

# Non-collateralised Structured Products

Issuer

**J.P. Morgan Structured Products B.V.**

*(Incorporated with limited liability in The Netherlands)*

Guarantor

**JPMorgan Chase Bank, National Association**

*(a national banking association organised under the laws of United States of America)*

Managers

**J.P. Morgan Securities plc**

**J.P. Morgan Securities (Asia Pacific) Limited**

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This document, for which the issuer and the guarantor accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Rules") for the purpose of giving information with regard to the issuer, the guarantor and the structured products referred to in this document. The issuer and the guarantor, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

We, the issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our standard warrants (the "warrants"), inline warrants, callable bull/bear contracts (the "CBBCs") and other structured products. We will refer to the warrants, inline warrants, CBBCs and other structured products as "structured products" in this document.

We will publish a launch announcement and supplemental listing document for each issue of structured products to set out the terms specific to that issue. If at that point the information in this base listing document (and any applicable addendum) needs to be updated, we will either include the updated information in the relevant launch announcement and supplemental listing document or produce a supplemental disclosure document or an addendum to this base listing document. You should read the relevant launch announcement and supplemental listing document and the supplemental disclosure document (if any) together with this base listing document (including any addendum) before deciding whether to buy our structured products. Neither the delivery of this base listing document nor any sale of any structured products shall under any circumstances create any implication that there has been no change in our affairs or the affairs of the guarantor or its affiliates since the date of this base listing document. You should ask the managers if any supplemental disclosure document or any addendum to this base listing document or any later base listing document has been issued. You must not assume that our supplemental disclosure document or any addendum contains the most recent information at any time after the date of such supplemental disclosure document or addendum. You should read the guarantor's most recent consolidated financial statements for the year ended 31 December 2020 in this base listing document.

**The structured products involve derivatives. Investors should not invest in the structured products unless they fully understand and are willing to assume the risks associated with them.**

**The structured products are complex products. Investors should exercise caution in relation to them.**

**Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the structured products.**

**The structured products constitute general unsecured contractual obligations of the issuer and of no other person and the guarantee constitutes the general unsecured contractual obligation of the guarantor and of no other person. The structured products will rank equally among themselves and with all our other unsecured obligations and the guarantee will rank equally with all of the guarantor's other unsecured obligations (in each case, save for obligations preferred by law) upon liquidation. If you purchase the structured products you are relying upon the creditworthiness of the issuer and the guarantor and have no rights under the structured products against (a) the company which has issued the underlying shares; (b) the trustee or the manager of the underlying trust; or (c) the index compiler of the underlying index. If the issuer becomes insolvent or defaults on its obligations under the structured products or the guarantor becomes insolvent or defaults on its obligations under the guarantee, you may not be able to recover all or even part of the amount due under the structured products (if any).**

**The guarantee of the guarantor (i) is an unsecured and unsubordinated general obligation of the guarantor and not of any of its affiliates; (ii) is not a savings account or deposit of the guarantor or any bank or non-bank subsidiary of the guarantor; and (iii) will rank *pari passu* with all other unsecured and unsubordinated obligations of the guarantor, except obligations, including U.S. domestic deposits of the guarantor, that are subject to any priorities or preferences by law. The guarantee is not a deposit insured by the U.S. Federal Deposit Insurance Corporation, the U.S. Deposit Insurance Fund or any other governmental agency or instrumentality.**

The issuer and the guarantor are part of a large global financial institution and have many financial products and contracts outstanding at any given time. When purchasing the structured products, you will be relying on the creditworthiness of the issuer and the guarantor and of no one else.

The distribution of this base listing document, any launch announcement and supplemental listing document, any supplemental disclosure document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" in this base listing document. **The structured products have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and trading in the structured products has not been and will not be approved by the U.S. Commodity Futures Trading Commission under the U.S. Commodity Exchange Act. The structured products may not be offered or sold within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act). The guarantee has not been and will not be registered under the rules of the U.S. Office of the Comptroller of the Currency.**

Base Listing Document dated 7 April 2021

**J.P.Morgan**

## **IMPORTANT**

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document, the relevant launch announcement and supplemental listing document, the supplemental disclosure document (if any) (together with a Chinese translation of each of these documents) and other documents listed under the section “Where can I read copies of the Issuer’s documentation?” under the section headed “More information about our structured products and our listing documents” in this base listing document may be inspected at the offices of J.P. Morgan Securities (Asia Pacific) Limited at 23-29/F, Chater House, 8 Connaught Road Central, Hong Kong.

本基本上市文件、有關推出公佈及補充上市文件及補充披露文件（如有）（及以上各份文件的英文版）連同本基本上市文件「有關本公司結構性產品及上市文件的更多資料」一節內「本人從何處可查閱發行人的文件？」一節所列之其餘文件，可於J.P. Morgan Securities (Asia Pacific) Limited 於香港干諾道中8號遮打大廈23-29樓的辦事處供查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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## SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue include, but are not limited to: cash-settled stock warrants, cash-settled foreign stock warrants, cash-settled warrants over single unit trust, cash-settled index warrants, cash-settled stock inline warrants, cash-settled index inline warrants, cash-settled CBBCs over single stock, cash-settled CBBCs over index, and cash-settled CBBCs over single unit trust. Each type of our structured products will be subject to a separate set of master terms and conditions (Conditions) either as set out in Annex 1 to this base listing document (for the structured products listed above) or as set out in the relevant launch announcement and supplemental listing document (for other types of structured products). For each issue of our structured products, we will publish a launch announcement and supplemental listing document setting out the specific terms. The specific terms set out in the relevant launch announcement and supplemental listing document supplement and amend the applicable set of Conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

### General features of our structured products:

Issuer:	J.P. Morgan Structured Products B.V.
Guarantor:	JPMorgan Chase Bank, National Association
Current credit ratings of the Guarantor's long-term debt (as of the day immediately preceding the date of this base listing document)	<p>A+ (stable outlook) by S&amp;P Global Ratings (“<b>S&amp;P</b>”)</p> <p>Aa2 (stable outlook) by Moody's Investors Service, Inc. (“<b>Moody's</b>”)</p> <p>The ratings of the guarantor are only an assessment by the rating agencies of the guarantor's overall financial capacity to pay its long-term debts.</p> <p>A+ is among the top three major credit rating categories and is the fifth highest investment-grade ranking of the ten investment-grade ratings (including + or – sub-grades) assigned by S&amp;P.</p> <p>Aa2 is the third highest investment-grade ranking of the ten investment-grade ratings (including 1, 2 and 3 sub-grades) assigned by Moody's.</p> <p>Please refer to the brief guide in Annex 4 to this base listing document for more information about credit ratings.</p>
Rating of the structured products:	The structured products are not rated by any credit rating agencies.
Ranking of our structured products:	Upon exercise, our structured products will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.

Guarantee:	The obligations of the guarantor under the guarantee are direct, unconditional, unsecured and unsubordinated, subject to the terms of the guarantee and except as specifically set forth therein. You can find the form of the guarantee in Annex 2.
Liquidity provider:	J.P. Morgan Broking (Hong Kong) Limited or such other entity appointed by us as may be specified in the relevant launch announcement and supplemental listing document. We will describe in each launch announcement and supplemental listing document whether and to what extent we are obligated to provide liquidity in our structured products.
Form:	In registered form subject to and with the benefit of a deed poll made by us and the guarantor. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) as holder and deposited within the Central Clearing and Settlement System (CCASS).  We will not issue any definitive certificates for our structured products.
Use of proceeds:	We will use the proceeds from the issue of our structured products for our general working capital or any other purposes permitted under our memorandum and articles of association, including entering into hedging transactions with our affiliates.
Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the shares/units underlying our structured products:	If the shares/units of the company/trust or the shares of any of the companies underlying a particular issue of our structured products are delisted from the relevant stock exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company/trust or companies, the index underlying or such other asset underlying our structured products:	If certain events occur in connection with the company/trust or any of the companies underlying our structured products, or if certain events have occurred which materially modify the underlying index or such other underlying asset, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the applicable set of Conditions of our structured products for further details.  These events and the possible adjustments we may make are set out in detail in the applicable set of Conditions.
Governing law:	Our structured products and the guarantee are governed by Hong Kong law.

## SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

### **Warrants:**

Warrants are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be a stock, units in funds or trusts, an index, or other asset or combination of such assets.

A list of the eligible underlying assets for warrants is available on the HKEX website at [https://www.hkex.com.hk/Products/Securities/Structured-Products/Eligible-Underlying-Assets?sc\\_lang=en](https://www.hkex.com.hk/Products/Securities/Structured-Products/Eligible-Underlying-Assets?sc_lang=en).

- Cash-settled stock warrants, cash-settled foreign stock warrants and cash-settled warrants over single unit trust:

The underlying asset of stock warrants and foreign stock warrants is the shares of a company and the underlying asset of warrants over single unit trust is units in a fund or a trust. The shares and units in the fund or trust may be listed in Hong Kong or overseas.

Our cash-settled stock warrants, cash-settled foreign stock warrants and cash-settled warrants over single unit trust provide for cash settlement only, which means that physical delivery of the underlying shares or units will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrant holder a cash amount equal to:

in the case of call warrants:

$$\frac{\text{entitlement} \times (\text{average price} - \text{exercise price}) \times \text{one board lot}}{\text{number of warrant(s) per entitlement}}$$

in the case of put warrants:

$$\frac{\text{entitlement} \times (\text{exercise price} - \text{average price}) \times \text{one board lot}}{\text{number of warrant(s) per entitlement}}$$

and in each case (i) if applicable, converted into the settlement currency at the exchange rate(s) as specified in the relevant launch announcement and supplemental listing document; and (ii) less any exercise expenses, so long as such amount is greater than zero.

The average price of an underlying share or unit is determined by reference to the market closing price on each valuation date; please see the terms and conditions of our warrants for further details.

- **Index warrants:** The underlying asset of index warrants is an index published by an index compiler.

Our index warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to:

in the case of call warrants:

$$\frac{(\text{closing level} - \text{strike level}) \times \text{one board lot} \times \text{index currency amount}}{\text{divisor}}$$

in the case of put warrants:

$$\frac{(\text{strike level} - \text{closing level}) \times \text{one board lot} \times \text{index currency amount}}{\text{divisor}}$$

and in each case converting such amount into the settlement currency of our warrants if necessary, and less any exercise expenses, so long as such amount is greater than zero.

The closing level of the index on the date of exercise may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our warrants for further details.

The launch announcement and supplemental listing document will set out, among others, the following terms specific to our warrants to supplement the applicable set of master terms and conditions in this base listing document:

<b>Board lot</b>	Minimum number at which our warrants trade
<b>Shares of the company</b>	Name of the underlying company (for our cash-settled stock warrants and cash-settled foreign stock warrants only)
<b>Trust</b>	Name of the underlying trust or fund (for our warrants over single unit trust only)
<b>Index</b>	Name of the underlying index (for our index warrants only)
<b>Index compiler</b>	Name of company that maintains the index and calculates and publishes the index levels (for our index warrants only)
<b>Exercise price</b>	Predetermined exercise price of the underlying share/unit (for our cash-settled stock warrants, cash-settled foreign stock warrants and warrants over single unit trust only)
<b>Strike level</b>	Predetermined level of the underlying index (for our index warrants only)
<b>Expiry date</b>	Date on which our warrants expire

<b>Entitlement</b>	Number of shares/units to which a specified number of warrants relates (for our cash-settled stock warrants, cash-settled foreign stock warrants and warrants over single unit trust only)
<b>Number of warrant(s) per entitlement</b>	Number of warrants to which one entitlement relates (for our cash- settled stock warrants, cash-settled foreign stock warrants and warrants over single unit trust only)
<b>Index currency amount</b>	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
<b>European style</b>	European style warrants can only be exercised on the expiry date
<b>Listing date</b>	The date on which our warrants are scheduled to commence trading on the Stock Exchange

### ***Inline warrants***

#### **What is an inline warrant?**

An inline warrant is a type of derivative warrants.

A derivative warrant linked to an underlying asset is an instrument which derives its value from the underlying asset. Investing in a derivative warrant does not give you any right in the underlying asset. It usually costs a fraction of the value of the underlying asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

#### **How and when can you get back your investment?**

Our inline warrants are European style warrants. This means they can only be exercised on the expiry date.

An inline warrant will, upon exercise on the expiry date, entitle you to a cash amount called the “cash settlement amount” (net of any exercise expenses) (if positive) according to the applicable terms and conditions.

You will receive the cash settlement amount less any exercise expenses upon settlement at expiry. As of the date of this document, no exercise expenses are payable for cash settled warrants (including our inline warrants).

#### **How do our inline warrants work?**

Our inline warrants carry exotic features and their terms and pricing may be more complicated than the warrants. Our inline warrants provide a pre-fixed potential payoff at either a capped amount or a floor amount at expiry.

You will either:

- (i) receive a fixed and capped amount equal to the maximum payoff amount per inline warrant at expiry if the average price (for an inline warrant linked to a share) or closing level (for an inline warrant linked to an index) is at or below the upper strike price or upper strike level (as the case may be) and at or above the lower strike price or lower strike level (as the case may be); or
- (ii) receive a fixed and floor amount equal to the minimum payoff amount per inline warrant (which may be substantially less than your initial investment) at expiry and may suffer loss in your investment if the average price (for an inline warrant linked to a share) or closing level (for an inline warrant linked to an index) is above the upper strike price or upper strike level (as the case may be) or below the lower strike price or lower strike level (as the case may be). You will still receive the minimum payoff amount per inline warrant in this scenario because such amount is included in the price you pay for buying our inline warrants.

### **Where can you find the terms and conditions applicable to our inline warrants?**

You should review the terms and conditions applicable to each type of the inline warrants before your investment.

The terms and conditions applicable to each type of our inline warrants are set out in Annex 1 (as may be supplemented by any addendum and/or the relevant launch announcement and supplemental listing document).

### **What are the factors determining the price of an inline warrant?**

The price of an inline warrant generally depends on the prevailing price or level of the underlying asset. However, throughout the term of an inline warrant, its price will be influenced by one or more of the following factors, including:

- (a) the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive) applicable to that inline warrants: generally, the wider the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive) of the inline warrants, the greater its value;
- (b) the value or level of the underlying asset: generally, the closer the price or level of the underlying asset towards the mid-way of the upper strike price or upper strike level and the lower strike price or lower strike level, ignoring interim interest rates and expected dividend payments on the underlying asset or on any components comprising the underlying index and assuming all other factors remain constant, the greater the value of the inline warrants; conversely, the further away the price or level of the underlying asset from the mid-way of the upper strike price or upper strike level and the lower strike price or lower strike level, ignoring interim interest rates and expected dividend payments on the underlying asset or on any components comprising the underlying index and assuming all other factors remain constant, the lower the value of the inline warrants;
- (c) the volatility of the price or level of the underlying asset (being a measure of the fluctuation in the price or level of the underlying asset over time): generally, if an inline warrant is “out-of-the-range” (i.e. the price or level of the underlying asset falls outside the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive)), the higher the volatility, the greater the value of the inline warrants; conversely, if an inline warrant is “in-the-range” (i.e. the price or level of the underlying asset falls within the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive)), the higher the volatility, the lower the value of the inline warrants;

- (d) the expected probability of the average price or closing level falling within the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive) at expiry;
- (e) the time remaining to expiry: generally, if an inline warrant is out-of-the-range, the longer the remaining life of the inline warrant, the greater its value; conversely, if an inline warrant is in-the-range, the shorter the remaining life of the inline warrant, the greater its value;
- (f) the interim interest rates;
- (g) the expected dividend payments or other distributions (if any) on the underlying asset or on any components comprising the underlying index;
- (h) the liquidity of the underlying asset or of the futures contracts relating to the underlying index;
- (i) the supply and demand for the inline warrant;
- (j) our related transaction costs; and
- (k) our creditworthiness and the creditworthiness of the guarantor.

#### **What is your maximum loss?**

If we become insolvent or default on our obligations under our inline warrants or the guarantor becomes insolvent or defaults on its obligations under the guarantee, the maximum loss in the inline warrants will be your entire investment amount plus any transaction costs.

Otherwise, if the average price or closing level (as the case may be) is above the upper strike price or upper strike level (as the case may be) or below the lower strike price or lower strike level (as the case may be) at expiry, the maximum loss in the inline warrants will be your entire investment amount less the minimum payoff amount per inline warrant multiplied by the number of inline warrants purchased plus any transaction costs.

#### **What is your maximum profit?**

The potential maximum profit in our inline warrants will be capped at the maximum payoff amount per inline warrant multiplied by the number of inline warrants purchased less your entire investment amount and transaction costs.

You should note that your profit or loss in the inline warrants will be affected by the amount invested by you and transaction costs.

#### **How can you get information about the inline warrants after issue?**

You may visit the Stock Exchange's website at [https://www.hkex.com.hk/products/securities/structured-products/overview?sc\\_lang=en](https://www.hkex.com.hk/products/securities/structured-products/overview?sc_lang=en) or our website at <http://www.jpwwarrants.com.hk> to obtain further information on inline warrants or any notice given by us or the Stock Exchange in relation to our inline warrants.

#### ***Callable bull/bear contracts (CBBCs):***

CBBCs are structured products that track the performance of an underlying asset. CBBCs can be issued on different types of underlying assets, including:

- (a) shares or units listed on the Stock Exchange;
- (b) Hang Seng Index, Hang Seng China Enterprises Index, Hang Seng TECH Index, Hang Seng China H-Financials Index or other indices; or
- (c) other assets as prescribed by the Stock Exchange from time to time.

A list of the eligible underlying assets for CBBCs is available on the HKEX website at [https://www.hkex.com.hk/Products/Securities/Structured-Products/Eligible-Underlying-Assets?sc\\_lang=en](https://www.hkex.com.hk/Products/Securities/Structured-Products/Eligible-Underlying-Assets?sc_lang=en).

CBBCs are issued either as callable bull contracts (bull CBBCs) or callable bear contracts (bear CBBCs). Bull CBBCs are designed for investors who have an optimistic view on the underlying asset. Bear CBBCs are designed for investors who have a pessimistic view on the underlying asset.

