# J.P. MORGAN CAPITAL FINANCING LIMITED
**(Registered Number: 02290621)**

**Annual report for the year ended 31 December 2018**

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# J.P. MORGAN CAPITAL FINANCING LIMITED
## Annual report for the year ended 31 December 2018

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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 2018.

**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 $1,248,264,000 in assets and $1,246,232,000 in total shareholders equity as of 31 December 2018.

**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 for the year.

*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 $10,056,000 (2017: $14,960,000).

*Balance sheet:*

The balance sheet is set out on page 8. The Company has total assets and total liabilities of $1,248,264,000 (2017: $1,239,238,000) and $2,032,000 (2017: $3,062,000) respectively as at 31 December 2018.

**Future outlook**

In 2016, the United Kingdom ("UK") voted to withdraw from the European Union ("EU"), and in March 2017, the UK invoked Article 50 of the Lisbon Treaty, which commenced withdrawal negotiations with the EU. As a result, and after two extensions of the negotiation timeline, the UK is currently scheduled to depart from the EU on 31st October, 2019. Negotiations regarding the terms of the UK's withdrawal continue between the UK and the EU, although the situation remains highly uncertain.

It remains highly uncertain how the expected departure of the UK from the EU, which is commonly referred to as "Brexit", will affect financial services firms such as JPMorgan Chase that conduct substantial operations in the EU from legal entities that are organised in or operating from the UK It is also possible that any agreement reached between the UK and the EU may, depending on the final outcome of the ongoing negotiations and related legislative developments:

- impede the ability of UK based financial services firms to conduct business in the EU
- fail to address significant unresolved issues relating to the cross-border conduct of financial services activities, or
- apply only temporarily.

A disorderly departure of the UK from the EU, or the unexpected consequences of any departure, could have significant and immediate destabilising effects on cross-border financial services activities, depending on circumstances that may exist following such a withdrawal.

The Firm has a long-standing presence in the UK, which currently serves as the regional headquarters of the Firm's operations in over 30 countries across Europe, the Middle East, and Africa ("EMEA"). The Firm established a Firmwide Brexit Implementation programme in 2017. The programme covers strategic implementation across all impacted businesses and functions. The programme's objective is to deliver the Firm's capabilities on "day one" of the UK's withdrawal across all impacted legal entities. The programme includes an ongoing assessment of implementation risks including political, legal and regulatory risks and plans for addressing and mitigating those risks. The Firm is also monitoring the expected macroeconomic developments associated with a no-deal scenario and has undertaken stress testing covering credit and market risk to assess potential impacts. Significant uncertainty remains around the UK's expected departure from the EU, including the possibility that the UK departs without any agreement being reached on how UK financial services firms will conduct business within the EU (i.e., "a no-deal scenario").

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

## 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**

Name: James Chatters

**Director**

Date: 8 August 2019

# 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 2018. 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 $10,056,000 (2017: $14,960,000).

No dividends have been paid or proposed by the Company during the year (2017: $nil).

**Directors**

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

| | |
|---|---|
| C. Benkert | Resigned on 12 June 2019 |
| J. Hobson | Resigned on 29 March 2019 |
| M. Allen | |
| J. Chatters | Appointed on 17 July 2019 |

**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 available at the registered office address 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**

**Name:** James Chatters

**Director**

**Date:** 8 August 2019

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

**Report on the audit of the financial statements**

**Opinion**

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report for the year ended 31 December 2018 (the "Annual Report"), which comprise: balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

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

**Reporting on other information (continued)**

*Strategic Report and Directors' report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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

*Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

*Use of this report*

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.

**Other required reporting**

**Companies Act 2006 exception reporting**

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

We have no exceptions to report arising from this responsibility.

