

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
(Registered Number: 1213086)

Consolidated annual report for the year ended 31 December 2015



J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Consolidated annual report for the year ended 31 December 2015

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J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Strategic report for the year ended 31 December 2015

The directors present their Strategic report of J.P. Morgan Chase (UK) Holdings Limited (the "Company") together with its subsidiaries ("JPMorgan Chase" or the "Firm") for the year ended 31 December 2015. The Company's registration number is 1213086. The Company and the Group are part of JPMorgan Chase & Co. (together with its subsidiaries, "JPMorgan Chase" or the "Firm").

Principal activity

The four major operating subsidiaries within the Group are all UK based, including: J.P. Morgan Securities plc ("JPMS plc"), J.P. Morgan Europe Limited ("JPMELE"), J.P. Morgan International Bank Limited ("JPMIB"), and J.P. Morgan Limited ("JPML") (collectively, "principal subsidiaries"). JPMS plc, JPMELE and JPMIB are UK banks and are credit institutions under EEA Capital Requirements Directive IV (CRD), with permissions to receive deposits or other repayable funds from the public and to grant credits for their own account. JPMS plc, JPMELE and JPMIB are all regulated by the Prudential Regulation Authority ("PRA") as well as the Financial Conduct Authority ("FCA"). JPML is an investment firm and is regulated by the FCA.

JPMS plc is a principle subsidiary of JPMorgan Chase & Co in Europe, the Middle East and Africa ("EMEA"). It engages in international investment banking activity, including activity across Markets, Investor Services and Banking.

In addition to the above, the principal activities of the Group include underwriting bonds, equities and other securities, arranging private placements of debt and convertible securities, trading in debt, equity securities and derivatives, brokerage and clearing services for exchange traded futures and options contracts, prime brokerage, and investment banking advisory services. The Group also provides marketing, custody and payment services to clients, and conducts wholesale lending activities as a European passported bank. It provides International Private Banking services, including investment management, investment advisory, banking (including deposit taking and loans) and custody services. Moreover, the Group acts as an arranger of mergers and acquisitions (M&A), syndicated debt and other corporate finance activities to its institutional and corporate clients base.

The Group operates in a number of other countries in Europe through branch networks of its subsidiaries. JPMS plc is a member of over twenty exchanges and various clearing houses.

Adoption of new financial reporting standards

The Financial Reporting Council issued new financial reporting standards ("FRS") in the UK and Republic of Ireland for accounting periods beginning on or after 1 January 2015. The new standards fundamentally reform United Kingdom Generally Accepted Accounting Practices ("UK GAAP"), replacing the previous standards ("previous UK GAAP").

The Group has adopted FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ("FRS 102"), with a transition date of 1 January 2014.

Unless otherwise stated, all amounts in these financial statements are reported in accordance with FRS 102, and the terms FRS 102 and UK GAAP are used interchangeably. The impact of adopting FRS 102 has been described in notes 2 and 41 to the financial statements and summarised below:

- As permitted by Section 11 'Basic Financial Instruments' ("Section 11") and Section 12 'Other Financial Instruments Issues' ("Section 12") of FRS 102, the Group has taken an accounting policy choice to apply the recognition and measurement provisions of IAS 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"), the disclosure requirements of Section 11 and Section 12 and the presentation requirements of Section 11.38A and Section 12.25B.
- The Group has reviewed the accounting treatment of derivative trades cleared on behalf of clients and has concluded that it is considered a principal to the trades with the client and the clearing houses. As a result, the mark-to-market value of these derivative trades of \$14.9 billion (31 December 2014: \$16.5 billion) have been recognised on the consolidated balance sheet. The Group has further considered these trades for offsetting under Section 11 and Section 12 'Other Financial Instruments Issues', as per IAS 39, and derivative assets and liabilities of \$4.3 billion with certain clearing counterparties have been netted. There was no impact to equity.
- The Group has also applied fair value measurement as defined within Section 11.27 and Section 11.28, as per IAS 39. Certain valuation adjustments made under previous UK GAAP are therefore no longer required. This change resulted in a net increase to equity of \$36 million as of 31 December 2014.
- Goodwill reduced by \$2.7 billion as at 31 December 2014 due to the change in the accounting policy for group reconstructions, as permitted by Section 19 'Business Combinations and Goodwill' ("Section 19") and a change in accounting for increases in controlling interests in a subsidiary, as permitted by Section 9 'Consolidated and Separate Financial Statements' ("Section 9"). This change resulted in decrease in equity of \$2.7 billion as at 31 December 2014.
- The Group has provided additional disclosures relating to financial instruments due to the adoption of Section 34 'Specialised Activities' *Financial Institutions* ("Section 34"), Section 11 and Section 12 of FRS 102.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Strategic report for the year ended 31 December 2015 (continued)

Business environment, strategy and future outlook

As part of the Firm's legal entity rationalisation efforts aimed at enhancing the Firm's resolvability, management are considering plans to simplify the UK legal entity structure that may result in the liquidation of the Company and a subsidiary of the Group, J.P. Morgan Chase International Holdings. The Company's immediate parent will become the parent company of all the residual subsidiaries of the Group. The finalisation and execution of the plan is subject to completion of legal and regulatory requirements, including receipt of all necessary regulatory approvals. As such, material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. However, the Directors have concluded that it is appropriate to prepare these consolidated financial statements on a going concern basis as no decision has been taken at this time.

On 23 June 2016, the United Kingdom ("UK") conducted a referendum and voted to leave the European Union. Many international banks, including the Firm, operate substantial parts of their European Union business from entities based in the UK. Upon the UK leaving the European Union, the regulatory and legal environment that would then exist, and to which the Firm's U.K. operations would then be subject, will depend on, in certain respects, the nature of the arrangements agreed with the European Union and other trading partners.

These arrangements cannot be predicted, but currently the Firm does not believe any of the likely identified scenarios would threaten the viability of the Firm's business units or the Firm's ability to serve clients across the European Union and in the UK. However, it is possible that under some scenarios, changes to the Firm's legal entity structure would be required, which might result in a less efficient operating model across the Firm's European legal entities.

Review of business

The directors are satisfied with the performance of the Group with core businesses performing in line with expectations. Despite mixed market conditions throughout the year, the Firm's strong client franchise allowed its businesses to continue to provide investment opportunities to clients, through its strength as a market maker, leading to continued profitable results. The Group generated positive revenues from its markets businesses in particular macro markets outperforming prior year with increased client flows. The Group also benefited from increased revenues from its Global Equities franchise whilst banking activities were down due to subdued debt and equity underwriting activity in the sector.

Income statement

The Group's income statement for the year ended 31 December 2015 is set out on page 11. Total operating profit was \$7,607 million for 2015 (2014: \$6,936 million). The results for the Group show a profit on ordinary activities before taxation of \$2,927 million for 2015 (2014: \$2,330 million).

Balance sheet

The balance sheet is set out on page 12. The Group has total assets and total liabilities of \$514,985 million (2014: \$532,607 million) and \$486,703 million (2014: \$509,299 million) respectively, as at 31 December 2015.

Key corporate events of 2015 included:

- On 27 March 2015, JPMEI paid interim dividends of \$500 million to its parent, JPMS plc.
- On 14 April 2015, JPMS plc paid interim dividends of \$356 million on preference shares and \$517 million on ordinary shares to J.P. Morgan Chase International Holdings (JPMCIH), a JPMorgan Chase undertaking, and \$5 million on preferred ordinary shares to J.P. Morgan Capital Financing Limited, a company affiliated to the Group.
- In the third quarter of 2015, as part of an internal re-organisation, the Company and other subsidiaries within the Group entered into several transactions in order to inject additional capital of \$2,500 million into JPMS plc and the Group. The Company received a capital contribution of 100% of the share capital of Bank One Europe Limited, all of the membership interest in CP Group Holding Cooperatief U.A., and a 99.99999% limited partnership interest in Asselijn Finance C.V., fair-valued respectively at \$193 million, \$1,073 million, and \$1,229 million, from its shareholders. The fair value of these entities was primarily driven by cash held.
- Immediately on receipt, the Company contributed all of these ownership interests, into its subsidiary, J.P. Morgan Chase International Holdings Ltd. These ownership interests and cash were contributed down the chain of the wholly owned companies within the Group, until they were received by JPMS plc. These transactions resulted in an increase in the capital of JPMS plc and the Group by \$2,500 million respectively.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Strategic report for the year ended 31 December 2015 (continued)

Key performance indicators (KPIs)

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

	2015	2014
	\$'m	\$'m
Earnings		
Net profit after tax	2,492	1,744
Capital and Balance Sheet		
Total assets	514,985	532,607
Total liabilities	486,703	509,299
Shareholders' funds	28,282	23,308
Return on assets	0.48%	0.33%

A more detailed description of the JPMorgan Chase key performance indicators may be found within the JPMorgan Chase & Co. 2015 Annual Report on Form 10-K.

Principal risks and uncertainties

The Group faces various risks that are inherent in its businesses. Whilst management of the Group's risks and uncertainties is integrated with that of the Firm, the Group also manages its risks at a legal entity level and has its own risk policies. The Firm's framework for managing risks and its risk management procedures and practices may not be effective in identifying and mitigating every risk, thereby resulting in losses at the Group level. The following are key factors that could substantially affect the businesses of the Group:

Economic and market conditions

The Firm's, as well as the Group's profit have been and may continue to be affected by financial market and economic conditions. The businesses of the Firm and the Group are materially affected by economic and market conditions, including the liquidity of the global financial markets; the level and volatility of debt and equity prices, interest rates, currency and commodities prices and other market indices; investor, consumer and business sentiment; events that reduce confidence in the financial markets; inflation and unemployment; the availability and cost of capital and credit; the economic effects of natural disasters, health emergencies or pandemics; severe weather conditions, outbreaks of hostilities, terrorism or other geopolitical instabilities; monetary policies and actions taken by central banks; and the health of international economies. These conditions can affect the Group's businesses both directly and through their impact on the businesses and activities of the Group's clients and customers.

Market risk

Market risk is the risk of loss arising from potential adverse changes in the value of the Firm's assets and liabilities resulting from changes in market variables, such as:

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Strategic report for the year ended 31 December 2015 (continued)

Principal risks and uncertainties (continued)

Market risk (continued)

Market risk management

The Group's Board is ultimately responsible for overseeing market risk. The principle subsidiaries have a designated Chief Risk Officer and Market Risk Officer who have responsibilities in relation to market risk management.

The Market Risk management function is an independent risk management function that identifies and monitors market risks throughout the Firm and defines market risk policies and procedures. The Market Risk function reports to the Firm's Chief Risk Officer. The Market Risk management function seeks to control risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Firm and the Group's market risk profile for senior management, the Board of Directors and regulators. The Market Risk management function is responsible for the following functions:

- Establishment of a market risk policy framework;
- Independent measurement, monitoring and control of line of business market risk;
- Definition, approval and monitoring of limits; and
- Performance of stress testing and qualitative risk assessments.

Risk identification and classification

Each line of business is responsible for the management of the market risks within its units. The independent risk management group is responsible for overseeing each line of business and is charged with ensuring that all material market risks are appropriately identified, measured, monitored and managed in accordance with the risk policy framework set out by the Market Risk.

Further details on market risk are provided in note 37 to the financial statements.

Liquidity risk

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

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 ("CTC") and Chief Risk Officer ("CRO"), as part of the independent risk management function, have responsibility for firmwide Liquidity Risk Oversight. Liquidity Risk Oversight's responsibilities include but are not limited to:

- Establishing and monitoring limits, indicators, and thresholds, including liquidity appetite tolerances;
- Defining, monitoring, and reporting internal groupwide and legal entity stress tests, and monitoring and reporting regulatory defined stress testing;
- Monitoring and reporting liquidity positions, balance sheet variances and funding activities; and
- Conducting ad hoc analysis to identify potential emerging liquidity risks.

Risk governance and measurement

Specific committees responsible for liquidity governance include the firmwide Asset Liability Committee ("ALCO"), line of business and regional ALCOs, CTC Risk Committee, and EMEA Risk Committee.

The Risk Policy Committee of the Board of Directors ("DRPC"), are additionally responsible on the subsidiaries, JPMS plc and JPMEL.

Liquidity management

Treasury is responsible for liquidity management. The primary objectives of effective liquidity management are to ensure that the Firm's core businesses are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles as well as during stress events, and to manage optimal funding mix, and availability of liquidity sources. The Firm manages liquidity and funding using a centralised, global approach in order to optimise liquidity sources and uses.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Strategic report for the year ended 31 December 2015 (continued)

Principal risks and uncertainties (continued)

Liquidity risk (continued)

Liquidity management

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

In December 2010, the Basel Committee introduced an additional measure of liquidity risk: the net stable funding ratio ("NSFR"), which is intended to measure the "available" amount of stable funding relative to the "required" amount of stable funding over a one-year horizon. The standards require that the NSFR be greater than 100%. Full compliance is expected to be required by 1 January 2018.

A regular internal assessment of the liquidity risk management framework is performed on JPMS plc, JPMEL and JPMIB which informs the Board of liquidity risks resulting from business activities in addition to the current and future funding needs.

Further details on liquidity risk are provided in note 37 to the financial statements.

Credit risk

The financial condition of the Group's customers, clients and counterparties, including other financial institutions, could adversely affect the Group.

Financial services institutions are interrelated as a result of market-making, trading, clearing, counterparty or other relationships. The Group routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, investment managers and other clients. Many of these transactions expose the Group to credit risk.

As part of providing clearing services, JPMS plc is a member of a number of central counterparties ("CCPs") and may be required to pay a portion of losses incurred by such organisations as a result of a default of other members. JPMS plc is also exposed to risk of non-performance by its clients, which it seeks to mitigate through the maintenance of adequate collateral.

During periods of market stress or illiquidity, JPMS plc's credit risk may be further increased when it cannot realise the fair value of the collateral held or when collateral is liquidated at prices that are not sufficient to cover the full amount of the loan, derivative or other exposure.

JPMIB uses an internal credit rating scale for estimating (i) the likelihood of the obligor or counterparty default and (ii) the loss given default. This internal facility rating is mapped against external rating agencies.

Credit Risk is managed by the Firm on a global as well as at a Group and Company level. The Firm has developed credit risk policies and practices to which the Group's principle subsidiaries are subject. The policy framework establishes credit risk approval authorities, risk rating methodologies, portfolio review parameters, and guidelines for the management of all exposures, including distressed exposures. The policies are designed to preserve the independence and integrity of the approval, and decision making, when extending credit. These policies seek to ensure that credit risks are assessed accurately, approved properly, monitored regularly, and managed actively at both the transaction and portfolio levels.

In addition, each of the Group's subsidiaries have their own credit policy, which contains standards pertaining to governance, management of concentrations, credit risk limits, new business initiative approvals, and credit risk reporting which is approved by senior management and distributed to the Boards of the respective companies. Furthermore, certain models, assumptions, and inputs used in evaluating and monitoring credit risk are independently validated by support functions that are separate and independent from the businesses. The Group uses stress testing to inform decisions on setting risk appetite both at a Group and line of business level. Stress testing results across a range of scenarios and products are regularly reported to relevant management committees providing additional insight into credit portfolio's sensitivities under stress and measurement against risk appetite.

