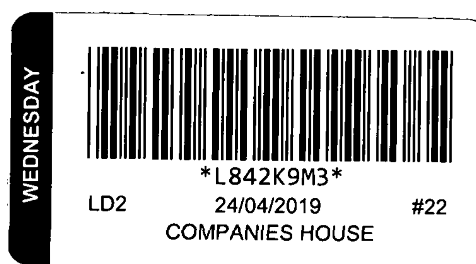
J.P. MORGAN EUROPE LIMITED
(Registered Number: 00938937)

Annual report for the year ended 31 December 2018



J.P. MORGAN EUROPE LIMITED
Annual report for the year ended 31 December 2018

Contents **Page**

Strategic report	1 - 32
Directors' report	33 - 34
Independent auditors' report	35 - 39
Income statement	40
Statement of comprehensive income	40
Balance sheet	41 - 42
Statement of changes in equity	43
Notes to the financial statements	44 - 77

J.P. MORGAN EUROPE LIMITED
Strategic report

The directors present their strategic report of J.P. Morgan Europe Limited (the "Company" or "JPMEL") for the year ended 31 December 2018.

Overview

The Company is incorporated and domiciled in England and Wales, it is an indirect subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"). JPMorgan Chase is a financial holding company incorporated under Delaware law in 1968, it is a 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 $9,534 million in assets and $2,127 million in total equity as of 31 December 2018.

Principal activity

The Company provides marketing, custody and payment services ("Securities Services", formerly Custody and Fund 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 ("UK") as a licensed deposit taker. The Company has branches in Amsterdam, Brussels, Copenhagen, Helsinki, Oslo, Stockholm and Warsaw. As part of implementing the Firm's European legal entity strategy, the Company agreed to facilitate transition of its Securities Services activities conducted in the European Economic Area ("EEA") to another JPMorgan Chase undertaking based in the EEA (refer to the future outlook section).

Review of business

The directors are satisfied with the performance of the Company.

Key performance indicators ("KPIs")

The directors monitor the financial performance of the Company using various KPIs. The primary KPIs are set out below:

Financial performance (in $'000's except for return on assets and capital ratios)	2018	2017
Earnings		
Total operating income	**709,776**	804,028
Profit for the financial year	**125,299**	253,292
Balance sheet		
Total assets	**9,533,715**	14,718,279
Return on assets	**1%**	2%
Capital ratios		
Common Equity Tier 1	**2,126,606**	3,908,113
Pillar 1 capital ratio	**57%**	95%
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 2018 and 2017 exceeded the minimum requirements, as well as the additional capital requirements specified by the PRA.

Capital resources utilised to calculate 2018 capital ratios include current year profits.

Income statement

The income statement for the year ended 31 December 2018 is set out on page 40. Total operating income for the year was $710 million (2017: $804 million). The results for the Company show a profit before taxation of $233 million for 2018 (2017: $339 million) and a profit for the financial year of $125 million (2017: $253 million). Total operating income was down year on year as a result of lower attributions received from JPMorgan Chase undertakings.

Balance sheet

The balance sheet is set out on pages 41 - 42. The Company has total assets and total liabilities of $9,534 million (2017: $14,718 million) and $7,407 million (2017: $10,738 million) respectively, as at 31 December 2018.

Future outlook

Expected departure of the UK from the European Union

Firmwide impact

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

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

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

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

- the possibility that clients and counterparties of financial institutions are not positioned to continue to do business through EU-based legal entities
- reduction or fragmentation of market liquidity that may be caused if trading venues or CCPs currently based in the UK have not completed arrangements to conduct operations from the EU either immediately or, if authorised to continue to operate from the UK on a transitional basis, after any transitional relief has expired
- uncertainties concerning the application and interpretation of laws and regulations relating to cross-border financial services activities
- inability to engage in certain capital markets activities through EU-based legal entities to the extent that licences or temporary permission to engage in such activities have not been timely granted by local regulators, and
- lack of legal certainty concerning the treatment of existing transactions.

Any or all of the above factors could have an adverse effect on the overall operation of the European financial services market as well as JPMorgan Chase's business, operations and earnings in the UK, the EU and globally.

Firm's Response to Brexit

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

Company impacts

JPMEL is an European passported bank and has historically provided Securities Services to EEA clients through its various EEA branches. It is likely that JPMEL will lose its EU passporting rights on Brexit and will not be able to continue to provide the related regulated activities to its clients in the EEA. The Firm has therefore reviewed its legal entity strategy across Europe and has been making the necessary modifications to its legal entity structure. As set out below, JPMEL is facilitating the Firm's implementation efforts, including re-documentation of in-scope EEA clients and transfer of necessary staff out of the UK to the EU locations.

Future outlook (continued)

Transition of the Company's Securities Services EEA Activities

As part of implementing the Firm's European legal entity strategy, the Company agreed to facilitate transition of its Securities Services activities conducted in the EEA to another JPMorgan Chase undertaking based in the EEA. The terms of the transaction and the related purchase price consideration were finalised in August 2018 and the Company signed an implementation agreement with the affiliate. The purchase price consideration was $10 million and determined based on arm's length fair market value principles, taking into account the specific facts and circumstances and legal terms of the transaction. The finalisation of the terms of the transaction resulted in an impairment of the goodwill related to these activities of $62 million (note 25).

The Company initiated the process of transferring assets, liabilities and employees related to these activities from the EEA branches of the Company to the EEA branches of the affiliate during 2018. As of year-end, the recognised assets and liabilities remaining with the Company primarily include customer deposits of $3,837 million. The in-scope employees (50 employees) have been transferred and the transfer of the remaining client assets and deposits is expected to be completed during the first half of 2019.

The Company has presented these activities as a discontinued operation. The discontinued operation is separately disclosed on the income statement and the prior period has been re-presented in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. On the balance sheet, the associated assets and liabilities are presented as held for sale.

Further, management continue to assess the long-term strategy of the Company. The Company remains profitable. The directors believe that the above mentioned transition does not impact the going concern assumption used in these financial statements.

Regulatory developments

In the EU, there is an extensive and complex programme 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 ("ESA") that set detailed regulatory rules and encourage supervisory convergence across the EU's Member States. The EU is currently reviewing the ESA framework and the European Commission ("EC") has proposed legislation to change the roles and responsibilities of the ESAs. 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 Post-Brexit, there is uncertainty as to future UK policy initiatives as it will depend on the future relationship between the EU and UK. Therefore the impact will be assessed Post-Brexit.

London interbank offered rate ("LIBOR")

Globally, policymakers have warned that the production of Interbank Offered Rates ("IBORs") cannot be guaranteed past 2021, creating an impetus and setting a timeline by which the marketplace needs to prepare for the potential cessation of IBOR's production. Public-private national working groups have been formed in several jurisdictions to identify alternative risk-free reference rates and prepare the marketplace for the transition to these rates. In Europe, EU Benchmark Regulation will restrict the ability of EU regulated entities to use third country benchmarks unless such benchmarks obtain the appropriate regulatory status in the EU. As a result, financial institutions are implementing transition programmes to prepare for IBOR's potential cessation and minimise financial stability risks of this event.

JPMorgan Chase established a Firmwide LIBOR transition programme in early 2018. When assessing risks associated with IBOR transition, the programme considers three possible scenarios: disorderly transition, measured/regulated transition, and IBOR in continuity. These risks will continue to be monitored, along with any new risks that emerge as the programme progresses.

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.

The Firm's activities are organised into business segments as well as a Corporate segment. The business segments, also known as lines of business ("LOB"), are determined based on the products and services provided or type of customer served. The major LOB for the Company is Corporate and Investment Bank ("CIB").

Firmwide Risk Management is overseen and managed on an enterprise-wide basis. J.P. Morgan's risk governance structure is based on the principle that each LOB is responsible for managing the risk inherent in its business, albeit with appropriate corporate oversight.This is supported by global policies and standards to which all staff world-wide are required to adhere to.

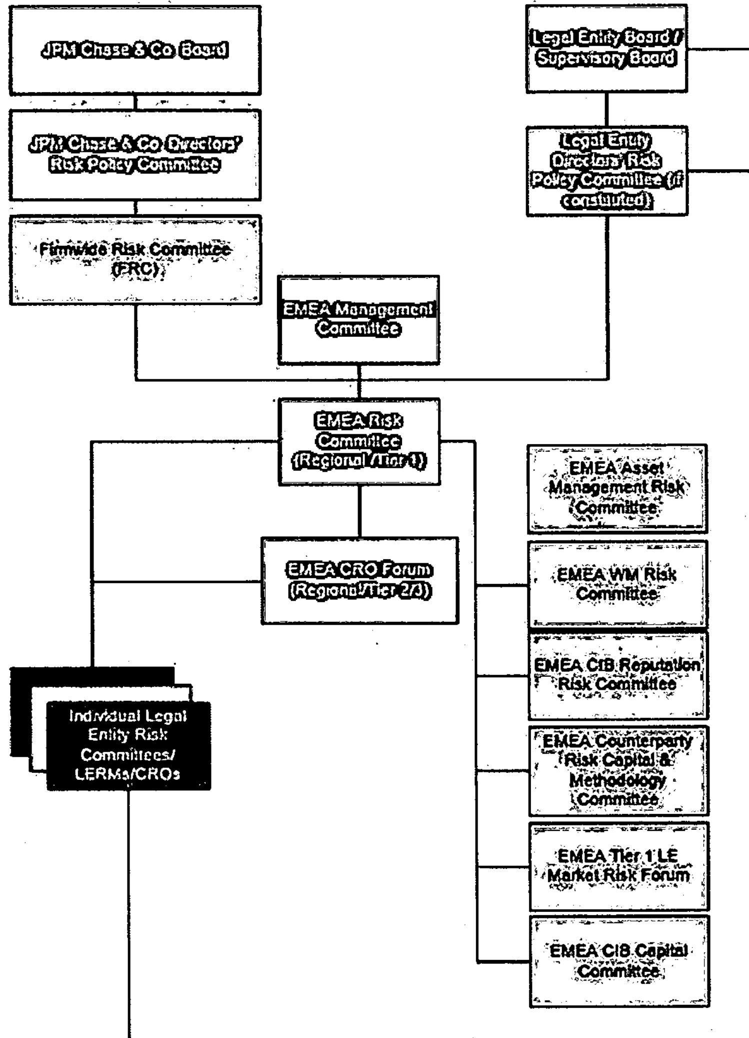
To complement the global LOB structure, within Europe, the Middle East and Africa ("EMEA"), a regional governance framework incorporates the Firmwide strategy, and the Firm's policies, procedures and LOB structure. This regional framework is thus supplemental and complementary to the global framework 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 a Tier 2 entity. The EMEA Risk Committee ("ERC") provides oversight of the risks inherent in the Firm's business conducted in EMEA or booked into EMEA entities and relevant branches as well as EMEA branches of ex-EMEA firms. Tier 2 and 3 entities (such as the Company) are overseen by the EMEA Chief Risk Officer ("CRO") Forum, a sub-forum of the ERC. The ERC is accountable to the Company's Directors Risk and Policy Committee ("DRPC") and EMEA Management Committee.

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

Risk management (continued)

The Committee structure chart is presented below:



All disclosures in the Risk management section (pages 4 - 30) are unaudited unless otherwise stated.

The following sections outline the key risks that are inherent in the Company's business activities.

A detailed description of the policies and processes adopted by the Firm may be found within the JPMorgan Chase & Co. 2018 Annual Report on Form 10-K. The report is available at https://jpmorganchaseco.gcs-web.com/financial-information/sec-filings

Risk management (continued)

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 Firm's capital management strategy focuses on maintaining long-term stability to enable the Firm to build and invest in market-leading businesses, even in a highly stressed environment. Prior to making any decisions on future business activities, senior management considers the implications on the Firm's capital.

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[a] plus Pillar 2/Individual Capital Guidance ("ICG") set by the PRA and relevant CRD IV buffers);
- Minimum leverage requirements[b] (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.

The EMEA CIB Capital Committee, which has senior business and control function representation, receives monthly updates of the Company's capital positions and projections and has oversight on decisions related to capital usage and capital strategy. The framework used to manage capital within the Company 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, including capital adequacy reporting with daily, weekly and quarterly frequency to ensure the Company maintains appropriate oversight in line with the Capital framework. 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 (year end, last submitted 30 April 2018), but through the economic cycle and under a range of severe but plausible stress scenarios. The quarterly ICAAP results are reviewed by the EMEA CIB Capital Committee. 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 the Company's capital is as follows. All tiers of capital are shown net of applicable deductions.

	2018	2017
	$'000	$'000
Common Equity Tier 1 (Equity share capital and reserves)	2,126,606	3,908,113
Total Capital Resources	2,126,606	3,908,113
Pillar 1 capital requirement (unaudited)	300,273	327,543
Excess of total capital resources over Pillar 1 capital requirements (unaudited)	1,826,333	3,580,570
Pillar 1 capital ratio (unaudited)	57%	95%

As of 31 December 2018 and 2017, 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.

(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.

Risk management (continued)

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 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 of directors and DRPC.

Risk identification

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.

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 LOB.

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 counterparties 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.

Risk management (continued)

Credit risk (audited) (continued)

Risk measurement

Expected credit loss measurement

Approach to measuring expected credit losses

The Company estimates credit impairment through an allowance for expected credit losses ("ECLs"). ECLs are recognised for financial assets that are measured at amortised cost or fair value through other comprehensive income ("FVOCI") and for specified lending-related commitments such as loan commitments and financial guarantee contracts. The measurement of ECLs must reflect:

a. An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
b. The time value of money; and
c. Reasonable and supportable information about past events, current economic conditions, and forecasts of future economic conditions.

The measurement of ECL also reflects how the Company manages the financial instruments it uses for credit risk purposes such as Traditional Credit Products ("TCP"), and Non-Traditional Credit Products ("Non-TCP"). TCP are wholesale loans and lending-related commitments from extensions of credit to borrowers; whereas Non-TCP are all other debt financial assets measured at amortised cost which include, but are not limited, to certain loans and advances to banks, certain securities purchased under agreements to resell, debtors, and accrued income.

