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare in accordance with Article 10 par. 2 letter f)

EU-APrVO that we have not rendered any prohibited non-audit services set forth in Article 5 par. 1 EU-APrVO. We are of the opinion that the audit evidence that we have obtained is adequate and suitable to serve as the basis for our audit judgments concerning the annual financial statements and management report.

PARTICULARLY IMPORTANT AUDIT SITUATIONS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Particularly important audit situations are situations that, in our duly exercised discretion, were the most significant in our audit of the annual financial statements for the fiscal year from January 1 through December 31, 2017. These situations were reflected in connection with our audit of the annual financial statements as a whole and in forming our audit judgment in this regard; we submit no separate audit judgment concerning these situations.

From our perspective, the following situation was the most significant in our audit:

1 **Balance sheet listing of business transactions in derivative financial instruments arising from the trading business with special purpose vehicles**

We have structured our presentation of this particularly important audit situation as follows:

1 Facts and statement of the problem

2 Audit procedure and findings

3 Reference to further information

We will describe the particularly important audit situation in the following:

1 **Balance sheet listing of business transactions in derivative financial instruments arising from the trading business with special purpose vehicles**

1 In the 2017 fiscal year, J.P. Morgan AG commenced the trading business in derivative financial instruments with special purpose vehicles (SPVs) as a business activity for the first time.

The corporation concludes derivative transactions with SPVs outside of the JPMorgan Chase & Co. group (clients). The corporation shows this proprietary trading activity in the trading portfolio. The underlyings are essentially securities, currencies, units of account, interest rates, indices, or other earnings. The corporation's objective is not the position [or] taking of risk or the associated generation or earnings from price fluctuations or margins, but rather the rendering of the service to clients of the group.

In order to close the created positions arising from the client transactions, J.P. Morgan AG simultaneously concludes an offsetting transaction with another group-affiliated company. In the offsetting transaction, there is a substantial matching of all risk-determining terms with the client transaction. The offsetting transactions are also shown in the trading portfolio of J.P. Morgan AG.

To hedge the counterparty risks arising from the transactions with group-affiliated companies, cash security takes place with implementation of an ongoing margining process between the corporation and the respective group-affiliated companies. The reporting in this regard is under the accounts receivable or, as the case may be, accounts payable to credit institutions. The corporation posts the interest arising from the security in net interest income. In individual cases, there is a securing of the client transactions by means of securities by the client. The corporation currently provides no collateral with respect to the client transactions.

The accruals of current cash flows – arising, for example, from interest payments – are carried out in the corporation's trading portfolio.

The valuation of the positions in the trading portfolio takes place in accordance with § 340e par. 3 sentence 1 HGB at the fair value minus a risk discount. In accordance with § 340e par. 4 sentence 1 HGB, the corporation allocates 10 percent of the net earnings of the trading portfolio to the "Funds for general banking risks" special item in accordance with § 340g HGB. The fair value is determined with the help of generally recognized valuation methods. The bank determines the risk discount on the basis of a value at risk, taking into account the parameters prescribed by banking supervisory law with respect to the trading portfolio.

The valuation losses and gains, current expenditures and revenues, and the risk discount change that affects net income are shown by the corporation in the net result of the trading portfolio. In exchange for its work, the corporation receives commissions from the respective group-affiliated companies that execute the transaction to close the position arising from the client transaction. These are posted in the commission earnings.

In light of the first-time commencement of this business activity by the corporation during the fiscal year and as a result of the high complexity and quantity of the transactions, as well as the possible effects on the corporation's asset and earnings situation, the balance sheet portrayal of business transactions in derivative financial instruments arising from the trading business with specific purpose vehicles was of particular significance to our audit.

2 Within the framework of our audit, we evaluated the corporation's procedure concerning the balance sheet posting of business transactions in derivative financial instruments arising from the trading business with specific purpose vehicles.

In doing so we took into consideration the business organisation, the IT systems, and the relevant valuation models. In the process we become convinced of the reasonableness and effectiveness of the monitoring actions. In evaluating the valuation of the derivative financial instruments at the fair value, we retraced the calculation methods on the basis of market data and the contractual basis data and undertook an evaluation of the valuation methods that were used. We have retraced the corporation's calculations and reconciled them with the evidence that was presented to us.

We evaluated the contractual basis of individual transactions within the framework of random samples. We also became convinced of the simultaneous conclusion of offsetting transactions and the substantial matching of all risk-determining terms. In addition, we retraced the procedure for determining the risk discount and reconciled the results with the evidence that was presented to us.

We reviewed the requirements for the determination of the amount of the cash collateral and the interest thereon with the help of the contractual provisions, and we reconciled a reconciliation of the portfolio with the help of the evidence that was presented to us.

On the basis of our audit actions, we became convinced that the balance sheet recognition of business transactions in derivative financial instruments arising from the trading business with specific purpose vehicles took place properly in accordance with § 340e par. 3 and 4 HGB.

