

**J.P. MORGAN EUROPE LIMITED**  
**(Registered Number: 00938937)**

**Annual report for the year ended 31 December 2017**



**J.P. MORGAN EUROPE LIMITED**  
**Annual report for the year ended 31 December 2017**

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# J.P. MORGAN EUROPE LIMITED

## Strategic report

The directors present their strategic report of J.P. Morgan Europe Limited (the "Company") for the year ended 31 December 2017.

### 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 leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide. The Company had \$14,718 million in assets and \$3,980 million in total equity as of 31 December 2017.

### Principal activity

The Company provides marketing, custody and payment services to clients on behalf of affiliated entities and continues its wholesale lending activities as a European passported bank. In addition, the Company also benefits from attributions received from other JPMorgan Chase undertakings for whom the employees of the Company conduct business, and holds third-party sterling-denominated deposits in respect of the Post Office card account ("POca"). The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA in the United Kingdom ("U.K.") as a licensed deposit taker. The Company has branches in Amsterdam, Brussels, Copenhagen, Helsinki, Oslo, Stockholm and Warsaw.

### Review of business

The directors are satisfied with the performance of the Company.

### Key performance indicators ("KPIs")

The Board of directors monitor progress on the performance of the Company using various metrics, the primary KPIs are set out below:

Financial performance (in \$'000's except for return on assets and capital ratios)	2017	2016
<b>Earnings</b>		
Total operating income	802,904	757,636
Profit for the financial year	253,292	180,968
<b>Balance sheet</b>		
Total assets	14,718,279	11,316,087
Return on assets	2%	2%
<b>Capital ratios</b>		
Common Equity Tier 1	3,908,113	3,637,672
Pillar 1 capital ratio	95%	76%
Regulatory minimum total required capital ratio*	8%	8%

\* Represents minimum requirements of the European Union's Basel III Capital Requirements Directive and Regulation. The Company's total capital ratio as of 31 December 2017 and 2016 exceeded the minimum requirements, as well as the additional capital requirements specified by the PRA.

Capital resources utilised to calculate 2017 capital ratios include current year profits.

### Income statement

The income statement for the year ended 31 December 2017 is set out on page 28. Total operating income for the year was \$803 million (2016: \$758 million). The results for the Company show a profit before taxation of \$339 million for 2017 (2016: \$249 million) and a profit for the financial year of \$253 million (2016: \$181 million). Total operating income was marginally up year on year, with increased profit before taxation as a result of reduced administration expenses due to lower indirect costs.

### Balance sheet

The balance sheet is set out on page 29. The Company has total assets and total liabilities of \$14,718 million (2016: \$11,316 million) and \$10,738 million (2016: \$7,595 million) respectively, as at 31 December 2017.

# **J.P. MORGAN EUROPE LIMITED**

## **Strategic report (continued)**

### **Future outlook**

#### *Brexit*

On 23 June 2016, the UK voted by referendum to leave the European Union ("Brexit"). The UK Government invoked Article 50 of the Lisbon Treaty on 29 March 2017, starting a two year period for the formal exit negotiations. This means that the UK will leave the EU on 29 March 2019 assuming the timeline is not unanimously extended by the remaining 27 EU Member States ("EU 27") and the UK. Formal negotiations began on 19 June 2017. In December 2017, the EU27 agreed that 'sufficient progress' had been made on the terms of the UK's withdrawal to allow parallel talks on the future relationship, which are expected to begin in March 2018.

The UK's priorities in negotiating the future relationship are to seek a bilateral free trade agreement with the EU27 that facilitates the 'greatest possible access' to the Single Market, but that the UK will not seek to continue its membership of the Single Market. The current EU position, as set out in Council negotiating directives, is that a free trade agreement should be balanced, ambitious and wide-ranging, but that the UK's participation in the Single Market or parts thereof must end and there will not be any sector-specific provisions, for example, for financial services. On 19 March 2017, both sides announced a draft political agreement for a 21-month transition period. This agreement will need to be formally adopted by EU Member States during the European Council summit on 22-23 March, and ratified by the UK and European Parliament as part of the Withdrawal Agreement before the UK's official exit date of 29 March 2019.

Brexit will have significant impact across the Firm's European businesses, including business and legal entity reorganisation. However, the situation remains highly uncertain, including in relation to whether a transition period is secured and whether financial services will be included in any future free trade agreement.

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.

#### *Custody and Fund Services activities*

The expected loss of passporting rights post Brexit will result in the Company ceasing its Custody & Fund Services activities for European Economic Area ("EEA") clients. Subject to regulatory approvals, the Company plans to transfer certain assets and liabilities related to these activities and the employees conducting these activities in the EEA branches of the Company (31 December 2017: 91) to EEA branches of another JPMorgan Chase undertaking. The transfer will be for a consideration determined at fair market value. The recognised assets and liabilities primarily include customer deposits (31 December 2017: \$6,994 million) and intangible assets (31 December 2017: \$72 million). The transfer will also include assets under custody.

The Company will continue to benefit from attributions received from other JPMorgan Chase undertakings for whom the employees of the Company conduct business.

Further, management continues to assess the long-term strategy of the Company in relation to expected internal re-organisations. The directors believe that this does not impact the going concern assumption used in these financial statements.

### **Regulatory developments**

In the EU, there is an extensive and complex program of final and proposed regulatory enhancement that reflects, in part, the EU's commitments to policies of the Group of Twenty Finance Ministers and Central Bank Governors ("G20") together with other plans specific to the EU. The EU operates a European Systemic Risk Board that monitors financial stability, together with European Supervisory Authorities ("ESAs") that set detailed regulatory rules and encourage supervisory convergence across the EU's Member States. The EU is currently reviewing the ESA framework. The EU has also created a Single Supervisory Mechanism for the euro-zone, under which the regulation of all banks in that zone will be under the auspices of the European Central Bank, together with a Single Resolution Mechanism and Single Resolution Board, having jurisdiction over bank resolution in the zone. At both the G20 and EU levels, various proposals are under consideration to address risks associated with global financial institutions.

Consistent with the G20 and EU policy frameworks, UK regulators have adopted a range of policy measures that have significantly changed the markets and prudential regulatory environment in the UK. In addition, UK regulators have introduced measures to enhance accountability of individuals, and promote forward-looking conduct risk identification and mitigation, including by introducing the senior managers and certification regimes.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Regulatory developments (continued)

#### *Loss absorbency requirements under the EU Bank Recovery and Resolution Directive*

The EU Bank Recovery and Resolution Directive ("BRRD") and the UK transposition of the Directive established a requirement for the Bank of England ("BoE") to set a minimum requirement for own funds and eligible liabilities ("MREL"). The BoE finalised its policy for setting external MREL in November 2016, which confirmed that the BoE will apply a level of MREL in line with the global Total Loss Absorbing Capacity ("TLAC") standard, including with regards to timing (transitional arrangements will apply from 1 January 2019, with full compliance required by 1 January 2022). TLAC is intended to facilitate the resolution of a financial institution without causing financial instability and without recourse to public funds. The BoE subsequently issued a consultation paper on its proposed approach to setting internal MREL in October 2017 which confirmed that implementation of internal MREL requirements will follow the same timeline as for external MREL. The BoE is expected to finalise its internal MREL policy in 2018, with a view to communicating Firm-specific interim targets ahead of the 1 January 2019 implementation date.

The potential impacts of these requirements on the Company are currently being considered. Once communication of the end state requirement has been provided, the Company will establish plans to ensure compliance with the requirements by the conformance date. In the interim period however, the Company considers compliance with current minimum capital requirements to represent compliance with its transitional MREL.

### Risk management

Risk is an inherent part of the Company's business activities. The Company's overall objective is to manage its businesses, and the associated risks, in a manner that balances serving the interests of its clients and customers and protects the safety and soundness of the Company.

JPMorgan Chase's and the Company's risk management framework seeks to mitigate risk and loss to the Firm and Company. The Firm has established processes and procedures intended to identify, measure, monitor, report and analyse the types of risk to which the Firm is subject. However, as with any risk management framework, there are inherent limitations to the Firm's risk management strategies because there may exist, or develop in the future, risks that the Firm has not appropriately anticipated or identified.

Firmwide Risk Management is overseen and managed on an enterprise-wide basis. The Firmwide governance strategy is set by Line of Business ("LOB"). This is supported by global policies and standards to which all staff world-wide are required to adhere to.

Within Europe, the Middle East and Africa ("EMEA"), a regional governance framework incorporates the Firmwide strategy, and the Firm's policies, procedures and LOB structure. This regional framework is thus supplemental and complementary to the global framework and also provides the requisite link between the EMEA legal entities and the LOBs.

At a Company level, the Global Legal Entity Risk framework assigns risk tiers from 1 to 4 to the Firm's significant operating entities across all lines of business, where Tier 1 represents the highest level of risk management oversight required. Core and recommended governance standards have been created for each tier of governance. The Company is considered as Tier 1.

The Company exercises oversight through the Board of Directors and delegation from the Board to various committees and sub-committees which are aligned to the Firm risk management framework and regulatory requirements.

All disclosures in the Risk management section (pages 3 - 18 ) are unaudited unless otherwise stated.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Risk summary

The following table summaries the key risks inherent in the Company's business activities. An overview of the key aspects of risk management is provided below. A detailed description of the policies and processes adopted by the Firm may be found within the JPMorgan Chase & Co. 2017 Annual Report on Form 10-K.

Risk	Definition
<b>Economic risks</b>	
Capital risk	The risk that the Company has an insufficient level and composition of capital to support the Company's business activities, and associated risks during normal economic environments and stressed conditions.
Credit risk	The risk associated with the default or change in credit profile of a customer.
Liquidity risk	The risk that the Company will be unable to meet its contractual and contingent financial obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.
Market risk	The risk associated with the effect of changes in market factors, such as interest rates or foreign exchange rates, equity and commodity prices, implied volatilities or credit spreads, on the value of assets and liabilities held for both the short and long term.
Non-U.S. dollar Foreign Exchange ("FX") risk	Non-U.S. dollar FX risk is the risk that changes in foreign exchange rates affect the value of the Company's assets or liabilities or future results.
Structural interest rate risk	The risk resulting from the Company's traditional banking activities (accrual accounted on- and off balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as "non-trading activities").
<b>Other core risks</b>	
Compliance risk	The risk of failure to comply with applicable laws, rules and regulations.
Conduct Risk	The risk that any action or inaction by an employee of the Company could lead to unfair client/customer outcome, compromise the Company's reputation, impact the integrity of the markets in which the Company operates, or reflect poorly on the Firm's culture.
Model risk	The risk of the potential for adverse consequences from decisions based on incorrect or misused model outputs.
Operational risk	The risk associated with inadequate or failed internal processes, people or systems, or from external events.
Reputation risk	The potential that an action, inaction, transaction, investment or event will reduce trust in the Company and the Firm's integrity or competence by our various constituents, including clients, counterparties, regulators, employees and the broader public.

#### Capital risk (audited)

Capital risk is the risk the Company has an insufficient level and composition of capital to support the Company's business activities and associated risks during both normal economic environments and under stressed conditions.

A strong capital position is essential to the Company's business strategy and competitive position. The Company's capital strategy focuses on ensuring that the entity continues to meet its regulatory and internal capital requirements, even in a highly stressed environment.

Accordingly, its Capital Management Framework is designed to ensure that the Company is adequately capitalised at all times in relation to:

- Minimum risk-based regulatory capital requirements (Pillar 1 capital under CRD IV<sup>(a)</sup> plus Pillar 2/Individual Capital Guidance ("ICG") set by the PRA and relevant CRD IV buffers);
- Minimum leverage requirements<sup>(b)</sup> (calculated per the final rules in the Capital Requirements Regulation ("CRR") post the delegated act (October 2014));
- The risks faced by the entities, through regular comparisons of regulatory and internal capital requirements;
- Senior management's risk appetite expressed, for example, through the application of an internal capital buffer and preferred minimum capital ratios above those prescribed in regulation.

(a) CRD IV implemented Basel III in the EU, and came into force on 1 January 2014.

(b) Disclosure requirement applicable from 1 January 2015.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Capital risk (audited) (continued)

The framework used to manage capital is based around a regular cycle of point-in-time capital calculations and reporting, supplemented by forward-looking projections and stress-testing, with corrective action taken as and when required to maintain an appropriate level of capitalisation. Each part of the process is subject to rigorous control. Escalation of issues is driven by a framework of specific triggers, set in terms of capital and leverage ratios, movements in those ratios, and other measures.

Through the quarterly Internal Capital Adequacy Assessment Process ("ICAAP"), the Company ensures that it is adequately capitalised in relation to its risk profile and appetite, not only as at the ICAAP date, but through the economic cycle and under a range of severe but plausible stress scenarios. The annual 'Reverse stress testing' exercise is used to identify potential, extreme scenarios which might threaten the viability of the Company's business model, so that any required mitigation can be put in place.

The composition of capital of the Company is as follows. All tiers of capital are shown net of applicable deductions.

	2017	2016
	\$'000	\$'000
Common Equity Tier 1 (Equity share capital and reserves)	3,908,113	3,637,672
<b>Total Capital Resources</b>	<b>3,908,113</b>	<b>3,637,672</b>
Pillar 1 capital requirement (unaudited)	327,543	384,651
Excess of total capital resources over Pillar 1 capital requirements (unaudited)	3,580,570	3,253,021
Pillar 1 capital ratio (unaudited)	95%	76%

As of 31 December 2017 and 2016, the Company was adequately capitalised and met all external capital requirements. Capital resources utilised to calculate capital ratios are inclusive of audited current year profits. Additionally, the operational risk requirement included within the Pillar 1 Capital Requirement has been recalculated to incorporate current year net income.