The following table sets out the gross carrying amount (before ECL) of the Company's financial assets that are measured at amortised cost or FVOCI by the respective TCP and Non-TCP categories.

Gross carrying amount	TCP			Non-TCP	
	$'000	$'000	$'000	$'000	$'000
Assets	Amortised cost	FVOCI	Total	Amortised cost	Total
Loans and advances to banks	—	143,550	143,550	7,044,280	7,187,830
Loans and advances to customers	39,921	245,010	284,931	—	284,931
Securities purchased under agreements to resell	—	—	—	1,708,735	1,708,735
Debtors	—	—	—	261,991	261,991
Prepayments and accrued income					
Accrued income	—	—	—	5,157	5,157
Total	**39,921**	**388,560**	**428,481**	**9,020,163**	**9,448,644**

Off-balance sheet lending-related commitments which are categorised as TCP are reported in provisions for liabilities and are not included in the table above. These lending-related commitments are disclosed in note 33.

The Company uses statistical models to estimate ECLs for TCP on a collective basis; however ECL for credit-impaired instruments is estimated on an individual borrower basis. When determining how exposures should be grouped for collective assessment, the Company considers many factors including, but not limited to, internal credit risk ratings, tenor, borrower geography and industry. The Company's internal risk ratings generally correspond to the ratings as defined by Standard & Poor's ("S&P") and Moody's Investors Service. See further detail in the maturity and ratings profile section. For Non-TCPs, the Company utilises a combination of an established provision matrix, as well as quantitative and qualitative considerations to estimate ECLs. See further detail in the Non-Traditional credit products section.

Risk management (continued)

Credit risk (audited) (continued)

Impact of staging on measuring expected credit losses

ECLs are measured using a three stage model based on changes in credit quality of the financial instrument since it was initially recognised ("initial recognition"):

- Stage 1 - performing financial instruments that have not had a significant increase in credit risk since initial recognition;
- Stage 2 - performing financial instruments that have experienced a significant increase in credit risk; and
- Stage 3 - non-performing financial instruments that have been determined to be credit-impaired.

Default and credit-impairment (Stage 3)

Financial instruments are included in Stage 3 when there is objective evidence of impairment at the reporting date. For Stage 3 instruments, ECL is calculated considering the probability of default over the remaining life of each instrument ("Lifetime ECL") on an individual asset basis and interest revenue is calculated on the net carrying amount (that is, net of the allowance for credit losses). All financial assets, regardless of their category as TCP or Non-TCP, are considered to be credit-impaired and are included in Stage 3 when certain events that have a detrimental impact on the estimated future cash flows of that financial asset has occurred.

The Company had no material Stage 3 instruments for the year.

Significant increase in credit risk (Stage 2)

Financial instruments that have experienced a significant increase in credit risk ("SICR") since initial recognition for which there is no objective evidence of impairment are included in Stage 2. For Stage 2 instruments, ECL is calculated considering the probability of default over the remaining life of the instrument on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

The Company assesses for evidence of a SICR by considering whether there has been a change in the risk of a default occurring since the financial instrument was initially recognised.

For TCP, the Company considers a financial instrument to have experienced a SICR when any of the following quantitative or qualitative criteria have been met:

Quantitative criteria

The Company determines whether the probability of a default ("PD") occurring has changed between a financial instruments initial recognition and the reporting date. If the change in PD exceeds certain relative and absolute thresholds, the instrument has experienced a SICR. The assessment of the PD takes into account reasonable and supportable information, including information about past events, current and future economic conditions.

Qualitative criteria

The Company monitors borrowers that may become impaired by including them on its watch list. Obligors that are on the watch list are considered to have experienced a SICR. The Company also monitors changes in internal credit risk ratings (relative to the credit rating on initial recognition) and delinquency triggers to determine if a borrower has experienced a SICR.

The Company's TCP portfolio is mostly comprised of large, international, wholesale borrowers. For these borrowers, short-term delinquencies alone are not considered to be a meaningful credit quality indicator as the Company's experience has shown that other internal credit quality indicators generally identifies increases in credit risk well before delinquency. As such, the Company has determined that using the quantitative and qualitative criteria described above are most appropriate for capturing SICR for TCP.

Financial instruments that are in Stage 2 are moved to Stage 1 as described below in the period that the quantitative and qualitative criteria for a SICR no longer exist.

The approach for determining whether there has been a SICR for Non-TCP portfolios depends on the type of instrument. The Company presumes non-TCP financial assets that are 30 days past due have experienced a SICR and are included in Stage 2 except for certain fee receivables (i.e. fee receivables with institutional clients which follow a different billing and collection cycle) that are classified in Stage 2 at 90 days past due. Inter-company loans and receivables to material legal entities covered by the Firm's resolution and recovery plans are presumed to not to have had a SICR given the borrower's level of capitalisation and access to liquidity. Finally, the remainder of the Company's Non-TCP are mostly short-term and generally no SICR has arisen prior to the maturity of that instrument.

Risk management (continued)

Credit risk (audited) (continued)

Unimpaired and without significant increase in credit risk (Stage 1)

Financial instruments that have not had a SICR since initial recognition are included in Stage 1. For Stage 1 instruments, ECL is calculated by considering the probability of default within 12 months after the reporting date on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

Sensitivity analysis of ECL due to staging

The following tables show the impact of staging on the Company's ECL recognised on balance sheet as at 31 December 2018, by comparing the allowance if all performing financial assets were in Stage 1 or if all such assets were in Stage 2 to the actual ECL recorded on these assets:

Loans and advances to banks and customers

Current Staging		ECL - All performing loans in Stage 1	Impact of change in staging on the statement of comprehensive income
	$'000	$'000	$'000
Stage 1	30	166	
Stage 2	188	—	
Total	218	166	(52)

Current Staging		ECL - All performing loans in Stage 2	Impact of change in staging on the statement of comprehensive income
	$'000	$'000	$'000
Stage 1	30	—	
Stage 2	188	225	
Total	218	225	7

Loan commitments and financial guarantee contracts

Current Staging		ECL - All performing loans in Stage 1	Impact of change in staging on the statement of comprehensive income
	$'000	$'000	$'000
Stage 1	107	1,215	
Stage 2	2,465	—	
Total	2,572	1,215	(1,357)

Current Staging		ECL - All performing loans in Stage 2	Impact of change in staging on the statement of comprehensive income
	$'000	$'000	$'000
Stage 1	107	—	
Stage 2	2,465	2,840	
Total	2,572	2,840	268

Risk management (continued)

Credit risk (audited) (continued)

ECL measurement for TCP Portfolios

Key Inputs

In broad terms, ECLs for the Company's TCP portfolios are generally calculated based on the following key inputs:

Probability of Default ("PD"): The PD model estimates the probability of downgrade and default each quarter. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The model considers input variables that are region-, industry- and borrower segment-specific and considers both scenario- and borrower-specific information. PDs are determined at a facility-level based on risk ratings and other characteristics.

Exposure at Default ("EAD"): The EAD model predicts gross exposure upon a borrower's default as a percentage of the total commitment at the reporting date under a given macroeconomic environment. The model estimates the probability of a change in the utilisation, and direction and magnitude of the change. Input variables include exposure and utilisation at the reporting date, facility purpose, industry and macro-economic variables ("MEVs").

Loss Given Default ("LGD"): The LGD model estimates expected losses under given macroeconomic environments on the EAD given the event of default and, taking into account, among other attributes, the mitigating effect of collateral and the time value of money.

The 12-month ECL is calculated by multiplying the 12-month PD, EAD and LGD. Lifetime ECL is calculated using the lifetime PD instead.

Forward-looking information

ECL estimates are derived from the Company's historical experience and future forecasted economic conditions. To incorporate forward-looking information into the ECL calculation, the Company develops three forecasted economic scenarios (base, upside and downside cases). Each of these scenarios contain a set of MEVs that reflect forward-looking economic and financial conditions. MEVs include, but are not limited to FX rates, inflation and GDP per country or country block. MEVs for each scenario are projected over a reasonable and supportable forecast period of two years. After the forecast period, the losses revert to historical averages over a one-year transition period.

On a quarterly basis, the three economic scenarios are updated and probability weighted. The Company uses judgement to develop the scenarios and assign probability weightings. The most likely economic scenario in management's view is the base case which would generally be expected to be weighted more heavily than the other two scenarios.

The PD, LGD and EAD models are designed to forecast the credit quality and performance of a TCP portfolio based on industry, geography, rating and size of obligors, among other attributes of the portfolio. PD, LGD and EAD models are calibrated based on historical MEVs and use forecasted macroeconomic scenarios for projecting PD, LGD and EAD values.

ECL calculation

The Company uses the forward-looking PD, LGD, and EAD values for each of the scenarios to produce the scenario credit losses ("SCLs"). The modelled ECL estimate is a probability-weighted calculation of the three SCLs discounted using the original effective interest rate or an approximation thereof.

The modelled ECL results are reviewed by management and adjustments ("management overlays") are considered to ensure final results reflect the Company's best estimate of ECLs on its exposures. Management overlays are only applied if necessary to account for significant idiosyncratic risks which are not yet reflected in underlying risk ratings, LGD, exposure profile or scenario weights used and which are expected to have a high probability of occurrence. No management overlays were applied in determining the ECL of the Company.

The final ECL estimate and assumptions require significant management judgement and certain assumptions are subjective. The Company has a robust review, challenge and approval process of the ECL estimates as part of credit risk governance forums.

There have not been any significant changes in estimation techniques or assumptions made during the reporting period.

Risk management (continued)

Credit risk (audited) (continued)

Quantitative and qualitative information about the change in ECL and how significant changes in the gross carrying amount drive changes in ECL

ECL and gross carrying amount reconciliation

The following tables provide an explanation of the change in the loss allowance during the year ended 31 December 2018 by respective product classes. The tables also set out how significant changes in the gross carrying amount of financial instruments contributed to the changes in the loss allowance:

1. Traditional credit products

The ECL recognised in the period is impacted by the judgements made by management as described below:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

a) Loans and advances to customers at amortised cost

	ECL				Gross carrying amount			
$'000	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	16	1	—	17	46,963	7,131	—	54,094
New loans originated or purchased	—	—	—	—	31,654	—	—	31,654
Loans derecognised or repaid	(16)	(1)	—	(17)	(43,637)	(2,350)	—	(45,987)
Existing loans (including credit quality changes)	—	—	—	—	365	(205)	—	160
Total changes	(16)	(1)	—	(17)	(11,618)	(2,555)	—	(14,173)
At 31 December 2018	—	—	—	—	35,345	4,576	—	39,921

The decrease in ECL was driven by loans derecognised during the year, the remaining exposures are short-dated in nature which generate an immaterial ECL.

Risk management (continued)

Credit risk (audited) (continued)

b) Loans and advances to customers and Loans and advances to banks at FVOCI

	ECL				Gross carrying amount			
$'000	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	**11**	**758**	**10,282**	**11,051**	**195,435**	**89,944**	**17,007**	**302,386**
New loans originated or purchased[1]	20	25	—	45	174,265	50,000	—	224,265
Loans derecognised or repaid	(6)	(26)	—	(32)	(52,352)	(17,720)	—	(70,072)
Existing loans (including credit quality changes)	3	(815)	(10,282)	(11,094)	(81,112)	33,875	(17,007)	(64,244)
Changes in Macroeconomic variables ("MEV")	2	246	—	248	—	—	—	—
Stage transfers:								—
Stage 1 to stage 2	(1)	1	—	—	(14,154)	14,154	—	—
Stage 2 to stage 1	1	(1)	—	—	26,471	(26,471)	—	—
Total changes	**19**	**(570)**	**(10,282)**	**(10,833)**	**53,118**	**53,838**	**(17,007)**	**89,949**
Fair value adjustment	—	—	—	—	—	—	—	(3,775)
At 31 December 2018	**30**	**188**	**—**	**218**	**248,553**	**143,782**	**—**	**388,560**

[1] New loans originated reflected as Stage 2 were acquired during the year and subsequently experienced a SICR.

The decrease in ECL was driven by reduced stage 3 loans during the year.

c) Loan commitments and financial guarantee contracts

	ECL			
$'000	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
At 1 January 2018	**149**	**542**	**2,101**	**2,792**
New loan commitments and financial guarantees	21	—	—	21
Loan commitments and financial guarantees drawn	(43)	(387)	(9)	(439)
Existing loan commitments and financial guarantees (including credit quality changes)	1,063	(231)	(2,092)	(1,260)
Changes in Macroeconomic variables ("MEV")	26	76	—	102
Stage transfers:				
Stage 1 to stage 2	(1,109)	2,465	—	1,356
Total changes	**(42)**	**1,923**	**(2,101)**	**(220)**
At 31 December 2018	**107**	**2,465**	**—**	**2,572**

The decrease in ECL was driven by reduced stage 3 exposures, reducing the stage 3 ECL to $nil, offset by transfers from stage 1 to stage 2 from lifetime to a 12-month ECL as a result of a change in credit risk.

2. Non-traditional credit products

Non-TCPs include all other instruments measured at amortised cost and subject to the impairment provisions of International Financial Reporting Standard 9 ("IFRS 9"). The Company has recognised no ECL on non-TCP balances as the ECL related to these exposures is assessed as immaterial.

The Company's approach to measuring ECLs for Non-TCP portfolios depends on the type of instrument. Refer to the Credit exposures section for an analysis per balance sheet line item.

J.P. MORGAN EUROPE LIMITED
Strategic report (continued)

Risk management (continued)

Credit risk (audited) (continued)

Credit risk exposures

The following tables provide an analysis of the Company's credit risk exposure from financial assets. The gross balance sheet exposure represents the Company's maximum exposure to credit risk from these assets. 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 after risk mitigants is presented after taking into account 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 any collateral received.

