

J.P. MORGAN CAPITAL FINANCING LIMITED
(Registered Number: 2290621)

Consolidated annual report for the year ended 31 December 2011



J.P. MORGAN CAPITAL FINANCING LIMITED
Consolidated annual report for the year ended 31 December 2011

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J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2011

The directors present their report and the audited financial statements of the Group and the Company for the year ended 31 December 2011. The Company's registration number is 2290621.

Principal activities

During the year, the Group through its subsidiary undertakings, held a variety of financial instruments and provided loans and funding commitments to Group entities and to a variety of commercial enterprises.

Review of business

The directors were satisfied with the performance of the Group.

Principal risks and uncertainties

Whilst management of the Group's risks and uncertainties is integrated with that of the wider JPMC Group, the Group also manages certain risks at a legal entity level as described in the financial risk management note to the financial statements.

Key performance indicators (KPIs)

The results are monitored against expectations of the business activities. The board of directors monitors progress on the performance of the Group by reference to the following KPIs:

	2011	2010
Operating income variance (%)	(43)	(54)
Operating margin (%)	107	121
Total assets variance (%)	3	(14)

A more detailed description of the Group key performance indicators may be found within the JPMC Group annual report.

Business environment, strategy and future outlook

The directors expect that the existing business will continue and there will be additional business opportunities for the Group to broaden its portfolio of activities.

Results and dividends

The results for the year show the Group's profit for the financial year after taxation is \$17.9 million (2010: \$84.3 million).

No dividends have been paid or proposed during the year (2010: \$nil).

On 13 January 2011, the Company's wholly owned subsidiary, Robert Fleming Holdings Limited, received a final distribution of \$7,550,000 from its wholly owned subsidiary, Robert Fleming Investment Trust Limited. Subsequently, Robert Fleming Investment Trust Limited was dissolved on 3 June 2011.

Share capital and reserves

The authorised and issued share capital of the Company as at 31 December 2011, and matters relating thereto, are set out in note 23 to the financial statements.

Total share capital and reserves of the Group amounted to \$1,184.5 million as at 31 December 2011 (2010: \$1,183.6 million).

J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2011 (continued)

Directors

The directors of the Company who served during the year and up to the date of signing the financial statements were as follows

I R Lyall
F M P Mouchel
N J D Collett

Directors' Interests

None of the directors has any beneficial interest in the Company. The Company is a wholly owned subsidiary of a body corporate incorporated outside Great Britain. The directors are not required to notify the Company of any interests in shares of that or any other body incorporated outside Great Britain.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Company and the Group for the year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each person who is a director of the Company at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and
- each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Liability insurance for Company officers

As permitted by Section 233 of the Companies Act 2006, the directors of the Company are covered for insurance purposes by the ultimate holding company, JPMorgan Chase & Co's group blanket insurance maintained at a consolidated level.

J.P. MORGAN CAPITAL FINANCING LIMITED

Directors' report for the year ended 31 December 2011 (continued)

Creditors payment policy

The JPMC Group policy is to pay invoices (including those in respect of the Group) upon presentation, except where other arrangements have been negotiated with the supplier. It is the policy of the Group to abide by the terms of payment, provided the supplier performs according to the terms of the contract.

Company secretary

The joint secretaries of the Company who served during the year were as follows

I R Lyall (Resigned 04 May 2012)

J P Morgan Secretaries (UK) Limited

Registered address

The current registered address is as follows

25 Bank Street
Canary Wharf, London
E14 5JP
England

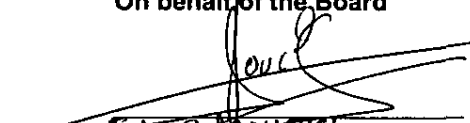
The former registered address was as follows

125 London Wall
London EC2Y 5AJ
England

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office

On behalf of the Board



F.M.P. Mouchel
Director

27 SEP 2012

Independent auditors' report to the members of J P Morgan Capital Financing Limited

We have audited the Group and Parent Company financial statements (the "financial statements") of J P Morgan Capital Financing Limited for the year ended 31 December 2011 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 1-3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Jonathan Holloway (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 September 2012

