

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
Amsterdam, the Netherlands

(Chamber of Commerce Number: 34259454)

Annual report for the year ended 31 December 2012

Adopted by the Annual General Meeting of  
Shareholders on 26 March 2013

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Annual report for the year ended 31 December 2012**

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# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Directors' report for the year ended 31 December 2012**

The directors present their report and the audited financial statements of J.P. Morgan Structured Products B.V. (the "Company") for the year ended 31 December 2012.

### **Principal activity**

The Company's primary activity is the management and issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

### **Review of business**

During the year, the Company continued to issue securities. The proceeds of the sale of the securities were used to enter into certain economic hedging arrangements with other JPMorgan Chase & Co. (the Group) companies. The principal purpose of the hedging arrangements entered into between the Company and the relevant Group companies is to hedge against various risks associated with the securities issuance activity. In 2012, the Company issued securities in the Asia Pacific region, in Europe, the Middle East, Africa, Latin America and a limited number in the United States of America.

### **Key performance indicators**

The results are monitored against expectations of the business activities. A more detailed description of the Group key performance indicators may be found within the Group annual report.

### **Business environment, strategy and future outlook**

The primary objective of the Company is the continued development of securitised products to be offered and sold to retail, 'high net worth' and institutional investors principally outside of the United States of America, linked to a range of underlying reference assets including equity, credit, interest rates, commodities and so called 'alternatives' such as funds and hedge funds.

### **Principal risks and uncertainties**

The Company's trading activities expose it to financial and operational risks, which are managed by the Board of Directors, using the JPMorgan Chase & Co. risk management framework. The Board of Directors monitors the Company's financial and operational risks and has responsibility for ensuring effective risk management and control.

The financial risks arising from the structured securities issued by the Company are matched by simultaneously entering into equal and offsetting over the counter (OTC) transactions with other group companies so that all such risks are effectively hedged. Further details on the financial risks of the Company are set out in note 17 to the financial statements.

### **Results and dividends**

The results for the year are set out on page 5 and show the Company's profit for the year after taxation is \$1,113,000 (2011: \$1,347,000).

No dividend was paid or proposed during the year (2011:\$nil).

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Directors' report for the year ended 31 December 2012 (continued)**

### **Directors**

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

|                    |                           |
|--------------------|---------------------------|
| J.C.W. van Burg    |                           |
| J.C.P. van Uffelen |                           |
| D.R. Hansson       |                           |
| G.H.K. Yu          | (Appointed 27 March 2012) |
| R.W. de Koning     |                           |
| R.M. Fernandes     | (Resigned 12 March 2012)  |

### **Creditor payment policy**

All invoices from suppliers are settled on the Company's behalf by an affiliated Group company, JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, N.A.'s policy is to pay invoices (including those in respect of the Company) upon presentation, except where other arrangements have been negotiated with the supplier. It is the policy of the Company to abide by the terms of payment, provided the supplier performs according to the terms of the contract.

### **Registered address**

Herikerbergweg 238  
Luna ArenA, 1101CM  
Amsterdam, Zuidoost

### **Expected developments of the Company**

The directors of the Company expect:

- a) that the Company will continue to issue securities;
- b) that the Company will not enter into fixed asset investments; and
- c) that the interest income will continue to fluctuate in line with the development in market interest rates.

### **Statement under Transparency Directive (as implemented in Dutch law).**

The directors confirm to the best of their knowledge that:

- a) the attached financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company for the year ended 31 December 2012, and
- b) the annual report for the year ended 31 December 2012, consisting of the directors report and the financial statements, gives a true and fair view of the position as per the balance sheet date 31 December 2012

The directors further herewith report their arrangements for an audit committee (the "Audit Committee") as follows:

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Directors' report for the year ended 31 December 2012 (continued)**

### **Audit Committee**

The Company makes use of the exemption to the requirement to establish its own Audit Committee based on Article 3a of the Royal Decree of 26 July 2008 implementing article 41 of the EU Directive 2006/43EG, as the Audit Committee of JPMorgan Chase & Co. that is compliant with the requirements will fulfil the role of the Company's Audit Committee. JPMorgan Chase & Co. operates an Audit Committee, which covers the Group, including the Company. Details of the Charter, Membership, Duties and Responsibilities can be found on the Group's website.