As under IFRS 9:	Gross balance sheet exposure[1]	Risk mitigants: Exposures captured by market risk	Risk mitigants: Master netting agreements and other	Risk mitigants: Cash & security collateral [6]	Net exposure after risk mitigants
	$'000	$'000	$'000	$'000	$'000
At 31 December 2018					
Financial assets:					
Loans and advances to banks [2]	7,187,799	—	—	—	7,187,799
Loans and advances to customers [2,3]	291,002	—	—	(6,553)	284,449
Securities purchased under resale agreements [4]	1,708,735	—	—	(1,631,709)	77,026
Financial assets held at fair value through profit and loss [5]	68,607	(4,646)	(61,348)	—	2,613
Debtors [2]	261,991	—	—	—	261,991
Accrued income [2]	5,157	—	(4,153)	—	1,004
Total	**9,523,291**	**(4,646)**	**(65,501)**	**(1,638,262)**	**7,814,882**

As under IAS 39:	Gross balance sheet exposure[1]	Risk mitigants: Exposures captured by market risk	Risk mitigants: Master netting agreements and other	Risk mitigants: Cash & security collateral	Net exposure after risk mitigants
	$'000	$'000	$'000	$'000	$'000
At 31 December 2017					
Financial assets:					
Loans and advances to banks	12,323,841	—	—	—	12,323,841
Loans and advances to customers [3]	213,444	—	—	(65,217)	148,227
Securities purchased under resale agreements [4]	1,820,710	—	—	(1,801,533)	19,177
Financial assets held at fair value through profit and loss [5]	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
Total	**14,638,268**	**(26,445)**	**(93,817)**	**(1,866,750)**	**12,651,256**

1 Includes $8,971 million (2017: $14,286 million)held with other JPMorgan Chase undertakings. For further details of these amounts by line item category, refer to the notes to the financial statements.

2 Includes amounts related to discontinued operations, for further details of the split of these amounts by line item category, refer to note 27.

3 Net exposure after risk mitigants on loans and advances to customers is presented without taking into account credit risk mitigants such as financial guarantees.

4 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 $1,631 million (2017: $1,736 million). The fair value of collateral repledged in 2018 was nil (2017: $65 million). These transactions are conducted under terms that are customary to standard lending activities (note 18).

5 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 2018, amounted to $61 million (2017: $93 million) (note 22).

In addition to balance sheet exposure, there are off balance sheet exposures consisting of lending commitments and standby letters of credit and guarantees of $3,610 million (2017: $3,391 million).

Risk management (continued)

Credit risk (audited) (continued)

Credit risk exposures (continued)

The Company's credit exposures and credit risk mitigants are further described below. As the ECL allowance is only recognised on loans and advances to customers held at amortised cost and FVOCI and loans and advances to banks held at FVOCI, further analysis of credit exposures are included. Refer below for discussion on non-TCP financial assets.

Loans and advances to banks at amortised cost

The Company places substantially all of its deposits with banks which are of investment-grade.

In evaluating the lifetime ECL related to receivables from a bank, the Company determined the expected probability of default was extremely remote, and the magnitude of lifetime ECL related to exposures would be negligible as these are investment-grade institutions.

The Company includes loans and advances to banks in Stage 1. They are considered to have high quality credit with low risk of default and therefore the Company has concluded there is no material SICR.

Loans and advances to customers at amortised cost and FVOCI and Loans and advances to banks at FVOCI

The table below presents the Company's credit exposure and maturity profile to gross Loans and advances to customers at amortised cost and FVOCI and Loans and advances to banks at FVOCI before any provision for impairment. The credit quality and credit concentration of loans and advances to customers is managed within the JPMorgan Chase's Credit Risk Management function. The ratings scale is based on the JPMorgan Chase's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's Investors Service.

Maturity profile

Loans and advances to customers at amortised cost and FVOCI and Loans and advances to banks at amortised cost and FVOCI	IFRS 9
	2018
	$'000
Maturity	
5 years or less but over 1 year	33,821
1 year or less but over 3 months	366,342
3 months or less	28,318
Total[1]	**428,481**

[1] Includes an amount of $20 million related to a discontinued operation, refer note 27.

Loans and advances to customers	IAS 39
	2017
	$'000
Maturity	
5 years or less but over 1 year	76,963
1 year or less but over 3 months	149,074
3 months or less	-
Total	**226,037**

Risk management (continued)

Credit risk (audited) (continued)

Credit risk exposures (continued)

Ratings profile

At 31 December 2018	Stages		
	Stage 1	Stage 2	
	12-month ECL	Lifetime ECL	Total
Loans and advances to customers at amortised cost			
	$'000	$'000	$'000
Investment-grade			
AAA/Aaa to BBB-Baa3	35,345	—	35,345
Non-investment-grade			
BB+/Ba1 -> B-/B3	—	4,576	4,576
Gross carrying amount	**35,345**	**4,576**	**39,921**

Loans and advances to customers and banks at FVOCI			
	$'000	$'000	$'000
Investment-grade			
AAA/Aaa to BBB-Baa3	245,916	52,201	298,117
Non-investment-grade			
BB+/Ba1 -> B-/B3	2,637	91,581	94,218
Gross carrying amount	**248,553**	**143,782**	**392,335**
Fair value adjustment	—	—	(3,775)
Total	**248,553**	**143,782**	**388,560**

At 31 December 2017

Loans and advances to customers	2017
	$'000
Investment grade (AAA/Aaa to BBB-/Baa3)	114,712
Sub-investment grade	111,325
Total	**226,037**

Risk management (continued)

Credit risk (audited) (continued)

Credit risk exposures (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.

Loans and advances to customers at amortised cost and FVOCI and Loans and advances to banks at FVOCI	**IFRS 9**
Credit risk concentration	**2018**
	$'000
Geographic region	
United Kingdom	842
Other European	333,625
Rest of the world	94,014
Total [1]	**428,481**
Industry concentration	
Commercial and industrial	271,508
Financial Institutions	156,973
Total [1]	**428,481**

[1] Includes an amount of $20 million related to a discontinued operation, refer note 26.

Loans and advances to customers	**IAS 39**
Credit risk concentration	**2017**
	$'000
Geographic region	
United Kingdom	2,016
Other European	165,622
Rest of the world	58,399
Total	**226,037**
Industry concentration	
Commercial and industrial	207,470
Financial institutions	18,567
Total	**226,037**

Securities purchased under agreements to resell

The Company generally bears credit risk related to resale agreements 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 significantly lower than the amounts recorded on balance sheet as the substantial majority represent contractual value before consideration of any collateral received.

Securities financing arrangements tend to be short-term in nature with no history of credit losses. These arrangements are included in Stage 1 as the Company has determined there is no material SICR during the short tenor of the instrument. The Company recognises no ECL on these balances as the ECL related to these exposures is assessed as immaterial.

Risk management (continued)

Credit risk (audited) (continued)

Credit risk exposures (continued)

Debtors and accrued income

Debtors mainly consist of amounts due from brokers/dealers, customers and JPMorgan Chase undertakings. The majority of which are with other JPMorgan Chase undertakings where the borrower is a Material Legal Entity ("MLE"). Accrued income primarily represents accrued interest on securities purchased under resale agreements and loans with other JPMorgan Chase undertakings who are MLEs.

For inter-company transactions where the borrower is a Material Legal Entity ("MLE"), the Company's anticipated ECL was determined to not be material and no loss was recognised, for the following reasons:

- The MLE borrower has been prepositioned with funding in an extremely efficient manner from both a liquidity and a capital perspective.

- JPMorgan Chase Bank, N.A. ("JPMCB") and the JP Morgan Chase's Intermediate Holding Company ("IHC") are obligated to provide financial support to their direct and indirect subsidiaries in connection with the Support Agreement that is put in place as part of the Firm's resolution planning process, which effectively functions as a guarantee/backstop for inter-company lending arrangements with an MLE borrower.

As MLEs are adequately capitalised to ensure the MLE can fulfil all of its debt obligations even in the event of an orderly liquidation of JPMorgan Chase and are of investment grade, these inter-company receivables are included in Stage 1 as they are held with MLEs and considered to not have an increase in credit risk that would result in material expected credit losses. Receivables from MLE's are only included in Stage 2 if the obligor is no longer considered an MLE and there is evidence of credit deterioration of the obligor, or if certain support triggers defined in the JPMorgan Chase's Resolution Plan occur. Receivables from MLE's are not credit-impaired as the Firm ensures MLE's are more than adequately capitalised as required by the Firms Resolution Plan. The Company's anticipated ECL for other receivables from non MLEs was determined to not be material and no loss was recognised.

Risk management (continued)

Credit risk (audited) (continued)

Credit risk exposures (continued)

Loan commitments and financial guarantee contracts

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.

The following table summarises the rating profile of contractual amounts by stage of off-balance sheet lending-related commitments and standby letters of credit.

At 31 December 2018	Stages		
	Stage 1	Stage 2	
	12-month ECL	Lifetime ECL	Total
At Amortised cost			
Rating profile	$'000	$'000	$'000
Investment-grade			
AAA/Aaa to BBB-Baa3	1,171,123	419,036	1,590,159
Non-investment-grade			
BB+/Ba1 -> B-/B3	463,752	85,626	549,378
CCC+/Caa1 and below	140,754	60,707	201,461
Contractual amount	**1,775,629**	**565,369**	**2,340,998**

	Contractual amount	ECL	Contractual amount	Loss allowance[1]
	2018	2018	2017	2017
	$'000	$'000	$'000	$'000
Other lending commitments	1,573,991	2,465	2,348,289	2,811
Standby letters of credit and guarantees	767,007	107	1,043,191	—
Total	**2,340,998**	**2,572**	**3,391,480**	**2,811**

[1] The loss allowance represents the on balance sheet allowance for lending related commitments.

Risk management (continued)

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; and
- Performing independent review of liquidity risk management processes.

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 financial obligations through normal economic cycles as well as during stress events, and
- Manage an optimal funding mix, and availability of liquidity sources.

As part of the Firm's overall liquidity management strategy, the Firm manages liquidity and funding using a centralised, global approach in order to:

- Optimise liquidity sources and uses;
- Monitor exposures;
- Identify constraints on the transfer of liquidity between the Firm's legal entities; and
- Maintain the appropriate amount of surplus liquidity at a Firmwide and legal entity level, where relevant.

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

- Analysing and understanding the liquidity characteristics of the assets and liabilities of the Firm, lines of business and legal entities, 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 is 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. At 31 December 2018, the Company was compliant with the LCR requirement.

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. The European Commission introduced its legislative proposal for the NSFR ("EU NSFR"), amending Regulation (EU) No 575/2013. 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 new regulation.

Risk management (continued)

Liquidity risk (unaudited) (continued)

Risk governance and measurement

Committees responsible for liquidity governance include the Firmwide Asset and Liability Committee ("ALCO"), as well as line of business and regional ALCOs, Treasury and Corporate ("CTC") Risk Committee; and the DRPC and the ERC.

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.

Contingency funding plan

The Firm's contingency funding plan ("CFP") is approved by the Firmwide ALCO and the DRPC. The EMEA ALCO and the JPMEL DRPC review and recommend for approval, the JPMEL CFP addendum to the JPMEL Board of Directors annually. 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)

JPMEL's primary source of funding is its deposit base which is further supported by capital resources with excess cash deployed on a short-term basis, including in unencumbered high quality liquid assets. This provides JPMEL with sufficient access to liquidity to meet obligations as they fall due, including in stress.

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

	2018			2017		
	On demand	**Less than 1 year**	**Total**	On demand	Less than 1 year	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Deposits by banks	38,743	—	38,743	133,754	—	133,754
Customer accounts [1]	6,889,104	—	6,889,104	10,242,215	—	10,242,215
Financial liabilities held at fair value through profit and loss	—	61,348	61,348	—	92,681	92,681
Trade creditors	—	—	—	—	5,045	5,045
Other liabilities [1]	—	189,794	189,794	—	80,692	80,692
	6,927,847	**251,142**	**7,178,989**	**10,375,969**	**178,418**	**10,554,387**

[1] Includes amounts related to discontinued operations, for further details of the split of these amounts by line item category, refer to note 27.

Risk management (continued)

Market risk (audited)

Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.

The following sections detail the market risk management framework at both the Firmwide and Company levels.

Market Risk Management monitors market risks throughout the Firm and defines market risk policies and procedures. The Market Risk Management function reports to the Firm's CRO, and seeks to manage risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Firm's market risk profile.

The Firmwide Risk Executive ("FRE") Market Risk and Line of Business Chief Risk Officers ("LOB CROs") are responsible for establishing an effective market risk organisation that measures, monitors and controls market risk.

Risk Governance & Policy Framework

The Company's approach to market risk governance mirrors the Firmwide approach and is outlined in the Company Market Risk Framework. The Company Market Risk Framework outlines the following:

- Responsibilities of the Company CRO and Market Risk Officer ("MRO")
- Market Risk measures utilised such as VaR and Stress
- Controls such as the Company's market risk limit framework (limit levels, limit signatories, limit reviews and escalation)

The Company's Board approves substantive changes to the framework and approves this framework annually. The Company's DRPC will review this framework annually and make recommendation to Company's Board of directors for framework approval.

Risk Measurement

There is no single measure to capture market risk and therefore the Firm and Company use various metrics both statistical and non-statistical to assess risk. 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.

Value-at-Risk ("VaR")

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

The framework is employed across the Firm using historical simulation based on data for the previous 12 months. Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. These VaR results are reported to senior management, the Firm Board of directors and regulators.

Separately, Regulatory VaR, also applied across the Firm, 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 applies the Firmwide approach for Risk Management VaR as described above, for internal risk management purposes. The Company does not calculate Regulatory VaR for capital purposes since it uses the standardised approach to calculate capital.

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

	2018			2017			At 31 December	
	Avg.	Min	Max	Avg.	Min	Max	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
95 % VaR	190	148	264	191	161	243	163	185

Risk management (continued)

Market risk (audited) (continued)

The Company's market risk exposure is driven by FX cash (across various desks in Global Credit Trading), long credit from a legacy loan position (Global Credit Trading) and long IR delta/FX delta exposure in CIO/Treasury for internal funding activities.