3 The corporation's statements concerning the balance sheet recognition of business transactions in derivative financial instruments arising from the trading business with specific purpose vehicles are contained in § 2.5 and 2.10 of the notes.

MISCELLANEOUS INFORMATION

The statutory representatives are responsible for the miscellaneous information. The miscellaneous information encompasses the business report – without further cross-references to outside information – with the exception of the audited annual financial statements, the audited management report, and our audit certificate.

Our audit judgments concerning the annual financial statements and management report do not extend to the miscellaneous information, and accordingly we do not submit an audit judgment or any form of audit conclusion in that regard.

In connection with our audit, we have the responsibility to read the miscellaneous information and evaluate whether the miscellaneous information

– shows substantial discrepancies with respect to the annual financial statements, management report or our findings gained in the course of the audit, or
– otherwise appears to be substantially misrepresented.

RESPONSIBILITY OF THE STATUTORY REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

The statutory representatives are responsible for the preparation of annual financial statements that conform in all substantial respects to the provisions of German commercial law and for ensuring that the annual financial statements conform to German principles of proper accounting and convey a picture of the corporation's asset, financial, and earnings situation that corresponds to actual circumstances. In addition, the statutory representatives are responsible for the internal controls that they have determined to be necessary in conformity with the German principles of proper accounting, in order to enable the preparation of annual financial statements that are free from substantial – intended or unintended – misrepresentations.

In preparing the annual financial statements, the statutory representatives are responsible for evaluating the corporation's ability to continue business activity. In addition, they have the responsibility of stating situations in connection with the continuation of business activity, if pertinent. Beyond that, they are responsible for preparing the balance sheet on the basis of the accounting principle of continuation of business activity, unless this is precluded by actual or legal conditions.

Moreover, the statutory representatives are responsible for the preparation of a management report that conveys an overall accurate picture of the corporation and is in accord with the annual financial statements in all substantial respects, conforms to the German statutory provisions, and accurately presents the opportunities and risks of future development. The statutory representatives are also responsible for the precautionary actions and measures (systems) that they have deemed necessary in order to enable the preparation of a management report in accordance with the applicable German statutory provisions and in order to be able to provide adequate and suitable evidence of the statements in the management report.

The supervisory board is responsible for monitoring the corporation's accounting process with respect to the preparation of the annual financial statements and management report.

THE FINANCIAL STATEMENT AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Our goal is to gain sufficient certainty concerning whether the annual financial statements as a whole are free from substantial – intended or unintended – misrepresentations and whether overall the management report conveys an accurate picture of the corporation's situation, is consistent in all substantial respects with the annual financial statements and the findings gained in the course of the audit, conforms to the German statutory provisions, and accurately presents the opportunities and risks of future development and issue an audit certificate that contains our audit judgments concerning the annual financial statements and management report.

Sufficient certainty is a high degree of certainty, but not a guarantee that an audit conducted in accordance with § 317 HGB and EU-APrVO and in compliance with the principles of proper financial statement auditing established by the Institut der Wirtschaftsprüfer [Institute of Auditors] (IDW) will always detect a misrepresentation. Misrepresentations can result from violations or inaccuracies and are viewed as substantial if it could reasonably be expected that they will, individually or as a whole, influence the audience's economic decisions made on the basis of the annual financial statements and management report.

During the audit, we exercise due discretion and maintain a critical attitude. In addition,

– we identify and evaluate the risks of substantial – intended or unintended – misrepresentations in the annual financial statements and management report, plan and conduct audit actions as a response to these risks, and obtain audit evidence that is adequate and suitable to serve as a basis for our audit judgments. The risk that substantial misrepresentations will not be detected is greater in the case of violations than in the case of inaccuracies, since violations can include fraudulent cooperation, falsifications, intentional incompleteness, misleading representations or, as the case may be, abolition of internal controls.
– we gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautionary actions and measures relevant to the audit of the management report, in order to plan audit actions that are reasonable under the given circumstances, but not with the goal of submitting an audit judgment concerning the effectiveness of these systems of the corporation.
– we evaluate the reasonableness of the accounting methods applied by the statutory representatives and the tenability of the estimated values and associated statements presented by the statutory representatives.
– we draw conclusions concerning the reasonableness of the accounting principle of continuation of business activity applied by the statutory representatives and, on the basis of the audit evidence that has been obtained, concerning whether substantial uncertainty exists in connection with the events or conditions that might raise significant doubts as to the corporation's ability to continue business activity. If we come to the conclusion that substantial uncertainty exists, we are obligated to call attention in the audit certificate to the relevant statements in the annual financial statements and management report or, if these statements are unreasonable, modify our respective audit judgment. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit certificate. Future events or conditions can, however, result in the corporation no longer being able to continue its business activity.