#### Credit risk (audited)

Credit risk is the risk associated with the default or change in credit profile of a client, counterparty or customer. Credit risk management is an independent risk management function that monitors, measures and manages credit risk throughout the Firm and defines credit risk policies and procedures. The credit risk function reports to the Firm's Credit Risk Officer ("CRO").

The Company is exposed to credit risk through its custody and payment services and wholesale lending activities as a European passported bank. Whilst the Firm has established a comprehensive Firmwide risk policy framework, this is supplemented as required by legal entity-specific risk policies. As such, the Company's Credit Risk Management policy supplements the Firmwide risk policy framework and is approved by the Board and Board of Directors' Risk Policy Committee ("DRPC").

#### Risk identification and measurement

The Credit Risk Management function monitors, measures, manages and limits credit risk across the Firm's businesses. To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including type of asset, risk measurement parameters, and risk management and collection processes. Credit risk measurement is based on the probability of default of an obligor or counterparty, the loss severity given a default event and the exposure at default.

For the Company's portfolio, credit loss estimates are based on estimates of the probability of default ("PD") and loss severity given a default. The probability of default is the likelihood that a borrower will default on its obligation; the loss given default ("LGD") is the estimated loss on the loan that would be realised upon the default and takes into consideration collateral and structural support for each credit facility. The estimation process includes assigning risk ratings to each borrower and credit facility to differentiate risk within the portfolio. These risk ratings are reviewed regularly by Credit Risk Management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The calculations and assumptions are based on both internal and external historical experience and management judgment and are reviewed regularly.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Credit risk (audited) (continued)

##### Risk monitoring and management

The Company is subject to the policies and practices developed by the Firm. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the line of businesses.

Credit risk is monitored regularly at an aggregate portfolio, industry, and individual client and counterparty level with established concentration limits that are reviewed and revised as deemed appropriate by management, typically on an annual basis. Industry and counterparty limits, as measured in terms of exposure and economic risk appetite, are subject to stress-based loss constraints. In addition, wrong-way risk (the risk that exposure to a counterparty is positively correlated with the impact of a default by the same counterparty, which could cause exposure to increase at the same time as the counterparty's capacity to meet its obligations is decreasing) is actively monitored as this risk could result in greater exposure at default compared with a transaction with another counterparty that does not have this risk.

Management of the Firm's credit risk exposure is accomplished through a number of means, including:

- Loan underwriting and credit approval process
- Loan syndications and participations
- Loan sales and securitisations
- Credit derivatives
- Master netting agreements
- Collateral and other risk-reduction techniques

##### Risk reporting

To enable monitoring of credit risk and effective decision making by the Company, aggregate credit exposure, concentration levels and risk profile changes are reported regularly to senior members of Credit Risk Management. Detailed portfolio reporting of industry; clients, counterparties and customers; product and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, risk committees, senior management and the Board of Directors as appropriate.

##### Credit exposures

The table below presents the Company's total balance sheet exposure and net exposure to financial assets after taking account of certain risk mitigants. Gross balance sheet exposure is reported on a net-by-counterparty basis for derivatives and securities purchased under agreements to resell when the legal right and intention of offset exists under an enforceable netting agreement as required under IAS 32 'Financial Instruments: Presentation' ("IAS 32"). Net exposure is presented after taking account of assets which are primarily exposed to market risk, enforceable master netting agreements (where the offsetting criteria under IAS 32 is not met) and the value of collateral received in respect of financial assets.

	Gross balance sheet exposure <sup>1</sup>	Assets captured by market risk	Master netting agreements	Collateral held as security	Net exposure after risk mitigants
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 31 December 2017</b>					
<b>Financial assets:</b>					
Loans and advances to banks	12,323,841	—	—	—	12,323,841
Loans and advances to customers <sup>2</sup>	213,444	—	—	(65,217)	148,227
Securities purchased under resale agreements <sup>3</sup>	1,820,710	—	—	(1,801,533)	19,177
Financial assets held for trading <sup>4</sup>	97,166	(4,184)	(92,679)	—	303
Financial assets designated at fair value through profit or loss	22,261	(22,261)	—	—	—
Debtors	158,751	—	—	—	158,751
Accrued income	2,095	—	(1,138)	—	957
<b>Total<sup>5</sup></b>	<b>14,638,268</b>	<b>(26,445)</b>	<b>(93,817)</b>	<b>(1,866,750)</b>	<b>12,651,256</b>



# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Credit risk (audited) (continued)

##### Credit exposures (continued)

	Gross balance sheet exposure	Assets captured by market risk	Master netting agreements	Collateral held as security	Net exposure after risk mitigants
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 31 December 2016</b>					
<b>Financial assets:</b>					
Loans and advances to banks	2,607,926	—	—	—	2,607,926
Loans and advances to customers <sup>2</sup>	294,714	—	—	(189,021)	105,693
Securities purchased under resale agreements <sup>3</sup>	8,046,259	—	—	(7,832,756)	213,503
Financial assets held for trading <sup>4</sup>	36,865	(24,355)	(12,510)	—	—
Financial assets designated at fair value through profit or loss	14,456	(14,456)	—	—	—
Financial assets available-for-sale	11,517	(11,517)	—	—	—
Debtors	172,174	—	—	—	172,174
Accrued income	7,116	—	(6,535)	—	581
<b>Total<sup>5</sup></b>	<b>11,191,027</b>	<b>(50,328)</b>	<b>(19,045)</b>	<b>(8,021,777)</b>	<b>3,099,877</b>

<sup>1</sup> Of the above on-balance sheet assets, \$14,178 million (2016: \$10,703 million) is held with other JPMorgan Chase undertakings. For further details of these amounts by line item category, refer to the notes to the financial statements.

<sup>2</sup> Net exposure after risk mitigants on loans and advances to customers is presented without taking into account credit risk mitigants such as financial guarantees. Prior year amounts have been adjusted to conform with current year presentation.

<sup>3</sup> The fair value of financial assets accepted as collateral that the Company is permitted to sell or re-pledge in the absence of default is \$1,736 million (2016: \$7,740 million). The fair value of collateral repledged in 2017 was \$65 million (2016: \$93 million). These transactions are conducted under terms that are customary to standard lending activities (note 16).

<sup>4</sup> Financial assets held for trading subject to master netting agreements has been restricted to the gross exposure. Total financial instruments recognised within financial assets held for trading and financial liabilities held for trading which were subject to enforceable master netting arrangements or other similar agreements but not offset, as at 31 December 2017, amounted to \$93 million (2016: \$21 million) (note 20).

<sup>5</sup> In addition to balance sheet exposure, there are off balance sheet exposures consisting of lending commitments and standby letters of credit and guarantees \$3,391 million (2016: \$3,533 million).

The Company's credit exposures and credit risk mitigants are further described below:

##### Loans and advances to banks

The Company places substantially all of its deposits with banks, which are of investment grade to mitigate credit risk exposure.

##### Loans and advances to customers

The tables below represents the Company's credit exposure and maturity profile to gross loans and advances to customers before any provision for impairment. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's Investors Service. Refer note 15.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Credit risk (audited) (continued)

##### *Credit exposures (continued)*

##### Loans and advances to customers (continued)

##### *Analysis of concentration credit risk*

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

<b>Maturity and ratings profile</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Maturity</b>		
- Greater than five years	—	5,306
- Greater than a year but less than five years	76,963	193,649
- Less than a year	149,074	103,054
	<b>226,037</b>	<b>302,009</b>
<b>Rating profile</b>		
Investment grade (AAA/Aaa to BBB-/Baa3)	114,712	91,532
Sub-investment grade	111,325	210,477
	<b>226,037</b>	<b>302,009</b>
"Investment grade" generally represents a risk profile similar to a rating of a "BBB-"/"Baa3" or better, as defined by independent rating agencies and JPMorgan Chase's internal risk assessment system.		
<b>Credit risk concentration</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Geographic region</b>		
United Kingdom	2,016	129
Other EU	165,622	299,392
Rest of the world	58,399	2,488
	<b>226,037</b>	<b>302,009</b>
<b>Industry concentration</b>		
Commercial and industrial	207,470	285,428
Financial institutions	18,567	14,591
Other	—	1,990
<b>Total</b>	<b>226,037</b>	<b>302,009</b>

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Credit risk (audited) (continued)

##### *Credit exposures (continued)*

##### Loans and advances to customers (continued)

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Non-impaired loans	187,858	245,832
Impaired loans	25,586	48,882
Provision for impairment	12,593	7,295
	<hr/> 226,037	<hr/> 302,009

##### Securities purchased under agreements to resell

The Company generally bears credit risk related to resale agreements and securities borrowed where cash advanced to the counterparty exceeds the expected value of the collateral received on default. The Company's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which for the substantial majority represent contractual value before consideration of any collateral received. The Company's resale agreements are held with other JPMorgan Chase undertakings, these are of investment grade.

##### Financial assets held for trading

Debt and equity instruments are primarily exposed to market risk and are therefore deducted to determine the net credit risk exposure. Derivatives are reported at fair value on a gross by counterparty basis in the Company's financial statements unless the Company has current legal right of set-off and also intends to settle on a net basis. The majority of the credit risk exposure is mitigated by cash collateral, margin arrangements and enforceable master netting arrangements.

##### Financial assets designated at fair value through profit and loss

Financial assets designated at fair value through profit or loss represent unlisted equity securities. These are primarily exposed to market risk and are therefore deducted to determine net exposure after risk mitigants.

##### Debtors and other assets

The Company is exposed to credit risk from its debtors through its amounts due from brokers/dealers, customers and JPMorgan Chase undertakings. These primarily comprise receivables related to fees receivable. Accrued income primarily represents accrued interest on securities purchased under resale agreements and loans, the credit risk is captured by the collateral received.

##### Off-balance sheet commitments

The Company provides lending-related financial instruments (e.g. commitments of credit) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk to the Company should the counterparty draw upon the commitment or the Company be required to fulfil its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Company's view, representative of its actual future credit exposure or funding requirements.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Credit risk (audited) (continued)

##### *Credit exposures (continued)*

##### Off - balance sheet commitments (continued)

To provide for probable credit losses inherent in certain lending-commitments, an allowance for credit losses on lending-related commitments is maintained. The following table summarises the contractual amounts and carrying values of off-balance sheet lending-related commitments and standby letters of credit at 31 December 2017 and 2016.

	<b>Contractual amount</b>		<b>Carrying value<sup>1)</sup></b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Other lending commitments	2,348,289	2,647,312	2,811	9,233
Standby letters of credit and guarantees	1,043,191	886,004	—	—
<b>At 31 December</b>	<b>3,391,480</b>	<b>3,533,316</b>	<b>2,811</b>	<b>9,233</b>

1) The carrying value represents the allowance for lending related commitments.

#### Liquidity risk (unaudited)

Liquidity risk is the risk that the Company will be unable to meet its contractual and contingent financial obligations as they arise or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.

##### *Liquidity risk oversight*

The Firm has a liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk across the Firm. Liquidity risk oversight is managed through a dedicated Firmwide Liquidity Risk Oversight group. The Chief Investment Office ("CIO"), Treasury, and Corporate Chief Risk Officer ("CTC CRO"), who reports to the Firm's CRO, as part of the independent risk management function, is responsible for Firmwide Liquidity Risk Oversight. Liquidity Risk Oversight's responsibilities include:

- Establishing and monitoring limits, indicators, and thresholds, including liquidity risk appetite tolerances;
- Monitoring internal Firmwide and material legal entity stress tests, and monitoring and reporting regulatory defined liquidity stress testing;
- Approving or escalating for review liquidity stress assumptions;
- Monitoring liquidity positions, balance sheet variances and funding activities;
- Conducting ad hoc analysis to identify potential emerging liquidity risks.

##### *Liquidity management*

Treasury and CIO are responsible for liquidity management. The primary objectives of effective liquidity management are to:

- Ensure that the Firm's core businesses and material legal entities are able to operate in support of client needs and meet contractual and contingent obligations through normal economic cycles as well as during stress events; and
- Manage an optimal funding mix, and availability of liquidity sources.

The Firm manages liquidity and funding using a centralised, global approach across its entities, taking into consideration both their current liquidity profile and any potential changes over time, in order to optimise liquidity sources and uses.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Liquidity risk (unaudited) (continued)

##### *Liquidity management (continued)*

In the context of the Firm's liquidity management, Treasury and CIO are responsible for:

- Analysing and understanding the liquidity characteristics of the Firm, lines of business and legal entities' assets and liabilities, taking into account legal, regulatory, and operational restrictions;
- Developing internal liquidity stress testing assumptions;
- Defining and monitoring Firmwide and legal entity-specific liquidity strategies, policies, guidelines, reporting and contingency funding plans;
- Managing liquidity within approved liquidity risk appetite tolerances and limits;
- Managing compliance with regulatory requirements related to funding and liquidity risk; and
- Setting transfer pricing in accordance with underlying liquidity characteristics of balance sheet assets and liabilities as well as certain off-balance sheet items.

The Company is regulated by the PRA and, from 1 October 2015, was expected to comply with the liquidity coverage ratio ("LCR") guidance set out in the Delegated Act (Commission delegated regulation (EU) 2015/61). The LCR is intended to measure the amount of "high quality liquid assets" ("HQLA") held by the Company in relation to estimated net liquidity outflows within a 30 calendar day stress period. The LCR was required to be 80% at 1 October 2015, rising to 90% on 1 January 2017 until reaching the 100% minimum by 1 January 2018. At 31 December 2017, the Company was compliant with the fully phased-in LCR.

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

A regular internal assessment of the liquidity risk management framework is performed which informs the directors of the liquidity risks resulting from business activities in addition to the current and future funding needs of the Company.

##### *Risk governance and measurement*

Specific committees responsible for liquidity governance include the Firmwide Asset Liability Committee ("ALCO"), as well as line of business and regional ALCOs, Treasury and Corporate ("CTC") Risk Committee; and the Company's Directors' Risk Policy Committee ("DRPC") and EMEA Risk Committee.