Stress testing

Along with VaR, stress testing is an important tool in measuring and controlling risk. The Firmwide Stress Infrastructure ("FSI") is intended to capture the Firm's (including the Company's) exposure to unlikely but plausible events in abnormal markets. The Firm runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices. The same approach is applied across relevant portfolios managed within the Company.

The Firm and the Company use a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. 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.

Stress testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realised, and to stress test the relationships between market prices under extreme scenarios. Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the respective LOB, Firm and Company senior management as appropriate, to allow them to better understand the sensitivity of positions to certain defined events and to enable them to manage their risks with more transparency.

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

Risk Monitoring and Control

Limits

Market risk limits are employed as the primary control to align the Firm's market risk with certain quantitative parameters within the Firm's Risk Appetite framework.

Senior management, including the Firm's CEO, CRO and Market Risk Management are responsible for reviewing and approving limits on an ongoing basis. Limits that have not been reviewed within a specified time period by Market Risk Management are escalated to senior management.

Limit breaches are required to be reported in a timely manner to limit signatories. Market Risk Management and senior management as appropriate determine the course of action required to return to compliance, such as a reduction in risk or the granting a temporary increase in limits. Aged or significant breaches are escalated to senior management, the LOB Risk Committee, and/or the Firmwide Risk Committee.

Additional controls beyond market risk limits - including but not limited to Authorised Instruments, Pre-Trade Governance and E-Trading Control - are also employed as a means to control market risk.

The Company's limits include VaR and Stress limits established for the legal entity.

The Company's Board of directors is the limit signatory of legal entity level limits and delegates its approval authority to the Company's CRO, CEO and MRO

The Company's CRO and MRO review all of the Company's 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.

Market Risk limits are set in accordance to the Company's Risk Appetite Framework. The Company's Risk Appetite Framework leverages the Firm's Risk Appetite Framework, with differences in quantitative parameters and factors and/or governance structure defined in the Company's Risk Appetite Framework.

Risk management (continued)

Market risk (audited) (continued)

Risk Reporting

The Company has its own set of regular market risk reports and where applicable, comprises of granular market risk metrics which provide transparency into potential risk concentrations. Limit utilisations and notifications of market risk limit breaches are documented and sent to appropriate limit signatories daily. Aged and significant limit breaches are escalated to the ERC.

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's functional and presentation currency is U.S. dollar.

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) and also the impact from Treasury and Chief Investment Office ("T/CIO") investment portfolio and other related T/CIO 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 including the changes related to IRR management

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.

Risk management (continued)

Structural interest rate risk (continued)

Oversight and governance (continued)

IRR Management is responsible for, but not limited to:

- Measuring and monitoring IRR and establishing limits; and
- Creating and maintaining governance over IRR assumption

The Firmwide risk framework applies to the Company as described above.

Risk Identification and Measurement

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. LOBs are responsible for developing and monitoring the appropriateness of LOB specific IRR modelling assumptions.

Measures to manage IRR include:

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

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, cybersecurity attacks, inappropriate employee behaviour, financial reporting and accounting errors, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their agreements. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Company and the Firm. 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, Operational Risk Identification and Assessment, Operational Risk Measurement, and Operational Risk Monitoring and Reporting. The Company's approach mirrors the Firmwide approach.

The Firm and Company utilise a structured risk and control self-assessment process, which is executed by LOB and corporate functions, to identify, assess, mitigate and manage its operational risk. As part of this process, LOB and corporate functions identify key operational risks inherent in their activities, address gaps or deficiencies identified, and define actions to reduce residual risk.

Operational risk can manifest itself in various ways. Operational risk subcategories such as Compliance risk, Conduct risk, Legal 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 subcategories, where relevant, can be found in the respective risk management sections. Details on cybersecurity risk, business and technology resiliency risk, together with third-party outsourcing risk, are provided below.

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 the lines of business and Corporate 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.

The TPO framework is applied by the Company to manage its TPO engagements within the relevant businesses as detailed in the principle activity section.

Risk management (continued)

Operational risk (continued)

Third-party outsourcing risk (continued)

In addition, the Firm has an Inter Affiliate Oversight ("IAO") programme. This is a risk-based policy and procedure framework to comply with regulations and guidance relating to management of outsourcing/offshoring of services within JPMC Affiliates in conjunction with the relevant advisory functions and subject matter experts, including Legal, Compliance and Tax. The programme addresses the outsourcing / offshoring regulatory risk through a lifecycle starting from onboarding (planning and preparation, expert review, final review and go-live), steady state and disengagement. Service Request Inherent Risk assessment forms the basis to measure the levels of business impact and risk to determine the appropriate rating of an engagement, which then determines the level of due diligence and oversight activities as part of the IAO programme. The programme also provides regular oversight of remediation issues identified during the above mentioned assessment, as well as the periodic reviews and performance against service levels and regulatory obligations.

Cybersecurity risk

Cybersecurity risk is an important, continuous and evolving focus for the Firm. 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 designed to protect against, among other things, cybersecurity attacks by unauthorised parties attempting 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 cyber-defence 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 defences and improve resiliency against cybersecurity threats. The Firm actively participates in discussions of cybersecurity risks with law enforcement, government officials, peer and industry groups, and has significantly increased efforts to educate employees and certain clients on the topic

Third parties with which the Firm does business or that facilitate the Firm's business activities (e.g., vendors, exchanges, clearing houses, central depositories, and financial intermediaries) could also be sources of cybersecurity risk to the Firm. Third party cybersecurity incidents such as system breakdowns or failures, misconduct by the employees of such parties, or cyber-attacks could affect their ability to deliver a product or service to the Firm or result in lost or compromised information of the Firm or its clients. Clients can also be sources of cybersecurity risk to the Firm, particularly when their activities and systems are beyond the Firm's own security and control systems. As a result, the Firm engages in regular and ongoing discussions with certain vendors and clients regarding cybersecurity risks and opportunities to improve security. 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's infrastructure, resources and information, the Firm maintains a cybersecurity programme to prevent, detect, and respond to cyber-attacks. The Global Chief Information Officer, Chief Technology Control Officer, and Chief Information Security Officer ("CISO") update the Audit Committee of the Board of directors at least annually on the Firm's Information Security Programme, recommended changes, cybersecurity policies and practices, ongoing efforts to improve security, as well as its efforts regarding significant cybersecurity events. In addition, the Firm has a detailed cybersecurity incident response plan ("IRP") designed to enable the Firm to respond to attempted cybersecurity incidents, coordinate such responses with law enforcement and other government agencies, and notify clients and customers. Among other key focus areas, the IRP is designed to mitigate the risk of insider trading connected to a cybersecurity incident, and includes various escalation points in this regard including Compliance and the Legal Department.

The Cybersecurity and Technology Control functions are responsible for governance and oversight of the Firm's Information Security Programme. In partnership with the Firm's lines of business, the Cybersecurity and Technology Control organisation identifies information security risk issues and champions programmes for the technological protection of the Firm's information resources including applications, infrastructure as well as confidential and personal information related to the Firm's customers. The Cybersecurity and Technology Control organisation comprises Governance and Control, Assessments, Assurance and Training, Cybersecurity Operations, business aligned control officers, Identity and Access Management, and resiliency functions that execute the Information Security Programme.

The Global Cybersecurity and Technology Control governance structure is designed to identify, escalate, and mitigate information security risks. This structure uses key governance forums to disseminate information and monitor technology efforts. These forums are established at multiple levels throughout the Firm and include representatives from each LOB and Corporate.

Reports containing overviews of key technology risks and efforts to enhance related controls are produced for these forums, and are reviewed by management at multiple levels including technology management, Firmwide management and the Operating Committee. The forums are used to escalate information security risks or other matters as appropriate to the FCC.

Information Risk Management ("IRM") provides oversight of the activities which identify, assess, manage and mitigate cybersecurity risk. As integral participants in cybersecurity governance forums, the IRM organisation actively monitors and oversees the Cybersecurity and Technology Control functions.

Risk management (continued)

Operational risk (continued)

Cybersecurity risk (continued)

The Firm's Security Awareness Programme includes training that reinforces the Firm's Information Technology Risk and Security Management policies, standards and practices, as well as the expectation that employees comply with these policies. The Security Awareness Programme engages personnel through training on how to identify potential cybersecurity risks and protect the Firm's resources and information. This training is mandatory for all employees globally on an annual basis, and it is supplemented by Firmwide testing initiatives, including quarterly phishing tests. Finally, the Firm's Global Privacy programme requires all employees to take annual awareness training on data privacy. This privacy-focused training includes information about confidentiality and security, as well as responding to unauthorised access to or use of information.

Business and technology resiliency risk

Business disruptions can occur due to forces beyond the Firm's control such as severe weather, power or telecommunications loss, flooding, transit strikes, terrorist threats or infectious disease. The safety of the Firm's employees and customers is of the highest priority. The Firm's global resiliency programme is intended to enable the Firm to recover its critical business functions and supporting assets (i.e., staff, technology and facilities) in the event of a business interruption. The programme includes corporate governance, awareness training, and testing of recovery strategies, as well as strategic and tactical initiatives to identify, assess, and manage business interruption and public safety risks.

The strength and proficiency of the Firm's global resiliency programme has played an integral role in maintaining the Firm's business operations during and after various events.

Compliance risk

Compliance risk is the risk of failure to comply with legal or regulatory obligations or code of conduct and standards of self-regulatory organisations applicable to the business activities of the Firm.

Each LOB and Corporate within the Company hold primary ownership and accountability for managing compliance risks. 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 the 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 has implemented various practices designed to identify and mitigate compliance risk by establishing policies, testing, monitoring, training and providing guidance. 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 Firms' 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.

Risk management (continued)

Compliance risk (continued)

Governance and oversight (continued)

The Firm has in place a Code of Conduct ("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 any action or inaction by an employee or employees could lead to unfair client or customer outcomes, impact the integrity of the markets in which the Firm operates, or compromise the Firm's reputation.

Overview

Each LOB and Corporate 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 (the "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 information and resources to help employees conduct business ethically and in compliance with the law everywhere the Firm operates. For further discussion of the Code, refer to Compliance Risk Management.

Governance and oversight

The Firm's Conduct Risk Programme is governed by a Board-level approved Conduct Risk Governance Policy. The Conduct Risk Governance Policy ("CRSC") establishes the framework for ownership, assessment, managing and escalating conduct risk in the Firm. The CRSC provides oversight of the Firm's conduct initiatives to develop a more holistic view of conduct risks and to connect key programmes across the Firm in order to identify opportunities and emerging areas of focus. The CRSC may escalate systemic conduct risk issues to the Firmwide Risk Committee ("FRC") and as appropriate to the DRPC. The misconduct (actual or potential) of individuals involved in material risk and control issues are escalated to the Human Resource ("HR") Control Forum. Certain committees of the Board oversee conduct risk issues within the scope of their responsibilities. Conduct risk management encompasses various aspects of people management practices throughout the employee life cycle, including recruiting, onboarding, training and development, performance management, promotion and compensation processes. Each LOB, T/CIO, 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.

Model risk

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

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

Risk Governance

A dedicated independent function, Model Risk Governance and Review ("MRGR"), defines and governs the Firm's model risk management policy. MRGR reports to the Firm's CRO.

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 models 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. Model users and developers may seek to enhance models in response to changes in the relevant portfolios, product or market, as well as to capture improvements in available modelling techniques and systems capabilities.

Risk management (continued)

Model risk (continued)

Risk Governance (continued)

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. In certain circumstances, the Model Risk function may grant exceptions to allow a model to be used prior to review or approval. The Model Risk function may require the user to take appropriate actions (i.e. put compensating controls in place) to mitigate the model risk if it is to be used in the interim. These actions will depend on the model and may include, for example, adjustment of model's results (i.e. an 'overlay'), or limitation of trading activity.

Models are tiered based on an internal standard according to their complexity, the exposure associated with the model and the Firm's reliance on the model. This tiering, which will reflect the materiality of the risk posed by the model to the Firm, is subject to the approval of the Model Risk function. A model review conducted by the Model Risk function considers the model's suitability for the specific uses to which it will be put. The factors considered in reviewing a model include whether the model accurately reflects the characteristics of the product or activity and its significant risks, the selection and reliability of model inputs, consistency with models for similar products, the appropriateness of any model-related adjustments, and sensitivity to input parameters and assumptions that cannot be observed from the market. When reviewing a model, the Model Risk function analyses and challenges the model methodology and the reasonableness of model assumptions and may perform or require additional testing, including back-testing of model outcomes.

At the conclusion of a review, the Model Risk function can raise issues regarding identified model risks depending on the associated severity ratings. The severity rating is determined based on two dimensions: importance and exposure. For issues related to Critical or High importance model risks, an evaluation of possible compensating controls is required. The evaluation must consider the usages of the model affected by the issue. Compensating Controls aim to mitigate the model risk, for example, by adjusting the model output to address the inaccuracy or weakness in the model, or implementing an ongoing mechanism to monitor the materiality of the model inaccuracy or weakness. The type and frequency of compensating controls will vary based on the nature and materiality of the issue. For example, the compensating control may also include escalation for review by governance bodies (e.g., Market Risk Models Committee) to determine the appropriate course of action.

Summary of Roles and Responsibilities

Managing model risk throughout the model life cycle is the responsibility of multiple constituents, principally the Model Users, Model Developers, and MRGR.

The Model Users are the primary owners of model risk related to their use of a model. MRGR, as an independent Risk Management function, is responsible for determining the scope and applicability of the Firm's model risk management policy, including the determination of what constitutes a model, and providing effective challenge with the goal of capturing and mitigating model risk throughout the model lifecycle. Model Developers are responsible for developing models to appropriate standards and establishing ongoing monitoring of the models they develop. They are also responsible for providing information related to model usage and communicating model changes to the Model User audience, and for meeting requirements related to issues identified during the model life cycle, and abiding by technology and operational control requirements related to the model.

Reputation risk

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

Reputation Risk Management is an independent risk management function that establishes the governance framework for managing reputation risk across the Firm.