The principle subsidiaries have a designated Chief Risk Officer ("CRO"). Credit Executives within the Firm, who approve extensions of credit for the principle subsidiaries report to the Chief Risk Officer and ultimately report to the Head of Wholesale Credit Risk. Each line of business within the Firm has its own independent credit risk management function, reporting to the Chief Risk Officer. To enable monitoring of credit risk, aggregate credit exposure, concentration levels and risk profile changes are reported to senior credit risk management, to the regional risk committee and to the Boards of the principle subsidiaries. Further details on credit risk are provided in note 37 to the financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Strategic report for the year ended 31 December 2015 (continued)

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market nor credit-related. Operational risk is inherent in the Group's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate behaviour of employees, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage to the Group and the Firm. The goal is to keep operational risk at appropriate levels, in light of the Group's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

Operational Risk Management Framework

To monitor and control operational risk, the Firm maintains an overall Operational Risk Management Framework ("ORMF") designed to enable the Firm to maintain a sound and well-controlled operational environment. The four main components of the ORMF include: governance, risk identification and assessment, monitoring and reporting, and measurement.

Risk Management is responsible for prescribing the ORMF to the lines of business and corporate functions and to provide independent oversight of its implementation. The lines of business and corporate functions are responsible for implementing the ORMF. The Firmwide Oversight and Control Group ("O&C"), which consists of dedicated control officers within each of the lines of business and corporate functional areas, as well as a central oversight team, is responsible for day to day execution of the ORMF.

Corporate employee policy


It is the policy of the Company and the Group 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 and Group 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 Group as a whole. Communication with all employees continues through the intra-net and other forums.

JPMorgan Chase Bank, N.A. 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.

On behalf of the Board


Director *Stephen White*
23/09/2016

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Directors' report for the year ended 31 December 2015

The directors present their report and audited financial statements of the Company and the Group for the year ended 31 December 2015. The Company's registration number is 1213086.

Results and dividends

The results for the year are set out on page 11 and shows the Group's profit for the financial year is \$2,492 million (2014: \$1,744 million).

The Group received dividends during the year of \$21 million (2014: \$nil) from its investment in associate, Crosby Sterling (Holdings) Limited.

The Company did not receive any dividends during the year from its subsidiary J.P. Morgan Limited (2014: \$400 million).

No final dividend was paid or proposed for 2015 (2014: \$nil).

Post balance sheet events

On 17 March 2016, J.P. Morgan Europe Limited paid an interim dividend of \$600 million to its parent J.P. Morgan Securities plc.

On 14 April 2016, J.P. Morgan Securities plc paid interim dividends of \$358 million on preference shares, \$5 million on preferred ordinary shares and \$687 million on ordinary shares.

Financial risk management

Refer to the strategic report and note 37 to the financial statements 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:

N.J.D Collett	(Resigned 15 April 2015)
A.J. Clennell	(Resigned 14 June 2015)
F. Smith	(Appointed 15 April 2015)
J.R. Hobson	(Appointed 14 June 2015)
S.A. O'Connor	
M.P. Melling	
S.M. White	
C.L. Wiseman	

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and Financial Statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ("FRS 102"). 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 the Group and of the profit or loss of the Company and the Group for the period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Directors' report for the year ended 31 December 2015 (continued)

Statement of directors' responsibilities (continued)

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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

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

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

Qualifying third party indemnity provision

An indemnity is provided to the directors of the Group 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 Group. The indemnity remains in force at the date of these financial statements and a copy of the By-laws of JPMorgan Chase & Co is kept at the registered office of the Group.

Company secretary

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

J.P. Morgan Secretaries (UK) Limited

Registered address

25 Bank Street
Canary Wharf
E14 5JP
England

Independent auditors

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

On behalf of the Board



Director

Stephen White
23/09/2016

Independent auditor's report to the members of J.P. Morgan Chase (UK) Holdings Limited

Report on the financial statements

Our opinion

In our opinion, J.P. Morgan Chase (UK) Holdings Limited's Group financial statements and parent company's financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. Management are considering plans to simplify the UK legal entity structure that may result in the liquidation of the company. The finalisation and execution of the plans is subject to completion of legal and regulatory requirements and receipt of all necessary regulatory approvals. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

What we have audited

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

- the Consolidated and Company balance sheets as at 31 December 2015;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated and Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditor's report to the members of J.P. Morgan Chase (UK) Holdings Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Paolo Taurae (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountant and Statutory Auditors

London

23 September 2016

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Consolidated income statement for the year ended 31 December 2015

		2015	2014
	Note	\$'m	\$'m
Interest receivable and similar income	7	2,061	2,336
Interest payable and similar charges	8	(1,960)	(2,546)
Net interest income/ (expense)		101	(210)
Fees and commissions receivable		4,203	4,523
Fees and commissions payable		(196)	(152)
Trading profits		3,070	2,326
Other operating income		429	449
Operating profit		7,607	6,936
Administrative expenses		(4,650)	(4,577)
Depreciation and amortisation		(30)	(29)
Profit on ordinary activities before taxation	10	2,927	2,330
Tax on profit on ordinary activities	11	(435)	(523)
Profit for the financial year		2,492	1,807
Profit attributable to:			
- Owners of the parent		2,492	1,744
- Non-controlling interests		—	63
		2,492	1,807

The profit for the financial year resulted from continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December 2015


		2015	2014
	Note	\$'m	\$'m
Profit for the financial year		2,492	1,807
Other comprehensive income, net of tax:			
Movements in financial assets available-for-sale reserve	18	2	2
Foreign currency translation adjustment		(35)	(32)
Actuarial gain/ (loss) on pension schemes	35	20	(55)
Tax effect of movement in pension reserves		—	7
Total comprehensive income for the year		2,479	1,729
Total comprehensive income attributable to:			
- Owners of the parent		2,479	1,666
- Non-controlling interests		—	63
		2,479	1,729

The notes on pages 17 - 66 form an integral part of these financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Consolidated balance sheet as at 31 December 2015

		2015	2014
	Note	\$'m	\$'m
Assets			
Cash and balances at central banks		269	241
Cash at bank and in hand		410	284
Loans and advances to banks	12	5,184	4,855
Loans and advances to customers	13	10,293	11,241
Securities purchased under resale agreements	14	143,117	152,186
Securities borrowed	15	14,873	16,562
Financial assets held for trading	16	301,252	305,388
Financial assets designated at fair value through profit or loss	17	140	85
Financial assets available-for-sale	18	20	1,468
Other assets	19	38,728	39,454
Prepayments and accrued income		542	638
Goodwill	20	128	156
Intangible assets		9	4
Investments in JPMorgan Chase undertakings	21	14	38
Tangible fixed assets		6	7
Total assets		514,985	532,607
Liabilities			
Deposits by banks	22	114	395
Customer accounts	23	23,874	21,424
Securities sold under repurchase agreements	24	58,937	53,579
Securities loaned	25	11,030	21,505
Financial liabilities held for trading	26	264,206	267,167
Other liabilities	27	115,510	132,516
Accruals and deferred income		924	605
Subordinated liabilities	30	12,108	12,108
Total liabilities		486,703	509,299
Equity			
Non-controlling interest	31	2,064	2,064
Called-up share capital	32	3,293	3,293
Share premium account		2,364	2,364
Capital contribution reserve		8,298	5,798
Pension reserve		(43)	(63)
Other reserves		264	297
Profit and loss reserve		12,042	9,555
Total non-controlling interest and equity funds		28,282	23,308
Total liabilities and equity funds		514,985	532,607
Analysis of minority interests and equity funds			
Equity funds		26,218	21,244
Non-controlling interest	31	2,064	2,064
		28,282	23,308
Memorandum items			
Commitments	34	20,408	17,390

Approved and authorised for issue by the board of directors on 23 September 2016 and signed on its behalf by:


Director 
 23/09/2016

The notes on pages 17 - 66 form an integral part of these financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Company balance sheet as at 31 December 2015

		2015	2014
	Note	\$'m	\$'m
Assets			
Cash at bank and in hand		3	3
Investments in Group undertakings	21	15,498	12,998
Total assets		15,501	13,001
Equity			
Called-up share capital	32	3,293	3,293
Share premium account		2,364	2,364
Capital contribution		8,298	5,798
Other reserve		322	322
Profit and loss account		1,224	1,224
Total shareholders' funds		15,501	13,001
Total liabilities and equity funds		15,501	13,001

Approved by the board of directors and signed on behalf of the board by a director of the company


 Director
 Stephen White
 23/09/2016

The notes on pages 17 - 66 form an integral part of these financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Consolidated statement of changes in equity for the year ended 31 December 2015

	Note	Called-up share capital	Share premium account	Capital contribution reserve	Pension reserve	Other reserves	Profit and loss reserve	Total equity attributable to owners of the parent	Non- controlling interest	Total equity
		\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Balance as at 1 January 2014		3,204	904	5,798	(6)	329	9,478	19,707	2,446	22,153
Profit for the financial year		—	—	—	—	—	1,744	1,744	63	1,807
Other comprehensive income for the year:										
Available-for-sale financial asset reserve	18	—	—	—	—	2	—	2	—	2
Foreign currency translation reserve		—	—	—	—	(32)	—	(32)	—	(32)
Actuarial loss on pension schemes	35	—	—	—	(55)	—	—	(55)	—	(55)
Tax effect on movement in pension reserve		—	—	—	7	—	—	7	—	7
Total comprehensive (expense)/ income for the year		—	—	—	(48)	(30)	1,744	1,666	63	1,729
Issuance of shares	20	89	1,460	—	—	—	—	1,549	—	1,549
Movement in pension reserve		—	—	—	(9)	—	—	(9)	—	(9)
Movement in other reserves		—	—	—	—	(2)	—	(2)	—	(2)
Dividends paid		—	—	—	—	—	(562)	(562)	—	(562)
Transfer of business following acquisition of non-controlling interest	20	—	—	—	—	—	(1,105)	(1,105)	(445)	(1,550)
Balance as at 31 December 2014		3,293	2,364	5,798	(63)	297	9,555	21,244	2,064	23,308
Profit for the financial year		—	—	—	—	—	2,492	2,492	—	2,492
Other comprehensive income for the year:										
Available-for-sale financial asset reserve	18	—	—	—	—	2	—	2	—	2
Foreign currency translation reserve		—	—	—	—	(35)	—	(35)	—	(35)
Actuarial gain on pension schemes	35	—	—	—	20	—	—	20	—	20
Tax effect on movement in pension reserve		—	—	—	—	—	—	—	—	—
Total comprehensive income/ (expense) for the year		—	—	—	20	(33)	2,492	2,479	—	2,479
Capital contribution	21	—	—	2,500	—	—	—	2,500	—	2,500
Dividends paid		—	—	—	—	—	(5)	(5)	—	(5)
Movement in other reserves		—	—	—	—	—	—	—	—	—
Balance as at 31 December 2015		3,293	2,364	8,298	(43)	264	12,042	26,218	2,064	28,282

The notes on pages 17 - 66 form an integral part of these financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Company statement of changes in equity for the year ended 31 December 2015

	Called-up share capital	Share premium account	Capital contribution	Other reserves	Profit and loss reserve	Total shareholders' funds
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Balance as at 1 January 2014	3,204	904	5,798	322	1,224	11,452
Profit for the financial year	—	—	—	—	400	400
Issuance of shares	89	—	—	—	—	89
Increase in share premium	—	1,460	—	—	—	1,460
Dividends paid	—	—	—	—	(400)	(400)
Balance as at 31 December 2014	3,293	2,364	5,798	322	1,224	13,001
Profit for the year	—	—	—	—	—	—
Capital contribution	—	—	2,500	—	—	2,500
Balance as at 31 December 2015	3,293	2,364	8,298	322	1,224	15,501

The notes on pages 17 - 66 form an integral part of these financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Consolidated statement of cash flows for the year ended 31 December 2015

	Notes	2015 \$'m	2014 \$'m
Net cash used in operating activities	33	(3,178)	(3,830)
Cash flow from investing activities			
Additions to intangible assets		(6)	(3)
Purchase of tangible fixed assets		(2)	(2)
Proceeds from disposal of tangible fixed assets		1	1
Purchase of available-for-sale financial assets	18	—	(55)
Proceeds from disposal of available-for-sale financial assets	18	1,450	1,783
(Increase)/ decrease in loans in advances to banks, due in over three months		(67)	65
Net cash from investing activities		1,376	1,789
Cash flow from financing activities			
Capital contribution	21	2,500	—
Dividends paid		(5)	(562)
(Decrease)/ increase in deposits by banks, due in over three months		(46)	14
Net cash from financing activities		2,449	(548)
Net increase/ (decrease) in cash and cash equivalents		647	(2,589)
Cash and cash equivalents at the beginning of the year		5,031	7,842
Exchange gains/ (losses) on cash and cash equivalents		4	(222)
Cash and cash equivalents at the end of the year		5,682	5,031
Cash and cash equivalents consist of:			
Cash and balances at central banks		269	241
Cash at bank and in hand		410	284
Loans and advances to banks, due within three months or less		5,117	4,855
Deposits by banks, due within three months or less (included in current liabilities)		(114)	(349)
Cash and cash equivalents		5,682	5,031

The notes on pages 17 - 66 form an integral part of these financial statements.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015

1. General information

The Company is incorporated in England and Wales. The address of its registered office is 25 Bank Street, Canary Wharf, London, E14 5JP. The Company's immediate parent undertaking is J.P. Morgan Capital Holdings Limited which is incorporated in England but domiciled in Luxembourg. The Company's ultimate parent undertaking, and the parent undertaking of the smallest and largest group in which the results of the Company are consolidated, is JPMorgan Chase & Co., which is the ultimate controlling parent and is also incorporated in the state of Delaware in the United States of America.

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

2. Basis of preparation

The Financial Reporting Council revised financial reporting standards ("FRSs") in the UK and Republic of Ireland for accounting periods beginning on or after 1 January 2015. The revisions fundamentally reform United Kingdom Generally Accepted Accounting Practices ("UK GAAP"), replacing the previous standards ("previous UK GAAP").

The consolidated financial statements have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102"). The Group has adopted FRS 102 with a transition date of 1 January 2014. 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.

As part of the Firm's legal entity rationalisation efforts aimed at enhancing the Firm's resolvability, management are considering plans to simplify the UK legal entity structure that may result in the liquidation of the Company and a subsidiary of the Group, J.P. Morgan Chase International Holdings. The Company's immediate parent will become the parent company of all the residual subsidiaries of the Group. The finalisation and execution of the plan is subject to completion of legal and regulatory requirements, including receipt of all necessary regulatory approvals. As such, material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. However, the Directors have concluded that it is appropriate to prepare these consolidated financial statements on a going concern basis as no decision has been taken at this time.

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

The detailed effect of the adoption of FRS 102 on the Group's financial statements is described in note 41.

The following exemptions have been applied in the preparation of these financial statements, in accordance with FRS 102:

- Statement of cash flows of the Company, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows
- The Company key management personnel compensation as required by FRS 102 paragraph 33.7

The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006, and not presented an income statement for the Company alone. The Company made a profit of \$nil (2014: \$400 million).

3. Basis of consolidation

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings together with the Group's share of the results of associates made up to 31 December 2015.

The results of special purpose entities ("SPEs"), which meet the definition of a subsidiary undertaking are included within the consolidated financial statements.

A subsidiary is an entity controlled by the Group. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The results of associates are accounted for using the equity method of accounting.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Basis of consolidation (continued)

Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income statement. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

Where control of a subsidiary is achieved in stages, the initial acquisition that gave the Group control is accounted for as a business combination. Thereafter where the Group increases its controlling interest in the subsidiary the transaction is treated as a transaction between equity holders. Any difference between the fair value of the consideration paid and the carrying amount of the non-controlling interest acquired is recognised directly in equity. No changes are made to the carrying value of assets, liabilities or provisions for contingent liabilities.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the Group's interest in the entity.

