

J.P. MORGAN SECURITIES PLC

(Registered Number: 02711006)

Annual report for the year ended 31 December 2013

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J.P. Morgan Securities plc
Annual report for the year ended 31 December 2013

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J.P. MORGAN SECURITIES PLC

Strategic report for the year ended 31 December 2013

The directors present the strategic report of J P Morgan Securities plc (the "Company" or "JPMS plc") for the year ended 31 December 2013. The Company is part of JPMorgan Chase & Co group (together with its subsidiaries, the "Group").

Principal activity

The Company is a principal subsidiary of the Group in Europe, the Middle East & Africa ("EMEA") and engages in international investment banking activity, including activity across Markets, Investor Services and Banking. Within these lines of business its activities include underwriting government and corporate bonds, equities and other securities, arranging private placements of debt and convertible securities, trading in debt securities, equity securities, commodities and swaps and other derivatives, brokerage and clearing services for exchange traded future and options contracts and providing investment banking advisory services. The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA (formerly, together, the Financial Services Authority) in the United Kingdom.

The Company is a member of over twenty exchanges, it has branches in Frankfurt, Paris, Milan, Madrid, Stockholm and Zurich.

Review of business

The directors are satisfied with the performance of the Company with core businesses performing in line with expectations.

The Company benefited from positive trading results from its client flow activities within the Fixed Income and Equities lines of business. Despite mixed market conditions throughout the year, the Company'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 Company also generated positive revenues from its banking activities as a result of improved deal flow by providing comprehensive advisory services and raising funds in capital markets for a broad range of clients.

The key events of 2013 included:

- With a view to simplifying the Group's UK booking model, changes were made to employment arrangements during the fourth quarter of the year. As a result, the legal employment of certain employees was transferred from other group undertakings to the Company to align them to the Company in which they conduct business. As a result, the financial results of the Company are now better aligned to its balance sheet.
- With a view to diversifying the Company's sources of funding and broadening its funding capabilities, the Company issued Certificates of Deposits worth \$2 billion in December 2013.
- On 23 April 2013, the Company received an ordinary dividend of \$500,000,000 from its wholly owned subsidiary, J P Morgan Europe Limited.
- On 16 December 2013, the Company issued 126,272 ordinary shares to J P Morgan Chase International Holdings with a par value of \$10,000 and at a premium of \$16,134.06 per share as consideration for cash to the value of \$3,300,000,000.

J.P. MORGAN SECURITIES PLC

Strategic report for the year ended 31 December 2013 (continued)

Principal risks and uncertainties

Whilst management of the Company's risks and uncertainties is integrated with that of the Group, the Company also manages its risks at a legal entity level and has its own risk policies. This includes, for example, the ability to set separate risk limits at a Company level and report metrics at a Company level. Stress and scenario testing is also performed at a legal entity level.

Both the Group and the Company operate within a highly regulated industry, and the Company's business and results may be significantly affected by the laws and regulations to which it is subject.

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, the rest of Europe, the US and worldwide. The reforms being discussed include several that contemplate restructuring of the financial services industry. Such measures are leading to stricter regulations of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Included in these, are reforms of the over-the-counter derivatives markets, such as mandated exchange clearing, position limits, margin, capital and registration requirements. Many of these reforms have and will affect the Group and the Company's business model.

The Basel Committee has proposed two new measures of liquidity risk: the liquidity coverage ratio ("LCR") and the net stable funding ratio ("NSFR") which are intended to measure the liquidity of the Company and will be implemented in 2015 and 2016 respectively. In June 2013, the European Union approved a new Capital Requirements Regulation that includes the implementation of a quantitative liquidity requirement broadly consistent with the Basel III LCR. It is expected that the Company will meet these requirements.

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 Company by reference to the following KPIs:

	2013	2012
Earnings		
Net profit after tax (US\$ '000)	1,855,326	2,381,416
Capital & Balance Sheet		
Tier 1 capital (US\$ '000)	25,804,127	19,878,053
Asset growth	7.2%	8.9%

Business environment, strategy and future outlook

In 2013, the Company benefited from strong revenues across most of its core business lines and the directors expect business activity in 2014 to provide continued opportunities.

There are a number of known regulatory changes occurring over the next two years and beyond which may affect the capital adequacy or business model of the Company. European legislation includes changes to the Basel and Capital Requirements Directive framework. US legislation is yet to be finalised on the extraterritorial application of Dodd Frank (Section 716), often referred to as "Swaps Pushout", which is likely to require specific transactions (as defined by the legislation) to be booked in an entity other than JPMorgan Chase Bank N.A., a Group company. The Company is undertaking an analysis of the potential impact of any additional derivatives business being booked in the Company, including regulatory capital modeling and the technology build required to support any booking model changes.

The Company's net assets at 31 December 2013 were \$32,144,201,000 (2012: \$27,882,561,000). The financial position of the Company is set out on page 12 and the regulatory capital position is set out in note 34.

J.P. MORGAN SECURITIES PLC

Strategic report for the year ended 31 December 2013 (continued)

Financial risk management

Risk management is an inherent part of the Group's (of which the Company is a part) business activities and the Company has adopted the same risk management policies and procedures as the Group as a whole. The Group and the Company's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Company exercises oversight through the Board of Directors and delegation from the Board to various sub-committees.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the firmwide policies and processes may be found within the Group annual report.

The Company's risk policy framework includes risk policies which are Group wide but are supplemented, as required, by Company specific policies which are approved by the Board of the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not have the appropriate amount, composition or tenor of funding and liquidity to support its assets and obligations.

The Group's liquidity risk management is intended to ensure that the Group has the appropriate amount, composition and tenor of funding and liquidity in support of its assets. The primary objectives of effective liquidity management are to ensure that the Group's core businesses are able to operate in support of client needs and meet contractual and contingent obligations through normal economic cycles as well as during market stress and maintain debt ratings that enable the Group to optimise its funding mix and liquidity sources while minimising costs.

The Group has a liquidity risk governance framework to review, approve and monitor the implementation of liquidity risk policies at the Group-wide, regional and line of business levels. Specific risk committees responsible for liquidity risk governance include the Group Asset Liability Committee (ALCO) as well as lines of business and regional ALCOs, and the CIO, Treasury and Corporate Risk Committee. The regional ALCO reports on liquidity risk matters to the Company's Risk Committee and the Company's Board and is chaired by the European Treasurer.

The directors consider the Company's liquidity position to be strong as of December 31, 2013, and believes that the Company's unsecured and secured funding capacity is sufficient to meet its on and off-balance sheet obligations.

The Company is locally subject to the PRA liquidity regulations. The key elements of the regulations are that the Company has adequate liquidity and self-sufficiency of liquidity resources, and that it has systems and controls in place to monitor this. The Company's funding strategy is intended to ensure that it will have sufficient liquidity and diversity of funding sources necessary to enable it to meet actual and contingent liabilities during both normal and stress periods. The Company reports its liquidity position against 'Individual Liquidity Guidance' provided by the PRA for regulatory purposes. The Company has established a daily monitoring process to monitor liquidity adequacy and ensure compliance with regulatory requirements.

In addition to capital requirements, the Basel Committee has also proposed two new measures of liquidity risk: the liquidity coverage ratio ("LCR") and the net stable funding ratio ("NSFR"), which are intended to measure, over different time spans, the liquidity of the Company. The observation periods for both these standards began in 2011, with implementation commencing in 2015 and 2016, respectively. In June 2013, the European Union approved a new Capital Requirements Regulation that includes the implementation of a quantitative liquidity requirement broadly consistent with the Basel III LCR. It also provides for a transition period similar to that outlined under the Basel III LCR rules. It is expected that the Company will meet these requirements.

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

Further details on liquidity risk are provided in note 33 to the financial statements.

J.P. MORGAN SECURITIES PLC

Strategic report for the year ended 31 December 2013 (continued)

Credit risk

Credit risk is the risk of loss arising from a borrower, counterparty or obligor failing to meet its contractual obligations

Credit risk is managed by the Group on a global as well as at a Company level. The Group has developed policies and practices, that the Company is subject to, that are designed to preserve the independence and integrity of the approval and decision making of extending credit. These policies are intended to ensure that credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. In addition, the Company has its 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 Board of the Company.

The Company has a designated Credit Risk Officer ("CRO") who is also a Board member of the Company. Credit Executives within the Group approve extensions of credit for the Company and ultimately report to the Head of Wholesale Credit Risk. Each Line of Business within the Group has its own independent credit risk management function, reporting to the Chief Risk Officer. The Company is exposed to credit risk through lending and capital markets activities.

The Company is subject to the policies and practices developed by the Group. The policy framework establishes credit approval authorities, 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 support functions that are independent from the businesses.

To enable monitoring of credit risk, aggregate credit exposure, concentration levels and risk profile changes are reported to senior credit risk management and to the Board of the Company.

Further details on credit risk are provided in note 33 to the financial statements.

Market risk

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

- Interest Rates - Interest rate risk primarily results from exposure to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, and mortgage prepayment rates,
- Foreign Exchange Rates - Foreign exchange rate risk results from exposure to changes in prices and the volatility of currency rates,
- Equity Prices - Equity price risk arises from exposure to changes in prices and the 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 the volatility of commodities, such as natural gas, crude oil, petroleum products, precious and base metals and electricity.

Market risk management

The Company's Board is ultimately responsible for managing market risk. The Company has a designated Chief Risk Officer who has responsibilities in relation to market risk management. Market Risk is an independent risk management function that works in close partnership with the lines of business to identify and monitor market risks throughout the Group and to define market risk policies and procedures. Market Risk reports to the Group's Chief Risk Officer.

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

- Establishing 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.

Market risk is controlled primarily through a series of limits. Limits reflect the Company's risk appetite in the context of the market environment and business strategy. Market Risk regularly reviews and updates risk limits, as a minimum on a semi-annual basis. The Company's board and the Chief Risk Officer are responsible for reviewing and approving certain risk limits on an ongoing basis. Any one-off limit exceptions require approval by the Company's Chief Executive Officer (CEO) on behalf of the Company's Board. In setting limits, the Company takes into consideration factors such as senior management risk appetite, market volatility, product liquidity, accommodation of client business and management experience.

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Strategic report for the year ended 31 December 2013 (continued)

Market risk (continued)

Non-statistical risk measures, VaR trends and limit excesses are reported daily to the lines of business and to senior management. Further, monthly market risk updates are provided to the monthly EMEA Risk Committee meetings and then Company's quarterly Board meetings.