The types of events that give rise to reputation risk are broad and could be introduced in various ways, including by the Firm's employees and the clients, customers and counterparties with which the Firm does business. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Firm. As reputation risk is inherently difficult to identify, manage, and quantify, an independent reputation risk management governance function is critical.

Governance and oversight

The Firm's Reputation Risk Governance policy establishes the principles for managing reputation risk for the Firm. It is the responsibility of employees in each LOB and Corporate to consider the reputation of the Company when deciding whether to offer a new product, engage in a transaction or client relationship, enter a new jurisdiction, initiate a business process or other matters. Increasingly, sustainability, social responsibility and environmental impacts are important considerations in assessing the Firm's reputation risk, and are considered as part of reputation risk governance.

Risk management (continued)

Reputation risk (continued)

Governance and oversight (continued)

The Firm's reputation risk governance framework applies to each LOB and Corporate. Each LOB Reputation Risk Office ("RRO") advises their business on potential reputation risk issues and provides oversight of policy and standards created to guide the identification and assessment of reputation risk. LOB Reputation Risk Committees and forums review and assess reputation risk for their respective businesses. Each function also applies appropriate diligence to reputation risk arising from their day-to-day activities. Reputation risk issues deemed significant are escalated to the appropriate LOB Risk Committee and/or to the Firmwide Risk Committee. Annual EMEA CIB Reputation Risk Committee update are provided to the ERC.

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 judgements 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.

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, or sexual orientation. 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. 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 of JPMorgan Chase & Co. and its subsidiaries, to acquire a proprietary and vested interest in the growth and performance of the Firm.

Non-financial policies

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 works with companies in nearly every sector of the economy - as well as with development finance institutions, governments, and investors - to help them advance environmental and social best practices and capitalise on opportunities created by the transition to a lower-carbon, more sustainable future. The Firm also strives to promote sustainability, including energy efficiency and renewable energy, across its operations globally.

Assessing its clients' approach and performance on environmental and social issues is an important component of the Firm's risk management process. The Firm's Environmental and Social Policy Framework, which is available on our website, outlines the Firm's approach to evaluating reputational and financial risks posed by environmental and social matters, including certain activities that the Firm will not finance, and sectors and activities subject to environmental and social due diligence.

In 2017, the Firm committed to facilitate $200 billion in clean financing by 2025 to further support our clients in advancing their sustainability objectives. Across the Firm's buildings and retail branches globally, sustainability efforts focus on reducing energy use and greenhouse gas ("GHG") emissions. In 2017, the Firm also established a goal to source renewable energy for 100% of its global power needs by 2020.

The Firm discloses relevant data and metrics on GHG emissions and energy consumption in its Environmental, Social, and Governance Report, which is published annually and available at www.jpmorganchase.com/esg.

Non-financial policies (continued)

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 Firm's 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 United Nations Guiding Principles on Business and Human Rights as the recognised framework for corporations to respect human rights in their own operations and through business relationships.

To view the Firms' Human Rights Statement, including the UK 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.

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

J.P. MORGAN EUROPE LIMITED
Strategic report (continued)

Non-financial policies (continued)

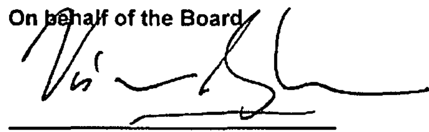
Corporate employee policy (continued)

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

On behalf of the Board



V. Raghavan

Director
23 April 2019

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 2018. 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, has been disclosed.

Results and dividends

The results for the year are set out on page 40 and show the Company's profit for the financial year after taxation is $125 million (2017: $253 million).

The Company paid an interim dividend of $2 billion in total, or $1.43 per share, on 5 September 2018 (2017: 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)	
A.T. Doherty	
E. Korablina	(Resigned 26 April 2018)
M. Melling	(Appointed 10 April 2018)
V. Raghavan (CEO)	

Statement of directors' responsibilities

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

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.

Disclosure of information to auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves 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 were as follows:

Abimbola Adesanya (Resigned 31 December 2018)

Hina Patel (Appointed 1 January 2019)

J.P. Morgan Secretaries (UK) Limited

Registered address

The current registered address is as follows:

25 Bank Street
Canary Wharf
London
E14 5JP

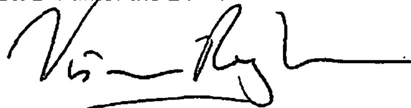
Independent auditors

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

Mandatory Audit Firm Rotation

EU legislation in the form of the Statutory Audit Regulation and Directive came into force in June 2016, and requires Mandatory Audit Firm Rotation for Public Interest Entities after a certain period of time. In accordance with the EU legislation, the Company is required to conduct a tender within 10 years and rotate auditors within 20 years. The audit of the Company will therefore go up for tender for the 31 December 2021 year-end audit.

On behalf of the Board



V. Raghavan

Director
23 April 2019

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

Report on the audit of the financial statements

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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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.

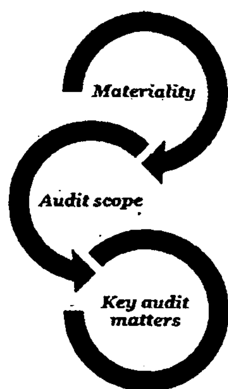
Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Context

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.

Overview



- Overall materiality: \$14.3 million (2017: \$36.4 million), based on 0.75% of regulatory capital resources as defined by the Prudential Regulatory Authority ('PRA').

- 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 processes and internal controls being performed in other geographical locations, PwC network firms ('other auditors') were involved in the engagement.

- Transfer of Securities Services activities.
- Impairment of loans, advances and commitments under IFRS 9.

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to rules of the Financial Conduct Authority's ('FCA') Client Asset Sourcebook, UK tax legislation and the Prudential Regulation Authority's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- Discussions with Senior Management, UK Audit & Compliance Committee, Internal audit, internal legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of entity level controls put in place by management to prevent and detect irregularities;
- Reading key correspondence with regulatory authorities such as PRA and FCA during the year;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to measurement of the expected credit loss allowance (see related key audit matter below) and the fair value financial instruments;
- Assessment of whistleblowing procedures, reports and management's investigation of such matters; and
- Identifying and testing journal entries with specific risk characteristics, including any journal entries posted by senior management.

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. Also, 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.

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.

Key audit matter	***How our audit addressed the key audit matter***
Transfer of Securities Services activities In 2018, Management agreed to facilitate the transition of the Company's Securities Services activities (the 'activities') within the Nordic region as part of a firmwide restructuring. This included the transfer of activities in branches acquired on the acquisition of Nordea Bank in 2008. We considered the transfer to be a key audit matter due to the impact on the financial statements and the subjectivity of the valuation of the activities being transferred. This valuation directly impacts the impairment of the goodwill and has potential tax implications. Management engaged external experts to determine an independent valuation for the activities being transferred. The valuation was subjective due to the lack of direct comparable market information combined with specific matters relating to the transfer. This valuation resulted in the goodwill being written down to an amount equal to the	We obtained and reviewed analysis prepared by management's expert to understand the valuation methodology and inputs used to value the Securities Services activities. We engaged internal valuations experts to challenge the valuation provided by management. The experts independently validated the key inputs where observable market data was available. Where key inputs were derived from comparative companies, the experts assessed the reasonableness of those benchmarks. The experts also ensured management provided a suitable contrasting valuation methodology to the original methodology to provide a reasonable cross check of the valuation. The experts assessed the assumptions used in the valuation for their suitability and reasonableness based

Key audit matter	*How our audit addressed the key audit matter*
estimated fair value of the activities during the period. Additionally management assessed the tax implications of the transfer under the different tax jurisdictions. Refer to note 27 of the financial statements for disclosures related to transfer of the Securities Services line of activities.	on our understanding of the specific terms of the transaction and considering market information and factors specific to the activities (eg. the need to discontinue the activities within a short time frame). The experts considered the sensitivity of management's outcome to possible variations to the inputs and assumptions. Additionally we engaged tax specialists to review management's assessment of the tax impact of the transfer by considering United Kingdom tax laws and local legislation in the branches. We reviewed management's accounting analysis of the transaction and challenged management on the timing of the recognition of the goodwill impairment during the period. We validated the classification of held for sale assets and liabilities under IFRS 5. Internal accounting experts reviewed management's conclusion for completeness and accuracy. We assessed the financial statements' disclosures relating to the transfer of the Securities Services activities were appropriate and in line with IFRS 5.
Impairment of loans, advances and commitments under IFRS 9 IFRS 9, Financial instruments is the new standard for the measurement of impairment, replacing IAS 39. The new standard measures impairment using an expected credit loss ('ECL') methodology and applies a different approach to measurement and classification of financial instruments. Under IFRS 9, management is required to determine ECLs that may occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the counterparty since loan origination. We consider the following to be key audit matters; • Setting of appropriate thresholds for a SICR, and • The determination of triggers (eg. credit risk ratings) which indicate a SICR. Refer to note 10, 16 and 17 to the financial statement for the relevant disclosures.	We understood and evaluated the design of the key controls over the credit risk ratings used in the determination of SICR and tested the operating effectiveness. We tested the review and approval of internal credit ratings assigned to an underlying counterparty. In addition, we performed the substantive procedures described below. We engaged risk modelling experts who assessed the appropriateness of the methodology used by management and the thresholds applied in determining where there has been a SICR. We engaged credit experts to review the credit risk ratings for a sample of loans to confirm the appropriateness of the credit risk rating assigned. These credit risk ratings are used as an input into SICR model. In addition we performed a risk based targeted test over the loan portfolio to identify any loans included in an industry with increased credit risk. For these counterparties, we performed a review over the credit risk rating pack to assess the appropriateness of the credit risk rating assigned. Based on the evidence obtained through the testing above, the credit ratings used in determination of a significant increase in credit risk are considered reasonable.

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:

Overall materiality	$14.3 million (2017: $36.4 million).
How we determined it	0.75% of regulatory capital resources as defined by the PRA.
Rationale for benchmark applied	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 $715,000 (2017: $1.8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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 27 years, covering the years ended 31 December 1992 to 31 December 2018.

Duncan McNab (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2019

J.P. MORGAN EUROPE LIMITED
Income statement

For the year ended 31 December	Notes	2018 Continuing Operations $'000	2018 Discontinued Operations $'000	2018 Total $'000	2017 Continuing Operations $'000	2017 Discontinued Operations $'000	2017 Total $'000
Interest income	7	138,856	36,572	175,428	52,077	20,126	72,203
Interest expense	7	(16,520)	(28,008)	(44,528)	(5,685)	(1,760)	(7,445)
Net interest income		**122,336**	**8,564**	**130,900**	**46,392**	**18,366**	**64,758**
Fee and commission income	8	677,729	31,644	709,373	687,936	30,079	718,015
Fee and commission expense	9	(17,328)	(327)	(17,655)	(28,085)	(105)	(28,190)
Trading (loss)/profit		(123,878)	(34)	(123,912)	48,273	48	48,321
Expected credit loss	10	11,070	—	11,070	—	—	—
Impairment reversal	11	—	—	—	1,124	—	1,124
Total operating income		**669,929**	**39,847**	**709,776**	**755,640**	**48,388**	**804,028**
Administrative expenses		(410,374)	(3,935)	(414,309)	(461,052)	(4,188)	(465,240)
Impairment charge	12	—	(62,010)	(62,010)	—	—	—
Profit on ordinary activities before taxation	13	**259,555**	**(26,098)**	**233,457**	**294,588**	**44,200**	**338,788**
Tax charge on profit on ordinary activities	15	(91,995)	(16,163)	(108,158)	(77,193)	(8,303)	(85,496)
Profit for the financial year		**167,560**	**(42,261)**	**125,299**	**217,395**	**35,897**	**253,292**

Statement of comprehensive income

For the year ended 31 December	Notes	2018 $'000	2017 $'000
Profit for the financial year		**125,299**	**253,292**
Other comprehensive (income)/expense for the year:			
Movement in loans at FVOCI		(468)	—
Movement in available-for-sale financial assets	21	—	(11,517)
Total comprehensive income for the year		**124,831**	**241,775**

Total comprehensive income is generated from continuing operations.

The notes on pages 44 - 77 form an integral part of these financial statements.

J.P. MORGAN EUROPE LIMITED
Balance sheet (continued)

As at 31 December	Notes	2018 $'000	2017 $'000
Assets			
Loans and advances to banks	16	**7,187,799**	12,323,841
Loans and advances to customers	17	**291,002**	213,444
Securities purchased under resale agreements	18	**1,708,735**	1,820,710
Financial assets held at fair value through profit and loss	19	**68,607**	97,166
Financial assets designated at fair value through profit or loss	20	**—**	22,261
Debtors	23	**261,991**	158,751
Deferred tax asset	15	**8,299**	5,801
Prepayments and accrued income	24	**5,412**	2,426
Goodwill	25	**—**	72,010
Investments in JPMorgan Chase undertakings	26	**1,870**	1,869
Total assets		**9,533,715**	**14,718,279**
Liabilities			
Deposits by banks	28	**38,743**	133,754
Customer accounts	29	**6,889,104**	10,242,215
Financial liabilities held at fair value through profit and loss	30	**61,348**	92,681
Trade creditors	31	**—**	5,045
Other liabilities	32	**322,554**	163,692
Provisions for liabilities	33	**7,175**	2,830
Accruals and deferred income	34	**88,079**	97,873
Total liabilities		**7,407,003**	**10,738,090**
Equity			
Called-up share capital	37	**1,397,922**	1,397,922
Share premium account		**231,068**	231,068
Other reserves		**165,933**	146,255
Retained earnings		**331,789**	2,204,944
Total equity		**2,126,712**	**3,980,189**
Total liabilities and equity funds		**9,533,715**	**14,718,279**

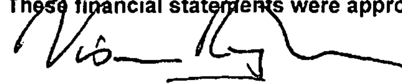
J.P. MORGAN EUROPE LIMITED
Balance sheet (continued)

As at 31 December	Notes	2018 $'000	2017 $'000
Disposal group			
Assets held for sale	27	**3,868,409**	—
Liabilities held for sale	27	**3,866,803**	—
Memorandum items			
Lending commitment		**3,197,499**	2,348,289
Standby letters of credit and guarantees		**412,993**	1,043,191
Total memorandum items		**3,610,492**	**3,391,480**

The notes on pages 44 - 77 form an integral part of these financial statements.