##### *Internal stress testing*

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

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

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

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

Liquidity risk stress testing is established at the Firm and material legal entity level. The Company's liquidity stress testing is incorporated within the JPMorgan Chase legal entity liquidity risk framework and follows Firmwide liquidity assumptions, with additional considerations for intercompany positions and the definition of local liquid asset buffer.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Liquidity risk (unaudited) (continued)

##### Contingency funding plan

The Firm's contingency funding plan ("CFP") is approved by the Firmwide ALCO and the DRPC. The Company's addendum to the CFP is approved by the JPMS plc DRPC and the Board. The CFP and the addendum is a compilation of procedures and action plans for managing liquidity through stress events. The CFP and the addendum incorporate the limits and indicators set by the Liquidity Risk Oversight group. These limits and indicators are reviewed regularly to identify the emergence of risks or vulnerabilities in the Company's liquidity position. The CFP identifies the alternative contingent funding and liquidity resources available to the Company in a period of stress.

##### Funding (audited)

The Company's sources of short-term funding primarily consist of open maturity customer deposits. The directors believe that the Company's unsecured and secured funding capacity is sufficient to meet its on and off-balance sheet obligations.

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

	2017			2016		
	On demand	Less than 1 year	Total	On demand	Less than 1 year	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deposits by banks	133,754	—	133,754	116,458	—	116,458
Customer accounts	10,242,215	—	10,242,215	7,137,775	—	7,137,775
Financial liabilities held for trading	—	92,681	92,681	—	20,918	20,918
Trade creditors	—	5,045	5,045	—	15,022	15,022
Other liabilities	—	80,692	80,692	—	86,515	86,515
	<b>10,375,969</b>	<b>178,418</b>	<b>10,554,387</b>	<b>7,254,233</b>	<b>122,455</b>	<b>7,376,688</b>

#### Market risk (audited)

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

- **Interest rates** - Interest rate risk primarily results from exposure to changes in the level, slope and curvature of the yield curve and the volatility of interest rates, and mortgage prepayment rates;
- **Foreign exchange rates** - Foreign exchange rate risk results from exposure to changes in prices and volatility of currency rates;
- **Equity prices** - Equity price risk arises from exposure to changes in prices and volatility of individual equities, equity baskets and equity indices;
- **Credit spreads** - Credit spreads are the difference between yields on corporate debt subject to default risk and government bonds; and
- **Commodity prices** - Commodity price risk results from exposures to changes in prices and volatility of commodities, such as natural gas, crude oil, petroleum products, precious and base metals and electricity.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Market risk (audited) (continued)

The below sections describe the application of Firmwide market risk standards/processes to the Company.

##### *Market risk management*

The Firmwide Risk Executive Market Risk ("FRE") and LOB Chief Risk Officers ("CROs") are responsible for establishing an effective market risk organisation at the Firm level. The FRE and LOB Heads of Market Risk establish the framework to measure, monitor and control market risk within the Firm.

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

In addition to the Risk Governance framework detailed in the Risk Governance policy, additional senior Market Risk management risk oversight within the Firm is provided via the Firmwide Market Risk Forum and Market Risk Control forum which typically convene monthly.

Company specific market risk governance is established in the Company's market risk policy, additional risk oversight is provided through the following committee:

- EMEA Risk Committee ("ERC"):

The ERC provides oversight of the risks inherent in the Firm's business conducted or booked into EMEA entities and EMEA branches of ex-EMEA firms. As part of the risk governance the ERC receives information on the Company's headline exposures, Value-at risk ("VaR") and stress. The ERC, which convenes at least monthly, receives updates from sub-committees and any other items which require escalation.

##### *Market risk measurement*

Multiple measures are used to capture market risk and set limits as appropriate. These measures include, but are not limited to, VaR, stress testing, non-statistical measures and Single Name Position Risk ("SNPR"). As the appropriate set of risk measures utilised for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases.

##### *VaR*

The Firm utilises VaR, a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment. The Firm has a single VaR framework used as a basis for calculating Risk Management VaR and Regulatory VaR. The Company utilises the Firm's VaR methodology and considers local regulations and processes on the application of these Firmwide standards on VaR monitoring and calculation.

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

Risk Management VaR assumes a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. VaR provides a consistent framework to measure risk profiles and levels of diversification across product types and is used for aggregating risks across businesses and monitoring limits. The Company's VaR results are reported to the Company's senior management, Chief Executive Officer ("CEO"), CRO, Market Risk Officer ("MRO") and at the relevant risk governance committees.

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

The Firm calculates separately a daily aggregated VaR in accordance with regulatory rules ("Regulatory VaR"), which is used to derive the Firm's Regulatory VaR-based capital requirements under Basel III. This Regulatory VaR model framework currently assumes a ten business-day holding period and an expected tail loss methodology which approximates a 99% confidence level. Regulatory VaR is applied to "covered" positions as defined by Basel III, which may be different than the positions included in the Firm's Risk Management VaR. The Company does not calculate Regulatory VaR for capital purposes since it uses the standardised approach to calculate capital.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Market risk (audited) (continued)

##### Stress testing

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

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

##### Non-statistical risk measures

Non-statistical risk measures include sensitivities to variables used to value positions, such as credit spread sensitivities, interest rate basis point values and market values. These measures provide granular information on the Firm's market risk exposure. They are aggregated by LOB and by risk type, and are also used for monitoring internal market risk limits.

##### Single name position risk ("SNPR")

Single name positions booked into the Company are subject to the SNPR framework, which operates at the Firm level. SNPR captures exposures to credit families (and entities within credit families) or standalone issuer/issuers families not part of credit families, assuming default of the issuer with zero recovery.

##### Risk monitoring and control

Market risk is controlled primarily through a series of limits, established at both the Firm and the Company level, set in the context of the market environment and business strategy. In setting limits, the Company takes into consideration factors such as market volatility, product liquidity and accommodation of client business and management experience. Company level limits include VaR and Stress limits, which are under the governance and ownership of the Company's Board. As per policy/procedure guidance, the Company's Board can delegate its approval authority to the Company's CEO, CRO and MRO.

Market Risk reviews Company level market risk limits at least semi-annually. Limit reviews appropriately consider the underlying trading, investing and hedging strategies of the business, along with the limit utilisation. If peak utilisation is less than 50% during a six month lookback period, the limit is either reduced or rationale for maintaining the limit at that level is documented.

Additional controls exist at Firm level e.g. Authorised Instruments and LOB Pre-trade Transaction Guidelines. While these controls are operational at the Firm level, monitoring of activity and control breaches allows transparency at the Company level.

The table below shows the result of the Company's risk management VaR measures using a 95% confidence level:

	2017			2016			At 31 December	
	Avg.	Min	Max	Avg.	Min	Max	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
95 % VaR	191	161	243	221	178	258	185	191



# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Non-U.S. dollar foreign exchange ("FX") risk

Non-U.S. dollar FX risk is the risk that changes in foreign exchange rates affect the value of the Company's assets or liabilities or future results.

The Company does not have material risks associated with foreign investments in subsidiaries. The Company does have mismatches between the currency in which Risk Weighted Assets ("RWAs") are denominated and the functional currency (U.S. dollar). This means that changes in FX rates can impact the capital ratios of the Company. The Non-U.S. dollar FX risk is managed through the stress testing program which is an important component in managing structural FX risk, testing the Company and Firm's financial resilience in a range of severe economic and market conditions.

#### Structural interest rate risk

Structural Interest Rate Risk is the Interest Rate Risk in the Banking Book ("IRRBB") and is defined as Interest Rate Risk ("IRR") resulting from the Company's traditional banking activities (accrual accounted on and off balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as 'non-trading' activities). IRR from non-trading activities can occur due to a variety of factors, including but not limited to:

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

#### *Oversight and governance*

Governance for Firmwide IRR is defined in the IRR Management Policy which is approved by DRPC. The CIO, Treasury and Other Corporate Risk Committee ("CTC RC") is the governing committee with respect to IRRBB.

- Reviews the IRR Management policy;
- Reviews the IRR profile of the Firm and compliance with IRR limits;
- Provides Governance on legal entity related exposures
- Reviews significant changes to IRR models and/or model assumptions

IRR exposures, significant models and/or assumptions including the changes are reviewed by ALCO. The ALCO provides a framework for overseeing the IRR of LOBs, foreign jurisdictions and key legal entities to appropriate LOB ALCOs, Country ALCOs and other local governance bodies.

In addition, oversight of structural interest rate risk is managed through IRR Management, a dedicated risk function reporting to the CTC CRO.

IRR Management is responsible for, but not limited to:

- Creating governance over IRR assumptions and parameter selection/calibration
- Identifying and monitoring IRR and establishing limits as appropriate

#### *Risk Identification and Measurement*

Treasury and Chief Investment Office ("T/CIO") manages IRRBB exposure on behalf of the Firm by identifying, measuring, modelling and monitoring IRR across the Firm's balance sheet. T/CIO identifies and understands material balance sheet impacts of new initiatives and products and executes market transactions to manage IRR through T/CIO investment portfolio's positions. Execution by T/CIO will be based on parameters established by senior management, per the T/CIO Investment Policy. Lines of businesses are responsible for developing and monitoring the appropriateness of LOB specific IRR modelling assumptions.

Measures to manage IRR include:

- Earnings-at-risk: Primary metric used to gauge the firm's shorter term IRR exposure is Earnings at Risk (EaR), or the sensitivity of pre-tax income to changes in interest rates over a rolling 12 months compared to a base scenario
- Economic Value Sensitivity ("EVS"): An additional Firmwide metric utilised to determine changes in asset/liability values due to changes in interest rates

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Risk management (continued)

#### Compliance risk

Compliance risk is the risk of failure to comply with applicable laws, rules and regulations.

Each line of business and functions within the Company are accountable for managing its compliance risk. The Firm's Compliance Organisation ("Compliance"), which is independent of the line of business, works closely with senior management to provide independent review, monitoring and oversight of business operations with a focus on compliance with regulatory obligations applicable to the offering of the Firm's products and services to clients and customers.

These compliance risks relate to a wide variety of legal and regulatory obligations, depending on the LOB and the jurisdiction, and include those related to products and services, relationships and interactions with clients and customers, and employee activities. For example, compliance risks include those associated with anti-money laundering compliance, trading activities, market conduct, and complying with the rules and regulations related to the offering of products and services across jurisdictional borders, among others.

Other functions such as Finance (including Tax), Technology and Human Resources provide oversight of significant regulatory obligations that are specific to their respective areas of responsibility.

Compliance implements various practices designed to identify and mitigate compliance risk by establishing policies, testing, monitoring, training and providing guidance. In recent years, the Firm has experienced heightened scrutiny by its regulators of its compliance with regulations, and with respect to its controls and operational processes. The Firm expects that such regulatory scrutiny will continue.

#### *Governance and oversight*

Compliance is led by the Firm's Chief Compliance Officer ("CCO") who reports to the Firm's CRO. The regional CCOs, including the EMEA CCO, are part of this structure.

The Firm maintains oversight and coordination of its Compliance Risk Management practices through the Firm's CCO, lines of business CCOs and regional CCOs who implement the Compliance program globally across the lines of business and regions. At a Company level, in the UK the regional CCO is a member of the UK Management Committee (restructured from January 2018 to form the EMEA Management Committee) and the UK Audit & Compliance Committee.

The Firm has in place a Code of Conduct (the "Code") which applies to the Company. Each employee is given annual training in respect of the Code and is required annually to affirm his or her compliance with the Code. The Code sets forth the Firm's core principles and fundamental values, including that no employee should ever sacrifice integrity - or give the impression that he or she has. The Code requires prompt reporting of any known or suspected violation of the Code, any internal Firm policy, or any law or regulation applicable to the Firm's business. It also requires the reporting of any illegal conduct, or conduct that violates the underlying principles of the Code, by any of the Firm's employees, customers, suppliers, contract workers, business partners, or agents. Specified employees are specially trained and designated as "code specialists" who act as a resource to employees on Code matters. In addition, concerns may be reported anonymously and the Firm prohibits retaliation against employees for the good faith reporting of any actual or suspected violations of the Code. The Code and the associated employee compliance program are focused on the regular assessment of certain key aspects of the Firm's culture and conduct initiatives.

#### Conduct risk

Conduct risk is the risk that an employee's action or inaction causes undue harm to the Company and Firm's clients and customers, damages market integrity, undermines the Company and Firm's reputation, or negatively impacts the Company and Firm's culture.

#### *Overview*

Each line of business or function is accountable for identifying and managing its conduct risk to provide appropriate engagement, ownership and sustainability of a culture consistent with the Firm's How We Do Business Principles ("Principles"). The Principles serve as a guide for how employees are expected to conduct themselves. With the Principles serving as a guide, the Firm's Code sets out the Firm's expectations for each employee and provides certain information and the resources to help employees conduct business ethically and in compliance with the law everywhere the Firm operates. For further discussion of the Code, see Compliance risk.

#### *Governance and oversight*

The Compensation & Management Development Committee ("CMDC") is the Firm Board-level Committee with primary oversight for the Firm's culture and conduct programs. The Firm's Audit Committee is responsible for reviewing the program established by management to monitor compliance with the Code. Additionally, the DRPC reviews, at least annually, the Firm's qualitative factors included in the Risk Appetite Framework, including conduct risk. The DRPC also meets annually with the CMDC to review and discuss aspects of the Firm's compensation practices. Finally, the Culture & Conduct Risk Committee provides oversight of certain culture and conduct risk initiatives at the Firm.

