J.P. MORGAN SECURITIES PLC

(Registered Number: 02711006)

Annual report for the year ended 31 December 2016

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Contents	Page

J.P. MORGAN SECURITIES PLC
Strategic report

The directors present the strategic report of J.P. Morgan Securities plc (the "Company" or "JPMS plc") for the year ended 31 December 2016.

Overview

JPMS plc, a public limited company incorporated and domiciled in England and Wales, is an indirect subsidiary of JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national banking association in the United States of America ("U.S.") and a principal subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"). JPMorgan Chase is a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and is one of the largest banking institutions in the U.S. with operations worldwide. JPMS plc had $570 billion in assets and $39 billion in total shareholder's equity as of 31 December 2016.

Principal activity

The Company is a principal subsidiary of the Firm in the United Kingdom ("UK") and the European Economic Area ("EEA"). The Company engages in international investment banking activity, including activity across Markets, Investor Services and Banking lines of business. 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, swaps and other derivatives; providing brokerage and clearing services for exchange traded future and options contracts; lending related activities and providing investment banking advisory services. The Company is a member of over twenty exchanges and various clearing houses, including, among others, LCH Clearnet Limited, LME Clear, Eurex Clearing AG and ICE Clear Europe.

The Company is a UK bank and a EEA Capital Requirements Directive IV ("CRD IV") credit institution, legally defined as an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA") in the UK. It has branches in Frankfurt, Paris, Milan, Madrid, Stockholm and Zurich. It has Outward Services Passports across the EEA and Outward Branch Passports for the respective branches except Zurich.

Review of business

The directors are satisfied with the performance of the Company with core businesses performing in line with expectations. Despite mixed market conditions and an increasingly complex global environment, results for the year were strong with increased profits demonstrating the strength and depth of the Company's client franchises. The results further reflect the Company's client focus which allowed businesses to continue to provide investment opportunities to clients through its strength as a market maker, leading to continued profitable results in 2016. The markets businesses in particular performed well across most products, outperforming prior year results. Expenses remained well controlled and down on the prior year while continuing to invest for the future.

Total assets increased representing the growth in the Company's client franchises with financial assets held for trading (which includes derivatives) and associated collateral up year on year along with an increase in cash placed with central banks. The Company continued to be well capitalised and met all external capital requirements. During the fourth quarter of 2016, the Company was rated 'A+/A-1' on a standalone basis, with a stable outlook from Standard & Poor's ("S&P").

Key performance indicators ("KPIs")

The results are monitored against expectations of the business activities. The directors monitor progress on the performance of the Company using various metrics. The primary KPIs are set out below:

Financial Performance (in USD '000's except for capital ratios)	2016	2015
Income statement		
Total operating income	7,003,213	6,299,870
Profit on ordinary activities before taxation	3,987,453	3,138,234
Profit for the financial year (after tax)	3,145,644	2,674,946
Balance sheet		
Total assets	569,832,627	501,846,270
Capital ratios (unaudited)		
Common Equity Tier 1	30,133,855	28,669,495
Common Equity Tier 1 ratio ("CET 1")	15.1%	16.5%
Pillar 1 capital ratio	18.7%	20.6%
Regulatory minimum total required capital ratio*	8.0%	8.0%

* Represents minimum requirements of the European Union's Basel III Capital Requirements Directive and Regulation. The Company's total capital ratio as of 31 December 2016 and 2015 exceeded the minimum requirements, as well as the additional capital requirements in excess of the minimum as specified by the PRA.

Capital resources utilised to calculate capital ratios are inclusive of audited current year profits, less the foreseeable dividend included in the post balance sheet events note 34.

Income statement

The income statement for the year ended 31 December 2016 is set out on page 31. Total operating income was $7,003 million for 2016 (2015: $6,300 million). The results for the Company show a pre-tax profit of $3,987 million for 2016 (2015: $3,138 million).

Balance sheet

The balance sheet is set out on page 32. The Company has total assets and total liabilities of $569,833 million (2015: $501,846 million) and $530,385 million (2015: $464,460 million) respectively, as at 31 December 2016.

Capital ratios

The Company continues to maintain strong capital ratios. Refer to Risk management section on page 7 for further details.

Future outlook

The Company's outlook for the full 2017 year should be viewed against the backdrop of the global economy, financial markets activity, the geopolitical environment, the competitive environment, client activity levels and regulatory and legislative developments in the countries where the Company does business. Each of these inter-related factors will affect the performance of the Company and its lines of business ("LOB's").

On 23 June 2016, the UK voted by referendum to leave the European Union ("Brexit"). On 29 March 2017, the UK government formally invoked Article 50 of the Lisbon Treaty, giving an expected exit date of the end of March 2019. The British Prime Minister has laid out twelve "negotiation objectives" for Brexit, which confirmed the UK will not remain a member of the Single Market, but will pursue a Free Trade Agreement that provides the greatest possible access to the Single Market. Further, the UK government will seek a phased arrangement to ensure the orderly transition of the legal and regulatory framework for financial services and promote stability and market confidence.

Many international banks, including JPMorgan Chase, operate substantial parts of their European Union ("EU") businesses from entities based in the UK. Upon the UK leaving the EU, the regulatory and legal environment that would then exist, and to which the Firm's UK operations would then be subject, will depend on, in certain respects, the nature of the arrangements agreed to with the EU and other trading partners.

These arrangements cannot be predicted, but currently the Firm does not believe any of the likely identified scenarios would threaten the viability of the Firm's business units or the Firm's ability to serve clients across the EU and in the UK. However, it is possible that under some scenarios changes to the Firm's legal entity structure and operations would be required, which might result in a less efficient operating model across the Firm's European legal entities and the Company's European branches. The Firm is in the process of evaluating plans to ensure its continued ability to operate in the UK and the EU beyond the expected exit date.

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

Further, the Firm is expected to simplify the Company's ownership structure in line with the Resolution, as set out in Regulatory Developments 'Recovery and resolution' section below.

Regulatory Developments

The regulatory reform agenda has led to significant changes in the way that major financial services institutions are regulated worldwide. This collection of reforms, most notably the Basel III framework, has led to a broad restructuring of the financial services industry to both increase resiliency of financial firms and infrastructure as well as reduce the impact of a failure on the financial system. Recently implemented and new requirements 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 capital and liquidity framework as well as new rules covering over-the-counter ("OTC") derivatives markets, such as mandated exchange trading, position limits, margin, capital and registration requirements. Many of these reforms have and will continue to influence the Firm and Company.

In the EU specifically, the European Systemic Risk Board ("ESRB") has been established to monitor financial stability, together with European Supervisory Agencies which set detailed regulatory rules and encourage supervisory convergence across the 28. Member States. The EU has also created a Single Supervisory Mechanism ("SSM") for the eurozone, under which the European Central Bank ("ECB") has supervisory responsibility, together with a Single Resolution Mechanism ("SRM") and Single Resolution Board ("SRB"), having jurisdiction over bank resolution in the zone.

There is an extensive and complex program of final and proposed regulatory enhancements which reflects, in part, the EU's commitment to the G20 policy framework. As such, the EU is currently considering or executing upon significant revisions to laws covering: bank and investment firm recovery and resolution; bank structure; securities settlement; transparency and disclosure of securities financing transactions; benchmarks; resolution of market infrastructures (Central clearing counterparties ("CCP's")); anti money-laundering controls; data security and privacy; and corporate governance in financial firms, together with new amendments to capital and liquidity standards.

Regulatory Developments (continued)

Recovery and resolution

In April 2016, the Board of Governors of the Federal Reserve ("Federal Reserve") and the Federal Deposit Insurance Corporation ("FDIC") (collectively the "agencies") jointly provided firm-specific feedback on the 2015 Resolution Plans of eight systemically important U.S. domestic banking institutions and determined that five of these 2015 Resolution Plans, including that of the Firm, were not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, as provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd- Frank Act"). The agencies required that the identified shortcomings be satisfactorily addressed in the Firm's Resolution Plan due on 1 July 2017.

On 1 October 2016, the Firm filed with the agencies its 2016 Resolution Submission, describing how the Firm remediated the deficiencies and providing a status report of its actions to address the feedback received from the agencies.

The Company is considered as a material legal entity (as defined in its 2016 Resolution Submission) for the purpose of the Firms' annual Resolution Plan. The Firm has taken several steps to address the feedback including, among others, the objective to comprehensively reassess the resolvability of the UK subsidiaries, including the Company, and simplify its financial, operational, and structural interconnectedness with JPMorgan Chase affiliates.

Specifically, these actions included refinements to the Company's liquidity and capital governance frameworks, simplifying the Company's inter-entity funding relationships, development of a detailed recapitalisation strategy for the Company covering a range of scenarios, development of a comprehensive set of Legal Entity Rationalisation ("LER") criteria linked to enhance JPMS plc's resolvability, simplification of inter-entity derivative structure, and the proposed simplification of the Company's ownership structure, as set out below.

The proposed simplification would result in the elimination of certain intermediate holding entities between JPMorgan Chase Bank, N.A. and the Company. In addition, the share ownership structure of the Company would be simplified as the Company would then be wholly owned by J.P. Morgan Capital Holdings Limited. The finalisation and execution of these plans is subject to completion of legal and regulatory requirements, including receipt of all necessary regulatory approvals and final senior management and board approvals.

On 13 December 2016, the agencies advised the Firm of their determinations that the Firm's 2016 Resolution Submission adequately remediated the deficiencies in the Firm's 2015 Resolution Plan identified by the agencies. On 1 July 2017, the Firm will file with the Federal Reserve and the FDIC its 2017 Resolution Plan which will, among other things, describe how the Firm has remediated the remaining shortcomings identified by the agencies in April 2016.

Capital, Liquidity, Leverage Ratio Requirements

In October 2012, the Basel Committee published final guidelines for calculating incremental capital requirements for domestic systemically important banking institutions ("D-SIBs"). These guidelines are complementary to the framework for global systemically important banks ("G-SIBs"), but are more principles-based to allow for national discretion in their implementation.

The D-SIB guidelines have been implemented in the EU by the European Banking Authority ("EBA") through the systemic risk buffer ("SRB") and the other systemically important institution ("O-SII") buffer in CRD IV. The O-SIIs identification process started in 2015 and takes place on a yearly basis. The EU's implementation of the D-SIB guidelines grants EU member states' relevant authorities significant discretion to identify O-SIIs. The Firm's legal entities in the EU do not fall within the scope of the SRB regulations and therefore the Company will not be subject to a SRB capital buffer. The UK has chosen not to apply a capital buffer to O-SIIs and therefore the Company is not required to maintain an O-SII buffer.

Regulatory Developments (continued)

Capital, Liquidity, Leverage Ratio Requirements (continued)

The CRD IV package, as amended by the European Commission Delegated Act ("the Delegated Act"), is the EU's implementation of the Basel III capital framework. Notably, the package introduced a new leverage ratio, which compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures, securities financing transactions and commitments. On 23 November 2016, the European Commission ("EC") released its proposal for Capital Requirements Directive V ("CRD V")/ Capital Requirements Regulation 2 ("CRR 2"), which amends CRD IV legislation to accommodate several recently finalised Basel standards, including: Fundamental Review of the Trading Book ("FRTB"), Standardised Approach to Counterparty Credit Risk ("SA-CCR") and Leverage Ratio ("LR") plus a number of other amendments to the prudential framework in the EU (e.g., Large Exposure framework). The amendments to the LR now mandate a binding ratio, set at 3%, with discretion afforded to national authorities to increase this requirement if they deem necessary.

The CRD V package also includes the introduction of an intermediate holding company requirement for foreign banks and the implementation of the standard for Total Loss Absorbing Capacity ("TLAC").

The Basel Committee is considering further changes to the Basel III framework, which includes revisions to the standardised approach to credit risk and operational risk calculation methods. The changes will affect the Company and other of the Firm's EU legal entities once finalised and implemented in the EU through changes to the CRD. Note that no firm plans for implementation of these changes have been set out by the EU legislative bodies and their finalisation also remains incomplete following a delay in January 2017, so the approach and timing remains uncertain.

The Basel Committee's international framework for liquidity risk measurement, standards and monitoring requires banking organisations to measure their liquidity against two specific liquidity tests.

Total Loss Absorbing Capacity

In November 2015, the Financial Stability Board ("FSB") issued a set of final principles, and a corresponding term sheet, on a new minimum standard for TLAC of G-SIBs. TLAC is intended to facilitate the resolution of a financial institution without causing financial instability and without recourse to public funds. The FSB's final standard also requires certain material subsidiaries of a G-SIB organised outside of the G-SIB's home country, such as the Company, to maintain amounts of TLAC to facilitate the transfer of losses from operating subsidiaries to the parent company.

As of January 2016, the Bank Recovery and Resolution Directive ("BRRD") subjects institutions to a minimum requirement for own funds and eligible liabilities ("MREL"). On 8 November, the Bank of England ("BOE") and PRA published respectively their policy statement and accompanying supervisory statement on MREL thresholds and buffers. The BOE statement of policy sets out the end-state MREL levels that will apply to UK institutions by 1 January 2022. Intermediate target levels are set depending on whether the firm is a G-SIB, a D-SIB, or neither. The releases confirm that the BOE will apply a level of MREL and implementation timetable in line with the global TLAC standard. The releases do not cover specifically the levels of MREL the Firm can expect for its UK entities such as the Company. BOE is expected to consult again on internal MREL in 2017 (following an FSB publication on internal TLAC issued in December 2016).

Further, on 23 November 2016, the EC released proposals for amending the BRRD, including a proposal to amend MREL requirements to implement the global TLAC standard in the EU. Under the proposal, TLAC will be implemented as a Pillar 1 MREL requirement in line with the FSB's minimum TLAC standard. The scope is in line with the FSB Term Sheet (i.e. Global Systematically Important Insurers ("G-SIIs") only). Additionally, material subsidiaries of non-EU G-SIIs that are not themselves resolution entities will be subject to an internal TLAC requirement, set at 90% of their individual external TLAC requirement were it required.

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

Regulatory Developments (continued)

EU Market Reform

The EU has finalised the Markets in Financial Instruments Regulation and a revision of the Markets in Financial Instruments Directive (collectively, "MiFID II"). These include extensive market structure reforms, such as the establishment of a new trading venue category (organised trading facilities), creation of a derivatives trading obligation and enhanced pre- and post-trade transparency covering a wider range of financial instruments. Firms trading commodity derivatives will be required to calculate and report their positions and adhere to specific limits. Other reforms introduce enhanced transaction reporting, rules governing algorithmic and high-frequency trading, the publication of best execution data by investment firms and trading venues, investor protection-related and organisational requirements. Other requirements will affect the way investment managers can pay for the receipt of investment research. On 30 June 2016, legislation was passed to delay MiFID II for one year until January 2018. The Firm has a dedicated MiFID II programme which is focused on business specific requirements, ensuring operational readiness and consistency in implementation across the industry.

The EU and national financial legislators and regulators have proposed or adopted numerous further market reforms that may impact the company's businesses, including heightened corporate governance standards for financial institutions and rules to govern the way that indices are generated that are used as benchmarks for financial instruments or funds.

The EU has established regulatory requirements for OTC derivatives activities under the European Market Infrastructure Regulation ("EMIR"), including requirements relating to margining, mandatory clearing and reporting, which in general have already started taking effect. A global compliance timetable for margin requirements was established by the BCBS-IOSCO Working Group on Margin Requirements ("WGMR"). The EU finalised its rules for non-centrally cleared OTC derivatives in December 2016 which deviated from this schedule in implementing the first phase imposing initial and variation margin requirements for the largest global dealers. Phase 1 of the initial and variation margin rules began to apply in the EU from 4 February 2017. Implementation of industry wide variation margin rules in the EU aligned with the global schedule was due to start on 1 March 2017. However, due to readiness issues across the broader industry, global regulatory bodies which have adopted the WGMR schedule have acted to provide varying degrees of enforcement relief. On 23 February 2017, the European Supervisory Authorities ("ESAs") released a statement that all in-scope transactions entered into from 1 March 2017 remain subject to the rules and would need to be made compliant, but they expect National Competent Authorities to apply a risk-based approach to day-to-day enforcement of the rules as the market works towards full compliance. The Firm and Company is coordinating with its regulators and continues to work diligently with its clients to reach a state of industry readiness.