J.P. MORGAN CAPITAL FINANCING LIMITED

Consolidated profit and loss account for the year ended 31 December 2011

	Notes	2011 \$'000	2010 \$'000
Operating income	4	19,061	33,614
Administrative expenses		(401)	(418)
Other income/(expenses)	5	1,677	1,302
Dividend income		97	6,112
Operating profit		20,434	40,610
Other interest receivable and similar income	6	3,920	3,803
Interest payable and similar charges	7	(3,796)	(3,549)
Provision for impairment	19	(1,295)	15,318
Profit on ordinary activities before taxation	8	19,263	56,182
Tax credit/(charge) on profit on ordinary activities	9	(1,401)	28,124
Profit for the financial year		17,862	84,306

Consolidated statement of total recognised gains and losses for the year ended 31 December 2011

	Notes	2011 \$'000	2010 \$'000
Profit for the financial year		17,862	84,306
Movements in financial asset available-for-sale reserve	24	(16,472)	(27,661)
Foreign currency translation adjustments	25	(482)	(29,236)
Total recognised gains and losses for the year		908	27,409

The profit for the year resulted from continuing operations

The reconciliation of movements in shareholder's funds during the year is detailed in note 25

There are no material differences between the profit on ordinary activities before taxation as stated above and their historical cost equivalents

The notes on pages 8 to 26 form an integral part of the financial statements

J.P. MORGAN CAPITAL FINANCING LIMITED
Consolidated balance sheet as at 31 December 2011

	Notes	2011 \$'000	2010 \$'000
Fixed assets			
Intangible assets	10	(24,419)	(24,424)
Investments in Group and affiliated undertakings	11	106,480	106,480
		82,061	82,056
Current assets			
Financial assets designated at fair value through profit or loss	12	8,132	3,824
Financial assets available-for-sale	15	40,417	56,890
Loans and receivables amounts falling due within one year	16	-	32,458
Loans and receivables amounts falling due after more than one year	17	542,473	515,273
Debtors	18	1,148,636	1,097,849
Other assets	20	825	784
Cash at bank and in hand	21	52,458	45,116
		1,792,941	1,752,194
Creditors amounts falling due within one year	22	(690,261)	(650,569)
Net current assets		1,102,680	1,101,625
Total assets less current liabilities		1,184,741	1,183,681
Creditors amounts falling due after more than one year	22	(271)	(119)
Net assets		1,184,470	1,183,562
Capital and reserves			
Called-up share capital	23	107	107
Other reserves	24	807,497	824,451
Profit and loss reserve	24	376,866	359,004
Total shareholder's funds	25	1,184,470	1,183,562

On behalf of the Board.



F.M.P. MOUCHEL
Director

27 SEP 2012

The notes on pages 8 to 26 form an integral part of the financial statements

J.P. MORGAN CAPITAL FINANCING LIMITED
Company balance sheet as at 31 December 2011

	Notes	2011 \$'000	2010 \$ 000
Fixed assets			
Investments in Group and affiliated undertakings	11	1,071,120	1,071,120
Current assets			
Debtors	18	255	2,567
Cash at bank and in hand	21	23,884	21,578
		24,139	24,145
Creditors amounts falling due within one year	22	(96,314)	(96,034)
Net current liabilities		(72,175)	(71,889)
Total assets less current liabilities		998,945	999,231
Net assets		998,945	999,231
Capital and reserves			
Called-up share capital	23	107	107
Other reserves	24	938,913	938,913
Profit and loss reserve	24	59,925	60,211
Total shareholder's funds	25	998,945	999,231

On behalf of the Board.


F.M.P. MOUCHEL
 Director

27 SEP 2012

The notes on pages 8 to 26 form an integral part of the financial statements

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011

1 Accounting policies

1.1 Accounting convention

The consolidated financial statements have been prepared on the going concern basis and under the historical cost convention, as modified by the revaluation of certain financial instruments, as explained in the accounting policies below. The consolidated financial statements have also been prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the requirements of the Companies Act 2006.

In the opinion of the directors, disclosure of turnover is most appropriately represented for the Group by operating income, comprising profits from trading activities, fees and commissions receivable, net gains or losses from financial assets designated at fair value through profit or loss and interest income from loans and receivables. This represents an adaptation of the profit and loss account format laid down in Schedule 1, SI 2008/410 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 due to the nature of the Group's business.

The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006, and not presented a profit and loss account for the Company alone. The Company made a loss of \$0.3 million after taxation (2010: profit of \$4 million).