Further details on market risk are provided in note 33 to the financial statements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. This definition includes legal risk but excludes strategic risk, business risk and reputation risk.

Operational risk is inherent in each of the Group and the Company's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses, including litigation and regulatory fines, as well as other damage to the Group.

To monitor and control operational risk, the Group maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled environment. The goal is to keep operational risk at appropriate levels, in the 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. The Group's approach to operational risk management is intended to mitigate losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk specific, consistently applied and utilised firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

The Corporate Operational Risk Team has created a framework to identify, measure, and manage operational risk. The components of this framework are Governance, Operational Risk Event (Loss) Data collection, the Self-Assessment process, Economic and Regulatory Capital for Operational Risk, and Analysis and Reporting, including Key Risk Indicator tracking and Scenario Analysis where appropriate. This framework enables the Group's compliance with regulatory and statutory requirements and supports the independent check and challenge risk mindset.

The Corporate Operational Risk team's activities are designed to assist in the implementation of the Operational Risk Management (ORM) framework and respond to business needs for effective operational risk management practices. The ORM framework helps to lower ongoing losses, reduce the probability and severity of losses, and improve efficiencies by providing businesses with tools to identify, measure, and manage operational risk. The controls and processes in place at Group level as described above, mitigate Company-level operational risk.

Corporate employee policy

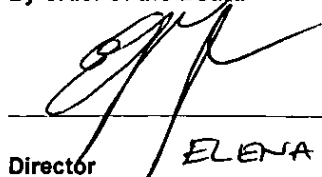
It is the policy of the Company to ensure equal opportunity for all persons without discrimination on the basis of race, colour, religion, sex, national origin, age, handicap, veteran status, marital status or sexual orientation. This policy of equal opportunity applies to all employment practices including,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

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

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

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 Group.

By order of the Board



Director

ELENA KORABLINA

15 APRIL 2014

J.P. MORGAN SECURITIES PLC

Directors' report for the year ended 31 December 2013

The directors present their report and the audited financial statements of J P Morgan Securities plc for the year ended 31 December 2013. The Company is part of JPMorgan Chase & Co group (together with its subsidiaries, the "Group")

Results and dividends

The results for the year are set out on page 11 and show the Company's profit for the financial year after taxation is \$1,855,326,000 (2012 \$2,381,416,000)

On 9 April 2013, the Company paid interim dividends of \$372,776,521 on preference shares (2012 \$569,921,615), \$7,065,700 on preferred ordinary shares (2012 \$12,605,911) and \$470,157,779 on the ordinary shares of the Company (2012 \$317,472,474)

No final dividend was paid or proposed for 2013 (2012 nil)

Post balance sheet events

On 12 March 2014, the Company paid interim dividends of \$364,722,605 on preference shares, \$6,126,536 on preferred ordinary shares and \$559,150,859 on ordinary shares of the Company

On 19 March 2014, the Group announced that it had agreed to sell certain of its physical commodities operations, including its physical oil, gas, power, warehousing facilities and transportation operations to Mercuna Energy Group Limited for approximately \$3.5 billion. The sale will include certain assets and liabilities that are currently recognised in the Company but the impact on the Company is not expected to be material. The sale is subject to normal regulatory approvals and is expected to close in the third quarter of 2014.

Other matters

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation will require J P Morgan Securities plc to publish additional information, in respect of the year ended 31 December 2013, by 1 July 2014. This information will be available at the time on JP Morgan's website <http://investor.shareholder.com/jpmorganchase/>

Directors

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

T D Hoppe	Chairman & Non Executive Director
D E Pinto	Chief Executive Officer
A J A Cox	Director & Chief Risk Officer
L P Jackson	Non Executive Director
M S Garvin	Director
T J O Throsby	Director
S D Moeller	Non Executive Director
D A Wallestad	Director (appointed 11 March 2013 and resigned 19 February 2014)
E A Korablina	Director (appointed 19 February 2014)

Directors' interests

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

J.P. MORGAN SECURITIES PLC

Directors' report for the year ended 31 December 2013 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations

Company Law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 provisions

An indemnity is provided to the directors of the Company under the By-laws of JPMorgan Chase & Co. against liabilities and associated costs which they could incur in the course of their duties to the Company. The indemnity 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 Company.

J.P. MORGAN SECURITIES PLC

Directors' report for the year ended 31 December 2013 (continued)

Company secretary

The joint secretaries of the Company who served during the year were as follows

M F Vance

J P Morgan Secretaries (UK) Limited

Registered address

25 Bank Street

Canary Wharf

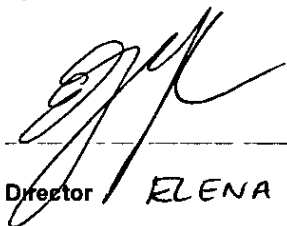
E14 5JP

England

Independent auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the directors to set the auditors' remuneration will be proposed at the annual general meeting

By order of the Board



Director ELENA KORABLINA

15 APRIL 2014

Independent auditors' report to the members of J.P. Morgan Securities plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its 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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by J P Morgan Securities plc, comprise

- the balance sheet as at 31 December 2013,
- the profit and loss account 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 their preparation is applicable law and United Kingdom Accounting Standards (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

What an audit of financial statements involves

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

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

In addition, we read all the financial and non-financial information in the Strategic Report and Directors' 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

Independent auditors' report to the members of J.P. Morgan Securities plc

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement within pages 1 - 8, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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



Jonathan Holloway (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London 22 April 2014

J.P. MORGAN SECURITIES PLC

Profit and loss account for the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Interest receivable and similar income	3	2,041,886	2,387,480
Interest payable and similar charges	4	(1,365,268)	(1,780,455)
Net Interest Income		676,618	607,025
Fees and commissions receivable - net		1,392,888	1,447,147
Trading profit		2,192,712	2,141,629
Foreign exchange translation (loss)/gain		(20,606)	30,381
Dividend income		500,000	900,000
Total Operating Income		4,741,612	5,126,182
Administrative expenses		(2,435,189)	(2,286,294)
Amortisation of intangible assets	17	(99,323)	(103,681)
Depreciation of tangible fixed assets	18	(826)	(316)
Profit on ordinary activities before taxation	6	2,206,274	2,735,891
Tax on profit on ordinary activities	7	(350,948)	(354,475)
Profit for the financial year		1,855,326	2,381,416

The profit for the year resulted from continuing operations

Statement of total recognised gains and losses for the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Profit for the financial year		1,855,326	2,381,416
Actuarial (loss)/gain on pension schemes	31	4,594	(1,113)
Tax effect of movement in pension reserve	7	(928)	259
Total recognised gains and losses for the year		1,858,992	2,380,562

The notes on pages 13 - 53 form an integral part of these financial statements

J.P. MORGAN SECURITIES PLC
Balance sheet as at 31 December 2013

		2013	2012
	Notes	\$'000	\$'000
Assets			
Cash and balances at central banks		57,761	35,156
Loans and advances to banks	8	4,841,934	15,468,005
Loans and advances to customers	9	1,220,424	1,099,819
Securities purchased under agreements to resell	10	138,350,647	108,043,553
Securities borrowed	11	19,500,244	19,020,210
Financial assets held for trading	12	163,584,839	156,174,562
Financial assets designated at fair value through profit or loss	13	20,090	16,222
Debtors	14	35,843,516	38,278,996
Other assets	15	626,510	851,300
Investments in Group undertakings	16	3,625,233	3,625,233
Intangible assets	17	1,718,138	1,817,461
Tangible fixed assets	18	1,497	1,463
Total assets		369,390,833	344,431,980
Liabilities			
Securities sold under agreements to repurchase	19	69,032,284	75,394,524
Securities loaned	20	20,273,501	20,448,502
Financial liabilities held for trading	21	126,420,435	101,795,834
Trade creditors	22	41,277,291	50,466,724
Amounts owed to Group undertakings		67,770,303	60,343,279
Other liabilities	22	12,472,818	8,100,556
Total liabilities		337,246,632	316,549,419
Capital and reserves			
Called-up share capital	23	16,768,470	15,505,750
Share premium account	25	6,683,861	4,646,581
Other reserves	25	1,603,414	1,647,100
Profit and loss account	25	7,088,456	6,083,130
Total shareholders' funds	26	32,144,201	27,882,561
Total liabilities and shareholders' funds		369,390,833	344,431,980

Approved and authorised for issue by the board of directors on 15 April 2014 and signed on its behalf by:

Director

ELENA KORASLINA

15 APRIL 2014

The notes on pages 13 - 53 form an integral part of these financial statements

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013

1. Accounting policies

1.1 Accounting convention

The financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of certain financial instruments, as explained in the accounting policies below. The financial statements have also been prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

The principal accounting policies which have been consistently applied throughout the year are as set out below.

1.2 Consolidation

The Company is a subsidiary undertaking of J P Morgan Capital Holdings Limited, a company incorporated in Great Britain. The Company has elected not to prepare group financial statements in accordance with the dispensation set out in Section 400 of the Companies Act 2006.

1.3 Cash flow statement

The Company has taken advantage of the provisions of FRS 1, 'Cash Flow Statements (revised 1996)', which exempt the Company from preparation of a cash flow statement because it is at least a 90% owned subsidiary of JPMorgan Chase & Co (the Group), whose financial statements are publicly available.

1.4 Related party transactions

In accordance with the exemption afforded by FRS 8, 'Related Party Disclosures', certain details of transactions with parent and fellow subsidiary companies that are also wholly-owned within the Group, are not disclosed.

1.5 Income and expense recognition

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

Fees and commissions are recognised when the underlying contract becomes legally binding or at the agreed due date if later, unless a fee is received relating to work to be completed in the future in which case it is determined using the effective interest rate method. 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.

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

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

1.6 Dividend recognition

Dividend income is recognised when the right to receive payment is established. Dividend distributions are recognised in the period in which they are declared and approved.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

1.7 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into United States (US) Dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into United States (US) Dollars at exchange rates prevailing at the date of the transactions. Any gains or losses arising on translation are taken directly to the profit and loss account.

Non-monetary items denominated in foreign currencies that are stated at historical cost are translated into United States (US) Dollars at the exchange rate ruling at the date of the transaction.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into US dollars at foreign exchange rates ruling at the dates when the fair values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit and loss account except for differences arising on available-for-sale non-monetary financial assets, which are included in financial assets available-for-sale reserve.

