

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

**Annual report for the year ended 31 December 2016**



**J.P. MORGAN CAPITAL FINANCING LIMITED**  
**Annual report for the year ended 31 December 2016**

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# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Strategic report**

The directors present the strategic report of J.P. Morgan Capital Financing Limited (the "Company") for the year ended 31 December 2016.

### **Overview**

The Company is incorporated and domiciled in England and Wales. It is an indirect subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"). JPMorgan Chase is a financial holding company incorporated under Delaware law in 1968, it is a global leading financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide. The Company had \$1,221,865,000 in assets and \$1,221,216,000 in total shareholder's equity as of 31 December 2016.

### **Principal activity**

The principal activity of the Company is to act as a holding company. The Company through its subsidiary undertakings, held financial instruments and provided loans and funding commitments to JPMorgan Chase undertakings and to a variety of commercial enterprises.

### **Review of business**

The directors are satisfied with the performance of the Company.

On 15 January 2016, the Board of Directors approved a proposal to pay a political donation not exceeding £500,000 to the Britain Stronger in Europe ("BSIE") campaign in accordance with section 366 of the Companies Act, 2006. Subsequently, on 27 January 2016, the political donation of £500,000 was paid.

As a consequence of reorganisation in the prior year, on 4 April 2016, Copthall Overseas Limited, a direct subsidiary of Robert Fleming Holding Limited and indirect subsidiary of the Company was dissolved and on 7 April 2016, Robert Fleming Holding Limited, a direct subsidiary of the Company was dissolved.

#### *Income Statement:*

The results for the year are set out on page 7 and show the Company's profit for the financial year after taxation is \$4,996,000 (2015: \$4,054,000).

#### *Balance sheet:*

The balance sheet is set out on page 8. The Company has total assets and total liabilities of \$1,221,865,000 (2015: \$1,299,451,000) and \$649,000 (2015: \$83,231,000 ) respectively as at 31 December 2016.

### **Future outlook**

The directors do not expect any changes in the Company's activities in the coming year.

On 23 June 2016, the U.K. voted by referendum to leave the European Union ("Brexit"). On 29 March 2017, the U.K. government formally invoked Article 50 of the Lisbon Treaty, giving an expected exit date of the end of March 2019. The British Prime Minister has laid out twelve "negotiation objectives" for Brexit, which confirmed the U.K. will not remain a member of the Single Market, but will pursue a Free Trade Agreement that provides the greatest possible access to the Single Market. Further, the U.K. Government will seek a phased arrangement to ensure the orderly transition of the legal and regulatory framework for financial services, and promote stability and market confidence.

Many international banks, including JPMorgan Chase, operate substantial parts of their European Union ("EU") businesses from entities based in the U.K. Upon the U.K. leaving the EU, the regulatory and legal environment that would then exist, and to which the Firm's U.K. operations would then be subject, will depend on, in certain respects, the nature of the arrangements agreed to with the EU and other trading partners.

These arrangements cannot be predicted, but currently the Firm does not believe any of the likely identified scenarios would threaten the viability of the Firm's business units or the Firm's ability to serve clients across the EU and in the U.K. However, it is possible that under some scenarios, changes to the Firm's legal entity structure and operations would be required, which might result in a less efficient operating model across the Firm's European legal entities. The Firm is in the process of evaluating plans to ensure its continued ability to operate in the U.K. and the EU beyond the expected exit date.

The impact of Brexit on the Company's business model and risks will continue to be assessed as part of the Firmwide analysis and planning phase in considering a strategic post-Brexit legal entity structure.

## **J.P. MORGAN CAPITAL FINANCING LIMITED**

### **Strategic report (continued)**

#### **Principal risks and uncertainties**

The Company's risks and uncertainties are integrated with that of the Firm. The Company is a holding Company and its greatest risk lies in the value of investments. An impairment assessment of the value of investment in subsidiary undertakings is conducted at least once a year.

**On behalf of the Board**

Director  SM White

01/08/2017

# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Directors' report**

The directors present their report and the audited financial statements of J.P. Morgan Capital Financing Limited (the "Company") for the year ended 31 December 2016. The Company is part of JPMorgan Chase & Co. (together with its subsidiaries, the "Firm" or "JPMorgan Chase"). The Company's registration number is 2290621.

Refer to the Strategic Report for future outlook.

### **Results and dividends**

The results for the year are set out on page 7 and show the Company's profit for the financial year is \$4,996,000 (2015: \$4,054,000).