The principal accounting policies which have been consistently applied throughout the year are as set out below.

1.2 Consolidation

The consolidated financial statements include the results of the Company and of its subsidiaries for the year ended 31 December 2011. The results of subsidiaries acquired or sold are included from the date of acquisition or to the date of sale respectively. All intra-group transactions, balances, and unrealised gains on transactions between the Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1.3 Cash flow statement

The Group has taken advantage of the provisions of FRS 1 'Cash Flow Statements (revised 1996)', which exempt the Group from preparation of a cash flow statement because it is at least a 90% owned subsidiary of the group, JPMorgan Chase & Co. whose financial statements are publicly available.

1.4 Related party transactions

In accordance with the exemption afforded by FRS 8 'Related Party Disclosures', certain details of transactions with parent and fellow subsidiary companies are not disclosed as they are included in the consolidated financial statements of the group, JPMorgan Chase & Co. which are publicly available.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Accounting policies (continued)

1.5 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into US dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into US dollars at exchange rates prevailing at the date of the transactions. Any gains or losses arising on translation are taken directly to the profit and loss account.

Non-monetary items denominated in foreign currencies that are stated at historical cost are translated into US dollars at the date of the transaction.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into US dollars at foreign exchange rates ruling at the dates when the fair values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in the profit and loss account except for differences arising on non-monetary financial assets available-for-sale, which are included in financial assets available-for-sale reserve.

The assets, including related goodwill where applicable, and liabilities of foreign operations whose functional currency is not US dollars, are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date. The results of foreign operations whose functional currency is not US dollars are translated into US dollars at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the results for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised through the consolidated statement of total recognised gains and losses in the translation reserve. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserve are recognised in the consolidated profit and loss account.

The financial statements have been presented in US dollars as the directors are of the opinion that this is the functional currency of the Company.

Year end exchange rate (USD/GBP)	1.53970	(2010: 1.54005)
Average rate for the year (USD/GBP)	1.60851	(2010: 1.54074)

1.6 Income and expense recognition

Interest receivable and payable are recognised on an accruals basis.

Fees and commissions are recognised when the underlying contract becomes legally binding or at the agreed due date if later, unless a fee is received relating to work to be completed in the future in which case it is determined using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Provisions for losses are determined by reference to specific loans and advances as and when considered necessary, and take account of guarantees received.

Profits and losses resulting from the purchase and sale of securities and the revaluation of financial instruments are recognised as trading gains or losses on a trade date basis.

Expenses are recognised when the underlying contract becomes legally binding or at the agreed due date if later.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Accounting policies (continued)

1.7 Dividend recognition

Dividend income is recognised when the right to receive payment is established

Dividend distributions are recognised in the period in which they are declared and approved

1.8 Intangible assets

Goodwill represents the excess of cost over the fair value of the identifiable net assets of businesses acquired. Goodwill is capitalised as an intangible fixed asset and amortised on a straight-line basis over the period that the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

For the purpose of calculating goodwill, fair values of acquired assets and liabilities are determined by reference to market prices.

Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the consolidated profit and loss account in the periods in which the non-monetary assets are disposed.

1.9 Investments in Group and affiliated undertakings

Investments in Group and affiliated undertakings are held at cost less provision for any impairment.

1.10 Financial assets and financial liabilities

The Group classifies its financial assets and financial liabilities in the following categories: financial assets and financial liabilities held for trading, financial assets and financial liabilities designated at fair value through profit and loss, financial assets available-for-sale and loans and receivables. The directors determine the classification of its investments at initial recognition.

The Group recognises a financial asset or a financial liability on its balance sheet when it becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities held for trading

The Group considers a financial asset or financial liability as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or it is a derivative.

Financial assets and financial liabilities held for trading comprise both securities and derivatives. These instruments are either held for trading purposes or used for hedging certain assets, liabilities, positions, cash flows or anticipated transactions. Included in financial assets held for trading are the reported receivables (unrealised gains) and in financial liabilities held for trading the reported payables (unrealised losses) related to derivatives. The instruments are initially recognised at fair value in the balance sheet with transaction costs being recorded in profit or loss and any gains or losses are taken directly to the consolidated profit and loss account. Subsequently they are measured at fair value.