# **J.P. MORGAN EUROPE LIMITED**

## **Strategic report (continued)**

### **Risk management (continued)**

#### **Conduct risk (continued)**

##### *Risk management*

Conduct risk management is incorporated into various aspects of people management practices throughout the employee life cycle, including recruiting, onboarding, training and development, performance management, promotion and compensation processes. Businesses undertake annual Risk and Control Self-Assessment ("RCSA"); and, as part of these reviews, identify their respective key inherent operational risks (including conduct risks), evaluate the design and effectiveness of their controls, identify control gaps and develop associated action plans. Each LOB and designated corporate function completes an assessment of conduct risk quarterly, reviews metrics and issues which may involve conduct risk, and provides business conduct training as appropriate.

The Firm's Know Your Employee framework generally addresses how the Firm manages, oversees and responds to workforce conduct related matters that may otherwise expose the Firm to financial, reputational, compliance and other operating risks. The Firm also has a Human Resource Control Forum, the primary purpose of which is to discuss conduct and accountability for more significant risk and control issues and review, when appropriate, employee actions including but not limited to promotion and compensation actions.

The Company's approach mirrors the Firmwide approach.

The Company receives regular progress reporting on culture and conduct for its respective businesses. The Company continues to identify enhancements that can be made to provide additional oversight and tone from the top on this agenda.

#### **Model risk**

Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs.

The Firm uses models across various businesses and functions. The models are of varying levels of sophistication and are used for many purposes, such as the valuation of positions and the measurement of risk, assessing adequacy of regulatory capital requirements, conducting stress testing, and making business decisions.

##### *Risk management*

A dedicated independent Model Risk function, Model Risk Governance and Review ("MRGR"), defines and governs the Firm's model risk management policy. MRGR reports to the Firm's CRO. Under the Firm's model risk management policy, the Model Risk function reviews and approves new models, as well as material changes to existing models, prior to implementation in the operating environment.

Model risks are owned by the users of the models within the various businesses and functions in the Firm based on the specific purposes of such models. Users and developers of models are responsible for developing, implementing and testing their models, as well as referring model to the Model Risk function for review and approval. Once models have been approved, model users and developers are responsible for maintaining a robust operating environment, and must monitor and evaluate the performance of the models on an ongoing basis.

The Company's approach mirrors the Firmwide approach.

#### **Operational risk**

Operational risk is the risk associated with inadequate or failed internal processes, people and systems, or from external events; operational risk includes cybersecurity risk, business and technology resiliency risk, payment fraud risk, and third-party outsourcing risk.

Operational risk is inherent in the Company's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Company. The goal is to keep operational risk at appropriate levels in light of the Company's financial position, the characteristics of its businesses, and the markets and regulatory environments in which it operates.

##### *Risk management*

To monitor and control operational risk, the Firm has an Operational Risk Management Framework ("ORMF") which is designed to enable the Firm to maintain a sound and well-controlled operational environment. The ORMF has four main components: Governance, Risk Assessment, Measurement, and Monitoring and Reporting.

# **J.P. MORGAN EUROPE LIMITED**

## **Strategic report (continued)**

### **Risk management (continued)**

#### **Operational risk (continued)**

##### *Risk management (continued)*

Risks such as Compliance risk, Conduct risk and Model risk as well as other operational risks, can lead to losses which are captured through the Firm's operational risk measurement processes. More information on these risk categories can be found in the respective risk management sections. Details on cybersecurity risk and third party outsourcing risk are provided below.

##### *Cybersecurity risk*

The Firm devotes significant resources to protecting and continuing to improve the security of the Firm's computer systems, software, networks and other technology assets. The Firm's security efforts are intended to protect against, among other things, cybersecurity attacks by unauthorised parties to obtain access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. The Firm continues to make significant investments in enhancing its cyberdefense capabilities and to strengthen its partnerships with the appropriate government and law enforcement agencies and other businesses in order to understand the full spectrum of cybersecurity risks in the operating environment, enhance defenses and improve resiliency against cybersecurity threats.

Third parties with which the Company does business or that facilitate the Company's business activities (e.g. vendors) could also be sources of cybersecurity risk to the Company. Third party cybersecurity incidents such as system breakdowns or failures, misconduct by the employees of such parties, or cyberattacks could affect their ability to deliver a product or service to the Company or result in lost or compromised information of the Company or its clients. Clients can also be sources of cybersecurity risk to the Company, particularly when their activities and systems are beyond the Company's own security and control systems. However, where cybersecurity incidents are due to client failure to maintain the security of their own systems and processes, clients will generally be responsible for losses incurred.

To protect the confidentiality, integrity and availability of the Firm and Company's infrastructure, resources and information, the Firm leverages the ORMF to ensure risks are identified and managed within defined corporate tolerances. The Firm's Board of Directors and the Audit Committee are regularly briefed on the Firm's cybersecurity policies and practices as well as its efforts regarding significant cybersecurity events.

##### *Third-party outsourcing risk*

To identify and manage the operational risk inherent in its outsourcing activities, the Firm has a Third-Party Oversight ("TPO") framework to assist lines of business and corporate functions in selecting, documenting, onboarding, monitoring and managing their supplier relationships. The objective of the TPO framework is to hold third parties to the same high level of operational performance as is expected of the Firm's internal operations. The Corporate Third-Party Oversight group is responsible for Firmwide TPO training, monitoring, reporting and standards.

#### **Reputation risk**

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

##### *Risk management*

Maintaining the Company's reputation is the responsibility of each individual employee. The Firm's Reputation Risk Governance policy explicitly vests each employee with the responsibility to consider the reputation of the Firm when engaging in any activity. Because the types of events that could harm the Firm's reputation are so varied across the Firm's LOB, each LOB has a separate reputation risk governance infrastructure in place, which consists of three key elements: clear, documented escalation criteria appropriate to the business; a designated primary discussion forum - in most cases, one or more dedicated reputation risk committees; and a list of designated contacts, to whom questions relating to reputation risk should be referred. Any matter giving rise to reputation risk that originates in a corporate function is required to be escalated directly to Firmwide Reputation Risk Governance ("FRRG") or to the relevant Risk Committee. LOB reputation risk governance is overseen by a Firmwide Reputation Risk Governance function, which provides oversight of the governance infrastructure and process to support the consistent identification, escalation, management and monitoring of reputation risk issues Firmwide.

# J.P. MORGAN EUROPE LIMITED

## Strategic report (continued)

### Critical accounting estimates

The Company's accounting policies and use of estimates are integral to understanding its reported results. The Company's most complex accounting estimates require management's judgement to ascertain the appropriate carrying value of assets and liabilities. The Firm and the Company has established policies and control procedures intended to ensure that estimation methods, including any judgements made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. The methods used and judgments made reflect, among other factors, the nature of the assets or liabilities and the related business and risk management strategies, which may vary across the Company's businesses and portfolios. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Company believes its estimates for determining the carrying value of its assets and liabilities are appropriate. A description of the Company's critical accounting estimates involving significant judgements is set out in note 4 to the financial statements.

### Non-financial reporting

An overview of the environment and social, human rights, employee, anti-bribery and anti-corruption policy aspects of non-financial reporting is provided below. A detailed description of the policies and processes adopted by the Firm may be found on the JPMorgan Chase & Co. website.

#### *Environment and social policy*

The Firm recognises that business decisions have the potential to impact surrounding communities and the environment, and that it has a leadership role to play in creating solutions that protect the environment and grow the economy. As a global financial institution, the Firm aims to leverage their expertise and resources to help clients manage environmental and social risks and capitalise on the opportunities created by the transition to a more sustainable global economy. The Firm works to promote sustainability in their operations, including their corporate buildings, retail branches and data centers globally.

The Firm has designed policies so that environmental and human rights impacts are identified early, are carefully evaluated and managed appropriately. The Firms' Environment and Social Policy Framework provides details on how they integrate considerations of potential environmental and social impacts into corporate lending, advisory and capital markets transactions, along with the broader approach to key issues such as climate change, biodiversity and human rights.

Within the Firms' global real estate portfolio, the strategy is focused on reducing energy use and greenhouse gas ("GHG") emissions. In 2017, the Firm established a goal to source renewable power for 100% of their global energy needs by 2020. The Firm strives to purchase sustainably certified paper and dispose of key waste streams in a responsible manner.

The Firm discloses relevant data and metrics on GHG emissions, energy consumption, paper and waste at the Firm-wide level in their Environmental, Social, and Governance Report, which is published annually and available at [www.jpmorganchase.com/esg](http://www.jpmorganchase.com/esg).

#### *Human Rights*

The Firm supports fundamental principles of human rights across all lines of business and in each region of the world in which they operate. The Firm believes it is the role of government in every country to protect human rights, and that the Firm has a role to play in promoting respect for human rights.

The Firms' respect for the protection and preservation of human rights is guided by the principles set forth in the United Nations Universal Declaration of Human Rights. Further, the Firm acknowledges the Guiding Principles on Business and Human Rights (also known as the Guiding Principles) as the recognised framework for corporations to respect human rights in their own operations and through their business relationships. The Firms' Human Rights Statement outlines their commitment to support human rights. In addition, the Firm-wide Code of Conduct communicates the expectation for conducting business ethically and in compliance with the law in every country in which they operate.

To view the Firms' Human Rights Statement, including the U.K. Modern Slavery Act Transparency Statement, please visit <https://www.jpmorganchase.com/corporate/About-JPMC/ab-human-rights.htm>.

#### *Corporate employee policy*

It is the policy of the Company to ensure equal opportunity for all persons without discrimination on the basis of race, colour, religion, sex, national origin, age, handicap, veteran status, marital status, sexual orientation or any other basis. This policy of equal opportunity applies to all employment practices including, but not limited to recruiting, hiring, promotion, training and compensation.

Where existing employees become disabled, it is the Company policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

# **J.P. MORGAN EUROPE LIMITED**

## **Strategic report (continued)**

### **Non-financial reporting (continued)**

#### *Corporate employee policy (continued)*

With the aim of ensuring that views are taken into account when decisions are made, employee consultation has continued at all levels where it is likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the intranet and other forums.

The Firm operates an employee share scheme for all employees, including those of the Company, to acquire a proprietary and vested interest in the growth and performance of the Firm.

#### *Anti-bribery and Anti-corruption*

The Firm has zero tolerance for bribery and corruption, and is deeply committed to participating in international efforts to combat corruption. The Firm has established an Anti-Corruption Policy that seeks to promote ethical business practices and requires compliance with applicable anti-corruption laws and regulation. This Anti-Corruption Policy ("the Policy") is referenced in the Firm's publicly available Code of Conduct, and is applicable to the Company.

The Firm has identified the key areas of corruption-related risk as including:

- the giving or receiving of anything of value
- third parties acting on the Firm's behalf; and
- transactions entered into by the Firm or by funds or accounts controlled or managed by the Firm

The Policy therefore prohibits offering or giving anything of value (including gifts, hospitality, travel, employment, and work experience) to-and soliciting or accepting anything of value from-anyone for a corrupt purpose, such as improper payments or benefits to government officials or private parties for a business advantage. The Policy further prohibits making facilitation payments to cause a government official to perform or expedite performance of a routine duty. Other key features of the Policy include requirements to:

- Obtain Compliance review and approval before offering or giving anything of value to government officials (subject to certain thresholds relating to gifts and business hospitality)
- Keep accurate books, records, and accounts that relate to the business of the Firm, its clients, suppliers, and other partners
- Conduct due diligence and oversight of intermediaries/agents, joint venture partners, and entities over which the Firm has or may obtain control or influence
- Report potential corruption-related issues (including through the Code Reporting Hotline), with a prohibition on retaliation against those who make good faith reports

Any violation of the Policy may result in disciplinary action up to and including dismissal.

The Firm's Anti-Corruption Compliance Program ("the Program") is reasonably designed to implement the Policy's requirements, as well as identify, manage, and mitigate the risk of non-compliance with those requirements. Key components of the Program include:

- A governance structure managed by anti-corruption professionals with senior management oversight
- Training and awareness activities
- Monitoring and testing for compliance
- Periodic assessment of corruption risks and control effectiveness
- Protocols for managing and reporting material issues

**By order of the Board**



V. Raghavan

**Director**  
21 March 2018

# **J.P. MORGAN EUROPE LIMITED**

## **Directors' report**

The directors present their report and the audited financial statements of J.P. Morgan Europe Limited for the year ended 31 December 2017. The Company is part of JPMorgan Chase & Co. (together with its subsidiaries, the "Firm"). The registered number of the Company is 00938937.

Please refer to the Strategic Report where the business review including future outlook and financial risk management have been disclosed.

### **Results and dividends**

The results for the year are set out on page 28 and show the Company's profit for the financial year after taxation is \$253 million (2016: \$181 million).

No final dividend was paid or proposed for 2017 (2016: \$nil).

### **Financial risk management**

Please refer to the strategic report for details on financial risk management.

### **Directors**

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

M. Garvin (Chairman)  
M. Bax (Resigned 16 March 2017)  
A.T. Doherty  
E. Korablina  
V. Raghavan (CEO)

### **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;
- state whether applicable Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 EUROPE 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 provisions**

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 from the registered office address of the Company.

### **Company secretaries**

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

Abimbola Adesanya

J.P. Morgan Secretaries (UK) Limited

### **Registered address**


The current registered address is as follows:

25 Bank Street  
Canary Wharf  
London  
E14 5JP

### **Independent auditors**

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

**By order of the Board**



V. Raghavan

**Director**

21 March 2018



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

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

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#### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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, which comprise: the balance sheet as at 31 December 2017; 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.

Our opinion is consistent with our reporting to the Audit Committee.