CBBCs have a mandatory call feature and, subject to the limited circumstances set out in the relevant conditions in which a mandatory call event (MCE) may be reversed, we must terminate the CBBCs upon the occurrence of a mandatory call event. See “What is the mandatory call feature?” below for further details.

There are two categories of CBBCs, namely (a) category N CBBCs and (b) category R CBBCs. Your entitlement following the occurrence of a mandatory call event will depend on the category of the CBBCs. See “Category R CBBCs or Category N CBBCs?” below for further details.

Our CBBCs are “European style” and, subject to no occurrence of a mandatory call event, only exercisable on the relevant expiry date. The cash settlement amount (if any) payable at expiry represents the difference between the closing price/closing level of the underlying asset on the valuation date and the strike price/strike level. If on the relevant expiry date, the cash settlement amount is zero or a negative amount, you will lose all of your investment in the CBBCs.

### **What is the mandatory call feature?**

#### *Mandatory call event*

Subject to the limited circumstances set out in the relevant conditions in which a mandatory call event may be reversed, we must terminate the CBBCs if a mandatory call event occurs. A mandatory call event occurs when the spot price/spot level of the underlying asset is:

- (a) for bull CBBCs, at or below the call price/call level; or
- (b) for bear CBBCs, at or above the call price/call level,

at any time during the observation period.

The observation period commences from the observation commencement date specified in the relevant launch announcement and supplemental listing document to the trading day immediately preceding the expiry date (both dates inclusive).

#### *Cancellation of trades*

Subject to the limited circumstances set out in the relevant conditions in which a mandatory call event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

- (a) all trades in the CBBCs concluded via auto-matching or manually after the time at which a mandatory call event occurs; and
- (b) if a mandatory call event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades of the CBBCs concluded after the end of the pre-order matching period in such session,

(each, a post MCE trade) will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a mandatory call event occurs will be determined by reference to:

- (a) in respect of the CBBCs over single stock or CBBCs over single unit trust, the Stock Exchange's trading system time at which the spot price is at or below the call price (for a series of bull CBBCs) or is at or above the call price (for a series of bear CBBCs); or
- (b) in respect of the CBBCs over index, the time at which the spot level published by the relevant index compiler is at or below the call level (for a series of bull CBBCs) or is at or above the call level (for a series of bear CBBCs),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

#### **Category R CBBCs or Category N CBBCs?**

The launch announcement and supplemental listing document for the relevant series will specify whether the CBBCs are category N CBBCs or category R CBBCs.

“Category N CBBCs” refer to CBBCs for which the call price/call level is equal to their strike price/ strike level. In respect of a series of category N CBBCs, you will not receive any cash payment following the occurrence of a mandatory call event.

“Category R CBBCs” refer to CBBCs for which the call price/call level is different from their strike price/ strike level. In respect of a series of category R CBBCs, you may receive a cash payment called the residual value upon the occurrence of a mandatory call event. The residual value payable (if any) is calculated by reference to, among others:

- (a) for bull CBBCs, the difference between the minimum trade price/minimum index level of the underlying asset during a specified period called the “MCE valuation period” and the strike price/ strike level; or
- (b) for bear CBBCs, the difference between the strike price/strike level and the maximum trade price/maximum index level of the underlying asset during the MCE valuation period.

You must read the applicable conditions and the relevant launch announcement and supplemental listing document to obtain further information on the calculation formula of the residual value applicable to category R CBBCs. If the residual value is zero or a negative number, you will lose all of your investment.

- CBBCs over single stock or CBBCs over single unit trust: The underlying asset of CBBCs over single stock is the shares of a company and the underlying asset of CBBCs over single unit trust is units in a fund or a trust.

Generally for a series of CBBCs over single stock or a series of CBBCs over single unit trust, if no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder a cash amount equal to:

in the case of bull CBBCs:

$$\frac{\text{entitlement} \times (\text{closing price} - \text{strike price}) \times \text{one board lot}}{\text{number of CBBC(s) per entitlement}}$$

in the case of bear CBBCs:

$$\frac{\text{entitlement} \times (\text{strike price} - \text{closing price}) \times \text{one board lot}}{\text{number of CBBC(s) per entitlement}}$$

and in each case less any exercise expenses, so long as such amount is greater than zero.

- CBBCs over index: The underlying asset of CBBCs over index is an index published by an index compiler.

Generally for a series of CBBCs over index, if no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder a cash amount equal to:

in the case of bull CBBCs:

$$\frac{(\text{closing level} - \text{strike level}) \times \text{one board lot} \times \text{index currency amount}}{\text{divisor}}$$

in the case of bear CBBCs:

$$\frac{(\text{strike level} - \text{closing level}) \times \text{one board lot} \times \text{index currency amount}}{\text{divisor}}$$

and in each case converting such amount into the settlement currency of our CBBCs if necessary, less any exercise expenses, so long as such amount is greater than zero.

The closing level of the index on the valuation date may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our CBBCs for further details.

The launch announcement and supplemental listing document will set out, among others, the following terms specific to our CBBCs to supplement the applicable set of master terms and conditions in this base listing document:

<b>Category</b>	The category of our CBBCs: category N or category R
<b>Type</b>	The type of our CBBCs: bull or bear
<b>Board lot</b>	Minimum number at which our CBBCs trade
<b>Shares of the company</b>	Name of the underlying company (for our CBBCs over single stock only)
<b>Trust</b>	Name of the underlying trust or fund (for our CBBCs over single unit trust only)
<b>Index</b>	Name of the underlying index (for our CBBCs over index only)
<b>Index compiler</b>	Name of company that maintains the index and calculates and publishes the index levels (for our CBBCs over index only)
<b>Call price</b>	Predetermined call price of the underlying share(s)/unit (for our CBBCs over single stock or CBBCs over single unit trust only)
<b>Call level</b>	Predetermined call level of the underlying index (for our CBBCs over index only)
<b>Strike price</b>	Predetermined strike price of the underlying share(s)/unit (for our CBBCs over single stock or CBBCs over single unit trust only)
<b>Strike level</b>	Predetermined strike level of the underlying index (for our CBBCs over index only)
<b>Expiry date</b>	Date on which our CBBCs expire
<b>Valuation date</b>	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
<b>Entitlement</b>	Number of shares/units to which a specified number of CBBCs relates (for our CBBCs over single stock or CBBCs over single unit trust only)
<b>Number of CBBC(s) per entitlement</b>	Number of CBBCs to which one entitlement relates (for our CBBCs over single stock or CBBCs over single unit trust only)
<b>Index currency amount</b>	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs over index only)
<b>Listing date</b>	The date on which our CBBCs are scheduled to commence trading on the Stock Exchange

## **MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS**

### **WHO IS RESPONSIBLE FOR THIS BASE LISTING DOCUMENT?**

We and the guarantor accept full responsibility for the accuracy of the information contained in this base listing document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our base listing document. Neither we nor the guarantor accept any responsibility for the information on these websites. Such information has not been prepared for the purposes of our structured products.

Our base listing document is accurate at the date stated on the cover. You must not assume, however, that the information in this base listing document is accurate at any time after the date of this base listing document.

The managers and the liquidity provider are not responsible in any way for ensuring the accuracy of our listing documents.

This document has not been reviewed by the Securities and Futures Commission (the “SFC”). You are advised to exercise caution in relation to the offer of the structured products.

### **IS THE ISSUER OR THE GUARANTOR REGULATED BY THE HONG KONG MONETARY AUTHORITY REFERRED TO IN RULE 15A.13(2) OR THE SECURITIES AND FUTURES COMMISSION REFERRED TO IN RULE 15A.13(3)?**

We are not regulated by any of the bodies referred to in Rule 15A.13(2) or Rule 15A.13(3) of the Rules. The guarantor is a licensed bank regulated by the Hong Kong Monetary Authority. It is also a national banking association organised and subject to regulation under the laws of the United States of America, including the National Bank Act.

### **WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER, THE GUARANTOR AND THE STRUCTURED PRODUCTS?**

Information on our structured products is described in this base listing document and the relevant launch announcement and supplemental listing document.

If the information in this base listing document needs to be updated at the time we issue a launch announcement and supplemental listing document, we will put the updated information in the launch announcement and supplemental listing document or a supplemental disclosure document or an addendum. Please read this base listing document together with the relevant launch announcement and supplemental listing document and, if applicable, the relevant supplemental disclosure

document or the relevant addendum carefully before you decide whether to buy our structured products.

Additional information regarding the guarantor can be viewed at <http://www.jpwmwarrants.com.hk>. You are cautioned that this information will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about our structured products other than the information in this base listing document, the relevant launch announcement and supplemental listing document and, if applicable, the relevant supplemental disclosure document and the relevant addendum.

### **WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?**

The issue of our structured products was authorised by resolutions of our board of directors on 30 March 2021. The giving of the guarantee was authorised pursuant to resolutions of the board of directors of the guarantor adopted on 8 December 2015.

### **WHERE CAN I READ COPIES OF THE ISSUER’S DOCUMENTATION?**

You can read copies of the documents set out below by going to the offices of J.P. Morgan Securities (Asia Pacific) Limited, 23-29/F, Chater House, 8 Connaught Road Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays.

These are the documents, copies of which may be inspected upon request while any of our structured products are in issue:

- our deed of incorporation;
- the guarantor’s articles of association and by-laws;
- our latest audited financial statements;
- the guarantor’s consolidated financial statements for the year ended 31 December 2020 comprising consolidated balance sheets at 31 December 2020 and 2019 and the related consolidated statements of income, changes in stockholder’s equity, comprehensive income and cash flows for each of the three years ended 31 December 2020;
- the guarantor’s unaudited semiannual consolidated financial statements, as and when they become available;
- the guarantee dated 7 April 2021;

- the letter from the guarantor’s auditor, PricewaterhouseCoopers LLP, consenting to the reproduction of its audit report on the consolidated financial statements of the guarantor for the year ended 31 December 2020 in this base listing document;
- the amended and restated instrument dated 3 May 2010 (as amended or supplemented from time to time) (“instrument”) pertaining to the issue of structured products;
- this base listing document (including any supplemental disclosure document or addenda to this base listing document) and the relevant launch announcement and supplemental listing document (together with a Chinese translation of each of these documents);
- the base listing document dated 2 April 2020 which contains the guarantor’s consolidated financial statements for the year ended 31 December 2019 and the Report of Independent Auditors on such consolidated financial statements; and
- the supplemental disclosure document dated 29 April 2020 which contains our annual financial statements for the year ended 31 December 2019 and the Independent Auditor’s Report on such financial statements.

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

## **TRANSFER OF STRUCTURED PRODUCTS**

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second business day thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS. Dealings in the structured products will take place in relevant board lots in the relevant settlement currency. For further details on transfers of structured products and their exercise or settlement, see the terms and conditions of the relevant issue of structured products.

## **DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?**

There is no Hong Kong stamp duty on issue of our structured products. There is also no Hong Kong stamp duty on the transfer of our cash-settled structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.0027 per cent. on the value of the transaction of structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent. of the amount of the transaction and is payable by each of the buyer and seller.

You should be aware that you may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

## **HOW DO I HOLD MY STRUCTURED PRODUCTS?**

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors).

We have made all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We or the guarantor will make all payments on our structured products to CCASS: you will have to check your CCASS account or rely on your broker or agent to ensure that payments on your structured products are credited to your account with your broker or agent. Once we have made the relevant payment in this way to CCASS, we will have no further obligations for that payment, even if CCASS or your broker/agent fails to transmit to you your share of such payment or if it was transmitted late. Any notices we and/or the guarantor give in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker or agent to ensure that those notices reach you.

## RISK FACTORS

**You should carefully consider the following information together with the other information contained in this base listing document and in the applicable launch announcement and supplemental listing document before purchasing our structured products.**

**This section highlights only some of the risks of investing in the structured products but their inclusion in this base listing document does not mean these are the only significant or relevant risks of investing in our structured products.**

**Unless otherwise specified or the context otherwise requires, references in this base listing document to:**

- (a) “JPMorgan Chase” are to JPMorgan Chase & Co. and its consolidated subsidiaries; and**
- (b) “JPMorgan Chase Bank” and “JPMorgan Chase Bank, N.A.” are to JPMorgan Chase Bank, National Association and its consolidated subsidiaries.**

### **Non-collateralised structured products**

Our structured products are not secured by any of our or the guarantor’s assets or any collateral.

**You must rely on our and the guarantor’s creditworthiness; our obligations are not deposit liabilities or other types of debt obligations.**

Our structured products are not secured on any assets. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our and the guarantor’s creditworthiness and of the creditworthiness of no other entity. We do not intend to create upon ourselves a deposit liability or a debt obligation by issuing any structured products.

You should note that we are a non-banking subsidiary of J.P. Morgan International Finance Limited, which is a subsidiary of the guarantor, which is in turn a subsidiary of JPMorgan Chase & Co., a corporation incorporated under the laws of the State of Delaware in the United States of America. Our primary activity is the issuance of securitised derivatives, comprising notes, warrants and certificates including equity-linked, reverse convertible and market participation notes, with the proceeds of securities being used to enter into hedging arrangements with other JPMorgan Chase subsidiaries. Our ability to perform our obligations may therefore be affected by any inability or failure to perform obligations owed to us by other JPMorgan Chase subsidiaries.

Our structured products are subject to our and the guarantor’s credit risk, and our and the guarantor’s credit ratings and credit spreads may adversely affect the market value of our structured products. Investors in our structured products are dependent on our and the guarantor’s ability to pay all amounts due on our structured products, and therefore investors are subject to our and the guarantor’s credit risk and to changes in the market’s view of our and the guarantor’s creditworthiness. Any decline in our or the guarantor’s credit ratings or increase in the credit spreads charged by the market for taking our or the guarantor’s credit risk is likely to affect adversely the value of our structured products. If we or the guarantor were to default on our payment obligations, an investor may not receive any amounts owed to it under our structured products and the investor could lose its entire investment.

**There are risks associated with investing in our structured products; our structured products are volatile instruments and you may sustain a total loss in your investment.**

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss of your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a launch announcement and supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

Your investment in our structured products will be worthless if you are holding our structured products when:

- (a) in the case of category N CBBCs only, they are terminated early following the occurrence of a mandatory call event;
- (b) in the case of category R CBBCs only, they are terminated early following the occurrence of a mandatory call event and (for our bull CBBCs) the minimum trade price/minimum index level of the underlying asset is equal to or less than the strike price/level of our CBBCs or (for our bear CBBCs) the strike price/level of our CBBCs is equal to or less than the maximum trade price/maximum index level of the underlying asset; or
- (c) they expire out-of-the-money – meaning that the average/closing price or closing level of the underlying asset in respect of the relevant valuation date(s), determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or bear CBBCs) or less (for our call warrants or bull CBBCs) than the exercise/strike price or strike level of our structured products.

**Structured products are complex and volatile instruments.**

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left till expiry, the price or level of the underlying asset compared with the exercise/strike price or strike level of our structured products, the volatility of price or level of the underlying asset, market interest rate movements, our and the guarantor's financial condition and the market's view of our and the guarantor's credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment (or, in the case of inline warrants, a substantial part of your investment) if the price or level of the underlying assets does not move in your anticipated direction.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect, among other things, a "time value" for the structured products which depends on a number of interrelated factors including those specified above. The value of our warrants or CBBCs will decrease over time. The value of inline warrants is likely to decrease over time when the price or level of the underlying asset falls outside the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive), ignoring interim interest rates and expected

dividend payments on the underlying asset or on any components comprising the underlying index and assuming all other factors remain constant. Therefore, our structured products should not be viewed as products for long term investments.

**Your ability to realise your investment in our structured products is dependent on the trading market for our structured products.**

As our structured products are not exercisable prior to the expiry date, the only way you may be able to realise the value of your investment in our structured products is to dispose of them either in the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

The liquidity provider appointed for our structured products will upon request provide bid and/or ask prices for our structured products on the Stock Exchange and may (but is not obliged to) provide such prices at other times too, but under certain circumstances it may not provide bid and/or ask prices even if requested. You should refer to the section regarding liquidity provider in the relevant launch announcement and supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they may not be transacted through the Stock Exchange or at all, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK\$0.01.

Only the liquidity provider appointed for our structured products is obliged to provide bid and/or ask prices for our structured products (subject to the terms set out in the relevant launch announcement and supplemental listing document), and at times it may be the only source of bid and/or ask prices for our structured products.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdictions including the restrictions described in Annex 3 “Purchase and Sale” to this base listing document.

If trading in the underlying asset is suspended for whatever reason in the market on which it is listed (including the Stock Exchange), trading in the relevant series of structured products may be suspended for a similar period. In addition, if an underlying asset is an index and the calculation and/or publication of the index level by the index compiler is suspended for whatever reasons, trading in the relevant series of structured products may be suspended for a similar period. The value of our warrants or CBBCs will decrease over time, while the value of inline warrants is likely to decrease over time when the price or level of the underlying asset falls outside the range between the upper strike price or upper strike level and the lower strike price or lower strike level (both inclusive), ignoring interim

interest rates and expected dividend payments on the underlying asset or on any components comprising the underlying index and assuming all other factors remain constant. You should note that in the case of a prolonged suspension period, the market price of the relevant structured products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the relevant structured products. This may adversely affect your investment in the relevant structured products.

In respect of our structured products linked to foreign underlying assets, you should note that the trading hours of the foreign underlying assets (based on Hong Kong time) on the relevant stock exchange may be different from the trading hours of the Stock Exchange. In the case where trading in the foreign underlying assets on the relevant stock exchange is suspended during non-trading hours of the Stock Exchange, trading in the relevant structured products on the Stock Exchange will be suspended as soon as practicable afterwards. Such suspension may be lifted and trading of foreign underlying assets on the relevant stock exchange may resume during nontrading hours of the Stock Exchange, in which case, trading in the relevant structured products on the Stock Exchange will also resume as soon as practicable afterwards.