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 consolidated financial statements:

Fair value measurement

The Group carries a significant portion of its assets and liabilities at fair value on a recurring basis. Estimating fair value often 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 Group. For instruments valued using internally developed models that use significant unobservable inputs and are therefore classified within level 3 of the valuation 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.

In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, the lack of observability of certain significant inputs requires management to assess all relevant empirical data in deriving valuation inputs - including, for example, transaction details, yield curves, interest rates, prepayment rates, default rates, volatilities, correlations, equity or debt prices, valuations of comparable instruments, foreign exchange rates and credit curves. For further discussion of the valuation of level 3 instruments, including unobservable inputs used, see note 28.

For instruments classified in levels 2 and 3, management judgement must be applied to assess the appropriate level of valuation adjustments, the Group's credit-worthiness, market funding rates, liquidity considerations, unobservable parameters, and for portfolios that meet specified criteria, the size of the net open risk position. The judgements made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. For further discussion of valuation adjustments applied by the Group see note 28.

The use of methodologies or assumptions different than those used by the Group could result in a different estimate of fair value at the reporting date. For a detailed discussion of the Group's valuation process and hierarchy, its determination of fair value for individual financial instruments, and the potential impact of using reasonable possible alternative assumptions for the valuations, see note 28.

Defined benefit plans

The present value of the defined benefit obligation depends on various factors that are determined on an actuarial basis using a number of assumptions. This involves making assumptions about discount rates, future salary increases, price inflation and future pension increases. Substantial changes in these assumptions affect the amount of the recognised defined benefit obligation. For further details, see note 35.

5. Significant accounting policies

5.1 Foreign currency translation

Monetary assets and 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 consolidated income statement.

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.1 Foreign currency translation (continued)

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 consolidated income statement except for differences arising on non-monetary financial assets available-for-sale, which are included in financial assets available-for-sale reserve.

The assets, including related goodwill where applicable, and liabilities of foreign operations whose functional currency is not U.S. dollars, are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date. The results of foreign operations whose functional currency is not U.S. dollars are translated into U.S. dollars at the average rates of exchange for the reporting period.

Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the results for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised through the consolidated statement of comprehensive income. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserve are recognised in the consolidated income statement. The consolidated financial statements have been presented in U.S. dollars as the directors are of the opinion that this is the functional currency of the Group.

5.2 Interest income and expense

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

5.3 Other income

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

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

5.4 Dividend recognition

Dividend income is recognised when the right to receive payment is established. Dividends are recognised at the fair value of the consideration received.

5.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Tangible fixed assets are depreciated on a straight-line basis over their useful economic lives at the annual rates detailed below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Furniture and fittings	10%
Computers and similar office equipment	33%
Leasehold improvements	10% or life of the lease if under 10 years
Leasehold property	99 years

The cost of land and buildings is the value of consideration paid to acquire the land and any directly attributable costs of bringing the asset to working condition for its intended use. All expenditure incurred that are directly attributable to the construction of the building, is capitalised as a fixed asset on an accruals basis.

The Group selects its depreciation rates and reviews them annually to take account of any changes in circumstances. When setting useful economic lives, the principal factors the Group takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.5 Tangible fixed assets (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

5.6 Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible assets, such as software, are recognised only if an asset is created that can be identified; management intends to complete the software and use it; it is probable that the asset created will generate future economic benefits; adequate technical, financial and other resources to complete the development and to use the software are available and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets are internally generated and costs include salaries and payroll-related expenses for employees directly associated to the project and consultants' fees.

Amortisation is calculated on a straight-line basis over three years and starts as soon as the project is moved to production.

5.7 Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method, except for transfers of businesses between entities under common control within the Group. Merger accounting is applied to such transfers and assets and liabilities are recognised at their predecessor carrying amounts (i.e., the carrying amounts of assets and liabilities in the books and records of the transferor prior to the transfer) with no fair value adjustments.

Goodwill represents the excess of cost over the fair value of the identifiable net assets of businesses acquired. Goodwill is capitalised as an intangible fixed asset and amortised on a straight-line basis over its expected useful life. For the purpose of calculating goodwill, fair values of acquired assets and liabilities are determined by reference to market prices.

5.8 Investments in Group undertakings

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

5.9 Financial assets and financial liabilities

In respect of financial instruments, the Group has chosen to adopt the recognition and measurement provisions of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and the disclosure and presentation requirements of Sections 11 and 12 of FRS 102 'Financial Instruments' ('Section 11' and 'Section 12').

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

The Group recognises a financial asset or a financial liability on its balance sheet when it becomes party to the contractual provisions of the instrument, i.e., on trade date. Regular way purchases and sales of financial assets are also recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

i. Financial assets and financial liabilities held for trading

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

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.9 Financial assets and financial liabilities (continued)

i. Financial assets and financial liabilities held for trading (continued)

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

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

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

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

iii. 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 until the investment is sold, collected or otherwise disposed of, or the financial assets are considered impaired, at which time the cumulative gain or loss previously reported in the consolidated statement of total comprehensive income is included in the consolidated income statement.

iv. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except those that are classified as held for trading or designated fair value through profit or loss.

Loans and receivables are initially recognised at fair value including directly related incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method less any impairment losses. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

5.10 Trade creditors and borrowings

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

5.11 Cash and cash equivalents

Cash and cash equivalents includes cash and balances at central banks, cash at bank and in hand, loans and advances to banks with maturities of three months or less, and deposits by banks, shown within liabilities, with maturities of three months or less.

5.12 Derecognition of financial assets and financial liabilities

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

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

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.13 Fair value

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

Fair values are determined by reference to observable market prices where available and reliable. Fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. Where market prices are unavailable, fair value is based on valuation models that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

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

The Group classifies its assets and liabilities according to the FRS 102 fair value hierarchy. 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.

5.14 Recognition of deferred day one profit and loss

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

The timing of recognition of deferred day one profit and loss is determined for each class of financial asset and liability. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss.

5.15 Impairment

Intangible assets, tangible fixed assets and investments in Group undertakings

At each balance sheet date fixed assets are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount.

The recoverable amount is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess loss is recognised in the consolidated income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated income statement.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination, it is included in the carrying value of cash generating units for impairment testing.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.15 Impairment (continued)

Financial assets

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

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

Specific provisions are raised against specific loans and advances to customers when the Firm 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.

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

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

If, in a subsequent period, the amount of the impairment loss, for debt instruments, decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

5.16 Securities purchased under agreement to resell and securities sold under agreement to repurchase

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

5.17 Securities borrowed and securities loaned transactions

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed and securities loaned transactions require the borrower to deposit cash, letters of credit or other collateral with the lender. If the collateral is received or given in the form of securities the transaction is recorded off balance sheet. Fees received or paid in connection with securities borrowed and lent are treated as interest income or interest expense and accrued over the life of the transaction using the effective interest rate method.

5.18 Offsetting financial assets and liabilities

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

5.19 Current and deferred income tax

Current tax

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.19 Current and deferred income tax (continued)

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

5.20 Provisions for liabilities and charges

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

5.21 Pensions and other post-retirement benefits

The Group participates in a defined contribution scheme to which most of its employees belong and in a scheme with a defined benefit and defined contribution section. The defined benefit section is now closed to new members, however a small number of the Group's employees continue to accrue benefits under it.

The Group also participated in one defined contribution scheme, two defined benefit schemes and three defined contribution schemes with minimum interest guarantees ('MIGs') in the European branches of its subsidiaries, JPMS plc and JPMIB.

The Group also participates in defined benefit and defined contribution schemes through its subsidiary JPMS plc.

The Group accounts for these in accordance with Section 28 of FRS 102 'Employee benefits' ("Section 28"), as follows:

Defined contribution scheme and sections

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity. There is no legal or constructive obligation 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 consolidated income statement on an accrual basis.

Defined benefit scheme and sections

For the defined benefit scheme operated through JPMS plc, the service cost of providing retirement benefits to employees during the year is charged to the consolidated income statement in accordance with section 28.23 of FRS102. 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 are presented as equity in the period in which they occur.

The other defined benefit schemes share risks between entities under common control where there is no contractual agreement or stated policy for charging the net defined benefit cost amongst the participating entities and where the Group is not deemed to be the sponsoring employer is not recognised on balance sheet, in accordance with Section 28.40A of FRS 102. Obligations for contributions to defined benefit pension plans are recognised as an expense and charged to the consolidated income statement on an accrual basis.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Significant accounting policies (continued)

5.22 Share-based awards

Share-based awards may be made to employees of the Group 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 Group 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 Group 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 reporting

The Group is not in scope of IFRS 8 'Operating segments' and therefore has not provided any segmental analysis as permitted by Section 1.5 of FRS 102 'Basis of preparation'.

7. Interest receivable and similar income

	2015	2014
	\$'m	\$'m
Loans and receivables to banks	10	2
Loans and receivables to customers	122	17
Securities purchased under resale agreements	357	467
Securities borrowed	32	76
Financial assets held for trading	1,312	1,505
Other interest receivable and similar income	228	269
	2,061	2,336

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

	2015	2014
	\$'m	\$'m
Loans and receivables to banks	1	1
Loans and receivables to customers	3	5
Securities purchased under resale agreements	128	180
Securities borrowed	31	71
Other interest receivable and similar income	32	18
	195	275

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

8. Interest payable and similar charges

	2015	2014
	\$'m	\$'m
Deposits by banks	2	2
Customer accounts	16	16
Securities sold under repurchase agreements	55	177
Securities loaned	213	243
Financial liabilities held for trading	796	889
Other interest payable and similar charges	878	1,219
	1,960	2,546

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

	2015	2014
	\$'m	\$'m
Deposits by banks	—	2
Securities sold under repurchase agreements	49	49
Securities loaned	19	81
Other interest payable and similar charges	844	1,126
	912	1,258

9. Staff costs and directors' emoluments

	2015	2014
	Number	Number
The monthly average number of staff working on behalf of the Group during the year was:	3,812	3,888
	2015	2014
	\$'m	\$'m
The staff costs for the year were:		
Wages and salaries	1,248	1,344
Social security costs	207	217
Other pension costs	97	120
Share based awards	352	370
	1,904	2,051

The directors are employees of other companies in JPMorgan Chase and all expenses, including remuneration, are paid by those companies and not recharged. The directors do not consider that a significant element of their remuneration relates to the Company for the current financial year.

10. Profit on ordinary activities before taxation

	2015	2014
	\$'m	\$'m
The audit of the Company's subsidiaries pursuant to legislation	4	5

The combined auditors' remuneration of \$3,993,610 (2014: \$4,799,000) for the audit of the Company and consolidated financial statements and fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation is met by another JPMorgan Chase undertaking and not recharged.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

11. Tax on profit on ordinary activities

(a) Analysis of tax charge for the year

	2015	2014
	\$'m	\$'m
Current taxation		
UK Corporation tax on profit for the year	486	523
Overseas taxation	241	175
Less: Double tax relief	(173)	(164)
Adjustment in respect of previous years	(18)	(11)
Interest on overdue tax	3	—
	539	523
Current tax expense for the year		
Deferred tax:		
Origination and reversal of temporary differences	(75)	(2)
Effect of rate change on opening balance	(29)	2
Total tax expense for the year	435	523

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

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. In addition, a bank surcharge was introduced at 8%. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The tax charge for the year differs from the standard rate of corporation tax in the UK (20%), reduced from 21% effective from 1 April 2015. The differences are explained below:

	2015	2014
	\$'m	\$'m
Profit on ordinary activities before taxation	2,927	2,329
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in UK 20.25% (2014: 21.50%)	593	501
Effects of:		
Non-taxable (income)/ non-deductible expenses	(20)	60
Profits subject to tax in overseas jurisdictions	(3)	(1)
Foreign tax suffered	68	11
Adjustments in respect of prior years		
- allocation of trading debits from a group company	(60)	—
- share based awards	(23)	—
- other	65	(11)
Allocation of trading debits from a group company		
- current year	(29)	—
- future years	(80)	—
Impact of change in the UK tax rate	(29)	2
Group relief claimed for nil consideration	(28)	(20)
Other	(19)	(19)
Total tax charge for the year	435	523

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

11. Tax on profit on ordinary activities (continued)

(c) Deferred taxation

i) Analysis of deferred tax asset and deferred tax liabilities

	2015	2014
	\$'m	\$'m
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 Months	132	74
Deferred tax asset to be recovered within 12 months	80	32
	212	106
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 Months	(9)	(8)
Deferred tax liability to be reversed within 12 months	(1)	(1)
Deferred tax asset (net)	202	97

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

	2015	2014
	\$'m	\$'m
As at 1 January	97	104
Depreciation short/(in excess) of capital allowances	1	(1)
Deferral of share based payments	7	6
Allocation of trading debits from a group company	80	—
Other adjustment	17	(12)
As at 31 December	202	97

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

Deferred tax asset	Accelerated capital allowances	Share based payments	Other	Total
	\$'m	\$'m	\$'m	\$'m
At 1 January 2014	4	93	7	104
(Charged)/ credited to the income statement	(1)	6	(12)	(7)
At 31 December 2014	3	99	(5)	97
Credited to the income statement	1	7	97	105
At 31 December 2015	4	106	92	202

The deferred taxation asset is included in other assets, note 19.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

12. Loans and advances to banks

	2015	2014
	\$'m	\$'m
Remaining maturity:		
Greater than 3 months but less than a year	67	—
3 months or less	5,117	4,855
	5,184	4,855

Included in the above are the following amounts due from JPMorgan Chase undertakings:

	2015	2014
	\$'m	\$'m
3 months or less	2,137	3,749

The Group maintains certain client money balances which principally arise where it acts on behalf of its clients as a clearing member for derivatives that are cleared through central counterparties. The Group has considered its rights and obligations relating to funds belonging to clients that are held subject to client money protection under the Client Assets Sourcebook, with banks, exchanges and clearing houses, and concluded that such amounts should not be recognised on balance sheet. Therefore, client money assets amounting to \$12.3 billion (2014: \$15.1 billion) (including Loans and advances to banks of \$4.4 billion and Debtors of \$7.9 billion) and related liabilities are not included in the Group's balance sheet.

13. Loans and advances to customers

	2015	2014
	\$'m	\$'m
Remaining maturity:		
Greater than five years	148	360
Greater than a year but less than five years	3,201	2,879
Greater than 3 months but less than a year	543	925
3 months or less	3,382	4,318
Repayable on demand	3,024	2,769
	(5)	(10)
	10,293	11,241

14. Securities purchased under resale agreements

	2015	2014
	\$'m	\$'m
Securities purchased under resale agreements are with:		
JPMorgan Chase undertakings	73,182	74,968
Other financial institutions	69,935	77,218
	143,117	152,186

For the fair value of securities purchased under agreements to resell accepted as collateral refer to note 29.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

15. Securities borrowed

	2015	2014
	\$'m	\$'m
Securities borrowed with:		
JPMorgan Chase undertakings	10,139	10,546
Other financial institutions	4,734	6,016
	14,873	16,562

For fair value of securities borrowed accepted as collateral refer to note 29 .