Andrew Batty (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 8 August 2019

# J.P. MORGAN CAPITAL FINANCING LIMITED
## Income Statement

| Year ended 31 December | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Interest and similar income | 8 | 17,220 | 8,578 |
| **Net Interest Income** | | **17,220** | **8,578** |
| Other (expense)/income | 6 | (4,861) | 4,742 |
| Dividend income | | 272 | 5,593 |
| Administrative expenses | | (19) | — |
| **Total operating (expense)/income** | | **(4,608)** | **10,335** |
| **Profit on ordinary activities before taxation** | 9 | 12,612 | 18,913 |
| Tax on profit on ordinary activities | 10 | (2,556) | (3,953) |
| **Profit for the financial year** | | **10,056** | **14,960** |

## Statement of comprehensive income

There were no other items of comprehensive income or expense other than the profit for the financial year shown above (2017: $nil). As a result, profit for the financial year represents total comprehensive income in both the current and prior financial year.

The notes on pages 10 - 19 form an integral part of the financial statements.

# J.P. MORGAN CAPITAL FINANCING LIMITED
## Balance sheet

| 31 December | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Non current assets** | | | |
| Investments in JPMorgan Chase undertaking | 11 | 355,247 | 355,247 |
| Debtors | 12 | — | 836,112 |
| **Total non current assets** | | **355,247** | **1,191,359** |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 13 | — | 13,424 |
| Cash and cash equivalents | 14 | 38,896 | 33,448 |
| Debtors | 12 | 854,121 | 1,007 |
| **Total current assets** | | **893,017** | **47,879** |
| **Total assets** | | **1,248,264** | **1,239,238** |
| **Non current liabilities** | | | |
| Deferred tax liability | 15 | — | (2,262) |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 16 | (2,032) | (800) |
| **Total liabilities** | | (2,032) | (3,062) |
| **Net current assets** | | **890,985** | **47,079** |
| **Net assets** | | **1,246,232** | **1,236,176** |
| **Equity** | | | |
| Called-up share capital | 17 | 107 | 107 |
| Other reserves | | 976,869 | 976,869 |
| Retained earnings | | 269,256 | 259,200 |
| **Total equity** | | **1,246,232** | **1,236,176** |

The notes on pages 10 - 19 form an integral part of the financial statements.

**The financial statements on pages 7 to 19 were approved by the Board of Directors on** 8/8/2019 **and signed on its behalf by:**

**Name:** James Chatters

**Director**

**Date:** 8 August 2019

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

| | Note | Called-up share capital | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| **Balance as at 1 January 2017** | | **107** | **976,869** | **244,240** | **1,221,216** |
| Profit for the financial year | | — | — | 14,960 | 14,960 |
| **Balance as at 31 December 2017** | | **107** | **976,869** | **259,200** | **1,236,176** |
| Profit for the financial year | | — | — | 10,056 | 10,056 |
| **Balance as at 31 December 2018** | | **107** | **976,869** | **269,256** | **1,246,232** |

The notes on pages 10 - 19 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

**Standards adopted during the year ended 31 December 2018**

**Adoption of IFRS 9**

Effective 1 January 2018, the Company adopted IFRS 9 'Financial instruments', which superseded IAS 39 'Financial Instruments Recognition and Measurement'. The adoption of IFRS 9 impacts the classification and measurement of financial assets including the impairment of financial assets and the presentation of gains and losses related to certain financial liabilities at fair value through profit or loss. Refer to note 5 for more information about the changes to the Company's accounting policies.

The requirements of IFRS 9 have been applied effectively from 1 January 2018. As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative periods.

Refer to note 19 for more information about the Company's transition to IFRS 9.

### 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 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

### 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 ("U.S. dollars") dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into U.S. 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 U.S. 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 U.S. 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"). U.S. dollars is considered as functional and presentation currency of the Company.

### 5.4 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.

### 5.5 Investments in JPMorgan Chase undertakings

*Investments in JPMorgan Chase undertakings are stated at cost less 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.

### 5.6 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.

### 5.7 Current and deferred tax

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.

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date, which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right and an intention to settle on a net basis.

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

**5.8 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.

**5.9 Financial instruments**

On adoption of IFRS 9 on 1 January 2018, the Company replaced or substantially revised its accounting policies for classification and measurement of financial assets and financial liabilities, and impairment of financial assets.