In addition, the EU also introduced the Securities Financing Transaction Regulation ("SFTR"), parts of which have begun to apply from 2016. The new measures include rules concerning the re-use of collateral, disclosure and record keeping as well as reporting requirements. Given the broad scope of the regulation, it is expected to affect multiple business areas, in particular the repos business, principal stock borrowed loan, agency lending and prime brokerage.

Volcker Rule

Section 619 of the Dodd-Frank Act (the "Volcker Rule") prohibits banking entities, including the Firm, from engaging in certain "proprietary trading" activities, subject to exceptions for underwriting, market-making, risk-mitigating hedging and certain other activities. In addition, the Volcker Rule limits the sponsorship of, and investment in, "covered funds" (as defined in the rule) and imposes limits on certain transactions between the Firm and its sponsored funds. The Company is subject to these provisions by virtue of being a subsidiary of the Firm.

The Volcker Rule, which became effective in July 2015, requires banking entities to establish comprehensive compliance programs reasonably designed to help ensure and monitor compliance with the restrictions under the Volcker Rule, including, in order to distinguish permissible from impermissible risk-taking activities, the measurement, record-keeping, monitoring and reporting of certain key metrics. The reporting requirements include calculating daily quantitative metrics on covered trading activities (as defined in the rule) and providing these metrics to regulators on a monthly basis. Given the uncertainty and complexity of the Volcker Rule's framework, the full impact will ultimately depend on its ongoing interpretation by the five regulatory agencies responsible for its oversight.

Of note, the EU Parliament is considering the Bank Structure Regulation, a draft regulation to implement a proprietary trading ban and impose mandatory separation of other trading activities from core banking activity. The proposed regulation is applicable only to certain banks above materiality thresholds. If the EU Parliament can agree a position on this regulation, it will proceed to a 'trialogue' process to agree a common text between the European Commission, European Council of Ministers and the EU Parliament. Various EU Member States have enacted similar structural measures, including the UK (via the Independent Commission on Banking), France and Germany.

Risk Management

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

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

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

All disclosures in the Risk management section (pages 7 - 23) are unaudited unless otherwise stated.

Risk Summary

The following table summaries the risks inherent in the Company's business activities.

Risk	Definition
Economic risks	
Capital risk	The risk that the Company has an insufficient level and composition of capital to support the Company's business activities, and associated risks during normal economic environments and stressed conditions.
Credit risk	The risk of loss arising from the default of a customer, client or counterparty.
Country risk	The risk that a sovereign event or action alters the value or terms of contractual obligations of obligors, counterparties and issuers, or adversely affects markets related to a particular country.
Liquidity risk	The risk that the Company will be unable to meet its contractual and contingent obligations or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets and liabilities.
Market risk	The risk of loss arising from potential adverse changes in the value of the Company's assets or liabilities or future results, resulting from changes in market variables such as interest rates, foreign exchange rates, equity prices, commodity prices, implied volatilities or credit spreads.
Non-U.S. dollar Foreign Exchange ("FX") risk	Non-U.S. dollar FX risk is the risk that changes in foreign exchange rates affect the value of the Company's assets or liabilities or future results.
Structural interest rate risk	The risk resulting from the Company's traditional banking activities (both on- and off balance sheet positions) arising from the extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as "non-trading activities").
Other core risks	
Compliance risk	The risk of failure to comply with applicable laws, rules and regulations.
Conduct Risk	The risk that an employee's action or inaction causes undue harm to the Company and Firm's clients and customers, damages market integrity, undermines the Company and Firm's reputation, or negatively impacts the Company and Firm's culture.
Legal risk	The risk of loss or imposition of damages, fines, penalties or other liability arising from failure to comply with a contractual obligation or to comply with laws or regulations to which the Company is subject.
Model risk	The risk of the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Operational risk	The risk of loss resulting from inadequate or failed processes or systems, human factors, or due to external events that are neither market nor credit related such as cyber and technology related events.
Reputation risk	The risk that an action, transaction, investment or event will reduce trust in the Company and the Firm's integrity or competence by our various constituents, including clients, counterparties, regulators, employees and the broader public.

Risk Management (continued)

An overview of the key aspects of risk management is provided below. A detailed description of the policies and processes adopted by the Firm may be found within the JPMorgan Chase & Co. 2016 Annual Report on Form 10-K.

Capital risk (Audited)

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

A strong capital position is essential to the Company's business strategy and competitive position. The Firm's capital management strategy focuses maintaining long-term stability to enable the Firm to build and invest in market-leading businesses, even in a highly stressed environment. Prior to making any decisions on future business activities, senior management considers the implications on the Firm's capital. Accordingly, its Capital Management Framework is designed to ensure that the Company is adequately capitalised at all times in relation to:

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

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

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

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

31 December	2016	2015
	$'000	$'000
Common Equity Tier 1 (Equity share capital and reserves)	30,133,855	28,669,495
Other Tier 1 (Preference shares and preferred ordinary shares)	3,089,899	3,607,226
Tier 2 (Preference shares and subordinated loan)	4,087,261	3,616,175
Total capital resources	**37,311,015**	**35,892,896**
Pillar 1 capital requirement (unaudited)	15,964,475	13,922,278
Excess of total capital resources over Pillar 1 capital requirements (unaudited)	21,346,540	21,970,618
Common Equity Tier 1 ratio ("CET 1") (unaudited)	15.1%	16.5%
Pillar 1 capital ratio (unaudited)	18.7%	20.6%

As of 31 December 2016 and 2015, the Company was adequately capitalised and met all external capital requirements. Capital resources utilised to calculate capital ratios are inclusive of audited current year profits, less the foreseeable dividend included in the post balance sheet events note 34. Additionally, the operational risk requirement included within the Pillar 1 Capital Requirement has been recalculated to incorporate current year net income.

Company information is included as part of the consolidated Pillar 3 disclosures of J.P. Morgan Capital Holdings Limited made available on the Firm's website in accordance with Part Eight of the European Capital Requirements Regulation. These are published on an annual basis or more frequently where the Firm has assessed a further need to do so under the guidelines (EBA/GL/2014/14) set out by the EBA. These disclosures are not subject to external audit.

(a) CRD IV implemented Basel III in the EU, and came into force on 1 January 2014.
(b) Disclosure requirement applicable from 1 January 2015 and minimum leverage requirement applicable from 1 January 2018.

Risk Management (continued)

Credit risk (Audited)

Credit risk refers to the risk of loss arising from a borrower, counterparty or obligor failing to meet its contractual obligations. In its wholesale business, the Company is exposed to credit risk through its underwriting, lending, market-making, and hedging activities with and for clients and counterparties, as well as through its operating services activities (such as cash management and clearing activities), securities financing activities, investment securities portfolio, and cash placed with banks. A portion of the loans originated or acquired by the Firm's wholesale businesses are generally retained on the balance sheet; the Company's syndicated loan business distributes a significant percentage of originations into the market and is an important component of portfolio management. The Company designates certain wholesale loans at fair value through profit or loss, refer note 28.

Governance

Credit risk is managed by the Firm on a global as well as at a Company level. The Firm 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 process of extending credit. The policies ensure that credit risks are assessed accurately, approved properly, monitored regularly and managed actively at the transaction, client and portfolio levels. In addition, the Company has its own credit risk policy, which contains standards pertaining to governance including: management of concentrations, credit risk limits and new business initiative approvals. The Company's credit risk policy is reviewed by the Board of Directors' Risk Policy Committee ("DRPC") and approved by the Board.

The Company has a designated Chief Risk Officer, who is also a member of the JPMS plc Board. Credit Executives who approve extensions of credit for the Company report to the Company's Chief Risk Officer and ultimately report to the Firm's Head of Wholesale Credit Risk. Each LOB within the Firm has its own independent credit risk management function, reporting to the Group Chief Risk Officer.

Risk identification and measurement

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

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

Risk-rated exposure

The Company holds risk-rated portfolios. For the risk-rated portfolio, credit loss estimates are based on estimates of the probability of default ("PD") and loss severity given a default.

The probability of default is the likelihood that a borrower will default on its obligation; the loss given default ("LGD") is the estimated loss on the exposure that would be realised upon the default and takes into consideration collateral and structural support for each credit facility.

The estimation process includes assigning risk ratings to each borrower and credit facility to reflect the internal view risk within the portfolio.

These risk ratings are reviewed regularly by Credit Risk Management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral.

The calculations and assumptions are based on historic experience and management judgement and are reviewed regularly.

Stress testing

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

Risk Management (continued)

Credit risk (Audited) (continued)

Risk monitoring and management

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

Wholesale credit risk is monitored regularly at an aggregate portfolio, industry and individual client and counterparty level with established concentration limits that are reviewed and revised as deemed appropriate by management, typically on an annual basis.

In addition, wrong-way risk - the risk that exposure to a counterparty is positively correlated with the impact of a default by the same counterparty, which could cause exposure to increase at the same time as the counterparty's capacity to meet its obligations is decreasing - is actively monitored as this risk could result in greater exposure at default compared with a transaction with another counterparty that does not have this risk.

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

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

Risk reporting

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

Credit Risk Exposures (Audited)

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

Risk Management (continued)

Credit Risk Exposures (Audited) (continued)

	Gross balance sheet exposure [a]	Assets captured by market risk	Master netting agreements and other	Cash & security collateral [b]	Net balance sheet exposure	*Net balance sheet exposure held with:* JPMorgan Chase undertakings	External counter parties
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2016							
Financial assets:							
Cash and balances at central banks	20,597,168	—	—	—	20,597,168	—	20,597,168
Loans and advances to banks	6,123,936	—	—	—	6,123,936	4,277,086	1,846,850
Loans and advances to customers [c]	3,100,053	—	—	(497,148)	2,602,905	—	2,602,905
Securities purchased under agreements to resell [d]	130,416,852	—	(6,449,414)	(119,614,194)	4,353,244	731,500	3,621,744
Securities borrowed [d]	25,831,106	—	(17,174,407)	(6,518,661)	2,138,038	607,801	1,530,237
Financial assets held for trading	323,045,808	(89,327,429)	(200,311,833)	(19,626,339)	13,780,207	—	13,780,207
Financial assets designated at fair value through profit or loss	315,659	(315,659)	—	—	—	—	—
Debtors	56,473,025	—	—	—	56,473,025	24,830,586	31,642,439
Accrued income	447,989	—	—	—	447,989	29,341	418,648
Total [e]	566,351,596	(89,643,088)	(223,935,654)	(146,256,342)	106,516,512	30,476,314	76,040,198

	Gross balance sheet exposure [a]	Assets captured by market risk	Master netting agreements and other	Cash & security collateral [b]	Net balance sheet exposure	Net balance sheet exposure held with: JPMorgan Chase undertakings	External counter parties
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2015							
Financial assets:							
Cash and balances at central banks	65,809	—	—	—	65,809	—	65,809
Loans and advances to banks	4,673,268	—	—	—	4,673,268	1,812,893	2,860,375
Loans and advances to customers [c]	3,292,824	—	—	(514,664)	2,778,160	—	2,778,160
Securities purchased under agreements to resell [d]	136,836,484	—	(17,313,091)	(117,377,829)	2,145,564	420,468	1,725,096
Securities borrowed [d]	15,038,887	—	(6,051,086)	(7,657,425)	1,330,376	147,031	1,183,345
Financial assets held for trading	299,607,822	(90,975,293)	(165,934,843)	(15,594,857)	27,102,829	—	27,102,829
Financial assets designated at fair value through profit or loss	125,285	(125,285)	—	—	—	—	—
Debtors	38,162,891	—	—	—	38,162,891	11,487,402	26,675,489
Accrued income	477,844	—	—	—	477,844	—	477,844
Total [e]	498,281,114	(91,100,578)	(189,299,020)	(141,144,775)	76,736,741	13,867,794	62,868,947

(a) Of the above on-balance sheet assets, $215,545 million (2015: $217,205 million) is held with other JPMorgan Chase undertakings. For further details of these amounts by line item category, refer to the notes to the financial statements.

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

(c) During 2016, the net balance sheet exposure on loans and advances to customers is presented without taking into account credit risk mitigants such as financial guarantees, prior year amounts have been adjusted to conform with current year presentation.

(d) The fair value of the security collateral in respect of securities financing transactions is, in aggregate, greater than the net amounts reported on balance sheet, and therefore, the related amounts included as cash and security collateral have been limited to the inclusion of collateral to the extent of the net amount by counterparty. During 2015, these amounts were limited to the inclusion of collateral to the extent of the net balance sheet amount in aggregate and therefore prior year amounts have been adjusted to conform with current year presentation.

(e) Off balance sheet exposure consists of lending commitments of $15,307 million (2015: $14,093 million). Refer to note 27.

Risk Management (continued)

Credit Risk Exposures (Audited) (continued)

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

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

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

Loans and advances to customers
The table below presents the Company's credit exposure and maturity profile to loans and advances to customers. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's Investors Service.

Maturity and ratings profile	**2016**	**2015**
	$'000	**$'000**
Maturity		
5 years or more	90,210	58,085
5 years or less but over 1 year	2,787,627	2,164,273
1 year or less but over 3 months	165,643	240,984
3 months or less	56,573	829,482
Total	**3,100,053**	**3,292,824**
Rating profile		
Investment grade (AAA/Aaa to BBB-/Baa3)	1,699,265	1,752,613
Sub-investment grade (BB+/Ba1 & below)	1,400,788	1,540,211
Total	**3,100,053**	**3,292,824**

There were no material past due or impaired loans and advances to customers as at 31 December 2016 (2015: nil).

Analysis of concentration credit risk

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

Credit risk concentration	**2016**	**2015**
	$'000	**$'000**
Geographic region		
United Kingdom	81,067	3,253
Other European Union	2,519,699	2,971,698
Rest of the world	499,287	317,873
Total	**3,100,053**	**3,292,824**
Industry concentration		
Commercial and industrial	1,991,138	1,462,631
Real estate	726,191	1,632,555
Financial institutions	83,154	—
Other	299,570	197,638
Total	**3,100,053**	**3,292,824**

Risk Management (continued)

Credit Risk Exposures (Audited) (continued)

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

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

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

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

Country risk

Country risk is the risk that a sovereign event or action alters the value or terms of contractual obligations of obligors, counterparties or issuers, or adversely affects markets related to a particular country. The Firm has a comprehensive country risk management framework for assessing country risks, determining risk tolerance, and measuring and monitoring direct country exposures in the Firm. The Country Risk Management group is responsible for developing guidelines and policies for managing country risk in both emerging and developed countries. The Country Risk Management group actively monitors the various portfolios giving rise to country risk to ensure the Firm and Company's country risk exposures are diversified and that exposure levels are appropriate given the Firm and Company's strategy and risk tolerance relative to a country.

Country risk governance

The Firmwide Risk Executive ("FRE"), Country Risk Management and the Country Risk Management function are responsible for the oversight of country risk across the Firm and with the LOB Chief Risk Officers ("CROs") for country risk created within LOBs. The Senior Country Officer ("SCO") designated to a particular country represents the businesses taking risk to that country and is responsible for both setting country strategy across LOB views and approving the allocation of Firmwide limits to sub-concentration limits relative to the strategy. SCOs are also required to provide acknowledgment and rationale when a Firmwide country exposure limit exceeds or is anticipated to exceed its corresponding ratings based capital limit.

The Firm's monitoring and reporting of country risk is determined by a rule-set which captures those JPMorgan Chase undertakings with exposure or stress metrics which exceed pre-defined thresholds. The majority of country risk reportable legal entities coincide with "Material Legal Entities", such as the Company, as defined by the Firmwide Recovery and Resolution Plan.