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#### **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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

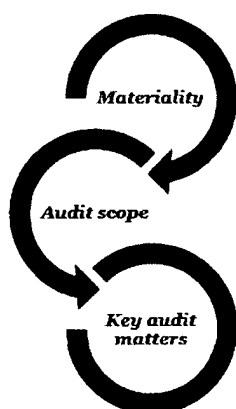
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

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#### **Our audit approach**

##### *Overview*



- Overall materiality: \$36.4 million (2016: \$34.4 million), based on 1% of regulatory capital resources as defined by the Prudential Regulatory Authority
  - We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. Our scoping considered the account balances associated with each line of business and was performed to ensure that specific and appropriate audit procedures were performed on the material lines of business and associated balances.
  - Due to some business process and internal controls being performed in other geographical locations, PwC network firms were involved in the engagement.
  - Goodwill impairment
  - Impairment of loans and advances
- 

##### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of

significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, Companies Act 2006, the Financial Conduct Authority's Client Asset Sourcebook, Pensions Regulator legislation, UK tax legislation and the Prudential Regulation Authority's regulations. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

*Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Goodwill impairment</i></p> <p>Goodwill was recognised on the acquisition of the institutional global custody business of Nordea Bank, in 2008.</p> <p>Goodwill may be misstated if the carrying value on the on the balance sheet is higher than the recoverable amount of the underlying business on which goodwill is recognised. We focused on this area because the estimation of recoverable amount involves significant judgements by management.</p> <p>Key assumptions made by management include the growth rate, the discount rate and the amount, nature and timing of cash flows.</p> <p>Refer to note 24 to the financial statements for disclosures related to goodwill.</p>	<p>We obtained and reviewed analysis prepared by management to determine the recoverable amount of the goodwill.</p> <p>We challenged key inputs to and assumptions in the analysis to assess their appropriateness. The discount rate was compared to discount rates for other companies in the Nordic region to assess its reasonableness. The growth rate used was assessed against rates in the Nordic region. In assessing the growth rate we also performed a retrospective review of the prior year estimate of 2017 cashflows.</p> <p>We further assessed the reasonableness of the timing and nature of cashflows based on our knowledge of the business, general industry practice and requirements of the accounting standards. We considered the sensitivity of management's outcome to possible variations to the inputs and assumptions. In our view, the outcomes were within a reasonable range and supported the conclusions reached by management.</p> <p>We assessed whether the financial statements disclosures relating to goodwill are appropriate and in line with IAS 36 and IAS 38</p>
<p><i>Impairment of loans and advances</i></p> <p>Loans and advances to customers are wholesale loans to corporate customers. We considered this a key audit matter due to the subjective judgements made by management in determining when to recognise impairment provisions.</p> <p>Provisions for impairment of loans that are identified as having conditions that indicate that a trigger of incurred losses has occurred are individually assessed by management.</p> <p>These provisions are established based on the expected future cash repayments and estimated proceeds from the</p>	<p>We evaluated the design effectiveness of the controls relating to the following areas and assessed whether they were operating effectively throughout the year:</p> <ul style="list-style-type: none"> <li>· Identification of trigger events that could indicate impaired loans;</li> <li>· Reliability and integrity of credit information maintained in internal systems;</li> <li>· Transfer of data from the underlying source systems to the impairment provisioning models; and</li> </ul>

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>value of the collateral held in respect of those loans.</p> <p>If an individually assessed loan is not impaired, it is then included in a group of loans with similar risk characteristics is collectively assessed on a portfolio basis using models developed by management. These models use assumptions in their calculations which are based on historical loss experience including both the frequency of defaults and the losses incurred where loans have defaulted.</p> <p>See Notes 10 and 15 to the financial statement for the relevant disclosures</p>	<ul style="list-style-type: none"> <li>· Management's assessment of the integrity of these models.</li> <li>For a selection of individually assessed provisions we performed the following: <ul style="list-style-type: none"> <li>· We targeted a sample of loans identified as higher credit risk to identify whether an impairment provision should be assessed.</li> <li>· For material loans with an individually assessed provision we checked the impairment calculations, and assessed Management's key judgements including the expected future cash repayments and the value of collateral.</li> <li>· Our credit experts assessed the impairment methodology and its compliance with IAS 39.</li> </ul> </li> <li>For the remaining population we performed the following: <ul style="list-style-type: none"> <li>· We performed analytics over the loan portfolio to identify any industry specific risk concentrations and targeted these loans for testing to assess whether any impairment indicators or triggers were present which had not been identified. Our credit experts also reviewed the risk ratings for a sample of loans to confirm the appropriateness of the risk rating assigned to the loan.</li> <li>· We also performed substantive testing over the remaining population of loans to identify whether there were an impairment should be assessed.</li> <li>· We tested the completeness and accuracy of key data being transferred between the internal systems and management's collective provisioning models;</li> <li>· Compared management's key assumptions to supporting evidence and market practices;</li> <li>· Assessed the operation of the model.</li> </ul> </li> </ul>

#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company is managed under lines of business. We first established an end-to-end picture of the key processes that supported material balances, classes of transactions and disclosures within the company's financial statements. Certain operational processes which are critical to financial reporting are undertaken outside of the UK. We then determined the type of work that needed to be performed by us in the UK, or from other PwC network firms operating under our instruction. Where the work was performed by other PwC network firms, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

#### *Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	\$36.4 million (2016: \$34.4 million).
<b>How we determined it</b>	1% of regulatory capital resources as defined by the Prudential Regulatory Authority.
<b>Rationale for benchmark applied</b>	Given that the company is a wholly owned subsidiary of JPMorgan Chase & Co. group (the "Firm") and is a regulated bank entity, we considered the key users of its financial statements to be the Firm, its customers and the regulators in the UK (FCA & PRA). The Firm run their business on a global basis and hence the profitability of individual subsidiaries on a standalone basis is not the primary, or sole, driver of business decision making in the context of the Firm's enterprise level objectives and strategy and the results of the company. The use of regulatory capital as a materiality benchmark is appropriate as it reflects the key area of focus of the users of the financial statements, who are focused on whether the company has maintained sufficient capital to meet minimum regulatory requirement, fulfil its future market obligations, and absorb future losses if they arise. Regulatory capital is deemed as a good indicator of the company's balance sheet strength and liquidity position.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$1.82 million (2016: \$1.72 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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.

### 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.

#### *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 2017 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 Statement of directors' responsibilities set out on page 21, 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](http://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.

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### **Other required reporting**

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#### **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.

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#### **Appointment**

Following the recommendation of the audit committee, we were appointed by the members on 14 May 1992 to audit the financial statements for the year ended 31 December 1992 and subsequent financial periods. The period of total uninterrupted engagement is 26 years, covering the years ended 31 December 1992 to 31 December 2017.

Duncan McNab (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
22 March 2018

## J.P. MORGAN EUROPE LIMITED

### Income statement

For the year ended 31 December		2017	2016
	Notes	\$'000	\$'000
Interest income	7	54,635	37,221
Interest expense	7	(7,445)	(11,321)
<b>Net interest income</b>		<b>47,190</b>	<b>25,900</b>
Net fee and commission receivable	8	689,825	691,129
Trading profit		48,321	23,647
Other income	9	17,568	16,960
<b>Total operating income</b>		<b>802,904</b>	<b>757,636</b>
Administrative expenses		(465,240)	(500,805)
Impairment reversal/(charge)	10	1,124	(8,074)
<b>Profit on ordinary activities before taxation</b>	11	<b>338,788</b>	<b>248,757</b>
Tax charge on profit on ordinary activities	13	(85,496)	(67,789)
<b>Profit for the financial year</b>		<b>253,292</b>	<b>180,968</b>

### Statement of comprehensive income

For the year ended 31 December		2017	2016
	Notes	\$'000	\$'000
Profit for the financial year		253,292	180,968
Other comprehensive (expense)/income for the year:			
Movement in available-for-sale financial assets	19	(11,517)	70
<b>Total comprehensive income for the year</b>		<b>241,775</b>	<b>181,038</b>

The notes on pages 31 - 55 form an integral part of these financial statements.

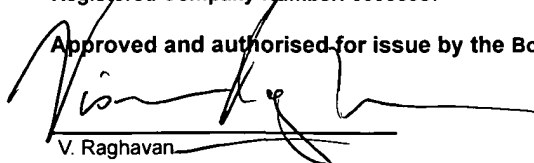
# J.P. MORGAN EUROPE LIMITED

## Balance sheet

As at 31 December		2017	2016
	Notes	\$'000	\$'000
<b>Assets</b>			
Loans and advances to banks	14	12,323,841	2,607,926
Loans and advances to customers	15	213,444	294,714
Securities purchased under resale agreements	16	1,820,710	8,046,259
Financial assets held for trading	17	97,166	36,865
Financial assets designated at fair value through profit or loss	18	22,261	14,456
Available-for-sale financial assets	19	—	11,517
Debtors	21	158,751	172,174
Deferred tax asset	22	5,801	51,167
Prepayments and accrued income	23	2,426	7,130
Goodwill	24	72,010	72,010
Investments in JPMorgan Chase undertakings	25	1,869	1,869
<b>Total assets</b>		<b>14,718,279</b>	<b>11,316,087</b>
<b>Liabilities</b>			
Deposits by banks	26	133,754	116,458
Customer accounts	27	10,242,215	7,137,775
Financial liabilities held for trading	28	92,681	20,918
Trade creditors	29	5,045	15,022
Other liabilities	30	163,692	192,693
Provisions for liabilities	31	2,830	9,233
Accruals and deferred income	32	97,873	102,680
<b>Total liabilities</b>		<b>10,738,090</b>	<b>7,594,779</b>
<b>Equity</b>			
Called-up share capital	35	1,397,922	1,397,922
Share premium account		231,068	231,068
Other reserves		146,255	140,666
Retained earnings		2,204,944	1,951,652
<b>Total equity</b>		<b>3,980,189</b>	<b>3,721,308</b>
<b>Total liabilities and equity funds</b>		<b>14,718,279</b>	<b>11,316,087</b>
<b>Memorandum items</b>			
Other lending commitments		2,348,289	2,647,312
Standby letters of credit and guarantees		1,043,191	886,004
<b>Total memorandum items</b>		<b>3,391,480</b>	<b>3,533,316</b>

Registered Company Number: 00938937

Approved and authorised for issue by the Board of Directors on 21 March 2018 and signed on its behalf by:



V. Raghavan

Director  
21 March 2018

The notes on pages 31 - 55 form an integral part of these financial statements.

**J.P. MORGAN EUROPE LIMITED**  
**Statement of changes in equity**

	Called-up share capital	Share premium account	Capital contribution reserve	Available- for-sale reserve	Other reserves	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at 1 January 2016</b>	<b>1,397,922</b>	<b>231,068</b>	<b>33,679</b>	<b>11,447</b>	<b>82,264</b>	<b>2,370,684</b>	<b>4,127,064</b>
Profit for financial the year	—	—	—	—	—	180,968	180,968
<b>Other comprehensive income for the year:</b>							—
Movement in available-for-sale reserve	—	—	—	70	—	—	70
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>70</b>	<b>—</b>	<b>180,968</b>	<b>181,038</b>
Dividends paid	—	—	—	—	—	(600,000)	(600,000)
Movement in other reserves	—	—	—	—	13,206	—	13,206
<b>Balance as at 31 December 2016</b>	<b>1,397,922</b>	<b>231,068</b>	<b>33,679</b>	<b>11,517</b>	<b>95,470</b>	<b>1,951,652</b>	<b>3,721,308</b>
Profit for the financial year	—	—	—	—	—	253,292	253,292
<b>Other comprehensive income for the year:</b>							
Movement in available-for-sale reserve	—	—	—	(11,517)	—	—	(11,517)
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(11,517)</b>	<b>—</b>	<b>253,292</b>	<b>241,775</b>
Movement in other reserves	—	—	—	—	17,106	—	17,106
<b>Balance as at 31 December 2017</b>	<b>1,397,922</b>	<b>231,068</b>	<b>33,679</b>	<b>—</b>	<b>112,576</b>	<b>2,204,944</b>	<b>3,980,189</b>

Other reserves include share based payment awards granted to employees by the Firm and an amount of \$17 million (2016: \$12 million) of current tax credited directly to equity.

On 20 January 2017 the available-for-sale financial assets were sold to a third party for a total consideration of \$12 million.

The notes on pages 31 - 55 form an integral part of these financial statements.



# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements

### 1. General information

The Company is incorporated and domiciled in England and Wales. The Company's immediate parent undertaking is J.P. Morgan Securities plc, incorporated in England and Wales. The parent undertaking of the smallest Group in which the Company's results are consolidated is J.P. Morgan Capital Holdings Limited. The Company's ultimate parent undertaking and controlling party is JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), which is incorporated in the state of Delaware in the United States of America. JPMorgan Chase & Co. is also the parent undertaking of the largest group in which the results of the Company are consolidated. The largest and smallest parent groups' consolidated financial statements can be obtained from the Company's registered office at 25 Bank Street, Canary Wharf, London, E14 5JP.

### 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 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. Certain reclassifications and adjustments to prior year amounts have been made to conform with current presentations.

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:

- Certain share based payment disclosures in respect of group equity instruments (IFRS 2 'Share-based payment' paragraphs 45(b) and 46 to 52);
- Comparative information disclosures for the following (paragraph 38 of IAS 1 'Presentation of financial statements' ("IAS 1")):
  - reconciliation of share capital (paragraph 79(a)(iv) of IAS 1)
  - reconciliation of property, plant and equipment (paragraph 73(e) of IAS 16 'Property, plant and equipment')
  - reconciliation of intangible assets (paragraph 118(e) of IAS 38 'Intangible assets');
- Statement of compliance to IFRS - 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")); and
- Related party transactions with wholly owned Group undertakings (IAS 24).

### 3. Accounting standards adopted, but not yet effective

#### IFRS 9 'Financial instruments' ("IFRS 9")

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in July 2014 and replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"). The standard introduces new guidance on the classification and measurement of financial assets and a single, forward-looking expected credit loss ("ECL") impairment model. The standard also requires entities to provide users of financial statements with additional disclosures. 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 has adopted the new standard on 1 January 2018.