### **Independent auditor**

The auditor, PricewaterhouseCoopers Accountants N.V., have indicated their willingness to continue in office. A resolution to reappoint PricewaterhouseCoopers Accountants N.V. as auditor to the Company will be proposed at the annual general meeting.

The financial statements on pages 4 to 19 were approved by the Board of Directors on 26 March 2013 and signed on its behalf.

### **Board of Directors**

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R.W. de Koning

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J.C.W. van Burg

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J.C.P. van Uffelen

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D.R. Hansson

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G.H.K. Yu

**Date: 26 March 2013**

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

Balance sheet as at 31 December 2012

|  | Notes | 2012<br>\$'000    | 2011<br>\$'000    |
|--|-------|-------------------|-------------------|
| <b>Assets</b>  |       |                   |                   |
| <b>Current assets</b>  |       |                   |                   |
| Financial assets held for trading  | 4     | 18,007,530        | 22,625,693        |
| Trade and other receivables  | 5     | 9,658             | 14,992            |
| Current tax asset  |       | 118               | 433               |
| Cash and cash equivalents  | 6     | 604,372           | 607,156           |
| <b>Total assets</b>  |       | <b>18,621,678</b> | <b>23,248,274</b> |
| <b>Liabilities</b>   |       |                   |                   |
| <b>Current liabilities</b>   |       |                   |                   |
| Financial liabilities designated at fair value through profit or loss          | 7     | 18,007,530        | 22,625,693        |
| Trade and other payables   | 10    | 27,298            | 80,706            |
| Bank overdraft   | 6     | 58,345            | 14,483            |
| <b>Total liabilities</b>   |       | <b>18,093,173</b> | <b>22,720,882</b> |
| <b>Equity</b>  |       |                   |                   |
| <b>Capital and reserves attributable to equity shareholders of the Company</b> |       |                   |                   |
| Share capital  | 11    | 26                | 26                |
| Share premium reserve  |       | 499,997           | 499,997           |
| Legal reserve  |       | 2                 | 2                 |
| Retained earnings  |       | 28,480            | 27,367            |
| <b>Total equity</b>  |       | <b>528,505</b>    | <b>527,392</b>    |
| <b>Total liabilities and equity</b>  |       | <b>18,621,678</b> | <b>23,248,274</b> |

Chamber of Commerce Number: 34259454

The notes on pages 8 - 19 form an integral part of the financial statements.

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Income statement for the year ended 31 December 2012**

|   | Notes | 2012<br>\$'000 | 2011<br>\$'000 |
|---|-------|----------------|----------------|
| Fee and commission income   | 12    | 5,661          | 9,719          |
| Fee and commission expense  | 12    | (2,960)        | (6,023)        |
| Administrative expenses   |       | (2,779)        | (3,561)        |
| Net foreign exchange gains  |       | (148)          | 1,295          |
| <b>Operating (loss)/profit</b>  | 13    | <b>(226)</b>   | <b>1,430</b>   |
| Interest income   | 15    | 1,699          | 570            |
| <b>Profit before income tax</b>   |       | <b>1,473</b>   | <b>2,000</b>   |
| Income tax expense  | 16    | (360)          | (653)          |
| <b>Profit for the year attributable to equity shareholders of the Company</b> |       | <b>1,113</b>   | <b>1,347</b>   |

**Statement of comprehensive income for the year ended 31 December 2012**

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>Profit for the year</b>                          | <b>1,113</b>   | <b>1,347</b>   |
| Other comprehensive income for the year, net of tax | -              | -              |
| <b>Total comprehensive income for the year</b>      | <b>1,113</b>   | <b>1,347</b>   |

The profit for the year resulted from continuing operations.