Country risk organisation

The Country Risk Management group, part of the independent risk management function, works in close partnership with other risk functions to assess and monitor country risk within the Firm. The Firmwide Risk Executive for Country Risk reports to the Firm's CRO. Country Risk Management is responsible for the following functions:

- Developing guidelines and policies consistent with a comprehensive country risk framework
- Assigning sovereign ratings and assessing country risks
- Measuring and monitoring country risk exposure and stress across the Firm
- Developing surveillance tools for early identification of potential country risk concerns
- Providing country risk scenario analysis

Risk Management (continued)

Country risk (continued)

Country risk identification and measurement

The Firm and Company is exposed to country risk through its lending and deposits, investing, and market-making activities, whether cross-border or locally funded. Country exposure includes activity with both government and private-sector entities in a country. Under the Firm's internal country risk management approach, country exposure is reported based on the country where the majority of the assets of the obligor, counterparty, issuer or guarantor are located or where the majority of its revenue is derived, which may be different than the domicile (legal residence) or country of incorporation of the obligor, counterparty, issuer or guarantor. Country exposures are generally measured by considering the Firm and Company's risk to an immediate default of the counterparty or obligor, with zero recovery. Assumptions are sometimes required in determining the measurement and allocation of country exposure, particularly in the case of certain tranched credit derivatives. Different measurement approaches or assumptions would affect the amount of reported country exposure.

Country risk measures are aggregated based on a "Country of Assets" attribute assigned to the client/counterparty/issuer or the risk position by the LOB owner of the risk. Country Risk Management maintains the Firmwide definition for Country of Assets and consults with the business as requested on designations. All risk positions, regardless of type, must have a designated Country of Assets.

Under the Firm's internal country risk measurement framework used by the Company:

- Lending exposures are measured at the total committed amount (funded and unfunded), net of the allowance for credit losses and cash and marketable securities collateral received
- Deposits are measured as the cash balances placed with central and commercial banks
- Securities financing exposures are measured at their receivable balance, net of collateral received
- Debt and equity securities are measured at the fair value of all positions, including both long and short positions
- Counterparty exposure on derivative receivables is measured at the derivative's fair value, net of the fair value of the related collateral. Counterparty exposure on derivatives can change significantly because of market movements
- Credit derivatives protection purchased and sold is reported based on the underlying reference entity and is measured at the notional amount of protection purchased or sold, net of the fair value of the recognised derivative receivable or payable. Credit derivatives protection purchased and sold in the Firm's market making activities is measured on a net basis, as such activities often result in selling and purchasing protection related to the same underlying reference entity; this reflects the manner in which the Firm manages these exposures

The Firm and Company offers a wide variety of products and services, and some activities may create contingent or indirect exposure related to a country (for example, providing clearing services or secondary exposure to collateral on securities financing receivables). These exposures are managed in the normal course of business through the Firm and Company's credit, market, and operational risk governance, rather than through Country Risk Management.

Country risk stress testing

The country risk stress framework aims to estimate losses arising from a country crisis by capturing the impact of large asset price movements in a country based on market shocks combined with counterparty specific assumptions. Country Risk Management periodically defines and runs ad hoc stress scenarios for individual countries in response to specific market events and sector performance concerns.

Country risk reporting

The Company's top three country exposures as of 31 December 2016 are the UK, France and Germany. The selection of countries is based solely on the Company's largest total exposures by country, based on the Firm's internal country risk management approach, and does not represent the Firm's view of any actual or potentially adverse credit conditions. Country exposures may fluctuate from period to period due to client activity and market flows.

Risk Management (continued)

Liquidity risk (Audited)

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

Liquidity risk oversight

The Firm has a liquidity risk oversight function whose primary objective is to provide assessment, measurement, monitoring, and control of liquidity risk across the Firm. Liquidity risk oversight is managed through a dedicated Firmwide Liquidity Risk Oversight group. The Chief Investment Office ("CIO"), Treasury, and Corporate Chief Risk Officer ("CTC CRO"), as part of the independent risk management function, has responsibility for Firmwide Liquidity Risk Oversight. Liquidity Risk Oversight's responsibilities include but are not limited to:

- Establishing and monitoring limits and indicators, including liquidity risk appetite;
- Defining, monitoring, and reporting internal Firmwide and legal entity stress tests, and monitoring and reporting regulatory defined stress testing;
- Approving or escalating for review new or updated liquidity stress assumptions;
- Defining, monitoring and reporting liquidity risk metrics that provide insight and control into liquidity risk activities;
- Monitoring and reporting liquidity positions, balance sheet variances and funding activities;
- Conducting ad hoc analysis to identify potential emerging liquidity risks.

Risk governance and measurement

Specific committees responsible for liquidity governance include the Firmwide Asset Liability Committee ("ALCO"), LOB and regional ALCOs, CTC Risk Committee; and the Company's DRPC and EMEA Risk Committee.

Internal stress testing

Liquidity stress tests are intended to ensure the Company has sufficient liquidity under a variety of adverse scenarios, including scenarios analysed as part of the Firm's resolution and recovery planning. Stress scenarios are produced for the Company on a regular basis and ad hoc stress tests are performed, as needed, in response to specific market events or concerns. Liquidity stress tests assume all of the Company's contractual obligations are met and take into consideration varying levels of access to unsecured and secured funding markets, estimated non-contractual and contingent outflows and potential impediments to the availability and transferability of liquidity between jurisdictions and material legal entities such as regulatory, legal or other restrictions. Liquidity outflow assumptions are modelled across a range of time horizons and contemplate both market and idiosyncratic stress. Results of stress tests are considered in the formulation of the Company's funding plan and assessment of its liquidity position.

Liquidity risk stress testing is established at the Firm and material legal entity ("LE") level. JPMS plc's liquidity stress testing is incorporated within the JPMorgan Chase legal entity liquidity risk framework and follows Firmwide liquidity assumptions, with additional considerations for intercompany positions and the definition of local liquid asset buffer ("Local LAB").

Liquidity management

The Company's treasury and CIO is responsible for liquidity management. The primary objectives of effective liquidity management are to ensure that the Firm's core businesses and material legal entities are able to operate in support of client needs, meet contractual and contingent obligations through normal economic cycles as well as during stress events, and to manage an optimal funding mix, and availability of liquidity sources. The Firm manages liquidity and funding using a centralised, global approach across its entities, taking into consideration both their current liquidity profile and any potential changes over time, in order to optimise liquidity sources and uses. In the context of the Firm's liquidity management, the Company's Treasury and CIO is responsible for:

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

Risk Management (continued)

Liquidity risk (Audited) (continued)

Liquidity management (continued)

The Company is regulated by the PRA and, from 1 October 2015, was expected to comply with the liquidity coverage ratio ("LCR") guidance set out in the Delegated Act (Commission delegated regulation (EU) 2015/61). The LCR is intended to measure the amount of "high quality liquid assets ("HQLA") held by the Company in relation to estimated net liquidity outflows within a 30-day calendar day stress period. The LCR was required to be 80% at 1 October 2015, rising to 90% on 1 January 2017 until reaching the 100% minimum by 1 January 2018. At 31 December 2016, the Company was compliant with the fully phased-in LCR.

The Basel Committee final standard for net stable funding ratio ("Basel NSFR") is intended to measure the "available" and "required" amounts of stable funding over a one-year horizon. On 23 November 2016, the European Commission introduced its legislative proposal for the NSFR ("EU NSFR"), amending Regulation (EU) No 575/2013. The proposal is subject to approval from the European Parliament and Council of the EU. The Company is expected to comply with the EU NSFR at a level of 100% two years after the proposed regulation comes into force. This is expected to be 1 January 2019 at the earliest.

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

Contingency funding plan

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

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 mortgage-backed securities ("MBS"), and constitute a significant portion of the federal funds purchased and securities loaned or sold under repurchase agreements. The directors believe that the Company's unsecured and secured funding capacity is sufficient to meet its on and off-balance sheet obligations.

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

	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
	2016	2016	2016	2015	2015	2015
	$'000	$'000	$'000	$'000	$'000	$'000
Securities sold under agreements to repurchase	61,127,630	529,641	61,657,271	65,194,736	327,435	65,522,171
Securities loaned	20,133,325	—	20,133,325	11,315,697	—	11,315,697
Financial liabilities held for trading	293,525,746	—	293,525,746	263,358,470	—	263,358,470
Trade creditors	29,755,510	—	29,755,510	25,486,331	—	25,486,331
Amounts owed to JPMorgan Chase undertakings	60,000,153	39,493,650	99,493,803	78,460,308	180,000	78,640,308
Other liabilities	23,844,456	—	23,844,456	17,604,645	—	17,604,645
	488,386,820	40,023,291	528,410,111	461,420,187	507,435	461,927,622

The majority of short term funding transactions by way of repurchase agreements and stock lending have short-dated maturities, typically less than one month. The Company has reclassified repurchase agreements of $327 million relating to prior year as 'more than 1 year'. Trade creditors predominantly includes unsettled trades and other liabilities includes cash collateral received. Both have short-dated maturities. Financial liabilities held for trading primarily include derivatives and short positions and are ordinarily classified as liabilities falling due within one year for the purpose of disclosure under IFRS 7 'Financial Instruments: Disclosures'.

Until September 2016, the Company had entered into revolving committed liquidity facilities with other JPMorgan Chase undertakings to help manage liquidity risk. The facilities were terminated in September 2016 and replaced with the issuance of notes amounting to $39,494 million as at 31 December 2016.

Risk Management (continued)

Market risk (Audited)

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

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

Market risk management

The Firmwide Risk Executive of Market Risk and LOB Chief Risk Officers are responsible for managing Firmwide market risk. The LOB Market Risk functions are responsible for establishing methodologies and procedures to identify, measure, monitor and control market risk, using information provided by the Firm's risk infrastructure. The Company's Market Risk Officer and Chief Risk Officer are responsible for application of these processes to the Company. The Company's Market Risk Officer is supported by the UK Regulated Legal Entities Market Risk team, which is part of the Firm's Market Risk function, in the application of these processes to the Company, on a day-to-day basis.

The Market Risk Management, as part of the independent risk management function, is responsible for identifying and monitoring market risks throughout the Firm and defines market risk policies and procedures. The Market Risk function reports to the Firm'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 Firm and the Company''s market risk profile for senior management, the Board of Directors and regulators. Market Risk is responsible for the following functions:

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

Risk identification and classification

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

Risk measurement

As no single measure can reflect all aspects of market risk, the Company uses various metrics including, but not limited to, Value-at risk ("VaR"), Stress testing, Non-statistical measures, Risk Identification For Large Exposures ("RIFLEs"), Profit & Loss ("P&L") Drawdowns and Single Name Position Risk ("SNPR"). The appropriate set of risk measurements for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors.

VaR

VaR is a statistical risk measure that gauges the potential loss from adverse market moves in a normal market environment. VaR is computed using historical simulation covering the most recent 12 month period, and accounts for diversification by maintaining a cross-business risk profile.

The Firm has an overarching VaR model framework which is used for risk management and disclosure purposes Firmwide and utilises historical simulation based on data for the previous twelve months. Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level.

Risk Management (continued)

Market risk (Audited) (continued)

Stress testing

Stress testing captures exposure to unlikely but plausible events in abnormal markets pertinent to the Company's risks. This measure is designed to create simple or complex scenarios specifying detailed shocks of up to six magnitudes (small, large, severe, positive and negative). The Company runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices. 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 to enable them to manage their risks with more transparency.

Non-statistical risk measures

Business risk measures within specific market context (including net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover), aggregated by business unit and risk type.

RIFLEs

RIFLEs are the identification of potential losses arising from low-probability, but plausible and material, idiosyncratic risks not well captured by other risk measures, such as VaR and Stress testing. Responsibility for identifying and maintaining RIFLEs rests with the LOB.

P&L Drawdowns

P&L Drawdowns, whether Maximum Drawdown or Current Drawdown, and Loss Advisories are metrics to advise senior management of potential out-sized losses and to initiate discussion of remedies (e.g. reduction of exposure).

SNPR

SNPR captures the market risk impact of the exposure to credit families and entities within credit families, such as the Firm and its subsidiaries, or standalone issuers/issuer families not part of credit families, assuming default of the issuer with zero recovery.

Risk monitoring and control

Market risk limits are employed as the primary second line of defence control for ensuring that the Company's market risk activities are aligned with certain quantitative parameters with the Company's Risk Appetite framework. The Company's Chief Risk Officer and Market Risk Officer establish the Company level limits. Business heads and Market Risk are signatories to the limits. Limit utilisations and valid breaches are reported daily.

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

	2016			2015			At 31 December	
	Avg.	**Min**	**Max [(a)]**	**Avg.**	**Min**	**Max**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
95 % VaR	18,958	14,675	45,782	15,937	12,887	22,937	17,826	14,966

(a) Maximum VaR ($45.8 million) for 2016 was driven by a transaction booked within JPMS plc with offsetting risk booked in another JPMorgan Chase legal entity resulting in overall zero net risk across the Firm. Subsequently, JPMS plc booked an inter-entity hedge to bring JPMS plc's VaR back to normal utilisation levels.

The Company's market risk profile is net long risk across fixed income assets, commodities and local currency/short U.S. dollar foreign exchange markets, with short risk positions within equity markets. Fixed income positions drive the risk and these are generally held in cash securities across developed, emerging and securitised products markets. Out of the eleven macro stress scenarios that the Company is subject to, the worst case stress loss during 2016 was primarily driven by the Credit Crisis scenario which models the extent and severity across a broad range of asset classes observed in the 2008 financial crisis.

Risk Management (continued)

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

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

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

Structural interest rate risk

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

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

Governance and oversight

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

- Reviews the IRR Management policy;
- Reviews the IRR profile of the Firm and compliance with IRR limits; and
- Reviews significant changes to IRR models and/or model assumptions.

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

The CTC RC also governs the IRR Management Group; an independent dedicated risk group within CTC and reports into the CTC Chief Risk Officer. IRR Management is responsible for, but not limited to, the following:

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

Risk Identification and Measurement

CIO manages IRRBB exposure on behalf of the Firm and Company by identifying, measuring, modelling and monitoring IRR across the Firm's balance sheet. CIO identifies and understands material balance sheet impacts of new initiatives and products and executes market transactions to manage IRR through CIO investment portfolio's positions. Execution by CIO will be based on parameters established by senior management, per the CIO Investment Policy. In certain legal entities, such as the Company, Treasury manages IRR in partnership with CIO. Lines of businesses are responsible for developing and reviewing specific LOB IRR modelling assumptions.

Measures to manage IRR include:

- Earnings-at-risk: Primary measure used to gauge the Firm's shorter term IRR exposure which measures the sensitivity of pre-tax income to changes in interest rates over a rolling 12 months compared to base scenario (Level 1 Market Risk limit applied); and
- Economic Value Sensitivity ("EVS"): An additional Firmwide metric utilised to determine changes in asset/liability values due to changes in interest rates.

Risk Management (continued)

Compliance risk

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

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

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

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

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

Governance and oversight

Compliance is led by the Firms' Chief Compliance Officer ("CCO") who reports, effective September 2016, to the Firm's CRO. The regional CCOs, including the EMEA CCO, are part of this structure.

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

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

Conduct risk

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

Overview

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

Governance and oversight

The Compensation & Management Development Committee ("CMDC") is the primary Board-level Committee that oversees the Firm's culture and conduct programs. The Firms Audit Committee has responsibility to review the program established by management that monitors compliance with the Code. Additionally, the DRPC reviews, at least annually, the Firm's qualitative factors included in the Risk Appetite Framework, including conduct risk. The DRPC also meets annually with the CMDC to review and discuss aspects of the Firm's compensation practices.

Risk Management (continued)

Conduct risk (continued)

Governance and oversight (continued)

Conduct risk appetite is expressed through qualitative factors in the Firmwide Risk Appetite framework. Management does not tolerate individual employee misconduct. In managing conduct risk, the Firm acknowledges that there may be some incidents of misconduct given its global business model and distributed workforce. The Firm employs appropriate governance processes, including a Conduct Risk Framework to identify, monitor, report, escalate and manage conduct risk overall.