**Our structured products are not rated, you should not solely rely on the guarantor's ratings when investing in the structured products.**

Rating agencies usually receive a fee from the companies that they rate. When evaluating the guarantor's creditworthiness, you should not solely rely on the guarantor's credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the structured products;
- credit ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;
- a high credit rating is not necessarily indicative of low risk. The guarantor's credit ratings as set out in this base listing document are for reference only. Any downgrading of the guarantor's credit ratings could result in a reduction in the value of the structured products;
- a credit rating is not an indication of the liquidity or volatility of the structured products; and
- a credit rating may be downgraded if the credit quality of the guarantor declines.

The guarantor's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the guarantor's ratings from time to time.

**You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets.**

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, trust or fund which issues or comprises the underlying assets of the relevant issue of structured products or (ii) the trustee or the manager of any underlying asset that is a trust or a fund or (iii) the sponsor of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying shares or units in the underlying fund or trust. As mentioned, there are many factors influencing the value and/or market price of structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of a call warrant by a proportionate amount or even any increase at all; however, a decrease in the price or level

of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of a call warrant. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. In the case of inline warrants, generally, ignoring interim interest rates and expected dividend payments on the underlying asset or on any components comprising the underlying index and assuming all other factors remain constant, the closer the price/level of the underlying asset towards the mid-way of the upper strike price/upper strike level and the lower strike price/lower strike level, the greater the value of the inline warrants; conversely, the further the price/level of the underlying asset from the mid-way of the upper strike price/upper strike level and the lower strike price/lower strike level, the lower the value of the inline warrants. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset.

The issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors in our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have an adverse impact on the value and/or market price of our structured products.

**There could be conflicts of interest arising out of our other activities which may affect our structured products.**

We, the guarantor and its subsidiaries and affiliates may engage in transactions (whether for their accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company or to any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products. We, the guarantor and its subsidiaries and affiliates may have officers who serve as directors of any of the companies underlying our structured products. Our market-making activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of the structured products. We or the guarantor may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us, the guarantor and its subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. We or the guarantor owe no duty to you to avoid such conflicts.

**There are risks relating to the early termination of our structured products due to a change in law applicable to our group (including Executive Order 13959, as amended, issued by the President of the United States).**

We may early terminate our structured products upon the occurrence of a Change in Law Event (as defined below). Please refer to the paragraph headed “We may early terminate our structured products due to illegality or impracticality.” below for further details.

The President of the United States issued Executive Order 13959 on 12 November 2020 and amended it by Executive Order 13974 of 13 January 2021 (collectively, the “**Executive Orders**”). The Executive Orders are primarily administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“**OFAC**”). OFAC has published certain General Licenses and responses to Frequently Asked Questions related to the Executive Orders on its website at <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/chinese-military-companies-sanctions>.

The Executive Orders apply to our group and may affect our hedging and liquidity activities over our structured products linked to certain restricted companies that are or become subject to the Executive Orders.

The U.S. government may impose sanctions on additional companies under the Executive Orders, and those sanctions may affect the structured products in the future if the underlying asset of the structured products becomes covered by the scope of the Executive Orders. It is not possible to predict the target companies or timing of any additional actions by the U.S. government.

**We may early terminate our structured products due to illegality or impracticability.**

We may terminate our structural products if we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (a) for us to perform our obligations under any structured products or for the guarantor to perform its obligations under the guarantee, in whole or in part as a result of (i) the adoption of, or any change in, any relevant law or regulation (including any tax law) or (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law) (each of (i) and (ii), a “**Change in Law Event**”); or (b) for us or any of our affiliates to maintain our hedging arrangements with respect to the structured products due to a Change in Law Event. Upon the occurrence of a Change in Law Event, we will, if and to the extent permitted by the applicable law or regulation, pay to each holder of those structured products a cash amount determined by the agent in good faith and in a commercially reasonable manner to be the fair market value of the structured products immediately prior to such termination (ignoring such illegality or impracticability) less our cost of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion. Such fair market value of the structured products could be substantially less than the amount you invested and can be as low as zero.

**Risks associated with structured products linked to the value of foreign underlying assets.**

You should be aware that investments in structured products linked to the value of foreign underlying assets involve particular risks. For our structured products linked to a foreign stock or an index comprising of stocks traded in equity securities markets of foreign countries, the liquidity and volatility of the relevant foreign equity securities market may be different from that of the Hong Kong equity securities market. Also, there may be less publicly available information about the underlying foreign companies than those available about Hong Kong listed companies and some of that information may or may not be available in English and/or Chinese. Foreign companies may also be subject to different accounting, auditing and financial reporting standards and requirements compared to those applicable to Hong Kong listed companies.

Prices and market value of foreign underlying assets may be subject to political, economic, financial and social factors which may differ favourably or unfavourably from those factors that apply to Hong Kong. Moreover, foreign economies may also differ favorably or unfavorably from the Hong Kong economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

Further, for our structured products linked to a foreign stock or an index comprising of stocks traded in equity securities markets of foreign countries, the trading hours and closing times of the relevant stock exchange(s) may be different to those of the Stock Exchange and the relevant stock exchange(s) may be located in a different time zone compared with the Stock Exchange. The days on which the relevant stock exchange(s) are open for trading may also be different to those of the Stock Exchange. As a result, there may be certain periods of time during the trading hours of the Stock Exchange when the price/level of the foreign underlying asset are not available. In such circumstances, the liquidity provider may not be able to provide liquidity in the market of the structured products. However, to the extent possible, the liquidity provider may be able to provide liquidity for the structured products in such circumstances using the last available closing price/level of the foreign underlying asset from the relevant stock exchange(s), adjusted where necessary to reflect the fair market value of the foreign underlying asset. In addition, any delay or disruption in the display of the price/level of the foreign underlying asset may also result in a corresponding delay or unavailability of the prices of the structured products. The launch announcement and supplemental listing document for our structured products linked to a foreign stock or an index comprising of stocks traded in equity securities markets of foreign countries will set out further details on the relevant stock exchange(s).

### **Risks associated with our structured products over single unit trust.**

#### *General risks*

For our structured products over single unit trust, neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the underlying fund or trust. Neither the trustee nor the manager of the underlying fund or trust (i) is involved in the offer of any structured product in any way, or (ii) has any obligation to consider the interest of the holders of any structured product in taking any corporate actions relating to the underlying fund or trust that might affect the value of any structured product. The trustee or the manager of the underlying fund or trust is responsible for making investment and other trading decisions with respect to the management of the underlying fund or trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the underlying fund or trust. The manner in which the underlying fund or trust is managed and the timing of actions may have a significant impact on the performance of the units in the underlying fund or trust. Hence, the price which is used to calculate the performance of the units in the underlying fund or trust may also be subject to these risks.

You should note that our structured products over single unit trust reference the units of the underlying fund or trust and the cash settlement amount (if any) payable upon exercise of our structured products will be calculated using the official closing prices of the units in the underlying fund or trust on the Stock Exchange on the valuation date(s). Further, our structured products do not reference any index tracked by the underlying fund or trust and changes in the level of such index may not lead to a corresponding change in the value and/or market price of our structured products over single unit trust.

#### *Exchange traded funds*

In the case of our structured products linked to units of an exchange traded fund (“ETF”), you should note that:

- (a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;
- (b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

- (c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of our structured products will also be indirectly subject to these risks.

#### *Synthetic exchange traded funds*

Additionally, where the underlying asset of our structured products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track (“**Synthetic ETF**”), you should note that:

- (a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and
- (b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of our structured products linked to such ETF or Synthetic ETF.

#### *QFII ETF, RQFII ETF and/or China Connect*

An ETF (“**China ETF**”) may be issued and traded outside Mainland China with direct investment in the Mainland China’s securities markets through the Qualified Foreign Institutional Investor (“**QFII**”) regime, the Renminbi Qualified Foreign Institutional Investor (“**RQFII**”) regime and/or the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, “**China Connect**”). Where the underlying asset of our structured products comprises the units of such China ETF, you should note that, amongst others:

- (a) the novelty and untested nature of China Connect make China ETFs riskier than traditional ETFs investing directly in more developed markets. The policy and rules for QFII, RQFII and China Connect prescribed by the Mainland China government are new and subject to change, and there may be uncertainty to their implementation. The uncertainty and change of the laws and regulations in Mainland China may adversely impact on the performance of the relevant China ETFs and the trading price of the relevant units;
- (b) a China ETF primarily invests in securities traded in the Mainland China’s securities markets and is subject to concentration risk. Investment in the Mainland China’s securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity, volatility and regulatory risks. The operation of a China ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets;

- (c) trading of securities invested by the China ETF under China Connect will be subject to a daily quota which is utilized on a first-come-first-serve basis under China Connect. In the event that the daily quota under China Connect is reached, the manager may need to suspend creation of further units of such China ETF, and therefore may affect the liquidity in unit trading of such China ETF. In such event, the trading price of a unit of such China ETF is likely to be at a significant premium to its net asset value, and may be highly volatile. The People's Bank of China and the State Administration of Foreign Exchange have published the detailed implementation rules removing the investment quota allocated to such China ETF under the RQFII and QFII regimes with effect from 6 June 2020; and
- (d) there are risks and uncertainties associated with the current Mainland Chinese tax laws applicable to a China ETF investing in the Mainland China through QFII, RQFII and/or China Connect. Although such China ETF may have made a tax provision in respect of potential tax liability, the provision may be excessive or inadequate. Any shortfall between the provisions and actual tax liabilities may be covered by the assets of such China ETF and may therefore adversely affect the net asset value of such China ETF and the market value and/or potential payout of the structured products.

The above risks may have a significant impact on the performance of the relevant units and the price of the structured products.

Please read the offering documents of the relevant China ETF to understand its key features and risks.

*ETF traded through dual counters model*

Where the underlying asset of our structured products comprises the units of an ETF which adopts the dual counters model for trading its units on the Stock Exchange in Renminbi (“**RMB**”) and Hong Kong dollars (“**HKD**”) separately, the novelty and relatively untested nature of the Stock Exchange's dual counters model may bring the following additional risks:

- (a) the structured products may be linked to the HKD-traded units or the RMB-traded units. If the underlying asset is the HKD-traded units, movements in the trading prices of the RMB-traded units should not directly affect the price of the structured products. Similarly, if the underlying asset is the RMB-traded units, movements in the trading prices of the HKD-traded units should not directly affect the price of the structured products;
- (b) if there is a suspension of inter-counter transfer of such units between the HKD counter and the RMB counter for any reason, such units will only be able to be traded in the relevant currency counter on the Stock Exchange, which may affect the demand and supply of such units and have an adverse effect on the price of the structured products; and
- (c) the trading price on the Stock Exchange of the HKD-traded units and RMB-traded units may deviate significantly due to different factors, such as market liquidity, RMB conversion risk, supply and demand in each counter and the exchange rate between RMB and HKD. Changes in the trading price of the underlying asset in HKD or RMB (as the case may be) may adversely affect the price of the structured products.

### *Real estate investment trust (“REIT”)*

Where the underlying asset of our structured products comprises the units of a REIT, you should note that the investment objective of a REIT is to invest in a real estate portfolio. Each REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates; (e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

### *Commodity market risk*

Where the underlying asset of our structured products comprises the units of an ETF whose value relates directly to the value of a commodity, you should note that fluctuations in the price of the commodity could materially adversely affect the value of the underlying units. Commodity market is generally subject to greater risks than other markets. The price of a commodity is highly volatile. Price movement of a commodity is influenced by, among other things, interest rates, changing market supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and international political and economic events and policies.

The above risks may have a significant impact on the performance of the relevant units and the price of the structured products.

### **Liquidation of underlying company or termination of underlying trust or fund.**

In the event of liquidation, dissolution, winding up or termination of the company that issues the underlying shares, or termination of a trust or fund that issues the underlying units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant structured products shall lapse.

### **Time lag between the time of early termination/exercise and the time of determination of the settlement amount may affect the settlement amount.**

Upon early termination or exercise of your structured products, there may be a time lag between the time of early termination or exercise and the time of determination of the settlement amount. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying shares, termination of the trust or fund that issues the underlying unit or other adjustment events. This may result in the settlement amount being zero.

**We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets.**

We and/or the agent may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may in our sole discretion make corresponding adjustments to the terms and conditions of our structured products, including adjustments to (i) the exercise/strike price, the upper strike price/lower strike price or the call price (as and if applicable) of the structured products; (ii) the entitlement of the structured products; (iii) the composition of the underlying assets or (iv) any other terms of the structured products. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products.

In the case of structured products which relate to an index, the level of the index may vary over time and may increase or decrease by reference to various factors which may include changes in the formula for or the method of calculating the index. A level for the index may also be published by the index compiler at a time when one or more shares comprising the index are not trading. Certain (but not all) events relating to the index underlying the structured products require or permit us to make certain adjustments or amendments to the conditions (e.g. determining the closing level).

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

**We may modify the terms and conditions of the structured products.**

We may, without your consent, effect any modification of the terms and conditions of the structured products which, in our opinion, is:

- (i) not materially prejudicial to your interests generally (without considering the circumstances of any individual holder of the structured products or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

**Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products.**

We and/or the agent may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If the agent determines that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products may be postponed. Under certain circumstances, we and/or the agent may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant valuation date but for such market disruption event.

**The implied volatility of our structured products may not reflect the actual volatility of the underlying asset.**

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price “implies” a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured product which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

**Investment in our structured products may involve exchange rate risks and interest rate risks.**

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wish to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/ or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that current exchange rates at the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

**United States federal tax may be withheld from payments with respect to structured products that are treated as “dividend equivalents”. This may have an adverse effect on the value and liquidity of the structured products.**

A “dividend equivalent” payment generally is treated as a dividend from sources within the United States and such payments generally would be subject to a 30 per cent (30%) United States withholding tax if paid to a Non-U.S. Holder (as defined in “Taxation – United States of America”). Under recently promulgated U.S. Treasury regulations and related official guidance issued pursuant to Section 871(m) of the U.S. Internal Revenue Code of 1986, as amended (the “**Internal Revenue Code**”), payments (including deemed payments) with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities may be treated as dividend equivalents. Section 871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable U.S. Treasury regulations. Additionally, the applicable regulations and guidance exclude from the scope of Section 871(m) instruments issued before 1 January 2023 that do not have a “delta” of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes. If any payments are treated as dividend equivalents subject to withholding, we (or any applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld. As a result, actual payments on the structured products may be substantially less than the amounts specified in their terms.

**Payments made by us to certain holders with respect to the structured products may be subject to United States withholding tax under the United States Foreign Account Tax Compliance Act.**

The Foreign Account Tax Compliance Act (“**FATCA**”) generally imposes a 30 per cent (30%) United States withholding tax on certain United States source payments, including interest (and original issue discount), dividends (and “dividend equivalent” payments), or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition (subject to the discussions below relating to the Proposed Regulations) of property of a type which can produce United States source interest or dividends (“**Withholdable Payments**”), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding United States account holders (including certain account holders that are foreign entities with United States owners) with such institution, or such institution otherwise complies with its obligations under FATCA. A structured product may constitute an account for these purposes. FATCA also generally imposes a withholding tax of 30 per cent (30%) on Withholdable Payments made to a nonfinancial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial United States owners or a certification identifying the direct and indirect substantial United States owners of the entity, or otherwise establishes an exemption.

The U.S. Treasury Department and the U.S. Internal Revenue Service have announced that FATCA withholding on payments of gross proceeds from the sale or disposition of a structured product will only apply to payments made after 31 December 2018. However, recently proposed regulations (which have not yet been finalized) (the “**Proposed Regulations**”) have eliminated this withholding requirement. Taxpayers are permitted to rely on the Proposed Regulations until final regulations are issued; however, final regulations could reinstate this withholding obligation (or otherwise modify the Proposed Regulations) at any time, possibly with retroactive effect.

In addition, under FATCA, “passthru payments” made by a foreign financial institution to “recalcitrant holders” or noncompliant foreign financial institutions are subject to a 30 per cent (30%) United States withholding tax. A “recalcitrant holder” generally is a holder of an account with a foreign financial institution that fails to comply with certain requests for information that will help enable the relevant foreign financial institution to comply with its obligations under FATCA (a structured product may constitute an account for these purposes). Pursuant to U.S. Treasury regulations, a passthru payment is any Withholdable Payment and any “foreign passthru payment”, which has yet to be defined. Under the Proposed Regulations, withholding on foreign passthru payments would not be required with respect to payments made before the date that is two years after the date of publication in the U.S. Federal Register of final regulations defining the term “foreign passthru payment”. Taxpayers are permitted to rely on the Proposed Regulations until final regulations are issued; however, final regulations could reinstate these withholding obligations (or otherwise modify the Proposed Regulations) at any time, possibly with retroactive effect.

If we determine that withholding is appropriate with respect to the structured products, we (or an applicable withholding agent) will withhold tax at the applicable statutory rate without being required to pay any additional amounts with respect to amounts so withheld.

**The potential effect of the earnings stripping rule included in the Anti-Tax Avoidance Directive I (“ATAD I”) on the financial position of the Issuer may not be fully ascertainable.**

As part of its anti-tax avoidance package, ATAD I was adopted as Council Directive (EU) 2016/1164 on 12 July 2016 and was required to be implemented by all European Union Member States by 1 January 2019. The Dutch government has implemented the earnings stripping rule included in ATAD I into Dutch law, as a result of which it came into force in the Netherlands as of 1 January 2019.

Under the earnings stripping rule, the deduction of ‘exceeding’ borrowing costs (defined as the amount by which the deductible borrowing costs of a taxpayer exceed taxable interest revenues and other economically equivalent taxable revenues) will be limited to 30% of a taxpayer’s adjusted EBITDA (to which a euro 1.0 million threshold applies). Given that the Issuer’s principal activities generally consist of issuing structured products and the subsequent hedging of those risk positions, the Issuer is not expected to incur any ‘exceeding’ borrowing costs for purposes of the earnings stripping rule. As such, it is currently not expected that the earnings stripping rule will have an adverse effect on the Issuer and its financial position in the Netherlands. Due to the fact that the earnings stripping rule concerns new legislation and the limited availability of practical guidance, however, the exact scope of its potential effects on the financial position of the Issuer may not be fully ascertainable.