No dividends have been paid or proposed by the Company during the year (2015: \$nil).

### **Post balance sheet event**

On 14 June 2017, 7,000 preference shares of \$10,000 each and 3,648 preferred ordinary shares of \$10,000 each, held by the Company in another JPMorgan Chase undertaking, were redeemed at par for cash consideration of \$106,480,000.

### **Directors**

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

|                   |                            |
|-------------------|----------------------------|
| F.M.P. Mouchel    | (Resigned on 05 May 2017)  |
| S.M.White         |                            |
| Christoph Benkert | (Appointed on 05 May 2017) |

### **Directors' interests**

None of the directors has any beneficial interest in the Company. The Company is a subsidiary of a company incorporated outside England and Wales. The ultimate holding company is a body corporate incorporated outside England and Wales. The directors are not required to notify the Company of any interests in shares of that or any other body incorporated outside England and Wales.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Strategic Report, Directors' 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 accounting estimates that are reasonable and prudent;
- state whether applicable Accounting Standards, comprising FRS 101 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **J.P. MORGAN CAPITAL FINANCING LIMITED**

### **Directors' report (continued)**

#### **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 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.

#### **Qualifying third party indemnity provision**

An indemnity is provided to the directors of the Company under the By-laws of JPMorgan Chase & Co. against liabilities and associated costs which they could incur in the course of their duties to the Company. The indemnity was in force during the financial year and also at the date of approval of the financial statements. A copy of the by-laws of JPMorgan Chase & Co is kept at the registered office of the Company.

#### **Company secretary**

The secretary of the Company who served during the year was as follows:

J.P. Morgan Secretaries (UK) Limited.

#### **Registered address**

25 Bank Street  
Canary Wharf  
London E14 5JP  
England and Wales

#### **Independent auditors**

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

#### **On behalf of the Board**

Director



SM White

01/08/2017

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

## **Report on the financial statements**

### **Our opinion**

In our opinion, J.P. Morgan Capital Financing Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of the 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.

### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the Balance sheet as at 31 December 2016;
- the Income statement and statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Independent auditors' report to the members of J.P. Morgan Capital Financing Limited (continued)**

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 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) ("ISAs (UK & 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.

#### **What an audit of financial statements involves**

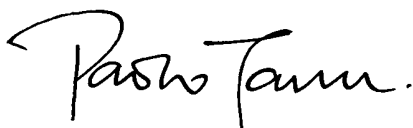
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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Paolo Taurae (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

1/8/17

## J.P. MORGAN CAPITAL FINANCING LIMITED

### Income Statement

| Year ended 31 December                               |       | 2016         | 2015         |
|------------------------------------------------------|-------|--------------|--------------|
|                                                      | Notes | \$'000       | \$'000       |
| Interest and similar income                          | 8     | 3,629        | 1,227        |
| Interest expense and similar charges                 | 9     | (169)        | (282)        |
| <b>Net Interest Income</b>                           |       | <b>3,460</b> | <b>945</b>   |
| Other expense                                        | 6     | (957)        | (394)        |
| Dividend income                                      |       | 5,582        | 17,300       |
| Impairment of investment                             | 12    | (2,356)      | (13,798)     |
| <b>Total operating Income</b>                        |       | <b>2,269</b> | <b>3,108</b> |
| <b>Profit on ordinary activities before taxation</b> | 10    | <b>5,729</b> | <b>4,053</b> |
| Tax on profit on ordinary activities                 | 11    | (733)        | 1            |
| <b>Profit for the financial year</b>                 |       | <b>4,996</b> | <b>4,054</b> |

### Statement of comprehensive income

| Year ended 31 December                                                                           |       | 2016         | 2015          |
|--------------------------------------------------------------------------------------------------|-------|--------------|---------------|
|                                                                                                  | Notes | \$'000       | \$'000        |
| Profit for the financial year                                                                    |       | 4,996        | 4,054         |
| <b>Other comprehensive income: items that may be reclassified subsequently to profit or loss</b> |       |              |               |
| Non-cash dividend received - Financial assets designated at fair value through profit or loss    | 14    | —            | 8,950         |
| <b>Total comprehensive income for the year</b>                                                   |       | <b>4,996</b> | <b>13,004</b> |

The notes on pages 10 - 16 form an integral part of the financial statements.