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

Risk management

Conduct risk management is incorporated into various aspects of people management practices throughout the employee life cycle, including recruiting, onboarding, training and development, performance management, promotion and compensation processes. The Firm's Conduct Risk framework, which has been reviewed by the Firmwide Risk Committee ("FRC") and the DRPC, provides for on-going monitoring and oversight of conduct risks. Businesses undertake annual Risk and Control Self-Assessment ("RCSA"); and, as part of these RCSA reviews, they identify their respective key inherent operational risks (including conduct risks), evaluate the design and effectiveness of their controls, identify control gaps and develop associated action plans.

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

The Company's approach mirrors the Firmwide approach.

Legal risk

Legal risk is the risk of loss or imposition of damages, fines, penalties or other liability arising from the failure to comply with a contractual obligation or to comply with laws, rules or regulations to which the Company is subject.

Overview

In addition to providing legal services and advice to the Firm and Company, and communicating and helping the lines of business adjust to the legal and regulatory changes they face, including the heightened scrutiny and expectations of the Company and Firm's regulators, the global Legal function is responsible for working with the businesses and corporate functions to fully understand and assess their adherence to laws, rules and regulations. In particular, Legal assists Oversight & Control, Risk, Finance, Compliance and Internal Audit in their efforts to ensure compliance with all applicable laws and regulations and the Firm's corporate standards for doing business. The Firm's lawyers also advise the Firm and Company on potential legal exposures on key litigation and transactional matters, and perform a significant defence and advocacy role by defending the Firm and Company against claims and potential claims and, when needed, pursuing claims against others. In addition, they advise the Firm's Conflicts Office which reviews wholesale transactions that may have the potential to create conflicts of interest.

Governance and oversight

The Firm's General Counsel reports to the JPMorgan Chase Chief Executive Officer ("CEO") and is a member of the Operating Committee, the Firmwide Risk Committee and the Firmwide Control Committee. The General Counsel's leadership team includes a General Counsel for each of the Firm's LOB's, the heads of the Litigation and Corporate & Regulatory practices, as well as the Firm's Corporate Secretary. Each region (e.g., Latin America, Asia Pacific) has a General Counsel who is responsible for managing legal risk across all lines of business and functions in the region.

Legal works with various committees (including new business initiative and reputation risk committees) and the Firm and Company's businesses to protect the Firm and Company's reputation beyond any particular legal requirements.

Risk Management (continued)

Model risk management

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

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

Risk management

The Model Risk function reviews and approves a wide range of models, including risk management, valuation, and regulatory capital models used by the Firm. The Model Risk function is independent of model users and developers. The Firmwide Model Risk Executive reports to the Firm's CRO.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market-nor credit-related.

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

Risk management

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

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

Cybersecurity risk

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

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

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

Reputation risk

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

Risk Management (continued)

Reputation risk (continued)

Risk management

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

Critical accounting estimates

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

Key corporate events

Key corporate events of 2016 included:

- On 30 March 2016, the Company received an ordinary dividend of $600 million from its wholly owned subsidiary, J.P. Morgan Europe Limited;
- On 14 April 2016, the Company paid interim dividends of $358 million on preference shares, $5 million on preferred ordinary shares and $687 million on ordinary shares of the Company.

Corporate employee policy

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

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

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

JPMorgan Chase Bank, N.A. operates an employee share scheme for all employees of JPMorgan Chase & Co. and its subsidiaries, to acquire a proprietary and vested interest in the growth and performance of the Firm.

On behalf of the Board

Daniel Pinto
Chief Executive Officer
24 April 2017
London

J.P. MORGAN SECURITIES PLC
Directors' report

The directors present their report and the audited financial statements of J.P. Morgan Securities plc for the year ended 31 December 2016. The Company is part of JPMorgan Chase & Co. group (together with its subsidiaries, "JPMorgan Chase" or the "Firm"). The registered number of the Company is 02711006.

Results and dividends

The results for the year are set out on page 31 and show the Company's profit for the financial year after taxation is $3,146 million (2015: $2,675 million).

On 14 April 2016, the Company paid interim dividends of $358 million on preference shares (2015: $358 million), $5 million on preferred ordinary shares (2015: $5 million) and $687 million on the ordinary shares of the Company (2015: $517 million).

No final dividend was paid or proposed for 2016 (2015: nil).

Financial risk management

Please refer to the Strategic Report for details on financial risk management.

Post balance sheet events

On 19 April 2017, the Board approved interim dividends of $359 million on preference shares and $7 million on preferred ordinary shares of the Company.

Branches

The Company continues to operate a number of overseas European Union ("EU") branches.

Other matters

HM Treasury adopted the requirements set out under Capital Requirements Directive IV ("CRD IV") and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires the Company to publish additional information, in respect of the year ended 31 December 2016, by 31 December 2017. This information will be available at the time on the JPMorgan Chase website: http://investor.shareholder.com/jpmorganchase.

Refer to the Strategic report for future outlook and corporate employee policy.

Directors

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

Sir Winfried Bischoff	Chairman & Non-Executive Director
Laban Jackson	Non-Executive Director
Scott Moeller	Non-Executive Director
Jane Moran	Non-Executive Director
Monique Shivanandan	Non-Executive Director
Andrew Cox	Director & Chief Risk Officer
Mark Garvin	Director
Elena Korablina	Director & Chief Financial Officer
Julia Meazzo	Director
Daniel Pinto	Chief Executive Officer
Viswas Raghavan	Director (appointed 26 September 2016)
Timothy Throsby	Director (resigned 5 September 2016)

Directors' interests

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Accounting Standards, comprising FRS101 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 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 against liabilities and associated costs which they could incur in the course of their duties to the Company. The indemnity was in force during the financial year and also at the date of approval of the financial statements and a copy of the by-laws of JPMorgan Chase & Co. is kept at the registered office of the Company.

Company secretary

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

Mary Vance

J.P. Morgan Secretaries (UK) Limited

Registered address

25 Bank Street
Canary Wharf
London
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.

On behalf of the Board

Sir Winfried Bischoff
Chairman and Non Executive Director

Daniel Pinto
Chief Executive Officer

London

24 April 2017

J.P. MORGAN SECURITIES PLC
Governance report

The Board is committed to promoting high standards of governance to ensure that it meets its strategic objectives whilst supporting the overall strategy and culture of its ultimate shareholder, JPMorgan Chase & Co. Whilst the Company is not required to comply with the UK Corporate Governance Code it looks to follow its principles of good governance where appropriate.

Board composition and changes

The Board comprises eleven directors, five of whom are independent non-executive directors. The directors bring to the Board a wide range of experience, skills and diversity.

There has been some change to the composition of the Board during the year with the resignation of Mr Timothy Throsby in September 2016, and the appointment of Mr Viswas Raghavan as Executive Director. Mr Raghavan brings to the Board his considerable Investment Banking experience.

The current directors of the Board are:

Sir Winfried Bischoff	Independent Non-Executive Chairman of J.P. Morgan Securities plc, of its Nomination Committee and member of its Directors' Risk Policy Committee. Chairman of the UK Financial Reporting Council and Director of S&P Global Inc.
Laban Jackson	Independent Non-Executive Director and Chairman of the UK Audit and Compliance Committee. Director of JPMorgan Chase & Co. and member of the JPMorgan Chase & Co. Audit Committee. Chairman of Clear Creek Properties Inc.
Scott Moeller	Independent Non-Executive Director and Chairman of the Directors' Risk Policy Committee. Member of the Nomination Committee. Director, M&A Research Centre, Cass Business School
Jane Moran	Independent Non-Executive Director and member of the Nomination Committee and UK Audit and Compliance Committee. Chief Information Officer, Unilever plc
Monique Shivanandan	Independent Non-Executive Director and member of the Directors' Risk Policy Committee and UK Audit and Compliance Committee. Group Chief Information Officer, Aviva plc
Daniel Pinto	Director and Chief Executive Officer. Chief Executive Officer, EMEA and Chief Executive Officer of Corporate and Investment Bank
Andrew Cox	Director, Chief Risk Officer and Head of Credit Risk, EMEA
Mark Garvin	Director and Vice Chairman for Corporate and Investment Bank, EMEA
Elena Korablina	Director and Chief Financial Officer, EMEA
Julia Meazzo	Director and Head of Human Resources, EMEA
Viswas Raghavan	Director and Deputy Chief Executive Officer, EMEA and Head of EMEA Banking *(Appointed 26 September 2016)*

Diversity

The Board remains committed to maintaining a diverse composition and to meeting the Company's voluntary target of 30% female representation on the Board. The current ratio of women directors on the Board is 36%.

Board and committee structure

The Board is responsible for overseeing management's implementation of the Company's strategic objectives, governance framework and corporate culture. It maintains a schedule of matters reserved for the Board's attention.

The Board is supported in its work by three Board Committees, whose remit is delegated by the Board and described further below: the Directors' Risk Policy Committee, the UK Audit and Compliance Committee and the Nomination Committee.

- **J.P. Morgan Securities plc Directors' Risk Policy Committee ("JPMS plc DRPC")** - The JPMS plc DRPC membership is made up of independent non-executive directors only and is chaired by Mr Scott Moeller. The committee meets at least four times a year (in 2016, five times). Its purpose, delegated by the Board, is to challenge and contribute to the development of the Company's risk strategy and review any significant risk decisions taken for alignment to the risk appetite of the Company. The committee's responsibilities include oversight of management's exercise of its responsibility to assess and manage: the Company's key risks; an effective system of controls to evaluate and control such risks; and capital and liquidity planning and analysis.

Board and committee structure (continued)

- **UK Audit and Compliance Committee** - The UK Audit and Compliance Committee's membership is made up of independent non-executive directors of the Company only and is chaired by Mr Laban Jackson. The committee meets at least four times a year (in 2016, five times). Its purpose, delegated by the Board, is to oversee the integrity of the financial statements, monitor and review internal financial controls, the effectiveness of the internal audit function and make recommendations with respect to the appointment, appraisal and independence of the external auditor of the Company. The Company's auditors attend the committee meetings to report on the status of their audit and any findings. This enables the committee to monitor the effectiveness of the auditors during the year.

- **J.P. Morgan Securities plc Nomination Committee** - The committee is made up of independent non-executives only and is chaired by Sir Winfried Bischoff. The committee meets at least two times a year (in 2016, twice). Its purpose, delegated by the Board, is to lead the process for Board appointments and to identify and nominate candidates to the Board, having considered the skills, knowledge, experience and diversity of the Board. It is also responsible for succession planning.

The Chair of each committee periodically reports to the Board escalating significant items, as appropriate.

Work of the Board and Committees

During the year, the Board and its committees carried out the following activities:

- Following feedback from the 2015 Board Effectiveness Review enhancements were considered and implemented. As a result, more comprehensive induction programmes have been developed for new directors and further training has been provided for existing directors to enable their continuing professional development; Board materials have been improved to facilitate focus and better support decision-making; and greater emphasis has been given in Board presentations to emerging themes and risk.

- How We Do Business - The Board continued to oversee the culture of the Company and to support the business in embedding conduct and culture. The sustainability of the Conduct Risk Framework and the use of conduct metrics as a measurement of conduct have been a key focus during the year.

- Following the success of the previous Strategy Day, the Board met in September to focus in detail on the strategy and business model of the Company. Directors were able to actively engage with the business on their plans, particularly in light of economic uncertainty and "Brexit", and to support the business model.

- "Executive Sessions" continued to be held to provide opportunity for the independent non-executive directors to meet outside the formal Board meetings with the Chief Executive Officer, without the presence of the executive directors.

- Board dinners were held during the year providing informal settings for the directors to meet select senior management and to discuss key current issues.

- Succession planning has been a key focus during the year at both the Board and the Nomination Committee and the Board received an update on the process for appointing senior management at its Strategy Day. The Nomination Committee has a key role in considering the succession planning for executive directors and during the year, on the recommendation of the Nomination Committee, Mr Viswas Raghavan was appointed an executive director of the Company.

Board Effectiveness Review

Board effectiveness reviews are conducted annually. For 2016, following a search led by the Nomination Committee, the effectiveness review has been carried out by an independent external firm. The results of the review will be provided to and reviewed by the Board during the first half of 2017.

Sir Winfried Bischoff

24 April 2017

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

Report on the financial statements

Our opinion

In our opinion J.P. Morgan Securities plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows 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.

What we have audited

The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2016;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

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.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Paolo Taurae (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

24 April 2017

J.P. MORGAN SECURITIES PLC
Income statement

Year ended 31 December	Notes	2016 $'000	2015 $'000
Interest and similar income	7	1,930,673	1,927,039
Interest expense and similar charges	7	(1,339,091)	(1,372,400)
Net interest income	7	**591,582**	**554,639**
Fee and commission income		2,516,922	2,593,499
Fee and commission expense	8	(848,261)	(736,165)
Trading profit		4,142,970	3,387,897
Dividend income		600,000	500,000
Total operating income		**7,003,213**	**6,299,870**
Administrative expenses		(2,897,111)	(3,160,833)
Impairment charge	20	(117,359)	—
Depreciation		(1,290)	(803)
Profit on ordinary activities before taxation	10	**3,987,453**	**3,138,234**
Tax on profit on ordinary activities	11	(841,809)	(463,288)
Profit for the financial year		**3,145,644**	**2,674,946**

The profit for the year resulted from continuing operations.

Statement of comprehensive income

Year ended 31 December	Notes	2016 $'000	2015 $'000
Profit for the financial year		**3,145,644**	**2,674,946**
Other comprehensive income: items that will not be reclassified to profit or loss			
Actuarial (loss)/gain on pension schemes	30	(74,362)	20,166
Tax effect of movement in pension reserve	12	18,908	(270)
Total comprehensive income for the year		**3,090,190**	**2,694,842**

The notes on pages 35 - 72 form an integral part of these financial statements.

J.P. MORGAN SECURITIES PLC
Balance sheet

31 December	Notes	2016 $'000	2015 $'000
Assets			
Cash and balances at central banks		20,597,168	65,809
Loans and advances to banks	13	6,123,936	4,673,268
Loans and advances to customers	14	3,100,053	3,292,824
Securities purchased under agreements to resell	15	130,416,852	136,836,484
Securities borrowed	15	25,831,106	15,038,887
Financial assets held for trading	16	323,045,808	299,607,822
Financial assets designated at fair value through profit or loss	17	315,659	125,285
Debtors	18	56,473,025	38,162,891
Other assets	19	584,231	582,074
Investments in JPMorgan Chase undertakings	20	3,341,207	3,458,789
Tangible fixed assets		3,582	2,137
Total assets		**569,832,627**	**501,846,270**
Liabilities			
Securities sold under agreements to repurchase	15	61,657,271	65,522,171
Securities loaned	15	20,133,325	11,315,697
Financial liabilities held for trading	22	293,525,746	263,358,470
Trade creditors	23	29,755,510	25,486,331
Amounts owed to JPMorgan Chase undertakings		99,493,803	78,640,308
Other liabilities	23	25,819,149	20,137,485
Total liabilities		**530,384,804**	**464,460,462**
Equity			
Called-up share capital	24	17,546,050	17,546,050
Share premium account		9,950,724	9,950,724
Other reserves		1,797,872	1,831,501
Retained earnings		10,153,177	8,057,533
Total equity		**39,447,823**	**37,385,808**
Total liabilities and equity funds		**569,832,627**	**501,846,270**

Approved and authorised for issue by the Board of Directors on 19 April 2017 and signed on its behalf by:

Sir Winfried Bischoff
Chairman & Non-Executive Director

Daniel Pinto
Chief Executive Officer & Director

24 April 2017

The notes on pages 35 - 72 form an integral part of these financial statements.