These new or revised policies are set out in the following table along with the corresponding policy under IAS 39. Because the Company elected not to restate comparative periods on adoption of IFRS 9, the IAS 39 policies should be used to understand the differences in accounting policies with the comparative prior period information presented in these financial statements.

**5.9.1 Financial assets and financial liabilities**

| IFRS 9 | IAS 39 |
|---|---|
| **Financial assets and financial liabilities** | |
| **i. Recognition of financial assets and financial liabilities** | |
| The Company recognises financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised using trade-date accounting. | The Company recognises derivatives on its balance sheet when it becomes a party to the contractual provisions of the instruments. Loans and receivables and financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. |
| **ii. Classification and measurement of financial assets and financial liabilities** | |
| On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is based on both the business model for managing the financial assets and their contractual cash flow characteristics. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.<br><br>On initial recognition, financial liabilities are classified as measured at either amortised cost or fair value through profit or loss. | The Company classifies its financial assets and financial liabilities in the following categories on initial recognition:<br><br>Financial assets and financial liabilities held for trading, financial assets and financial liabilities designated at fair value through profit or loss, and loans and receivables and financial liabilities held at amortised cost. |

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

**5.9 Financial instruments (continued)**

**5.9.1 Financial assets and financial liabilities (continued)**

| IFRS 9 | IAS 39 |
|---|---|
| **Financial assets and financial liabilities** | |
| Financial assets and financial liabilities measured at amortised cost | Loans and receivables and financial liabilities at amortised cost |
| Financial assets are measured at amortised cost if they are held under a business model with the objective to collect contractual cash flows ("Hold to Collect") and they have contractual terms under which cash flows are solely payments of principal and interest ("SPPI"). In making the SPPI assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. As a result of the application of these criteria, only debt financial assets are eligible to be measured at amortised cost.<br><br>Financial assets measured at amortised cost include cash and cash equivalents and debtors.<br><br>Financial liabilities are measured at amortised cost unless they are held for trading or a designated as measured at fair value through profit or loss. Financial liabilities measured at amortised cost include amounts owed to JPMorgan Chase undertakings.<br><br>Financial assets and financial liabilities measured at amortised cost are initially recognised at fair value including transaction costs. The initial amount recognised is subsequently reduced for principal repayments and for accrued interest using the effective interest method. In addition, the carrying amount of financial assets is adjusted by recognising an expected credit loss allowance through to profit or loss.<br><br>The effective interest method is used to allocate interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset or financial liability. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs that are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or financial liability. | 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 include debtors.<br><br>Loans and receivables are initially recognised at fair value including directly related incremental transaction costs. They are subsequently measured at amortised cost, including any provision for impairment losses. Interest is recognised in the income statement as 'interest and similar income' using the effective interest rate method.<br><br>Financial liabilities include amounts owed to other JPMorgan Chase undertakings and are recognised initially at fair value including directly related incremental transaction costs and subsequently measured at amortised cost using the effective interest method.<br><br>The effective interest method is used to calculate the amortised cost of a financial asset or financial liability (or a group of financial assets or financial liabilities). It is a method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset or financial liability. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. |

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

**5.9 Financial instruments (continued)**

**5.9.1 Financial assets and financial liabilities (continued)**

| IFRS 9 | IAS 39 |
|---|---|
| **Financial assets and financial liabilities** | |
| Financial assets and financial liabilities measured at fair value through profit or loss | Financial assets and financial liabilities held for trading |
| Financial assets and financial liabilities are measured at fair value through profit or loss ("FVTPL") if they are held for trading. Under IFRS 9, a financial asset or a financial liability is defined as "held for trading" if it is acquired or incurred principally for the purpose of selling or re-purchasing 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. However, such financial instruments are used by the Company predominantly in connection with its "client-driven" market-making and/or for hedging certain assets, liabilities, positions, cash flows or anticipated transactions (i.e. risk management activities).<br><br>Certain financial assets that are not held for trading are measured at FVTPL if they do not meet the criteria to be measured at amortised cost or FVOCI. For example, if the financial assets are managed on a fair value basis, have contractual cash flows that are not SPPI or are equity securities. The Company did not elect to measure any equity instruments at FVOCI.<br><br>Financial instruments measured at FVTPL are initially recognised at fair value in the balance sheet. Transaction costs and any subsequent fair value gains or losses are recognised in profit or loss as they arise. | The Company considers a financial asset or financial liability as held for trading if it is acquired or incurred principally for the purpose of selling or re-purchasing 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.<br><br>Financial assets held for trading comprise equity securities. 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 unrealised trading gains and losses. Financial instruments held for trading 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 income statement. Subsequently, they are measured at fair value with movement included in trading profit and loss. |