#### *Implementation program*

The Company has a centrally managed IFRS 9 project team which is focused on ensuring compliance with the standard and any additional requirements associated thereof. Overall governance of the program's implementation is through the IFRS 9 Steering Committee which includes representation from senior leaders in Finance, Corporate Accounting Policy, Risk, Technology and Audit.

## **J.P. MORGAN EUROPE LIMITED**

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

#### **3. Accounting standards adopted, but not yet effective (continued)**

##### *Classification and Measurement of Financial Assets and Liabilities*

Under IFRS 9, new 'Business Model' and 'Cash Flow Characteristic' tests are introduced which classify financial assets to one of the following three measurement categories: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Encompassing the guidance provided by IFRS 9 on classification and measurement, the Company has reviewed and deemed financial assets held within a business model with the intention to hold and collect contractual cash flow, and financial assets with the intention to hold and collect contractual cash flow or sell the asset as measured at amortised cost and FVOCI respectively under the condition that contractual cash flows also meet the solely payment of principal and interest ("SPPI") criteria. Financial assets which are not categorised with the intentions highlighted above are deemed to be measured at FVTPL. Additionally, the Company may elect the option to classify financial assets as measured at FVTPL upon initial recognition if such designation may eliminate or reduce an accounting mismatch. On initial adoption of IFRS 9 the Company may also elect the option to designate a currently recognised financial liability as measured at FVTPL to eliminate or reduce an accounting mismatch.

Upon initial assessment of the classification and measurement changes imposed by IFRS 9, the Company anticipates reclassifications to exist for certain loans and advances to customers measured at amortised cost that will be measured at FVOCI. These anticipated reclassifications reflect the business models used to manage these types of assets. No further reclassifications were identified that were considered to bear a potential material impact on existing asset measurement bases, however, this represents preliminary results from which actual impacts measured from 1 January 2018 may deviate.

##### *Impairment of Financial Assets*

IFRS 9 impairment requirements apply to financial assets that are measured at amortised cost or FVOCI, and specified off-balance sheet lending-related commitments such as loan commitments and financial guarantee contracts.

The determination of impairment losses and allowance will change from an incurred credit loss model under IAS 39 to an ECL model under IFRS 9. In an ECL model, provisions for credit losses are recorded upon initial recognition of the financial asset based on expectations of potential credit losses at that time. The credit loss allowance includes ECLs for financial instruments that may default in the next 12-month period for financial instruments that have not observed a significant increase in credit risk since initial recognition ("stage 1") or over a lifetime period for financial instruments that have observed a significant increase in credit risk since initial recognition ("stage 2"). The allowance also adopts lifetime ECLs for financial instruments where there is objective evidence of credit-impairment at the reporting date ("stage 3"). In determining the appropriate stage for a financial instrument, the Company applies the definition of default consistent with the Basel definition of default to maintain uniformity of the definition across the Firm.

The stage determination for credit losses under the ECL model is dependent on the measurement of a significant increase in credit risk ("SICR"). In determining SICR, the Company plans to conduct quantitative tests taking into consideration, but not limited to, existing risk management indicators, credit rating changes and reasonable and supportable forward-looking information, the latter consisting of a range of scenarios incorporating macro-economic factors composed and monitored by an internal specialised economic forecasting team.

The key input components for the quantification of expected loss through the ECL model includes the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Company seeks to efficiently and effectively leverage as much as possible from existing regulatory and capital frameworks where overlap is present for the implementation of IFRS 9. Differences observed between content in existing frameworks and requirements under IFRS 9 have been identified and are adjusted accordingly. The inputs to the ECL model capture historical datasets and a reasonable and supportable forecasting horizon to estimate expected credit losses.

# **J.P. MORGAN EUROPE LIMITED**

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

### **3. Accounting standards adopted, but not yet effective (continued)**

#### *Expected impact*

Based on 31 December 2017 data, the Company estimates the adoption of the IFRS 9 impairment requirements to result in an overall increase in the Company's retained earnings by approximately \$0 - \$5 million before tax. The degree to which the allowance for credit losses will change will depend on both the forward-looking information used on the day of implementation as well as the Company's portfolio composition.

Based on 31 December 2017 data, the Company also estimates the adoption of the classification and measurement requirements in IFRS 9 to result in an overall reduction in the Company's other reserves of approximately \$3 million before tax.

For the financial statements for the year ended 31 December 2018, the Company will provide reconciliations and illustrative transition disclosures between IAS 39 and IFRS 9 where required, however the Company will not restate prior periods.

#### **IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15")**

IFRS 15 was released in May 2014 by the IASB. This standard requires that revenue from contracts with customers be recognised upon transfer of control of a good or service in the amount of consideration expected to be received. IFRS 15 also changes the accounting for certain contract costs, including whether they may be offset against revenue in the income statement, and requires additional disclosures about revenue and contract costs. IFRS 15 may be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. IFRS 15 is applicable retrospectively and must be applied in an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2018. The Company has adopted the new standard on 1 January 2018, using the full retrospective method of adoption, where applicable.

#### *Implementation program*

The Company's implementation efforts included the identification of revenue and associated costs within the scope of the guidance, as well as the evaluation of revenue contracts, and any changes to existing revenue recognition policies. The Company did not identify any material changes in the timing of revenue recognition or presentation of revenues and expenses.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. The nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

#### **Loan impairment**

An impairment review is performed at the end of each reporting period to determine whether there is any objective evidence that loan assets will not be recovered in full and where applicable, an impairment loss is recognised. The impairment assessment includes estimating the present value of expected future cash flows of the assets. Impairment assessments are first conducted individually for significant assets and if no impairment is recognised, the loans are then assessed collectively.

### **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 J.P. Morgan Securities plc, a company incorporated in England and Wales and of its ultimate parent, JPMorgan Chase & Co., a company incorporated in the United States of America. It is included in the consolidated financial statements of JPMorgan Chase & Co. which are publicly 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.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 5. Significant accounting policies (continued)

#### 5.2 Foreign currency translation

Monetary assets and monetary liabilities in foreign currencies are translated into United States ("U.S.") 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 the 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 the functional and presentation currency of the Company.

#### 5.4 Income and expense recognition

Interest income and expense are recognised on an effective interest rate basis, refer note 5.6. All contractual terms of a financial instrument are considered when estimating future cash flows.

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

Profits and losses resulting from the purchase and sale of securities and the revaluation of financial instruments are recognised as trading gains or losses on a trade-date basis, including related transaction costs but excluding the associated interest.

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

#### 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 Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities in the following categories on initial recognition: 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. 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.

##### i. Financial assets and financial liabilities held for trading

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 repurchasing it in the near term, or forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or it is a derivative.

Financial assets and financial liabilities held for trading comprise both debt and equity securities, loans and derivatives. These instruments are either held for trading purposes or used for hedging certain assets, liabilities, positions, cash flows or anticipated transactions. Included in financial assets held for trading are unrealised trading gains and in financial liabilities held for trading are unrealised trading 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.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 5. Significant accounting policies (continued)

#### 5.6 Financial assets and financial liabilities (continued)

##### ii. 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 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.

##### iii. Loans and receivables and financial liabilities at amortised cost

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 loans and advances to banks, loans and advances to customers and debtors

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 (see below).

Financial liabilities include trade creditors and borrowings and are recognised initially at fair value including directly related incremental transaction costs and subsequently measured at amortised cost using the effective interest method (see below).

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.

##### iv. Financial assets available-for-sale

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

#### 5.7 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.

For financial assets and liabilities held at fair value, most market parameters in the valuation model are either directly observable or are implied from instrument prices. When input values do not directly correspond to the most actively traded market parameters the model may perform numerical procedures in the pricing such as interpolation.

# **J.P. MORGAN EUROPE LIMITED**

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

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

#### **5.7 Fair value (continued)**

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.

Further details on fair value measurements are provided in note 20 to the financial statements.

#### **5.8 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:

- i. the Company has transferred substantially all the risks and rewards of ownership of the asset; or
- ii. 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.

#### **5.9 Impairment of financial assets**

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or portfolio 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 event (or events) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses on loans and receivables are measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's effective interest rate. The loss is recognised in the income statement against the carrying amount of the impaired asset on the balance sheet. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset.

Specific provisions are raised against loans and receivables when the Company considers that the credit worthiness of the borrower has deteriorated such that the recovery of the whole or part of an outstanding advance is in serious doubt.

Impairment provisions are also raised to cover losses which, although not specifically identified, are known from experience to have occurred in the portfolio of loans and receivables at the balance sheet date. These provisions are adjusted on a monthly basis by an appropriate charge or reversal of the provision following an assessment of the loans and receivables portfolio.

Impairment provisions are determined by modelling the current exposure, taking into account such factors as duration and probabilities of default.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed in the income statement. The amount of reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

#### **5.10 Securities purchased under agreement to resell and securities sold under agreement to repurchase**

Securities purchased under agreements to resell the securities to the counterparty, and securities sold under agreements to repurchase, are treated as collateralised lending and borrowing transactions respectively. The consideration for the transaction can be in the form of cash or securities. If the consideration for the purchase or sale of securities is given in cash the transaction is recorded on the balance sheet within securities purchased/sold under agreement to resell/repurchase. If the consideration is received or given in the form of securities the transaction is recorded off balance sheet. The difference between the sales and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 5. Significant accounting policies (continued)

#### 5.11 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

#### 5.12 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.

#### 5.13 Business combinations

Combination of businesses

Business combinations are accounted for by applying the acquisition method of accounting.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages, the cost is the consideration at the date of each transaction.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and the directly attributable costs of the purchase consideration over the fair values to the Firm's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

The Companies Act, 2006 requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, the useful economic life. However, under IFRS 3, goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act, 2006.

#### *Impairment*

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount and impairment is recognised where carrying amounts exceeds recoverable amount.

#### 5.14 Current and deferred 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.

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. Current tax and deferred tax are recognised directly in equity if the tax relates to items that are recognised in the same or a different period in equity.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 5. Significant accounting policies (continued)

#### 5.15 Provisions for liabilities and charges

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

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or a present obligation that arises from past events but is not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised in the financial statements; however disclosure is made unless the probability of settlement is remote.

#### 5.16 Pensions and other post-retirement benefits

The Company operates both defined benefit and defined contribution schemes for its employees.

##### i. *Defined contribution scheme*

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognised as an expense and charged to the income statement on an accrual basis.

##### ii. *Defined benefit scheme*

For defined benefit schemes, the service cost of providing retirement benefits to employees during the year is charged to the income statement in accordance with IAS 19 'Employee benefits'. The pension costs are assessed based on the advice of qualified actuaries so as to recognise the full cost of provision of contracted pension benefits over the period of employees' service lives.

The defined benefit schemes' liabilities are measured on an actuarial basis and scheme assets measured at their fair values separately for each plan. Any surplus or deficit of scheme assets over liabilities is recognised on the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of discount on the scheme liabilities is charged to the income statement. Actuarial gains and losses are recognised in full in the period in which they occur in other comprehensive income and presented in equity in the period in which they occur.

#### 5.17 Share-based payment awards

Share-based payment awards may be made to employees of the Company under the Firm's incentive awards schemes. The fair value of any such shares, rights to shares or share options is measured when the conditional award is made. This value is recognised as the compensation expense to the Company over the period to which the performance criteria relate together with employer's social security expenses or other payroll taxes. All of the awards granted are equity settled. The Company estimates the level of forfeitures and applies this forfeiture rate at the grant date.

Additionally, the conditions that must be satisfied before an employee becomes entitled to equity instruments under the Firm's incentive programs is taken into consideration. The Firm's Retirement Eligibility rules for restricted stock awarded as part of incentive programs require the acceleration of the amortisation of the award such that the award is fully expensed at the time the retirement eligibility comes into force.

### 6. Segmental analysis

The Company is not in scope of IFRS 8 'Operating segments', as its debt or equity are not traded on a public market, therefore segmental analysis of the company's revenue and assets is not necessary.



**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**7. Interest income and interest expense**

Interest income and interest expense are recorded in the income statement and classified based on the nature of the underlying asset or liability. Interest income and interest expense includes the current-period interest accruals.

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
<b>Interest income</b>		
Loans and advances to banks	20,442	1,017
Loans and advances to customers	10,684	13,765
Securities purchased under resale agreements	23,500	21,493
Financial assets held for trading	—	946
Other	9	—
<b>Total interest income</b>	<b>54,635</b>	<b>37,221</b>
<b>Interest expense</b>		
Deposits by banks	506	289
Customer accounts	6,939	11,032
<b>Total interest expense</b>	<b>7,445</b>	<b>11,321</b>

Interest income and interest expense include the following amounts with JPMorgan Chase undertakings:

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
<b>Interest income</b>		
Loans and advances to banks	18,262	285
Loans and advances to customers	—	727
Securities purchased under resale agreements	23,500	21,493
Other	9	—
<b>Total interest income</b>	<b>41,771</b>	<b>22,505</b>
<b>Interest expense</b>		
Deposits by banks	506	289
<b>Total interest expense</b>	<b>506</b>	<b>289</b>

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**8. Net fee and commission receivable**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Net fee and commission receivable	689,825	691,129
<b>Net fee and commission receivable</b>	<b>689,825</b>	<b>691,129</b>

Net fee and commissions receivable from JPMorgan Chase undertakings are \$593 million (2016: \$615 million).

Fee and commission receivable mainly represent fees for custody and payment services, amounts received through Firm attribution agreements and service fees due from JPMorgan Chase undertakings for whom the employees of the Company conduct business. Fee and commission payable contain expenses recharged through Firm attribution agreements from JPMorgan Chase undertakings for whom the employees of the Company conduct business.