J.P. MORGAN SECURITIES PLC
Statement of changes in equity

	Note	Called-up share capital	Share premium account	Capital contribution reserve	Pension reserve	Other reserves	Retained earnings	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 January 2015		**16,884,410**	**8,117,257**	**1,583,800**	**(10,021)**	**221,404**	**6,262,587**	**33,059,437**
Profit for the financial year		—	—	—	—	—	2,674,946	**2,674,946**
Other comprehensive income for the year:								
Actuarial gain on pension schemes	30	—	—	—	20,166	—	—	**20,166**
Tax effect on movement in pension reserve		—	—	—	(270)	—	—	**(270)**
Total comprehensive income for the year		**—**	**—**	**—**	**19,896**	**—**	**2,674,946**	**2,694,842**
Issuance of shares [a]	24	661,640	1,833,467	—	—	—	—	**2,495,107**
Capital contribution	20	—	—	4,815	—	—	—	**4,815**
Dividends paid	25	—	—	—	—	—	(880,000)	**(880,000)**
Movement in other reserves [a][b]		—	—	—	—	11,607	—	**11,607**
Balance as at 31 December 2015		**17,546,050**	**9,950,724**	**1,588,615**	**9,875**	**233,011**	**8,057,533**	**37,385,808**
Profit for the financial year		—	—	—	—	—	3,145,644	**3,145,644**
Other comprehensive income for the year:								
Actuarial loss on pension schemes	30	—	—	—	(74,362)	—	—	**(74,362)**
Tax effect on movement in pension reserve		—	—	—	18,908	—	—	**18,908**
Total comprehensive income for the year		**—**	**—**	**—**	**(55,454)**	**—**	**3,145,644**	**3,090,190**
Dividends paid	25	—	—	—	—	—	(1,050,000)	**(1,050,000)**
Tax effect on share based payment awards		—	—	—	—	17,677	—	**17,677**
Movement in other reserves		—	—	—	—	4,148	—	**4,148**
Balance as at 31 December 2016		**17,546,050**	**9,950,724**	**1,588,615**	**(45,579)**	**254,836**	**10,153,177**	**39,447,823**

(a) Amount includes $4 million reclassification from share premium account to other reserves to better reflect the substance of the balance.

(b) An amount of $3 million of current and deferred tax was credited to other reserves in 2015.

The notes on pages 35 - 72 form an integral part of these financial statements.

J.P. MORGAN SECURITIES PLC
Statement of cash flows

Year ended 31 December	Notes	**2016** **$'000**	2015 $'000
Cash flows from operating activities			
Cash generated from/(used in) operations	26	**3,464,344**	**(5,479,384)**
Income taxes paid		(339,504)	(128,673)
Net cash generated from/(used in) operating activities		**3,124,840**	**(5,608,057)**
Cash flow used in investing activities			
Purchase and disposals of tangible fixed assets		(2,735)	(715)
Disposal/(acquisition) of investments in JPMorgan Chase undertakings		517	(223)
Net cash used in investing activities		**(2,218)**	**(938)**
Cash flow from financing activities			
Capital contribution	20	—	4,815
Issuance of share capital	24	—	2,495,107
Amounts owed to JPMorgan Chase undertakings		20,853,495	3,255,692
Dividends paid	25	(1,050,000)	(880,000)
Net cash generated from financing activities		**19,803,495**	**4,875,614**
Net increase/(decrease) in cash and cash equivalents		**22,926,117**	**(733,381)**
Cash and cash equivalents at the beginning of the year		4,739,077	5,459,050
Exchange (losses)/gains on cash and cash equivalents		(944,090)	13,408
Cash and cash equivalents at the end of the year		**26,721,104**	**4,739,077**
Cash and cash equivalents consist of:			
Cash and balances at central banks		20,597,168	65,809
Loans and advances to banks, due within three months or less		6,123,936	4,673,268
Cash and cash equivalents		**26,721,104**	**4,739,077**

The notes on pages 35 - 72 form an integral part of these financial statements.

1. General information

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

2. Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101"). FRS 101 applies the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union, with reduced disclosures.

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of certain financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. Reclassification of and adjustments to prior year amounts have been made to conform with current year presentations and to provide additional transparency and information on the nature of the balances in these financial statements.

The following exemptions from the requirements of IFRS as adopted by the EU have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Certain share based payment disclosures in respect of Firm equity instruments (IFRS 2 'Share-based payment' paragraphs 45(b) and 46 to 52);
- Comparative information disclosures for the following (paragraph 38 of IAS 1 'Presentation of financial statements' ("IAS 1"):
  - reconciliation of share capital (paragraph 79(a)(iv) of IAS 1);
  - reconciliation of property, plant and equipment (paragraph 73(e) of IAS 16 'Property, plant and equipment');
  - reconciliation of intangible assets (paragraph 118(e) of IAS 38 'Intangible assets');
- Statement of compliance to IFRSs - Paragraph 16, IAS 1;
- Third balance sheet on retrospective accounting policy changes, restatements, or reclassifications (paragraph 40A-D, IAS 1);
- Disclosures in relation to new or revised standards issued but not yet effective (paragraph 30 and 31, IAS 8, 'Accounting policies, changes in accounting estimates and errors');
- Key management compensation disclosures (paragraph 17, IAS 24 'Related Party Disclosures' ("IAS 24")); and
- Related party transactions with wholly owned Firm undertakings (IAS 24).

3. Accounting and reporting developments

New standards, amendments and interpretations not yet adopted

IFRS 9 'Financial instruments' ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") in July 2014. The standard includes a new model for classification and measurement of financial assets and a single, forward-looking 'expected loss' impairment model. The standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' ("IAS 39") and carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. The Company is currently assessing and quantifying the impact of IFRS 9 on the financial statements.

IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") was issued by the IASB in May 2014 for retrospective application in annual periods beginning on or after 1 January 2018. IFRS 15 establishes a framework for determining whether, how much and when revenue from contracts with customers is recognised. It replaces existing revenue recognition guidance, including IAS 18 'Revenue'. The Company is currently assessing and quantifying the impact of IFRS 15 on the financial statements.

4. Critical accounting estimates and judgements

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

Fair value measurement

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

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

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

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

Defined benefit plans

The present value of the defined benefit obligation depends on various factors that are determined on an actuarial basis using a number of assumptions. This involves making assumptions about discount rates, future salary increases, price inflation and future pension increases. Substantial changes in these assumptions affect the amount of the recognised defined benefit obligation. For further details, see note 30.

5. Significant accounting policies

The following are principal accounting policies applied in the preparation of these financial statements. These policies have been applied consistently to all the years presented, unless otherwise stated.

5.1 Consolidation

The Company is a subsidiary undertaking of J.P. Morgan Capital Holdings Limited, a company incorporated in England and Wales and of its ultimate parent, JPMorgan Chase & Co. a company incorporated in the United States of America. It is included in the consolidated financial statements of JPMorgan Chase & Co. which are publicly available. Therefore, the Company has elected not to prepare group financial statements in accordance with the dispensation set out in Section 401 of the Companies Act 2006.

5.2 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into United States ("U.S.") dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the date of the transactions. Any gains or losses arising on translation are taken directly to the income statement.

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

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

5.3 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Taking into account the cash flows, the financing structure, including U.S. dollar equity and inter-entity financing arrangements with JPMorgan Chase Bank N.A., U.S. dollar is considered as the functional and presentation currency of the Company.

5.4 Income and expense recognition

Interest income and expense are recognised on an effective interest rate basis. 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.

Fees and commissions are recognised when the underlying contract becomes legally binding or at the agreed due date if later. Investment banking fees (including advisory and underwriting fees) are recognised on an accrual basis and recorded in the income statement in the period earned provided they are receivable under the terms of the contract and collectability is reasonably assured.

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

5.5 Dividend recognition

Dividend income is recognised when the right to receive payment is established. Dividends of assets or shares in subsidiaries are recognised at the fair value of the consideration received by the transferee and at book value by the transferor. Where the consideration received is an investment in share capital of an entity, the fair value is determined by the market value of the underlying net assets and businesses of the investee.

Dividends in kind undertaken to put the transferring entity into liquidation will be recognised at book value by both the transferee and transferor. Such dividends are recognised in other comprehensive income.

Where shares received are illiquid or unlisted and are not readily convertible to cash, the dividends are recognised in other comprehensive income.

Dividend distributions are recognised in the period in which they are declared and approved.

5. Significant accounting policies (continued)

5.6 Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities in the following categories on initial recognition: financial assets and financial liabilities held for trading, financial assets and financial liabilities designated at fair value through profit or loss, and loans and receivables and financial liabilities held at amortised cost. The Company recognises derivatives on its balance sheet when it becomes a party to the contractual provisions of the instruments. Loans and receivables and financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are also recognised on the trade-date, the date on which the Company commits to purchase or sell the asset.

i. Financial assets and financial liabilities held for trading

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

Financial assets and financial liabilities held for trading comprise both debt and equity securities, loans and derivatives. These instruments are either held for trading purposes or used for hedging certain assets, liabilities, positions, cash flows or anticipated transactions. Included in financial assets held for trading are unrealised trading gains and in financial liabilities held for trading are unrealised trading losses 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 income statement. Subsequently, they are measured at fair value with movement included in trading profit and loss.

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.

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

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

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

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

iii. Loans and receivables and financial liabilities at amortised cost

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 at 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, less any provision for impairment losses. Interest is recognised in the income statement as 'Interest and similar income' using the effective interest rate method.

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

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

5. Significant accounting policies (continued)

5.7 Fair value

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

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

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

The Company classifies its assets and liabilities according to a hierarchy that has been established under IFRS for disclosure of fair value measurements. The fair value hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3 inputs).

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

Further details on fair value measurements are provided in note 28 to the financial statements.

5.8 Derecognition of financial assets and financial liabilities

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

a) the Company has transferred substantially all the risks and rewards of ownership of the asset; or
b) the Company has neither retained nor transferred substantially all of the risks and rewards; but has relinquished control of the asset.

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

The Company also from time to time enters into certain 'pass-through' arrangements whereby contractual cash flows on a financial asset are passed to a third party. Such financial assets are derecognised from the balance sheet if the terms of the arrangement oblige the Company to only pass on contractual cash flows to the third party that are actually received without material delay, and where the terms of the arrangement also prohibit the Company from selling or pledging the underlying financial asset.

5.9 Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or 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 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.

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

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

5. Significant accounting policies (continued)

5.9 Impairment of financial assets (continued)

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

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

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

5.10 Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

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

5.12 Securities borrowed and securities loaned transactions

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

5.13 Offsetting financial assets and liabilities

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

5.14 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 the income statement when based on unobservable inputs.

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

5. Significant accounting policies (continued)

5.15 Investments in JPMorgan Chase undertakings

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

5.16 Business combinations

i. Combination of businesses

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

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

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

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

ii. Combination of businesses under common control

Predecessor accounting is applied to transfers of businesses between entities under common control, where all combining entities are controlled by the same entity before and after the business acquisition. Assets and liabilities are recognised at their predecessor carrying amounts (i.e. the carrying amounts of assets and liabilities in the books and records of the transferor prior to the transfer) with no fair value adjustments. Any difference between the cost of acquisition and aggregate book value of the assets and liabilities on the date of transfer of the acquired entity is recognised as an adjustment to equity. As a result, no goodwill is recognised by the business combination.

5.17 Cash and cash equivalents

Cash and cash equivalents include cash and balances at central banks and loans and advances to banks with maturities of three months or less.

5.18 Current and deferred income tax

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

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

5.19 Provisions and contingent liabilities

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

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

5. Significant accounting policies (continued)

5.20 Pensions and other post-retirement benefits

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

i. Defined contribution scheme

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

ii. Defined benefit scheme

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

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

5.21 Share-based payment awards

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

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

6. Segmental analysis

The Company is not in scope of IFRS 8 'Operating segments' and therefore has not provided any segmental analysis. The Company has one class of business, the provision of international Corporate and Investment Banking services within Europe, the Middle East and Africa ("EMEA"). The Company operates six branches outside of the UK, but these do not generate material revenues.

7. Interest income and interest expense

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

Details of interest income and interest expense were as follows:

	2016	2015
	$'000	$'000
Net interest income/(expense)		
Financial assets and liabilities held for trading	472,739	514,909
Securities purchased under agreements to resell and securities sold under agreements to repurchase	400,577	279,492
Securities borrowed and securities loaned	(275,811)	(168,486)
Other interest income and expense *	(5,923)	(71,276)
Net interest income	**591,582**	**554,639**

* Other interest includes interest income on loans and advances to customers and interest expense on borrowings from JPMorgan Chase undertakings.

Net interest income for the year ended 31 December 2016 includes $286 million income and $370 million expense from and to JPMorgan Chase undertakings (2015: $223 million income, $318 million expense).

8. Fee and commission expense

Fee and commission expense contains expenses recharged through Firm attribution agreements from JPMorgan Chase undertakings for whom the employees of the Company conduct business. $736 million of intercompany recharges included in trading profit in 2015 has been reclassified to fee and commission expense to correctly reflect the substance of the balance and to conform with current year presentation.

9. Directors' emoluments

	2016	2015
	$'000	$'000
Emoluments	4,461	6,322
Total contributions to a defined contribution plan	14	17
Total value of long term incentive plans for all directors	3,784	2,033
Compensation to non-executive directors	851	768

Number of directors who exercised share options	4	2
Number of directors with shares received or receivable under LTIPs	2	1
Number of directors to whom defined contribution pension rights accrued	5	4

In accordance with the Companies Act 2006, the directors' emoluments above represent the proportion paid or payable in respect of qualifying services to the Company 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's") and the value of share options granted or exercised by directors) of the highest paid director were $3,091,725 (2015: $4,413,241).

The contribution to the defined contribution scheme for the highest paid director during 2016 was $5,101 (2015: $7,540). The highest paid director exercised share options during 2016 and 2015. Shares were received or are receivable by the highest paid director under long-term incentive plans during 2016 (shares were received or receivable by the highest paid director under long term incentive plans during 2015).

10. Profit on ordinary activities before taxation

	2016	2015
	$'000	$'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	1,290	803
Auditors' remuneration for the audit of the Company's annual financial statements	2,468	2,794
Audit-related assurance services	849	50
Wages and salaries	733,942	717,530
Social security costs	138,753	129,935
Other pension and benefits costs	59,262	62,358
Share-based awards	249,203	231,034

The average monthly number of persons providing services to the Company during the year was 1,586 (2015: 1,501). The average monthly number of staff employed by the European branches during the year was 138 (2015: 134).

J.P. MORGAN SECURITIES PLC
Notes to the financial statements (continued)

11. Tax on profit on ordinary activities

(a) Analysis of tax charge for the year	2016 $'000	2015 $'000
Current taxation		
UK Corporation tax on profit for the year	831,585	359,549
Overseas taxation	169,405	230,551
Less: Double tax relief	(180,277)	(170,608)
Adjustments in respect of previous years	25,385	57,836
Current tax expense for the year	846,098	477,328
Deferred tax (note 12):		
Origination and reversal of temporary differences	8,137	5,697
Adjustment in respect of previous period	(11,844)	—
Effect of rate change on opening balance	(582)	(19,737)
Deferred tax credit for the year	(4,289)	(14,040)
Total tax expense for the year	841,809	463,288

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

The current tax charge for the year differs from the standard rate of corporation tax in the UK including banking surcharge (28%). The differences are explained below:

	2016 $'000	2015 $'000
Profit on ordinary activities before taxation	3,987,453	3,138,234
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in UK of 28.00% (2015: 20.25%).	1,116,487	635,385
Effects of:		
Non-deductible expenses	77,817	46,624
Income not taxable	(52,792)	(4,781)
Dividend income	(168,000)	(101,250)
Transfer pricing adjustments	10,381	(53,195)
Other adjustment	2,577	(93)
Adjustments in respect of previous years	13,541	57,836
Group relief claimed for nil consideration	(146,748)	(157,444)
Foreign taxation suffered	(10,873)	59,943
Impact of change in rate on deferred tax	(581)	(19,737)
Total tax expense for the year	841,809	463,288

12. Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016	2015
	$'000	$'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	96,747	73,809
Deferred tax asset to be recovered within 12 months	48,373	31,340
	145,120	105,149
Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	(8,213)	(9,386)
Deferred tax liability to be reversed within 12 months	(1,173)	(1,173)
Deferred tax asset (net)	135,734	94,590

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

	2016	2015
	$'000	$'000
As at 1 January	94,590	68,150
Depreciation (in excess)/short of capital allowances	(576)	1,073
Deferral of share-based payments	24,152	29,089
Other adjustment	17,568	(3,722)
As at 31 December	135,734	94,590

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

Deferred tax asset	**Accelerated capital allowances**	**Share-based payments**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January 2015	2,570	52,084	13,496	68,150
Credited/(charged) to the income statement	1,073	16,419	(3,452)	14,040
Credited directly to equity	—	12,670	—	12,670
Charged directly to other comprehensive income	—	—	(270)	(270)
At 31 December 2015	3,643	81,173	9,774	94,590
(Charged)/credited to the income statement	(576)	6,475	(1,610)	4,289
Credited directly to equity	—	17,677	270	17,947
Credited directly to other comprehensive income	—	—	18,908	18,908
At 31 December 2016	3,067	105,325	27,342	135,734

13. Loans and advances to banks

	2016	2015
	$'000	$'000
Loans and advances to banks	6,123,936	4,673,268

Included within loans and advances to banks is $4.3 billion (2015: $1.8 billion) held with JPMorgan Chase undertakings.