# J.P. MORGAN CAPITAL FINANCING LIMITED

## Balance sheet

| 31 December                                                      |       | 2016             | 2015             |
|------------------------------------------------------------------|-------|------------------|------------------|
|                                                                  | Notes | \$'000           | \$'000           |
| <b>Non current assets</b>                                        |       |                  |                  |
| Investments in JPMorgan Chase undertaking                        | 12    | 461,727          | 464,083          |
| Debtors                                                          | 13    | —                | 801,566          |
| <b>Total non current assets</b>                                  |       | <b>461,727</b>   | <b>1,265,649</b> |
| <b>Current assets</b>                                            |       |                  |                  |
| Financial assets designated at fair value through profit or loss | 14    | 8,654            | 8,950            |
| Cash at bank and in hand                                         | 15    | 29,267           | 24,852           |
| Debtors                                                          | 13    | 722,217          | —                |
| <b>Total current assets</b>                                      |       | <b>760,138</b>   | <b>33,802</b>    |
| Creditors: amounts falling due within one year                   | 16    | (649)            | (83,231)         |
| <b>Net current assets/(liabilities)</b>                          |       | <b>759,489</b>   | <b>(49,429)</b>  |
| <b>Net assets</b>                                                |       | <b>1,221,216</b> | <b>1,216,220</b> |
| <b>Equity</b>                                                    |       |                  |                  |
| Called-up share capital                                          | 17    | 107              | 107              |
| Other reserves                                                   |       | 976,869          | 976,869          |
| Retained earnings                                                |       | 244,240          | 239,244          |
| <b>Total equity</b>                                              |       | <b>1,221,216</b> | <b>1,216,220</b> |

The financial statements on pages 7 to 16 were approved by the Board of Directors on \_\_\_\_\_ and signed on its behalf by:

  
 Director SM White

01/08/2017

The notes on pages 10 - 16 form an integral part of the financial statements.

**J.P. MORGAN CAPITAL FINANCING LIMITED**  
**Statement of changes in equity**

|                                                              | Notes | Called-up<br>share capital | Other reserves | Retained<br>earnings | Total equity     |
|--------------------------------------------------------------|-------|----------------------------|----------------|----------------------|------------------|
|                                                              |       | \$'000                     | \$'000         | \$'000               | \$'000           |
| <b>Balance as at 1 January 2015</b>                          |       | <b>107</b>                 | <b>967,919</b> | <b>235,190</b>       | <b>1,203,216</b> |
| Profit for the financial year                                |       | —                          | —              | 4,054                | 4,054            |
| <b>Other comprehensive income for the year:</b>              |       |                            |                |                      |                  |
| Non-cash dividend - Investment in JPMorgan Chase undertaking | 14    | —                          | 8,950          | —                    | 8,950            |
| <b>Total comprehensive income for the year</b>               |       | <b>—</b>                   | <b>8,950</b>   | <b>4,054</b>         | <b>13,004</b>    |
| <b>Balance as at 31 December 2015</b>                        |       | <b>107</b>                 | <b>976,869</b> | <b>239,244</b>       | <b>1,216,220</b> |
| Profit for the financial year                                |       | —                          | —              | 4,996                | 4,996            |
| <b>Balance as at 31 December 2016</b>                        |       | <b>107</b>                 | <b>976,869</b> | <b>244,240</b>       | <b>1,221,216</b> |

Opening balance of other reserves as at 1 January 2015 represents capital contribution reserve amounting to \$938,913,000 and \$29,006,000 of non-cash dividend (investment in JPMorgan Administrative (Jersey) Limited) received as a part of internal reorganisation in 2014. Movement during 2015 amounting to \$8,950,000 represents non-cash dividend (Euroclear shares) received on account of dissolution of Robert Fleming Holdings Limited.

The notes on pages 10 - 16 form an integral part of the financial statements.

# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Notes to the financial statements**

### **1. General information**

The Company is a private limited entity incorporated and domiciled in England and Wales. The Company's immediate parent undertaking is JPMorgan Chase Holdings LLC, which is incorporated in the state of Delaware in the United States of America. The Company's ultimate parent undertaking and the parent undertaking of the only group in which the results of the Company are consolidated, is JPMorgan Chase & Co. (the "Firm" or "JPMorgan Chase"), which is incorporated in the state of Delaware in the United States of America. The consolidated financial statements of the Firm can be obtained from the Company's registered office at 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales.

### **2. Basis of preparation**

These financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" ("FRS 101"). FRS 101 applies the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") with reduced disclosures.