Registered Company Number: 00938937

These financial statements were approved by the Board and directors on 27 March 2019 and signed on its behalf by:



V. Raghavan
Director
23 April 2019

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
Balance as at 1 January 2017	**1,397,922**	**231,068**	**33,679**	**11,517**	**95,470**	**1,951,652**	**3,721,308**
Profit for financial the year	—	—	—	—	—	253,292	**253,292**
Other comprehensive income for the year:							
Movement in available-for-sale reserve	—	—	—	(11,517)	—	—	**(11,517)**
Total comprehensive income for the year	—	—	—	**(11,517)**	—	**253,292**	**241,775**
Movement in other reserves	—	—	—	—	17,106	—	**17,106**
Balance as at 31 December 2017	**1,397,922**	**231,068**	**33,679**	—	**112,576**	**2,204,944**	**3,980,189**
Adoption of IFRS 9	—	—	—	—	(3,307)	1,546	**(1,761)**
Balance as at 1 January 2018	**1,397,922**	**231,068**	**33,679**	—	**109,269**	**2,206,490**	**3,978,428**
Profit for the financial year	—	—	—	—	—	125,299	**125,299**
Other comprehensive income for the year:							
Movement in loans at FVOCI	—	—	—	—	(468)	—	**(468)**
Total comprehensive income for the year	—	—	—	—	**(468)**	**125,299**	**124,831**
Dividends paid	—	—	—	—	—	(2,000,000)	**(2,000,000)**
Movement in other reserves	—	—	—	—	23,453	—	**23,453**
Balance as at 31 December 2018	**1,397,922**	**231,068**	**33,679**	—	**132,254**	**331,789**	**2,126,712**

Other reserves include share based payment awards granted to employees by the Firm and an amount of $24 million (2017: $17 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 44 - 77 form an integral part of these 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 and reporting developments

Standards adopted during the year ended 31 December 2018

Adoption of IFRS 9

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

The requirements of IFRS 9 have been applied by revising the Company's opening balance sheet on 1 January 2018. As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative periods.

The adoption of IFRS 9 has resulted in an overall increase in the Company's retained earnings by approximately $2 million before tax from a decrease in expected credit losses.

In addition, on adoption of IFRS 9 the Company has recognised an decrease in other comprehensive income of $3 million as a result of changes in the classification of certain financial assets to FVOCI.

Refer to note 40 for more information about the Company's transition to IFRS 9.

3. Accounting and reporting developments (continued)

Adoption of IFRS 15

Effective 1 January 2018, the Company adopted IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15"). IFRS 15 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 permits adoption 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 adoption, and to new contracts transacted after that date. The Company adopted IFRS 15 using the full retrospective method.

The adoption of IFRS 15 did not result in any material changes in the timing of recognition or in the presentation of the Company's revenue.

For more information about the Company's revenue see note 8.

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:

Measurement of the expected credit loss allowance

An expected credit loss allowance (ECL) is required for financial assets measured at amortised cost and fair value through other comprehensive income as well as lending-related commitments such as loan commitments and financial guarantees. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behaviours. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in the Strategic report, which also sets out key sensitivities of the ECL to changes in these inputs.

A number of significant judgements are also required in measuring ECL, such as:

- Determining the criteria for identifying when financial instruments have experienced a significant increase in credit risk;
- Choosing appropriate forecasts and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type financial instrument/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

5. Significant accounting policies

The following are the significant accounting policies applied in the preparation of these financial statements. These policies have been applied consistently in each of 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.

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 Discontinued operation

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which:

i. represents a separate major line of business or geographical area of operations;
ii. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
iii. a subsidiary acquired exclusively with a view to resale

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

5.5 Assets and liabilities held for sale

Disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than continuing use.

Disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis. No loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

5. Significant accounting policies (continued)

5.6 Financial instruments

Changes in accounting policies

On adoption of IFRS 9 on 1 January 2018, the Company replaced or substantially revised its accounting policies for classification and measurement of financial assets and financial liabilities, and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures' ("IFRS 7"). The IFRS 7 disclosures have only been applied to the current period.

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

5.6.1 Financial assets and financial liabilities

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

5. Significant accounting policies (continued)

5.6.1 Financial assets and financial liabilities (continued)

IFRS 9

Financial assets and financial liabilities

Financial assets and financial liabilities measured at amortised cost

Financial assets are measured at amortised cost if they are held under a business model with the objective to collect contractual cash flows ("Hold to Collect") and they have contractual terms under which cash flows are solely payments of principal and interest ("SPPI"). In making the SPPI assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. As a result of the application of these criteria, only debt financial assets are eligible to be measured at amortised cost.

Financial assets measured at amortised cost include loans and advances to banks, certain loans and advances to customers, securities purchased under agreements to resell and debtors.

Financial liabilities are measured at amortised cost unless they are held for trading or are designated as measured at fair value through profit or loss. Most of the Company's financial liabilities are measured at amortised cost. Financial liabilities measured at amortised cost include trade creditors, borrowings, amounts owed to JPMorgan Chase undertakings and certain other liabilities.

Financial assets and financial liabilities measured at amortised cost are initially recognised at fair value including transaction costs. The initial amount recognised is subsequently reduced for principal repayments and for accrued interest using the effective interest method. In addition, the carrying amount of financial assets is adjusted by recognising an expected credit loss allowance through to profit or loss.

The effective interest method is used to allocate interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset or financial liability. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or financial liability.

IAS 39

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.

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.

The effective interest method is used to calculate the amortised cost of a financial asset or financial liability (or a group of financial assets or financial liabilities). It is a method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset or financial liability. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

5. Significant accounting policies (continued)

5.6.1 Financial assets and financial liabilities (continued)

IFRS 9

Financial assets and financial liabilities

Financial assets measured at FVOCI

Financial assets are measured at FVOCI if they are held under a business model with the objective of both collecting contractual cash flows and selling the financial assets ("Hold to Collect and Sell"), and they have contractual terms under which cash flows are SPPI.

Financial assets measured at FVOCI include certain loans and advances to customers and loans and advances to banks.

Financial assets measured at FVOCI are initially recognised at fair value, which includes direct transaction costs. The financial assets are subsequently remeasured at fair value with any changes presented in other comprehensive income ("OCI") except for changes attributable to impairment, interest income and foreign currency exchange gains and losses. Impairment losses and interest income are measured and presented in profit or loss on the same basis as financial assets measured at amortised cost (see above).

On disposal of financial assets measured at FVOCI, the cumulative gains or losses in OCI are reclassified from equity, and recognised in the income statement.

IAS 39

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.

IFRS 9

Financial assets and financial liabilities

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

Financial assets and financial liabilities are measured at fair value through profit or loss ("FVTPL") if they are held for trading. Under IFRS 9, a financial asset or a financial liability is defined as "held for trading" if it is acquired or incurred principally for the purpose of selling or re-purchasing it in the near term, or forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or it is a derivative.

Financial assets and financial liabilities held for trading comprise of debt instruments, loans and derivatives and the related unrealised gains and losses.

In addition, certain financial assets that are not held for trading are measured at FVTPL if they do not meet the criteria to be measured at amortised cost or FVOCI. For example, if the financial assets are managed on a fair value basis, have contractual cash flows that are not SPPI or are equity securities.

Financial instruments measured at FVTPL are initially recognised at fair value in the balance sheet. Transaction costs and any subsequent fair value gains or losses are recognised in profit or loss as they arise.

The Company manages cash instruments, in the form of debt instruments, and derivatives on a unified basis, including hedging relationships between cash securities and derivatives. Accordingly the Company reports the gains and losses on the cash instruments and the gains and losses on the derivatives on a net basis in trading profits.

IAS 39

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

Financial assets and financial liabilities held for trading comprise of 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 and financial liabilities held for trading, are unrealised trading gains and losses. Financial instruments held for trading are initially recognised at fair value in the balance sheet with transaction costs being recorded in profit or loss and any gains or losses are taken directly to the income statement. Subsequently, they are measured at fair value with movement included in trading profit and loss.

The Company manages cash instruments, in the form of debt and equity securities, and derivatives on a unified basis as part of the trading strategy, including hedging relationships between cash securities and derivatives. Accordingly the Company reports the gains and losses on the cash instruments and the gains and losses on the derivatives on a net basis in trading profits.

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

5. Significant accounting policies (continued)

5.6.1 Financial assets and financial liabilities (continued)

IFRS 9

Financial assets and financial liabilities

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

Subject to certain criteria, the Company can designate financial assets and financial liabilities to be measured at fair value through profit or loss. Designation is only possible when the financial instrument is initially recognised and cannot subsequently be reclassified. Financial assets can be designated as measured at fair value through profit or loss only if such designation eliminates or significantly reduces a measurement or recognition inconsistency. Financial liabilities can be designated as measured at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative unless the embedded derivative does not significantly modify the cash flows required by the contract or when a similar hybrid instrument is considered that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities that the Company designates as measured at fair value through profit or loss are recognised at fair value at initial recognition, with transaction costs being recognised in profit or loss and subsequently measured at fair value. Gains and losses on financial assets and financial liabilities designated at fair value through profit or loss are recognised in profit or loss as they arise.

Changes in the fair value of financial liabilities designated as measured at FVTPL are recognised in profit or loss.

IAS 39

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.

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

5.6.2 Interest income and expense

IFRS 9

Interest income and interest expense

Unless a financial asset is credit-impaired, interest income is recognised by applying the effective interest method to the carrying amount of a financial asset before adjusting for any allowance for expected credit losses. If a financial asset is credit-impaired, interest income is recognised by applying the effective interest rate to the carrying amount of the financial asset including any allowance for expected credit losses.

Interest expense on financial liabilities is recognised by applying the effective interest method to the amortised cost of financial liabilities.

Interest income and expense on financial assets and financial liabilities measured at amortised cost and FVOCI are presented separately from financial instruments measured at FVTPL.

Interest generated as a result of 'negative' interest rates is recognised gross, as interest income or interest expense.

IAS 39

Interest income and interest expense

Interest income and expense are recognised on an effective interest rate basis. Interest generated as a result of 'negative' interest rates is recognised gross, as interest income or interest expense. All contractual terms of a financial instrument are considered when estimating future cash flows.

5. Significant accounting policies (continued)

5.6.3 Trading profit

IFRS 9

Trading profit

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

IAS 39

Trading profit

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.

5.6.4 Impairment of financial assets and lending-related commitments

IFRS 9

Impairment of financial assets and lending-related commitments

The Company recognises ECL for 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.

Provisions for ECL are recognised on initial recognition of the financial instrument based on expectations of 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 includes 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 determination of the stage 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 has conducted quantitative tests, which considers, but is not limited to, existing risk management indicators, credit rating changes and reasonable and supportable forward-looking information. Forward-looking information reflects a range of scenarios that incorporate macro-economic factors that are composed and monitored by the Firmwide specialised economic forecasting team.

The key input components for the quantification of expected credit 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 existing regulatory and capital frameworks where overlap is present for 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.

IAS 39

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. Significant accounting policies (continued)

5.6.5 Write-offs

IFRS 9	IAS 39
Write-offs	**Write-offs**
Wholesale loans recognised as loans and advances to customers on the balance sheet are charged off when it is highly certain that a loss has been realised. The determination of whether to recognise a charge-off includes many factors, including the prioritisation of the Company's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity or the loan collateral.	Wholesale loans recognised as loans and advances to customers on balance sheet, are charged off when it is highly certain that a loss has been realised. The determination of whether to recognise a charge-off includes many factors, including the prioritisation of the Company's claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity or the loan collateral.
All other financial assets are written off when there is no reasonable expectation of recovery and the amount of loss can be reasonably estimated or when the asset is past due for a specified period.	All other financial assets are written off when any portion of the asset is impaired and the amount of loss can be reasonably estimated or when the asset is past due for a specified period.

5.7 Fee and commission income

The Company earns revenue from providing investment banking, lending and deposit related and asset management and administration services and commissions.

Investment banking fees

The Company earns revenue from providing investment banking, lending and deposit related and asset management and administration services and commissions.

Investment banking revenue includes debt underwriting fees.

Underwriting fees are recognised as revenue typically upon execution of the client's transaction. Debt underwriting fees also include credit arrangement and syndication fees which are recorded as revenue after satisfying certain retention, timing and yield criteria.

Lending and deposit related fees

Lending-related fees include fees earned from loan commitments, standby letters of credit, financial guarantees, and other loan-servicing activities. Deposit related fees include fees earned in lieu of compensating balances, and fees earned from performing cash management activities and other deposit account services. Lending and deposit-related fees in this revenue category are recognised over the period in which the related service is provided.

Asset management, administration fees and commissions

This revenue category includes fees from investment management and related services, custody services and other products.

The Company receives administrative fees predominantly from custody and fund services. These fees are recorded as revenue over the period in which the related service is provided.

5. Significant accounting policies (continued)

5.8 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.

5.9 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.

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 22 to the financial statements.

5.10 Derecognition of financial assets and financial liabilities

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

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. Significant accounting policies (continued)

5.11 Securities purchased under agreement to resell

Securities purchased under agreements to resell the securities to the counterparty, are treated as collateralised lending transactions. The consideration for the transaction can be in the form of cash or securities. If the consideration for the purchase of securities is given in cash the transaction is recorded on the balance sheet within securities purchased under agreement to resell. 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.

5.12 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.

5.13 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, unless the transaction is a business combination between entities under common control where predecessor accounting is applied. Investments in JPMorgan Chase undertakings are subsequently measured at cost less provision for impairment.

5.14 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. Significant accounting policies (continued)

5.15 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.

5.16 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 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 the probability of an outflow of economic benefits is considered to be remote, or probable, but reliable estimate cannot be made. Contingent liabilities are not recognised in the financial statements; however disclosure is made unless the probability of settlement is remote.