The Company maintains certain client money balances which principally arise where it acts on behalf of its clients as a clearing member for derivatives that are cleared through central counterparties. The Company has considered its rights and obligations relating to funds belonging to clients that are held subject to client money protection under the Client Assets Sourcebook, with banks, exchanges and clearing houses, and concluded that such amounts should not be recognised on balance sheet. Therefore, client money assets amounting to $12.5 billion (2015: $12.3 billion) of which $4.5 billion is included in loans and advances to banks and $8.0 billion included in Debtors.

14. Loans and advances to customers

The Company's loan portfolio is within the wholesale loan segment. Wholesale loans include loans made to a variety of customers, such as large corporates and institutional clients.

	2016	2015
	$'000	$'000
Loans and advances to customers	3,100,053	3,292,824

There were no material past due or impaired loans and advances to customers as at 31 December 2016 (2015: nil).

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

15. Securities financing activities

JPMS plc enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions (collectively, "securities financing agreements") primarily to finance the Company's inventory positions, acquire securities to cover short positions, accommodate customers' financing needs, and settle other securities obligations.

Securities purchased and securities sold under agreements to resell/repurchase and securities borrowed and securities loaned transactions are generally carried at the amount of cash collateral advanced or received.

Secured financing transactions expose the Company to credit and liquidity risk. To manage these risks, the Company monitors the value of the underlying securities (predominantly high-quality securities collateral, including government-issued debt and agency mortgage-backed securities) that it has received from or provided to its counterparties compared to the value of cash proceeds and exchanged collateral, and either requests additional collateral or returns securities or collateral when appropriate. Margin levels are initially established based upon the counterparty, the type of underlying securities, and the permissible collateral, and are monitored on an ongoing basis.

In resale agreements and securities borrowed transactions, the Company is exposed to credit risk to the extent that the value of the securities received is less than initial cash principal advanced and any collateral amounts exchanged. In repurchase agreements and securities loaned transactions, credit risk exposure arises to the extent that the value of underlying securities exceeds the value of the initial cash principal advanced, and any collateral amounts exchanged.

Additionally, the Company typically enters into master netting agreements and other similar arrangements with its counterparties, which provide for the right to liquidate the underlying securities and any collateral amounts exchanged in the event of a counterparty default. It is also the Company's policy to take possession, where possible, of the securities underlying resale agreements and securities borrowed transactions.

Refer to note 29 for additional information on netting arrangements.

15. Securities financing activities (continued)

	2016	2015
	$'000	$'000
Securities purchased under agreements to resell	130,416,852	136,836,484
Securities borrowed	25,831,106	15,038,887
	156,247,958	151,875,371
Securities sold under agreements to repurchase	61,657,271	65,522,171
Securities loaned	20,133,325	11,315,697
	81,790,596	76,837,868

Securities financing transaction balances include the following amounts held with other JPMorgan Chase undertakings:

	2016	2015
	$'000	$'000
Securities purchased under agreements to resell	41,017,708	66,901,757
Securities borrowed	20,449,114	10,305,219
	61,466,822	77,206,976
Securities sold under agreements to repurchase	12,366,287	27,579,858
Securities loaned	18,205,412	8,869,782
	30,571,699	36,449,640

16. Financial assets held for trading

In connection with its client-driven market-making activities, the Company transacts in debt and equity instruments and derivatives.

	2016	2015
	$'000	$'000
Debt and equity instruments	89,327,429	90,975,293
Derivative receivables	233,718,379	208,632,529
	323,045,808	299,607,822

Financial assets held for trading includes $124.9 billion held with JPMorgan Chase undertakings (2015:$125.9 billion).

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

	2016	2015
	$'000	$'000
Equity instruments	144,728	125,285
Loans	170,931	—
	315,659	125,285

18. Debtors

	2016	2015
	$'000	$'000
Trade debtors	22,534,256	17,857,938
Other debtors	33,938,769	20,304,953
	56,473,025	38,162,891

Trade debtors mainly consists of unsettled trades. Other debtors includes $33.5 billion of cash collateral provided on derivatives (2015: $19.0 billion). A review of the Company's debtors and trade creditors (note 23) identified that offsetting control accounts were incorrectly presented as gross on the balance sheet in 2015. Accordingly, $4.8 billion has now been netted.

Debtors includes the following balances from JPMorgan Chase undertakings:

	2016	2015
	$'000	$'000
Trade debtors	10,641,074	6,884,083
Other debtors	14,189,512	4,603,319
	24,830,586	11,487,402

Trade debtors mainly consists of accounts receivable from JPMorgan Chase undertaking and unsettled trades. Other debtors includes $14.1 billion of cash collateral provided on derivatives (2015: $4.6 billion).

19. Other assets

	2016	2015
	$'000	$'000
Deferred taxation	135,734	94,590
Prepayments	508	9,640
Accrued income	447,989	477,844
	584,231	582,074

20. Investments in JPMorgan Chase undertakings

	2016	2015
	$'000	$'000
Investments in JPMorgan Chase undertakings at cost		
At 1 January	3,458,789	3,458,566
Write down - see below	(117,359)	—
Realisation of investments - see below	(223)	(2,494,884)
Additions - see below	—	2,495,107
At 31 December	3,341,207	3,458,789

During the year, on review of the carrying amount of the Company's investment in Cazenove Group Limited, the investment has been written down by $117.4 million.

During the first quarter of 2016, the Company received a final cash distribution of $517,000 from its subsidiary, Bank One Europe Limited, of which $294,000 was recognised as a gain on disposal in the Income statement. Bank One Europe Limited was dissolved shortly thereafter.

20. Investments in JPMorgan Chase undertakings (continued)

In the third quarter of 2015, as part of an internal re-organisation, the Company entered into certain transactions with other JPMorgan Chase undertakings, namely:

- The Company acquired 100% share capital of Bank One Europe Limited, all of the membership interest in CP Group Holding Cooperatief U.A., and a 99.99999% limited partnership interest in Asselijn Finance C.V., fair-valued respectively at $193 million, $1,073 million, and $1,229 million, against issuance of shares to its parent, J.P. Morgan Chase International Holdings. The fair value of these entities was primarily driven by the cash held.
- The Company received cash distributions from CP Group Holding Cooperatief U.A and Asselijn Finance C.V, in the amount of $1,073 million, and $1,229 million respectively, thereby realising its investment in the above companies. Asselijn Finance C.V. was dissolved shortly thereafter. The Company also received a cash distribution of $193 million from Bank One Europe Limited.
- The Company received an additional cash contribution of $5 million from its parent, J.P. Morgan Chase International Holdings.

The holdings of the Company are as follows:

Name	Address of subsidiary	Principal activity	Holding	Shares held %
Greenwood Nominees Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Nominee company	Direct	100
J.P. Morgan Europe Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Banking	Direct	100
Cazenove Group Limited	JPMorgan House, Grenville Street, St. Helier, JE4 8QH, Jersey	Holding company	Direct	100
J.P. Morgan Prime Nominees Ltd.	25 Bank Street, Canary Wharf, London, E14 5JP, England	Nominee company	Direct	100
J.P. Morgan Services LLP	25 Bank Street, Canary Wharf, London, E14 5JP, England	Dormant company	Direct	57
CP Group Holding Cooperatief U.A.	Strawinskylaan 1135, Tower B, 11th Floor, Amsterdam, 1077, Netherlands	Investment company	Direct	100
Chase Securities International Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Investment company	Indirect	100
Chase International Securities (C.I.) Limited	Forum 4, Grenville Street, St. Helier, JE2 4UF, Jersey	Investment company	Indirect	100
Chemical Nominees Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Investment company	Indirect	100
Cazenove Holdings Limited	JPMorgan House, Grenville Street, St. Helier, JE4 8QH, Jersey	Holding company	Indirect	100
Cazenove IP Limited	25 Bank Street, Canary Wharf, London, E14 5JP, England	Investment company	Indirect	100
JPMorgan Cazenove Holdings [(a)]	25 Bank Street, Canary Wharf, London, E14 5JP, England	Holding company	Indirect	51
J.P. Morgan Cazenove Limited [(a)]	25 Bank Street, Canary Wharf, London, E14 5JP, England	Investment company	Indirect	51
JPMorgan Cazenove Service Company [(a)]	25 Bank Street, Canary Wharf, London, E14 5JP, England	Service company	Indirect	51
Cheyne Capital Guaranteed S.A. Series 2007-1 [(b)]	2 Boulevard Konrad Adenauer, Luxembourg, L-1115, Luxembourg	Notes issuer	Direct	100

(a) Although JPMS plc has majority ownership interest in these companies, majority voting interest and therefore control is held by another JPMorgan Chase group undertaking.

(b) The above entity is a special purpose entity which meets the definition (per section 1162 of the Companies Act 2006) of a subsidiary undertaking.

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.

All shares held in the above subsidiaries are ordinary shares.

21. Unconsolidated structured entities

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of other contractual arrangements.

Typically, structured entities have one or more of the following characteristics:

- an insufficient amount of at-risk equity to permit the entity to finance its activities without additional subordinated financial support;
- equity at-risk owners that, as a group, are not able to make significant decisions relating to the entity's activities through voting rights or similar rights; or
- equity at-risk owners that do not absorb the entity's losses or receive the entity's residual returns.

The most common type of structured entities is a special purpose entity ("SPE"). SPE's are commonly used in securitisation transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. The party that has power to direct the most significant activities of the entity and an exposure to the risks of the entity (together constituting control of the entity) is required to consolidate the assets and liabilities of the structured entity. The structured entities in which the Company has control are consolidated into the parent undertakings of the Company, as set out in note 20 to these financial statements.

The Company has involvement with various structured entities, originated within the Firm or by third parties. These typically include securitisations, credit protection purchased credit linked notes, collateralised loan and debt obligations, and other structured financings.

Material interests held in SPE's include residential and commercial mortgage-backed securities and other asset-backed securities. These interests relate to securitisation bonds where the underlying assets are residential and commercial mortgages, consumer loans, student loans, trade receivables, and credit card receivables.

Interest in unconsolidated structured entities

The Company's interest in an unconsolidated structured entity is considered as the contractual and non-contractual involvement that exposes the Company to variability of returns from the performance of the structured entity but not deemed a subsidiary.

The following table shows, by type of structured entity, the carrying amounts of the Company's interest in unconsolidated structured entities recognised on the balance sheet. The maximum exposure to loss is considered as approximate to the carrying amounts. It also provides an indication of the size of the structured entities, measured by the total assets held in the structured entity. The carrying amounts do not necessarily reflect the risks faced by the Company, as factors such as economic hedges and effect of collateral held by the Company are not included.

		Interest in unconsolidated structured entities			
	Fair value of assets held by SPE	**Financial assets and liabilities held for trading**	**Loans and advances to customers**	**Other**	**Total**
31 December 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Residential mortgage-backed securities	128,093,000	750,000	—	—	750,000
Commercial mortgage-backed securities	21,654,000	95,000	365,000	—	460,000
Other asset-backed securities	27,923,000	174,000	50,000	—	224,000
Credit-related notes and asset swap vehicles	47,022,000	227,000	—	—	227,000
Collateralised debt obligations	6,883,000	101,000	—	—	101,000
Other	674,664,000	1,978,000	—	—	1,978,000
Total assets	906,239,000	3,325,000	415,000	—	3,740,000
Maximum exposure to loss	906,239,000	3,325,000	415,000	—	3,740,000
Total liabilities	—	—	—	52,000	52,000

21. Unconsolidated structured entities (continued)

		Interest in unconsolidated structured entities			
	Fair value of assets held by SPE	Financial assets and liabilities held for trading	Loans and advances to customers	Other	Total
31 December 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Residential mortgage-backed securities	170,236,000	739,000	—	—	739,000
Commercial mortgage-backed securities	42,645,000	245,000	324,000	—	569,000
Other asset-backed securities	47,035,000	991,000	—	—	991,000
Credit-related notes and asset swap vehicles	12,369,000	76,000	—	—	76,000
Collateralised debt obligations	1,326,000	4,000	—	—	4,000
Other	447,471,000	1,645,000	—	4,000	1,649,000
Total assets	721,082,000	3,700,000	324,000	4,000	4,028,000
Maximum exposure to loss	721,082,000	3,700,000	324,000	4,000	4,028,000
Total liabilities	—	1,000	—	262,000	263,000

22. Financial liabilities held for trading

	2016	2015
	$'000	$'000
Debt and equity instruments	42,248,042	32,835,296
Derivative payables	235,757,064	214,396,540
Other financial liabilities	15,520,640	16,126,634
	293,525,746	263,358,470

Financial liabilities held for trading includes $152.1 billion held with JPMorgan Chase undertakings (2015:$150.9 billion).

23. Trade creditors and other liabilities

	2016	2015
	$'000	$'000
Trade creditors [(a)]	29,755,510	25,486,331
Other liabilities:		
Accruals and deferred income	1,399,456	2,140,900
Taxation and social security [(b)]	575,237	391,940
Other [(c)]	23,844,456	17,604,645
Total Other liabilities	25,819,149	20,137,485
Total Trade creditors and Other liabilities	55,574,659	45,623,816

(a) Trade creditors predominantly consists of unsettled trades, brokerage fees payable and liabilities in respect of assets transferred but not derecognised (note 32) and includes $2.6 billion with other JPMorgan Chase undertakings (2015: $1.8 billion). Amounts owed to JPMorgan Chase undertakings presented on the balance sheet now represents financing and collateral arrangements with other JPMorgan Chase undertakings. Non-financing amounts owed to JPMorgan Chase undertakings of $1.8 billion in 2015 has now been presented in trade creditors to conform with current year presentation.

(b) Taxation and social security includes provisions for Corporate tax, Overseas tax and Bank levy.

(c) Other includes $23.5 billion (2015: $17.2 billion) of cash collateral received related to OTC derivatives.

24. Called-up share capital

	2016	2015
	$'000	$'000
Issued and fully paid share capital		
At 1 January		
1,039,262 ordinary shares (2015: 973,098) of $10,000 each	10,392,620	9,730,980
34,648 preferred ordinary shares (2015: 34,648) of $10,000 each	346,480	346,480
680,685 preference shares (2015: 680,685) of $10,000 each	6,806,850	6,806,850
50,000 ordinary shares (2015: 50,000) of £1.24 each	100	100
Movements during the year		
66,164 ordinary shares issued of $10,000 each	—	661,640
At 31 December		
1,039,262 ordinary shares (2015: 1,039,262) of $10,000 each	10,392,620	10,392,620
34,648 preferred ordinary shares (2015: 34,648) of $10,000 each	346,480	346,480
680,685 preference shares (2015: 680,685) of $10,000 each	6,806,850	6,806,850
50,000 ordinary shares (2015: 50,000) of £1.24 each	100	100
2 ordinary shares (2015: 2) of £1 each	—	—
	17,546,050	17,546,050

	2016	2015
	$'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 and preferred ordinary shares is provided under note 25.

25. Dividends

Interim dividends of $358,107,690 were paid on the preference shares (2015: $357,645,559) and $5,261,655 on the preferred ordinary shares of the Company in 2016 (2015: $5,201,233). An interim dividend of $686,630,655 (2015: $517,153,208) was paid on the ordinary shares of the Company for 2016. No final dividend was paid or proposed for 2016 (2015: nil).