– we evaluate the overall presentation, structure, and content of the annual financial statements, including the information, as well as whether the annual financial statements present the underlying business transactions and events in such a manner that the annual financial statements convey a picture of the corporation's asset, financial, and earnings situation that corresponds to the actual circumstances in compliance with the German principles of proper accounting.
– we evaluate the management report's consistency with the annual financial statements, its statutory conformity, and the picture of the corporation's situation that it conveys.
– we conduct audit actions concerning the prospective statements in the management report that have been presented by the statutory representatives. On the basis of adequate audit evidence, we retrace, in particular, the significant assumptions on which the statutory representatives base the prospective statements, and we evaluate the proper derivation of the prospective statements from these assumptions. We do not submit an independent audit judgment concerning the prospective statements or the underlying assumptions. There is a substantial unavoidable risk that future events will substantially deviate from the prospective statements.

In conversation with the persons responsible for monitoring, we discuss, among other things, the planned scope and scheduling of the audit, as well as significant audit determinations, including any defects in the internal control system that we detect during our audit.

We give the persons responsible for monitoring a statement to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other situations that can reasonably be assumed to have an effect on our independence, and the protective measures that have been taken in this regard.

From the factual situations that we have discussed with the persons responsible for monitoring, we determine the situations that were most meaningful in the audit of the annual financial statements for the current reporting period and are therefore particularly important audit situations. We describe these situations in the audit certificate, unless statutes or other legal provisions preclude the public disclosure of the situation.

Miscellaneous Statutory and Other Legal Requirements

OTHER INFORMATION IN ACCORDANCE WITH ARTICLE 10 EU-APRVO

We were selected as financial statement auditor by the general shareholders' meeting on April 27, 2017. We were engaged by the Supervisory Board on 16 November 2017. We have been working on an uninterrupted basis since the 1983 fiscal year as the auditor of the financial statements of J.P. Morgan AG, Frankfurt am Main, or its predecessor companies.

We hereby declare that the audit judgments contained in this audit certificate are in accord with the additional report to the audit committee in accordance with Article 11 EU-APrVO (audit report).

Responsible Auditor

The auditor responsible for the audit is Christoph Lehmann.

Frankfurt am Main, April 19, 2018

PricewaterhouseCoopers GmbH
Audit Company

Christoph Lehmann	ppa. Fatih Agirman
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD

SUPERVISION AND CONTROL

The Supervisory Board has continuously monitored management on the basis of written and verbal reporting and performed the duties for which it is responsible in accordance with the applicable statutes. Important matters of business management were examined by the Supervisory Board in regard to the Bank's economic situation, the business policy, liquidity, capital and risk management. In addition, the Supervisory Board was informed in detail concerning risk management with the help of the MaRisk Reports.

PERSONNEL CHANGES IN THE MANAGEMENT BOARD

There was a personnel change in the Management Board during 2017 fiscal year. Michelle Grundmann left during the 2017 fiscal year on October 16, 2017.

PERSONNEL CHANGES IN THE SUPERVISORY BOARD

No personnel changes took place in the Supervisory Board during financial year 2017.

In fiscal year 2017 the Supervisory Board was composed of the following persons: Mark S. Garvin (Chairman), Frédéric Mouchel (Deputy Chairman), Melanie Martin, Dorothee Blessing and, as employee representatives, Christoph Fickel and Thomas Freise.

AUDIT COMMITTEE

For the fiscal year, the Audit Committee discussed the financial statements and audit report on April 24, 2018 and the planning of the audit on October 25, 2017.

The Audit Committee is responsible for monitoring the accounting process, the effectiveness of the internal control system, of the risk management system and of the internal audit system as well as the statutory audit, particularly the independence of the auditor and any additional services performed by the auditor.

Based on the recommendations of the Audit Committee (§ 124 para. 3 sentence 2 AktG [Stock Corporation Act]) PriceWaterhouseCoopers GmbH, Frankfurt am Main, were proposed to the Annual General Meeting for the annual financial statements and management report for the 2018 fiscal year in accordance with the statutory requirements.

ANNUAL FINANCIAL STATEMENT

The annual financial statements and management report for the 2017 fiscal year, including the bookkeeping, were audited by the auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, which had been selected by the Annual General Meeting. The auditing firm issued an unqualified audit opinion.

The Audit Committee discussed and reviewed the Annual Financial Statements and Management Report with the auditors during the meeting on April 24, 2018. Based on the final result of the Audit Committee's investigation, the Supervisory Board did not raise any objections. The financial statements and Management Report prepared by the Management Board for the period ended December 31, 2017 were approved by the Supervisory Board today. The Annual Financial Statements, as submitted by the Management Board, are hereby approved and established.

The Supervisory Board would like to express its sincere gratitude to the Management Board and all employees of the Bank for their dedication and joint hard work.

April 26, 2018

The Supervisory Board

MARK S. GARVIN
Chairman

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