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of certain financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The following exemptions from the requirements of IFRS as adopted by the EU have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Comparative information disclosures (paragraph 38 of IAS 1 'Presentation of financial statements' ("IAS 1")) for reconciliation of share capital (paragraph 79(a)(iv) of IAS 1);
- Statement of compliance to IFRSs (paragraph 16, IAS 1);
- Cash flow statement and related notes IAS 7 'Cash flow statements';
- Disclosures in relation to new or revised standards issued but not yet effective (paragraph 30 and 31, IAS 8, 'Accounting policies, changes in accounting estimates and errors');
- Key management compensation disclosures (paragraph 17, IAS 24 'Related Party Disclosures' ("IAS 24"));
- Related party transactions with wholly owned JPMorgan Chase undertakings (paragraph 18 and 19, IAS 24);
- Disclosure requirements of IFRS 7 'Financial Instruments: Disclosures'; and
- Disclosure requirements of IFRS 13 'Fair Value Measurement' (paragraph 91 - 99 of IFRS 13).

### **3. Accounting and reporting developments**

#### **New standards, amendments and interpretations not yet adopted**

IFRS 9 'Financial instruments' ("IFRS 9") was issued by the International Accounting Standards Boards ("IASB") in July 2014. The Standard includes a new model for classification and measurement of financial assets and a single, forward-looking 'expected loss' impairment model. The Standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' ("IAS 39") and carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the Standard, and is effective for annual periods beginning on or after 1 January 2018. The Company is currently assessing and quantifying the impact of IFRS 9 on the financial statements.

### **4. Critical accounting estimates and judgements**

The preparation of financial statements generally requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. Due to the nature of business undertaken by the Company, no significant accounting estimates or judgements were required in preparation of these financial statements.

# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Notes to the financial statements (continued)**

### **5. Significant accounting policies**

The following are principal accounting policies applied in the preparation of these financial statements. These policies have been applied consistently to all the years presented, unless otherwise stated.

#### **5.1 Consolidation**

The Company is a subsidiary undertaking of JPMorgan Chase & Co. a company incorporated in the United States of America. It is included in the consolidated financial statements of its ultimate parent, JPMorgan Chase & Co. which are publically available. Therefore, the Company has elected not to prepare group financial statements in accordance with the dispensation set out in Section 401 of the Companies Act 2006.

#### **5.2 Foreign currency translation**

Monetary assets and liabilities in foreign currencies are translated into United States dollars ("US dollars") 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 income statement.

Non-monetary items denominated in foreign currencies that are stated at historical cost are translated into US dollars at the exchange rate ruling 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 income statement.

#### **5.3 Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Taking into account the cash flows and the financing structure, US dollar is considered as functional and presentation currency of the Company.

#### **5.4 Income and expense recognition**

Interest receivable and payable are recognised on an effective interest rate basis.

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

#### **5.5 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.

#### **5.6 Investments in JPMorgan Chase undertakings**

Investments in JPMorgan Chase undertakings are stated at cost less provision for any impairment. Where the investments in the share capital of JPMorgan Chase undertakings are acquired by way of a dividend in kind, these are initially recognised at fair value and subsequently at cost less provision for any impairment.

#### **5.7 Impairment of investments in JPMorgan Chase undertakings**

The Company assesses at each balance sheet date whether there is any objective evidence that Investments in JPMorgan Chase undertakings are impaired. The impairment review includes a comparison of the carrying amount with its recoverable amount, which is based on the net asset value of the investee company at the balance sheet date.

#### **5.8 Current taxation**

Income tax payable on taxable profits (current tax) is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Notes to the financial statements (continued)**

### **5. Significant accounting policies (continued)**

#### **5.9 Financial assets and financial liabilities**

The Company classifies its financial assets and financial liabilities as financial assets and financial liabilities designated at fair value through profit or loss.

The Company 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 designated at fair value through profit or loss*

Financial assets and financial liabilities that the Company 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 reclassified.

Financial assets or financial liabilities are designated 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 Company 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.

The Company has designated certain securities at fair value through profit or loss on the basis that they are managed and their performance evaluated on a fair value basis.

#### **5.10 Derecognition of financial assets and financial liabilities**

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired, or has been transferred with either of the following conditions met:

- a) the Company has transferred substantially all the risks and rewards of ownership of the asset; or
- b) the Company has neither retained nor transferred substantially all of the risks and rewards; but has relinquished control of the asset.