The dividend rate on the preferred ordinary shares is 0.9% over 12 month U.S. dollar 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 carry 100% of the voting rights.

The dividend rate on the 5-year floating rate preference shares is 0.9% over 12 month U.S. dollar 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 10-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 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 20 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 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.

26. Notes to the statement of cash flows

	2016	2015
	$'000	$'000
Profit before income tax	3,987,453	3,138,234
Adjustments for:		
Depreciation of tangible fixed assets	1,290	803
Impairment of investments in JPMorgan Chase undertakings	117,359	—
Other non-cash movements	681,129	(216,324)
Operating cash flows before changes in operating assets and liabilities	**4,787,231**	**2,922,713**
Changes in operating assets		
Decrease/(increase) in loans and advances to customers	192,771	(1,234,654)
Decrease in securities purchased under resale agreements	6,419,632	8,605,651
(Increase)/decrease in securities borrowed	(10,792,219)	1,523,377
(Increase)/decrease in financial assets held for trading	(23,437,986)	4,925,993
Increase in financial assets designated at fair value through profit or loss	(190,374)	(54,397)
(Increase)/decrease in debtors and other assets	(18,329,453)	823,232
Decrease in prepayments and accrued income	38,987	113,204
	(46,098,642)	**14,702,406**
Changes in operating liabilities		
(Decrease)/increase in securities sold under repurchase agreements	(3,864,900)	7,970,980
Increase/(decrease) in securities loaned	8,817,628	(10,189,502)
Increase/(decrease) in financial liabilities held for trading	30,167,276	(2,721,865)
Increase/(decrease) in trade creditors	4,269,179	(12,796,489)
Increase/(decrease) in other liabilities	6,128,016	(7,033,403)
(Decrease)/increase in accruals and deferred income	(741,444)	1,665,776
	44,775,755	**(23,104,503)**
Cash generated from/(used in) operations	**3,464,344**	**(5,479,384)**

27. Commitments and contingent liabilities

Lending-related commitments and guarantees

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

	2016	2015
	$'000	$'000
Unused commitments on loans	15,180,394	14,019,175
Standby letters of credit and guarantees	126,391	73,858
	15,306,785	14,093,033

There are no lending commitments to other JPMorgan Chase undertakings (2015: nil).

27. Commitments and contingent liabilities (continued)

Contingent liabilities

The Company, together with certain other JPMorgan Chase undertakings and third party entities, has been named in a claim brought by the Ente Nazionale di Previdenza ed Assistenza Medici E Degli Odontoiatri ("ENPAM") in the Milan courts in relation to certain alleged breaches of Italian conduct rules. The claim seeks damages against named parties of between EUR 111 and 222 million. The court has set a hearing for 17 May 2017 for the next round of submissions.

Management believe that no provision is required in line with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets', as the relevant criteria are not met.

28. Assets and liabilities measured at fair value

<u>**Fair value**</u>

Valuation process

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices or inputs, where available. If listed prices or quotes are not available, fair value is based on models that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates, and credit curves.

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

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

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

Valuation model review and approval

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

Fair value hierarchy

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

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

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

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

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

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

Valuation methodologies

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

Product/instrument	Valuation methodology, inputs and assumptions	Classifications in the valuation hierarchy
Equity, debt, and other securities	Quoted market prices are used where available.	Level 1
	In the absence of quoted market prices, securities are valued based on: • Observable market prices for similar securities • Relevant broker quotes • Discounted cash flows In addition, the following inputs to discounted cash flows are used for the following products: *Mortgage and asset-backed securities specific inputs*: • Collateral characteristics • Deal-specific payment and loss allocations • Current market assumptions related to yield, prepayment speed, conditional default rates and loss severity	Level 2 or 3
Derivatives and fully funded OTC instruments	Exchange-traded derivatives that are actively traded and valued using the exchange price.	Level 1
	Derivatives that are valued using models such as the Black-Scholes option pricing model, simulation models, or a combination of models, that use observable or unobservable valuation inputs (e.g., plain vanilla options and interest rate and credit default swaps). Inputs include: • Contractual terms including the period to maturity • Readily observable parameters including interest rates and volatility • Credit quality of the counterparty and of the Company • Market funding levels • Correlation levels In addition, the following specific inputs are used for the following derivatives that are valued based on models with significant unobservable inputs: *Structured credit derivatives specific inputs include*: • credit default swaps ("CDS") spreads and recovery rates • Credit correlation between the underlying debt instruments • Actual transactions, where available, are used to regularly recalibrate unobservable parameters *Certain interest rate and foreign exchange ("FX") exotic options specific inputs include:* • Interest rate correlation • Interest rate spread volatility • Foreign exchange correlation • Correlation between interest rates and foreign exchange rates • Parameters describing the evolution of underlying interest rates *Certain commodity derivatives specific inputs include:* • Commodity volatility • Forward commodity price	Level 2 or 3
Financial instruments held for trading - loans	Where observable market data is available, valuations are based on: • Observed market prices (circumstances are infrequent) • Relevant broker quotes • Observed market prices for similar instruments Where observable market data is unavailable or limited, valuations are based on discounted cash flows, which consider the following: • Credit spreads derived from the cost of CDS; or benchmark credit curves developed by the Company, by industry and credit rating • Prepayment speed	Level 2 or 3

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

Valuation methodologies (continued)

Product/instrument	Valuation methodology, inputs and assumptions	Classifications in the valuation hierarchy
Loans and advances to customers and lending-related commitments	Valuations are based on discounted cash flows, which consider: • Credit spreads, derived from the cost of CDS; or benchmark credit curves developed by the Company, by industry and credit rating • Prepayment speed Lending-related commitments are valued similar to loans and reflect the portion of an unused commitment expected, based on the Company's average portfolio historical experience, to become funded prior to an obligor default	Predominantly level 3
• Securities purchased under agreements to resell; • Securities borrowed; • Securities sold under agreements to repurchase; • Securities loaned	Valuations are based on discounted cash flows, which consider: • Derivative features. For further information refer to the discussion of derivatives above • Market rates for the respective maturity • Collateral	Level 2

Assets and liabilities measured at fair value on a recurring basis

The following table presents the asset and liabilities reported at fair value as of 31 December 2016 and 2015, by major product category and fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
At 31 December 2016				
Financial assets held for trading:				
Debt and equity instruments	48,988,614	39,530,046	808,769	89,327,429
Derivative receivables	76,571	227,134,018	6,507,790	233,718,379
Financial assets designated at fair value through profit or loss:				
Debt and equity instruments	—	—	315,659	315,659
Total financial assets	49,065,185	266,664,064	7,632,218	323,361,467
Financial liabilities held for trading:				
Debt and equity instruments	31,033,923	11,213,696	423	42,248,042
Derivative payables	76,358	230,220,052	5,460,654	235,757,064
Other financial liabilities	—	11,557,637	3,963,003	15,520,640
Total financial liabilities	31,110,281	252,991,385	9,424,080	293,525,746

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

Assets and liabilities measured at fair value on a recurring basis (continued)

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
At 31 December 2015				
Financial assets held for trading:				
Debt and equity instruments	49,028,796	40,644,770	1,301,727	90,975,293
Derivative receivables	51,076	203,406,147	5,175,306	208,632,529
Financial assets designated at fair value through profit or loss:				
Equity instruments	—	—	125,285	125,285
Total financial assets	49,079,872	244,050,917	6,602,318	323,361,467
Financial liabilities held for trading:				
Debt and equity instruments	20,434,283	12,395,940	5,073	32,835,296
Derivative payables	50,925	209,439,157	4,906,458	214,396,540
Other financial liabilities	—	12,989,810	3,136,824	16,126,634
Total financial liabilities	20,485,208	234,824,907	8,048,355	263,358,470

Level 3 valuations

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

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

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

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

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

In the Company's view, the input range and the weighted average value do not reflect the degree of input uncertainty or an assessment of the reasonableness of the Company's estimates and assumptions. Rather, they reflect the characteristics of the various instruments held by the Company and the relative distribution of instruments within the range of characteristics. For example, two option contracts may have similar levels of market risk exposure and valuation uncertainty, but may have significantly different implied volatility levels because the option contracts have different underlying's, tenors, or strike prices.

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

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

Level 3 valuations (continued)

Product/instrument	Asset	Liability	Net fair value	Principal valuation technique	Unobservable input	Range of input values	Weighted average
At 31 December 2016	**$'000**	**$'000**	**$'000**				
Debt and equity instruments	1,124,428	(423)	1,124,005				
Corporate debt securities and other				Discounted cash flows Market comparables	Credit spread Yield Price	40bps – 375bps 1% - 17% $0 - $121	96bps 9% $91
Residential mortgage-backed securities and loans				Discounted cash flows	Yield Prepayment speed Conditional default rate Loss severity	4% - 18% 0% - 20% 0% - 34% 0% - 90%	5% 8% 15% 37%
Commercial mortgage-backed securities and loans				Discounted cash flows	Yield Conditional default rate Loss severity	1% - 32% 0% - 100% 40%	8% 69% 40%
Derivatives	6,507,790	(5,460,654)	1,047,136				
Net interest rate derivatives				Option pricing	Interest rate correlation Interest rate spread volatility	(30)% – 100% 3% – 38%	
Net credit derivatives				Discounted cash flows	Credit correlation	30% – 85%	
Net foreign exchange derivatives				Option pricing	Foreign exchange correlation	(30)% – 65%	
Net equity derivatives				Option pricing	Equity volatility	20% – 60%	
Net commodity derivatives				Discounted cash flows	Forward commodity price	$46 – $59 per barrel	
Other financial liabilities	—	(3,963,003)	(3,963,003)	Option pricing	Interest rate correlation Interest rate spread volatility Foreign exchange correlation Equity correlation	(30)% – 100% 3% – 38% (30)% – 65% (50)% – 80%	
				Discounted cash flows	Credit correlation	30% – 85%	
Total assets and liabilities	7,632,218	(9,424,080)	(1,791,862)				

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

Level 3 valuations (continued)

Product/instrument	Asset	Liability	Net fair value	Principal valuation technique	Unobservable input	Range of input values	Weighted average
At 31 December 2015	**$'000**	**$'000**	**$'000**				
Debt and equity instruments	**1,427,012**	**(5,073)**	**1,421,939**				
Corporate debt securities and other				Discounted cash flows	Credit spread	60bps – 225bps	146bps
					Yield	1% - 20%	5%
				Market comparables	Price	$0 - $168	$89
Residential mortgage-backed securities and loans				Discounted cash flows	Yield	3% - 26%	6%
					Prepayment speed	0% - 20%	6%
					Conditional default rate	0% - 33%	2%
					Loss severity	0% - 100%	28%
Commercial mortgage-backed securities and loans				Discounted cash flows	Yield	1% - 25%	6%
					Conditional default rate	0% - 91%	29%
					Loss severity	40%	40%
Derivatives	**5,175,306**	**(4,906,458)**	**268,848**				
Net interest rate derivatives				Option pricing	Interest rate correlation	(52)% – 99%	
					Interest rate spread volatility	3% – 38%	
Net credit derivatives				Discounted cash flows	Credit correlation	35 % – 90%	
Net foreign exchange derivatives				Option pricing	Foreign exchange correlation	0 % – 60%	
Net equity derivatives				Option pricing	Equity volatility	20% – 65%	
Net commodity derivatives				Discounted cash flows	Forward commodity price	$22 – $46 per barrel	
Other financial liabilities	—	**(3,136,824)**	**(3,136,824)**	Option pricing	Interest rate correlation	(52)% – 99%	
					Interest rate spread volatility	3% – 38%	
					Foreign exchange correlation	0 % – 60%	
					Equity correlation	(50)% – 80%	
				Discounted cash flows	Credit correlation	35 % – 90%	
Total assets and liabilities	**6,602,318**	**(8,048,355)**	**(1,446,037)**				

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

Changes in and ranges of unobservable inputs

The following discussion provides a description of the impact on a fair value measurement of a change in each unobservable input in isolation, and the interrelationship between unobservable inputs, where relevant and significant. The impact of changes in inputs may not be independent as a change in one unobservable input may give rise to a change in another unobservable input; where relationships exist between two unobservable inputs, those relationships are discussed below. Relationships may also exist between observable and unobservable inputs (for example, as observable interest rates rise, unobservable prepayment rates decline); such relationships have not been included in the discussion below. In addition, for each of the individual relationships described below, the inverse relationship would also generally apply.

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

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

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

Changes in and ranges of unobservable inputs (continued)

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

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

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

Correlation - Correlation is a measure of the relationship between the movements of two variables (e.g., how the change in one variable influences the change in the other). Correlation is a pricing input for a derivative product where the payoff is driven by one or more underlying risks.

Correlation inputs are related to the type of derivative (e.g., interest rate, credit, equity and foreign exchange) due to the nature of the underlying risks. When parameters are positively correlated, an increase in one parameter will result in an increase in the other parameter. When parameters are negatively correlated, an increase in one parameter will result in a decrease in the other parameter. An increase in correlation can result in an increase or a decrease in a fair value measurement. Given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement.

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

Fair value financial instruments valued using techniques that incorporate unobservable inputs

The potential impact as at 31 December of using reasonable possible alternative assumptions for the valuations including significant unobservable inputs have been quantified in the following table:

Sensitivity analysis of valuations using unobservable inputs	Fair Value			Favourable change	Unfavourable change
	Asset	Liability	Net	Income statement	
At 31 December 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Debt and equity instruments					
Corporate debt securities and other	1,116,836	(423)	1,116,413	20,471	(20,471)
Residential mortgage-backed securities	1,550	—	1,550	155	(155)
Commercial mortgage-backed securities	6,042	—	6,042	778	(778)
Total debt and equity instruments	**1,124,428**	**(423)**	**1,124,005**	**21,404**	**(21,404)**
Derivatives*	**6,507,790**	**(5,460,654)**	**1,047,136**	**13,305**	**(13,305)**
Other financial liabilities*	**—**	**(3,963,003)**	**(3,963,003)**	**19,667**	**(19,667)**
Total	**7,632,218**	**(9,424,080)**	**(1,791,862)**	**54,376**	**(54,376)**

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

Fair value financial instruments valued using techniques that incorporate unobservable inputs (continued)

Sensitivity analysis of valuations using unobservable inputs	Fair Value			Favourable change	Unfavourable change
	Asset	Liability	Net	Income statement	
At 31 December 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Debt and equity instruments					
Corporate debt securities and other	1,415,687	(5,073)	1,410,614	9,010	(9,010)
Residential mortgage-backed securities	5,852	—	5,852	222	(222)
Commercial mortgage-backed securities	5,473	—	5,473	467	(467)
Total debt and equity instruments	**1,427,012**	**(5,073)**	**1,421,939**	**9,699**	**(9,699)**
Derivatives*	**5,175,306**	**(4,906,458)**	**268,848**	**15,167**	**(15,167)**
Other financial liabilities*	—	**(3,136,824)**	**(3,136,824)**	**27,475**	**(27,475)**
Total	**6,602,318**	**(8,048,355)**	**(1,446,037)**	**52,341**	**(52,341)**

* Given significant hedging between derivatives and other financial liabilities the net risk is considered to calculate the favourable/ unfavourable changes with the result then allocated to the two lines individually.