The notes on pages 8 - 19 form an integral part of the financial statements.

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Statement of changes in equity for the year ended 31 December 2012

|                             | Share<br>capital | Share<br>premium<br>reserve | Legal<br>reserve | Retained<br>earnings | Total<br>equity |
|-----------------------------|------------------|-----------------------------|------------------|----------------------|-----------------|
|                             | \$'000           | \$'000                      | \$'000           | \$'000               | \$'000          |
| Balance at 1 January 2012   | 26               | 499,997                     | 2                | 27,367               | 527,392         |
| Profit for the year         | -                | -                           | -                | 1,113                | 1,113           |
| Balance at 31 December 2012 | 26               | 499,997                     | 2                | 28,480               | 528,505         |
| Balance at 1 January 2011   | 26               | 499,997                     | 2                | 26,020               | 526,045         |
| Profit for the year         | -                | -                           | -                | 1,347                | 1,347           |
| Balance at 31 December 2011 | 26               | 499,997                     | 2                | 27,367               | 527,392         |

The notes on pages 8 - 19 form an integral part of the financial statements.



**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Statement of cash flows for the year ended 31 December 2012**

|   |       | 31 December<br>2012 | 31 December<br>2011 |
|---|-------|---------------------|---------------------|
|   | Notes | \$'000              | \$'000              |
| <b>Cash flow from operating activities</b>                            |       |                     |                     |
| Profit before income tax  |       | 1,473               | 2,000               |
| Income tax paid   |       | (45)                | (615)               |
| Interest income   | 15    | (1,699)             | (570)               |
| Net foreign exchange loss   |       | 148                 | (1,295)             |
|   |       | (123)               | (480)               |
| <b>Changes in working capital</b>                                     |       |                     |                     |
| Financial assets held for trading                                     |       | 4,618,163           | 4,503,914           |
| Trade and other receivables   |       | 5,334               | (11,275)            |
| Financial liabilities designated at fair value through profit or loss |       | (4,618,163)         | (4,503,914)         |
| Trade and other payables  |       | (53,408)            | 35,937              |
| <b>Net cash generated from operating activities</b>                   |       | <b>(48,197)</b>     | <b>24,182</b>       |
| <b>Cash flow from investing activities</b>                            |       |                     |                     |
| Interest received   | 15    | 1,699               | 570                 |
| <b>Net cash generated from investing activities</b>                   |       | <b>1,699</b>        | <b>570</b>          |
| <b>Net increase in cash and cash equivalents</b>                      |       | <b>(46,498)</b>     | <b>24,752</b>       |
| Cash and cash equivalents at the beginning of the year                |       | 592,673             | 566,626             |
| Effect of exchange rate changes on cash and cash equivalents          |       | (148)               | 1,295               |
| <b>Cash and cash equivalents at the end of the year</b>               | 6     | <b>546,027</b>      | <b>592,673</b>      |

The notes on pages 8 - 19 form an integral part of the financial statements.

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Notes to the financial statements for the year ended 31 December 2012**

### **1. General information**

J.P. Morgan Structured Products B.V. (the "Company"), Amsterdam, was incorporated on 6 November 2006 as a private company with limited liability under the laws of the Netherlands. These financial statements reflect the operations of the Company during the year from 1 January 2012 to 31 December 2012.

The Company's main activity is the issuance of structured notes comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

These financial statements have been approved for issue by the Board of Directors on 26 March 2013.

### **2. Summary of significant accounting policies**

#### **2.1 Accounting convention**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied to all the years presented, unless otherwise stated, and have been prepared on a going concern basis.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and prepared in accordance with Book 2, Title 9 of the Dutch Civil Code. Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements have been prepared under the historical cost convention, except that financial instruments are stated at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### **New and amended standards adopted by the Company**

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company.