**9. Other income**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Other income	17,568	16,960

Other income contains 'negative' interest expense generated on customer accounts in certain jurisdictions.

**10. Impairment (reversal)/charge**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
<b>Allowance for loan losses</b>		
Opening balance as at 1 January	7,295	4,332
Increase during the year	5,298	2,963
<b>Closing balance as at 31 December</b>	<b>12,593</b>	<b>7,295</b>
<b>Allowance for lending-related commitments</b>		
Opening balance as at 1 January	9,233	4,122
(Decrease)/increase during the year	(6,422)	5,111
<b>Closing balance as at 31 December</b>	<b>2,811</b>	<b>9,233</b>
<b>Net impairment (decrease)/increase</b>	<b>(1,124)</b>	<b>8,074</b>

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**11. Profit on ordinary activities before taxation**

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for the audit of the Company's annual financial statements	234	246
Intercompany recharges	205,248	267,182
Staff costs		
Wages and salaries	153,251	144,449
Social security costs	20,491	21,653
Other pension and benefits costs	18,231	17,679
Share based payments	17,149	18,701

The average monthly number of persons providing services to the Company was 916 (2016: 879). The average monthly number of staff employed by the European branches during the year was 91 (2016: 69).

**12. Directors' emoluments**

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Emoluments*	548	475
Total contributions to a defined contribution plan	3	2
Total value of long term incentive plans for all directors	1	1
Total compensation for loss of office receivable for all directors	—	—
Number of directors who exercised share options	—	1
Number of directors with shares received or receivable under LTIPs	1	1
Number of directors to whom defined contribution pension rights accrued	4	4
Number of directors to whom defined benefit pension rights accrued	—	—

\*The amounts shown above in respect of emoluments paid to directors excludes 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 (excluding amounts paid or due to directors under long term incentive plans ("LTIP") and the value of share options granted or exercised by directors) of the highest paid director were \$305,000 (2016: \$254,000).

The contribution to the defined contribution scheme for the highest paid director during the year was \$619 (2016: \$nil). The highest paid director did not exercise share options during the year. During the year, no shares were received or are receivable by the highest paid director under long term incentive plans.

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**13. Tax on profit on ordinary activities**

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Analysis of tax credit for the year</b>		
<b>Current tax</b>		
UK Corporation tax on profit for the year	45,369	24,025
Overseas taxation	8,303	1,538
Less: Double tax relief	(8,464)	(818)
Adjustments in respect of previous years	(5,632)	2,348
<b>Total current tax charge</b>	<b>39,576</b>	<b>27,093</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	42,688	40,535
Impact of change in tax rate	(382)	(15)
Adjustments in respect of previous years	3,614	176
<b>Total deferred tax</b>	<b>45,920</b>	<b>40,696</b>
<b>Total tax charge for the year</b>	<b>85,496</b>	<b>67,789</b>

No corporation tax refund was received during 2017 (2016: \$nil).

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

The current tax charge for the year differs from the standard rate of corporation tax in the UK (20%), including banking surcharge (28%). The banking surcharge of 8% was recognised for the first time in 2016. The differences are explained below:

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit on ordinary activities before taxation	338,788	248,757
Profit on ordinary activities before taxation multiplied by effective rate of corporation tax in UK 27.25% (2016: 28%)	92,320	69,652
Effects of:		
Non-taxable income	(4,259)	(5,091)
Foreign tax suffered	(161)	719
Adjustments in respect of prior years	(2,018)	2,524
Impact of change in the UK tax rate	(386)	(15)
<b>Total tax charge for the year</b>	<b>85,496</b>	<b>67,789</b>

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**13. Tax on profit on ordinary activities (continued)**

**(c) Deferred taxation**

	2017	2016
	\$'000	\$'000
i) Analysis of deferred tax asset and deferred tax liabilities		
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	7,579	7,986
Deferred tax assets to be recovered within 12 months	3,788	43,233
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	5,566	52
<b>Deferred tax asset (net)</b>	<b>5,801</b>	<b>51,167</b>

ii) Gross movement on the deferred tax account is as follows:

	2017	2016
	\$'000	\$'000
As at 1 January	51,167	89,968
Adjustment in respect of prior years	(3,614)	(176)
Deferred tax charge to income statement for the period	(42,306)	(40,519)
Deferred tax charge in equity for the period	554	1,894
<b>As at 31 December</b>	<b>5,801</b>	<b>51,167</b>

iii) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction

	Accelerated capital allowances	Share based payments	Allocated trading debits	Financial Assets	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred tax assets						
As at 1 January 2016	35	8,594	79,560	—	1,779	89,968
Prior year adjustment	(176)	—	—	—	—	(176)
Credited to the income statement	89	514	(40,320)	—	(802)	(40,519)
Credited directly to equity	—	1,894	—	—	—	1,894
<b>At 31 December 2016</b>	<b>(52)</b>	<b>11,002</b>	<b>39,240</b>	<b>—</b>	<b>977</b>	<b>51,167</b>
Prior year adjustment	—	—	—	(3,614)	—	(3,614)
Charged to the income statement	55	(777)	(39,240)	(1,951)	(393)	(42,306)
Credited directly to equity	—	554	—	—	—	554
<b>At 31 December 2017</b>	<b>3</b>	<b>10,779</b>	<b>—</b>	<b>(5,565)</b>	<b>584</b>	<b>5,801</b>

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**14. Loans and advances to banks**

	2017	2016
	\$'000	\$'000
Loans and advances to banks	12,323,841	2,607,926

Loans and advances to banks include balances held with JPMorgan Chase undertakings of \$12,151 million (2016: \$2,522 million).

There were no past due loans and advances to banks as at 31 December 2017 (2016: \$nil). There are no provisions for impairment on loans and advances to banks as at 31 December 2017 (2016: \$nil).

**15. Loans and advances to customers**

	2017	2016
	\$'000	\$'000
Loans and advances to customers	226,037	302,009
Provision for impairment	(12,593)	(7,295)
	213,444	294,714

The fair value of collateral accepted as security for loans and advances to customers is \$65 million (2016: \$189 million). These transactions are conducted under terms that are customary to standard lending activities.

The credit quality and analysis of concentration of loans and advances to customers is managed within the Firm's Credit Risk Management function, refer to the Strategic report.

**16. Securities purchased under resale agreements**

	2017	2016
	\$'000	\$'000
Securities purchased under resale agreements		
- with JPMorgan Chase undertakings	1,820,710	8,046,259

The fair value of financial assets accepted as collateral that the Company is permitted to sell or repledge in the absence of default is \$1,736 million (2016: \$7,740 million). The fair value of collateral repledged in 2017 was \$65 million (2016: \$93 million). These transactions are conducted under terms that are customary to standard lending activities.

**17. Financial assets held for trading**

	2017	2016
	\$'000	\$'000
Debt and equity instruments	4,184	24,355
Derivative receivables	92,982	12,510
	97,166	36,865

Financial assets held for trading which were past due as at 31 December 2017 are \$4 million (2016: \$6 million). Financial assets held for trading with JPMorgan Chase undertakings are \$93 million (2016: \$13 million).

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**18. Financial assets designated at fair value through profit or loss**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Unlisted equity shares	22,261	14,456

**19. Available-for-sale financial assets**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
At 1 January	11,517	11,447
Movements during the year	(11,517)	70
At 31 December	—	11,517

During the year the available-for-sale financial assets were sold to a third party for a total consideration of \$12 million.

**20. Assets and liabilities measured at fair value**

**Fair value**

**Valuation process**

The Company carries a portion of its assets and liabilities at fair value on a recurring basis.

Fair value is defined as 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 value is based on quoted market prices or inputs, where available. If prices or quotes are not available, fair value is based on valuation models and other valuation techniques that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters, including yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves.

The level of precision in estimating unobservable market inputs or other factors can affect the amount of gain or loss recorded for a particular position. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the methods and assumptions used reflect management judgement and may vary across the Company's businesses and portfolios. The use of different methodologies or assumptions by other market participants compared with those used by the Company could result in a different estimate of fair value at the reporting date.

Risk-taking functions are responsible for providing fair value estimates for assets and liabilities carried on the balance sheet at fair value. The Firm's valuation control function, which is a part of the Firm's Finance function and independent of the risk-taking functions, is responsible for verifying these estimates and determining any fair value adjustments that may be required to ensure that the Firm's positions are recorded at fair value. The valuation control function verifies fair value estimates provided by the risk-taking functions by leveraging independently derived prices, valuation inputs and other market data, where available.

**Fair value hierarchy**

The Company classifies its assets and liabilities according to a valuation hierarchy that reflects the observability of significant market inputs. The three levels are defined as follows:

**Level 1** - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2** - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3** - one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**20. Assets and liabilities measured at fair value (continued)**

**Valuation methodologies**

The following table describes the valuation methodologies used by the Company to measure its more significant products/instruments at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

<b>Product/instrument</b>	<b>Valuation methodology, inputs and assumptions</b>	<b>Classifications in the valuation hierarchy</b>
<b>Financial instruments held for trading - loans</b>	<p>Where observable market data is available, valuations are based on:</p> <ul style="list-style-type: none"> <li>• Observed market prices (circumstances are infrequent)</li> <li>• Relevant broker quotes</li> <li>• Observed market prices for similar instruments</li> </ul> <p>Where observable market data is unavailable or limited, valuations are based on discounted cash flows, which consider the following:</p> <ul style="list-style-type: none"> <li>• Credit spreads derived from the cost of CDS; or benchmark credit curves developed by the Company, by industry and credit rating</li> <li>• Prepayment speed</li> <li>• Collateral characteristics</li> </ul>	Level 2 or 3
<b>Derivatives</b>	<p>Exchange-traded derivatives that are actively traded and valued using the exchange price.</p> <p>Derivatives that are valued using models such as the Black-Scholes option pricing model, simulation models, or a combination of models, that use observable or unobservable valuation inputs as well as considering the contractual terms.</p> <p>The key valuation inputs used will depend on the type of derivative and the nature of the underlying instruments and may include equity prices, commodity prices, interest rate yield curves, foreign exchange rates, volatilities, correlations, credit default swaps ("CDS") spreads and recovery rates. Additionally, the credit quality of the counterparty and of the Company as well as market funding levels may also be considered.</p>	Level 1  Level 2 or 3
<b>Securities</b>	<p>Quoted market prices are used where available.</p> <p>In the absence of quoted market prices, securities are valued based on:</p> <ul style="list-style-type: none"> <li>• Observable market prices for similar securities</li> <li>• Relevant broker quotes</li> <li>• Discounted cash flows</li> </ul>	Level 1  Level 2 or 3



**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**20. Assets and liabilities measured at fair value (continued)**

The following table presents the asset and liabilities reported at fair value as at 31 December 2017 and 2016, by major product category and fair value hierarchy.

	Level 1	Level 2	Level 3	Total
At 31 December 2017	\$'000	\$'000	\$'000	\$'000
<b>Financial assets:</b>				
Debt and equity instruments	—	—	26,445	26,445
Derivative receivables	—	92,982	—	92,982
<b>Total financial assets:</b>	—	92,982	26,445	119,427
<b>Financial liabilities:</b>				
Derivative payables	—	92,681	—	92,681
<b>Total financial liabilities:</b>	—	92,681	—	92,681
<b>At 31 December 2016</b>				
<b>Financial assets:</b>				
Debt and equity instruments	—	15,149	23,662	38,811
Available-for-sale securities	11,517	—	—	11,517
Derivative receivables	—	12,510	—	12,510
<b>Total financial assets:</b>	11,517	27,659	23,662	62,838
<b>Financial liabilities:</b>				
Derivative payables	—	20,918	—	20,918
<b>Total financial liabilities:</b>	—	20,918	—	20,918

Derivatives are held to provide an economic hedge for foreign exchange risk.

**Level 3 valuations**

The Firm has established well-documented processes for determining fair value, including for instruments where fair value is estimated using significant unobservable inputs (level 3).

Estimating fair value requires the application of judgement. The type and level of judgement required is largely dependent on the amount of observable market information available to the Company. For instruments valued using internally developed models that use significant unobservable inputs and are therefore classified within level 3 of the fair value hierarchy, judgements used to estimate fair value are more significant than those required when estimating the fair value of instruments classified within levels 1 and 2.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 20. Assets and liabilities measured at fair value (continued)

#### Level 3 valuations (continued)

The following table presents the Company's primary level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and, for certain instruments, the weighted averages of such inputs. While the determination to classify an instrument within level 3 is based on the significance of the unobservable inputs to the overall fair value measurement, level 3 financial instruments typically include observable components (that is, components that are actively quoted and can be validated to external sources) in addition to the unobservable components.

The range of values presented in the table is representative of the highest and lowest level input used to value the significant groups of instruments within a product/ instrument classification. Where provided, the weighted averages of the input values presented in the table are calculated based on the fair value of the instruments that the input is being used to value.

	Net fair value	Principal valuation technique	Unobservable input	Range of input values	Weighted average
<b>At 31 December 2017</b>	<b>\$'000</b>				
Equity instruments	22,261	Market comparables and recent transactions	P/E multiples	19.4x	19.4x
Loans	4,184	Market comparables	Price	\$4 - \$103	\$84
<b>Total assets</b>	<b>26,445</b>				
	Net fair value	Principal valuation technique	Unobservable input	Range of input values	Weighted average
<b>At 31 December 2016</b>	<b>\$'000</b>				
Equity instruments	14,456	Market comparables	P/E multiples	15.9x	15.9x
Loans	9,206	Discounted cash flows	Credit spread Yield Price	40 bps - 375 bps 1% - 17% \$0 - \$121	96 bps 9% \$91
<b>Total assets</b>	<b>23,662</b>				

The categories presented in the table above have been aggregated based upon the product type, which may differ from their classification on the balance sheet and fair values are shown net.