16. Financial assets held for trading

	2015	2014
	\$'m	\$'m
At 1 January	305,388	164,753
Movements during the year	(4,136)	140,635
At 31 December	301,252	305,388

Included within financial assets held for trading, are the following balances with JPMorgan Chase undertakings:

	2015	2014
	\$'m	\$'m
Financial assets held for trading	126,064	116,325

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

	2015	2014
	\$'m	\$'m
At 1 January	85	35
Movements during the year	55	50
At 31 December	140	85
Unlisted	140	85

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

18. Financial assets available-for-sale

	2015	2014
	\$'m	\$'m
At 1 January	1,468	3,194
Acquisitions	—	55
Disposals	(1,450)	(1,783)
Movements in financial assets available-for-sale reserve	2	2
At 31 December	20	1,468
Listed	11	1,459
Unlisted	9	9
	20	1,468

There were no amounts within financial assets available-for-sale that were past due or impaired as at 31 December 2015 (2014: \$nil).

19. Other assets

	2015	2014
	\$'m	\$'m
Trade debtors	11,132	11,526
JPMorgan Chase undertakings	11,519	6,952
Deferred taxation (Note 11)	202	97
Other debtors	15,852	20,860
Other assets	23	19
	38,728	39,454

No amounts within accounts receivable are past due or impaired.

Trade debtors mainly consists of unsettled trades. Other debtors includes \$14.5 billion of cash collateral provided on derivatives (2014: \$13.1 billion).

20. Goodwill

	2015	2014
	\$'m	\$'m
Cost:		
At 1 January	386	386
Write-off	(1)	—
At 31 December	385	386
Accumulated amortisation:		
At 1 January	(230)	(203)
Charge for the year	(27)	(27)
At 31 December	(257)	(230)
Net book value at 31 December	128	156

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

20. Goodwill (continued)

In 2005, the Group recognised goodwill as a result of the acquisition of JPMorgan Cazenove Holdings through a subsidiary, J.P. Morgan Chase Finance Limited. The subsidiary acquired J.P. Morgan Chase Finance Limited acquired JPMorgan Cazenove Holdings, at a cost of \$282 million, satisfied by the transfer of 22,719,809 J shares and 10 J preference shares. Acquisition accounting was applied with goodwill recognised equal to the difference between the fair value of consideration paid and the fair value of assets and liabilities recognised on the balance sheet. Goodwill is being amortised on a straight-line basis over the period that the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets. This period is deemed to be 20 years.

In 2008, the Group recognised goodwill as a result of the acquisition of the Nordic institutional global custody business of 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 relates entirely to purchased goodwill. This represents the intrinsic value of the business transferred, based upon the estimated levels of future profits to be generated by the business. Goodwill arising on the acquisition is being amortised on a straight-line basis over the period that the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets. This period is deemed to be 10 years.

In the fourth quarter of 2014, an internal re-organisation was carried out, which in substance involved and was treated as transferring certain Cazenove businesses to the Group. The Company acquired 100% share capital of Cazenove Group Limited, which previously held 49.99% of the Cazenove business, fair valued at \$1,549 million, against issuance of shares to its parent. The Company recognised its investment in Cazenove Group Limited at its fair value, determined based on the value of the underlying assets and businesses. Subsequently, on transfer of the legal employment of the Cazenove staff to the Group, the Group recognised the acquisition of the remaining 49.99% stake in the Cazenove business, derecognised the related minority interest of \$444 million, and the excess of fair value over carrying amount of \$1,105 million was written off to retained earnings.

21. Investments in JPMorgan Chase undertakings

	2015	2014
	\$'m	\$'m
Group investment in associate		
At 1 January	38	37
Share of dividends paid	(24)	1
At 31 December	14	38

The Group holds a 21% investment in Crosby Sterling (Holdings) Limited. The investment is accounted for using the equity method.

	2015	2014
	\$'m	\$'m
Company investment in subsidiaries		
At 1 January	12,998	11,449
Additions	2,500	1,549
Write down of investment	—	—
At 31 December	15,498	12,998

In the third quarter of 2015, as part of an internal reorganisation, the Company entered into certain transactions with other Group undertakings, namely:

- The Company acquired 100% share capital of Bank One Europe Limited, all of the membership interest in CP Group Holding Cooperatief U.A., and a 99.99999% limited partnership interest in Asselijn Finance C.V., fair-valued respectively at \$193 million, \$1,073 million, and \$1,229 million, against issuance of shares to its parent, J.P. Morgan Chase International Holdings. The fair value of these entities was primarily driven by the cash held.
- The Company received cash distributions from, CP Group Holding Cooperatief U.A and Asselijn Finance C.V, in the amount of \$1,073 million, and \$1,229 million respectively, thereby realising its investment in above companies. Asselijn Finance C.V was dissolved shortly thereafter. The Company also received a cash distribution of \$193 million from Bank One Europe Limited.
- Immediately on receipt, the Company contributed all of these ownership interests, into its subsidiary, J.P. Morgan Chase International Holdings Ltd. These ownership interests and cash were contributed down the chain of the wholly owned companies within the Group, until they were acquired by JPMS plc. These transactions resulted in an increase in the capital of JPMS plc and the Group by \$2,500 million.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

21. Investments in JPMorgan Chase undertakings (continued)

The subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activity	Holding	Shares held %
J.P. Morgan Limited	United Kingdom	Investment banking and advisory	Indirect	100.00
J.P. Morgan Chase International Holdings	United Kingdom	Investment holding company	Indirect	100.00
J.P. Morgan EU Holdings Limited	United Kingdom	Investment holding company	Indirect	100.00
J.P. Morgan Securities plc	United Kingdom	Investment banking and advisory	Indirect	99.36
J.P. Morgan Courtage SAS	France	Investment company	Indirect	100.00
J.P. Morgan International Bank Limited	United Kingdom	Private banking	Indirect	100.00
Greenwood Nominees Limited	United Kingdom	Nominee company	Indirect	99.36
J.P. Morgan Europe Limited	United Kingdom	Banking	Indirect	99.36
Cazenove Group Limited	United Kingdom	Holding company	Indirect	99.36
J.P. Morgan Prime Nominees Ltd	United Kingdom	Nominee company	Indirect	99.36
J.P. Morgan Services LLP	United Kingdom	Dormant company	Indirect	100.00
J.P. Morgan Chase Finance Limited	United Kingdom	Holding company	Indirect	100.00
J.P. Morgan Private Fund Management Limited	United Kingdom	Investment	Indirect	100.00
J.P. Morgan Equities South Africa Proprietary Ltd	South Africa	Securities trading & brokerage	Indirect	100.00
J.P. Morgan (SC) Limited	United Kingdom	Investment holding company	Indirect	100.00
Chase Securities International Limited	United Kingdom	Investment company	Indirect	99.36
Chase International Securities (C.I.) Limited	Jersey	Investment company	Indirect	99.36
Chemical Nominees Limited	United Kingdom	Investment company	Indirect	99.36
Cazenove Holdings Limited	Jersey	Holding company	Indirect	99.36
Cazenove IP Limited	United Kingdom	Investment company	Indirect	99.36
Cazenove US Holdings Limited	United Kingdom	Holding company	Indirect	99.36
JPMorgan Cazenove Holdings	United Kingdom	Holding company	Indirect	99.36
J.P. Morgan Cazenove Limited	United Kingdom	Investment company	Indirect	99.36
JPMorgan Cazenove Service Company	United Kingdom	Service company	Indirect	99.36
J.P. Morgan Trustee and Depositary Company	United Kingdom	Trustee and Depositary	Indirect	100.00
J.P. Morgan Partners Europe Limited	United Kingdom	Management of liquid investments	Indirect	100.00
Cheyne Capital Guaranteed S.A. Series 2007-1*	Luxembourg	Notes issuer	Indirect	99.36
Octopus Mortgages 1 Limited*	Ireland	Commercial real estate	Indirect	99.36
Octopus Mortgages 2 Limited*	Ireland	Commercial real estate	Indirect	99.36
Octopus Mortgages 3 Limited*	Ireland	Commercial real estate	Indirect	99.36
Octopus Mortgages 4 Limited*	Ireland	Commercial real estate	Indirect	99.36

* The above entities are special purpose vehicles which meet the definition of a subsidiary undertaking.

All shares held in the above subsidiaries are ordinary shares.

All the Group subsidiaries have been included in the consolidated financial statements.

The directors believe that the carrying amount of the investments in JPMorgan Chase undertakings is appropriate and believe there are no indicators of any impairment.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

22. Deposits by banks

	2015	2014
	\$'m	\$'m
Remaining maturity:		
Greater than 3 months but less than a year	—	46
3 months or less	—	19
Repayable on demand	114	330
	114	395

Included in the above are the following amounts due from JPMorgan Chase undertakings:

	2015	2014
	\$'m	\$'m
JPMorgan Chase undertakings	392	392

23. Customer accounts

	2015	2014
	\$'m	\$'m
Remaining maturity:		
Greater than 3 months but less than a year	169	270
3 months or less	1,623	692
Repayable on demand	22,082	20,462
	23,874	21,424

24. Securities sold under repurchase agreements

	2015	2014
	\$'m	\$'m
Securities sold under repurchase agreements are with:		
JPMorgan Chase undertakings	20,995	16,426
Other financial institutions	37,942	37,153
	58,937	53,579

For the fair value of securities sold under agreements to repurchase refer to note 29.

25. Securities loaned

	2015	2014
	\$'m	\$'m
JPMorgan Chase undertakings	8,584	19,383
Other financial institutions	2,446	2,122
	11,030	21,505

For the fair value of securities loaned refer to note 29.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

26. Financial liabilities held for trading

	2015	2014
	\$'m	\$'m
At 1 January	267,167	127,691
Movements during the year	(2,961)	139,476
	264,206	267,167

Included within financial liabilities held for trading, are the following balances with JPMorgan Chase undertakings:

	2015	2014
	\$'m	\$'m
Financial liabilities held for trading	151,175	147,835

27. Other liabilities

	2015	2014
	\$'m	\$'m
Trade creditors	25,282	35,178
Corporation tax	506	427
JPMorgan Chase undertakings	71,695	71,680
Other liabilities	18,027	25,231
	115,510	132,516

Trade creditors predominantly consists of unsettled trades, brokerage fees payable and liabilities in respect of assets transferred but not derecognised (note 38). Other liabilities includes \$17,171 million of cash collateral received related to OTC derivatives (2014: \$19,129 million).

28. Assets and liabilities measured at fair value

Fair value

Valuation process

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on 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.

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 Group 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 Group's businesses and portfolios. The use of different methodologies or assumptions to those used by the Group 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 part of the Group'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.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

Valuation process (continued)

In determining the fair value of a derivative portfolio, valuation adjustments may be appropriate to reflect the credit quality of the counterparty, the credit quality of the Group, and the funding risk inherent in certain derivatives. The credit and funding risks of the derivative portfolio are generally mitigated by arrangements provided to the Group by JPMorgan Chase Bank N.A., and therefore the Group takes account of these arrangements in estimating the fair value of its derivative portfolio.

Valuation model review and approval

If prices or quotes are not available for an instrument or a similar instrument, fair value is generally determined using valuation models that consider relevant transaction data such as maturity and use as inputs market-based or independently sourced parameters. The Model Risk function is independent of the model owners and reviews and approves valuation models used by the Group.

Fair value hierarchy

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

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

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

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

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

Valuation methodologies

The following table describes the valuation methodologies used by the Group 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
Equity, debt, and other securities	<p>Quoted market prices are used where available.</p> <p>In the absence of quoted market prices, securities are valued based on:</p> <ul style="list-style-type: none"> • Observable market prices for similar securities • Relevant broker quotes • Discounted cash flows <p>In addition, the following inputs to discounted cash flows are used for the following products:</p> <p><i>Mortgage and asset-backed securities specific inputs:</i></p> <ul style="list-style-type: none"> • Collateral characteristics • Deal-specific payment and loss allocations • Current market assumptions related to yield, prepayment speed, conditional default rates and loss severity. 	<p>Level 1</p> <p>Level 2 or 3</p>
Derivatives	<p>Exchange-traded derivatives that are actively traded and valued using the exchange price.</p> <p>Derivatives that are valued using models such as the Black-Scholes option pricing model, simulation models, or a combination of models, that use observable or unobservable valuation inputs (e.g., plain vanilla options and interest rate and credit default swaps). Inputs include:</p> <ul style="list-style-type: none"> • Contractual terms including the period to maturity • Readily observable parameters including interest rates and volatility • Credit quality of the counterparty and of the Company • Market funding levels • Correlation levels <p>In addition, the following specific inputs are used for the following derivatives that are valued based on models with significant unobservable inputs:</p> <p><i>Structured credit derivatives specific inputs include:</i></p> <ul style="list-style-type: none"> • CDS spreads and recovery rates • Credit correlation between the underlying debt instruments • Actual transactions, where available, are used to regularly recalibrate unobservable parameters <p><i>Certain interest rate and foreign exchange ("FX") exotic options specific inputs include:</i></p> <ul style="list-style-type: none"> • Interest rate correlation • Interest rate spread volatility • Foreign exchange correlation • Correlation between interest rates and foreign exchange rates • Parameters describing the evolution of underlying interest rates <p><i>Certain commodity derivatives specific inputs include:</i></p> <ul style="list-style-type: none"> • Commodity volatility • Forward commodity price 	<p>Level 1</p> <p>Level 2 or 3</p>
Financial instruments held for trading - loans	<p>Where observable market data is available, valuations are based on:</p> <ul style="list-style-type: none"> • Observed market prices (circumstances are infrequent) • Relevant broker quotes • Observed market prices for similar instruments <p>Where observable market data is unavailable or limited, valuations are based on discounted cash flows, which consider the following:</p> <ul style="list-style-type: none"> • Credit spreads derived from the cost of credit default swaps ("CDS"); or benchmark credit curves developed by the Company, by industry and credit rating 	<p>Level 2 or 3</p>

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

Valuation methodologies (continued)

Product/instrument	Valuation methodology, inputs and assumptions	Classifications in the valuation hierarchy
Loans and advances to customers and lending-related commitments	<p>Valuations are based on discounted cash flows, which consider:</p> <ul style="list-style-type: none"> Credit spreads, derived from the cost of credit default swaps ("CDS"); or benchmark credit curves developed by the Company, by industry and credit rating Prepayment speed <p>Lending-related commitments are valued similar to loans and reflect the portion of an unused commitment expected, based on the Company's average portfolio historical experience, to become funded prior to an obligor default</p>	Predominantly level 3
<ul style="list-style-type: none"> Securities purchased under agreements to resell; Securities borrowed; Securities sold under agreements to repurchase; Securities loaned 	<p>Valuations are based on discounted cash flows, which consider:</p> <ul style="list-style-type: none"> Derivative features. For further information refer to the discussion of derivatives below Market rates for the respective maturity Collateral 	Level 2

Assets and liabilities measured at fair value on a recurring basis

The following table presents the asset and liabilities reported at fair value as of 31 December 2015 and 2014, by major product category and fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	\$'m	\$'m	\$'m	\$'m
At 31 December 2015				
Financial assets:				
Debt and equity instruments	49,386	41,421	1,471	92,278
Derivative receivables	51	203,908	5,175	209,134
Total assets at fair value	49,437	245,329	6,646	301,412
Financial liabilities:				
Debt and equity instruments	20,476	12,396	5	32,877
Derivative payables	51	209,948	4,906	214,905
Other financial liabilities	297	12,990	3,137	16,424
Total liabilities at fair value	20,824	235,334	8,048	264,206

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

	Level 1	Level 2	Level 3	Total
	\$'m	\$'m	\$'m	\$'m
At 31 December 2014				
Financial assets:				
Debt and equity instruments	51,489	36,285	5,765	93,539
Derivative receivables	29	206,830	6,543	213,402
Total assets at fair value	51,518	243,115	12,308	306,941
Financial liabilities:				
Debt and equity instruments	21,331	12,509	2	33,842
Derivative payables	26	210,921	5,515	216,462
Other financial liabilities	—	13,235	3,628	16,863
Total liabilities at fair value	21,357	236,665	9,145	267,167

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 Group. 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.