#### **Standards, amendments and interpretations to existing standards that are not yet effective but relevant**

- IFRS 7 - Disclosure - Offsetting of Financial Assets and Financial Liabilities (effective 1 January 2013)
- IFRS 9 - Financial Instruments (effective 1 January 2015)
- IFRS 13 - Fair Value Measurement (effective 1 January 2013)
- IAS 32 - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)

#### **Improvements to standards that are not yet effective**

- IAS 34 - Interim financial reporting and segment information for total assets and liabilities (effective 1 January 2013)
- IAS 32 - Tax effect of distribution to holders of equity instruments (effective 1 January 2013)

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.2 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into US dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into US 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 US dollars at the date of the transaction.

#### 2.3 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"). The financial statements are presented in US dollars, which is the Company's functional and presentation currency.

The US dollar is the functional currency as this is the currency of the primary economic environment in which the Company operates and generates net cashflows. The exchange rates used are:

|                                     |         |                 |
|-------------------------------------|---------|-----------------|
| Year end exchange rate (USD/EUR)    | 1.32215 | (2011: 1.29205) |
| Average rate for the year (USD/EUR) | 1.29192 | (2011: 1.39759) |

#### 2.4 Financial assets and financial liabilities

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

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

##### *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 are initially recognised on trade date 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.

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

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

Financial assets or financial liabilities are designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the 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.

# **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

## **Notes to the financial statements for the year ended 31 December 2012 (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **2.4 Financial assets and financial liabilities (continued)**

##### *Derecognition of financial assets and financial liabilities*

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

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

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

#### **2.5 Fair value**

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

Fair values are determined by reference to observable market prices where available and reliable. Fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation techniques that are based on independently sourced market parameters. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models.

#### **2.6 Income and expense recognition**

Interest income and expense are recognised on an accruals basis.

Fees and commissions are recognised when the underlying contract becomes legally binding or at the agreed due date if later, unless a fee is received relating to work to be completed in the future in which case it is recognised over the period in accordance with the effective interest rate method. Effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

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

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

#### **2.7 Cash and cash equivalents**

Cash and cash equivalents in the cash flow statement represent cash in hand and balances with banks, other short term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown in note 6.

#### **2.8 Share capital**

The share capital of the Company consists of ordinary shares, classified as equity.

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.10 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.11 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is 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.

### 3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In this regard, the Directors believe that the critical accounting policies where judgement is necessarily applied are those which relate to the valuation of financial instruments. Refer notes 2.4 and 2.5.

### 4. Financial assets held for trading

|                                   | 2012       | 2011       |
|-----------------------------------|------------|------------|
|                                   | \$'000     | \$'000     |
| Financial assets held for trading | 18,007,530 | 22,625,693 |

An amount of \$22,625,693,000 in respect of 31 December 2011 has been reclassified from Derivatives receivable to Financial assets held for trading as this reflects the substance of the terms of the financial instruments more appropriately. The corresponding amount for 31 December 2012 amounted to \$18,007,530.

Financial assets held for trading represent funded total return swaps with other Group undertakings.

Included within financial assets held for trading are financial instruments for which fair values are derived in whole or in part from appropriate pricing or valuation techniques that are not based on directly observable market transactions. The directors consider that the Company is perfectly hedged and that there would be no impact due to movements in the fair value of the financial assets held for trading to the results of the Company (refer to note 7).

### 5. Trade and other receivables

|                                    | 2012   | 2011   |
|------------------------------------|--------|--------|
|                                    | \$'000 | \$'000 |
| Trade receivables                  | 3,090  | -      |
| Amounts owed by group undertakings | 6,568  | 14,992 |
|                                    | 9,658  | 14,992 |

There were no amounts within trade and other receivables that were past due or impaired as at 31 December 2012 (31 December 2011: \$nil).