The financial statements have been presented in United States (US) Dollars as the directors are of the opinion that this is the functional currency of the Company.

Year end exchange rate (USD/GBP)	1.65260	(2012: 1.61530)
Average rate for the year (USD/GBP)	1.56560	(2012: 1.59201)

1.8 Tangible fixed assets and depreciation

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.

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

The Company capitalises certain costs associated with the acquisition or development of software for internal use. Once the software is ready for its intended use, capitalised costs will be depreciated over an expected useful life of not more than five years.

The Company selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When setting useful economic lives, the principal factors the Company 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.

1.9 Intangible fixed assets

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 the period that the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets. For the purpose of calculating goodwill, fair values of acquired assets and liabilities are determined by reference to market prices.

1.10 Investments in Group undertakings

Investments in Group undertakings are stated at cost less provision for any impairment.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

1.11 Financial assets and financial liabilities

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

The Company recognises a financial asset or a financial liability on its balance sheet when it becomes party to the contractual provisions of the instrument, i.e. on trade date.

Financial assets and financial liabilities held for trading

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

Financial assets and financial liabilities held for trading comprise both debt and equity securities 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 profit and loss account. Subsequently, they are measured at fair value.

Since both the debt and equity securities and the derivatives are managed on a unified basis as part of the trading strategy, which includes 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.

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

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

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

Financial assets available-for-sale

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

Loans and receivables

Loans and receivables includes loans and advances to banks, loans and advances to customers and debtors and 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 provision for impairment losses. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Other financial liabilities

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

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 Company 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

1.12 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

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. For all other financial instruments where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation techniques that are based on independently sourced market parameters. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models

1.13 Recognition of deferred day one profit and loss

The Company enters 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 profit and loss

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. Subsequent changes in fair value are recognised immediately in the profit and loss account without reversal of deferred day one profit and losses

1.14 Impairment

Intangible assets, Tangible Fixed assets and Investments in Group undertakings

Fixed assets are reviewed for impairment if there are events or changes in circumstances that indicate that the carrying values may not be recoverable

The impairment review, which is conducted in accordance with the provisions of FRS 11 'Impairment of Fixed Assets and Goodwill', comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of fixed assets and goodwill is written down by the amount of any impairment. This write down is recognised in the period in which it occurs

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Financial assets

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

When a decline in the fair value of an financial asset available-for-sale has been recognised through the statement of total recognised gains and losses and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised through the statement of total recognised gains and losses is removed from reserves and recognised in the profit or loss account.

Specific provisions are raised against specific loans and advances to customers when the Group 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 profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss account.

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

1.15 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.

1.16 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. 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.

1.17 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.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

1 18 Deferred taxation

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

1 19 Provisions for liabilities and charges

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

1 20 Pensions and other post-retirement benefits

The Company operates defined contribution schemes for its employees. The Company also operates defined benefit and defined contribution schemes for employees in the European branches

Defined contribution scheme

Obligations for contributions to defined contribution pension plans are recognised as an expense and charged to the profit and loss account on an accrual basis

Defined benefit scheme

For defined benefit schemes, the service cost of providing retirement benefits to employees during the year is charged to the profit and loss account in accordance with FRS 17, 'Retirement benefits'. The pension costs are assessed based on the advice of qualified actuaries so as to recognise the full cost of provision of contracted pension benefits over the period of employees' service lives

The defined benefit schemes' liabilities are measured on an actuarial basis and scheme assets measured at their fair values separately for each plan. Any surplus or deficit of scheme assets over liabilities is recognised on the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of discount on the scheme liabilities is charged to the profit and loss account

1 21 Share-based awards

Share-based awards may be made to employees of the company under the Group's incentive awards schemes. In accordance with FRS 20, the fair value of any such shares, rights to shares or share options is measured when the conditional award is made. This value is recognised as the compensation expense to the Company over the period to which the performance criteria relate together with employer's social security expenses or other payroll taxes. All of the awards granted are equity settled. The Company estimates the level of forfeitures and applies this forfeiture rate at the grant date

Additionally, FRS 20 requires the consideration of the conditions that must be satisfied before an employee becomes entitled to equity instruments under the Group's incentive programs. The Group's Retirement Eligibility rules for restricted stock awarded as part of incentive programs under FRS 20 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

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Segmental analysis

In the opinion of the directors, the Company conducts only one class of business, the provision of international investment banking services. The Company operates six branches outside of the UK, but these do not generate material revenues. Therefore, any segmental analysis of the Company's revenues and assets is not considered necessary.

3. Interest receivable and similar income

	2013	2012
	\$'000	\$'000
Financial assets held for trading	1,509,776	1,725,787
Securities purchased under agreements to resell	329,950	496,098
Securities borrowed	61,653	46,815
Other	140,507	118,780
	2,041,886	2,387,480

Interest receivable and similar income includes the following amounts receivable from other Group undertakings:

	2013	2012
	\$'000	\$'000
Securities purchased under agreements to resell	104,154	135,750
Securities borrowed	61,653	46,705
Other	32,107	41,258
	197,914	223,713

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

4. Interest payable and similar charges

	2013	2012
	\$'000	\$'000
Financial liabilities held for trading	779,022	994,768
Securities sold under agreements to repurchase	194,579	281,079
Securities loaned	173,844	172,814
Other	217,823	331,794
	1,365,268	1,780,455

Interest payable and similar charges includes the following amounts payable to other Group undertakings

	2013	2012
	\$'000	\$'000
Securities sold under agreements to repurchase	82,177	140,611
Securities loaned	21,743	1,696
Other	202,665	274,502
	306,585	416,809

5. Directors' emoluments

	2013	2012
	\$'000	\$'000
Emoluments	3,301	1,547
Total contributions to a defined contribution plan	27	11
Total value of long term incentive plans for all directors	4,127	1,812
Compensation to non-executive directors	423	314
Number of directors who exercised share options	3	-
Number of directors with shares received or receivable under LTIPs	5	4
Number of directors to whom defined benefit pension rights accrued	1	-
Number of directors to whom defined contribution pension rights accrued	4	4

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

Highest paid director

The emoluments (excluding amounts paid or due to directors under long term incentive plans (LTIP) and the value of share options granted or exercised by directors) of the highest paid director were \$2,550,543 (2012: \$1,074,091).

The contribution to the defined contribution scheme for the highest paid director during the year was \$18,756 (2012: \$3,235). The highest paid director did exercise share options during 2013 (2012: nil). Shares were received or are receivable by the highest paid director under long term incentive plans during 2013 and 2012.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

6. Profit on ordinary activities before taxation

	2013	2012
	\$'000	\$'000
Profit on ordinary activities before taxation is stated after charging		
Amortisation of intangible assets	99,323	103,681
Depreciation of tangible fixed assets	826	316
Auditors' remuneration for the audit of the Company's annual financial statements	2,665	2,603
Services relating to tax	-	-
Other services	-	-
Wages and salaries	638,182	655,734
Social security costs	111,691	99,153
Other pension costs	39,023	38,164
Share based awards	169,812	168,195

The monthly average number of persons providing services to the Company during the year was 1,446 (2012 1,509)

The monthly average number of staff employed by the European branches during the year was 122 (2012 130)

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

7 Tax on profit on ordinary activities

	2013	2012
	\$'000	\$'000
(a) Analysis of tax charge for the year		
Current taxation		
UK Corporation tax on profit for the year	367,392	299,620
Overseas taxation	172,610	207,432
Less Double tax relief	(168,138)	(184,457)
Adjustments in respect of previous years	4,092	(11,282)
Current tax charge for the year	375,956	311,313
Deferred tax (credit)/charge for the year	(27,467)	38,284
Adjustments in respect of previous years	-	3,366
Effect of rate change on opening balance	2,459	1,512
Total tax charge for the year	350,948	354,475

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

The tax charge for the year differs from the standard rate of corporation tax in the UK (23%), reduced from 24% effective from 1 April 2013

The differences are explained below

	2013	2012
	\$'000	\$'000
Profit on ordinary activities before taxation	2,206,274	2,735,891
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in UK (23.25%)	512,959	670,217
Effects of		
Non-deductible expenses	98,199	36,733
Capital allowances in excess of depreciation	(701)	(1,061)
Emoluments deferral	19,395	31,528
Group relief claimed for nil consideration	(137,209)	(139,635)
Non-taxable dividend income	(116,233)	(220,500)
Adjustments in respect of previous years	4,092	(11,282)
Other adjustment	(806)	(849)
Other non-taxable income	(8,211)	(16,625)
Foreign taxation suffered	4,471	22,975
Brought forward losses utilised	-	(60,189)
Current tax charge for the year	375,956	311,313

(c) Deferred taxation

Deferred taxation brought forward	32,695	75,599
Credit/(charge) to the profit and loss account for the current year	25,007	(39,797)
Charge to the profit and loss account in respect of previous years	-	(3,366)
(Charge)/credit to the statement of total recognised gains and losses	(928)	259
Deferred taxation carried forward	56,774	32,695
Deferred taxation asset relates to		
Depreciation in excess of capital allowances	3,439	4,420
Deferral of emoluments	51,844	25,857
Other adjustment	1,491	2,418
	56,774	32,695

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Loans and advances to banks

Loans and advances to banks includes bank balances held with Group undertakings. During the year, the Company reviewed its policy for accounting for client money which principally arises where it acts on behalf of its clients as a clearing member for derivatives that are cleared through central counterparties. Specifically, the Company 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 has concluded that such amounts should not be recognised on balance sheet for UK GAAP purposes. Therefore, \$10.9 billion, \$4.4 billion and \$15.3 billion was excluded from Loans and advances to banks, Debtors and Trade creditors respectively. In 2012, Loans and advances to banks, Debtors and Trade creditors included \$10.9 billion, \$3.8 billion and \$14.7 billion respectively, in relation to such balances.