In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs including, but not limited to, transaction details, yield curves, interest rates, prepayment speed, default rates, volatilities, correlations, equity or debt prices, valuations of comparable instruments, foreign exchange rates and credit curves.

The following table presents the Group'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.

In the Group's view, the input range and the weighted average value reflect the characteristics of the various instruments held by the Group and the relative distribution of instruments within the range of characteristics. For example, two option contracts may have similar levels of market risk exposure and valuation uncertainty, but may have significantly different implied volatility levels because the option contracts have different underlying's, tenors, or strike prices.

The input range and weighted average values will therefore vary from period-to period and parameter to parameter based on the characteristics of the instruments held by the Group at each balance sheet date.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

Product/instrument	Asset	Liability	Net fair value	Principal valuation technique	Unobservable input	Range of input values	Weighted average
At 31 December 2015	\$'m	\$'m	\$'m				
Debt and equity instruments	1,471	(5)	1,466				
Corporate debt securities and other				Discounted cash flows Market comparables	Credit spread Yield Price	60bps – 225bps 1% - 20% \$0 - \$168	146bps 5% \$89
Residential mortgage-backed securities and loans				Discounted cash flows	Yield Prepayment speed Conditional default rate Loss severity	3% - 26% 0% - 20% 0% - 33% 0% - 100%	6% 6% 2% 28%
Commercial mortgage-backed securities and loans				Discounted cash flows	Yield Conditional default rate Loss severity	1% - 25% 0% - 91% 40%	6% 29% 40%
Derivatives	5,175	(4,906)	269				
Net interest rate derivatives				Option pricing	Interest rate correlation Interest rate spread volatility	(52)% – 99% 3% – 38%	
Net credit derivatives				Discounted cash flows	Credit correlation	35 % – 90%	
Net foreign exchange derivatives				Option pricing	Foreign exchange correlation	0 % – 60%	
Net equity derivatives				Option pricing	Equity volatility	20 % – 65%	
Net commodity derivatives				Discounted cash flows	Forward commodity price	\$22 – \$46 per barrel	
Other financial liabilities	—	(3,137)	(3,137)	Option pricing	Interest rate correlation Interest rate spread volatility Foreign exchange correlation Equity correlation	(52)% – 99% 3% – 38% 0 % – 60% (50)% – 80%	
				Discounted cash flows	Credit correlation	35 % – 90%	
Total assets and liabilities	6,646	(8,048)	(1,402)				

The categories presented in the table 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

The following discussion provides a description of the impact on a fair value measurement of a change in each unobservable input in isolation, and the interrelationship between unobservable inputs, where relevant and significant. The impact of changes in inputs may not be independent as a change in one unobservable input may give rise to a change in another unobservable input; where relationships exist between two unobservable inputs, those relationships are discussed below. For each of the individual relationships described below, the inverse relationship would also generally apply.

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

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

Prepayment speed - The prepayment speed is a measure of the voluntary unscheduled principal repayments of a prepayable obligation in a collateralised pool. Prepayment speeds generally decline as borrower delinquencies rise. An increase in prepayment speeds, in isolation, would result in a decrease in a fair value measurement of assets valued at a premium to par and an increase in a fair value measurement of assets valued at a discount to par.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

Level 3 valuations (continued)

Conditional default rate - The conditional default rate is a measure of the reduction in the outstanding collateral balance underlying a collateralised obligation as a result of defaults. An increase in conditional default rates would generally be accompanied by an increase in loss severity and an increase in credit spreads. An increase in the conditional default rate, in isolation, would result in a decrease in a fair value measurement.

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.

Correlation - Correlation is a measure of the relationship between the movements of two variables (e.g., how the change in one variable influences the change in the other). Correlation is a pricing input for a derivative product where the payoff is driven by one or more underlying risks. Correlation inputs are related to the type of derivative (e.g., interest rate, credit, equity and foreign exchange) due to the nature of the underlying risks. An increase in correlation can result in an increase or a decrease in a fair value measurement. Given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement.

Volatility - Volatility is a measure of the variability in possible returns for an instrument, parameter or market index given how much the particular instrument, parameter or index changes in value over time. Volatility is a pricing input for options, including equity options, commodity options, and interest rate options. Generally, the higher the volatility of the underlying, the riskier the instrument. Given a long position in an option, an increase in volatility, in isolation, would generally result in an increase in a fair value measurement.

Movement in Level 3 assets and liabilities during the year ended 31 December 2015

	Debt and equity instruments	Derivative receivables	Total financial assets
	\$'m	\$'m	\$'m
Financial Assets			
At 1 January 2015	5,765	6,543	12,308
Purchases	4,567	943	5,510
Sales	(3,693)	(258)	(3,951)
Issuances	7	18	25
Settlements	(1,746)	(1,670)	(3,416)
Transfers into Level 3	484	257	741
Transfers out of Level 3	(3,534)	(1,641)	(5,175)
Total (loss)/gain recognised in the profit or loss	(379)	983	604
At 31 December 2015	1,471	5,175	6,646

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

	Debt and equity instruments	Derivative payables	Other financial liabilities	Total financial liabilities
	\$'m	\$'m	\$'m	\$'m
Financial Liabilities				
At 1 January 2015	2	5,515	3,628	9,145
Purchases	(127)	(1,262)	—	(1,389)
Sales	130	2,255	—	2,385
Issuances	—	53	3,279	3,332
Settlements	(1)	(2,142)	(2,991)	(5,134)
Transfers into Level 3	5	211	247	463
Transfers out of Level 3	(3)	(1,050)	(1,409)	(2,462)
Total gain/ (loss) recognised in the profit or loss	(1)	1,326	383	1,708
At 31 December 2015	5	4,906	3,137	8,048

Movement in Level 3 assets and liabilities during the year ended 31 December 2014

	Debt and equity instruments	Derivative receivables	Total financial assets
	\$'m	\$'m	\$'m
Financial Assets			
At 1 January 2014	5,311	5,793	11,104
Purchases	9,302	1,302	10,604
Sales	(7,077)	(514)	(7,591)
Issuances	98	(17)	81
Settlements	(1,452)	(2,091)	(3,543)
Transfers into Level 3	2,048	227	2,275
Transfers out of Level 3	(2,335)	(285)	(2,620)
Total (loss)/gain recognised in the profit or loss	(130)	2,128	1,998
At 31 December 2014	5,765	6,543	12,308

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

28. Assets and liabilities measured at fair value (continued)

	Debt and equity instruments	Derivative payables	Other financial liabilities	Total financial liabilities
	\$'m	\$'m	\$'m	\$'m
Financial Liabilities				
At 1 January 2014	58	5,169	3,946	9,173
Purchases	(160)	(1,599)	—	(1,759)
Sales	166	4,587	—	4,753
Issuances	—	392	3,411	3,803
Settlements	—	(4,335)	(3,377)	(7,712)
Transfers into Level 3	5	615	314	934
Transfers out of Level 3	(49)	(759)	(255)	(1,063)
Total gain/ (loss) recognised in the profit or loss	(18)	1,445	(411)	1,016
At 31 December 2014	2	5,515	3,628	9,145

Realised and unrealised gains/(losses) are reported in trading profits in the income statement.

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

For the years ended 31 December 2015 and 2014, there were no significant transfers between levels 1 and 2.

During the year ended 31 December 2015, transfers from level 3 to level 2 included the following:

- \$1.6 billion of assets driven by a decrease in the significance of the unobservable inputs for equity options;
- \$0.7 billion of assets and \$0.9 billion of liabilities driven by an increase in observability of equity options;
- \$0.6 billion of assets and \$0.6 billion of liabilities driven by a decrease in the significance of the unobservable inputs for structured notes and offsetting credit hedges;
- \$0.4 billion of assets and \$0.4 billion of liabilities driven by an increase in observability of interest rate options; and
- \$0.3 billion of assets driven by a decrease in the significance of the unobservable inputs for loans.

All transfers are assumed to occur at the beginning of the period in which they occur.

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 approximate fair value, due to their short term nature and generally negligible credit risk. These instruments include securities purchased under agreements to resell, cash and balances at central banks; debtors; other assets; fixed assets; trade creditors and other liabilities. The Group has \$214 billion (2014: \$226 billion) of current financial assets and \$240 billion (2014: \$242 billion) of current financial liabilities that are not measured at fair value, including loans and advances to customers of \$10 billion (31 December 2014: \$11 billion).

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.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

29. Offsetting financial assets and financial liabilities

The table below presents the balance sheet assets and liabilities offset, where the offsetting criteria under section 11.38A of FRS102 have been met, and the related amounts not offset in the balance sheet in respect of cash and security collateral received and master netting agreements, where such criteria have not been met:

	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on balance sheet	Financial Instruments	Cash collateral	Net amount
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
At 31 December 2015						
Financial assets:						
Securities purchased under agreements to resell and securities borrowed ¹⁾	214,912	(56,922)	157,990	—	(157,990)	—
Financial assets held for trading ²⁾	329,142	(27,890)	301,252	(161,859)	(15,595)	123,798
Total	544,054	(84,812)	459,242	(161,859)	(173,585)	123,798
Financial liabilities:						
Securities sold under agreements to repurchase and securities loaned ¹⁾	126,889	(56,922)	69,967	—	(69,967)	—
Financial liabilities held for trading ²⁾	290,809	(26,603)	264,206	(165,422)	(12,032)	86,752
Total	417,698	(83,525)	334,173	(165,422)	(81,999)	86,752

	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on balance sheet	Financial Instruments	Cash collateral	Net amount
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
At 31 December 2014						
Financial assets:						
Securities purchased under agreements to resell and securities borrowed ¹⁾	221,933	(53,185)	168,748	(168,748)	—	—
Financial assets held for trading ²⁾	344,577	(39,189)	305,388	(156,775)	(16,436)	132,177
Total	566,510	(92,374)	474,136	(325,523)	(16,436)	132,177
Financial liabilities:						
Securities sold under agreements to repurchase and securities loaned ¹⁾	128,269	(53,185)	75,084	(75,084)	—	—
Financial liabilities held for trading ²⁾	305,955	(38,788)	267,167	(164,052)	(9,159)	93,956
Total	434,224	(91,973)	342,251	(239,136)	(9,159)	93,956

¹⁾ The fair value of securities purchased under agreements to resell and securities borrowed accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default, prior to netting adjustments, is \$223,981 million (2014: \$229,193 million). The fair value of securities sold under agreements to repurchase and securities loaned pledged to secure liabilities, prior to netting adjustments, is \$133,552 million (2014: \$128,244 million).

The fair value of the security collateral in respect of the above securities financing transactions is, in aggregate, greater than the net amounts reported on balance sheet, and therefore, the related amounts not offset have been limited to the inclusion of cash collateral to the extent of the net balance sheet amount.

²⁾ Included within "Amounts offset" are the respective collateral payables and receivables with certain clearing counterparties.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

30. Subordinated liabilities

	2015	2014
	\$'m	\$'m
Subordinated debt	12,108	12,108

The following loan capital is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, as follows:

Lender	Dated	Interest	2015	2014
			\$'m	\$'m
J.P. Morgan Chase International	2025	3.99	450	450
J.P. Morgan Chase International	2016	5.78	150	150
J.P. Morgan Chase International	2017	5.54	500	500
J.P. Morgan Chase International	2017	7.01	959	959
J.P. Morgan Chase International	2017	6.17	750	750
J.P. Morgan Chase International	2017	5.67	510	510
J.P. Morgan Chase International	2017	4.97	302	302
J.P. Morgan Chase International	2017	5.92	200	200
J.P. Morgan Chase International	2017	5.88	713	713
J.P. Morgan Chase International	2017	5.88	2,087	2,087
J.P. Morgan Chase International	2018	5.87	3,000	3,000
J.P. Morgan Chase International	2020	4.98	482	482
J.P. Morgan Chase International	2021	5.72	2,000	2,000
J.P. Morgan International Finance	2037	0.125% above 6 mth LIBOR	5	5
			12,108	12,108

There are no provisions, whereby the subordinated liability may be converted into capital.

31. Non-controlling interests

The non-controlling interest in the Group is represented by the following:

- 7,000 (2014: 7,000) redeemable preference shares of \$10,000 each issued by JPMS plc to JP Morgan Capital Financing Limited. The dividend rate on the preference shares is 0.9% over 12 month U.S. dollar LIBOR on the nominal amount, payable in priority to any dividend payable on ordinary shares, with no right to accumulation in the event of deficiency of profits nor any further entitlement to participation in the profits of JPMS plc. JPMS plc may redeem at its option any preference share at par, together with accrued dividend due, at any time after 26 March 2007. In the event of a winding-up the preference shareholder shall be repaid both capital and any accrued dividend due in priority to any payment to the ordinary shareholders.
- 3,648 (2014: 3,648) preferred ordinary shares each issued by JPMS plc to J.P. Morgan Capital Financing Limited. These share carry voting rights fixed at 10% of all votes capable of being cast at general meetings, with the ordinary shares carrying the remaining 90% of the voting rights.
- 100,000 (2014: 100,000) twenty year fixed rate preference shares issued by J.P. Morgan Chase International Holdings ("JPMCIH") to J.P. Morgan Whitefriars (UK). The fixed rate applicable to the preference shares is 8% payable at the discretion of JPMCIH, with no right to accumulation in the event of deficiency of profits nor any further entitlement to participation in the profits of JPMCIH. The preference shares are redeemable only at the discretion of the issuer.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED**Notes to the financial statements for the year ended 31 December 2015 (continued)****31. Non-controlling interests (continued)**

The non-controlling interest shareholders' funds are as follows:

	2015	2014
	\$'m	\$'m
Issue proceeds of redeemable preference shares and preferred ordinary shares	2,064	2,064
Total non-controlling interest	2,064	2,064
At 1 January	2,064	2,446
Equity non-controlling interest	—	(382)
At 31 December	2,064	2,064

32. Called-up share capital

	2015	2014
	\$'m	\$'m
Issued and fully paid share capital		
3,292,673,442 ordinary shares of \$1 each	3,293	3,293

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

33. Notes to the consolidated statement of cash flows

		2015	2014
	Notes	\$'m	\$'m
Profit for the financial year		2,492	1,744
Adjustments for:			
Tax on profit on ordinary activities	11	435	523
Amortisation on intangible assets		1	—
Depreciation on tangible fixed assets		2	2
Amortisation of goodwill	20	27	27
Write off goodwill		1	—
Interest income	7	(2,061)	(2,336)
Interest expense	8	1,960	2,546
Loss/ (gain) from investment in associate	21	24	(1)
Other non-cash movements		(39)	252
Operating cash flows before changes in operating assets and liabilities		2,842	2,757
Changes in operating assets			
Decrease/ (increase) in loans and advances to customers		948	(1,484)
Decrease/ (increase) in securities purchased under resale agreements		9,069	(5,451)
Decrease in securities borrowed		1,689	2,938
Decrease/ (increase) in financial assets held for trading		4,136	(140,635)
Increase in financial assets designated at fair value through profit or loss		(55)	(50)
Decrease/ (increase) in other assets		831	(2,995)
Decrease/ (increase) in prepayments and accrued income		96	(49)
		16,714	(147,726)
Changes in operating liabilities			
Increase in customer accounts		2,450	3,183
Increase/ (decrease) in securities sold under repurchase agreements		5,358	(14,404)
(Decrease)/ increase in securities loaned		(10,475)	1,231
(Decrease)/ increase in financial liabilities held for trading		(2,961)	139,504
(Decrease)/ increase in other liabilities		(17,357)	12,524
Increase/ (decrease) in accruals and deferred income		319	(485)
		(22,666)	141,553
Interest received		2,061	2,336
Interest paid		(1,960)	(2,546)
Income taxes paid		(169)	(204)
Net cash used in operating activities		(3,178)	(3,830)

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

34. Commitments

	2015	2014
	\$'m	\$'m
Guarantees	310	606
Standby letters of credit	1,186	1,120
Other lending commitments	18,912	15,664
	20,408	17,390

There are no lending commitments to JPMorgan Chase undertakings (2014: \$nil).