#### Changes in and ranges of unobservable inputs

**Yield** - The yield of an asset is the interest rate used to discount future cash flows in a discounted cash flow calculation. An increase in the yield, in isolation, would result in a decrease in a fair value measurement.

**Credit spread** - The credit spread is the amount of additional annualised return over the market interest rate that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the discount rate used in a discounted cash flow calculation. Generally, an increase in the credit spread would result in a decrease in a fair value measurement.

**P/E multiple** - Price to Earnings (P/E) multiples refer to the input (often derived from the value of a comparable company or transaction) that is multiplied by the historic and/or expected earnings of a company in order to estimate the company's value. An increase in the P/E multiple, in isolation, net of adjustments, would result in an increase in a fair value measurement.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 20. Assets and liabilities measured at fair value (continued)

#### Fair value financial instruments valued using techniques that incorporate unobservable inputs

The fair value of financial instruments may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact as at 31 December 2017 of using reasonable possible alternative assumptions for the valuations including significant unobservable inputs would be immaterial to the results of the Company. Consequently, no sensitivity analysis for level 3 financial instruments is disclosed.

#### Changes in level 3 recurring fair value measurements

The following tables include a roll forward of the balance sheets amounts (including changes in fair value) for financial instruments classified by the Company within level 3 of the fair value hierarchy.

#### Movement in assets in Level 3 during year ended 31 December 2017

Financial assets	Debt and equity instruments
	\$'000
<b>At 1 January 2017</b>	23,662
Total gain recognised in income statement	6,479
Purchases	607
Sales	(7,640)
Transfers into level 3	3,337
<b>At 31 December 2017</b>	26,445
Change in unrealised gains related to financial instruments held at 31 December 2017	8,629

#### Movement in assets in Level 3 during the year ended 31 December 2016

Financial assets	Debt and equity instruments
	\$'000
<b>At 1 January 2016</b>	44,213
Total loss recognised in income statement	(3,127)
Purchases	147
Sales	(766)
Settlements	(723)
Transfers out of level 3	(16,082)
<b>At 31 December 2016</b>	23,662
Change in unrealised gains related to financial instruments held at 31 December 2016	(316)

#### Transfers between levels for instruments carried at fair value on a recurring basis

For the year ended 31 December 2017 and 2016, there were no transfers between levels 1 and 2.

For the year ended 31 December 2017 transfers from level 2 to level 3 were due to a decrease in observability of corporate loans. For the year ended 31 December 2016 transfers from level 3 to level 2 were due to an increase in observability of corporate loans.

#### Fair value of financial instruments not carried on balance sheet at fair value

Certain financial instruments that are not carried at fair value on balance sheet are carried at amounts that are not materially different to their fair value, due to their short term nature and generally negligible credit risk. These instruments include loans and advances to banks and customers; securities purchased under resale agreements, accrued income, other assets, deposits by banks, customer accounts, other liabilities and accruals.

# J.P. MORGAN EUROPE LIMITED

## Notes to the financial statements (continued)

### 20. Assets and liabilities measured at fair value (continued)

#### Fair value of financial instruments not carried on balance sheet at fair value (continued)

The company has \$14,531 million (2016: \$11,128 million) of financial assets and \$10,558 million (2016: \$7,356 million) of financial liabilities that are not measured at fair value on balance sheet, including loans and advances to customers of \$226 million (31 December 2016: \$302 million). In estimating the fair value of these loans and advances to customers, typically a discounted cash flow model is applied with significant unobservable inputs and therefore would be classified as level 3 instruments. The fair value of these loans is not materially different from the carrying amount. All other instruments are of a short-term nature and the carrying amounts in the balance sheet approximate fair value.

#### Offsetting financial assets and financial liabilities

No financial assets and liabilities have been offset in the balance sheet as at 31 December 2017 (2016: \$nil).

Financial instruments, recognised within financial assets held for trading and financial liabilities held for trading, which were subject to enforceable master netting arrangements or other similar agreements but not offset, as at 31 December 2017, amounted to \$93 million (2016: \$21 million).

### 21. Debtors

	2017	2016
	\$'000	\$'000
Trade debtors	—	14,249
Other debtors	158,751	157,925
	158,751	172,174

Included in debtors, are the following amounts receivable from JPMorgan Chase undertakings:

	2017	2016
	\$'000	\$'000
Other debtors	112,289	116,485

### 22. Deferred tax asset

	2017	2016
	\$'000	\$'000
Deferred taxation (refer note 13)	5,801	51,167

### 23. Prepayments and accrued income

	2017	2016
	\$'000	\$'000
Accrued income	2,095	7,116
Prepayments	331	14
	2,426	7,130

Included in the above are the following amounts owed to JPMorgan Chase undertakings:

- Accrued income	1,138	6,535
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**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**24. Goodwill**

	2017	2016
	\$'000	\$'000
Cost	149,332	149,332
Accumulated amortisation	(77,322)	(77,322)
<b>Net book value</b>	<b>72,010</b>	<b>72,010</b>

In 2008 the Company acquired the Nordic institutional global custody business of Nordea Bank AB, Nordea Bank Denmark A/A, Nordea Bank Finland Plc and Nordea Bank Norge ASA ("Nordea").

The full purchase consideration was in form of cash and relates entirely to purchased goodwill. This represents the intrinsic value of the business transferred, based upon the estimated levels of future profits to be generated by the business.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of net profit generated by the revenue generating units ("RGU") to which the goodwill relates. Net profit is forecast for 5 years, and discounted using a Firmwide rate of return of 11% (2016: 11%). A growth rate of between 1% and 2% is considered (2016: 1%). Based on these assumptions, the recoverable amount of goodwill exceeds the carrying amount and goodwill is not impaired.

Assessing impairment requires the exercise of judgement and the utilisation of estimates and assumptions necessary to calculate net present value including the use of historical data and other market factors.

**25. Investments in JPMorgan Chase undertakings**

	2017	2016
	\$'000	\$'000
At 1 January	1,869	1,869
Movement	—	—
<b>At 31 December</b>	<b>1,869</b>	<b>1,869</b>

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

In the opinion of the directors, the value of the Company's investment in subsidiary undertakings and associate (J.P. Morgan Services LLP) is not less than the amount at which it is stated in the balance sheet.

The holdings of the Company are as follows:

Name	Address	Principal activity	Holding	Shares held %
Chase Securities International Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Investment	Direct	100
Chase International Securities (C.I.) Limited	Forum 4, Grenville Street, St. Helier, JE2 4UF, Jersey	Investment	Direct	100
Chemical Nominees Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Investment	Direct	100
J.P. Morgan Services LLP	25 Bank Street, Canary Wharf, London, E14 5JP, England	Dormant company	Direct	22.35

All shares held in above companies are ordinary shares.

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**26. Deposits by banks**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Deposits by banks		
- with JPMorgan Chase undertakings	133,754	116,458

**27. Customer accounts**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Customer accounts	10,242,215	7,137,775

Customer accounts mainly consist of custody deposits held within the Nordic branches, the remaining balance of which are third-party sterling-denominated deposits.

**28. Financial liabilities held for trading**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
At 1 January	20,918	38,742
Movements during the year	71,763	(17,824)
At 31 December	92,681	20,918

**29. Trade creditors**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Trade creditors	5,045	15,022
Included in trade creditors are the following amounts owed to:		
- JPMorgan Chase undertakings	4,689	15,022

**30. Other liabilities**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Other liabilities	80,692	86,515
Tax creditors	83,000	106,178
	163,692	192,693
Included in liabilities, are the following amounts owed to JPMorgan Chase undertakings:		
- Other liabilities	53,781	61,168

**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**31. Provisions for liabilities**

	2017	2016
	\$'000	\$'000
Provisions for undrawn contractually committed facilities	2,830	9,233

**32. Accruals and deferred income**

	2017	2016
	\$'000	\$'000
Accruals	95,853	100,951
Deferred income	2,020	1,729
	97,873	102,680
Included in the above are the following amounts owed to JPMorgan Chase undertakings:		
- Accruals	36,667	42,305

**33. Pension costs**

During the year, the Company participated in the JPMorgan UK Pension Plan ("UKP") and the JPMC UK Retirement Plan ("UKR"). The UKP is an ongoing defined contribution pension scheme.

The UKR is a defined benefit plan that shares risks between entities under common control. The Company is not deemed to be the sponsoring employer of the plan and there is no contractual agreement or stated policy for charging the net defined benefit cost amongst the participating entities therefore the Company does not recognise the net defined benefit obligation on balance sheet, in accordance with IAS 19. The sponsoring employer of the plan is JPMorgan Chase Bank, N.A.. The actuary has calculated that in total the Plan's FRS 101 funding level would have been around 109% funded as at 31 December 2017 (31 December 2016: 106%) with a surplus of defined benefit assets over liabilities on this basis of the order of \$215 million (2016: \$135 million).

Additional information in relation to the plan can be found in the JPMorgan Chase & Co. 2017 Annual Report on Form 10-K.

Summarised information in respect of the UKR scheme across all of the participating entities is set out below:

Scheme	JPMC UK Retirement Plan
Date of most recent valuation by independent actuary	31 December 2017
Valuation assumptions (p.a.)	
Price inflation (RPI)	3.4 %
Price inflation (CPI)	2.3 %
Pension increase (LPI)	3.1 %
Investment return	4 %
Discount rate	2.4 %
Market value of scheme assets	\$2,642 million
Past service liability	\$2,428 million
Surplus	\$215 million
FRS 101 funding level	109 %

The UKR has been closed to future accrual for all members from 31 December 2007.

The Company recorded a total expense of \$12 million (2016: \$11 million) for the year ended 31 December 2017 in respect of the UKR and UKP.

## J.P. MORGAN EUROPE LIMITED

### Notes to the financial statements (continued)

#### 34. Share based payments

The ultimate parent of the Company, JPMorgan Chase & Co. (the "Firm") has granted long-term stock-based awards to certain key employees under its Long Term Incentive Plan ("LTIP"), as amended and restated effective May 19, 2015. Under the terms of the LTIP, as of 31 December 2017, 78 million shares of common stock were available for issuance through May 2019. The LTIP is the only active plan under which the Firm is currently granting stock-based incentive awards. The LTIP, plus prior Firm plans and plans assumed as the result of acquisitions, are referred to collectively as the "LTI Plans" and such plans constitute the Firms' stock-based incentive plans.

The Firm separately recognises compensation expense for each tranche of each award as if it were a separate award with its own vesting date. Generally, for each tranche granted, compensation expense is recognised on a straight-line basis from the grant date until the vesting date of the respective tranche, provided that the employees will not become full-career eligible during the vesting period. For awards with full-career eligibility provisions and awards granted with no future substantive service requirement, the Firm accrues the estimated value of awards expected to be awarded to employees as of the grant date without giving consideration to the impact of post-employment restrictions. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognised on a straight-line basis from the grant date until the earlier of the employee's full career eligibility date or the vesting date of the respective tranche.

The total expense for the Company for the year relating to share based payments was \$17 million (2016: \$19 million), all of which relates to equity settled share based payments.

#### Restricted stock units

Restricted stock units ("RSUs") are awarded at no cost to the recipient upon their grant. RSUs are generally granted annually and generally vest at a rate of 50% after two years, 50% after three years, and convert into shares of common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions based on age or service-related requirements. All of these awards are subject to forfeiture until vested and contain clawback provisions that may result in cancellation prior to vesting under certain specified circumstances. RSUs entitle the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSUs are outstanding.

Compensation expense for RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and for employee stock options and stock appreciation rights ("SARs"), is measured at the grant date using the Black-Scholes valuation model. Compensation expense for these awards is recognised as described above.

#### Key employee stock options and SARs

Under the LTI Plans, stock options and SARs have generally been granted with an exercise price equal to the fair value of JPMorgan Chase & Co.'s common stock on the grant date. The Firm typically awards SARs to certain key employees once per year; the Firm also periodically grants employee stock options and SARs to individual employees. The 2013 grants of SARs to key employees vest ratably over five years (i.e., 20% per year) and awards contain clawback provisions similar to RSUs. The 2013 grants of SARs contain full-career eligibility provisions. SARs generally expire 10 years after the grant date.

The following table summarises information about options outstanding at 31 December 2017 and 31 December 2016:

	31 December 2017			31 December 2016		
	Outstanding '000	Weighted average exercise price \$	Weighted average remaining contractual life (in years)	Outstanding '000	Weighted average exercise price \$	Weighted average remaining contractual life (in
Range of exercise prices						
\$min - \$20.00	—	—	—	—	—	—
\$35.01 - \$50.00	60	42.79	3.58	167	43.18	3.24
Total	60	42.79	3.58	167	43.18	3.24

#### Broad-based employee stock options

No broad-based employee stock options were granted in 2016 or in 2017. In prior years, awards were granted by the Firm under the Value Sharing Plan, a non-shareholder-approved plan. For each grant, the exercise price was equal to the Firm's common stock price on the grant date. The options become exercisable over various periods and generally expire 10 years after the grant date.

The weighted-average share price during the year ended 31 December 2017 was \$92.01 (2016: \$65.52).



**J.P. MORGAN EUROPE LIMITED**  
**Notes to the financial statements (continued)**

**35. Called-up share capital**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
<b>Issued and fully paid share capital</b>		
<b>At 31 December</b>		
1,397,922,234 ordinary shares (2016: 1,397,922,234) of \$1 each	1,397,922	1,397,922

**36. Financial risk management**

Disclosures in relation to the Company's risk management and capital management have been presented in the Strategic report on pages 1 - 18 which forms part of these financial statements.

**37. Dividends**

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Ordinary shares	—	600,000

No dividend was paid for the year ended 31 December 2017.

The Company paid an interim dividend of \$600 million in total, or 43 cents per share, on 17 March 2016.