#### **The proposed financial transaction tax (“FTT”).**

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia. However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions). Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State.

The proposed Directive remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the structured products are advised to seek their own professional advice in relation to the FTT.

#### **Please consult your tax advisers if you are in any doubt of your tax position.**

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred and such laws and practices may change from time to time. If you are in any doubt of your tax position, you should consult your own independent tax advisers.

#### **Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount.**

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors), which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors). If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, you will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the HKEX website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) as the holder. You will therefore have to rely on CCASS and/or your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

**We and our guarantor do not give you any advice or credit analysis.**

Neither we nor the guarantor is responsible for the lawfulness of your acquisition of our structured products. We and the guarantor are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of our structured products of any series.

**Risks associated with inline warrants.**

*Inline warrants are exotic warrants and are not comparable to warrants*

Inline warrants are exotic warrants with different terms and risk and return profile compared to standard call or put warrants listed on the Stock Exchange and are not comparable to warrants. Inline warrants carry exotic features and their terms and pricing may be more complicated than warrants. Inline warrants may behave quite differently from warrants and other exotic warrants in its response to the price levels/levels or movements in the price/level of the underlying asset. The pricing structure of inline warrants requires investors to assess accurately the value of inline warrants in relation to the expected probability of the average price/closing level falling within the range between the upper strike price/upper strike level and the lower strike price/lower strike level (both inclusive). Inline warrants are highly complicated and risky financial instruments and may be difficult for investors to properly value and/or to use as a hedging tool. You should carefully review and understand the terms and conditions, including the exotic features, before deciding to invest in inline warrants. In particular, you should note that inline warrants provide a pre-fixed potential payoff at either **a capped amount or a floor amount** at expiry. If the average price/closing level falls outside the range between the lower strike price/lower strike level and the upper strike price/upper strike level (both inclusive), you will receive a lower fixed and floor amount equal to the minimum payoff amount per inline warrant (which may be substantially less than your initial investment) at expiry and may suffer loss in your investment. You will still receive the minimum payoff amount per inline warrant in this scenario because such amount is included in the price you pay for buying the inline warrants. Do not invest in inline warrants unless you fully understand them and are willing to assume the risks associated with them.

*Maximum potential payoff is fixed and capped*

If the average price/closing level stays within the range between the lower strike price/lower strike level and the upper strike price/upper strike level (both inclusive), we will only pay you a fixed and capped amount equal to the maximum payoff amount per inline warrant at expiry. This is the maximum potential payoff under inline warrants.

### *Rejection of orders and trades at the price above HK\$1*

You should note that any orders and reported trades of inline warrants at the price above HK\$1 will be automatically rejected upon their entry to the Stock Exchange's trading system. The Stock Exchange and its recognised exchange controller, HKEX, will not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEX) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with such rejection of orders and trades, including without limitation, any delay, failure, mistake or error in such rejection of orders and trades.

We and our affiliates shall not have any responsibility for any losses suffered as a result of such rejection of orders and trades in any circumstances.

### *Prohibition on the sale of certain binary options in European retail markets*

There have been regulatory concerns over the sale of certain binary options to retail investors across the European Union in recent years. Such binary options are typically traded over-the-counter with bespoke structures and are very short-term, making them extremely speculative in nature. Until recently, the European Securities and Markets Authority ("ESMA") implemented a temporary ban on the marketing, distribution or sale of binary options to retail customers in the European Union except for securitised binary options. The temporary ban expired and was lifted by ESMA on 1 July 2019 based on the fact that most national competent authorities within the European Union had taken permanent national product intervention measures relating to binary options that are at least as stringent as ESMA's measure. For example, the Financial Conduct Authority ("FCA") in the United Kingdom (a then European Union member) imposed a permanent ban effective from 2 April 2019 on the marketing, distribution or sale of all binary options (including securitised binary options) to retail customers in the United Kingdom while the Federal Financial Supervisory Authority ("BaFin") in Germany and the Autorité des Marchés Financiers ("AMF") of France had also permanently banned the marketing, distribution or sale of binary options (other than securitised binary options) to retail customers.

Inline warrants are a form of securitised binary options. Unlike the binary options in the European retail markets as described above, the inline warrants listed on the Stock Exchange have a more standardised structure and relatively longer period to expiry (with a minimum duration of 6 months before expiry).

Irrespective of the differences between the inline warrants listed on the Stock Exchange and the binary options in Europe, you should nevertheless note the approach taken by the European regulators over binary options. Inline warrants are complex products. You should fully understand the structure and terms and conditions of inline warrants and are willing to assume the risks associated with them before investing in inline warrants.

### **Risks associated with CBBCs.**

#### *CBBCs will become volatile if trading close to the call price/call level*

Although the price changes of a CBBC tend to reflect the changes in value of the underlying asset, when the underlying asset is trading at a price/level close to the applicable call price/ call level, the CBBC tends to be more volatile and any price changes of the CBBC at such time may not be comparable and may be disproportionate with the movement in the value of the underlying asset.

### *Mandatory call event is irrevocable*

A mandatory call event is irrevocable unless it is triggered by:

- (a) system malfunction or other technical errors of the HKEX (such as the setting up of wrong call price or call level and other parameters) and such event is reported by the Stock Exchange to us and the Stock Exchange and we mutually agree that such mandatory call event is to be revoked; or
- (b) manifest errors caused by the relevant third party price sources (such as any miscalculation of the index level by the index compiler) and such event is reported by us to the Stock Exchange and the Stock Exchange and we mutually agree that such mandatory call event is to be revoked.

In each of the above cases, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including pre-opening session) (Hong Kong time) on the trading day of the Stock Exchange immediately following the day on which the mandatory call event occurs, or such other timeframe as prescribed by the Stock Exchange from time to time.

In such case, the mandatory call event so triggered will be reversed and all trades cancelled (if any) will be reinstated and the trading of the CBBCs will resume as soon as practicable.

Subject to the limited circumstances described above in which a mandatory call event may be reversed, the CBBCs will be terminated following a mandatory call event and you will not be able to benefit from any movement in the underlying asset after the occurrence of the mandatory call event.

### *Delay in announcement of mandatory call event*

The Stock Exchange will notify the market as soon as practicable after the CBBCs have been called upon the occurrence of a mandatory call event. You should be aware that there may be a delay in the announcement of a mandatory call event due to technical errors, system failures and other factors that are beyond our control and the control of the Stock Exchange.

### *Non-recognition of post MCE trades*

You should note that after the occurrence of a mandatory call event, all post MCE trades will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange.

### *Disclaimers relating to mandatory call event*

The Stock Exchange and its recognised exchange controller, HKEX, will not incur any liability (whether based on contract, tort, (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEX) for, any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the mandatory call event or the suspension of trading (trading suspension) or the non-recognition of trades after a mandatory call event (non-recognition of post MCE trades), including without limitation, any delay, failure, mistake or error in the trading suspension or non-recognition of post MCE trades.

We and our guarantor shall not have any responsibility for any losses suffered as a result of the trading suspension and/or non-recognition of post MCE trades in connection with the occurrence of a mandatory call event, notwithstanding that such trading suspension or non-recognition of post MCE trades may have occurred as a result of an error in the observation of the event.

### *Fluctuation in the funding cost*

The issue price of the CBBCs is set by reference to the difference between the initial reference spot price/level of the underlying asset and the strike price/level, plus the applicable funding cost.

The initial funding cost applicable to the CBBCs will be specified in the relevant launch announcement and supplemental listing document. It will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including, but not limited to, the strike price/level, the call price/level, the prevailing interest rate, the expected life of the CBBCs, any expected notional dividends in respect of the underlying asset (if applicable) and the margin financing provided by us.

### *Residual value will not include residual funding cost*

For category R CBBCs, the residual value (if any) payable by us following the occurrence of a mandatory call event will not include the residual funding cost for the CBBCs. You will not receive any residual funding cost back from us upon early termination of a category R CBBC following a mandatory call event.

### *Our hedging activities*

Our or our affiliates' market-making and/or hedging activities and/or other financial instruments issued by us or our affiliates from time to time may have an impact on the price/level of the underlying asset and may trigger a mandatory call event.

In particular, when the price/level of the underlying asset is close to the call price/level, our unwinding activities in relation to the underlying asset may cause a fall or rise (as the case may be) in the price/level of the underlying asset leading to a mandatory call event as a result of such unwinding activities.

In respect of category N CBBCs, we or our affiliates may unwind our hedging transactions relating to the CBBCs at any time even if such unwinding activities may trigger a mandatory call event.

In respect of category R CBBCs, before the occurrence of a mandatory call event, we or our affiliates may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from the market from time to time. Upon the occurrence of a mandatory call event, we or our affiliates can unwind any hedging transactions relating to the CBBCs. Such unwinding activities after the occurrence of a mandatory call event may affect the price/level of the underlying asset and consequently the residual value for the CBBCs.

The market price of the CBBCs may become more sensitive to changes in the value of the underlying asset where the value is approaching the call price/call level, resulting in greater volatility of market price of the CBBCs.

### *The guarantor is subject to the Financial Institutions (Resolution) Ordinance*

The Financial Institutions (Resolution) Ordinance (Cap. 628, the Laws of Hong Kong) (the "FIRO") was enacted by the Legislative Council of Hong Kong in June 2016. The FIRO (except Part 8, section 192 and Division 10 of Part 15 thereof) came into operation on 7 July 2017.

The FIRO establishes a regime for the orderly resolution of financial institutions with a view to avoiding or mitigating the risks otherwise posed by their non-viability to the stability and effective working of the financial system of Hong Kong, including the continued performance of critical financial functions. The FIRO seeks to empower the resolution authorities with authority to decide whether to initiate the resolution of a financial institution and which stabilization options to apply and other powers to exercise in effecting a resolution. In particular, it is envisaged that subject to certain safeguards, the relevant resolution authority would be provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution, including but not limited to powers to write off, or convert into equity, all or a part of the liabilities of the failing financial institution.

We are not subject to or bound by the FIRO. However, the guarantor, as an authorised institution regulated by the Hong Kong Monetary Authority, is subject to and bound by the FIRO. The exercise of any resolution power by the relevant resolution authority under the FIRO in respect of the guarantor may have a material adverse effect on the value of the structured products, and as a result, you may not be able to recover all or any amount due under the structured products (if any).

### **Status of the Guarantee**

JPMorgan Chase Bank, N.A.'s guarantee of our structured products (i) is an unsecured and unsubordinated general obligation of the guarantor and not of any of its affiliates, (ii) is not a savings account or deposit of the guarantor or any bank or non-bank subsidiary or affiliate of the guarantor and (iii) will rank pari passu with all other unsecured and unsubordinated indebtedness of the guarantor, except obligations, including U.S. domestic deposits of the guarantor, that are subject to any priorities or preferences by law. JPMorgan Chase Bank, N.A.'s guarantee is not a deposit insured by the U.S. Federal Deposit Insurance Corporation (the "FDIC"), the U.S. Deposit Insurance Fund or any other governmental agency or instrumentality.

In particular, U.S. federal legislation adopted in 1993 provides for a preference in right of payment of certain claims made in the liquidation or other resolution of any FDIC-insured depository institution, which includes JPMorgan Chase Bank, N.A. The statute requires claims to be paid in the following order:

- first, administrative expenses of the receiver;
- second, any deposit liability of the institution;
- third, any other general or senior liability of the institution not described below;
- fourth, any obligation subordinated to depositors or general creditors not described below;  
and
- fifth, any obligation to shareholders or members (including any depository institution holding company or any shareholder or creditor of such company).

Deposit liabilities have been interpreted by the FDIC to include any deposit payable at an office of the insured depository institution in the United States, and not to include international banking facility deposits or deposits solely payable at an office of the insured depository institution outside the United States.

## **Limitations of the Guarantee**

JPMorgan Chase Bank, N.A.'s guarantee of our structured products is limited in scope to our payment and other obligations in respect of the structured products, and allows the guarantor to avail itself of all exclusions, exceptions and defences available to us under the terms and conditions of the structured products and at law. Further, in certain circumstances, the guarantor will not be obliged under the terms of its guarantee to satisfy our payment or other obligations in respect of the structured products, even where we have failed to perform such obligations. For example, if we are prohibited, unable, or otherwise fail to make any payment, or any portion thereof or to perform any other obligation, because or arising out of an act of war, insurrection or civil strife; an action by a government or any governmental authority or instrumentality thereof (whether de jure or de facto); legal constraint; terrorism; riots; or catastrophe, and we are thereby in default of our payment or other obligations in respect of any of our structured products, the guarantor will be under no obligation under the terms of its guarantee to satisfy our defaulted obligations. See "Form of Guarantee" below.

## **Risk factors relating to the guarantor.**

The risk factors described below as well as the other information included in this document and in any amendment or supplement to this document may be material for the purpose of assessing the business risks that may affect JPMorgan Chase Bank, National Association's business and profitability. The following risk factors are contingencies which may or may not occur and JPMorgan Chase Bank, National Association is not in a position to express a view on the likelihood of any such contingency occurring. References in these risk factors to "JPMorgan Chase" are to JPMorgan Chase & Co. and its subsidiaries, including JPMorgan Chase Bank, National Association.

## **COVID-19 Pandemic**

### **The COVID-19 pandemic has caused and is causing significant harm to the global economy and could further negatively affect certain of JPMorgan Chase's businesses.**

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, to be a global pandemic. The COVID-19 pandemic and governmental responses to the pandemic led to the institution of social distancing and shelter-in-place requirements in certain areas of the U.S. and other countries resulting in ongoing severe impacts on global economic conditions, including:

- significant disruption and volatility in the financial markets
- significant disruption of global supply chains, and
- closures of many businesses, leading to loss of revenues and increased unemployment.

A prolongation or worsening of the pandemic, or the emergence of other diseases that give rise to similar effects, could deepen the adverse impact on the global economy.

The adverse economic conditions caused by the pandemic have had a negative impact on certain of JPMorgan Chase's businesses and results of operations, including:

- reduction in demand for certain products and services from JPMorgan Chase's clients and customers, resulting in lower revenue, and
- increases in the allowance for credit losses.

Certain models used by JPMorgan Chase in connection with the determination of the allowance for credit losses have heightened performance risk in the economic environment precipitated by the effects of the COVID-19 pandemic and government stimulus. There can be no assurance that, even after adjustments have been made to model outputs, JPMorgan Chase will not recognize unexpected losses arising from the model uncertainty that has resulted from these developments.

A prolongation or worsening of the COVID-19 pandemic and the negative economic impacts of the pandemic could have other significant adverse effects on JPMorgan Chase's businesses, results of operations and financial condition, including:

- recognition of credit losses and further increases in the allowance for credit losses, especially to the extent that businesses remain closed, unemployment continues at elevated levels, clients and customers draw on their lines of credit or significant numbers of people relocate from metropolitan areas
- material impacts on the value of securities, derivatives and other financial instruments which JPMorgan Chase owns or in which it makes markets
- downgrades in JPMorgan Chase's credit ratings
- constraints on liquidity or capital due to elevated levels of deposits, increases in risk-weighted assets ("RWA") related to supporting client activities, downgrades in client credit ratings, regulatory actions or other factors, any or all of which could require JPMorgan Chase to take or refrain from taking actions that it otherwise would under its liquidity and capital management strategies, and
- the possibility that significant portions of JPMorgan Chase's workforce are unable to work effectively, including because of illness, quarantines, shelter-in-place arrangements, government actions or other restrictions in connection with the pandemic.

The extent to which the COVID-19 pandemic negatively affects JPMorgan Chase's businesses, results of operations and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments that are highly uncertain and cannot be predicted, including the ultimate scope and duration of the pandemic, the effectiveness of vaccination programs and actions taken by governmental authorities and other third parties in response to the pandemic. Those negative effects, including the possible recognition of charge-offs, may be delayed because of the impact of prior and potential future government stimulus actions or payment assistance provided to clients and customers.

In addition, JPMorgan Chase's participation directly or indirectly, including on behalf of customers and clients or by affiliated entities, in U.S. government programs designed to support individuals, households and businesses impacted by the economic disruptions caused by the COVID-19 pandemic could be criticized and subject JPMorgan Chase to:

- increased governmental and regulatory scrutiny
- negative publicity, and
- increased exposure to litigation,

any or all of which could increase JPMorgan Chase's operational, legal and compliance costs and damage its reputation. To the extent that the COVID-19 pandemic adversely affects JPMorgan Chase's business, results of operations and financial condition, it may also have the effect of heightening many of the other risks described below.

## **Regulatory**

**JPMorgan Chase's businesses are highly regulated, and existing, new or changed laws, rules and regulations that apply to JPMorgan Chase have a significant impact on its business and operations.**

JPMorgan Chase is a financial services firm with operations worldwide. JPMorgan Chase must comply with the laws, rules and regulations that apply to its operations in all of the jurisdictions around the world in which it does business. Regulation of the financial services industry is extensive.

The regulation and supervision of financial services firms has expanded significantly over an extended period of time. The increased regulation and supervision of JPMorgan Chase has affected the way that it conducts its business and structures its operations. JPMorgan Chase could be required to make further changes to its business and operations in response to expanded supervision, new laws, rules and regulations, and changes to existing laws, rules and regulations. These changes could result in JPMorgan Chase incurring additional costs for complying with laws, rules and regulations and could reduce its profitability. In response to new and existing laws, rules and regulations and expanded supervision, JPMorgan Chase has in the past been and could in the future be, required to:

- limit the products and services that it offers
- reduce the liquidity that it can provide through its market-making activities
- refrain from engaging in business opportunities that it might otherwise pursue
- pay higher taxes, assessments, levies or other governmental charges, including in connection with the resolution of tax examinations
- dispose of certain assets, and do so at times or prices that are disadvantageous
- impose restrictions on certain business activities, or
- increase the prices that it charges for products and services, which could reduce the demand for them.

In particular, JPMorgan Chase's businesses and results of operations could be adversely impacted by changes in laws, rules and regulations, or changes in the application, interpretation or enforcement of laws, rules and regulations, that:

- proscribe or institute more stringent restrictions on certain financial services activities, or
- introduce changes to antitrust or anti-competition laws, rules and regulations that adversely affect the business activities of JPMorgan Chase.