35. Pension commitments

During the year, the Group participated in the following pension schemes in the UK:

- JPMorgan UK Pension Plan ("UKP") - an ongoing defined contribution pension scheme;
- JPMC UK Retirement Plan ("UKR") - a closed multi-employer defined benefit plan which is accounted for on a defined contribution basis; and
- JPMorgan Cazenove (1987) Pension scheme ("UKS") - a defined benefit scheme.

In Europe, the Group also operates defined benefit and defined contribution schemes for its employees in the overseas branches of JPMS plc and JPMIB in Switzerland, Germany, France, Italy and Spain.

Based on full actuarial valuations carried out during the year, the net liability in respect of these European schemes of JPMS plc as at 31 December 2015 amounted to \$8,165,000 (2014: \$11,799,000). The charge for the year through profit and loss was \$1,620,000 (2014: \$1,949,000), and total gain recognised through the statement of comprehensive income was \$3,297,000 (2014: \$10,928,000 loss).

The European branch schemes in JPMIB are not material to the Group and have not been included in the following disclosure.

JPMC UK Retirement Plan ("UKR")

The Firm maintains a defined benefit plan that is closed to additional benefit accruals known as the JPMC UK Retirement plan. Whilst the Company is not a participating employer in this plan, its subsidiary JPMEI, is a participating employer. In addition, JPMS plc, does have certain obligations under a Withdrawal Agreement dated 24 May 2011 that was entered into in relation to JPM Services LLP ("LLP"), a Group undertaking which had previously been a participating employer in the plan.

Under the terms of the withdrawal agreement, JPMS plc became responsible for the LLP's portion of the pension obligations calculated in accordance with paragraph 5(2) of Schedule 1A to the Occupational Pension Schemes (Employer Debt) Regulations 2005 (as amended) with effect from 1 June 2011. JPMS plc was not required to make any payments immediately or in relation to the ongoing funding of the plan. However, payments may become due from the JPMS plc on the occurrence of the earliest of the following events:

- The commencement of the winding up of the plan
- The insolvency of the plan's last remaining participating employer
- The insolvency of JPMS plc
- Any other date agreed between the JPMS plc and the Trustee of the Plan

The UKR is a defined benefit plan that shares risks between entities under common control. JPMEI is not deemed to be the sponsoring employer of the plan and there is no contractual agreement or stated policy for charging the net defined benefit cost amongst the participating entities therefore JPMEI does not recognise the net defined benefit obligation on balance sheet, in accordance with Section 28. The sponsoring employer of the plan is JPMorgan Chase Bank, N.A.. The actuary has calculated that in total the Plan's FRS 102 funding level would have been around 112% funded as at 1 January 2016 with a surplus of defined benefit assets over liabilities on this basis of the order of \$247 million.

Additional information in relation to the plan can be found in the JPMorgan Chase & Co. 2015 Annual Report on Form 10-K.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

35. Pension commitments (continued)

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

Scheme	JPMC UK Retirement Plan
Date of most recent valuation by independent actuary	31 December 2015
Valuation assumptions (p.a.)	
Price inflation (RPI)	3.3%
Price inflation (CPI)	2.2%
Pension increase (LPI)	3.0%
Investment return	3.7%
Discount rate	3.7%
Market value of scheme assets	\$2,390.65 million
Past service liability	\$2,143.81 million
Surplus	\$246.84 million
FRS 102 funding level	112%

In addition, the Plan has been closed to future accrual for all members from 31 December 2007.

JPMorgan Cazenove (1987) Pension Scheme ("UKS")

The UKS is an ongoing defined benefit plan. JPMS plc has been a principal employer in relation to UKS plan since August 2012.

The principal assumptions adopted for the valuation of the UKS at 31 December were as follows:

	2015	2014
	%	%
Discount rate	3.7	3.6
Rate of salary increase	4.3	4.2
Rate of price inflation	3.3	3.2
Rate of pension increases	2.9	3.0

Assumed life expectancy on retirement at age 65 were as follows:

	2015
	years
Longevity at age 65 for current pensioners	
- Male	24
- Female	25
Longevity at age 65 for future pensioners	
- Male	26.6
- Female	26.9

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED
Notes to the financial statements for the year ended 31 December 2015 (continued)

35. Pension commitments (continued)

The movements in the UKS' liability for the year ended 31 December was as follows:

	2015	2014
	\$'m	\$'m
Benefit obligation at beginning of the year	551	506
Current service costs	2	2
Interest costs	19	22
Actuarial (gain)/ loss	(33)	69
Benefits paid from plan/ company	(18)	(14)
Exchange rate changes	(25)	(34)
Benefit obligation at end of the year	496	551

The movements in the UKS' assets for the year ended 31 December was as follows:

	2015	2014
	\$'m	\$'m
Fair value of plan assets at beginning of year	484	474
Expected return on plan assets	17	21
Actuarial (loss)/ gain on plan assets	(16)	25
Employer contributions (including employer direct benefit payments)	7	7
Administrative expenses paid from plan assets	(1)	—
Benefits paid from plan/company	(18)	(14)
Exchange rate changes	(22)	(30)
Fair value of plan assets at end of the year	451	483

The equity investments and bonds which are held in the plan assets are quoted and are valued at the current bid price.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is as follows:

	Change in assumption	Increase in assumption	Decrease in assumption
	%	% per annum	% per annum
Discount rate	0.25	(5.03)	5.28
Rate of salary increase	0.25	0.01	—
Rate of pension increase	0.25	1.72	(1.68)
Rate of price inflation	0.25	2.97	(2.94)
Post-retirement mortality assumption	Increase by one year	3.28	—

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

Amounts recognised in the balance sheet arising from schemes that are wholly unfunded and those wholly or partly funded as at 31 December 2015 and 31 December 2014 were as follows:

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

35. Pension commitments (continued)

	2015	2014
	\$'m	\$'m
Present value of wholly or partly funded obligations	496	551
Fair value of plan assets	451	484
Deficit for funded plans - net liability	45	67
Experience adjustments on plan assets	16	(26)
Experience adjustments on plan liabilities	(7)	—

Movements in the UKS income statement for the year ended 31 December are as follows:

	2015	2014
	\$'m	\$'m
Current service cost	2	2
Interest cost	19	22
Expected return on plan assets	(17)	(21)
Administrative expenses paid from plan assets	1	—
Total pension cost recognised in the income statement	5	3
Exchange rate changes	(2)	(4)
Net amount recognised in the income statement	3	(1)

Movements in the UKS statement of other comprehensive income for the year ended 31 December 2015 are as follows:

	2015	2014
	\$'m	\$'m
Actuarial gains immediately recognised	17	(43)

The asset allocation of the UKS defined benefit schemes and expected rate of return were as follows:

	2015	2014
	Percentage of plan assets	Percentage of plan assets
	%	%
Equity securities	34.8	35.0
Bond securities	63.3	64.2
Cash	1.9	0.5
Other	—	0.3
Total assets at fair value	100.0	100.0

36. Share based payments

The ultimate parent of the Group, JPMorgan Chase & Co. has granted long-term stock-based awards to certain employees under the 2005 Long-Term Incentive Plan (the "2005 plan"). The 2005 Plan became effective on 17 May 2005, and was amended in May 2011. Under the terms of the amended 2005 plan, as of 31 December 2014, 266 million shares of common stock are available for issuance through May 2015. The amended 2005 Plan is the only active plan under which the Firm is currently granting stock-based incentive awards. The 2005 Plan, 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.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

36. Share based payments (continued)

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.

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 and 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 Group typically awards SARs to certain key employees once per year; the Group also periodically grants employee stock options and SARs to individual employees. The 2013, 2012 and 2011 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, 2012 and 2011 grants of SARs contain full-career eligibility provisions. SARs generally expire 10 years after the grant date.

The following table summarises additional information about options outstanding as at 31 December 2015 and 31 December 2014:

	2015			2014		
	Outstanding	Weighted average exercise price	Weighted average remaining contractual life (in years)	Outstanding	Weighted average exercise price	Weighted average remaining contractual life (in years)
	'000	\$		'000	\$	
Range of exercise prices						
\$min - \$20.00	160	19.49	3.06	390	19.49	5.06
\$20.01 - \$35.00	—	—	—	100	34.78	1.80
\$35.01 - \$50.00	2,783	43.27	4.64	3,545	43.49	5.92
\$50.01 and above	1	759.99	0.97	3	600.62	1.74
Total	2,944	42.22	4.56	4,038	41.44	5.72

Broad-based employee stock options

No broad-based employee stock options were granted in 2014 or in 2015. 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 became exercisable over various periods and generally expire 10 years after the grant date.

The weighted-average share price during the year ended 31 December 2015 was \$63.83 (2014: \$58.17).

The total expense for the year relating to share based payments was \$345 million (2014: \$370 million), all of which relates to equity settled share based payments.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management

Risk management is an inherent part of the Firm's (of which the Group is a part) business activities and the Group has adopted the same risk management policies and procedures as the Firm as a whole. The Firm and Group's risk management framework and governance structure provide comprehensive controls and ongoing management of the major risks. The Group employs a holistic approach to risk management to ensure the broad spectrum of risk types are considered in managing its business activities. The risk management framework creates a culture of risk awareness and personal responsibility throughout the entity where collaboration, discussion, escalation and sharing of information is promoted. The Group exercises oversight through the Board of Directors and delegation from the Board to various committees and sub-committees which are aligned to both the Firm risk management framework and regulatory requirements.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the policies and processes adopted by the Firm may be found within the JPMorgan Chase & Co. 2015 Annual Report on Form 10-K.

There are primarily three Group companies engaged in trading derivatives and other financial instruments as follows:

J.P. Morgan Securities plc ("JPMS plc")

JPMS plc is primarily in the business of underwriting, sales and trading of securities, swaps and derivative marketing, investment banking advisory and brokerage and clearing services for exchange traded futures and options contracts.

Positions held as a result of the above activities give rise primarily to operational, credit and market risks. The Firm has a defined process for allocating desk limits and monitoring against them. Desk limits are aggregated into portfolio or business limits and these are policed on a daily basis. Traders may use financial instruments and derivative products to reduce or hedge their exposure and to maintain effective utilisation of limits.

The limits themselves are stress tested and reviewed to ensure they provide a satisfactory confidence level and that they aggregate up to appropriate limits for the business as a whole.

Derivative instruments may be useful for reducing market risk exposures, managing or hedging risk including futures, forward rate agreements, interest rate swaps, cross currency swaps, default swaps, total return swaps, traded options and over the counter options. All of these are used to varying degrees to manage credit risk and market risk. Additionally, on balance sheet financial instruments are used as natural hedges wherever possible.

J.P. Morgan Europe Limited ("JPMEU")

JPMEU primarily provides marketing, custody and payment services to clients on behalf of affiliated entities, it also provides loans to commercial enterprises in Europe. On a smaller scale it has a small futures trading book, a loan trading book and provides loan agency services.

The limits themselves are stress tested and reviewed to ensure they provide a satisfactory confidence level and that they aggregate up to appropriate limits for the businesses as a whole.

Derivative instruments may be used for reducing market risk exposures, managing or hedging risk including futures, forward rate agreements, interest rate swaps, cross currency swaps, default swaps, total return swaps, traded options and over the counter options. All of these are used to varying degrees to manage credit risk and market risk. Additionally, on balance sheet financial instruments are used as natural hedges wherever possible.

J.P. Morgan International Bank Limited ("JPMIB")

All trading activity in JPMIB is done on a matched principal basis. The company's trading policy is primarily focused on executing back to back trades between the client on one side and a third party or affiliated counterparty on the other side on a matched basis with no overnight positions being held.

Credit risk

Credit Risk refers to the risk of loss arising from a borrower, counterparty or obligor failing to meet its contractual obligations. The Group is exposed to credit risk through lending and capital markets activities.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Credit risk (continued)

Governance

Credit risk is managed by the Firm on a global as well as at a legal entity level. The Firm has developed policies and practices that the Group and its subsidiaries are subject to, that are designed to preserve the independence and integrity of the approval and decision making process of extending credit. The policies ensure that credit risks are assessed accurately, approved properly, monitored regularly and managed actively at the transaction, client and portfolio levels. In addition, the principle subsidiaries within the Group have their own credit risk policies, which contain standards pertaining to governance including: oversight of transactions originated offshore, management of concentrations, credit risk limits and new business initiative approvals. The credit risk policy of the Group's principle subsidiaries are reviewed by the DRPC and approved by their respective boards.

The Group's principle subsidiaries have a designated Chief Risk Officer. Credit Executives within the Firm, who approve extensions of credit to the Group's principle subsidiaries, report to the Chief Risk Officer and ultimately report to the Head of Wholesale Credit Risk. Each Line of Business within the Firm has its own independent credit risk management function, reporting to the Firm Chief Risk Officer. JPMS plc and JPMEI are exposed to credit risk through lending and capital markets activities. Both entities sit within the Corporate and Investment Banking Line of Business and have a designated Chief Risk Officer ("CRO"). Credit Executives within this Line of Business approve extensions of credit for the Companies and ultimately report to the Head of Wholesale Credit Risk.

Methodology

The Credit Risk Management function identifies, measures, limits, manages and monitors credit risk across our businesses. To measure credit risk, the Group 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, volatility in trading markets, risk measurement parameters and risk assessment 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.

Based on these factors and related market-based inputs, the Group estimates credit losses for its exposures. Expected credit losses inherent in the wholesale loan portfolios are reflected in the provision for loan losses, and probable credit losses inherent in lending-related commitments are reflected in the provision for lending related commitments. These losses are estimated using empirical statistical analyses and other factors. In addition, potential and unexpected credit losses are reflected in the allocation of credit risk capital and represent the potential volatility of actual losses relative to the established allowances for loan losses and lending related commitments. The analyses for these losses include stress testing (considering alternative economic scenarios) as described in the Stress testing section below. The methodologies used to estimate credit losses depend on the characteristics of the credit exposure, as described below.