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

#### **5.11 Fair value**

Financial instruments are initially recognised at fair value on the date of initial recognition and subsequently remeasured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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. Where market prices are unavailable, fair value is based on valuation models that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

The Company classifies its assets and liabilities according to a hierarchy that has been established under IFRS for disclosure of fair value measurements. The fair value hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3 inputs).

A financial instrument's categorisation within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Notes to the financial statements (continued)**

### **5. Significant accounting policies (continued)**

#### **5.12 Impairment of financial assets**

The Company 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.

### **6. Other expense**

|                                          | <b>2016</b>   | <b>2015</b>   |
|------------------------------------------|---------------|---------------|
|                                          | <b>\$'000</b> | <b>\$'000</b> |
| Foreign exchange translation (loss)/gain | 48            | (7)           |
| Loss from fair value of financial assets | (296)         | —             |
| Other expense*                           | (709)         | (387)         |
|                                          | <b>(957)</b>  | <b>(394)</b>  |

\*Other expense for the current year represents political donation made by the Company.

### **7. Directors emoluments and staff costs**

The directors are employees of other JPMorgan Chase undertaking 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 Company for the current financial year (2015: \$nil).

The Company had no employees during the year (2015: none).

### **8. Interest and similar income**

|                                                                    | <b>2016</b>   | <b>2015</b>   |
|--------------------------------------------------------------------|---------------|---------------|
|                                                                    | <b>\$'000</b> | <b>\$'000</b> |
| Interest and similar income from other JPMorgan Chase undertakings | 3,629         | 1,227         |

### **9. Interest expense and similar charges**

|                                                                           | <b>2016</b>   | <b>2015</b>   |
|---------------------------------------------------------------------------|---------------|---------------|
|                                                                           | <b>\$'000</b> | <b>\$'000</b> |
| Interest expense and similar charges by other JPMorgan Chase undertakings | 169           | 282           |

### **10. Profit on ordinary activities before taxation**

The auditors' remuneration for the audit of the Company's annual financial statements of \$6,674 (2015: \$30,558) is met by another JPMorgan Chase undertaking and not recharged.

# J.P. MORGAN CAPITAL FINANCING LIMITED

## Notes to the financial statements (continued)

### 11. Tax on profit on ordinary activities

|                                                 | 2016       | 2015       |
|-------------------------------------------------|------------|------------|
|                                                 | \$'000     | \$'000     |
| <b>(a) Analysis of tax charge for the year:</b> |            |            |
| <b>Current taxation</b>                         |            |            |
| UK Corporation tax on profit for the year       | 690        | 188        |
| Foreign tax suffered                            | 36         | —          |
| Adjustments in respect of prior years           | 7          | (189)      |
| <b>Total tax expense for the year</b>           | <b>733</b> | <b>(1)</b> |

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

The tax charge for the year differs from the standard rate of corporation tax in the UK (20%). The differences are explained below:

|                                                                                                                               |            |            |
|-------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Profit on ordinary activities before taxation                                                                                 | 5,729      | 4,053      |
| Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK 20% (2015: 20.25%) | 1,146      | 821        |
| Effects of:                                                                                                                   |            |            |
| Non taxable income                                                                                                            | (1,116)    | (3,505)    |
| Non deductible expenses                                                                                                       | 660        | 2,872      |
| Effects of overseas tax rates                                                                                                 | 36         | —          |
| Adjustment in respect of prior years                                                                                          | 7          | (189)      |
| <b>Total tax expense for the year</b>                                                                                         | <b>733</b> | <b>(1)</b> |

### 12. Investments in JPMorgan Chase undertakings

|                                                                 | 2016           | 2015           |
|-----------------------------------------------------------------|----------------|----------------|
|                                                                 | \$'000         | \$'000         |
| At 1 January                                                    | 464,083        | 477,881        |
| Impairment                                                      | (2,356)        | (13,798)       |
| <b>Investment in JPMorgan Chase undertakings at 31 December</b> | <b>461,727</b> | <b>464,083</b> |

The above investments are shown at cost less any provisions for impairment.