**Differences in financial services regulation can be disadvantageous for JPMorgan Chase's business.**

The content and application of laws, rules and regulations affecting financial services firms sometimes vary according to factors such as the size of the firm, the jurisdiction in which it is organized or operates, and other criteria. For example:

- larger firms such as JPMorgan Chase are often subject to more stringent supervision and regulation

- financial technology companies and other non-traditional competitors may not be subject to banking regulation, or may be supervised by a national or state regulatory agency that does not have the same resources or regulatory priorities as the regulatory agencies which supervise more diversified financial services firms, or
- the financial services regulatory framework in a particular jurisdiction may favor financial institutions that are based in that jurisdiction.

These differences in the regulatory framework can result in a firm such as JPMorgan Chase losing market share to competitors that are less regulated or not subject to regulation, especially with respect to unregulated financial products.

There can also be significant differences in the ways that similar regulatory initiatives affecting the financial services industry are implemented in the U.S. and in other countries and regions in which JPMorgan Chase does business. For example, when adopting rules that are intended to implement a global regulatory standard, a national regulator may introduce additional or more restrictive requirements, which can create competitive disadvantages for financial services firms, such as JPMorgan Chase, that may be subject to those enhanced regulations.

Legislative and regulatory initiatives outside the U.S. could require JPMorgan Chase to make significant modifications to its operations and legal entity structure in the relevant countries or regions in order to comply with those requirements. These include laws, rules and regulations that have been adopted or proposed relating to:

- the establishment of locally-based intermediate holding companies or operating subsidiaries
- requirements to maintain minimum amounts of capital or liquidity in locally-based subsidiaries
- the separation (or “ring fencing”) of core banking products and services from markets activities
- the resolution of financial institutions
- requirements for executing or settling transactions on exchanges or through central counterparties (“CCPs”)
- position limits and reporting rules for derivatives
- governance and accountability regimes
- conduct of business and control requirements, and
- restrictions on compensation.

These types of differences in financial services regulation, or inconsistencies or conflicts between laws, rules and regulations between different jurisdictions, have required and could in the future require JPMorgan Chase to:

- divest assets or restructure its operations
- absorb increased operational, capital and liquidity costs
- change the prices that it charges for its products and services

- curtail the products and services that it offers to its customers and clients, or
- incur higher costs for complying with different legal and regulatory frameworks.

Any or all of these factors could harm JPMorgan Chase's ability to compete against other firms that are not subject to the same laws, rules and regulations or supervisory oversight, or harm JPMorgan Chase's businesses, results of operations and profitability.

**Heightened regulatory scrutiny of JPMorgan Chase's businesses could result in higher compliance costs and restrictions on its operations.**

JPMorgan Chase's operations are subject to heightened oversight and scrutiny from regulatory authorities in many jurisdictions. JPMorgan Chase has paid significant fines, provided other monetary relief, incurred other penalties and experienced other repercussions in connection with resolving investigations and enforcement actions by governmental agencies. JPMorgan Chase could become subject to similar regulatory resolutions or other actions in the future, and addressing the requirements of any such resolutions or actions could result in JPMorgan Chase incurring higher operational and compliance costs or needing to comply with other restrictions.

In connection with resolving specific regulatory investigations or enforcement actions, certain regulators have required JPMorgan Chase and other financial institutions to admit wrongdoing with respect to the activities that gave rise to the resolution. These types of admissions can lead to:

- greater exposure in litigation
- damage to reputation
- disqualification from doing business with certain clients or customers, or in specific jurisdictions, or
- other direct and indirect adverse effects.

Furthermore, U.S. government officials have demonstrated a willingness to bring criminal actions against financial institutions and have required that institutions plead guilty to criminal offenses or admit other wrongdoing in connection with resolving regulatory investigations or enforcement actions. Resolutions of this type can have significant collateral consequences for the subject financial institution, including:

- loss of clients, customers and business
- restrictions on offering certain products or services, and
- losing permission to operate certain businesses, either temporarily or permanently.

JPMorgan Chase expects that:

- it and other financial services firms will continue to be subject to heightened regulatory scrutiny and governmental investigations and enforcement actions
- regulators will continue to require that financial institutions be penalized for actual or deemed violations of law with formal and punitive enforcement actions, including the imposition of significant monetary and other sanctions, rather than resolving these matters through informal supervisory actions; and

- regulators will be more likely to pursue formal enforcement actions and resolutions against JPMorgan Chase to the extent that it has previously been subject to other governmental investigations or enforcement actions.

If JPMorgan Chase fails to meet the requirements of any resolution of a governmental investigation or enforcement action, or to maintain risk and control processes that meet the heightened standards established by its regulators, it could be required to:

- enter into further resolutions of investigations or enforcement actions
- pay additional regulatory fines, penalties or judgments, or
- accept material regulatory restrictions on, or changes in the management of, its businesses.

In these circumstances, JPMorgan Chase could also become subject to other sanctions, or to prosecution or civil litigation with respect to the conduct that gave rise to an investigation or enforcement action.

**Complying with economic sanctions and anti-corruption and anti-money laundering laws, rules and regulations can increase JPMorgan Chase’s operational and compliance costs and risks.**

JPMorgan Chase must comply with economic sanctions and embargo programs administered by the Office of Foreign Assets Control (“OFAC”) and similar national and multi-national bodies and governmental agencies outside the U.S., as well as anti-corruption and anti-money laundering laws, rules and regulations throughout the world. JPMorgan Chase can incur higher costs and face greater compliance risks in structuring and operating its businesses to comply with these requirements. Certain governments have enacted laws, which are commonly referred to as “blocking laws,” that are designed to prohibit compliance with some U.S. sanctions and may raise significant conflict of laws issues. A violation of a sanction or embargo program or anti-corruption or anti-money laundering laws, rules and regulations, or enforcement of blocking laws, could subject JPMorgan Chase, and individual employees, to regulatory enforcement actions as well as significant civil and criminal penalties.

**JPMorgan Chase’s operations and financial results can be negatively impacted in countries with less predictable legal and regulatory frameworks.**

JPMorgan Chase conducts business in certain countries in which the application of the rule of law is inconsistent or less predictable, including with respect to:

- the absence of a statutory or regulatory basis or guidance for engaging in specific types of business or transactions
- conflicting or ambiguous laws, rules and regulations, or the inconsistent application or interpretation of existing laws, rules and regulations
- uncertainty concerning the enforceability of contractual, intellectual property or other obligations
- difficulty in competing in economies in which the government controls or protects all or a portion of the local economy or specific businesses, or where graft or corruption may be pervasive, and
- the threat of arbitrary regulatory investigations, civil litigations or criminal prosecutions, the termination of licenses required to operate in the local market or the suspension of business relationships with governmental bodies.

If the application of the laws, rules and regulations in a particular country is susceptible to producing inconsistent or unexpected outcomes, this can create a more difficult environment in which JPMorgan Chase conducts its business and could negatively affect JPMorgan Chase's operations and reduce its earnings with respect to that country. For example, conducting business could require JPMorgan Chase to devote significant additional resources to understanding, and monitoring changes in, local laws, rules and regulations, as well as structuring its operations to comply with local laws, rules and regulations and implementing and administering related internal policies and procedures.

There can be no assurance that JPMorgan Chase will always be successful in its efforts to fully understand and to conduct its business in compliance with the laws, rules and regulations of all of the jurisdictions in which it operates, and the risk of non-compliance can be greater in countries that have less predictable legal and regulatory systems.

**Requirements for the orderly resolution of JPMorgan Chase could result in JPMorgan Chase having to restructure or reorganize its businesses and could increase its funding or operational costs or curtail its business.**

JPMorgan Chase is required under Federal Reserve and FDIC rules to prepare and submit periodically to those agencies a detailed plan for rapid and orderly resolution in bankruptcy, without extraordinary government support, in the event of material financial distress or failure. The agencies' evaluation of JPMorgan Chase's resolution plan may change, and the requirements for resolution plans may be modified from time to time. Any such determinations or modifications could result in JPMorgan Chase needing to make changes to its legal entity structure or to certain internal or external activities, which could increase its funding or operational costs, or hamper its ability to serve clients and customers.

If the Federal Reserve and the FDIC were both to determine that a resolution plan submitted by JPMorgan Chase has deficiencies, they could jointly impose more stringent capital, leverage or liquidity requirements or restrictions on JPMorgan Chase's growth, activities or operations. The agencies could also require that JPMorgan Chase restructure, reorganize or divest assets or businesses in ways that could materially and adversely affect JPMorgan Chase's operations and strategy.

**Holders of JPMorgan Chase & Co.'s debt and equity securities will absorb losses if it were to enter into a resolution.**

Federal Reserve rules require that JPMorgan Chase & Co. (the "Parent Company") maintain minimum levels of unsecured external long-term debt and other loss-absorbing capacity with specific terms ("eligible LTD") for purposes of recapitalizing JPMorgan Chase's operating subsidiaries if the Parent Company were to enter into a resolution either:

- in a bankruptcy proceeding under Chapter 11 of the U.S. Bankruptcy Code, or
- in a receivership administered by the FDIC under Title II of the Dodd-Frank Act ("Title II").

**If the Parent Company were to enter into a resolution, holders of eligible LTD and other debt and equity securities of the Parent Company will absorb the losses of the Parent Company and its subsidiaries.**

The preferred "single point of entry" strategy under JPMorgan Chase's resolution plan contemplates that only the Parent Company would enter bankruptcy proceedings. JPMorgan Chase's subsidiaries would be recapitalized, as needed, so that they could continue normal operations or subsequently be divested or wound down in an orderly manner. As a result, the Parent Company's losses and any losses incurred by its subsidiaries would be imposed first on holders of the Parent Company's equity securities and thereafter on its unsecured creditors, including holders of eligible LTD and other

debt securities. Claims of holders of those securities would have a junior position to the claims of creditors of JPMorgan Chase's subsidiaries and to the claims of priority (as determined by statute) and secured creditors of the Parent Company.

Accordingly, in a resolution of the Parent Company in bankruptcy, holders of eligible LTD and other debt securities of the Parent Company would realize value only to the extent available to the Parent Company as a shareholder of JPMorgan Chase Bank, N.A. and its other subsidiaries, and only after any claims of priority and secured creditors of the Parent Company have been fully repaid.

The FDIC has similarly indicated that a single point of entry recapitalization model could be a desirable strategy to resolve a systemically important financial institution, such as the Parent Company, under Title II. However, the FDIC has not formally adopted a single point of entry resolution strategy.

If the Parent Company were to approach, or enter into, a resolution, none of the Parent Company, the Federal Reserve or the FDIC is obligated to follow JPMorgan Chase's preferred resolution strategy, and losses to holders of eligible LTD and other debt and equity securities of the Parent Company, under whatever strategy is ultimately followed, could be greater than they might have been under JPMorgan Chase's preferred strategy.

**Regulatory uncertainties associated with the U.K.'s departure from the EU could negatively affect JPMorgan Chase's business, results of operations and operating model.**

The U.K.'s departure from the EU, which is commonly referred to as "Brexit," was completed on December 31, 2020. The Trade and Cooperation Agreement entered into between the U.K. and the EU in December 2020 included very limited provisions relating to the conduct of financial services activities between the U.K. and the EU. Accordingly, unless or until the U.K. and the EU enter into further agreements relating to financial services, the regulatory environment for financial services in the aftermath of Brexit can be expected to:

- significantly limit the ability of U.K.-based financial services firms to conduct business in the EU, and vice versa
- prolong uncertainty concerning the levels of market access for trading venues, which could result in a reduction or fragmentation of market liquidity, and
- prolong ongoing uncertainties concerning optimal business models for firms providing financial services, especially given that any changes in the regulation of such services by the U.K. may not benefit from equivalence determinations by the EU.

As a result of these limitations and uncertainties, JPMorgan Chase:

- has made and is continuing to make appropriate changes to its legal entity structure and operations in the U.K. and the EU to address the regulatory environment
- is now maintaining, and expects that it will be required to sustain, a more fragmented operating model across its U.K. and EU operating entities, and
- expects that, due to considerations such as operating expenses, liquidity, leverage and capital, this modified European operating framework will be more complex, less efficient and more costly than would otherwise have been the case.

In addition, the COVID-19 pandemic and EU and U.K. government responses to the pandemic, including travel restrictions and lock-downs, have introduced delays and uncertainties into JPMorgan Chase's implementation of its plans for maintaining continuity of service for its clients.

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

## **Political**

### **Economic uncertainty or instability caused by political developments can hurt JPMorgan Chase's businesses.**

The economic environment and market conditions in which JPMorgan Chase operates continue to be uncertain due to political developments in the U.S. and other countries. Certain monetary, fiscal and other policy initiatives and proposals could cause a contraction in U.S. and global economic growth and higher volatility in the financial markets, including:

- monetary policies and actions taken by the Federal Reserve and other central banks or governmental authorities, including any sustained large-scale asset purchases or any suspension or reversal of those actions
- fiscal policies, including with respect to taxation
- actions that governments take or fail to take in response to the effects of the COVID-19 pandemic, as well as the effectiveness of any actions taken
- isolationist foreign policies
- the implementation of tariffs and other protectionist trade policies, or
- political and social pressures with respect to governmental policies and actions.

These types of political developments, and uncertainty about the possible outcomes of these developments, could:

- erode investor confidence in the U.S. economy and financial markets, which could potentially undermine the status of the U.S. dollar as a safe haven currency
- provoke retaliatory countermeasures by other countries and otherwise heighten tensions in diplomatic relations
- lead to the withdrawal of government support for agencies and enterprises such as the U.S. Federal National Mortgage Association and the U.S. Federal Home Loan Mortgage Corporation (together, the "U.S. GSEs")
- increase concerns about whether the U.S. government will be funded, and its outstanding debt serviced, at any particular time
- result in periodic shutdowns of the U.S. government or governments in other countries, and
- increase investor reliance on actions by the Federal Reserve or other central banks, or investor perceptions concerning government support of sectors of the economy or the economy as a whole.

These factors could lead to:

- slower growth rates, rising inflation or recession

- greater market volatility
- a contraction of available credit and the widening of credit spreads
- erosion of adequate risk premium on certain financial assets
- diminished investor and consumer confidence
- lower investment growth
- large-scale sales of government debt and other debt and equity securities in the U.S. and other countries
- reduced commercial activity among trading partners
- the potential for a currency redenomination by a particular country
- the possible departure of a country from, or the dissolution of, a political or economic alliance or treaty
- potential expropriation or nationalization of assets, or
- other market dislocations, including the spread of unfavorable economic conditions from a particular country or region to other countries or regions.

Any of these potential outcomes could cause JPMorgan Chase to suffer losses on its market-making positions or in its investment portfolio, reduce its liquidity and capital levels, hamper its ability to deliver products and services to its clients and customers, and weaken its results of operations and financial condition.

## **Market**

### **Economic and market events and conditions can materially affect JPMorgan Chase's businesses and investment and market-making positions.**

JPMorgan Chase's results of operations can be negatively affected by adverse changes in any of the following:

- investor, consumer and business sentiment
- events that reduce confidence in the financial markets
- inflation or deflation
- high unemployment or, conversely, a tightening labor market
- the availability and cost of capital, liquidity and credit
- levels and volatility of interest rates, credit spreads and market prices for currencies, equities and commodities, and the duration of any changes in levels or volatility
- the economic effects of outbreaks of hostilities, terrorism or other geopolitical instabilities, cyber attacks, climate change, natural disasters, severe weather conditions, health emergencies, the spread of infectious diseases or pandemics, and

- the health of the U.S. and global economies.

All of these are affected by global economic, market and political events and conditions, as well as regulatory restrictions.

In addition, JPMorgan Chase's investment portfolio and market-making businesses can suffer losses due to unanticipated market events, including:

- severe declines in asset values
- unexpected credit events
- unforeseen events or conditions that may cause previously uncorrelated factors to become correlated (and vice versa)
- the inability to effectively hedge market and other risks related to market-making and investment portfolio positions, or
- other market risks that may not have been appropriately taken into account in the development, structuring or pricing of a financial instrument.

If JPMorgan Chase experiences significant losses in its investment portfolio or from market-making activities, this could reduce JPMorgan Chase's profitability and its liquidity and capital levels, and thereby constrain the growth of its businesses.

**JPMorgan Chase's consumer businesses can be negatively affected by adverse economic conditions.**

JPMorgan Chase's consumer businesses are particularly affected by U.S. and global economic conditions, including:

- personal and household income distribution
- unemployment or underemployment
- prolonged periods of exceptionally low interest rates
- housing prices
- the level of consumer and small business confidence levels
- changes in consumer spending or in the level of consumer debt, and
- the number of personal bankruptcies.

Heightened levels of unemployment or underemployment that result in reduced personal and household income could negatively affect consumer credit performance to the extent that consumers are less able to service their debts. In addition, sustained low growth, low or negative interest rates, inflationary pressures or recessionary conditions could diminish customer demand for the products and services offered by JPMorgan Chase's consumer businesses.

Adverse economic conditions could also lead to an increase in delinquencies, additions to the allowance for credit losses and higher net charge-offs, which can reduce JPMorgan Chase's earnings. These consequences could be significantly worse in certain geographies and industry segments where economic restrictions and shutdowns have occurred related to the COVID-19 pandemic, declining

industrial or manufacturing activity that has resulted in or could result in higher levels of unemployment, or where high levels of consumer debt, such as outstanding student loans, could impair the ability of customers to pay their other consumer loan obligations.

JPMorgan Chase's earnings from its consumer businesses could also be adversely affected by governmental policies and actions that affect consumers, including:

- policies and initiatives relating to medical insurance, education, immigration, employment status and housing, and
- policies aimed at the economy more broadly, such as higher taxes and increased regulation which could result in reductions in consumer disposable income.

In addition, governmental proposals to permit student loan obligations to be discharged in bankruptcy proceedings could, if enacted into law, encourage certain of JPMorgan Chase's customers to declare personal bankruptcy and thereby trigger defaults and charge-offs of credit card and other consumer loans extended to those customers.