Since both the securities and derivatives are managed on a unified basis as part of the trading strategy, which includes hedging relationships between cash securities and derivatives, it is not meaningful to show the gains and losses on the cash instruments separately from the gains and losses on the derivatives, the net gain or loss is reported as trading profits, in operating income.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Accounting policies (continued)

1 10 Financial assets and financial liabilities (continued)

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial assets and financial liabilities that are designated at fair value through profit or loss are recognised in profit or loss as they arise. A financial instrument may only be designated at inception as held at fair value through profit or loss and cannot subsequently be changed.

Financial assets or financial liabilities are designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency, or (b) applies to a group of financial assets, financial liabilities or both that the Group manages and evaluates on a fair value basis, or (c) relates to an instrument that contains an embedded derivative unless the embedded derivative does not significantly modify the cash flows required by the contract or when a similar hybrid instrument is considered that separation of the embedded derivative is prohibited.

Financial assets available-for-sale

Non derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in rates, exchange rates or equity prices, are included within the financial assets available-for-sale category. These are initially recognised at fair value plus directly related transaction costs and subsequently measured at fair value. Any changes in fair values of such assets subsequent to initial recognition are reported as movements in financial assets available-for-sale reserve until the investment is sold, collected or otherwise disposed of, or the financial assets are considered impaired, at which time the cumulative gain or loss previously reported in the consolidated statement of total recognised gains and losses is included in the consolidated profit and loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except those that are classified as held for trading or designated at fair value through profit or loss. Loans and receivables are initially recognised at fair value including directly related incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method less any impairment losses. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired, or when the Group has transferred its contractual right to receive the cash flows of the financial assets, and either

- substantially all the risks and rewards of ownership have been transferred, or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Accounting policies (continued)

1.11 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Fair values are determined by reference to observable market prices where available and reliable. Fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation techniques that are based on independently sourced market parameters. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models.

1.12 Recognition of deferred day one profit and loss

The Group has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated profit and loss account without reversal of deferred day one profit and losses.

1.13 Impairment

Intangible and tangible fixed assets

Fixed assets are reviewed for impairment if there are events or changes in circumstances that indicate that the carrying values may not be recoverable.

The impairment review, which is conducted in accordance with the provisions of FRS 11 'Impairment of Fixed Assets and Goodwill', comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of fixed assets and goodwill is written down by the amount of any impairment. This write down is recognised in the period in which it occurs.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Accounting policies (continued)

1.13 Impairment (continued)

Financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that that loss event has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

When a decline in the fair value of a financial asset available-for-sale has been recognised through the consolidated statement of total recognised gains and losses and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised through the consolidated statement of total recognised gains and losses is removed from reserves and recognised in the consolidated profit or loss account.

The amount of the cumulative loss that is removed from reserves and recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the consolidated profit or loss account.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as financial asset available for-sale are not reversed through the consolidated profit or loss account.

1.14 Provisions for liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.15 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 Segmental reporting

In the opinion of the directors, the Group conducts only one class of business, the provision of international investment banking services. Consequently any segmental analysis of the Group's revenues and assets is deemed to be inappropriate.

3 Directors' emoluments and staff costs

The directors are employees of other companies in the JPMC Group and all expenses, including remuneration, are paid by those companies and not recharged.

The directors do not consider that a significant element of their remuneration relates to the Group for the current financial year.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

4 Operating income

	2011	2010
	\$'000	\$'000
Trading (loss)/profit	4,846	13,428
Fees and commissions receivable	981	2,403
Interest income from loans and receivables	10,456	16,449
Net gain/(loss) from financial assets designated at fair value through profit or loss	2,778	1,334
	19,061	33,614

5 Other income/(expenses)

	2011	2010
	\$'000	\$'000
Foreign exchange translation gain/(loss)	1,210	3,517
Other income/(expense)	467	(2,215)
	1,677	1,302

6 Other interest receivable and similar income

	2011	2010
	\$'000	\$'000
Other interest receivable and similar income	3,920	3,803

All other interest receivable and similar income is receivable from JPMC Group undertakings

7 Interest payable and similar charges

	2011	2010
	\$'000	\$'000
Interest payable and similar charges	3,796	3,549

All interest payable and similar charges are payable to JPMC Group undertakings

8 Profit on ordinary activities before taxation

	2011	2010
	\$'000	\$'000
During the year, the Group obtained the following services from the Company's auditors and its associates		
Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements	16	15
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	39	42
	55	57