5.17 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.

5.18 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.

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.

	2018	2017
	$'000	$'000
	IFRS 9*	IAS 39
Interest income		
Loans and advances to banks	129,898	20,442
Loans and advances to customers	7,977	10,684
Securities purchased under resale agreements	3,654	23,500
Customer accounts	33,513	17,568
Other	386	9
Total interest income	175,428	72,203
Interest expense		
Deposits by banks	843	506
Securities purchased under resale agreement	3,592	—
Customer accounts	40,093	6,939
Total interest expense	44,528	7,445

*On adoption if IFRS 9, interest income and expense represent amounts grnerated by financial instruments at FVOCI and amortised cost.

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

	2018	2017
	$'000	$'000
Interest income		
Loans and advances to banks	126,849	18,262
Securities purchased under resale agreements	3,654	23,500
Other	386	9
Total interest income	130,889	41,771
Interest expense		
Securities purchased under resale agreement	3,592	—
Deposits by banks	842	506
Total interest expense	4,434	506

In 2017, an amount of $17 million included within other income, representing 'negative' interest expense on customer accounts, has been reclassified to interest income to correctly reflect the nature of the balance.

8. *Fee and commission income*

Fee and commission income

Fee and commission income consists of the following non-interest revenue streams of investment banking fees, lending and deposit related fees and asset management and commissions income. It represents amounts received through Firm attribution agreements and service fees due from JPMorgan Chase undertakings for whom employees of the Company conduct business.

The following table presents the components of these fees:

	2018	2017
	$'000	$'000
Investment banking fees		
Underwriting		
Debt	13,356	9,368
Total investment banking fees	**13,356**	**9,368**
Lending and deposit related fees		
Lending related fees	7,675	6,035
Deposit related fees	33	5,287
Total lending and deposit related fees	**7,708**	**11,322**
Asset management and commissions		
Asset management fees		
Administration fees	58,872	61,417
Total asset management and commissions fees	**58,872**	**61,417**
Commission and other fees		
All other commissions and fees	629,437	635,908
Total commission and other fees	**629,437**	**635,908**
Total fee and commission income	709,373	718,015

Fee and commission income from JPMorgan Chase undertakings for 2018 is $459 million (2017: $621 million).

9. Fee and commission expense

	2018	2017
	$'000	$'000
Fee and commission payable	17,655	28,190
Total	17,655	28,190

Fee and commission payable contain expenses recharged through Firm attribution agreements from JPMorgan Chase undertakings for whom the employees of the Company conduct business.

10. Expected credit loss

	2018
	$'000
Allowance for loan losses	
Opening balance as at 1 January	11,068
Decrease during the year	(4,592)
Impairment write off	(6,258)
Closing balance as at 31 December	218
Allowance for lending-related commitments	
Opening balance as at 1 January	2,792
Decrease during the year	(220)
Closing balance as at 31 December	2,572
Expected credit loss decrease	(11,070)

11. Impairment reversal

	2017
	$'000
Allowance for loan losses	
Opening balance as at 1 January	7,295
Increase during the year	5,298
Impairment write off	—
Closing balance as at 31 December	12,593
Allowance for lending-related commitments	
Opening balance as at 1 January	9,233
Decrease during the year	(6,422)
Closing balance as at 31 December	2,811
Net impairment decrease	(1,124)

12. Impairment Loss

	2018	2017
	$'000	$'000
Impairment of goodwill		
Opening balance	—	—
Increase during the year	(62,010)	—
Closing balance as at 31 December	(62,010)	—

13. Profit on ordinary activities before taxation

	2018	2017
	$'000	$'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for the audit of the Company's annual financial statements	360	234
Audit-related assurance services	234	—
Intercompany recharges	140,527	205,248
Staff costs		
Wages and salaries	156,092	153,251
Social security costs	22,680	20,491
Other pension and benefits costs	17,731	18,231
Share based payments	19,865	17,149

The average monthly number of persons providing services to the Company was 854 (2017: 916), of which 50 are in the Commercial Bank, 773 in the Corporate & Investment Bank and 31 in the Corporate Sector. The average monthly number of staff employed by the european branches during the year was 87 (2017: 91), of which 2 are in the Commercial Bank, 84 in the Corporate & Investment Bank and 1 in the Corporate Sector.

There were no material gains or losses from the disposal of amortised cost assets during the year.

14. Directors' emoluments

	2018	2017
	$'000	$'000
Emoluments*	1,388	548
Total contributions to a defined contribution plan	3	3
Total value of long term incentive plans for all directors	—	1
Total compensation for loss of office receivable for all directors	—	—
Number of directors who exercised share options	—	—
Number of directors with shares received or receivable under LTIPs	5	1
Number of directors to whom defined contribution pension rights accrued	3	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.

14. Directors' emoluments (continued)

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 $1,052,731 (2017: $305,000).

The contribution to the defined contribution scheme for the highest paid director during the year was $1,920 (2017: $619). 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.

15. Tax on profit on ordinary activities

(a) Analysis of tax credit for the year	2018 $'000	2017 $'000
Current tax		
UK Corporation tax on profit for the year	78,797	45,369
Overseas taxation	16,163	8,303
Less: Double tax relief	(15,022)	(8,464)
Adjustments in respect of previous years	33,538	(5,632)
Total current tax charge	113,476	39,576
Deferred tax		
Origination and reversal of temporary differences	(5,614)	42,688
Impact of change in tax rate	296	(382)
Adjustments in respect of previous years	—	3,614
Total deferred tax	(5,318)	45,920
Total tax charge for the year	108,158	85,496

No corporation tax refund was received during 2018 (2017: $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 (19%), including banking surcharge (27%). The banking surcharge of 8% was recognised for the first time in 2016. The differences are explained below:

	2018 $'000	2017 $'000
Profit on ordinary activities before taxation	233,457	338,788
Profit on ordinary activities before taxation multiplied by effective rate of corporation tax in UK 27.00% (2017: 27.25%)	63,033	92,320
Effects of:		
Non-taxable (income)/non-deductible expenditure	8,249	(4,259)
Foreign tax suffered	1,140	(161)
Adjustments in respect of prior years	33,538	(2,018)
Impact of change in the UK tax rate	297	(386)
Employee stock plan	(782)	—
Other	(26)	—
Gain on transition of Securities Services activities	2,709	—
Total tax charge for the year	108,158	85,496

15. Tax on profit on ordinary activities (continued)

(c) Deferred taxation

	2018	2017
	$'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	5,533	7,579
Deferred tax assets to be recovered within 12 months	2,766	3,788
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	—	5,566
Deferred tax asset (net)	8,299	5,801

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

	2018	2017
	$'000	$'000
As at 1 January	5,801	51,167
Adjustment in respect of prior years	—	(3,614)
Deferred tax charge to income statement for the period	5,317	(42,306)
Deferred tax charge in equity for the period	(2,819)	554
As at 31 December	8,299	5,801

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 2017	(52)	11,002	39,240	—	977	51,167
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
At 31 December 2017	3	10,779	—	(5,565)	584	5,801
As at 1 January 2018	3	10,779	—	(5,565)	584	5,801
Charged to the income statement	21	(154)	—	5,565	(115)	5,317
Credited directly to equity	—	(2,819)	—	—	—	(2,819)
At 31 December 2018	24	7,806	—	—	469	8,299

16. Loans and advances to banks

	2018	2017
	$'000	$'000
	IFRS 9	IAS 39
Loans and advances to banks		
Amortised cost	7,044,280	12,323,841
FVOCI	143,550	—
Provision for impairment	(31)	—
	7,187,799	12,323,841

Loans and advances to banks include balances held with JPMorgan Chase undertakings of $7,016 million (2017: $12,151 million) which are measured at amortised cost.

There were no past due loans and advances to banks as at 31 December 2018 (2017: $nil).

17. Loans and advances to customers

	2018	2017
	$'000	$'000
	IFRS 9	IAS 39
Loans and advances to customers		
Amortised cost	39,921	226,037
FVOCI	245,010	—
Provision for Impairment	(187)	(12,593)
Impairment write off	6,258	—
	291,002	213,444

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.

The fair value of collateral accepted as security for loans and advances to customers is $7 million (2017: $65 million).

18. Securities purchased under resale agreements

	2018	2017
	$'000	$'000
	IFRS 9	IAS 39
Securities purchased under resale agreements		
Amortised cost		
-with JPMorgan Chase undertakings	1,708,735	1,820,710

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 $1,632 million (2017: $1,736 million). The fair value of collateral repledged in 2018 was nil (2017: $65 million). These transactions are conducted under terms that are customary to standard lending activities.

19. Financial assets held at fair value through profit and loss

	2018	2017
	$'000	$'000
	IFRS 9	IAS 39
Debt instruments	4,646	4,184
Derivative receivables	63,961	92,982
	68,607	97,166

Financial assets held at fair value through profit and loss which were past due as at 31 December 2018 are $5 million (2017: $4 million). Financial assets held at fair value through profit and loss with JPMorgan Chase undertakings are $64 million (2017: $93 million).

20. Financial assets designated at fair value through profit or loss

	2018	2017
	$'000	$'000
Unlisted equity shares	—	22,261

During the year, the equity shares were sold to another JPMorgan Chase undertaking for a total consideration of $13.2 million.

21. Available-for-sale financial assets

	2018	2017
	$'000	$'000
At 1 January	—	11,517
Movements during the year- Sale	—	(11,517)
At 31 December	—	—

22. Financial assets and financial liabilities measured at fair value

Fair value

Valuation process

The Company carries a portion of its financial assets and financial 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.

22. Financial assets and financial liabilities measured at fair value (continued)

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.

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.

Product/Instrument	Valuation methodology, inputs and assumptions	Classifications in the valuation hierarchy
Financial instruments held at fair value through profit and loss - loans	Where observable market data is available, valuations are based on: • Observed market prices (circumstances are infrequent) • Relevant broker quotes • Observed market prices for similar instruments Where observable market data is unavailable or limited, valuations are based on discounted cash flows, which consider the following: • Credit spreads derived from the cost of CDS; or benchmark credit curves developed by the Company, by industry and credit rating • Prepayment speed • Collateral characteristics	Level 2 or 3
Derivatives	Exchange-traded derivatives that are actively traded and valued using the exchange price.	Level 1
	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.	Level 2 or 3
	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, 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.	
Securities	Quoted market prices are used where available.	Level 1
	In the absence of quoted market prices, securities are valued based on: • Observable market prices for similar securities • Relevant broker quotes • Discounted cash flows	Level 2 or 3
Financial assets held at FVOCI - loans	Valuations are based on discounted cash flows, which consider: • Future interest payments • Repayment of principal Prepayments and defaults are modelled deterministically and discounted.	Level 3

22. Financial assets and financial liabilities measured at fair value (continued)

The following table presents the asset and liabilities reported at fair value as at 31 December 2018 and 2017, by major product category and fair value hierarchy.

	Level 1	Level 2	Level 3	Total
At 31 December 2018	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets held at fair value through profit and loss:				
Debt and equity instruments	—	55	4,591	**4,646**
Derivative receivables	—	63,961	—	**63,961**
Financial assets held at FVOCI:				
Loans	—	—	388,342	**388,342**
Total financial assets:	—	64,016	392,933	**456,949**
Financial liabilities held at fair value through profit and loss:				
Derivative payables	—	61,348	—	**61,348**
Total financial liabilities:	—	61,348	—	**61,348**
At 31 December 2017				
Financial assets:				
Debt and equity instruments	—	—	26,445	**26,445**
Derivative receivables	—	92,982	—	**92,982**
Total financial assets:	—	92,982	26,445	**119,427**
Financial liabilities:				
Derivative payables	—	92,681	—	**92,681**
Total financial liabilities:	—	92,681	—	**92,681**

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.

22. Financial assets and financial 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
At 31 December 2018	**$'000**				
Loans - at FVTPL	4,591	Market comparables	Price	$13	$13
Loans - at FVOCI	388,342	Discounted cashflows	Credit spreads	5bps - 817bps	77bps
			Utilisation given default	0% - 100%	33%
			CDS recovery rate	20% - 80%	37%
			Loan recovery rate	25% - 90%	52%
Total assets	**392,933**				

	Net fair value	Principal valuation technique	Unobservable input	Range of input values	Weighted average
At 31 December 2017	**$'000**				
Securities	22,261	Market comparables and recent transactions	P/E multiples	19.4x	19.4x
Loans	4,184	Market comparables	Price	$4 - $103	$84
Total assets	**26,445**				

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

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.

Utilisation given default ("UGD") - . A number between 0% and 100% that is the estimated fraction of the current undrawn balance on a revolving credit facility that will be drawn at the time of the default of the borrower. A higher UGD generally results in a decrease in the fair value of the loan.

Loss severity - The loss severity (the inverse concept is the recovery rate) is the expected amount of future realised losses resulting from the ultimate liquidation of a particular loan, expressed as the net amount of loss relative to the outstanding loan balance. An increase in loss severity is generally accompanied by an increase in conditional default rates. An increase in the loss severity, in isolation, 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.

22. Financial assets and financial 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 2018 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 rollforward 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 and liabilities in Level 3 during year ended 31 December 2018

Financial assets	Loans at FVOCI	Debt and equity instruments	Total financial assets
	$'000	$'000	$'000
At 31 December 2017	—	26,445	26,445
Transition to IFRS 9 - reclassification	302,386	—	302,386
Transition to IFRS 9 - remeasurement	(14,358)	—	(14,358)
At 1 January 2018	288,028	26,445	314,473
Total gain/(loss) recognised in profit or loss	10,833	(10,533)	300
Total loss recognised in other comprehensive income	(468)	—	(468)
Sales	—	(13,203)	(13,203)
Issuances	224,264	—	224,264
Settlements	(134,315)	2	(134,313)
Transfers in to Level 3	—	5,855	5,855
Transfers out of Level 3	—	(3,975)	(3,975)
At 31 December 2018	388,342	4,591	392,933
Change in unrealised gains related to financial instruments held at 31 December 2018	—	421	421

Movement in assets and liabilities in Level 3 during year ended 31 December 2017

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

22. Financial assets and financial liabilities measured at fair value (continued)

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

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

For the year ended 31 December 2018 and 2017, there were no transfers between levels 1 and 2.