**Unfavorable market and economic conditions can have an adverse effect on JPMorgan Chase's wholesale businesses.**

In JPMorgan Chase's wholesale businesses, market and economic factors can affect the volume of transactions that JPMorgan Chase executes for its clients or for which it advises clients, and, therefore, the revenue that JPMorgan Chase receives from those transactions. These factors can also influence the willingness of other financial institutions and investors to participate in capital markets transactions that JPMorgan Chase manages, such as loan syndications or securities underwritings. Furthermore, if a significant and sustained deterioration in market conditions were to occur, the profitability of JPMorgan Chase's capital markets businesses, including its loan syndication, securities underwriting and leveraged lending activities, could be reduced to the extent that those businesses:

- earn less fee revenue due to lower transaction volumes, including when clients are unwilling or unable to refinance their outstanding debt obligations in unfavorable market conditions, or
- dispose of portions of credit commitments at a loss, or hold larger residual positions in credit commitments that cannot be sold at favorable prices.

An adverse change in market conditions in particular segments of the economy, such as a sudden and severe downturn in oil and gas prices or an increase in commodity prices, could have a material adverse effect on clients of JPMorgan Chase whose operations or financial condition are directly or indirectly dependent on the health or stability of those market segments, as well as clients that are engaged in related businesses. JPMorgan Chase could incur losses on its loans and other credit commitments to clients that operate in, or are dependent on, any sector of the economy that is under stress.

The fees that JPMorgan Chase earns from managing client assets or holding assets under custody for clients could be diminished by declining asset values or other adverse macroeconomic conditions. For example, higher interest rates or a downturn in financial markets could affect the valuations of client assets that JPMorgan Chase manages or holds under custody, which, in turn, could affect JPMorgan Chase's revenue from fees that are based on the amount of assets under management or custody. Similarly, adverse macroeconomic or market conditions could prompt outflows from JPMorgan Chase funds or accounts, or cause clients to invest in products that generate lower revenue. Substantial and unexpected withdrawals from a JPMorgan Chase fund can also hamper the investment performance of

the fund, particularly if the outflows create the need for the fund to dispose of fund assets at disadvantageous times or prices, and could lead to further withdrawals based on the weaker investment performance.

An economic downturn that results in lower consumer and business spending could also have a negative impact on certain of JPMorgan Chase's wholesale clients, and thereby diminish JPMorgan Chase's earnings from its wholesale operations. For example, the businesses of certain of JPMorgan Chase's wholesale clients are dependent on consistent streams of rental income from commercial real estate properties which are owned or being built by those clients. Severe and sustained adverse economic conditions, including higher unemployment caused by the COVID-19 pandemic and governmental actions taken in response to the pandemic, could result in reductions in the rental cash flows that owners or developers receive from their tenants which, in turn, could depress the values of the properties and impair the ability of borrowers to service or refinance their commercial real estate loans. These consequences could result in JPMorgan Chase experiencing higher delinquencies, defaults and write-offs within its commercial real estate loan portfolio and incurring higher costs for servicing a larger volume of delinquent loans in that portfolio, thereby reducing JPMorgan Chase's earnings from its wholesale businesses.

**Changes in interest rates and credit spreads can adversely affect certain of JPMorgan Chase's revenue and income streams related to JPMorgan Chase's traditional banking and funding activities.**

In general, a low or negative interest rate environment may cause:

- net interest margins to be compressed, which could reduce the amounts that JPMorgan Chase earns on its investment securities portfolio to the extent that it is unable to reinvest contemporaneously in higher-yielding instruments
- unanticipated or adverse changes in depositor behavior, which could negatively affect JPMorgan Chase's broader asset and liability management strategy
- JPMorgan Chase to reduce the amount of deposits that it accepts from customers and clients, which could result in lower revenues, and
- a reduction in the value of JPMorgan Chase's mortgage servicing rights ("MSRs") asset, thereby decreasing revenues.

When credit spreads widen, it becomes more expensive for JPMorgan Chase to borrow. JPMorgan Chase's credit spreads may widen or narrow not only in response to events and circumstances that are specific to JPMorgan Chase but also as a result of general economic and geopolitical events and conditions. Changes in JPMorgan Chase's credit spreads will affect, positively or negatively, JPMorgan Chase's earnings on certain liabilities, such as derivatives, that are recorded at fair value.

When interest rates are increasing, JPMorgan Chase can generally be expected to earn higher net interest income. However, higher interest rates can also lead to:

- fewer originations of commercial and residential real estate loans
- losses on underwriting exposures
- the loss of deposits, including in the event that JPMorgan Chase makes incorrect assumptions about depositor behavior

- lower net interest income if central banks introduce interest rate increases more quickly than anticipated and this results in a misalignment in the pricing of short-term and long-term borrowings
- less liquidity in the financial markets, and
- higher funding costs.

All of these outcomes could adversely affect JPMorgan Chase's revenues and its liquidity and capital levels. Higher interest rates can also negatively affect the payment performance on loans within JPMorgan Chase's consumer and wholesale loan portfolios that are linked to variable interest rates. If borrowers of variable rate loans are unable to afford higher interest payments, those borrowers may reduce or stop making payments, thereby causing JPMorgan Chase to incur losses and increased operational costs related to servicing a higher volume of delinquent loans.

**JPMorgan Chase's results may be materially affected by market fluctuations and significant changes in the value of financial instruments.**

The value of securities, derivatives and other financial instruments which JPMorgan Chase owns or in which it makes markets can be materially affected by market fluctuations. Market volatility, illiquid market conditions and other disruptions in the financial markets may make it extremely difficult to value certain financial instruments. Subsequent valuations of financial instruments in future periods, in light of factors then prevailing, may result in significant changes in the value of these instruments. In addition, at the time of any disposition of these financial instruments, the price that JPMorgan Chase ultimately realizes will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of JPMorgan Chase's financial instruments which may have an adverse effect on JPMorgan Chase's results of operations.

JPMorgan Chase's risk management and monitoring processes, including its stress testing framework, seek to quantify and control JPMorgan Chase's exposure to more extreme market moves. However, JPMorgan Chase's hedging and other risk management strategies may not be effective, and it could incur significant losses, if extreme market events were to occur.

**Credit**

**JPMorgan Chase can be negatively affected by adverse changes in the financial condition of clients, counterparties, custodians and CCPs.**

JPMorgan Chase routinely executes transactions with clients and counterparties such as corporations, financial institutions, asset managers, hedge funds, exchanges and government entities within and outside the U.S. Many of these transactions expose JPMorgan Chase to the credit risk of its clients and counterparties, and can involve JPMorgan Chase in disputes and litigation if a client or counterparty defaults. JPMorgan Chase can also be subject to losses or liability where a financial institution that it has appointed to provide custodial services for client assets or funds becomes insolvent as a result of fraud or the failure to abide by existing laws and obligations, including under the EU Alternative Investment Fund Managers Directive.

A default by, or the financial or operational failure of, a CCP through which JPMorgan Chase executes contracts would require JPMorgan Chase to replace those contracts, thereby increasing its operational costs and potentially resulting in losses. JPMorgan Chase can also be exposed to losses if a member of a CCP in which JPMorgan Chase is also a member defaults on its obligations to the CCP because of requirements that each member of the CCP absorb a portion of those losses. As part of its clearing services activities, JPMorgan Chase is also exposed to the risk of nonperformance by its clients, which it seeks to mitigate by requiring clients to provide adequate collateral. JPMorgan Chase is also exposed to intra-day credit risk of its clients in connection with providing cash management, clearing, custodial and other transaction services to those clients. If a client for which JPMorgan Chase provides these services becomes bankrupt or insolvent, JPMorgan Chase may incur losses, become involved in disputes and litigation with one or more CCPs, the client's bankruptcy estate and other creditors, or be subject to regulatory investigations. All of the foregoing events can increase JPMorgan Chase's operational and litigation costs, and JPMorgan Chase may suffer losses to the extent that any collateral that it has received is insufficient to cover those losses. JPMorgan Chase can also be subject to bearing its share of non-default losses incurred by a CCP, including losses from custodial, settlement or investment activities or due to cyber or other security breaches.

Transactions with government entities, including national, state, provincial, municipal and local authorities, can expose JPMorgan Chase to enhanced sovereign, credit, operational and reputation risks. Government entities may, among other things, claim that actions taken by government officials were beyond the legal authority of those officials or repudiate transactions authorized by a previous incumbent government. These types of actions have in the past caused, and could in the future cause, JPMorgan Chase to suffer losses or hamper its ability to conduct business in the relevant jurisdiction.

In addition, local laws, rules and regulations could limit JPMorgan Chase's ability to resolve disputes and litigation in the event of a counterparty default or unwillingness to make previously agreed-upon payments, which could subject JPMorgan Chase to losses.

Disputes may arise with counterparties to derivatives contracts with regard to the terms, the settlement procedures or the value of underlying collateral. The disposition of those disputes could cause JPMorgan Chase to incur unexpected transaction, operational and legal costs, or result in credit losses. These consequences can also impair JPMorgan Chase's ability to effectively manage its credit risk exposure from its market activities, or cause harm to JPMorgan Chase's reputation.

The financial or operational failure of a significant market participant, such as a major financial institution or a CCP, or concerns about the creditworthiness of such a market participant, can have a cascading effect within the financial markets. JPMorgan Chase's businesses could be significantly disrupted by such an event, particularly if it leads to other market participants incurring significant losses, experiencing liquidity issues or defaulting, and JPMorgan Chase is likely to have significant interrelationships with, and credit exposure to, such a significant market participant.

**JPMorgan Chase may suffer losses if the value of collateral declines in stressed market conditions.**

During periods of market stress or illiquidity, JPMorgan Chase's credit risk may be further increased when:

- JPMorgan Chase cannot realize the fair value of the collateral it holds
- collateral is liquidated at prices that are not sufficient to recover the full amount owed to it, or
- counterparties are unable to post collateral, whether for operational or other reasons.

Furthermore, disputes with counterparties concerning the valuation of collateral may increase in times of significant market stress, volatility or illiquidity, and JPMorgan Chase could suffer losses during these periods if it is unable to realize the fair value of collateral or to manage declines in the value of collateral.

**JPMorgan Chase could incur significant losses arising from concentrations of credit and market risk.**

JPMorgan Chase is exposed to greater credit and market risk to the extent that groupings of its clients or counterparties:

- engage in similar or related businesses, or in businesses in related industries
- do business in the same geographic region, or
- have business profiles, models or strategies that could cause their ability to meet their obligations to be similarly affected by changes in economic conditions.

For example, a significant deterioration in the credit quality of one of JPMorgan Chase's borrowers or counterparties could lead to concerns about the creditworthiness of other borrowers or counterparties in similar, related or dependent industries. This type of interrelationship could exacerbate JPMorgan Chase's credit, liquidity and market risk exposure and potentially cause it to incur losses, including fair value losses in its market-making businesses and investment portfolios. In addition, JPMorgan Chase may be required to recognize higher allowances for credit losses with respect to certain clients or industries in order to align with directives or expectations of its banking regulators.

Similarly, challenging economic conditions that affect a particular industry or geographic area could lead to concerns about the credit quality of JPMorgan Chase's borrowers or counterparties not only in that particular industry or geography but in related or dependent industries, wherever located. These conditions could also heighten concerns about the ability of customers of JPMorgan Chase's consumer businesses who live in those areas or work in those affected industries or related or dependent industries to meet their obligations to JPMorgan Chase. JPMorgan Chase regularly monitors various segments of its credit and market risk exposures to assess the potential risks of concentration or contagion, but its efforts to diversify or hedge its exposures against those risks may not be successful.

JPMorgan Chase's consumer businesses can also be harmed by an excessive expansion of consumer credit by bank or non-bank competitors. Heightened competition for certain types of consumer loans could prompt industry-wide reactions such as significant reductions in the pricing or margins of those loans or the making of loans to less-creditworthy borrowers. If large numbers of consumers subsequently default on their loans, whether due to weak credit profiles, an economic downturn or other factors, this could impair their ability to repay obligations owed to JPMorgan Chase and result in higher charge-offs and other credit-related losses. More broadly, widespread defaults on consumer debt could lead to recessionary conditions in the U.S. economy, and JPMorgan Chase's consumer businesses may earn lower revenues in such an environment.

If JPMorgan Chase is unable to reduce positions effectively during a market dislocation, this can increase both the market and credit risks associated with those positions and the level of RWA that JPMorgan Chase holds on its balance sheet. These factors could adversely affect JPMorgan Chase's capital position, funding costs and the profitability of its businesses.

## Liquidity

### **JPMorgan Chase's ability to operate its businesses could be impaired if its liquidity is constrained.**

JPMorgan Chase's liquidity could be impaired at any given time by factors such as:

- market-wide illiquidity or disruption
- unforeseen liquidity or capital requirements, including as a result of changes in laws, rules and regulations
- inability to sell assets, or to sell assets at favorable times or prices
- default by a CCP or other significant market participant
- unanticipated outflows of cash or collateral
- unexpected loss of consumer deposits, and
- lack of market or customer confidence in JPMorgan Chase or financial institutions in general.

A reduction in JPMorgan Chase's liquidity may be caused by events over which it has little or no control. For example, during periods of market stress, low investor confidence and significant market illiquidity could result in higher funding costs for JPMorgan Chase and could limit its access to some of its traditional sources of liquidity.

JPMorgan Chase may need to raise funding from alternative sources if its access to stable and lower-cost sources of funding, such as deposits and borrowings from Federal Home Loan Banks, is reduced. Alternative sources of funding could be more expensive or limited in availability. JPMorgan Chase's funding costs could also be negatively affected by actions that JPMorgan Chase may take in order to:

- satisfy applicable liquidity coverage ratio and net stable funding ratio requirements
- address obligations under its resolution plan, or
- satisfy regulatory requirements in jurisdictions outside the U.S. relating to the pre-positioning of liquidity in subsidiaries that are material legal entities.

More generally, if JPMorgan Chase fails to effectively manage its liquidity, this could constrain its ability to fund or invest in its businesses and subsidiaries (including, in particular, its broker-dealer subsidiaries), and thereby adversely affect its results of operations.

### **JPMorgan Chase & Co. is a holding company and depends on the cash flows of its subsidiaries to make payments on its outstanding securities.**

JPMorgan Chase & Co. is a holding company that holds the stock of JPMorgan Chase Bank, N.A. and an intermediate holding company, JPMorgan Chase Holdings LLC (the "IHC"). The IHC in turn holds the stock of substantially all of JPMorgan Chase's subsidiaries other than JPMorgan Chase Bank, N.A. and its subsidiaries. The IHC also owns other assets and owes intercompany indebtedness to the holding company.

The holding company is obligated to contribute to the IHC substantially all the net proceeds received from securities issuances (including issuances of senior and subordinated debt securities and of preferred and common stock).

The ability of JPMorgan Chase Bank, N.A. and the IHC to make payments to the holding company is also limited. JPMorgan Chase Bank, N.A. is subject to restrictions on its dividend distributions, as well as capital adequacy requirements, such as the Supplementary Leverage Ratio (“SLR”), and liquidity requirements and other regulatory restrictions on its ability to make payments to the holding company. The IHC is prohibited from paying dividends or extending credit to the holding company if certain capital or liquidity thresholds are breached or if limits are otherwise imposed by JPMorgan Chase’s management or Board of Directors.

As a result of these arrangements, the ability of the holding company to make various payments is dependent on its receiving dividends from JPMorgan Chase Bank, N.A. and dividends and extensions of credit from the IHC. These limitations could affect the holding company’s ability to:

- pay interest on its debt securities
- pay dividends on its equity securities
- redeem or repurchase outstanding securities, and
- fulfill its other payment obligations.

These regulatory restrictions and limitations could also result in the holding company seeking protection under bankruptcy laws at a time earlier than would have been the case absent the existence of the capital and liquidity thresholds to which the IHC is subject.

**Reductions in JPMorgan Chase’s credit ratings may adversely affect its liquidity and cost of funding.**

JPMorgan Chase & Co. and certain of its principal subsidiaries are rated by credit rating agencies. Rating agencies evaluate both general and firm-specific and industry-specific factors when determining credit ratings for a particular financial institution, including:

- expected future profitability
- risk management practices
- legal expenses
- ratings differentials between bank holding companies and their bank and non-bank subsidiaries
- regulatory developments
- assumptions about government support, and
- economic and geopolitical trends.

JPMorgan Chase closely monitors and manages, to the extent that it is able, factors that could influence its credit ratings. However, there is no assurance that JPMorgan Chase’s credit ratings will not be lowered in the future. Furthermore, any such downgrade could occur at times of broader market instability when JPMorgan Chase’s options for responding to events may be more limited and general investor confidence is low.

A reduction in JPMorgan Chase’s credit ratings could curtail JPMorgan Chase’s business activities and reduce its profitability in a number of ways, including:

- reducing its access to capital markets
- materially increasing its cost of issuing and servicing securities
- triggering additional collateral or funding requirements, and
- decreasing the number of investors and counterparties that are willing or permitted to do business with or lend to JPMorgan Chase.

Any rating reduction could also increase the credit spreads charged by the market for taking credit risk on JPMorgan Chase & Co. and its subsidiaries. This could, in turn, adversely affect the value of debt and other obligations of JPMorgan Chase & Co. and its subsidiaries.

**The reform and replacement of benchmark rates could adversely affect JPMorgan Chase’s funding, investments and financial products, and expose it to litigation and other disputes.**

Interest rate, equity, foreign exchange rate and other types of indices which are deemed to be “benchmarks,” including those in widespread and longstanding use, have been the subject of ongoing international, national and other regulatory scrutiny and initiatives and proposals for reform. Some of these reforms are already effective while others are still to be implemented or are under consideration. These reforms may cause certain benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be fully anticipated.

Any of the benchmark reforms which have been proposed or implemented, or the general increased regulatory scrutiny of benchmarks, could also increase the costs and risks of administering or otherwise participating in the setting of benchmarks and complying with regulations or requirements relating to benchmarks. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the disappearance of certain benchmarks.