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

**5.9 Financial instruments (continued)**

**5.9.1 Financial assets and financial liabilities (continued)**

| IFRS 9 | IAS 39 |
|---|---|
| **Financial assets and financial liabilities** | |
| Financial assets and financial liabilities designated at fair value through profit or loss | Financial assets and financial liabilities designated at fair value through profit or loss |
| Subject to certain criteria, the Company can designate financial assets and financial liabilities to be measured at fair value through profit or loss. Designation is only possible when the financial instrument is initially recognised and cannot subsequently be reclassified. Financial assets can be designated as measured at fair value through profit or loss only if such designation eliminates or significantly reduces a measurement or recognition inconsistency. Financial liabilities can be designated as measured 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.<br><br>Financial assets and financial liabilities that the Company designates as measured at fair value through profit or loss are recognised at fair value at initial recognition, with transaction costs being recognised in profit or loss and subsequently measured at fair value. Gains and losses on financial assets and financial liabilities designated at fair value through profit or loss are recognised in profit or loss as they arise. | 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 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.<br><br>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.<br><br>The Company has designated certain equity securities at fair value through profit or loss on the basis that they are managed and their performance evaluated on a fair value basis. |

**5.9.2 Interest income and expense**

| IFRS 9 | IAS 39 |
|---|---|
| **Interest income and interest expense** | **Interest income and interest expense** |
| Unless a financial asset is credit-impaired, interest income is recognised by applying the effective interest method to the carrying amount of a financial asset before adjusting for any allowance for expected credit losses. If a financial asset is credit-impaired, interest income is recognised by applying the effective interest rate to the carrying amount of the financial asset including any allowance for expected credit losses.<br><br>Interest expense on financial liabilities is recognised by applying the effective interest method to the amortised cost of financial liabilities.<br><br>Interest income and expense on financial assets and financial liabilities measured at amortised cost are presented separately from financial instruments measured at FVTPL. | Interest income and expense are recognised on an effective interest rate basis. All contractual terms of a financial instrument are considered when estimating future cash flows. |

## 6. Other (expense)/income

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Foreign exchange translation gain/(loss) | 107 | (27) |
| Gain from fair value of financial assets | — | 4,769 |
| Loss on sale of investments | (4,968) | — |
| | (4,861) | 4,742 |

## 7. Directors' emoluments and staff costs

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Emoluments* | 6 | 7 |
| Total contributions to a defined contribution plan | — | 1 |
| Total value of long term incentive plans for all directors | — | 1 |
| Number of directors to whom defined contribution pension rights accrued | 3 | 4 |
| Number of directors with shares received or receivable under LTIPs | 3 | 4 |

*The amounts shown above in respect of emoluments paid to directors exclude amounts paid or due to directors under long term incentive plans, the value of share options granted or exercised and benefits to which directors are entitled under any pension schemes.

In accordance with the Companies Act 2006, the directors' emoluments above represent the proportion paid or payable in respect of qualifying services only. Directors also received emoluments for non-qualifying services, which are not required to be disclosed.

### Highest paid director

The emoluments of the highest paid director is under £200,000 which is not required to be disclosed under the requirements of the Companies Act 2006.

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

The Company had no employees during the year (2017: none).