## J.P. MORGAN STRUCTURED PRODUCTS B.V.

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 6. Cash and cash equivalents

|   | 2012           | 2011           |
|---|----------------|----------------|
|   | \$'000         | \$'000         |
| Cash placed with Group undertakings                                 | 604,372        | 594,918        |
| Balances with third party   | -              | 12,238         |
| <b>Cash and cash equivalents</b>                                    | <b>604,372</b> | <b>607,156</b> |
| Bank Overdraft  |                |                |
| - balances due to Group undertakings                                | (54,111)       | (14,482)       |
| - balances due to third parties                                     | (4,234)        | (1)            |
| <b>Cash and cash equivalents as reported in cash flow statement</b> | <b>546,027</b> | <b>592,673</b> |

#### 7. Financial liabilities designated at fair value through profit or loss

|   | 2012       | 2011       |
|---|------------|------------|
|   | \$'000     | \$'000     |
| Financial liabilities designated at fair value through profit or loss | 18,007,530 | 22,625,693 |

Debit valuation adjustments are necessary to reflect the credit quality of the Group in the valuation of such liabilities. The directors consider that the Company is perfectly hedged and that there would, in the normal course of business, be no impact to the results of the Company due to movements in the fair value of the financial liabilities designated at fair value through profit or loss.

The amount of change attributable to changes in credit risk in the fair value of the financial liabilities designated at fair value through profit or loss for 2012 is \$105,306,231 (2011: \$113,051,462). This amount is fully offset by an equal and opposite amount in financial assets held for trading (Refer note 4).

The carrying amount of financial liabilities designated at fair value through profit or loss was \$105,306,231 (2011: \$113,051,462) lower than the contractual amount at maturity.

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 8. Assets and liabilities measured at fair value

|   | Level 1<br>Quoted<br>market prices in<br>active markets<br>\$'000 | Level 2<br>Internal models<br>with significant<br>observable<br>market<br>parameters<br>\$'000 | Level 3<br>Internal models<br>with significant<br>unobservable<br>market<br>parameters<br>\$'000 | Total<br>carrying value<br>\$'000 |
|---|---|--|--|-----------------------------------|
| <b>At 31 December 2012</b>  |   |  |  |                                   |
| Financial assets held for trading                                     |   |  |  |                                   |
| Financial assets held for trading                                     | -   | 13,421,982   | 4,585,547  | 18,007,530                        |
| Total assets at fair value at 31 December 2012                        | -   | 13,421,982   | 4,585,547  | 18,007,530                        |
| Financial liabilities designated at fair value through profit or loss |   |  |  |                                   |
| Structured securities   | -   | (13,421,982)   | (4,585,547)  | (18,007,530)                      |
| Total liabilities at fair value at 31 December 2012                   | -   | (13,421,982)   | (4,585,547)  | (18,007,530)                      |
| <b>At 31 December 2011</b>  |   |  |  |                                   |
| Financial assets held for trading                                     |   |  |  |                                   |
| Financial assets held for trading                                     | -   | 18,335,227   | 4,290,466  | 22,625,693                        |
| Total assets at fair value at 31 December 2011                        | -   | 18,335,227   | 4,290,466  | 22,625,693                        |
| Financial liabilities designated at fair value through profit or loss |   |  |  |                                   |
| Structured securities   | -   | (18,335,227)   | (4,290,466)  | (22,625,693)                      |
| Total liabilities at fair value at 31 December 2011                   | -   | (18,335,227)   | (4,290,466)  | (22,625,693)                      |



# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 9. Movements in assets and liabilities measured in Level 3

#### Financial assets held for trading

|   | 2012        | 2011        |
|---|-------------|-------------|
|   | \$'000      | \$'000      |
| At 1 January  | 4,290,466   | 1,500,198   |
| Total gains recognised in income statement  | 41,573      | (107,960)   |
| Purchases   | 2,588,388   | 2,412,341   |
| Settlements   | (2,309,296) | (1,354,548) |
| Transfers in to level 3   | 779,229     | 2,020,209   |
| Transfers out of level 3  | (804,813)   | (179,774)   |
| At 31 December  | 4,585,547   | 4,290,466   |
| Total profit for the year included in trading profit for the above assets held at 31 December | (84,046)    | 25,267      |