Any of these developments, and any future initiatives to regulate, reform or change the administration of benchmarks, could result in adverse consequences to the return on, value of and market for loans, mortgages, securities, derivatives and other financial instruments whose returns are linked to any such benchmark, including those issued, funded, serviced or held by JPMorgan Chase.

Various regulators, industry bodies and other market participants in the U.S. and other countries are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace certain benchmarks. There is no assurance that these new rates will be accepted or widely used by market participants, or that the characteristics of any of these new rates will be similar to, or produce the economic equivalent of, the benchmarks that they seek to replace. If a particular benchmark were to be discontinued and an alternative rate has not been successfully introduced to replace that benchmark, this could result in widespread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities, all of which could have adverse effects on JPMorgan Chase’s results of operations.

To the extent that any guidance provided by accounting standard setters concerning the transition from benchmark rates is not comprehensive, fails to provide the expected relief or the ability to elect or implement that guidance is constrained in any significant respect, the transition could:

- affect hedge accounting relationships between financial instruments linked to a particular benchmark and any related derivatives, which could adversely affect JPMorgan Chase’s results of operations, or

- increase JPMorgan Chase's operational costs with respect to the determination of whether the transition has resulted in the modification or extinguishment of specific contracts for accounting purposes.

ICE Benchmark Administration, the administrator of LIBOR, has announced that it will consult on its intention to:

- cease publication of (i) all tenors of the euro, sterling, Swiss franc and yen LIBORs and (ii) the one week and two month tenors of U.S. dollar LIBOR, in each case, after December 31, 2021, and
- cease publication of all remaining tenors of U.S. dollar LIBOR after June 30, 2023.

These announcements indicate that it is highly likely that various tenors of the LIBOR benchmark will be discontinued on or about the timeframes mentioned above. Vast amounts of loans, mortgages, securities, derivatives and other financial instruments are linked to the LIBOR benchmark, and any inability of market participants and regulators to successfully introduce benchmark rates to replace LIBOR and implement effective transitional arrangements to address the discontinuation of LIBOR could result in disruption in the financial markets and suppress capital markets activities, all of which could have a negative impact on JPMorgan Chase's results of operations and on LIBOR-linked securities, credit or other instruments which are issued, funded, serviced or held by JPMorgan Chase.

JPMorgan Chase could also become involved in litigation and other types of disputes with clients, customers, counterparties and investors as a consequence of the transition from LIBOR and other benchmark rates to replacement rates, including claims that JPMorgan Chase has:

- treated clients, customers, counterparties or investors unfairly, or caused them to experience losses, higher financing costs or lower returns on investments
- failed to appropriately communicate the effects of the transition from benchmark rates on the products that JPMorgan Chase has sold to its clients and customers, or failed to disclose purported conflicts of interest
- made inappropriate product recommendations to or investments on behalf of its clients, or sold products that did not serve their intended purpose, in connection with the transition from benchmark rates
- engaged in anti-competitive behavior, or in the manipulation of markets or specific benchmarks, in connection with the discontinuation of or transition from benchmark rates, or
- disadvantaged clients, customers, counterparties or investors when interpreting or making determinations under the terms of agreements or financial instruments.

These types of claims could subject JPMorgan Chase to higher legal expenses and operational costs, require it to pay significant amounts in connection with resolving litigation and other disputes, and harm its reputation.

## Capital

**Maintaining the required level and composition of capital may impact JPMorgan Chase’s ability to support business activities, meet evolving regulatory requirements and distribute capital to shareholders.**

JPMorgan Chase is subject to various regulatory capital requirements, including leverage- and risk-based capital requirements, that can change due to actions by banking regulators. JPMorgan Chase’s adherence to these requirements can also evolve dynamically in response to changes in the composition of its balance sheet or other factors. It is possible that these changing requirements, including meeting or exceeding various capital ratio thresholds, could limit JPMorgan Chase’s ability to support its businesses and make capital distributions to its shareholders.

Actions by the Federal Reserve and the U.S. government in response to the economic effects of the COVID-19 pandemic have led to an expansion of the Federal Reserve’s balance sheet, growth in deposit balances held by JPMorgan Chase and other U.S. financial institutions and, consequently, an increase in JPMorgan Chase’s leverage exposure. If these trends were to continue, JPMorgan Chase may be required to hold more capital or take other actions in order to satisfy the leverage-based capital requirements applicable to it.

JPMorgan Chase is required to submit, at least annually, a capital plan describing proposed dividend payments to shareholders, redemptions and repurchases of its outstanding securities and other capital actions that it intends to take. JPMorgan Chase considers various factors in managing capital, including the impact of stress on its capital levels, as determined by both internal modeling and the Federal Reserve’s modeling of JPMorgan Chase’s capital position in supervisory stress tests and CCAR. Because the Federal Reserve and JPMorgan Chase use different forecasting models and methodologies when determining stress test results, there can be significant differences between the estimates of stress loss as determined by the Federal Reserve and JPMorgan Chase, respectively. The Federal Reserve may require modifications to JPMorgan Chase’s capital plan, and may change the Stress Capital Buffer (“SCB”) applicable to JPMorgan Chase, from time to time.

Any failure by or inability of JPMorgan Chase to maintain the required level and composition of capital, or unfavorable changes in the capital requirements imposed by banking regulators, could have an adverse impact on JPMorgan Chase’s shareholders, such as:

- reducing the amount of common stock that JPMorgan Chase is permitted to repurchase
- requiring the issuance of, or prohibiting the redemption of, capital instruments in a manner inconsistent with JPMorgan Chase’s capital management strategy
- constraining the amount of dividends that may be paid on common stock, or
- curtailing JPMorgan Chase’s business activities or operations.

## Operational

**JPMorgan Chase’s businesses are dependent on the effectiveness of its operational systems and those of other market participants.**

JPMorgan Chase’s businesses rely on the ability of JPMorgan Chase’s financial, accounting, transaction execution, data processing and other operational systems to process, record, monitor and report a large number of transactions on a continuous basis, and to do so accurately, quickly and securely. In addition to proper design, installation, maintenance and training, the effective functioning of JPMorgan Chase’s operational systems depends on:

- the quality of the information contained in those systems, as inaccurate, outdated or corrupted data can significantly compromise the functionality or reliability of a particular system and other systems to which it transmits or from which it receives information, and
- JPMorgan Chase's ability to appropriately maintain and upgrade its systems on a regular basis, and to ensure that any changes introduced to its systems are managed carefully to ensure security and operational continuity and adhere to all applicable legal and regulatory requirements.

JPMorgan Chase also depends on its ability to access and use the operational systems of its vendors, custodians and other market participants, including clearing and payment systems, CCPs, securities exchanges and data processing, security and technology companies.

The ineffectiveness, failure or other disruption of operational systems upon which JPMorgan Chase depends, including due to a systems malfunction, cyberbreach or other systems failure, could result in unfavorable ripple effects in the financial markets and for JPMorgan Chase and its clients and customers, including:

- delays or other disruptions in providing information, services and liquidity to clients and customers
- the inability to settle transactions or obtain access to funds and other assets, including those for which physical settlement and delivery is required
- failure to timely settle or confirm transactions
- the possibility that funds transfers, capital markets trades or other transactions are executed erroneously, as a result of illegal conduct or with unintended consequences
- financial losses, including due to loss-sharing requirements of CCPs, payment systems or other market infrastructures, or as possible restitution to clients and customers
- higher operational costs associated with replacing services provided by a system that is unavailable
- client or customer dissatisfaction with JPMorgan Chase's products and services
- regulatory fines, penalties, or other sanctions against JPMorgan Chase
- loss of confidence in the ability of JPMorgan Chase, or financial institutions generally, to protect against and withstand operational disruptions, or
- harm to JPMorgan Chase's reputation.

As the speed, frequency, volume, interconnectivity and complexity of transactions continue to increase, it can become more challenging to effectively maintain and upgrade JPMorgan Chase's operational systems and infrastructure, especially due to the heightened risks that:

- attempts by third parties to defraud JPMorgan Chase or its clients and customers may increase, evolve or become more complex, particularly during periods of market disruption or economic uncertainty
- errors made by JPMorgan Chase or another market participant, whether inadvertent or malicious, cause widespread system disruption

- isolated or seemingly insignificant errors in operational systems compound, or migrate to other systems over time, to become larger issues
- failures in synchronization or encryption software, or degraded performance of microprocessors due to design flaws, could cause disruptions in operational systems, or the inability of systems to communicate with each other, and
- third parties may attempt to block the use of key technology solutions by claiming that the use infringes on their intellectual property rights.

If JPMorgan Chase’s operational systems, or those of external parties on which JPMorgan Chase’s businesses depend, are unable to meet the requirements of JPMorgan Chase’s businesses and operations or bank regulatory standards, or if they fail or have other significant shortcomings, JPMorgan Chase could be materially and adversely affected.

**A successful cyber attack affecting JPMorgan Chase could cause significant harm to JPMorgan Chase and its clients and customers.**

JPMorgan Chase experiences numerous attempted cyber attacks on its computer systems, software, networks and other technology assets on a daily basis from various actors, including groups acting on behalf of hostile countries, cyber-criminals, “hacktivists” (i.e., individuals or groups that use technology to promote a political agenda or social change) and others. These cyber attacks can take many forms, including attempts to introduce computer viruses or malicious code, which is commonly referred to as “malware,” into JPMorgan Chase’s systems. These attacks are typically designed to:

- obtain unauthorized access to confidential information belonging to JPMorgan Chase or its clients, customers, counterparties or employees
- manipulate data
- destroy data or systems with the aim of rendering services unavailable
- disrupt, sabotage or degrade service on JPMorgan Chase’s systems
- steal money, or
- extort money through the use of so-called “ransomware”.

JPMorgan Chase has also experienced significant distributed denial-of-service attacks which are intended to disrupt online banking services.

JPMorgan Chase has experienced security breaches due to cyber attacks in the past, and it is inevitable that additional breaches will occur in the future. Any such breach could result in serious and harmful consequences for JPMorgan Chase or its clients and customers.

A principal reason that JPMorgan Chase cannot provide absolute security against cyber attacks is that it may not always be possible to anticipate, detect or recognize threats to JPMorgan Chase’s systems, or to implement effective preventive measures against all breaches. This is because:

- the techniques used in cyber attacks change frequently and are increasingly sophisticated, and therefore may not be recognized until launched

- cyber attacks can originate from a wide variety of sources, including JPMorgan Chase's own employees, cyber-criminals, hacktivists, groups linked to terrorist organizations or hostile countries, or third parties whose objective is to disrupt the operations of financial institutions more generally
- JPMorgan Chase does not have control over the cybersecurity of the systems of the large number of clients, customers, counterparties and third-party service providers with which it does business, and
- it is possible that a third party, after establishing a foothold on an internal network without being detected, might obtain access to other networks and systems.

The risk of a security breach due to a cyber attack could increase in the future as JPMorgan Chase continues to expand its mobile banking and other internet-based product offerings and its internal use of internet-based products and applications. Furthermore, increased use of remote access and third party video conferencing solutions during the COVID-19 pandemic, to facilitate work-from-home arrangements for employees, could increase JPMorgan Chase's exposure to cyber attacks. In addition, a third party could misappropriate confidential information obtained by intercepting signals or communications from mobile devices used by JPMorgan Chase's employees.

A successful penetration or circumvention of the security of JPMorgan Chase's systems or the systems of a vendor, governmental body or another market participant could cause serious negative consequences, including:

- significant disruption of JPMorgan Chase's operations and those of its clients, customers and counterparties, including losing access to operational systems
- misappropriation of confidential information of JPMorgan Chase or that of its clients, customers, counterparties, employees or regulators
- disruption of or damage to JPMorgan Chase's systems and those of its clients, customers and counterparties
- the inability, or extended delays in the ability, to fully recover and restore data that has been stolen, manipulated or destroyed, or the inability to prevent systems from processing fraudulent transactions
- violations by JPMorgan Chase of applicable privacy and other laws
- financial loss to JPMorgan Chase or to its clients, customers, counterparties or employees
- loss of confidence in JPMorgan Chase's cybersecurity and business resiliency measures
- dissatisfaction among JPMorgan Chase's clients, customers or counterparties
- significant exposure to litigation and regulatory fines, penalties or other sanctions, and
- harm to JPMorgan Chase's reputation.

The extent of a particular cyber attack and the steps that JPMorgan Chase may need to take to investigate the attack may not be immediately clear, and it may take a significant amount of time before such an investigation can be completed. While such an investigation is ongoing, JPMorgan Chase may not necessarily know the full extent of the harm caused by the cyber attack, and that damage may continue to spread. These factors may inhibit JPMorgan Chase's ability to provide rapid, full and

reliable information about the cyber attack to its clients, customers, counterparties and regulators, as well as the public. Furthermore, it may not be clear how best to contain and remediate the harm caused by the cyber attack, and certain errors or actions could be repeated or compounded before they are discovered and remediated. Any or all of these factors could further increase the costs and consequences of a cyber attack.

**JPMorgan Chase can be negatively affected if it fails to identify and address operational risks associated with the introduction of or changes to products, services and delivery platforms.**

When JPMorgan Chase launches a new product or service, introduces a new platform for the delivery or distribution of products or services (including mobile connectivity, electronic trading and cloud computing), or makes changes to an existing product, service or delivery platform, it may not fully appreciate or identify new operational risks that may arise from those changes, or may fail to implement adequate controls to mitigate the risks associated with those changes. Any significant failure in this regard could diminish JPMorgan Chase's ability to operate one or more of its businesses or result in:

- potential liability to clients, counterparties and customers
- increased operating expenses
- higher litigation costs, including regulatory fines, penalties and other sanctions
- damage to JPMorgan Chase's reputation
- impairment of JPMorgan Chase's liquidity
- regulatory intervention, or
- weaker competitive standing.

Any of the foregoing consequences could materially and adversely affect JPMorgan Chase's businesses and results of operations.

**JPMorgan Chase's operational costs and customer satisfaction could be adversely affected by the failure of an external operational system.**

External operational systems with which JPMorgan is connected, whether directly or indirectly, can be sources of operational risk to JPMorgan Chase. JPMorgan Chase may be exposed not only to a systems failure or cyber attack that may be experienced by a vendor or market infrastructure with which JPMorgan Chase is directly connected, but also to a systems breakdown or cyber attack involving another party to which such a vendor or infrastructure is connected. Similarly, retailers, data aggregators and other external parties with which JPMorgan Chase's customers do business can increase JPMorgan Chase's operational risk. This is particularly the case where activities of customers or those parties are beyond JPMorgan Chase's security and control systems, including through the use of the internet, cloud computing services and personal smart phones and other mobile devices or services.

If an external party obtains access to customer account data on JPMorgan Chase's systems, and that party experiences a cyberbreach of its own systems or misappropriates that data, this could result in a variety of negative outcomes for JPMorgan Chase and its clients and customers, including:

- heightened risk that external parties will be able to execute fraudulent transactions using JPMorgan Chase's systems

- losses from fraudulent transactions, as well as potential liability for losses that exceed thresholds established in consumer protection laws, rules and regulations
- increased operational costs to remediate the consequences of the external party's security breach, and
- harm to reputation arising from the perception that JPMorgan Chase's systems may not be secure.

As JPMorgan Chase's interconnectivity with clients, customers and other external parties continues to expand, JPMorgan Chase increasingly faces the risk of operational failure or cyber attacks with respect to the systems of those parties. Security breaches affecting JPMorgan Chase's clients or customers, or systems breakdowns or failures, security breaches or human error or misconduct affecting other external parties, may require JPMorgan Chase to take steps to protect the integrity of its own operational systems or to safeguard confidential information, including restricting the access of customers to their accounts. These actions can increase JPMorgan Chase's operational costs and potentially diminish customer satisfaction and confidence in JPMorgan Chase.

Furthermore, the widespread and expanding interconnectivity among financial institutions, central agents, CCPs, payment processors, securities exchanges, clearing houses and other financial market infrastructures increases the risk that an operational failure or cyber attack involving one institution or entity may cause industry-wide operational disruptions that could materially affect JPMorgan Chase's ability to conduct business.

**JPMorgan Chase's operations could be impaired if its employees, or those of external parties, are not competent and trustworthy, or if measures to protect their health and safety are ineffective.**

JPMorgan Chase's ability to operate its businesses efficiently and profitably, to offer products and services that meet the expectations of its clients and customers, and to maintain an effective risk management framework is highly dependent on the competence and integrity of its employees, as well as employees of other parties on which JPMorgan Chase's operations rely, including vendors, custodians and financial markets infrastructures. JPMorgan Chase's businesses could be materially and adversely affected by:

- the ineffective implementation of business decisions
- any failure to institute controls that appropriately address risks associated with business activities, or to appropriately train employees with respect to those risks and controls
- a significant operational breakdown or failure, theft, fraud or other unlawful conduct, or
- other negative outcomes caused by human error or misconduct by an employee of JPMorgan Chase or of another party on which JPMorgan Chase's operations depend.

JPMorgan Chase's operations could also be impaired if the measures taken by it or by governmental authorities to help ensure the health and safety of its employees are ineffective, or if any external party on which JPMorgan Chase relies fails to take appropriate and effective actions to protect the health and safety of its employees.

## **JPMorgan Chase faces substantial legal and operational risks in safeguarding personal information.**

JPMorgan Chase's businesses are subject to complex and evolving laws, rules and regulations, both within and outside the U.S., governing the privacy and protection of personal information of individuals. The protected parties can include:

- JPMorgan Chase's clients and customers, and prospective clients and customers
- clients and customers of JPMorgan Chase's clients and customers
- employees and prospective employees, and
- employees of JPMorgan Chase's vendors, counterparties and other external parties.

Ensuring that JPMorgan Chase's collection, use, transfer and storage of personal information comply with all applicable laws, rules and regulations in all relevant jurisdictions, including where the laws of different jurisdictions are in conflict, can:

- increase JPMorgan Chase's compliance and operating costs
- hinder the development of new products or services, curtail the offering of existing products or services, or affect how products and services are offered to clients and customers
- demand significant oversight by JPMorgan Chase's management, and
- require JPMorgan Chase to structure its businesses, operations and systems in less efficient ways.