Changes in level 3 recurring fair value measurements

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

Movement in assets and liabilities in Level 3 during year ended 31 December 2016

Financial assets	Debt and equity instruments	Derivative receivables	Total financial assets
	$'000	$'000	$'000
At 1 January 2016	1,427,012	5,175,306	6,602,318
Total (loss)/gains recognised in profit or loss	(84,711)	1,200,083	1,115,372
Purchases	1,578,086	(185,641)	1,392,445
Sales	(1,303,679)	513,914	(789,765)
Issuances	14,927	298	15,225
Settlements	(106,648)	(219,772)	(326,420)
Transfers in to Level 3	147,701	263,403	411,104
Transfers out of Level 3	(548,260)	(239,801)	(788,061)
At 31 December 2016	1,124,428	6,507,790	7,632,218
Change in unrealised gains related to financial instruments held at 31 December 2016	(47,977)	1,080,402	1,032,425

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

Movement in assets and liabilities in Level 3 during year ended 31 December 2016 (continued)

Financial liabilities	Debt and equity instruments	Derivative payables	Other financial liabilities	Total financial liabilities
	$'000	$'000	$'000	$'000
At 1 January 2016	5,073	4,906,458	3,136,824	8,048,355
Total (gains)/loss recognised in profit or loss	8,098	796,473	177,779	982,350
Purchases	(1,865)	18,979	—	17,114
Sales	21,264	720,003	—	741,267
Issuances	—	1,491	2,302,540	2,304,031
Settlements	(32,598)	(938,435)	(1,656,106)	(2,627,139)
Transfers in to Level 3	1,288	243,760	56,015	301,063
Transfers out of Level 3	(837)	(288,075)	(54,049)	(342,961)
At 31 December 2016	423	5,460,654	3,963,003	9,424,080
Change in unrealised losses related to financial instruments held at 31 December 2016	(145)	681,963	74,124	755,942

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

Financial assets	Debt and equity instruments	Derivative receivables	Total financial assets
	$'000	$'000	$'000
At 1 January 2015	5,709,113	6,542,644	12,251,757
Total (loss)/gains recognised in profit or loss	(377,980)	982,562	604,582
Purchases	4,549,375	944,290	5,493,665
Sales	(3,693,458)	(258,056)	(3,951,514)
Issuances	7,220	18,082	25,302
Settlements	(1,744,194)	(1,670,248)	(3,414,442)
Transfers in to Level 3	472,002	256,649	728,651
Transfers out of Level 3	(3,495,066)	(1,640,617)	(5,135,683)
At 31 December 2015	1,427,012	5,175,306	6,602,318
Change in unrealised gains related to financial instruments held at 31 December 2015	165,394	281,628	447,022

Financial liabilities	Debt and equity instruments	Derivative payables	Other financial liabilities	Total financial liabilities
	$'000	$'000	$'000	$'000
At 1 January 2015	2,079	5,515,017	3,627,635	9,144,731
Total (gains)/loss recognised in profit or loss	(1,315)	1,326,194	383,267	1,708,146
Purchases	(127,169)	(1,261,352)	—	(1,388,521)
Sales	130,229	2,254,885	—	2,385,114
Issuances	—	52,928	3,279,089	3,332,017
Settlements	(1,260)	(2,141,654)	(2,991,020)	(5,133,934)
Transfers in to Level 3	5,252	210,651	246,678	462,581
Transfers out of Level 3	(2,743)	(1,050,211)	(1,408,825)	(2,461,779)
At 31 December 2015	5,073	4,906,458	3,136,824	8,048,355
Change in unrealised losses related to financial instruments held at 31 December 2015	126	122,604	127,683	250,413

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

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

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

For the years ended 31 December 2016 and 2015, there were no significant transfers between levels 1 and 2.

During the year ended 31 December 2016, transfers in to and out of level 3 included the following:

- $0.3 billion of assets transferred out of level 3 driven by an increase in observability of corporate bonds and loans; and
- $0.2 billion of assets and $0.2 billion of liabilities transferred in to level 3 driven by a decrease in observability of credit default swaps.

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

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

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

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

Certain financial instruments that are not carried at fair value on balance sheet are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include securities purchased under agreements to resell, cash and balances at central banks, debtors, other assets, fixed assets, trade creditors and other liabilities.

The Company has $246.5 billion (2015: $206.9 billion) of current financial assets and $236.2 billion (2015: $205.9 billion) of current financial liabilities that are not measured at fair value, including loans and advances to customers of $3.1 billion (2015: $3.3 billion).

In estimating the fair value of these loans and advances to customers, typically a discounted cash flow model is applied with significant unobservable inputs and therefore would be classified as level 3 instruments. The fair value of these loans is not materially different from the carrying amount. All other instruments are of a short-term nature and the carrying amounts in the balance sheet approximate fair value.

29. Offsetting financial assets and financial liabilities

The table below presents the balance sheet assets and liabilities offset, where the offsetting criteria under IAS 32 'Financial Instruments: Presentation' ("IAS 32") have been met, and the related amounts not offset in the balance sheet in respect of cash and security collateral received and master netting agreements, where such criteria have not been met:

	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on balance sheet	Financial Instruments	Cash	Net amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2016						
Financial assets:						
Securities purchased under agreements to resell [(a)]	244,294,408	(113,877,556)	130,416,852	(125,057,222)	(1,006,386)	4,353,244
Securities borrowed [(a)]	25,831,106	—	25,831,106	(23,693,068)	—	2,138,038
Financial assets held for trading [(b)]	342,284,385	(19,238,577)	323,045,808	(191,509,111)	(19,626,339)	111,910,358
Total	612,409,899	(133,116,133)	479,293,766	(340,259,401)	(20,632,725)	118,401,640
Financial liabilities:						
Securities sold under agreements to repurchase [(a)]	175,534,827	(113,877,556)	61,657,271	(59,283,948)	(185,403)	2,187,920
Securities loaned [(a)]	20,133,325	—	20,133,325	(19,275,518)	—	857,807
Financial liabilities held for trading	313,994,831	(20,469,085)	293,525,746	(191,509,111)	(17,046,020)	84,970,615
Total	509,662,983	(134,346,641)	375,316,342	(270,068,577)	(17,231,423)	88,016,342

	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on balance sheet	Financial Instruments	Cash	Net amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2015						
Financial assets:						
Securities purchased under agreements to resell [(a)]	193,758,751	(56,922,267)	136,836,484	(133,855,848)	(835,072)	2,145,564
Securities borrowed [(a)]	15,038,887	—	15,038,887	(13,708,511)	—	1,330,376
Financial assets held for trading [(b)]	327,497,646	(27,889,824)	299,607,822	(161,820,645)	(15,594,857)	122,192,320
Total	536,295,284	(84,812,091)	451,483,193	(309,385,004)	(16,429,929)	125,668,260
Financial liabilities:						
Securities sold under agreements to repurchase [(a)]	122,444,438	(56,922,267)	65,522,171	(61,638,580)	(658,657)	3,224,934
Securities loaned [(a)]	11,315,697	—	11,315,697	(11,140,308)	—	175,389
Financial liabilities held for trading [(b)]	289,961,140	(26,602,670)	263,358,470	(165,383,416)	(12,032,086)	85,942,968
Total	423,721,275	(83,524,937)	340,196,338	(238,162,304)	(12,690,743)	89,343,291

(a) 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, prior to netting adjustments, is $270,255 million (2015: $213,882 million). The fair value of securities sold under agreements to repurchase and securities loaned pledged to secure liabilities, prior to netting adjustments, is $188,793 million (2015: $140,138 million). Prior year 'related amounts not offset' have been limited to the inclusion of collateral to the extent of the net amount by counterparty to conform with current year presentation, refer to page 11 of the Strategic report for further detail.

(b) Included within 'Amounts offset' are the respective collateral payable and receivables with certain clearing counterparties.

30. Pensions

During the year, the Company was involved in the following pension schemes in the UK:

- JPMorgan UK Pension Plan ("UKP") - a defined contribution scheme (as a participating employer);
- JPMC UK Retirement Plan - a defined benefit scheme; and
- JPMorgan Cazenove (1987) Pension Scheme ("UKS") - a defined benefit scheme (as a participating employer).

In Europe, 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 European schemes as at 31 December 2016 amounted to $9,488,000 (2015: $8,165,000). The charge for the year through the income statement was $2,094,000 (2015: $1,620,000), and total loss recognised through statement of comprehensive income was $1,636,000 (2015: gain of $3,297,000).

JPMorgan UK Pension Plan

The Company participates in the JPMorgan UK Pension Plan, a defined contribution scheme operated by the Firm, which is open to additional members and benefit accruals.

JPMC UK Retirement Plan

The Firm maintains a defined benefit plan that is closed to additional benefit accruals known as the JPMC UK Retirement Plan. Whilst the Company is not a participating employer in this plan, 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 JPMorgan Chase 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; or
- Any other date agreed between the Company and the Trustee of the Plan.

JPMorgan Cazenove (1987) Pension Scheme

The JPMorgan Cazenove (1987) Pension Scheme ("UKS") is an ongoing defined benefit plan. The Company has been a principal employer in relation to the UKS plan since August 2012. In May 2016, the Company agreed to and became responsible for 97.24% of the liabilities in respect of the UKS, taking over the obligation from its indirect subsidiary, JPMorgan Cazenove Service Company.

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

	2016	2015
	% per annum	% per annum
Discount rate	2.5%	3.7%
Rate of salary increase	N/A*	4.3%
Rate of price inflation	3.5%	3.3%
Rate of pension increases	3%	2.9%

* The salary increase assumption no longer applies for the UKS as this plan was closed to future accruals on 31 May 2016.

30. Pensions (continued)

JPMorgan Cazenove (1987) Pension Scheme (continued)

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

	2016	2015
	years	years
Longevity at age 65 for current pensioners		
- Male	24.1	24.0
- Female	25.1	25.0
Longevity at age 65 for future pensioners		
- Male	26.7	26.6
- Female	26.9	26.9

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

	2016	2015
	$'000	$'000
Benefit obligation at beginning of the year	496,540	551,363
Current service costs	775	2,333
Interest costs	16,273	19,168
Actuarial loss/(gain)	138,244	(33,455)
Benefits paid from plan/Company	(23,140)	(18,120)
Exchange rate changes	(93,875)	(24,749)
Benefit obligation at end of the year	534,817	496,540

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

	2016	2015
	$'000	$'000
Fair value of plan assets at beginning of year	450,857	484,412
Expected return on plan assets	14,891	16,961
Actuarial gain/(loss) on plan assets	65,518	(16,586)
Employer contributions (including employer direct benefit payments)	7,866	7,208
Administrative expenses paid from plan assets	(566)	(836)
Benefits paid from plan/Company	(23,140)	(18,120)
Exchange rate changes	(80,620)	(22,182)
Fair value of plan assets at end of the year	434,806	450,857

The equity investments and bonds which are held in the plan assets are quoted and are valued at the current bid price in accordance with IAS 19.

30. Pensions (continued)

JPMorgan Cazenove (1987) Pension Scheme (continued)

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

	2016			2015		
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
At 31 December	%	% per annum	% per annum	%	% per annum	% per annum
Discount rate	0.25%	(5.44)%	5.72 %	0.25%	(5.03)%	5.28 %
Rate of salary increase	0.25%	N/A*	N/A*	0.25%	0.01 %	(0.01)%
Rate of pension increase	0.25%	3.59 %	(3.53)%	0.25%	1.72 %	(1.68)%
Rate of price inflation	0.25%	3.16 %	(3.17)%	0.25%	2.97 %	(2.94)%
Post-retirement mortality assumption	Increase by one year	3.87 %	—	Increase by one year	3.28 %	—

* The salary increase assumption no longer applies for the UKS as this plan was closed to future accruals on 31 May 2016.

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

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

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

	2016	2015
	$'000	$'000
Present value of wholly or partly funded obligations	534,817	496,540
Fair value of plan assets	434,806	450,857
Deficit for funded plans - net liability	100,011	45,683
Experience adjustments on plan assets	(65,518)	16,586
Experience adjustments on plan liabilities	(6,661)	(7,534)

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

	2016	2015
	$'000	$'000
Current service cost	775	2,333
Interest cost	16,273	19,168
Expected return on plan assets	(14,891)	(16,961)
Administrative expenses paid from plan assets	566	836
Total pension cost recognised in the income statement	2,723	5,376
Exchange rate changes	(13,255)	(2,567)
Net amount recognised in the income statement	(10,532)	2,809

30. Pensions (continued)

JPMorgan Cazenove (1987) Pension Scheme (continued)

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

	2016	2015
	$'000	$'000
Actuarial (loss)/gain immediately recognised	(72,726)	16,869

The asset allocation of the UKS defined benefit schemes was as follows:

	2016	2015
	Percentage of plan assets (%)	Percentage of plan assets (%)
Equity securities	35.6	34.8
Bond securities	62.4	63.3
Cash	2.0	1.9
	100	100

31. Share based payments

The ultimate parent of the Company, JPMorgan Chase & Co. (the "Firm") has granted long-term stock-based awards to certain key employees under its Long Term Incentive Plan ("LTIP"), as amended and restated effective 19 May 2015. Under the terms of the LTIP, as of 31 December 2016, 78 million shares of common stock were available for issuance through May 2019. The LTIP is the only active plan under which the Firm is currently granting stock-based incentive awards. The LTIP, plus prior Firm plans and plans assumed as the result of acquisitions, are referred to collectively as the "LTI Plans" and such plans constitute the Firm's stock-based incentive plans.

The Firm separately recognises compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted, compensation expense is recognised in line with how awards vest from the grant date until the vesting date of the respective tranche, provided that the employees will not become full-career eligible during the vesting period. For awards with full-career eligibility provisions and awards granted with no future substantive service requirement, the Firm accrues the estimated value of awards expected to be awarded to employees as of the grant date without giving consideration to the impact of post-employment restrictions. For each tranche granted to employees of the Company 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, 50% after three years, and convert into shares of common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions based on age or service-related requirements. All of these awards are subject to forfeiture until vested and contain clawback provisions that may result in cancellation prior to vesting under certain specified circumstances. RSUs entitle the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSUs are outstanding.

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

31. 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 & Co.'s common stock on the grant date. The Firm typically awards SARs to certain key employees once per year; the Firm also periodically grants employee stock options and SARs to individual employees. There were no material grants of stock options or SARs in 2016, 2015 and 2014. The 2013 grants of SARs to key employees vest rateably over five years (i.e. 20% per year) and awards contain clawback provisions similar to RSUs. The 2013 grants of SARs contain full-career eligibility provisions. SARs generally expire 10 years after the grant date.

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

	31 December 2016			31 December 2015		
	Outstanding '000	**Weighted average exercise price $**	**Weighted average remaining contractual life (in years)**	Outstanding '000	Weighted average exercise price $	Weighted average remaining contractual life (in years)
Range of exercise prices						
$min - $20.00	75	19.49	2.05	75	19.49	3.06
$20.01 - $35.00	—	—	—	—	—	—
$35.01 - $50.00	1,144	43.32	4.08	1,614	43.55	4.76
$50.01 and above	—	—	—	1	759.99	0.97
Total	1,219	41.86	3.96	1,690	42.63	4.68

Broad-based employee stock options

No broad-based employee stock options were granted in 2016 or 2015. In prior years, awards were granted by the Firm under the Value Sharing Plan, a non-shareholder-approved plan. For each grant, the exercise price was equal to the Firm's common stock price on the grant date. The options become exercisable over various periods and generally expire 10 years after the grant date.

The weighted average share price during the year ended 31 December 2016 was $65.62 (2015: $63.83).

The total expense for the year relating to share based payments was $249 million (2015: $231 million), all of which relates to equity settled share based payments.

32. 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 note 29.

The Company has also transferred equity securities to third parties in consideration for cash, while simultaneously entering into derivative transactions, with the same counterparty, which are linked to the transferred assets. The derecognition criteria have not been met because the Company retains the risk and rewards associated with the transferred financial assets, therefore the assets continue to be recognised on balance sheet together with the related liability.

32. Transfer of financial assets (continued)

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

Fair value of the assets

	Fair value of the assets		Carrying amount of the related liability	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Financial assets held for trading	5,720,000	7,422,000	5,268,000	7,224,000

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 SPE with limited other assets and enters into a derivative with the SPE 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 SPEs (including those with such SPEs to which the Company did not transfer any financial assets) amounted to $13.2 billion and $722 million as of 2016 ($8.1 billion and $404 million as of 2015).

33. Financial risk management

Disclosures in relation to the Company's risk management and capital management have been presented in the Strategic report on pages 1 - 23 which forms part of these financial statements.

34. Post balance sheet events

On 19 April 2017, the Board approved interim dividends of $359,303,501 on preference shares and $6,696,499 on preferred ordinary shares of the Company.

During the first quarter of 2017, the Company further obtained standalone credit ratings of 'A1/P-1' and 'AA-/F1+' with stable outlooks from Moody's Investors Service and Fitch Ratings, respectively.