9. Loans and advances to customers

	2013	2012
	\$'000	\$'000
Loans and advances to customers	1,220,424	1,099,819
Disclosure of loans and advances to customers maturity profile		
	2013	2012
	\$'000	\$'000
Remaining maturity		
5 years or more	64,793	58,262
5 years or less but over 1 year	988,366	766,241
1 year or less but over 3 months	125,703	42,970
3 months or less	41,562	232,346
	1,220,424	1,099,819

There were no past due loans and advances to customers as at 31 December 2013 (2012: Nil)

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

10 Securities purchased under agreements to resell

	2013	2012
	\$'000	\$'000
Securities purchased under agreements to resell	138,350,647	108,043,553

Included within securities purchased under agreements to resell, are the following balances with other Group undertakings

	2013	2012
	\$'000	\$'000
Securities purchased under agreements to resell	42,821,761	40,481,530

The fair value of securities purchased under agreements to resell and securities borrowed accepted as collateral that the Company is permitted to sell or re-pledge in the absence of default is \$161,057 million (2012 \$160,392 million) These transactions are conducted under terms that are customary to standard lending activities

11. Securities borrowed

	2013	2012
	\$'000	\$'000
Securities borrowed	19,500,244	19,020,210

Included within securities borrowed, are the following balances with other Group undertakings

	2013	2012
	\$'000	\$'000
Securities borrowed	8,673,014	6,932,518

The fair value of securities purchased under resale agreements and securities borrowed accepted as collateral that the Company is permitted to sell or re-pledge in the absence of default is \$161,057 million (2012 \$160,392 million) These transactions are conducted under terms that are customary to standard lending activities

12 Financial assets held for trading

	2013	2012
	\$'000	\$'000
At 1 January	156,174,562	136,856,987
Movements during the year	7,410,277	19,317,575
At 31 December	163,584,839	156,174,562

Included within financial assets held for trading, are the following balances with other Group undertakings

	2013	2012
	\$'000	\$'000
Financial assets held for trading	35,699,119	23,827,537

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

13 Financial assets designated at fair value through profit or loss

	2013	2012
	\$'000	\$'000
At 1 January	16,222	16,523
Movements during the year	3,868	(301)
At 31 December	20,090	16,222
Equity shares and other variable yield securities		
Unlisted	20,090	16,222
	20,090	16,222

14. Debtors

	2013	2012
	\$'000	\$'000
Trade debtors	23,417,544	24,822,581
Amounts owed by Group undertakings	7,394,948	8,564,744
Other debtors	5,031,024	4,891,671
	35,843,516	38,278,996

Trade debtors mainly consists of unsettled trades

Other debtors includes \$3.2 billion of cash collateral on derivatives (2012: \$3.7 billion)

15. Other assets

	2013	2012
	\$'000	\$'000
Deferred taxation	56,774	32,695
Other taxation and social security	24,417	283,931
Prepayments and accrued income	545,319	534,674
	626,510	851,300

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

16. Investments in Group undertakings

	2013	2012
	\$'000	\$'000
Investments in group undertakings at cost		
At 1 January	3,625,233	3,625,233
At 31 December	3,625,233	3,625,233

The above investments are shown at cost less any provision for impairment

In the opinion of the directors, the value of the Company's investment in each subsidiary undertaking is not less than the amount at which it is stated in the balance sheet

The only wholly owned (100% shares held) principal subsidiary of the Company is J P Morgan Europe Limited (JPME) which is incorporated in the United Kingdom, authorised and regulated by the PRA and FCA respectively and is primarily involved in banking activity

The holdings of the Company are as follows

Name	Country of incorporation	Principal activity	Proportion of ordinary shares held %
J P Morgan Chase Finance Limited	United Kingdom	Holding company	35 00
J P Morgan Europe Limited	United Kingdom	Banking	100 00
Claris Limited*	Channel Islands	Notes issuer	0 00
Gonzaga Financial SRL Series Class A3*	Italy	Notes issuer	0 00
Cheyne Capital Guaranteed S A Series 2007-1*	Luxembourg	Notes issuer	0 00
Mizuho Trust 2010*	Japan	Notes issuer	0 00
Mizuho Trust TBI*	Japan	Notes issuer	0 00
Morgan Stanley Aces SPC Series 2006-35A*	Cayman Islands	Notes issuer	0 00
Greenwood Nominees Limited	United Kingdom	Nominee company	100 00
Helena Holdings	Cayman Islands	Investment bank	0 10
ICAP IEB Z Limited	United Kingdom	Trading platform	12 50
J P Morgan Prime Nominees Ltd	United Kingdom	Nominee company	100 00
J P Morgan Services LLP	United Kingdom	Dormant company	57 25
JPMorgan European Funding Limited	Guernsey	Investment company	1 36
Joint Stock Company TBC Bank	Georgia	Retail bank	0 38
LCH Clearnet Group Limited	United Kingdom	Clearing house	1 36
LME Holdings Limited	United Kingdom	London Metal Exchange	1 83
MTS Spa	Italy	Trading platform	5 00
Monier Holdings GP S A	Luxembourg	Holding company	0 71
Monier Holdings S C A	Luxembourg	Holding company	0 71

* The above entities are special purpose vehicles which meet the definition (per section 1162 of the Companies Act 2006) of a subsidiary undertaking

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

17. Intangible assets

	\$'000
Cost	
At 1 January 2013	2,044,770
Additions	-
At 31 December 2013	2,044,770
Accumulated Amortisation	
At 1 January 2013	(227,309)
Charged during the year	(99,323)
At 31 December 2013	(326,632)
Net book value	
At 31 December 2012	1,817,461
At 31 December 2013	1,718,138

In May 2011, the Company recognised goodwill amounting to US\$1,957,400,000 in relation to the estimated levels of future profits to be generated by the businesses that were transferred to the Company from J P Morgan LES Limited as part of a transaction. A portion of the intangible assets relates to the purchase of certain businesses from Robert Fleming & Co Limited on 1 February 2001 for \$82.4 million. The full purchase consideration was in the form of cash and relates entirely to purchased goodwill. This represents the intrinsic value of the businesses transferred, based upon the estimated levels of future profits to be generated by the businesses.

The goodwill arising on these acquisitions is being amortised on a straight line basis over the period that the directors estimate that the value of the underlying businesses acquired are expected to exceed the value of the underlying assets. For the goodwill arising on the acquisition of business from J P Morgan LES Limited and Robert Fleming & Co Limited, this period is deemed to be 20 years and 14.5 years respectively. In the opinion of the directors, the value of the Company's goodwill is not less than the amount at which it is stated on the balance sheet.

18. Tangible fixed assets

	Leasehold improvements, fixtures and fittings and office equipment \$'000
Cost	
At 1 January 2013	9,881
Additions	908
Disposals	(131)
At 31 December 2013	10,658
Accumulated depreciation	
At 1 January 2013	(8,418)
Charged during the year	(826)
Disposals	83
At 31 December 2013	(9,161)
Net book value	
At 31 December 2012	1,463
At 31 December 2013	1,497

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

19. Securities sold under agreements to repurchase

	2013	2012
	\$'000	\$'000
Securities sold under agreements to repurchase	69,032,284	75,394,524

Included within securities sold under agreements to repurchase are the following balances with other Group undertakings

	2013	2012
	\$'000	\$'000
Securities sold under agreements to repurchase	23,256,375	28,628,251

The fair value of securities sold under agreements to repurchase and securities loaned pledged to secure liabilities is \$78,424 million (2012 \$90,738 million) These transactions are conducted under terms that are customary to standard borrowing activities

20 Securities loaned

	2013	2012
	\$'000	\$'000
Securities loaned	20,273,501	20,448,502

Included within securities loaned are the following balances with other Group undertakings

	2013	2012
	\$'000	\$'000
Securities loaned	14,960,913	14,009,830

The fair value of securities sold under repurchase agreements and securities loaned pledged to secure liabilities is \$78,424 million (2012 \$90,738 million) These transactions are conducted under terms that are customary to standard borrowing activities

21 Financial liabilities held for trading

	2013	2012
	\$'000	\$'000
At 1 January	101,795,834	98,297,855
Movements during the year	24,624,601	3,497,979
At 31 December	126,420,435	101,795,834

Included within financial liabilities held for trading, are the following balances with other Group undertakings

	2013	2012
	\$'000	\$'000
Financial liabilities held for trading	68,124,263	53,166,142

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

22. Trade creditors and other liabilities

	2013	2012
	\$'000	\$'000
Trade creditors	41,277,291	50,466,724
Accruals and deferred income	900,666	728,396
Other liabilities	11,572,152	7,372,160
Total other liabilities	12,472,818	8,100,556
Total trade creditors and other liabilities	53,750,109	58,567,280

Trade creditors predominantly consists of unsettled trades and brokerage fees payable

Other liabilities includes \$9,257 million of cash collateral received in relation to OTC derivatives

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

23. Called-up share capital

	2013	2012
	\$'000	\$'000
Issued and fully paid share capital		
At 1 January		
835,232 ordinary shares (2012 835,242) of \$10,000 each	8,352,320	8,352,420
34,648 (2012 34,648) preferred ordinary shares of \$10,000 each	346,480	346,480
680,685 (2012 680,685) preference shares of \$10,000 each	6,806,850	6,806,850
50,000 ordinary shares issued (2012 nil) of £1 24 each	100	-
Movements during the year		
126,272 ordinary shares issued (2012 Nil) of \$10,000 each	1,262,720	-
Subdivision of nil ordinary shares (2012 10 of \$10,000 each)	-	(100)
Nil ordinary shares issued (2012 50,000 ordinary shares of £1 24 each)	-	100
	1,262,720	-
At 31 December		
961,504 ordinary shares (2012 835,232) of \$10,000 each	9,615,040	8,352,320
50,000 ordinary shares (2012 50,000) of £1 24 each	100	100
34,648 (2012 34,648) preferred ordinary shares of \$10,000 each	346,480	346,480
680,685 (2012 680,685) preference shares of \$10,000 each	6,806,850	6,806,850
	16,768,470	15,505,750

On 16 December 2013, the Company issued 126,272 ordinary shares to J P Morgan Chase International Holdings with a par value of \$10,000 and at a premium of \$16,134.06 per share as consideration for cash to the value of \$3,300,000,000

	2013	2012
	\$'000	\$'000
Preference shares in issue		
5 year floating rate of \$10,000 each *	2,650,000	2,650,000
10 year fixed rate of \$10,000 each *	2,156,850	2,156,850
20 year fixed rate of \$10,000 each *	2,000,000	2,000,000
	6,806,850	6,806,850

* Additional disclosure on the terms per tranche of preference shares is provided under Note 24 - Dividends

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

24. Dividends

Interim dividends of \$372,776,521 were paid on the preference shares (2012 \$569,921,615) and \$7,065,700 on the preferred ordinary shares of the Company (2012 \$12,605,911) in 2013. An interim dividend of \$470,157,779 (2012 \$317,472,474) was paid on the ordinary shares of the Company for 2013. No final dividend was paid or proposed for 2013 (2012 Nil).