## 8. Interest and similar income

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Interest and similar income from other JPMorgan Chase undertakings | 17,220 | 8,578 |

## 9. Profit on ordinary activities before taxation

The auditors' remuneration for the audit of the Company's annual financial statements of $7,260 (2017: $7,442) is met by another JPMorgan Chase undertaking and not recharged.

### 10. Tax on profit on ordinary activities

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| **(a) Analysis of tax charge for the year:** | | |
| **Current taxation** | | |
| UK Corporation tax on profit for the year | 4,777 | 1,654 |
| Foreign tax suffered | 41 | 37 |
| Adjustments in respect of prior years | — | — |
| **Total current tax** | **4,818** | **1,691** |
| **Deferred tax** | | |
| *Current year* | (2,528) | 918 |
| Adjustment in respect of prior periods | — | 1,451 |
| Effect of changes in tax rates | 266 | (107) |
| **Total deferred tax** | **(2,262)** | **2,262** |
| **Total tax expense for the year** | **2,556** | **3,953** |

**(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 19.00% (2017: 19.25%). The differences are explained below:

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Profit on ordinary activities before taxation | 12,612 | 18,913 |
| Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK 19.00% (2017: 19.25%) | 2,396 | 3,640 |
| Effects of: | | |
| Non taxable income | (52) | (1,994) |
| Tax rate changes | 266 | (107) |
| MTM movements on Euroclear plc shares | — | 918 |
| Non deductible expenses | 924 | 8 |
| Gain on sale of investment | (1,020) | — |
| Effects of overseas tax rates | 41 | 37 |
| Adjustment in respect of prior years | 1 | 1,451 |
| **Total tax expense for the year** | **2,556** | **3,953** |

### 11. Investments in JPMorgan Chase undertakings

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| At 1 January | 355,247 | 461,727 |
| Redemption* | — | (106,480) |
| Investment in JPMorgan Chase undertakings at 31 December | **355,247** | **355,247** |

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

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

*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.

The investments represent share capital in the following entities:

| Name | Registered address | Principal Activity | Shares Held % |
|---|---|---|---|
| J.P. Morgan Chase International Financing Limited** | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Finance Company | 100% |
| J.P. Morgan Administration Services (Jersey) Limited** | Forum 4, Grenville Street, St. Helier, JE2 4UF, Jersey | Fund Administration | 100% |
| **Affiliates** | | | |
| Aldermanbury Investments Limited | 25 Bank Street, Canary Wharf, London, E14 5JP, England and Wales | Investment Company | 0.58% |

**Direct investment

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

### 12. Debtors

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Amounts owed by other JPMorgan Chase undertakings | 853,968 | 837,020 |
| Other debtors | 153 | 99 |
| | **854,121** | **837,119** |

For the current year, the amounts owed by other JPMorgan Chase undertakings are falling due within one year. In the prior year $836,112,000 were falling due in more than one year and $908,000 were falling due within one year.

### 13. Financial assets at fair value through profit or loss

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| At 1 January | 13,424 | 8,654 |
| Movements in fair value during the year | — | 4,770 |
| Loss on sale of investments | (4,968) | — |
| Disposals during the year | (8,456) | — |
| At 31 December | — | **13,424** |

### 14. Cash and cash equivalents

All bank balances are held with other JPMorgan Chase undertakings.

### 15. Deferred tax liability

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Financial assets at fair value through profit or loss | | |
| Adjustment in respect of prior years | 2,262 | 1,451 |
| Deferred tax charged to Income Statement for the period | (2,262) | 811 |
| | — | 2,262 |

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

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Amounts owed to JPMorgan Chase undertakings | 17 | — |
| Corporation tax | 2,015 | 800 |
| | 2,032 | 800 |

### 17. Called-up share capital

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| **Issued and fully paid share capital** | | |
| At 31 December | | |
| 60,000 (2017: 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 2018 was $230,000,000 (2017: $360,000,000).

### 19. Transition to IFRS 9

The adoption of IFRS 9 has resulted in no material impact to the Company.

All financial assets previously designated at FVTPL are now categorised as FVTPL which resulted in no impact to the amounts reported.