Risk Rated Exposure

Risk-rated portfolios are generally held in Corporate & Investment Bank. For the risk rated portfolio, credit loss estimates are based on estimates of the probability of default ("PD") and loss severity given a default. The estimation process begins with risk-ratings that are assigned to each loan facility to differentiate risk within the portfolio. These risk ratings are reviewed regularly by Credit Risk management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The PD is the likelihood that a loan will default and not be fully repaid by the borrower. The loss given default ("LGD") is the estimated loss on the loan that would be realised upon the default of the borrower and takes into consideration collateral and structural support for each credit facility. The PD is estimated for each borrower, and a loss given default is estimated for each credit facility. The calculations and assumptions are based on historic experience, financial and economic analysis and management judgement and are reviewed regularly.

Stress testing

Stress testing is important in measuring and managing credit risk in the Group's credit portfolio. The Group uses stress testing to inform decisions on setting risk appetite both at a Group and line of business level. Stress testing results across a range of scenarios and products are regularly reported to relevant management committees providing additional insight into credit portfolio's sensitivities under stress and measurement against risk appetite. This additional insight supports timely management notification and action, when required.

Risk monitoring and management

The Group and its principle subsidiaries have adopted and applied the policies and practices developed by the Firm. The Firmwide policy framework is designed to preserve the independence and integrity of the approval and decision-making process of extending credit to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters, and guidelines for management of distressed exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the line of businesses.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Credit risk (continued)

Wholesale 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.

Management of the Group's wholesale 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
- Master netting agreements
- Collateral and other risk-reduction techniques

Risk reporting

To enable monitoring of credit risk and effective decision-making, aggregate credit exposure, concentration levels and risk profile changes are reported regularly to senior Credit Risk Management. Detailed portfolio reporting of industry, 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, senior management and the Board's of the principle subsidiaries within the Group, as appropriate.

Balance sheet exposure by financial asset

The table below presents the Group's gross balance sheet exposure to financial assets and net balance sheet exposure after taking account of assets captured by market risk in the Group's risk management process, enforceable master netting agreements and the value of collateral received in respect of financial assets.

Amounts in respect of master netting agreements include the offsetting of derivative assets with liabilities. Derivatives are reported on a net-by-counterparty basis when a legal right of setoff exists under an enforceable netting agreement and the requirements of Section 11.38A are met. Securities purchased under agreements to resell and securities borrowed are reported on a net-by-counterparty basis, when the requirements of Section 11.38A are met.

	Gross balance sheet exposure ¹⁾	Assets captured by market risk	Master netting agreements and other	Cash & security collateral ⁴⁾	Net balance sheet exposure	Net balance sheet exposure held with:	
						JPMorgan Chase undertakings	External counter parties
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
At 31 December 2015							
Financial assets:							
Cash and balances at central banks	269	—	—	—	269	—	269
Cash at bank and in hand	410	—	—	—	410	410	—
Loans and advances to banks	5,184	—	—	—	5,184	2,137	3,047
Loans and advances to customers	10,293	—	—	(7,409)	2,884	—	2,884
Securities purchased under agreements to resell and securities borrowed ²⁾	157,990	—	—	(157,990)	—	—	—
Financial assets held for trading	301,252	(92,118)	(165,935)	(15,595)	27,604	—	27,604
Financial assets designated at fair value through profit or loss	140	(140)	—	—	—	—	—
Financial assets available-for-sale	20	(20)	—	—	—	—	—
Other assets	38,526	—	—	—	38,526	11,519	27,007
Total³⁾	514,084	(92,278)	(165,935)	(180,994)	74,877	14,066	60,811

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Credit risk (continued)

	Gross balance sheet exposure ¹⁾	Assets captured by market risk	Master netting agreements and other	Cash & security collateral ⁴⁾	Net balance sheet exposure	Net balance sheet exposure held with:	
						JP Morgan Chase undertakings	External counter parties
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
At 31 December 2014							
Financial assets:							
Cash and balances at central banks	241	—	—	—	241	—	241
Cash at bank and in hand	284	—	—	—	284	284	—
Loans and advances to banks	4,855	—	—	—	4,855	3,749	1,106
Loans and advances to customers	11,241	—	—	(8,640)	2,601	—	2,601
Securities purchased under agreements to resell and securities borrowed ²⁾	168,748	—	—	(168,748)	—	—	—
Financial assets held for trading	305,388	(91,986)	(167,163)	(16,436)	29,803	—	29,803
Financial assets designated at fair value through profit or loss	85	(85)	—	—	—	—	—
Financial assets available-for-sale	1,468	(1,468)	—	—	—	—	—
Other assets	39,355	—	—	—	39,355	6,952	32,403
Total³⁾	531,665	(93,539)	(167,163)	(193,824)	77,139	10,985	66,154

¹⁾ Of the above on-balance sheet assets, \$97,385 million (2014: \$96,499 million) is held with other Group undertakings.

²⁾ The fair value of the security collateral in respect of securities financing transactions is, in aggregate, greater than the net amounts reported on balance sheet, and therefore, the related amounts included in the cash and security collateral column have been limited to the inclusion of cash collateral to the extent of the net balance sheet amount.

³⁾ Off balance sheet exposure consists of lending commitments of \$20,474 million (2014: \$17,390 million).

⁴⁾ Cash and security collateral received in respect of financial assets held for trading reported in the column is limited to net balance sheet exposure, after taking account of master netting and other arrangements.

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

Financial assets held for trading

Debt and equity instruments are captured by market risk and therefore are not considered in the table above to arrive at net credit risk exposure. Derivatives are reported at fair value on a gross by counterparty basis in the Group's financial statements unless the Group has current legal right of set off and also intends to settle on a net basis. The majority of the credit risk exposure is mitigated by cash collateral, margin arrangements and enforceable master netting arrangements. The counterparty credit risk on the derivative portfolio is generally mitigated by arrangements provided to the Group by JPMorgan Chase Bank N.A.

Securities purchased under agreements to resell and securities borrowed

The Group generally bears credit risk related to resale agreements and securities borrowed where cash advanced to the counterparty exceeds the expected value of the collateral received on default. The Group's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which for the substantial majority represent contractual value before consideration of any collateral received. The Group also has a potential credit exposure on repurchase agreements and securities loaned, which are liabilities on its balance sheet, to the extent that the value of collateral pledged to the counterparty for these transactions exceeds the amount of cash or collateral received.

Debtors and other assets

The Group is exposed to credit risk from its debtors through its amounts due from brokers/dealers, customers and JPMorgan Chase undertakings. These primarily comprise receivables related to cash collateral paid to counterparties in respect of derivative financial instruments. In addition, these balances also include receivables related to sales of securities which have traded, but not yet settled. These receivables generally have minimal credit risk due to the low probability of clearing organisation default and the short-term nature of receivables related to securities settlements which are predominately on a delivery versus payment basis. Other assets primarily include accrued interest on trading assets and therefore are captured by market risk.

Loans and advances to banks

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

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Credit risk (continued)

Financial assets designated at fair value

Financial assets designated at fair value through profit or loss represents unlisted equity securities and are captured by market risk and therefore are removed from the table above to arrive at net credit risk exposure.

Cash and balances at central banks

Cash and balances with central banks include interest-bearing deposits. These are of investment grade.

Loans and advances to customers

The table below presents the Group's credit exposure to loans and advances to customers. The ratings scale is based on the Firms internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's.

	2015	2014
	\$'m	\$'m
Credit rating		
A+ to A-	5,253	6,009
BBB+ to BBB-	1,049	3,054
BB+ to BB-	1,571	1,178
B+ to B-	2,347	944
CCC+ & below	78	66
	10,298	11,251

There were no material past due or impaired loans and advances to customers as at 31 December 2015 (2014:nil).

Analysis of concentration of 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.

Geographical credit risk concentration	2015	2014
	\$'m	\$'m
Europe ¹⁾	8,181	8,334
Rest of the world	2,117	2,917
	10,298	11,251

¹⁾ Includes balances with JPMorgan Chase undertakings.

Industry credit risk concentration	2015	2014
	\$'m	\$'m
Automotive	321	28
Banks and financial services	136	287
Consumer and retail	248	128
Healthcare	8	207
Oil & gas	254	321
Real estate	1,097	754
Technology, media and telecommunications	404	49
Utilities	319	227
Individuals	6,491	7,756
Other	1,020	1,494
	10,298	11,251

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Liquidity risk

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

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 ("CTC") and Chief Risk Officer ("CRO"), as part of the independent risk management function, has responsibility for firmwide Liquidity Risk Oversight. Liquidity Risk Oversight's responsibilities include but are not limited to:

Liquidity Risk Oversight's responsibilities include but are not limited to:

- Establishing and monitoring limits, indicators, and thresholds, including liquidity appetite tolerances;
- Defining, monitoring, and reporting internal firmwide and legal entity stress tests, and monitoring and reporting regulatory defined stress testing;
- Monitoring and reporting liquidity positions, balance sheet variances and funding activities; and
- Conducting ad hoc analysis to identify potential emerging liquidity risks.

Risk governance and measurement

Specific committees responsible for liquidity governance include the firmwide Asset Liability Committee ("ALCO"), line of business and regional ALCOs, CTC Risk Committee and EMEA Risk Committee.

The Risk Policy Committee of the Board of Directors ("DRPC"), are additionally responsible on the subsidiaries, JPMS plc and JPMEL.

Liquidity management

Treasury is responsible for liquidity management. The primary objectives of effective liquidity management are to ensure that the Firm's core businesses are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles as well as during stress events, and to manage optimal funding mix, and availability of liquidity sources. The Firm manages liquidity and funding using a centralised, global approach in order to optimise liquidity sources and uses. In the context of the Group's liquidity management, Treasury is responsible for:

- Analysing and understanding the liquidity characteristics of the Firm, lines of business and legal entities' assets and liabilities, taking into account legal, regulatory, and operational restrictions;
- Defining and monitoring firmwide and legal entity liquidity strategies, policies, guidelines, and contingency funding plans;
- Managing liquidity within approved liquidity risk appetite tolerances and limits; 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 Group's subsidiaries, JPMS plc, JPMEL, and JPMIB are regulated by the PRA. From 1 October 2015, they were required to comply with the liquidity coverage ratio ("LCR") guidance set out in the Delegated Act (Commission delegated regulation (EU) 2015/61). The liquidity coverage ratio is intended to measure the amount of "high quality liquid assets ("HQLA") held by the subsidiaries in relation to estimated net liquidity outflows within a 30-day calendar day stress period. The LCR was required to be 80% at 1 October 2015, rising to 90% on 1 January 2017 until reaching the 100% minimum by 1 January 2018. At 31 December 2015, the subsidiaries were compliant with the fully phased-in LCR.

In December 2010, the Basel Committee introduced an additional measures of liquidity risk: the net stable funding ratio ("NSFR"), which is intended to measure the "available" amount of stable funding relative to the "required" amount of stable funding over a one-year horizon. The standards require that the NSFR be greater than 100%. Full compliance is expected to be required by 1 January 2018.

A regular internal assessment of the liquidity risk management framework is performed on JPMS plc, JPMEL and JPMIB, which informs the Board of liquidity risks resulting from business activities in addition to the current and future funding needs.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Liquidity risk (continued)

Internal stress testing

JPMS plc, JPMEEL and JPMIB are subject to legal entity liquidity stress tests.

The legal entity liquidity stress tests are intended to ensure sufficient liquidity for the legal entity under a variety of adverse scenarios. Results of stress tests are therefore considered in the formulation of the legal entity's assessment of its liquidity position. Liquidity outflow assumptions are modelled across a range of time horizons and contemplate both market and idiosyncratic stress. Standard stress tests are performed on a regular basis and ad hoc stress tests are performed in response to specific market events or concerns. Stress scenarios are produced for JPMorgan Chase & Co. and the Firm's major subsidiaries.

Liquidity stress tests assume all of the Firm's contractual obligations are met and then take into consideration varying levels of access to unsecured and secured funding markets. Additionally, assumptions with respect to potential non-contractual and contingent outflows are contemplated.

Contingency funding plan

JPMS plc, JPMEEL and JPMIB maintain a contingency funding plan ("CFP"), which is reviewed by the EMEA ALCO which make recommendations to the boards of each entity for approval. The plan is a compilation of procedures and action plans for managing liquidity through stress events. The CFP incorporates the limits and indicators set by the Liquidity Risk Oversight group. These limits and indicators are reviewed regularly to identify the emergence of increased risks or vulnerabilities in the liquidity position of the Group's key subsidiaries. The CFP identifies the alternative contingent liquidity resources available to the Group's principle subsidiaries in a stress event along with the respective firm senior manager responsible for execution and decision-making.

Funding

The Group's sources of short-term secured funding primarily consist of Customer deposits and securities loaned or sold under agreements to repurchase. Securities loaned or sold under agreements to repurchase are secured predominantly by high-quality securities collateral, including government-issued debt, agency debt and agency MBS, and constitute a significant portion of the federal funds purchased and securities loaned or sold under purchase agreements. The directors believe that the Group's unsecured and secured funding capacity is sufficient to meet its on and off-balance sheet obligations.

The board is ultimately responsible for the liquidity risk of the Group.

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

	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
	2015	2015	2015	2014	2014	2014
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Deposits by banks	114	—	114	395	—	395
Customer accounts	23,874	—	23,874	21,424	—	21,424
Securities sold under repurchase agreements	58,937	—	58,937	52,868	711	53,579
Securities loaned	11,030	—	11,030	21,505	—	21,505
Financial liabilities held for trading	264,081	125	264,206	266,919	248	267,167
Other liabilities	114,804	200	115,004	131,819	270	132,089
Subordinated liabilities	450	11,658	12,108	450	11,658	12,108
	473,290	11,983	485,273	495,380	12,887	508,267

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Liquidity risk (continued)

The vast majority of short term funding transactions by way of repurchase agreements and stock lending have short-dated maturities, typically less than one month. Similarly, trade creditors predominantly include cash collateral received and unsettled trades, which have short-dated maturities. Financial liabilities held for trading primarily include derivatives and short positions, and are ordinarily classified as liabilities falling due within one month for the purpose of disclosure under Section 34.28 of FRS 102. Amounts owed to JPMorgan Chase undertakings include cash collaterals received from group undertakings, which are short-dated, and revolving committed facilities with other JPMorgan Chase undertakings, which typically have a contractual maturity of up to six months. Customer accounts are open maturity deposits.

JPMS plc has also entered into revolving committed liquidity facility with other JPMorgan Chase undertakings to manage liquidity risk.

Market risk

Market risk is the risk of loss arising from potential adverse changes in the value of the Firm's assets and liabilities resulting from changes in market variables, such as:

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

Market risk management

The Boards of the Group and the principle subsidiaries are ultimately responsible for managing market risk. The Market Risk management function is an independent risk management function that identifies and monitors market risks throughout the Firm and defines market risk policies and procedures. The Market Risk function reports to the Firm's Chief Risk Officer.

The Market Risk management function seeks to control risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Firm and the Group's market risk profile for senior management. The Market Risk management function is responsible for the following functions:

- Establishment of a market risk policy framework;
- Independent measurement, monitoring and control of line of business market risk;
- Definition, approval and monitoring of limits; and
- Performance of stress testing and qualitative risk assessments.

Risk identification and classification

Each line of business is responsible for the management of the market risks within its units. The Market Risk management function is responsible for overseeing each line of business and ensures that all material market risks are appropriately identified, measured, monitored and managed in accordance with the risk policy framework set out by the Market Risk function.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Market risk (continued)

Risk measurement

Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and non-statistical, including:

- Value-at-Risk (VAR)
- Economic-value stress testing
- Non-statistical risk measures
- Risk identification for large exposures

Market risk is also managed on a legal entity level for the Group's principle subsidiaries. For JPMS plc and JPMEL, market risk is managed through limits and regular reporting.