The dividend rate on the preferred ordinary shares is 0.9% over 12 month US\$ LIBOR on the nominal amount, and, if resolved to be distributed, is payable in priority to any dividend payable on ordinary shares, with no right to accumulation in the event of a deficiency of profits nor any further entitlement to participation in the profits of the Company. Subject to approval from the PRA, the Company may redeem at its option any preferred ordinary share at par, together with accrued dividend due, at any time after 26 March 2007. In the event of a winding-up the preferred ordinary shareholders shall be repaid both capital and any accrued dividend due in priority to any payment to the ordinary shareholders. The preferred ordinary shares carry no voting rights at a general meeting of the Company. The ordinary shares carrying 100% of the voting rights.

The dividend rate on the 5 year floating rate preference shares is 0.9% over 12 month US\$ LIBOR on the nominal amount, and, if resolved to be distributed, is payable in priority to any dividend payable on ordinary shares, but pari passu to any payment to the holders of the preferred ordinary shares or any other preference shares, with no right to accumulation in the event of a deficiency of profits nor any further entitlement to participation in the profits of the Company. Subject to approval from the PRA, the Company may redeem at its option any 5 year floating rate preference share at par, together with accrued dividend due, at any time after 9 June 2009. In the event of a winding-up the preference shareholders shall be repaid both capital and any accrued dividend due in priority to any payment to the ordinary shareholders but pari passu to any payment to the holders of preferred ordinary shares or other preference shares. The 5 year floating rate preference shares carry no voting rights at general meetings.

The dividend rate on the 10 year fixed rate preference shares is a fixed rate of 2.75% and 2.85%, per series, above the Ten-year U.S. Treasury Rate as at the date of issue, and, if resolved to be distributed, is payable in priority to any dividend payable on the ordinary shares, but pari passu to any payment to the holders of the preferred ordinary shares or any other preference shares, with no right to accumulation in the event of a deficiency of profits nor any further entitlement to participation in the profits of the Company. Subject to approval from the PRA, the Company may redeem any series of the 10 year fixed rate preference shares at par at any time after the 10th anniversary of the date of issue of that series provided that the Company may only redeem exactly twenty per cent of the total number of preference shares issued in that series at par. In the event of a winding-up, the 10 year fixed rate preference shareholder shall be repaid both capital and any accrued dividend due in priority to any payment to the ordinary shareholder but pari passu to any payment to the holders of the preferred ordinary shares and any other preference shares. The preference shares carry no voting rights at general meetings.

The dividend rate on the 20 year fixed rate preference shares is a fixed rate of 8% and, if resolved to be distributed, is payable in priority to any payment of dividend or other distribution to the holders of any junior obligations, but pari passu to any payment of dividend or other distribution to the holders of any parity obligations, with no right to accumulation in the event of a deficiency of profits nor any further entitlement to participation in the profits of the Company. Subject to approval from the PRA, the Company may redeem at its option any 20 year fixed rate preference share at par, together with accrued dividend due, at any time after 20 years and one month of the date of issue of that series. In the event of a winding-up, the 20 year fixed rate preference shareholder shall be repaid both capital and any accrued dividend due in priority to any payment to the holders of ordinary shares and any other securities issued by the company, but pari passu to any payment to the holders of any other series of preference shares issued by the company. The preference shares carry no voting rights at general meetings.

25 Reconciliation of movements in reserves

	Capital contribution reserve	Pension reserve	Other reserves	Share premium account	Profit and loss account
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2013	1,583,800	(4,671)	67,971	4,646,581	6,083,130
Increase in share premium account	-	-	-	2,037,280	-
Profit for the financial year	-	-	-	-	1,855,326
Dividends paid	-	-	-	-	(850,000)
Movement in other reserves	-	-	(47,352)	-	-
Movement in pension reserve	-	4,594	-	-	-
Tax effect on movement in pension reserve	-	(928)	-	-	-
At 31 December 2013	1,583,800	(1,005)	20,619	6,683,861	7,088,456

The movement in other reserves is partly due to share based payment awards granted to employees by the Group.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

26. Reconciliation of movements in shareholders' funds

	2013	2012
	\$'000	\$'000
Opening shareholders' funds	27,882,561	26,385,131
Increase in share capital	1,262,720	-
Increase in share premium	2,037,280	-
Movement in other reserves	(47,352)	16,868
Profit for the financial year	1,855,326	2,381,416
Dividends paid	(850,000)	(900,000)
Movement in pension reserve	4,594	(1,113)
Tax effect on movement in pension reserve	(928)	259
Closing shareholders' funds	32,144,201	27,882,561

27 Commitments

	2013	2012
	\$'000	\$'000
Lending commitments	2,924,215	1,663,246

Included within lending commitments are commitments to other group undertakings of \$nil (2012 \$nil)

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

28. Registered charges

The following charges have been registered with the Registrar of Companies and were outstanding at 31 December 2013

Amounts due, or which may become due, under the Company's facility agreement with National Westminster Bank plc are secured by a charge over the benefits arising from the Company's European Settlements Office membership agreement with the Governor and Company of the Bank of England

Amounts due or to become due from the Company to the Emerging Markets Clearing Corporation are secured by a charge over all assets and property placed by the Company in the possession of the Emerging Markets Clearing Corporation. This includes all securities and cash on deposit with the Emerging Markets Clearing Corporation

Amounts due or to become due from the Company to Deutsche Bank under the terms of Master Novation Agreement, creating or evidencing the charge, are secured by a charge over all rights, title and interest to and in all deposited instruments

Amounts due or to become due from the Company to Barclays Bank Plc under the terms of the Security Deed, creating or evidencing the charge, are secured by a charge over all rights in respect of the Setter Swap Agreement

Amounts due or to become due from the Company to BNY Corporate Trustee Services & EBS Mortgage Finance under the terms of the Security Deed are secured by a fixed charge over the charged property and all its right, title and interest in the charged account (5304199780)

Amounts due or to become due from the Company to The Bank Of New York Mellon under the terms of the Debenture Agreement are secured by a floating charge on all securities, deposits and any other assets in respect of a designated account

Amounts due or to become due from the Company to Nasdaq OMX Stockholm AB under the terms of the Security Deed are secured by a fixed charge over all rights, title and interest in and to all cash collateral and all money, now or in the future, standing to the credit of each cash collateral account

Amounts due or to become due from the Company to J P Morgan Structured Products B V under the terms of the Credit Support Deed are secured by a charge over all posted collateral

Amounts due or to become due from the Company to J P Morgan Structured Products B V under the terms of the Credit Support Deed are secured by a first fixed legal mortgage over all posted collateral other than posted collateral in the form of cash

Amounts due or to become due from the Company to JPMorgan Chase Bank, N A (The Security Trustee) under the terms of the Security Agreement are secured by collateral securities, related rights and collateral cash

Amounts due or to become due from the Company to JPMorgan Chase Bank, N A under the terms of the Pledge Agreement are secured by a charge over the pledged property in relation to any Korean Security

Amounts due or to become due from the Company to JPMorgan Chase Bank, N A (The Collateral Agent) under the terms of the Pledge Agreement are secured by a charge over posted collateral

Amounts due or to become due from the Company to Nasdaq OMX Stockholm AB under the terms of the GBP Collateral Security Deed are secured by a fixed charge over all rights, title and interest in and to all cash collateral and all money now or in the future standing to the credit of each cash collateral account

Amounts due or to become due from the Company to J P Morgan Limited under the terms of the Charge and Security Trust Deed are secured by way of a first fixed charge over all right, title and interest from time to time in the financial assets

Amounts due or to become due from the Company to J P Morgan Limited are secured by a charge over accounts with full title guarantee over all rights, title and interest in the accounts

Amount due or to become due from the Company to Euroclear Bank under the terms of the Collateral Agreement are secured by all collateral including in particular cash and securities clearance accounts opened in connection with the Euroclear system in the name of the Company

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

28. Registered charges (continued)

Amounts due or to become due from the Company to Euroclear Bank under the terms of the Collateral Agreement Governing Secured Borrowings by Groups of Participants in the Euroclear System are secured by all collateral including in particular, cash and securities clearance accounts opened in connection with the Euroclear system in the name of the Company

Amounts due or to become due from the Company to JPMorgan Chase Bank, N A as security trustee under the terms of the Supplemental Deed are secured by way of a fixed charge over all present and future claims or rights to, or in respect of all the securities from time to time, represented by the additional non-English securities collateral accounts

29 Assets and liabilities in foreign currencies

	2013	2012
	\$'000	\$'000
Assets		
United States (US) dollars	153,036,073	151,411,657
Euro	148,629,963	112,599,978
Great British pounds	56,380,137	53,840,941
Currencies other than above	11,344,660	26,579,404
Total assets	369,390,833	344,431,980
Liabilities		
United States (US) dollars	121,157,295	123,639,341
Euro	148,619,788	112,641,197
Great British pounds	56,444,304	53,862,385
Currencies other than above	11,025,245	26,406,496
Total liabilities	337,246,632	316,549,419

Due to off-balance sheet items, the above should not be considered to demonstrate the entity's exposure to foreign exchange risk

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

30. Assets and liabilities measured at fair value

	Level 1 Quoted market prices in active markets \$'000	Level 2 Internal models with significant observable market parameters \$'000	Level 3 Internal models with significant unobservable market parameters \$'000	Total carrying value \$'000
At 31 December 2013				
Financial assets				
Debt and equity instruments	53,760,599	32,803,131	5,231,393	91,795,123
Derivative receivables	37,609	65,979,139	5,793,058	71,809,806
Total financial assets	53,798,208	98,782,270	11,024,451	163,604,929
Financial liabilities				
Debt and equity instruments	21,181,887	10,074,802	58,309	31,314,998
Derivative payables	66,252	71,799,076	5,168,694	77,034,022
Other financial liabilities	-	14,125,309	3,946,106	18,071,415
Total financial liabilities	21,248,139	95,999,187	9,173,109	126,420,435

In determining the fair value of a derivative portfolio, Credit valuation adjustments (CVA) are necessary to adjust the fair value to reflect the credit quality of the counterparty. Similarly, Debit valuation adjustments (DVA) are necessary to reflect the credit quality of the company in the valuation of derivative liabilities. The Company is not generally exposed to either counterparty or its own credit risk on its external derivative portfolio as J P Morgan Chase Bank N A, a group undertaking, provides credit protection to the Company on its derivatives portfolio in return for an initial fee paid for each new transaction at its inception. Accordingly, the Company does not recognise Credit or Debit valuation adjustments.