The combined auditors' remuneration of \$55,096 (2010 \$56,582) for the audit of the Parent Company and consolidated financial statements and fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation is met by another JPMC Group company and not recharged

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

9 Tax on profit on ordinary activities

Group	2011	2010
	\$'000	\$'000
(a) Analysis of tax charge for the year		
Current taxation		
UK Corporation tax on profit for the year	880	1,031
Overseas taxation	515	471
Adjustments in respect of previous years	6	(29,626)
Total current tax (credit)/charge for the year	1,401	(28,124)
(b) Factors affecting the current tax charge for the year		
The current tax charge for the year differs from the standard rate of corporation tax in the UK (26%) reduced from 28% effective 1 April 2011. The differences are explained below		
Profit on ordinary activities before taxation	19,263	56,182
Less: Income not subject to UK taxation	(5,001)	(4,579)
	14,262	51,603
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (26.49%)	3,779	14,449
Effects of		
Non taxable income	(554)	(2,084)
Prior year losses utilised	(2,413)	(11,334)
Losses surrendered for nil consideration	68	-
Overseas taxation	515	471
Adjustments in respect of previous years	6	(29,626)
Current tax (credit)/charge for the year	1,401	(28,124)

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

9 Tax on profit on ordinary activities (continued)

Company	2011 \$'000	2010 \$'000
(a) Analysis of tax charge for the year		
Current taxation		
UK Corporation tax on profit for the year	-	143
Adjustments in respect of previous years	4	-
Total current tax charge for the year	4	143

(b) Factors affecting the current tax charge for the year

The current tax charge for the year differs from the standard rate of corporation tax in the UK (26%) reduced from 28% effective 1 April 2011. The differences are explained below:

Profit on ordinary activities before taxation	(286)	4,183
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (26.49%)	(74)	1,171
Effects of:		
Non-taxable income	6	(1,028)
Losses surrendered for nil consideration	68	-
Adjustments in respect of prior years	4	-
Current tax charge for the year	4	143

10 Intangible assets

	2011 \$'000	2010 \$'000
At 1 January	(24,424)	(23,027)
Exchange adjustments	5	(1,397)
At 31 December	(24,419)	(24,424)

In 2003, as part of a Group reorganisation, the Company acquired 96% of the issued share capital of Robert Fleming Holdings Limited and 100% of the issued share capital of J P Morgan Strategic UK Limited (disposed in 2004) from J P Morgan Fleming Asset Management Holdings Inc. for a combined total of \$1,723,390,000.

Negative goodwill of \$27,986,000 represents the difference between the consideration paid, \$1,723,390,000 and the fair value transferred \$1,751,376,000.

In accordance with the provisions of FRS10 'Goodwill and Intangible Assets', as set out in the accounting policies, negative goodwill is recognised in the consolidated profit and loss account in the periods in which the non-monetary assets are recovered, whether through depreciation or sale.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

11 Investments in Group and affiliated undertakings

	Group 2011 \$'000	Company 2011 \$'000	Group 2010 \$'000	Company 2010 \$'000
At 1 January and 31 December	106,480	1,071,120	106,480	1,071,120

The investments represent share capital in the following entities

Name	Country of incorporation	Principal Activity	Shares Held %
Robert Fleming Holdings Limited	Great Britain	Investment company	100%
J P Morgan Chase International Financing Limited	Great Britain	Finance company	100%
Copthall Overseas Limited	Great Britain	Investment company	100%
J P Morgan Securities plc	Great Britain	Investment company	1.05%
Aldermanbury Investments Limited	Great Britain	Investment company	0.58%

The amount of \$106 million in the table above represents investments in the preference shares of J P Morgan Securities plc which is an affiliated undertaking of the JPMC Group but not consolidated in these financial statements

The directors believe that the carrying value of the investments is supported by their underlying net assets

12 Financial assets designated at fair value through profit or loss

	2011 \$'000	2010 \$'000
At 1 January	3,824	39,358
Additions	12,532	-
Disposals	(8,597)	-
Other movements during the year	373	(35,534)
At 31 December	8,132	3,824

Gains and losses on the financial assets designated at fair value through profit or loss are recognised in the consolidated profit and loss account as they arise