#### Structured securities liabilities

|  | 2012        | 2011        |
|--|-------------|-------------|
|  | \$'000      | \$'000      |
| At 1 January   | 4,290,466   | 1,500,198   |
| Total loss recognised in income statement  | 41,573      | (107,960)   |
| Purchases  | (76,251)    | -           |
| Issuances  | 2,664,639   | 2,412,341   |
| Settlements  | (2,309,296) | (1,354,548) |
| Transfers in to level 3  | 779,229     | 2,020,209   |
| Transfers out of level 3   | (804,813)   | (179,774)   |
| At 31 December   | 4,585,547   | 4,290,466   |
| Total loss for the year included in trading loss for the above liabilities held at 31 December | 84,046      | (25,267)    |

Price risk from the issued instruments is matched by entering into equal and offsetting (OTC) transactions with other Group companies so that any price risk is effectively hedged. As at 31 December 2012, any movement in indices or ratings would result in no change to the results of the Company. Consequently, no sensitivity analysis for level 3 financial instruments is disclosed.

The movements in assets and liabilities measured in level 3 significantly relate to further refinement of the fair value hierarchy classification process, given observability of market data for the input parameters in conjunction with the risk profile of the product.



# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 10. Trade and other payables

|                                    | 2012   | 2011   |
|------------------------------------|--------|--------|
|                                    | \$'000 | \$'000 |
| Trade creditors                    | 27,051 | 73,423 |
| Amounts owed to group undertakings | 247    | 7,283  |
|                                    | 27,298 | 80,706 |

### 11. Share capital

|                                      | 2012   | 2011   |
|--------------------------------------|--------|--------|
|                                      | \$'000 | \$'000 |
| Issued and fully paid share capital  |        |        |
| 20,000 Ordinary shares of €1.00 each | \$ 26  | \$ 26  |

In accordance with the requirements of Article 373 Book 2 of the Dutch Civil Code, the Company holds an amount of \$2,000 in a legal reserve in respect of revaluation of the Euro denominated share capital.

### 12. Fees and commissions

All fee and commission income is receivable from other Group undertakings.

All fee and commission expense are paid by other Group undertakings and reimbursed by the Company.

### 13. Operating profit

|   | 2012   | 2011   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| Profit on ordinary activities before taxation is stated after charging:           |        |        |
| Auditors' remuneration for the audit of the Company's annual financial statements | 181    | -      |

The auditors' remuneration of \$170,000 in 2011 was met by another Group company and not recharged.

The audit fee mentioned comprises solely the fee of external auditor PricewaterhouseCoopers Accountants N.V for the statutory audit of the financial statements. The external auditor has not charged any fees relating to other assurance related services, tax, consulting or any other consulting services.

Trading profit comprises profit and loss resulting from the revaluation of financial instruments and interest income and interest expense from trading activities which are perfectly hedged.

### 14. Segmental analysis

In the opinion of the directors, the Company's activities comprise only one business segment, namely international investment banking services, with no material geographical segments to report on. Consequently any segmental analysis of the Company's revenues and assets is deemed to be unnecessary.

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 15. Interest income

|                 | 2012   | 2011   |
|-----------------|--------|--------|
|                 | \$'000 | \$'000 |
| Interest income | 1,699  | 570    |

Included within other interest receivable and similar income, are the following balances with other group undertakings:

|                 | 2012   | 2011   |
|-----------------|--------|--------|
|                 | \$'000 | \$'000 |
| Interest income | 1,679  | 570    |

### 16. Income tax expense

|   | 2012       | 2011       |
|---|------------|------------|
|   | \$'000     | \$'000     |
| (a) income tax expense:                     |            |            |
| Current tax                                 | 355        | 486        |
| Adjustments in respect of prior years       | 5          | 167        |
| <b>Tax on profit on ordinary activities</b> | <b>360</b> | <b>653</b> |
| Profit for the year before tax              | 1474       | 2,000      |
| Tax calculated at applicable tax rates      | 355        | 486        |
| Impact of:                                  |            |            |
| - Adjustments in respect of prior years     | 5          | 167        |
| <b>Income tax expense</b>                   | <b>360</b> | <b>653</b> |

The standard tax rate in the Netherlands is 25% (2011: 25%). A tax rate of 20% is applied to the first €200,000 (2012: \$258,386; 2011: \$276,672).