The Group implemented the Funding valuation adjustment (FVA) framework in the fourth quarter of 2013 to incorporate the impact of funding into the Group's valuation estimates for OTC derivatives. This was to reflect the industry migration towards incorporating the market cost of unsecured funding in the valuation of such instruments. The Group recognised a one-time loss arising on implementation. Based on a review of the underlying contractual arrangements of the Company, the impact of such a one-time adjustment is considered immaterial to the financial statements of the Company and has not been recognised.

	Level 1 Quoted market prices in active markets \$'000	Level 2 Internal models with significant observable market parameters \$'000	Level 3 Internal models with significant unobservable market parameters \$'000	Total carrying value \$'000
At 31 December 2012				
Financial assets				
Debt and equity instruments	52,021,571	38,236,882	3,161,337	93,419,790
Derivative receivables	-	56,357,909	6,413,085	62,770,994
Total financial assets	52,021,571	94,594,791	9,574,422	156,190,784
Financial liabilities				
Debt and equity instruments	12,364,870	8,666,833	139,454	21,171,157
Derivative payables	-	59,645,494	5,302,183	64,947,677
Other financial liabilities	-	12,745,006	2,931,994	15,677,000
Total financial liabilities	12,364,870	81,057,333	8,373,631	101,795,834

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

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

Movement in assets and liabilities in Level 3 during year ended 31 December 2013

Financial assets	Debt and equity instruments	Derivative receivables	Total financial assets
	\$'000	\$'000	\$'000
At 1 January 2013	3,161,337	6,413,085	9,574,422
Total gains/(loss) recognised in profit or loss	476,830	688,139	1,164,969
Purchases	7,193,246	2,075,582	9,268,828
Sales	(5,887,743)	(146,451)	(6,034,194)
Issuances	120,083	(33,191)	86,892
Settlements	(138,064)	(3,285,625)	(3,423,689)
Transfers in to Level 3	1,053,367	639,184	1,692,551
Transfers out of Level 3	(747,663)	(557,665)	(1,305,328)
At 31 December 2013	5,231,393	5,793,058	11,024,451

Financial liabilities	Debt and equity instruments	Derivative payables	Other financial liabilities	Total financial liabilities
	\$'000	\$'000	\$'000	\$'000
At 1 January 2013	139,454	5,302,183	2,931,994	8,373,631
Total (gains)/loss recognised in profit or loss	(42,326)	751,873	1,129,383	1,838,930
Purchases	(2,370,649)	1,583,288	-	(787,361)
Sales	2,503,683	1,332,480	-	3,836,163
Issuances	-	-	3,150,169	3,150,169
Settlements	(28,740)	(3,736,053)	(3,203,297)	(6,968,090)
Transfers in to Level 3	9,054	428,696	531,492	969,242
Transfers out of Level 3	(152,167)	(493,773)	(593,635)	(1,239,575)
At 31 December 2013	58,309	5,168,694	3,946,106	9,173,109

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

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

Movement in assets and liabilities in Level 3 during year ended 31 December 2012

Financial assets	Debt and equity instruments	Derivative receivables	Total financial assets
	\$'000	\$'000	\$'000
At 1 January 2012	3,053,379	4,302,986	7,356,365
Total gains/(loss) recognised in profit or loss	200,439	(852,059)	(651,620)
Purchases	6,679,334	6,810,006	13,489,340
Sales	(6,650,690)	(4,068,240)	(10,718,930)
Issuances	(42,649)	-	(42,649)
Settlements	(47,794)	(85,085)	(132,879)
Transfers in to Level 3	133,266	404,434	537,700
Transfers out of Level 3	(163,948)	(98,957)	(262,905)
At 31 December 2012	3,161,337	6,413,085	9,574,422

Financial liabilities	Debt and equity instruments	Derivative payables	Other financial liabilities	Total financial liabilities
	\$'000	\$'000	\$'000	\$'000
At 1 January 2012	54,225	6,110,665	562,290	6,727,180
Total gains/(loss) recognised in profit or loss	(2,151)	(421,174)	22,212	(401,113)
Purchases	(2,928,956)	1,584,540	-	(1,344,416)
Sales	3,056,312	193,374	-	3,249,686
Issuances	-	-	2,343,421	2,343,421
Settlements	(35,292)	(1,892,548)	(31,496)	(1,959,336)
Transfers in to Level 3	1,832	(73,664)	39,179	(32,653)
Transfers out of Level 3	(6,516)	(199,010)	(3,612)	(209,138)
At 31 December 2012	139,454	5,302,183	2,931,994	8,373,631

In relation to sensitivity of level 3 disclosures, there would be no significant impact to the profit and loss from the use of alternative inputs due to economic hedging in place and other risk mitigants

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

31. Pensions

The Company operates pension schemes for employees in the UK as well as the European branches

The Company also operates defined benefit and defined contribution schemes for its employers in the overseas branches in Switzerland, Germany, France, Italy and Spain

Based on full actuarial valuations carried out during the year, the net liability in respect of these schemes as at 31 December 2013 amounted to \$2,238,000 (2012 \$7,787,000). The charge for the year through profit and loss was \$1,569,000 (2012 \$2,657,000), and total expense charged through statement of total recognised gains and losses was \$4,594,000 (2012 \$1,113,000)

UK pension schemes

The Group 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, it does have certain obligations under a Withdrawal Agreement, dated 24 May 2011, that was entered into in relation to J P Morgan Services LLP ("LLP"), a group undertaking which had previously been a participating employer in the plan. Under the terms of this agreement, the Company became responsible for 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. The Company 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 Company 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 the Company
- Any other date agreed between the Company and the Trustee of the Plan

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

32 Share based payments

The ultimate parent of the Company, JPMorgan Chase & Co (the Group) has granted long-term stock-based awards to certain key 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 2013, 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 Group is currently granting stock-based incentive awards The 2005 Plan, plus prior Group plans and plans assumed as the result of acquisitions, are referred to collectively as the "LTI Plans" and such plans constitute the Group's stock-based incentive plans

The Group 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 Group 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 SARs (stock appreciation rights), is measured at the grant date using the Black-Scholes valuation model Compensation expense for these awards is recognised as described above

The following table summarises grants of restricted stock and RSUs to employees of the Company for each of the years ended 31 December 2013 and 31 December 2012

	2013	2013	2012	2012
	Shares	Weighted	Shares	Weighted
	'000	average	'000	average
		fair value \$		fair value \$
Restricted stock units outstanding at 1 January	9,510	40.62	11,373	38.61
Granted	4,768	46.75	3,902	35.68
Exercised	(6,982)	46.54	(5,609)	35.74
Cancelled	(172)	40.77	(255)	38.99
Transferred	3,628	41.76	99	40.62
Outstanding 31 December	10,752	41.76	9,510	40.62

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

32 Share based payments (continued)

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's common stock on the grant date. The Group typically awards SARs to certain key employees once per year, the Firm also periodically grants employee stock options and SARs to individual employees. The 2013, 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 activity in options and SARs granted to employees of the Company for each of the years ended 31 December 2013 and 31 December 2012.

	2013	2013	2012	2012
	Number of	Weighted	Number of	Weighted
	options/ SARs	average exercise price \$	options/ SARs	average exercise price \$
	'000		'000	
Outstanding, 1 January	1,898	40.51	2,084	38.74
Granted	256	46.58	93	35.61
Exercised	(326)	51.93	(55)	38.27
Cancelled	(35)	53.33	(172)	37.41
Transferred	547	41.04	(52)	40.51
Outstanding, 31 December	2,340	41.04	1,898	40.51
Exercisable, 31 December	1,221	40.53	1,100	42.41

The weighted-average share price during the year ended 31 December 2013 was \$51.88 (2012: \$39.22).

The weighted-average grant-date fair value of options granted during the year ended 31 December 2013 was \$9.58 (2012: \$8.89).

The following table summarises additional information about options and SARs outstanding as at 31 December 2013 and 31 December 2012.

	31 December 2013			31 December 2012		
	Outstanding	Weighted	Weighted	Outstanding	Weighted	Weighted
	'000	average	average	'000	average	average
		exercise	remaining		exercise	remaining
		price \$	contractual		price \$	contractual
			life (in years)			life (in years)
Range of exercise prices						
\$min - \$20.00	285	19.49	5.06	325	19.49	6.06
\$20.01 - \$35.00	50	34.78	1.80	134	31.48	2.12
\$35.01 - \$50.00	2,002	43.59	6.14	1,432	43.94	6.11
\$50.01 and above	3	537.59	1.69	7	482.14	2.19
Total	2,340	41.04	5.91	1,898	40.51	5.80

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

32 Share based payments (continued)

Broad-based employee stock options

No broad-based employee stock options were granted in 2012 or in 2013. In prior years, awards were granted by the Group under the Value Sharing Plan, a nonshareholder-approved plan. For each grant, the exercise price was equal to the Group's common stock price on the grant date. The options become exercisable over various periods and generally expire 10 years after the grant date.

The following table presents a summary of the Company's broad-based employee stock option activity for each of the years ended 31 December 2013 and 31 December 2012.

	2013	2013	2012	2012
	Number of	Weighted	Number of	Weighted
	options	average	options	average
	'000	exercise	'000	exercise
		price \$		price \$
Range of exercise prices				
Outstanding, 1 January	17	33.46	49	34.49
Exercised	(9)	50.12	(5)	42.10
Cancelled	(2)	23.53	(30)	36.86
Transferred	(1)	39.96	3	33.46
Outstanding, 31 December	5	39.96	17	33.46
Exercisable, 31 December	5	39.96	17	33.46

The weighted-average share price during the year ended 31 December 2013 was \$51.88 (2012: \$39.22).

The following table summarises additional information about options outstanding at 31 December 2013 and 31 December 2012.