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

13 Assets measured at fair value

	Level 1 Quoted market prices in active markets \$'000	Level 2 Internal models with significant observable market parameters \$'000	Level 3 Internal models with significant unobservable market parameters \$'000	Total carrying value \$'000
At 31 December 2011				
Financial assets at fair value				
Financial assets designated at fair value through profit or loss	-	4,050	4,082	8,132
Financial assets available-for-sale	-	-	40,417	40,417
Total assets at fair value	-	4,050	44,499	48,549
At 31 December 2010				
Financial assets at fair value				
Financial assets designated at fair value through profit or loss	-	-	3,824	3,824
Financial assets available-for-sale	-	-	56,890	56,890
Total assets at fair value	-	-	60,714	60,714

14 Movements in level 3 assets

	\$'000
At 1 January 2011	60,714
Net gain/(loss) recognised in equity	(16,472)
Net gain recognised in profit and loss account	257
Purchases	-
Sales	-
At 31 December 2011	44,499
Net gain/(loss) for the year included in income for assets held at 31 December 2011	-
	\$'000
At 1 January 2010	89,804
Net gain recognised in profit and loss account	1,138
Purchases	-
Sales	(30,228)
At 31 December 2010	60,714
Net gain/(loss) for the year included in income for assets held at 31 December 2010	-

No changes to the inputs of reasonably possible alternative assumptions would significantly effect fair value of the level 3 assets

15 Financial assets available-for-sale

	Group 2011 \$'000	Company 2011 \$'000	Group 2010 \$'000	Company 2010 \$'000
At 1 January	56,890	-	87,217	2,666
Additions	-	-	-	-
Disposals	-	-	(2,666)	(2,666)
Movements in financial assets available-for- sale reserve	(16,472)	-	(27,661)	-
At 31 December	40,417	-	56,890	-

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

16 Loans and receivables, amounts falling due within one year

	2011 \$'000	2010 \$'000
Loans and receivables	-	46,142
Less provision for impairment	-	(13,684)
	-	32,458

17 Loans and receivables: amounts falling due after more than one year

	2011 \$'000	2010 \$'000
Loans and receivables	543,240	515,273
Less provision for impairment	(767)	-
	542,473	515,273

18 Debtors

	Group 2011 \$'000	Company 2011 \$'000	Group 2010 \$'000	Company 2010 \$'000
Trade debtors	255	255	6	-
Amounts owed by JPMC Group undertakings	1,148,381	-	1,095,276	-
Other debtors	-	-	2,567	2,567
	1,148,636	255	1,097,849	2,567

19 Provision for impairment

	2011 \$'000	2010 \$'000
At 1 January	13,684	29,002
Charged during the year	767	-
Loan loss recovery	(17,982)	(15,318)
Loans and receivables written off	4,298	-
At 31 December	767	13,684

20 Other assets

	2011 \$'000	2010 \$'000
Prepayments and accrued income	825	784

21 Cash at bank and in hand

Bank balances are held with JPMC Group undertakings

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

22 Creditors

Group

	Due within one year 2011 \$' 000	Due after more than one year 2011 \$' 000	Total 2011 \$' 000	Due within one year 2010 \$' 000	Due after more than one year 2010 \$' 000	Total 2010 \$' 000
Amounts owed to JPMC Group undertakings	688,507	-	688,507	648,855	-	648,855
Corporation tax	1,410	-	1,410	1,310	-	1,310
Other creditors	344	271	615	397	119	516
Deferred income	-	-	-	7	-	7
	690,261	271	690,532	650,569	119	650,688

Company

	2011 \$' 000	2010 \$' 000
Corporation tax	522	129
Amounts owed to JPMC Group undertakings	95,773	95,905
Other creditors	19	-
	96,314	96,034

23 Called up share capital

Authorised share capital

Pursuant to the provisions of the Companies Act 2006, the Company's shareholders approved on 20 December 2011, that the authorised share capital clause be deleted from the Articles of Association of the Company

	2011 \$'000	2010 \$'000
Issued and fully paid share capital		
60,000 ordinary shares of £1 each	107	107