### 17. Financial risk management

The Company's activities expose it to various financial risks. These are liquidity risk, credit risk and market risk (which includes foreign exchange risk, interest rate risk and price risk). A substantial majority of these risks, which arise from the structured securities issued by the Company are matched by simultaneously entering into equal and offsetting over the counter (OTC) transactions with other group companies so that all such risks are effectively hedged.

The Company operates within the JPMorgan Chase & Co. risk management framework. The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

The detailed JPMorgan Chase & Co. risk management framework, including policies and procedures, is set out in the JPMorgan Chase & Co. annual report.

#### Liquidity risk

Liquidity risk is the risk that the Company's funding sources may be insufficient to meet its liabilities as they fall due. The Company's issuances are economically hedged with the OTC transactions with group undertakings. To the extent that settlement-related timing differences between issuances and the OTC hedge may result in funding requirements, these are funded by the Group companies involved in the transactions.

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 17. Financial risk management (continued)

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

|   | 2012                |            | 2011                |            |
|---|---------------------|------------|---------------------|------------|
|   | Less than<br>1 year | Total      | Less than<br>1 year | Total      |
|   | \$'000              | \$'000     | \$'000              | \$'000     |
| Financial liabilities designated at fair value through profit or loss | 18,007,530          | 18,007,530 | 22,625,693          | 22,625,693 |
| Bank overdraft  | 58,345              | 58,345     | 14,483              | 14,483     |
| Trade and other payables  | 27,298              | 27,298     | 80,706              | 80,706     |
|   | 18,093,173          | 18,093,173 | 22,720,882          | 22,720,882 |

Financial liabilities designated at fair value through profit or loss are typically redeemable on customer demand.

### Credit risk

Credit risk is the risk that the counterparties to the Company's financial assets may default. The Company's assets are neither past due nor impaired.

The amounts in the table below show the Company's gross maximum exposure to credit risk without taking account of any collateral or economic hedges in place:

|                                   | Grade      | 2012       | 2011       |
|-----------------------------------|------------|------------|------------|
|                                   |            | \$'000     | \$'000     |
| Financial assets held for trading | Investment | 18,007,530 | 22,625,693 |
| Trade and other receivables       | Investment | 9,658      | 14,992     |
| Cash and cash equivalents         | Investment | 604,372    | 607,156    |
|                                   |            | 18,621,560 | 23,247,841 |

Included within the above assets, the balances held with other Group undertakings are \$18,618,470,000 (2011: \$23,235,603,000).

All financial assets are considered to be of an investment grade.

### Market risk

Market risk represents the potential fluctuation in fair value or cashflows of the Company's financial instruments caused by movements in market variables such as interest and foreign exchange rates and equity prices. The market risks, including price, foreign exchange and interest rates risk, arising from the Company's issuances are economically hedged by equal and offsetting over the counter (OTC) transactions with other group companies. There is immaterial residual price or foreign exchange risk in the Company as at 31 December 2012 or 31 December 2011.

The following table shows the effect of change in interest rates by 50 basis points which is considered to be reasonably possible for the portfolio that is based in countries with a low volatility in interest rates.

|  | 2012    | 2011    |
|--|---------|---------|
|  | \$'000  | \$'000  |
| 50 basis points increase in local interest rates | 2,123   | 2,668   |
| 50 basis points decrease in local interest rates | (2,123) | (2,668) |

# J.P. MORGAN STRUCTURED PRODUCTS B.V.

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 17. Financial risk management (continued)

#### Fair value of financial assets and financial liabilities

For financial assets and financial liabilities which are not carried at fair value in the balance sheet, carrying value is a reasonable approximation of fair value, as they are repayable on demand by both parties.