	31 December 2013			31 December 2012		
	Outstanding	Weighted	Weighted	Outstanding	Weighted	Weighted
	'000	average	average	'000	average	average
		exercise	remaining		exercise	remaining
		price \$	contractual		price \$	contractual
			life (in years)			life (in years)
Range of exercise prices						
\$20.01 - \$35.00	-	-	-	6	21.92	0.12
\$35.01 - \$50.00	5	39.96	0.12	11	39.96	1.12
Total	5	39.96	0.12	17	33.46	0.76

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

32. Share based payments (continued)

Compensation expense related to stock-based incentives

The total expense for the year relating to share based payments was \$170 million (2012 \$168 million), all of which relates to equity settled share based payments

The following table presents the assumptions used to value key employee stock options and SARs granted during the period under a Black-Scholes valuation model

	2013	2012
Weighted-average annualised valuation assumptions		
Weighted-average share price	\$51.88	\$39.22
Exercise price	\$45.81	\$35.53
Risk-free interest rate (US Treasury)	1.18%	1.19%
Expected dividend yield	2.66%	3.15%
Expected common stock price volatility	28%	35%
Expected life (in years)	6.60	6.60

The expected volatility assumption is derived from the implied volatility of the Group's publicly traded stock options. The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or cancelled, and the assumption is based on the Group's historical experience.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33. Financial risk management

Risk management is an inherent part of the Group's (of which the Company is a part) business activities and the Company has adopted the same risk management policies and procedures as the Group as a whole. The Group and Company's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks. The Company 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 is intended to create a culture of risk awareness and personal responsibility throughout the entity where collaboration, discussion, escalation and sharing of information is encouraged. The Company exercises oversight through the Board of Directors and delegation from the Board to various sub-committees which are organised in line with the Group risk management policy.

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 Group may be found within the Group annual report.

The Company 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.

Credit risk

Credit risk refers to the risk of loss arising from a borrower, counterparty or obligor failing to meet its contractual obligations.

Governance

Credit risk is managed by the Group on a global as well as at a Company level. The Group has developed policies and practices that the Company is subject to, that are designed to preserve the independence and integrity of the approval and decision making of extending credit. These policies are intended to ensure that credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. In addition, the Company has its 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 Board of the Company.

The Company has a designated Chief Risk Officer who is also a Board member of the Company. Credit Executives within the Group approve extensions of credit for the Company and ultimately report to the Head of Wholesale Credit Risk. Each Line of Business within the Group has its own independent credit risk management function, reporting to the Group Chief Risk Officer. The Company has its own Credit Risk management function, reporting to the Group Chief Risk Officer. The Company is exposed to credit risk through lending and capital markets activities.

Methodology

A range of methodologies are adopted for estimating the likelihood of counterparty (or obligor) default including, calculating the potential amount of credit exposure or loss should the obligor or the counterparty default, the probability of default, and the loss severity given a default event.

The Company reduces its credit risk exposure through the effect of risk mitigants such as netting agreements with counterparties that permit the Company to offset receivables and payables with such counterparties and obtaining collateral from counterparties.

The Company utilises counterparty credit risk stress testing scenarios that help to identify exposure concentrations, idiosyncratic events and other factors to protect the Company in the event of adverse economic or market events.

The Credit Risk Management function works in partnership with the business segments in identifying and aggregating exposures. Methodologies for measuring credit risk vary depending on several factors, including type of asset. Based on these factors and related market-based inputs, the Company estimates replacement cost for derivatives (net mark-to-market ("MTM")), statistical estimates of losses for loans, and unexpected losses for its portfolios as follows:

- For derivatives, the net MTM is an indicator of replacement cost, were an obligor to default, and reflects netting and collateral arrangements that may be in place.
- For loans, Loss Given Default (LGD) is an indicator of potential loss as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk.
- Unexpected losses, reflected in the allocation of economic credit risk capital, representing the potential volatility of actual losses relative to the probable level of incurred losses.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33. Financial risk management (continued)

Risk measurement for the portfolio is assessed primarily on a risk-rated basis

Risk rated exposure

Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the counterparties' current financial positions, risk profiles and the related collateral. For each credit facility, a Loss Given Default (LGD) is calculated and is an estimate of losses given a default event and takes into consideration collateral and structural support. Calculations and assumptions are based on management information systems and methodologies which are under continual review.

Risk monitoring and control

The Company has adopted and applied the policies and practices developed by the Group. The policy framework establishes credit approval authorities, 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 support functions that are separate from the businesses.

Credit risk is monitored regularly at an individual counterparty basis with credit limits established that are reviewed and revised, typically on an annual basis. Management of the Company's exposure is accomplished through a number of means including

- Loan syndications, participations and loan sales
- Use of master netting agreements
- Collateral and other risk-reduction techniques

Risk reporting

To enable monitoring of credit risk, aggregate credit exposure, concentration levels and risk profile changes are reported to senior credit risk management and to the Board of the Company.

The amounts in the table below show the maximum credit exposure of the Company

	2013	2012
	\$'000	\$'000
Balance Sheet		
Cash and balances at central banks	57,761	35,156
Loans and advances to banks	4,841,934	15,468,005
Unsecured loans and advances to customers	1,220,424	1,099,819
Securities purchased under agreements to resell	138,350,647	108,043,553
Securities borrowed	19,500,244	19,020,210
Financial assets held for trading	163,584,839	156,174,562
Financial assets designated at fair value	20,090	16,222

Financial assets held for trading, Securities purchased under resale agreements and Securities borrowed include certain external sub investment grade assets. All other financial assets are investment grade or held with other Group undertakings. The Company has received assets as collateral with a fair value of approximately \$169,802 million as at 31 December 2013. This collateral was generally obtained under resale agreements (note 10), securities borrowing agreements (note 11) and derivative agreements.

The only significant geographical concentration of credit risk is within the United Kingdom. From an industry perspective, credit risk is concentrated in banking and finance institutions and asset managers. There are no other significant concentrations of credit risk.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not have the appropriate amount, composition or tenor of funding and liquidity to support its assets and obligations

The Group's liquidity risk management is intended to ensure that the Group has the appropriate amount, composition and tenor of funding and liquidity in support of its assets. The primary objectives of effective liquidity management are to ensure that the Group's core businesses are able to operate in support of client needs and meet contractual and contingent obligations through normal economic cycles as well as during market stress events and to maintain debt ratings that enable the Group to optimise its funding mix and liquidity sources while minimising costs

The Group has a liquidity risk governance framework to review, approve and monitor the implementation of liquidity risk policies at the Group-wide, regional and line of business levels. Specific risk committees responsible for liquidity risk governance include the Group Asset Liability Committee (ALCO) as well as lines of business and regional ALCOs, and the CIO, Treasury and Corporate Risk Committee. The regional ALCO reports on liquidity risk matters to the Company's Risk Committee and the Company's Board and is chaired by the European Treasurer

The directors consider the Company's liquidity position to be strong as of December 31, 2013, and believe that the Company's unsecured and secured funding capacity is sufficient to meet its on and off-balance sheet obligations

The Company is locally subject to the PRA's liquidity regulations. The key elements of the regulations are that the Company has adequate liquidity and self-sufficiency of liquidity resources, and that it has systems and controls in place to monitor this. The Company's funding strategy is intended to ensure that it will have sufficient liquidity and diversity of funding sources necessary to enable it to meet actual and contingent liabilities during both normal and stress periods. The Company reports its liquidity position against 'Individual Liquidity Guidance' provided by the PRA for regulatory purposes. The Company has established a daily monitoring process to monitor liquidity adequacy and ensure compliance with regulatory requirements

In addition to capital requirements, the Basel Committee has also proposed two new measures of liquidity risk: the liquidity coverage ratio ("LCR") and the net stable funding ratio ("NSFR"), which are intended to measure, over different time spans, the liquidity of the Company. The observation periods for both these standards began in 2011, with implementation commencing in 2015 and 2016, respectively. In June 2013, the European Union approved a new Capital Requirements Regulation that includes the implementation of a quantitative liquidity requirement broadly consistent with the Basel III LCR. It also provides for a transition period similar to that outlined under the Basel III LCR rules

Stress testing

Liquidity stress tests are intended to ensure sufficient liquidity for the Group under a variety of adverse scenarios. Results of stress tests are therefore considered in the formulation of the Group's funding plan and assessment of its liquidity position. Liquidity outflow assumptions are modeled across a range of time horizons and varying degrees of 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

Liquid Asset Buffer

Under the PRA liquidity requirements, the Company holds certain unencumbered high quality, liquid assets that are available to raise liquidity if required

Contingency funding plan

The Company also maintains a legal entity liquidity policy and contingency funding plan ("CFP"), which is reviewed and approved by ALCO as well as reviewed and approved by the Company's Board. This provides a documented framework for managing both temporary and longer-term unexpected adverse liquidity stress. The CFP incorporates the limits and indicators set by Company's Board. These limits and indicators are reviewed regularly to identify emerging risks or increased vulnerabilities in the Company's position. The CFP is also regularly updated to identify alternative contingent liquidity resources that can be accessed under adverse liquidity circumstances

Funding

The Company's sources of short-term secured funding primarily consist of 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 Company has also entered into revolving committed liquidity facilities with other group undertakings to manage liquidity risk

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33 Financial risk management (continued)

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

	Less than 1 year 2013 \$'000	More than 1 year 2013 \$'000	Total 2013 \$'000	Less than 1 year 2012 \$'000	More than 1 year 2012 \$'000	Total 2012 \$'000
Securities sold under agreements to repurchase	68,669,846	362,438	69,032,284	74,936,527	457,997	75,394,524
Securities loaned	20,273,501	-	20,273,501	20,448,502	-	20,448,502
Financial liabilities held for trading	126,420,435	-	126,420,435	101,795,834	-	101,795,834
Trade creditors	41,277,291	-	41,277,291	50,466,724	-	50,466,724
Amounts due to group undertakings	67,770,303	-	67,770,303	60,343,279	-	60,343,279
	324,411,376	362,438	324,773,814	307,990,866	457,997	308,448,863

The above financial liabilities are presented based on the earliest contractual maturity

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33. Financial risk management (continued)

Market risk

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in market prices. The primary categories of market risk factors are

- Interest Rates - Interest rate risk primarily results from exposure to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, and mortgage prepayment rates,
- Foreign Exchange Rates - Foreign exchange rate risk results from exposure to changes in prices and volatility of currency rates,
- Equity Prices - Equity price risk arises from exposure to changes in prices and volatility of individual equities, equity baskets and equity indices,
- Credit Spreads - Credit spreads are the difference between yields on corporate debt subject to default risk and government bonds free of such risk, and
- Commodity Prices - Commodity price risks result from exposures 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 Company's Board is ultimately responsible for managing market risk. The Company has a designated Chief Risk Officer who has responsibilities in relation to market risk management. The Market Risk management function is an independent risk management function that works in close partnership with the lines of business to identify and monitor market risks throughout the Group and to define market risk policies and procedures. The Market Risk function reports to the Group's Chief Risk Officer.