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

24 Reconciliation of movements in reserves

Group

	Financial assets available-for- sale reserve	Capital contribution reserve	Translation reserve	Total other reserves	Profit and loss reserve
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2011	(20,098)	938,913	(94,364)	824,451	359,004
Profit for the financial year	-	-	-	-	17,862
Foreign currency translation adjustment	-	-	(482)	(482)	-
Movements in financial assets available- for-sale reserve	(16,472)	-	-	(16,472)	-
At 31 December 2011	(36,570)	938,913	(94,846)	807,497	376,866

Company

	Financial assets available- for-sale reserve	Capital contribution reserve	Total other reserves	Profit and loss reserve
	\$'000	\$'000	\$'000	\$'000
At 1 January 2011	-	938,913	938,913	60,211
Loss for the financial year	-	-	-	(286)
At 31 December 2011	-	938,913	938,913	59,925

25 Reconciliation of movements in shareholder's funds

	Group 2011	Company 2011	Group 2010	Company 2010
	\$'000	\$'000	\$'000	\$'000
Opening shareholder's funds	1,183,562	999,231	1,153,790	992,828
Profit/(loss) for the financial year	17,862	(286)	84,306	4,040
Foreign currency translation adjustment	(482)	-	(29,236)	-
Movements in financial assets available-for-sale reserve	(16,472)	-	(27,661)	-
Loss on disposal of financial assets available-for-sale assets	-	-	2,363	2,363
Closing shareholder's funds	1,184,470	998,945	1,183,562	999,231

Total shareholder's funds constitute the managed capital of the Group which consists entirely of issued share capital, capital contribution reserve, foreign exchange translation reserve, financial assets available-for-sale reserve and profit and loss reserve

The directors are responsible for setting the objectives, policies and processes relating to the management of the Group's capital and maintain a set of policy documents to assist in discharging their responsibilities. The major risk categories considered by the Group are those pertaining to credit risk, market risk, liquidity risk and operational risk.

The Group is not subject to any external capital requirements.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

26 Commitments and contingencies

	2011 \$'000	2010 \$'000
Other lending commitments	119,131	117,843

All lending commitments are with external counterparties

On 12 May 2009, the Group's subsidiary, Robert Fleming Holdings Limited (RFH), entered into a novation agreement with the Company to assign and transfer all the rights and obligations of RFH in respect of the guarantee issued to J P Morgan Pension Trustees Limited in favour of former members of Robert Fleming Group Pension Scheme

27 Financial risk management

Risk management is an inherent part of the JPMC Group's business activities and the Group has adopted the same risk management policies and procedures as the JPMC Group as a whole. The JPMC Group's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Group exercises oversight through the Board of Directors and delegation from the Board to various sub-committees which are organised in line with the JPMC Group Risk Management policy.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the policies and processes adopted by the JPMC Group may be found within the JPMorgan Chase & Co. annual report.

Liquidity risk

Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial to financial services companies, particularly during periods of adverse conditions. The JPMC Group's funding strategy is intended to ensure that it will have sufficient liquidity and a diversity of funding sources necessary to enable it to meet actual and contingent liabilities during both normal and stress periods.

The JPMC Group's liquidity risk governance process is designed to ensure that its liquidity position remains strong. The Asset-Liability Committee reviews and approves the JPMC Group's liquidity policy and contingency funding plan. Corporate Treasury is responsible for executing the JPMC Group's liquidity policy and contingency funding plan as well as measuring, monitoring, reporting and managing the JPMC Group's liquidity risk profile.

The JPMC Group performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the JPMC Group under both idiosyncratic and systemic market stress conditions.

The JPMC Group employs a variety of metrics to monitor and manage liquidity.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

27 Financial risk management (continued)

Liquidity risk (continued)

The following table provides details on the contractual maturity of financial liabilities

Group

	Due within one year 2011	Due after more than one year 2011	Total 2011	Due within one year 2010	Due after more than one year 2010	Total 2010
	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000	\$' 000
Amounts owed to JPMC Group undertakings	688,507	-	688,507	648,855	-	648,855
Deferred income	-	-	-	7	-	7
Other creditors	344	271	615	397	119	516
	688,851	271	689,122	649,259	119	649,378

Company

	Due within one year 2011	Total 2011	Due within one year 2010	Total 2010
	\$' 000	\$' 000	\$' 000	\$' 000
Amounts owed to JPMC Group undertakings	95,773	95,773	95,905	95,905

The above financial liabilities are presented based on the earliest contractual maturity. Fair value is considered to be the best representation of undiscounted cash flows for financial liabilities.