The investments represent share capital in the following entities:

| Name                                                  | Registered address                                               | Principal Activity  | Shares Held % |
|-------------------------------------------------------|------------------------------------------------------------------|---------------------|---------------|
| Robert Fleming Holdings Limited**                     | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Investment company  | 100%          |
| J.P. Morgan Chase International Financing Limited*    | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Finance company     | 100%          |
| Copthall Overseas Limited**                           | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Investment company  | 100%          |
| J.P. Morgan Administration Services (Jersey) Limited* | Forum 4, Grenville Street, St. Helier, JE2 4UF, Jersey           | Fund Administration | 100%          |
| <b>Affiliates</b>                                     |                                                                  |                     |               |
| J. P. Morgan Securities Plc                           | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Investment company  | 1.05%         |
| Aldermanbury Investments Limited                      | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Investment company  | 0.58%         |

# J.P. MORGAN CAPITAL FINANCING LIMITED

## Notes to the financial statements (continued)

### 12. Investments in JPMorgan Chase undertakings (continued)

\*Direct investment

\*\*On 4 April 2016, Copthall Overseas Limited, direct subsidiary of Robert Fleming Holding Limited and indirect subsidiary of the Company was dissolved. On 7 April 2016, Robert Fleming Holding Limited, direct subsidiary of the Company was dissolved.

Also, an impairment of \$2,356,000 was recognised on the investment in subsidiary, J.P. Morgan Administration Services (Jersey) Limited, due to deterioration in the net asset value.

The investment in affiliated undertaking, J.P. Morgan Securities Plc represents investments of 7,000 redeemable preference shares of \$10,000 each and 3,648 preferred ordinary shares of \$10,000 each (Refer note 19).

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

### 13. Debtors

|                                                   | 2016    | 2015    |
|---------------------------------------------------|---------|---------|
|                                                   | \$'000  | \$'000  |
| Amounts owed by other JPMorgan Chase undertakings | 722,168 | 801,566 |
| Other debtors                                     | 49      | —       |
|                                                   | 722,217 | 801,566 |

For the current year, the amounts owed by other JPMorgan Chase undertakings are falling due within one year and in the prior year, they were falling due more than one year.

### 14. Financial assets designated at fair value through profit or loss

|                                         | 2016   | 2015   |
|-----------------------------------------|--------|--------|
|                                         | \$'000 | \$'000 |
| At 1 January                            | 8,950  | —      |
| Additions*                              | —      | 8,950  |
| Movements in fair value during the year | (296)  | —      |
| At 31 December                          | 8,654  | 8,950  |

\*In the prior year, the Company received 6,030 shares in Euroclear plc at a fair value of £5.7 million (which is \$8.9 million) by way of a dividend in kind due to the dissolution of the wholly owned subsidiary, Robert Fleming Holding Limited.

### 15. Cash at bank and in hand

All bank balances are held with other JPMorgan Chase undertakings.

### 16. Creditors: amounts falling due within one year

|                                                   | 2016   | 2015   |
|---------------------------------------------------|--------|--------|
|                                                   | \$'000 | \$'000 |
| Corporation tax                                   | 649    | 12     |
| Amounts owed to other JPMorgan Chase undertakings | —      | 83,219 |
|                                                   | 649    | 83,231 |

# **J.P. MORGAN CAPITAL FINANCING LIMITED**

## **Notes to the financial statements (continued)**

### **17. Called-up share capital**

|                                                  | <b>2016</b>   | <b>2015</b>   |
|--------------------------------------------------|---------------|---------------|
|                                                  | <b>\$'000</b> | <b>\$'000</b> |
| <b>Issued and fully paid share capital</b>       |               |               |
| At 31 December                                   |               |               |
| 60,000 (2015: 60,000) ordinary shares of £1 each | 107           | 107           |

### **18. Contingencies**

On 12 May 2009, the Company's subsidiary, Robert Fleming Holdings Limited (which has now been dissolved) entered into a novation agreement with the Company to assign and transfer all the rights and obligations of Robert Fleming Holdings Limited in respect of the guarantee issued to J.P. Morgan Pension Trustee Limited in favour of former members of Robert Fleming Group Pension scheme ("RFGPS"). The former members of the RFGPS were transferred to the JPMC UK Retirement Plan ("JPMC Plan") in 2004. In the event of the JPMC Plan being wound up, and there is a shortfall in the JPMC Plan, JPMorgan Chase Bank and the Company will ensure that each RFGPS Beneficially receives, or is entitled to receive, his or her total benefits in full. Estimated value of guarantee as at 31 December 2016 was \$380,000,000 (2015: \$319,000,000).

### **19. Post balance sheet event**

On 14 June 2017, 7,000 preference shares of \$10,000 each and 3,648 preferred ordinary shares of \$10,000 each, held by the Company in another JPMorgan Chase undertaking, were redeemed at par for cash consideration of \$106,480,000.