The market risk of the Group is primarily driven by JPMS plc, which manages its market risk through limits and regular reporting. The JPMS plc Directors' Risk Policy Committee, the EMEA Risk Committee, JPMS plc Chief Risk Officer, JPMS plc Market Risk Officer and senior management are responsible for reviewing and approving JPMS plc Market Risk limits on an ongoing basis with oversight from the JPMS plc Board.

Value-at-risk

The principle subsidiaries utilise Value-at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in a normal market environment. The Firm has an overarching VaR model framework used 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. The framework's approach assumes that historical changes in market values are representative of the distribution of possible outcomes in the immediate future. The Group believes the use of Risk Management VaR provides a stable measure of VaR that closely aligns to the day-to-day risk management decisions made by the lines of business and provides necessary/appropriate information to respond to risk events on a daily basis.

Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. The Firm's VaR model calculations are periodically evaluated and enhanced in response to changes in the composition of the Firm's portfolios, changes in market conditions, improvements in the Firm's modelling techniques and other factors. Model changes go through a review and approval process by the Model Review Group prior to implementation into the operating environment.

Economic value stress testing

While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behaviour as an indicator of losses, stress testing is intended to capture JPMS plc's exposure to unlikely but plausible events in abnormal markets. JPMS plc 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 framework uses a grid-based approach, which calculates multiple magnitudes of stress for both market rallies and market sell-offs for each risk factor. Stress-test results, trends and explanations based on current market risk positions are reported to JPMS plc's senior management and to the lines of business 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 the Market Risk management function, and significant changes are reviewed by the relevant Risk Committees. While most of the scenarios estimate losses based on significant market moves, such as an equity market collapse or credit crisis, JPMS plc also develops scenarios to quantify risk arising from specific portfolios or concentrations of risks, which attempt to capture certain idiosyncratic market movements. Scenarios may be redefined on an ongoing basis to reflect current market conditions. Ad hoc scenarios are run in response to specific market events or concerns.

Non-statistical risk measures

Non-statistical risk measures include sensitivities to variables used to value positions, such as credit spread sensitivities, interest rate basis point values and market values. These measures provide granular information on JPMS plc's market risk exposure. They are aggregated by line-of-business and by risk type and are used for tactical control and monitoring limits. Exposures to credit families using default exposure assuming zero recovery rate are also monitored through the single name exposure framework.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Financial risk management (continued)

Market risk (continued)

Risk identification for large exposures (RIFLEs)

JPMS plc has certain potential low-probability but plausible and material, idiosyncratic risks not well-captured by its other existing risk analysis and reporting for credit, market and other risks. Individuals who manage risk positions in JPMS plc LOBs are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential change in tax legislation, or a particular combination of unusual market moves. Responsibility for identifying and maintaining RIFLEs rests with the line of business.

Profit & Loss (P&L) Drawdowns

P&L drawdowns are tools used to highlight trading losses above certain levels of risk tolerance. P&L drawdowns are defined as the decline in net profit and loss since the year-to-date peak revenue level.

Risk monitoring and control

Market risk limits are employed as the primary control for ensuring that the Group's market risk activities and risk appetite are aligned. Limits are established by the Market Risk management function in agreement with the lines of business. Limits are reviewed regularly by the Market Risk management function and updated as appropriate. Limit utilisations and breaches are reported daily. In addition, the Market Risk management function produce, and distribute relevant daily, weekly and monthly reports to various risk committees and business heads to allow them to exercise their oversight responsibilities.

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

	At 31 December	
	2015	2014
	\$'m	\$'m
95 % VaR	15	17

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market nor credit-related. Operational risk is inherent in the Group's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate behaviour of employees, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage to the Group and the Firm. The goal is to keep operational risk at appropriate levels, in light of the Group's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject.

Operational Risk Management Framework

To monitor and control operational risk, the Firm maintains an overall Operational Risk Management Framework ("ORMF") designed to enable the Firm to maintain a sound and well-controlled operational environment. The four main components of the ORMF include: governance, risk identification and assessment, monitoring and reporting, and measurement.

Risk Management is responsible for prescribing the ORMF to the lines of business and corporate functions and to provide independent oversight of its implementation. The lines of business and corporate functions are responsible for implementing the ORMF. The Firmwide Oversight and Control Group ("O&C"), which consists of dedicated control officers within each of the lines of business and corporate functional areas, as well as a central oversight team, is responsible for day to day execution of the ORMF.

38. Transfer of financial assets

In the course of its normal business activities, the Group makes transfers of financial assets. Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer. A summary of the main transactions, and the assets and liabilities and the financial risks arising from these transactions, is set out below:

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

38. Transfer of financial assets (continued)

Transfers of financial assets that do not result in derecognition

Assets are transferred under repurchase and securities lending agreements with other banks and financial institutions. The substance of these transactions is secured borrowings and therefore the assets are not derecognised from the balance sheet. The recipient is generally able to use, sell or pledge the transferred assets for the duration of the transaction. The Group remains exposed to interest and credit risk on these instruments. The counterparty's recourse is generally not limited to the transferred assets. The fair value of the collateral and the carrying amounts of the liabilities is disclosed in notes 24 and 25 of these financial statements.

The Group also entered into certain other transactions, whereby the assets were transferred but the transfer did not meet the derecognition requirements and therefore the assets continue to be recognised on the balance sheet together with the related liability.

The following is a summary of the fair value of the assets and carrying amount of related liabilities:

	Fair value of the assets		Carrying amount of the related liability	
	2015	2014	2015	2014
	\$'m	\$'m	\$'m	\$'m
Financial assets held for trading	7,422	13,825	7,422	13,342

Continuing involvement in financial assets that have been derecognised

In order to reduce the impact of capital requirements, large loans and advances are sub-participated to JPMorgan Chase Bank, NA, an affiliated entity, and not recognised on the balance sheet of the Group.

In some cases, the Group transfers financial assets that it derecognises in its entirety even though it may have continuing involvement in them. This typically happens when the Group has sold a financial asset to a special purpose vehicle (SPV) with limited other assets and enters into a derivative with the SPV to provide investors with a specified exposure. (Examples include credit linked note vehicles and asset swap vehicles that are established on behalf of investors). The total notional and the market value of all derivatives executed by the Group with such SPVs (including those with such SPVs to which the Group did not transfer any financial assets) amounted to \$8,118 billion and \$404 million as of 31 December 2015 (\$6,160 billion and \$294 million as of 31 December 2014).

39. Related parties

In accordance with section 33.1A of FRS 102 'Related Party Disclosures', details of transactions with parent and fellow subsidiary companies that are also wholly-owned within JPMorgan Chase, are not disclosed as they are included in the consolidated financial statements of JPMorgan Chase, which are publicly available. There were no other material disclosable related party transactions during the year.

40. Post balance sheet events

On 23 June 2016, the United Kingdom ("UK") conducted a referendum and voted to leave the European Union. Many international banks, including the Firm, operate substantial parts of their European Union business from entities based in the UK. Upon the UK leaving the European Union, the regulatory and legal environment that would then exist, and to which the Firm's U.K. operations would then be subject, will depend on, in certain respects, the nature of the arrangements agreed with the European Union and other trading partners.

These arrangements cannot be predicted, but currently the Firm does not believe any of the likely identified scenarios would threaten the viability of the Firm's business units or the Firm's ability to serve clients across the European Union and in the UK. However, it is possible that under some scenarios, changes to the Firm's legal entity structure would be required, which might result in a less efficient operating model across the Firm's European legal entities.

On 17 March 2016, J.P. Morgan Europe Limited paid an interim dividend of \$600 million to its parent J.P. Morgan Securities plc.

On 14 April 2016, J.P. Morgan Securities plc paid interim dividends of \$358 million on preference shares, \$5 million on preferred ordinary shares and \$687 million on ordinary shares.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

41. Transition to FRS 102

The following reconciliations set out the impact on the Group's balance sheet and statement of comprehensive income as a result of adopting FRS 102 for the reporting year 31 December 2014, as well as the impact to equity as at 1 January 2014:

Reconciliation of the balance sheet

Notes	At 1 January 2014			At 31 December 2014		
	As previously stated	Effect of transition	FRS 102 (as restated)	As previously stated	Effect of transition	FRS 102 (as restated)
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Assets						
Cash and cash equivalents at central banks	218	—	218	241	—	241
Cash at bank and in hand	1,213	—	1,213	284	—	284
Loans and advances to banks	9,088	—	9,088	4,855	—	4,855
Loans and advances to customers	9,757	—	9,757	11,241	—	11,241
Securities purchased under resale agreements	146,735	—	146,735	152,186	—	152,186
Securities borrowed	19,500	—	19,500	16,562	—	16,562
Financial assets held for trading	a, b	164,707	46	164,753	287,686	17,702
Financial assets designated at fair value through profit or loss		35	—	35	—	85
Financial assets available-for-sale		3,194	—	3,194	—	1,468
Intangible assets		1	—	1	—	4
Other assets	b, c	36,464	—	36,464	45,426	(5,972)
Prepayments and accrued income		589	—	589	638	—
Goodwill	d, e	1,906	(1,723)	183	2,837	(2,681)
Investments in Group undertakings	f	—	37	37	—	38
Tangible fixed assets		8	—	8	7	—
Total assets		393,415	(1,640)	391,775	523,520	9,087
Liabilities						
Deposits by banks		2,644	—	2,644	395	—
Customer accounts		18,241	—	18,241	21,424	—
Securities sold under repurchase agreements		67,983	—	67,983	53,579	—
Securities loaned		20,274	—	20,274	21,505	—
Financial liabilities held for trading	a, b	127,691	(28)	127,663	249,108	18,059
Other liabilities	c, g	119,631	(12)	119,619	138,891	(6,375)
Accruals and deferred income		1,090	—	1,090	605	—
Subordinated liabilities		12,108	—	12,108	12,108	—
Total liabilities		369,662	(40)	369,622	497,615	11,684
Equity						
Non controlling interest		2,446	—	2,446	2,064	—
Called-up share capital		3,204	—	3,204	3,293	—
Share premium account		904	—	904	2,364	—
Capital contribution reserve		5,798	—	5,798	5,798	—
Pension reserve		(6)	—	(6)	(63)	—
Other reserves	f, g	292	37	329	261	36
Retained earnings	b, d, e, g	11,115	(1,637)	9,478	12,188	(2,633)
Total non-controlling interest and equity funds		23,753	(1,600)	22,153	25,905	(2,597)
Total liabilities and equity funds		393,415	(1,640)	391,775	523,520	9,087
Analysis of non controlling interests and equity funds						
Equity funds		21,307	(1,600)	19,707	23,841	(2,597)
Minority interest		2,446	—	2,446	2,064	—
		23,753	(1,600)	22,153	25,905	(2,597)
Memorandum items						
Commitments		7,216	—	7,216	6,516	10,874
						17,390

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

41. Transition to FRS 102 (continued)

Reconciliation of total comprehensive income for the year

	Notes	Year ended 31 December 2014		
		As previously stated	Effect of transition	FRS 102 (as restated)
		\$'m	\$'m	\$'m
Interest receivable and similar income		2,336	—	2,336
Interest payable and similar charges		(2,546)	—	(2,546)
Net interest expense		(210)	—	(210)
Fees and commissions receivable - net		4,523	—	4,523
Less: fees and commissions payable		(152)	—	(152)
Trading profit	b	2,356	(30)	2,326
Other operating income	d, e	404	45	449
Operating profit		6,921	15	6,936
Administrative expenses		(4,577)	—	(4,577)
Depreciation and amortisation	d, e	(132)	103	(29)
Profit on ordinary activities before taxation		2,212	118	2,330
Tax on profit on ordinary activities	b	(514)	(9)	(523)
Profit on ordinary activities after taxation		1,698	109	1,807
Equity non controlling interests		(63)	—	(63)
Profit for the financial year		1,635	109	1,744
Other comprehensive income for the year, net of tax		(78)	—	(78)
Total comprehensive income for the year		1,557	109	1,666

Notes to the balance sheet reconciliation as at 1 January 2014 and 31 December 2014 and total comprehensive income for the year ended 31 December 2014:

- The Group has reviewed the accounting treatment of derivative trades cleared on behalf of its clients and has concluded that it is considered a principal to the trades with the client and the clearing houses. As a result, the mark-to-market value of these derivative trades of \$14.9 billion (31 December 2014: \$16.5 billion) have been recognised on the consolidated balance sheet. The Group further considered these trades for offsetting under for offsetting under Section 11 and Section 12 and derivative assets and liabilities of \$4.3 billion with certain counterparties have been netted. There was no impact to equity. Netting for certain derivative trades cleared for its own business was also reviewed. This has resulted in a further adjustment of \$1.1 billion as of 31 December 2014.
- Under Section 11.27 and Section 11.28, certain valuation adjustments made under previous UK GAAP are no longer required. This has resulted in a net impact to equity as of 31 December 2014 of \$36 million, of which \$9 million related to tax (1 January 2014: net impact of \$74 million).
- Following a review of the reporting of unsettled trades, the trade debtors and trade creditors balances as of 31 December 2014 have been adjusted by \$6 billion, in line with the requirements of Section 10 'Accounting Policies, Estimates and Errors'.

J.P. MORGAN CHASE (UK) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2015 (continued)

41. Transition to FRS 102 (continued)

- d. The Company has reviewed its accounting policy in respect of business combinations considered as group reconstructions, i.e., business transfers within the Group, and has applied merger accounting to these transactions. As a result, goodwill and associated amortisation recognised under previous UK GAAP in respect of the following business combination has been reversed to retained earnings:
- In the second quarter of 2011, the Group recognised goodwill amounting to \$1,957 million in relation to the businesses that were transferred from another group undertaking, as a part of legal entity simplification efforts. Goodwill (net of amortisation), amounting to \$1,580 million has now been reversed to retained earnings as of 1 January 2014.
- e. On adoption of FRS 102, Section 19, an increase in the Groups controlling interest in a subsidiary does not result in goodwill. As a result, goodwill and associated amortisation recognised under previous UK GAAP in respect of the following business combination has been reversed to retained earnings:
- In the fourth quarter of 2014, an internal re-organisation was carried out, which in substance involved and was treated as transferring certain Cazenove businesses to the Group. The Group, through its wholly-owned subsidiaries, owned 50.01% of the Cazenove businesses acquired the remaining 49.99%, against issuance of shares to its parent. The Company recognised its investment in Cazenove Group Limited at its fair value, determined based on the value of the underlying assets and businesses. On transfer of the legal employment of the Cazenove staff to the Group, the excess of fair value over carrying amount of the investment was recognised as goodwill of \$1,105 million (note 21). Goodwill (net of amortisation) of \$1,100 million, has now been reversed to retained earnings as of 31 December 2014.
- f. Following a review of the Group structure, an investment in associate of \$38 million (1 January 2014: \$37 million) has been recognised against equity. The Group owns a 21% investment in Crosby Sterling (Holdings) Limited, the investment is accounted for using the equity method.
- g. The Group has reviewed its prior year accrual for recharged employee related costs received from a group company and concluded that such costs were over accrued. This resulted in a reversal to prior years retained earnings, as set out in the above transition reconciliation. For the period ended 31 December 2013, the over accrued expense (net of tax) reversed to retained earnings was \$12 million.

There were no adjustments to the Company's standalone balance sheet at 1 January 2014 or 31 December 2014.