Market Risk seeks to control risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Group and the Company's market risk profile for senior management and the Board of Directors. Market Risk 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 independent management of the market risks within its units. Market Risk is responsible for overseeing each line of business ensures that all material market risks are appropriately identified, measured, monitored and managed in accordance with the risk policy framework set out by Market Risk.

Risk measurement

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

- Value-at-Risk (VAR)
- Economic-value stress testing
- Non-statistical risk measures

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33 Financial risk management (continued)

Value-at-risk

The Company utilises Value-at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in a normal market environment. The Company uses the Group's VaR model framework, which utilises historical simulation based on data for the previous twelve months. The framework's approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. VaR is calculated assuming a one-day holding period and an expected tail-loss methodology, which approximates a 95% confidence level. Underlying the overall VaR model framework are individual VaR models. The VaR model results across all portfolios are aggregated at the Company level.

Since VaR is based on historical data, it is an imperfect measure of market risk exposure and potential losses, and VaR measures are inherently limited in their ability to measure certain risks and to predict losses, particularly those associated with market illiquidity and sudden or severe shifts in market conditions. Therefore, the Company uses economic stress testing and other techniques to capture and manage market risk arising under stressed scenarios.

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 the Company's exposure to unlikely but plausible events in abnormal markets using multiple scenarios that assume significant changes in credit spreads, equity prices, interest rates, currency rates or commodity prices. Stress-test results, trends and explanations based on current market risk positions are reported to the Company's senior management and to the lines of business to allow them to better understand the sensitivity of positions to certain defined events and manage their risks with more transparency. Stress scenarios are defined and reviewed by Market Risk, and significant changes are reviewed by the relevant Risk Committees. Scenarios may be redefined on an ongoing basis to reflect current market conditions.

Non-statistical measures

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

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits. Limits reflect the Company's risk appetite in the context of the market environment and business strategy. Market Risk regularly reviews and updates risk limits, as a minimum on a semi-annual basis. The Company's Board and the Chief Risk Officer are responsible for reviewing and approving certain risk limits on an ongoing basis. Any one-off limit exceptions require approval by the Company's Chief Executive Officer (CEO) on behalf of the Company's Board. In setting limits, the Company takes into consideration factors such as senior management risk appetite, market volatility, product liquidity, accommodation of client business and management experience.

Risk reporting

Non-statistical risk measures, VaR trends and limit excesses are reported daily to the lines of businesses and to senior management. Market risk stress-test results are also performed weekly and reported weekly to the lines of business and to senior management. Additional scenarios are run on a quarterly basis. In addition to the above, monthly market risk updates are provided to the monthly EMEA Risk Committee meetings and the Company's quarterly Board meetings.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33. Financial risk management (continued)

Currency risk

The Company's primary business activity does not include currency trading, however, its core business lines will trade in multiple currencies. It must therefore convert its profits back to functional currency and must be able to eliminate exposures to movements in non-functional currencies. It does this in the normal course of events through matching non-functional assets and liabilities with others in the same non-functional currency. They use futures, forward rate agreements, cross currency swaps, traded options and over the counter options to manage the risk.

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company manages its exposure to Sterling and Euro against US dollar (the functional currency of the Company) to within acceptable risk management limits on a daily basis. The following table shows the effect of a reasonably possible change in exchange rates on the financial profit of the Company.

	2013	2012
	\$'000	\$'000
5% increase in GBP/USD exchange rate	(2,326)	(14)
5% decrease in GBP/USD exchange rate	2,571	15
5% increase in EUR/USD exchange rate	(2,410)	(773)
5% decrease in EUR/USD exchange rate	2,663	855

Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has a cash flow and fair value interest rate risk. The following table shows the effect of a reasonably possible change in interest rates on the financial profit of the Company.

	2013	2012
	\$'000	\$'000
1 basis point increase in local interest rates	400	200
1 basis point decrease in local interest rates	(400)	(200)

Price risk

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of movements in market price for those instruments. Financial assets and liabilities held for trading include derivatives, equities and hedge funds that are subject to price risk movements from changes in their credit risk profile or movements in indices and other market indicators.

Loans and advances to customers are subject to price risk from changes in the credit risk profiles of the loans. The following table shows the effect on the pre-tax profits of changes in credit spreads, major market indices, other equity prices and commodities prices.

	2013	2012
	\$'000	\$'000
10% widening of the credit spread	(40,460)	(49,465)
10% shortening of the credit spread	40,467	49,865
10% increase in major market indices	87,900	60,430
10% decrease in major market indices	(40,100)	(42,100)
10% increase across major commodities prices	(2,856)	(12,608)
10% decrease across major commodities prices	2,856	12,608

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

33. Financial risk management (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. This definition includes legal risk but excludes strategic risk, business risk and reputation risk.

Operational risk is inherent in each of the Group and the Company's businesses and support activities. Operational risk can manifest itself in various ways including errors, fraudulent acts, business interruptions, inappropriate behaviour of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses, including litigation and regulatory fines, as well as other damage to the Group.

To monitor and control operational risk, the Group maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled environment. 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. The Group's approach to operational risk management is intended to mitigate losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk specific, consistently applied and utilised firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

The Corporate Operational Risk team has created a framework to identify, measure and manage operational risk. The components of this framework are Governance, Operational Risk Event (Loss) Data collection, the Self-Assessment process, Economic and Regulatory Capital for Operation Risk, and Analysis and Reporting, including Key Risk Indicator tracking and Scenario Analysis where appropriate. This framework enables the Group's compliance with regulatory and statutory requirements and supports the independent check and challenge risk mindset.

The Corporate Operational Risk team's activities are designed to assist in the implementation of the Operational Risk Management (ORM) framework and respond to business needs for effective operational risk management practices. The ORM framework helps to lower ongoing losses, reduce the probability and severity of losses and improve efficiencies by providing businesses with tools to identify, measure and manage operational risk. The controls and processes in place at Group level as described above, mitigate Company-level operational risk.

Fair value of financial assets and financial liabilities

For all financial assets and financial liabilities, carrying value is a reasonable approximation of fair value.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

34. Capital management

The Company sees its strong capital position as essential to its strategy and competitive position with a focus on long-term stability, positioning itself to build and invest in market-leading businesses even in a highly stressed environment. Accordingly, its capital management framework is designed to ensure that the Company is strongly capitalised at all times in relation to

- minimum regulatory requirements (Pillar 1 capital plus Pillar 2 / Individual Capital Guidance),
- the risks faced by the Company, through regular comparisons of regulatory and internal capital requirements, and
- The Company's risk appetite, for example, through the application of an internal capital buffer

The framework used to manage capital is based around a regular cycle of point-in-time capital calculations and reporting, supplemented by forward-looking projections and stress-testing, with corrective action taken as and when required to maintain an appropriate level of capitalisation. Each part of the process is subject to rigorous control including daily capital adequacy calculations and internal reporting, monthly and ad hoc capital projections, and capital usage limits by business area.

Risk management is an inherent part of the Group's (of which the Company is a part) business activities and the Company has adopted similar risk management policies and procedures to the Group as a whole, in addition to ensuring the adherence to local regulatory requirements and risk appetite. Through the quarterly Internal Capital Adequacy Assessment Process (ICAAP), the Company ensures that it is adequately capitalised in relation to its risk profile and appetite, not only as at the ICAAP date, but through the economic cycle and under a range of severe but plausible stress scenarios.

On 1 January 2014, the new Capital Requirements Directive and Capital Requirements Regulation (together, "CRD IV") came into force in the EU. The Company was compliant with the new rules from that date.

The composition of capital of the Company as of 31 December 2013 is as follows:

	31 December 2013 \$'000	31 December 2012 \$'000
Total Tier 1 capital (Share capital and reserves - net of deductions)	25,804,127	19,878,053
Tier 2 (Preference shares)	367,384	367,383
Tier 3 (interim trading book profits - net of deductions)	301,805	552,008
Total capital resources	26,473,316	20,797,444

As of 31 December 2013 and 2012, the Company was adequately capitalised.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

35. Transfer of financial assets

In the course of its normal business activities, the Company 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.

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. In substance, these transactions constitute 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 Company remains exposed to interest and credit risk on these instruments which they are contractually required to repurchase at a later date. 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 19 and 20 of these financial statements.

The Company also enters into certain other transactions, whereby the assets are transferred but the transfer does 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	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Financial assets held for trading	13,123,115	9,466,317	11,997,459	8,900,267

Continuing involvement in financial assets that have been derecognised

In some cases, the Company transfers financial assets that it derecognises entirely even though it may have continuing involvement in them. This typically happens when the Company 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 Company with such SPVs (including those with such SPVs to which the Company did not transfer any financial assets) amounted to \$3.253 billion and \$189.9 million as of 31 December 2013 (\$6.284 billion and \$53 million as of 31 December 2012).

36. Related parties

In accordance with the exemption afforded by FRS 8, 'Related Party Disclosures', certain details of transactions with parent and fellow subsidiary companies that are also wholly-owned within the Group, are not disclosed as they are included in the consolidated financial statements of the Group, which are publicly available. There were no other material disclosable related party transactions during the year.

J.P. MORGAN SECURITIES PLC

Notes to the financial statements for the year ended 31 December 2013 (continued)

37 Parent undertaking

The Company's immediate parent undertaking is J P Morgan Chase International Holdings, incorporated in Great Britain

The Company's ultimate parent undertaking and controlling party is JPMorgan Chase & Co , which is incorporated in the state of Delaware in the United States of America JPMorgan Chase & Co is also the parent undertaking of the largest group in which the results of the Company are consolidated

The parent undertaking of the smallest group in which the Company's results are consolidated is J P Morgan Capital Holdings Limited, incorporated in Great Britain

The largest and smallest parent groups' consolidated financial statements can be obtained from the Company's registered office

25 Bank Street
Canary Wharf
London
E14 5JP
England

38. Post balance sheet events

On 12 March 2014, the Company paid interim dividends of \$364,722,605 on preference shares, \$6,126,536 on preferred ordinary shares and \$559,150,859 on ordinary shares of the Company

On 19 March 2014, the Group announced that it had agreed to sell certain of its physical commodities operations, including its physical oil, gas, power, warehousing facilities and transportation operations to Mercuria Energy Group Limited for approximately \$3.5 billion. The sale will include certain assets and liabilities that are currently recognised in the Company but the impact on the Company is not expected to be material. The sale is subject to normal regulatory approvals and is expected to close in the third quarter of 2014.