For the year ended 31 December 2018 and 2017 transfers from level 2 to level 3 were due to a decrease 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.

The company has $9,060 million (2017: $14,531 million) of financial assets and $7,203 million (2017: $10,646 million) of financial liabilities that are not measured at fair value on balance sheet, including loans and advances to customers of $40 million (2017: $226 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 2018 (2017: $nil).

Financial instruments, recognised within financial assets held at fair value through profit or loss and financial liabilities held at fair value through profit and loss, which were subject to enforceable master netting arrangements or other similar agreements but not offset, as at 31 December 2018, amounted to $61 million (2017: $93 million).

23. Debtors

	2018	2017
	$'000	$'000
Trade debtors	1,752	—
Other debtors	260,239	158,751
	261,991	158,751

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

	2018	2017
	$'000	$'000
Other debtors	241,676	112,289

24. Prepayments and accrued income

	2018	2017
	$'000	$'000
Accrued income	5,157	2,095
Prepayments	255	331
	5,412	2,426
Included in the above are the following amounts owed to JPMorgan Chase undertakings:		
- Accrued income	4,153	1,138

25. Goodwill

	2018	2017
	$'000	$'000
Cost	149,332	149,332
Accumulated amortisation	(77,322)	(77,322)
Impairment (note 12)	(62,010)	—
Transfer of business (note 27)	(10,000)	—
Net book value	—	72,010

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 the form of cash and related entirely to purchased goodwill which represented the intrinsic value of the business transferred, based upon the estimated levels of future profits to be generated by the business.

In August 2018, the Company agreed to facilitate transition of its Securities Services activities conducted in the EEA to another JPMorgan Chase undertaking based in the EEA, refer to note 27 for details.

26. Investments in JPMorgan Chase undertakings

	2018	2017
	$'000	$'000
At 1 January	1,870	1,869
Movement	—	—
At 31 December	1,870	1,869

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.

*On 6 February 2019, Chemical Nominees Limited was dissolved.

27. Discontinued operation

As part of implementing the Firm's European legal entity strategy, the Company agreed to facilitate the transition of its Securities Services activities conducted in the EEA area to another JPMorgan Chase undertaking based in the EEA. The terms of the transaction and the related purchase price consideration were finalised in August 2018 and the Company signed an implementation agreement with the affiliate. The purchase price consideration was $10 million based on the arm's length fair market value principles, taking into account the specific facts and circumstances and legal terms of the transaction The final terms of the transaction resulted in an impairment of the goodwill related to these activities by $62mm (note 25).

The Company initiated the process of transferring assets, liabilities and employees related to these activities from the EEA branches of the Company to the EEA branches of the affiliate during 2018. As of year-end, the recognised assets and liabilities remaining with the Company, that are still to be transitioned, primarily include customer deposits of $3,837 million. The in-scope employees (50 employees) have been transferred and the transfer of the remaining client assets and deposits is expected to be completed during the first half of 2019.

The Company has presented the remaining recognised assets and liabilities related to these activities as a discontinued operation. The discontinued operation is separately disclosed on the income statement and the prior period has been re-presented in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. On the balance sheet, the associated assets and liabilities are presented as held for sale.

27. Discontinued operation (continued)

The disposal group comprised the following recognised assets and liabilities held for sale:

Assets held for sale	2018 $'000
Loans and advances to banks[1]	3,839,687
Loans and advances to customers	19,668
Debtors[2]	8,576
Prepayments and accrued income[3]	478
	3,868,409

1 Loans and advances to banks include balances held with JPMorgan Chase undertakings of $3,822 million.
2 Debtors include balances held with JPMorgan Chase undertakings of $0.1 million.
3 Prepayments and accrued income include balances held with JPMorgan Chase undertakings of $0.23 million.

Liabilities held for sale	2018 $'000
Customer accounts	3,836,995
Other liabilities	29,406
Accruals and deferred income[1]	402
	3,866,803

1 Accruals and deferred income include balances held with JPMorgan Chase undertakings of $0.20 million.

28. Deposits by banks

	2018 $'000	2017 $'000
Deposits by banks		
- with JPMorgan Chase undertakings	38,743	133,754

29. Customer accounts

	2018 $'000	2017 $'000
Customer accounts	6,889,104	10,242,215

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

30. Financial liabilities held at fair value through profit and loss

	2018 $'000	2017 $'000
At 1 January	92,681	20,918
Movements during the year	(31,333)	71,763
At 31 December	61,348	92,681

31. Trade creditors

	2018	2017
	$'000	$'000
Trade creditors	—	5,045
Included in trade creditors are the following amounts owed to:		
- JPMorgan Chase undertakings	—	4,689

32. Other liabilities

	2018	2017
	$'000	$'000
Other liabilities	189,794	80,692
Tax creditors	132,760	83,000
	322,554	163,692
Included in other liabilities, are the following amounts owed to JPMorgan Chase undertakings:		
- Other liabilities	152,671	53,781

33. Provisions for liabilities

	2018	2017
	$'000	$'000
Provisions for undrawn contractually committed facilities	2,572	2,811
Other provisions	4,603	19
	7,175	2,830

34. Accruals and deferred income

	2018	2017
	$'000	$'000
Accruals	85,795	95,853
Deferred income	2,284	2,020
	88,079	97,873
Included in the above are the following amounts owed to JPMorgan Chase undertakings:		
- Accruals	40,676	36,667

35. Pension costs

During the year, the Company participated in the JPMorgan UK Pension Plan ("UKP") and, prior to 21 December 2018, the JPMC UK Retirement Plan ("UKR"). The UKP is an ongoing defined contribution pension scheme, the UKR is a closed defined benefit plan.

Under a withdrawal arrangement, dated 21 December 2018, the Company ceased to be a participating employer in the UKR. Under the arrangement, the Company's only remaining obligation to the UKR was to pay its share of any funding deficit calculated on the plan's Technical Provisions basis as at the date of withdrawal. The plan's actuary has calculated that the UKR was in surplus on the date of the withdrawal and therefore has certified that the amount due from the Company is nil. This certificate has been provided in the form prescribed under Schedule 1C and paragraph 2(a) of Schedule 1A to the Occupational Pension Schemes (Employer Debt) Regulations 2005. Effective 21 December 2018, the Company had no outstanding obligations to the UKR.

Additional information in relation to the plan can be found in the JPMorgan Chase & Co. 2018 Annual Report on Form 10-K.

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

The Company recorded a total expense of $11 million (2017: $12 million) for the year ended 31 December 2018 in respect of the UKR and UKP.

36. 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, and further amended and restated effective May 15, 2018. Under the terms of the LTIP, as of 31 December 2018, 86 million shares of common stock were available for issuance through May 2022 (2017: 67 million shares). The LTIP is the only active plan under which the Firm is currently granting stock-based incentive awards. In the following discussion, 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 Firm's 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. For each tranche granted, compensation expense is recognised in line with how awards vest 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 in line with how awards vest 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 $20 million (2017: $17 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 rateably 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.

36. Share based payments (continued)

The following table summarises information about options outstanding at 31 December 2018 and 31 December 2017:

	31 December 2018			31 December 2017		
	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 years)
Range of exercise prices						
$min - $20.00	—	—	—	—	—	—
$35.01 - $50.00	42	42.47	2.88	60	42.79	3.58
Total	42	42.47	2.88	60	42.79	3.58

Broad-based employee stock options

No broad-based employee stock options were granted in 2017 or in 2018. 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 2018 was $110.72 (2017: $92.01).

37. Called-up share capital

	2018	2017
	$'000	$'000
Issued and fully paid share capital		
At 31 December		
1,397,922,234 ordinary shares (2017: 1,397,922,234) of $1 each	1,397,922	1,397,922

38. 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 - 32 which forms part of these financial statements.

39. Dividends

	2018	2017
	$'000	$'000
Ordinary shares	2,000,000	—

The Company paid a dividend of $2 billion in total, or $1.43 per share, on 5 September 2018

40. Transition to IFRS 9

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company.

Reclassification and remeasurement of financial assets and financial liabilities

The following table presents a comparison under IAS 39 and IFRS 9 of each balance sheet line item, measurement category and carrying amount of financial assets and financial liabilities:

40. Transition to IFRS 9 (continued)

		IAS 39		Reclassification[2]	Remeasurement[3]		IFRS 9	
$'000	Notes	Measurement category[1]	Carrying amount at 31 December 2017	of IAS 39 carrying amounts	due to reclassification	ECL[4]	Measurement category	Carrying amount at 1 January 2018
Assets								
Loans and advances to banks	a	Amortised cost	12,323,841	(130,443)	—	—	Amortised cost	12,193,398
				130,443	(297)	(5)	FVOCI	130,141
Loans and advances to customers	a	Amortised cost	213,444	(171,943)	—	12,577	Amortised cost	54,078
				171,943	(3,010)	(11,046)	FVOCI	157,887
Securities purchased under agreements to resell		Amortised cost	1,820,710	—	—	—	Amortised cost	1,820,710
Financial assets held at fair value through profit and loss[5]		FVTPL (Held for trading)	97,166	—	—	—	FVTPL	97,166
Financial assets designated at fair value through profit or loss		FVTPL (designated)	22,261	—	—	—	FVTPL (designated)	22,261
Debtors		Amortised cost	158,751	—	—	—	Amortised cost	158,751
Other assets								
Prepayments and accrued income		n/a	2,426	—	—	—	n/a	2,426
Goodwill		n/a	72,010					72,010
Deferred taxation		n/a	5,801	—	—	—	n/a	5,801
Investments in JPMorgan Chase undertakings		n/a	1,869	—	—	—	n/a	1,869
Total assets			14,718,279	—	(3,307)	1,526		14,716,498

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

40. Transition to IFRS 9 (continued)

$'000	IAS 39 Measurement category[1]	IAS 39 Carrying amount at 31 December 2017	Reclassification[2] of IAS 39 carrying amounts	Remeasurement[3] due to reclassification	ECL[4]	IFRS 9 Measurement category	IFRS 9 Carrying amount at 1 January 2018
Liabilities							
Deposits by banks	n/a	133,754	—	—	—	n/a	133,754
Customer accounts	n/a	10,242,215	—	—	—	n/a	10,242,215
Financial liabilities held at fair value through profit and loss[5]	FVTPL	92,681	—	—	—	FVTPL	92,681
Trade creditors	Amortised cost	5,045	—	—	—	Amortised cost	5,045
Other liabilities	n/a	163,692				n/a	163,692
Accruals and deferred income							
Accruals	n/a	95,853	—	—	—	n/a	95,853
Deferred Income	n/a	2,020	—	—	—	n/a	2,020
Provisions for lending related commitments	n/a	2,811	—	—	(20)	n/a	2,791
Other Provisions	n/a	19	—	—	—	n/a	19
Total liabilities		**10,738,090**	**—**	**—**	**(20)**		**10,738,070**
Equity							
Called-up share capital	n/a	1,397,922	—	—	—	n/a	1,397,922
Share premium account	n/a	231,068	—	—	—	n/a	231,068
Other reserves[6]	n/a	146,255	—	(3,307)	—	n/a	142,948
Retained earnings	n/a	2,204,944	—	—	1,546	n/a	2,206,490
Total equity		**3,980,189**	**—**	**(3,307)**	**1,546**		**3,978,428**
Total liabilities and equity funds		**14,718,279**	**—**	**(3,307)**	**1,526**		**14,716,498**

[1] Under IAS 39 all of the Company's financial assets measured at amortised cost were categorised as loans and receivables.

[2] Reclassifications constitute transfers from the previous IAS 39 categories of FVTPL, held-to-maturity, loans and receivables and available-for-sale to the IFRS 9 categories of amortised cost, FVTPL or FVOCI.

[3] Remeasurements constitute ECL and other valuation changes relating to reclassification changes from the adoption of IFRS 9, such as a change from amortised cost to FVOCI.

[4] Amount includes reversal of prior year impairment.

[5] The financial statement balance sheet lines financial assets held for trading and financial liabilities held for trading as presented in the 31 December 2017 financial statements have been renamed as financial assets held at fair value through profit and loss and financial liabilities held at fair value through profit and loss.

[6] Other reserves includes the impact on OCI reserves on the adoption of IFRS 9.

40. Transition to IFRS 9 (continued)

Notes to the Transition to IFRS 9 table:

The following discussion explains how the Company applied the classification and measurement requirements of IFRS 9 to determine the treatment of certain financial assets and financial liabilities as shown in the table above:

a) Loans and advances to banks and Loans and advances to customers

Loans and advances to banks and Loans and advances to customers were previously classified as loans and receivables measured at amortised cost under IAS 39. The Company determined these loans and advances have contractual terms that meet the SPPI criteria, but those loans within the Company's Trade Finance and Credit Portfolio Group portfolios are managed with the objective of both collecting contractual cash flows and realising cash flows from sales. Consequently, these loans, which amounted to $130 million and $172 million respectively, were reclassified as FVOCI under IFRS 9.

The remainder of the Company's loans and advances to customers are held with the objective to collect contractual cash flows, and they continue to be measured at amortised cost under IFRS 9.

Impairment of financial assets and lending-related commitments

The following table reconciles the 31 December 2017 closing impairment allowance measured under the IAS 39 incurred loss model to the new impairment allowance measured under the IFRS 9 expected credit loss model at 1 January 2018 for financial assets and lending-related commitments held at amortised cost and FVOCI:

$'000	IAS 39 Loss allowance/ provisions at 31 December 2017	ECL	IFRS 9 ECL at 1 January 2018
Loss allowance on loans and advances to customers and banks	12,593	(1,526)	11,067
Total	**12,593**	**(1,526)**	**11,067**
Provisions for lending related commitments	2,811	(20)	2,791
Total	**2,811**	**(20)**	**2,791**