Credit risk

Credit risk is the risk of loss from obligor or counterparty default.

The JPMC Group has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are intended to ensure credit risks are assessed accurately, approved properly, monitored regularly.

Each business within the JPMC Group has its own independent credit risk management function, reporting to the Business Executive and the Chief Risk Officer. These units are responsible for making credit decisions on behalf of the JPMC Group. They approve significant new transactions and product offerings and exercise on behalf of the directors, final authority over credit risk assessment. They are also responsible for monitoring the credit risk profile of the portfolio and reporting monthly to the JPMC Group's Operating Committee.

To measure credit risk, the JPMC Group employs several methodologies for estimating the likelihood of the obligor or counterparty default. These methodologies vary depending on certain factors, including type of asset, risk measurement parameters and collection processes. Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss sensitivity given a default event. Based upon these factors and related market-based inputs, the JPMC Group estimates both probable and unexpected losses for its assets portfolio.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

27 Financial risk management (continued)

Credit risk (continued)

The amounts in the table show below show the maximum credit exposure of the Group

	2011 \$'000	2010 \$'000
<u>Balance sheet</u>		
Financial assets designated at fair value through profit or loss	8,132	3,824
Loans and receivables amounts falling due before one year	-	32,458
Loans and receivables amounts falling due after more than one year	542,473	515,273
Debtors	1,148,636	1,097,849
Cash at bank and in hand	52,458	45,116
<u>Off balance sheet</u>		
Other lending commitments	119,131	117,843
	1,870,830	1,812,363

Financial assets designated at fair value through profit or loss, loans and receivables and debtors include certain external sub investment grade assets

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads and equity and commodity prices. Market Risk (MR) is a corporate risk governance function within the JPMC Group that is independent of the lines of business and identifies, measures, monitors and controls market risk. MR works in partnership with the business segments within the JPMC Group and the directors of the Group and seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and refine and monitor market risk policies and procedures.

Since no single measure can reflect all aspects of market risk the JPMC Group uses several measures, both statistical and non-statistical, including

Statistical risk measures

- Value-at-Risk (VAR)
- Risk identification for large exposures (RIFLE)

Non-statistical risk measures

- Economic value stress tests
- Earnings-at-risk stress tests
- Other measures of position size and sensitivity to market movements

The JPMC Group's VAR statistical measure gauges the potential loss from adverse market movements in an ordinary market environment. Through the JPMC Group's RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the JPMC Group and the directors of the Group to identify further earnings vulnerabilities. MR regularly reviews and updates risk limits, and the JPMC Group's Operating Committee reviews and approves risk limits at least twice a year.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

27 Financial risk management (continued)

Foreign exchange risk

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group manages its exposure to Sterling and Euro against US dollar (the functional currency of the Group) to within acceptable risk management limits on a daily basis. The following table shows the effect of a reasonably possible change in exchange rates on the financial profit of the Group.

	2011 \$'000	2010 \$'000
5% increase in GBP/USD exchange rate	34,653	36,688
5% decrease in GBP/USD exchange rate	(34,653)	(36,688)
5% increase in EUR/USD exchange rate	1	597
5% decrease in EUR/USD exchange rate	(1)	(597)

Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is subject to cash flow and fair value interest rate risk. The table below shows the effect of sensitivity of the combined balance sheet portfolio of cash, loans and receivables, debtors and borrowings to a reasonably possible change of 50 basis points increase or decrease in local interest rates, in which the balances are held, on the financial profit of the Group.

	2011 \$'000	2010 \$'000
50 basis points increase in local interest rates	5,267	5,196
50 basis points decrease in local interest rates	(5,267)	(5,196)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the JPMC Group maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment.

Fair value of financial assets and financial liabilities

For all financial assets and financial liabilities, carrying value is a reasonable approximation of fair value.

J.P. MORGAN CAPITAL FINANCING LIMITED

Notes to the financial statements for the year ended 31 December 2011 (continued)

28 Parent undertaking

The Company's parent undertaking and the parent undertaking of the only group in which the results of the Company are consolidated, is JPMorgan Chase & Co, which is incorporated in the state of Delaware in the United States of America

The parent group's consolidated financial statements are available to the public and can be obtained from the Company's registered office

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