### 18. Managed capital

Total equity of \$528,505,000 constitutes the managed capital of the Company which consists entirely of issued share capital, share premium reserve, legal reserve and retained earnings.

The Company is not subject to any externally imposed capital requirements.

### 19. Related party transactions

Related parties comprise:

(a) Directors and shareholders of the Company and companies in which they have an ownership interest;

(b) Group undertakings of the Company.

The Company's parent undertaking is detailed in note 20. There were no transactions with the parent undertaking during the year.

Related party transactions, outstanding balances at year end, and income and expenses for the year, relating to normal business activities are as follows:

#### (i) Outstanding balances at year end

|                                   | Administrative<br>Manager<br>31 December 2012 | JPMorgan Chase<br>Group undertakings<br>31 December 2012 | Administrative<br>Manager<br>31 December 2011 | JPMorgan Chase<br>Group undertakings<br>31 December 2011 |
|-----------------------------------|---|--|---|--|
|                                   | \$'000  | \$'000   | \$'000  | \$'000   |
| Financial assets held for trading | -   | 18,007,530   | -   | 22,625,693   |
| Trade and other receivables       | -   | 9,658  | -   | 14,992   |
| Cash and cash equivalents         | -   | 604,372  | -   | 594,918  |
| Trade and other payables          | -   | (247)  | -   | (7,283)  |
| Bank Overdraft                    | -   | (54,111)   | -   | (14,482)   |

#### (ii) Income and expenses

|                             | Administrative<br>Manager<br>31 December 2012 | JPMorgan Chase<br>Group undertakings<br>31 December 2012 | Administrative<br>Manager<br>31 December 2011 | JPMorgan Chase<br>Group undertakings<br>31 December 2011 |
|-----------------------------|---|--|---|--|
|                             | \$'000  | \$'000   | \$'000  | \$'000   |
| Fees and commission income  | -   | 5,661  | -   | 9,719  |
| Fees and commission expense | -   | (2,960)  | -   | (6,023)  |
| Administrative expenses     | (2,482)                                       | -  | (3,561)                                       | -  |
| Interest income             | -   | 1,679  | -   | 570  |

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **20. Parent undertaking**

The Company's immediate parent undertaking is J.P. Morgan International Finance Limited which is incorporated in the state of Delaware in the United States of America.

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

The parent undertaking of the smallest group in which the Company's results are consolidated is J.P. Morgan International Finance Limited.

The largest and the smallest groups' consolidated financial statements can be obtained from:

The Company Secretary  
25 Bank Street  
Canary Wharf  
London  
E14 5JP  
United Kingdom

#### **The Board of Directors**

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R.W. de Koning

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J.C.W. van Burg

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J.C.P. van Uffelen

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D.R. Hansson

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G.H.K. Yu

Date: 26 March 2013

## **J.P. MORGAN STRUCTURED PRODUCTS B.V.**

### **Other Information**

#### **Profit appropriation according to the Articles of Association**

The Articles of Association of the Company require that the allocation of profits be determined in a general meeting of the shareholders. The Management Board may resolve to pay interim dividends up to an amount which does not exceed the amount of the distributable part of the net assets. Dividends shall be paid after adoption of the annual accounts from which it appears that the payment of dividends is permissible.

#### **Proposed appropriation of net results**

Management propose to appropriate the current year profits to the retained earnings. No dividend was paid or proposed during the year.

#### **Audit report**

The audit report is included on page 21.





## ***Independent auditor's report***

To the General Meeting of Shareholders of JP Morgan Structured Products B.V.

### ***Report on the financial statements***

We have audited the accompanying 2012 financial statements of JP Morgan Structured Products B.V., Amsterdam ("the Company"), as set out on pages 4 to 19 which comprise the balance sheet as at 31 December 2012, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

### ***Directors' responsibility***

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the directors are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

### ***Report on other legal and regulatory requirements***

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 26 March 2013  
PricewaterhouseCoopers Accountants N.V.

Originally signed by P.M. Landy RA