Not all of JPMorgan Chase's clients, customers, vendors, counterparties and other external parties may have appropriate controls in place to protect the confidentiality of the information exchanged between them and JPMorgan Chase, particularly where information is transmitted by electronic means. JPMorgan Chase could be exposed to litigation or regulatory fines, penalties or other sanctions if personal, confidential or proprietary information of clients, customers, employees or others were to be mishandled or misused, such as situations where such information is:

- erroneously provided to parties who are not permitted to have the information, or
- intercepted or otherwise compromised by third parties.

Concerns regarding the effectiveness of JPMorgan Chase's measures to safeguard personal information, or even the perception that those measures are inadequate, could cause JPMorgan Chase to lose existing or potential clients and customers, and thereby reduce JPMorgan Chase's revenues. Furthermore, any failure or perceived failure by JPMorgan Chase to comply with applicable privacy or data protection laws, rules and regulations may subject it to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices, significant liabilities or regulatory fines, penalties or other sanctions. Any of these could damage JPMorgan Chase's reputation and otherwise adversely affect its businesses.

In recent years, well-publicized allegations involving the misuse or inappropriate sharing of personal information have led to expanded governmental scrutiny of practices relating to the safeguarding of personal information and the use or sharing of personal data by companies in the U.S. and other countries. That scrutiny has in some cases resulted in, and could in the future lead to, the adoption of stricter laws, rules and regulations relating to the use and sharing of personal information.

These types of laws and regulations could prohibit or significantly restrict financial services firms such as JPMorgan Chase from sharing information among affiliates or with third parties such as vendors, and thereby increase compliance costs, or could restrict JPMorgan Chase's use of personal data when developing or offering products or services to customers. These restrictions could also inhibit JPMorgan Chase's development or marketing of certain products or services, or increase the costs of offering them to customers.

**JPMorgan Chase's operations, results and reputation could be harmed by catastrophes or other events.**

JPMorgan Chase's business and operational systems could be seriously disrupted, and its reputation could be harmed, by events or contributing factors that are wholly or partially beyond its control, including:

- cyberbreaches or breaches of physical premises, including data centers
- power, telecommunications or internet outages
- failures of, or loss of access to, operational systems, including computer systems, servers, networks and other technology assets
- damage to or loss of property or assets of JPMorgan Chase or third parties, and any consequent injuries, including in connection with any construction projects undertaken by JPMorgan Chase
- effects of climate change
- natural disasters or severe weather conditions
- accidents such as explosions or structural failures
- health emergencies, the spread of infectious diseases or pandemics, or
- events arising from local or larger-scale political events, including outbreaks of hostilities or terrorist acts.

JPMorgan Chase maintains a firmwide resiliency program that is intended to enable it to recover critical business functions and supporting assets, including staff, technology and facilities, in the event of a business interruption. There can be no assurance that JPMorgan Chase's resiliency plans will fully mitigate all potential business continuity risks to JPMorgan Chase or its clients and customers or that its resiliency plans will be adequate to address the effects of simultaneous occurrences of multiple catastrophes or other business interruption events. In addition, JPMorgan Chase's ability to respond effectively to a business interruption could be hampered to the extent that the members of its workforce, physical assets or systems and other support infrastructure needed to address the event are geographically dispersed, or conversely, if a catastrophic event occurs in an area in which a critical segment of JPMorgan Chase's workforce, physical assets or systems and other support infrastructure is concentrated. Further, should emergency or catastrophic events such as severe or abnormal weather conditions or health emergencies, the spread of infectious diseases or pandemics become more chronic, the disruptive effects of those events on JPMorgan Chase's business and operations, and on its clients, customers, counterparties and employees, could become more significant and long-lasting.

Any significant failure or disruption of JPMorgan Chase's operations or operational systems, or any catastrophic event, could:

- hinder JPMorgan Chase's ability to provide services to its clients and customers or to transact with its counterparties
- require it to expend significant resources to correct the failure or disruption
- cause it to incur losses or liabilities, including from loss of revenue, damage to or loss of property, or injuries
- expose it to litigation or regulatory fines, penalties or other sanctions, and
- harm its reputation.

Furthermore, JPMorgan Chase may incur costs in connection with disposing of certain excess properties, premises and facilities, and those costs may be material to its results of operations in a given period.

**Enhanced regulatory and other standards for the oversight of vendors and other service providers can result in higher costs and other potential exposures.**

JPMorgan Chase must comply with enhanced regulatory and other standards associated with doing business with vendors and other service providers, including standards relating to the outsourcing of functions as well as the performance of significant banking and other functions by subsidiaries. JPMorgan Chase incurs significant costs and expenses in connection with its initiatives to address the risks associated with oversight of its internal and external service providers. JPMorgan Chase's failure to appropriately assess and manage these relationships, especially those involving significant banking functions, shared services or other critical activities, could materially adversely affect JPMorgan Chase. Specifically, any such failure could result in:

- potential liability to clients and customers
- regulatory fines, penalties or other sanctions
- lower revenues, and the opportunity cost from lost revenues
- increased operational costs, or
- harm to JPMorgan Chase's reputation.

**JPMorgan Chase's risk management framework may not be effective in identifying and mitigating every risk to JPMorgan Chase.**

Any inadequacy or lapse in JPMorgan Chase's risk management framework, governance structure, practices, models or reporting systems could expose it to unexpected losses, and its financial condition or results of operations could be materially and adversely affected. Any such inadequacy or lapse could:

- hinder the timely escalation of material risk issues to JPMorgan Chase's senior management and the Board of Directors
- lead to business decisions that have negative outcomes for JPMorgan Chase
- require significant resources and time to remediate
- lead to non-compliance with laws, rules and regulations
- attract heightened regulatory scrutiny

- expose JPMorgan Chase to regulatory investigations or legal proceedings
- subject it to litigation or regulatory fines, penalties or other sanctions
- harm its reputation, or
- otherwise diminish confidence in JPMorgan Chase.

JPMorgan Chase relies on data to assess its various risk exposures. Any deficiencies in the quality or effectiveness of JPMorgan Chase's data gathering, analysis and validation processes could result in ineffective risk management practices. These deficiencies could also result in inaccurate risk reporting.

Many of JPMorgan Chase's risk management strategies and techniques consider historical market behavior. These strategies and techniques are based to some degree on management's subjective judgment. For example, many models used by JPMorgan Chase are based on assumptions regarding historical correlations among prices of various asset classes or other market indicators. In times of market stress, including difficult or less liquid market environments, or in the event of other unforeseen circumstances, previously uncorrelated indicators may become correlated. Conversely, previously-correlated indicators may make unrelated movements at those times. Sudden market movements and unanticipated or unidentified market or economic movements could, in some circumstances, limit the effectiveness of JPMorgan Chase's risk management strategies, causing it to incur losses.

**JPMorgan Chase could recognize unexpected losses, its capital levels could be reduced and it could face greater regulatory scrutiny if its models, estimations or judgments, including those used in its financial statements, prove to be inadequate or incorrect.**

JPMorgan Chase has developed and uses a variety of models and other analytical and judgment-based estimations to measure, monitor and implement controls over its market, credit, capital, liquidity, operational and other risks. These models and estimations are based on a variety of assumptions and historical trends, and are periodically reviewed and modified as necessary. The models and estimations that JPMorgan Chase uses may not be effective in all cases to identify, observe and mitigate risk due to a variety of factors, such as:

- reliance on historical trends that may not accurately predict future events, including assumptions underlying the models and estimations which predict correlation among certain market indicators or asset prices
- inherent limitations associated with forecasting uncertain economic and financial outcomes
- historical trend information may be incomplete, or may not anticipate severely negative market conditions such as extreme volatility, dislocation or lack of liquidity
- technology that is introduced to run models or estimations may not perform as expected, or may not be well understood by the personnel using the technology
- models and estimations may contain erroneous data, valuations, formulas or algorithms, and
- review processes may fail to detect flaws in models and estimations.

Some of the models and other analytical and judgment-based estimations used by JPMorgan Chase in managing risks are subject to review by, and require the approval of, JPMorgan Chase's regulators. These reviews are required before JPMorgan Chase may use those models and estimations in connection with calculating market risk RWA, credit risk RWA and operational risk RWA under Basel III. If JPMorgan Chase's models or estimations are not approved by its regulators, it may be subject to higher

capital charges, which could adversely affect its financial results or limit the ability to expand its businesses. JPMorgan Chase also uses internal models in connection with its stress testing. JPMorgan Chase's capital actions may require regulatory approval and could be constrained if its banking regulators object to a capital plan or require the resubmission of a capital plan due to the perceived inadequacy of JPMorgan Chase's models, estimations or other factors.

Under U.S. generally accepted accounting principles ("U.S. GAAP"), JPMorgan Chase is required to use estimates and apply judgments in preparing its financial statements, including in determining the allowance for credit losses, reserves related to litigation and the credit card rewards liability. Certain financial instruments require a determination of their fair value in order to prepare JPMorgan Chase's financial statements, including:

- trading assets and liabilities
- instruments in the investment portfolio
- certain loans
- MSRs
- structured notes, and
- certain repurchase and resale agreements.

Where quoted market prices are not available for these types of financial instruments, JPMorgan Chase may make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management estimates and judgment, and these types of estimates and judgments may not prove to be accurate due to a variety of factors, as noted above. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain financial instruments, which could lead to valuations being subsequently changed or adjusted. If estimates or judgments underlying JPMorgan Chase's financial statements prove to have been incorrect, JPMorgan Chase may experience material losses.

JPMorgan Chase establishes an allowance for expected credit losses that are inherent in its credit exposures. It then employs stress testing and other techniques to determine the amounts of capital and liquidity that would be needed in the event of adverse economic or market events. These processes are critical to JPMorgan Chase's results of operations and financial condition. They require difficult, subjective and complex judgments, including forecasts of how economic conditions might impair the ability of JPMorgan Chase's borrowers and counterparties to repay their loans or other obligations. It is possible that JPMorgan Chase will fail to identify the proper factors or that it will fail to accurately estimate the impact of factors that it identifies.

Certain models used by JPMorgan Chase in connection with the determination of the allowance for credit losses have heightened performance risk in the economic environment precipitated by the effects of the COVID-19 pandemic and government stimulus. For example, at times certain macroeconomic variables employed in these models remained well outside the range of historical data used to train the models for some stress scenarios. In addition, the historical relationships between these macroeconomic variables and consumer and wholesale credit losses have deteriorated, in part due to the effects of the CARES Act and government stimulus actions. As a result, there continues to be significant uncertainty about the reliability of the projections produced by the models. To compensate for this uncertainty, JPMorgan Chase has made, and may continue to make, significant adjustments to the quantitative results of model calculations to take into consideration model imprecision, emerging risks, trends and other

factors that are not yet reflected in those calculations. There can be no assurance that, even after adjustments have been made to model outputs, JPMorgan Chase will not recognize unexpected losses arising from the model uncertainty that has resulted from these developments.

**Lapses in controls over disclosure or financial reporting could materially affect JPMorgan Chase's profitability or reputation.**

There can be no assurance that JPMorgan Chase's disclosure controls and procedures will be effective in every circumstance, or that a material weakness or significant deficiency in internal control over financial reporting will not occur. Any such lapses or deficiencies could:

- materially and adversely affect JPMorgan Chase's business and results of operations or financial condition
- restrict its ability to access the capital markets
- require it to expend significant resources to correct the lapses or deficiencies
- expose it to litigation or regulatory fines, penalties or other sanctions
- harm its reputation, or
- otherwise diminish investor confidence in JPMorgan Chase.

**JPMorgan Chase could be adversely affected by changes in accounting standards or policies.**

The preparation of JPMorgan Chase's financial statements is based on accounting standards established by the Financial Accounting Standards Board and the Securities and Exchange Commission, as well as more detailed accounting policies established by JPMorgan Chase's management. From time to time these accounting standards or accounting policies may change, and in some cases these changes could have a significant effect on JPMorgan Chase's financial statements and may adversely affect its financial results or investor perceptions of those results.

As of January 1, 2020, JPMorgan Chase implemented a new accounting standard, commonly referred to as the Current Expected Credit Losses ("CECL") framework, which requires earlier recognition of expected credit losses on loans and certain other instruments. The allowance for credit losses related to certain of JPMorgan Chase's loans and other lending-related commitments portfolios increased upon implementation of CECL, which has had a negative impact on JPMorgan Chase's capital levels.

The ongoing impact of the adoption of CECL could include the following, each of which could result in diminished investor confidence:

- greater volatility in JPMorgan Chase's earnings and capital levels over economic cycles
- potential reductions in its capital distributions, or
- increases in the allowance for credit losses.

In addition, JPMorgan Chase could be adversely impacted by associated changes in the competitive environment in which it operates, including changes in the availability or pricing of loan products, particularly during periods of economic stress, as well as changes related to non-U.S. financial institutions or other competitors that are not subject to this accounting standard.

## Strategic

**If JPMorgan Chase's management fails to develop and execute effective business strategies, and to anticipate changes affecting those strategies, JPMorgan Chase's competitive standing and results could suffer.**

JPMorgan Chase's business strategies significantly affect its competitive standing and operations. These strategies relate to:

- the products and services that JPMorgan Chase offers
- the geographies in which it operates
- the types of clients and customers that it serves
- the counterparties with which it does business, and
- the methods and distribution channels by which it offers products and services.

If management makes choices about these strategies and goals that prove to be incorrect, do not accurately assess the competitive landscape and industry trends, or fail to address changing regulatory and market environments or the expectations of clients, customers, investors, employees and other stakeholders, then the franchise values and growth prospects of JPMorgan Chase's businesses may suffer and its earnings could decline.

JPMorgan Chase's growth prospects also depend on management's ability to develop and execute effective business plans to address these strategic priorities, both in the near term and over longer time horizons. Management's effectiveness in this regard will affect JPMorgan Chase's ability to develop and enhance its resources, control expenses and return capital to shareholders. Each of these objectives could be adversely affected by any failure on the part of management to:

- devise effective business plans and strategies
- offer products and services that meet changing expectations of clients and customers
- allocate capital in a manner that promotes long-term stability to enable JPMorgan Chase to build and invest in market-leading businesses, even in a highly stressed environment
- allocate capital appropriately due to imprecise modeling or subjective judgments made in connection with those allocations
- appropriately address concerns of clients, customers, investors, employees and other stakeholders, including with respect to social and sustainability matters
- react quickly to changes in market conditions or market structures, or
- develop and enhance the operational, technology, risk, financial and managerial resources necessary to grow and manage JPMorgan Chase's businesses.

**JPMorgan Chase faces significant and increasing competition in the rapidly evolving financial services industry.**

JPMorgan Chase operates in a highly competitive environment in which it must evolve and adapt to the significant changes as a result of changes in financial regulation, technological advances, increased public scrutiny and changes in economic conditions. JPMorgan Chase expects that competition in the U.S. and global financial services industry will continue to be intense. Competitors include:

- other banks and financial institutions
- trading, advisory and investment management firms
- finance companies
- technology companies, and
- other nonbank firms that are engaged in providing similar products and services.

JPMorgan Chase cannot provide assurance that the significant competition in the financial services industry will not materially and adversely affect its future results of operations.

New competitors in the financial services industry continue to emerge. For example, technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products. These advances have also allowed financial institutions and other companies to provide electronic and internet-based financial solutions, including electronic securities trading, payments processing and online automated algorithmic-based investment advice. Furthermore, both financial institutions and their non-banking competitors face the risk that payments processing and other services could be significantly disrupted by technologies, such as cryptocurrencies, that require no intermediation. New technologies have required and could require JPMorgan Chase to spend more to modify or adapt its products to attract and retain clients and customers or to match products and services offered by its competitors, including technology companies. In addition, new technologies may be used by customers, or breached or infiltrated by third parties, in unexpected ways, which can increase JPMorgan Chase's costs for complying with laws, rules and regulations that apply to the offering of products and services through those technologies and reduce the income that JPMorgan Chase earns from providing products and services through those new technologies.

Ongoing or increased competition may put pressure on the pricing for JPMorgan Chase's products and services or may cause JPMorgan Chase to lose market share, particularly with respect to traditional banking products such as deposits and bank accounts. This competition may be on the basis of quality and variety of products and services offered, transaction execution, innovation, reputation and price. The failure of any of JPMorgan Chase's businesses to meet the expectations of clients and customers, whether due to general market conditions, under-performance, a decision not to offer a particular product or service, changes in client and customer expectations or other factors, could affect JPMorgan Chase's ability to attract or retain clients and customers. Any such impact could, in turn, reduce JPMorgan Chase's revenues. Increased competition also may require JPMorgan Chase to make additional capital investments in its businesses, or to extend more of its capital on behalf of its clients in order to remain competitive.

**Climate change manifesting as physical or transition risks could have a material adverse impact on JPMorgan Chase’s business operations, clients and customers.**

JPMorgan Chase operates in many regions, countries and communities around the world where its businesses, and the activities of its clients and customers, could be impacted by climate change. Climate change could manifest as a financial risk to JPMorgan Chase either through changes in the physical climate or from the process of transitioning to a low-carbon economy, including changes in climate policy or in the regulation of financial institutions with respect to risks posed by climate change.

Climate-related physical risks include both acute weather events and chronic shifts in the climate. Potential physical risks from climate change may include altered distribution and intensity of rainfall, prolonged droughts or flooding, increased frequency of wildfires, rising sea levels, or a rising heat index.

Transition risks arise from the process of adjusting to a low-carbon economy. In addition to possible changes in climate policy and financial regulation, potential transition risks may include economic and other changes engendered by the development of low-carbon technological advances (e.g., electric vehicles and renewable energy) and/or changes in consumer preferences towards low-carbon goods and services. Transition risks could be further accelerated by the occurrence of changes in the physical climate.

These climate-related physical risks and transition risks could have a financial impact on JPMorgan Chase both directly on its business and operations and as a result of material adverse impacts to its clients and customers, including:

- declines in asset values
- reduced availability of insurance
- significant interruptions to business operations, and
- negative consequences to business models, and the need to make changes in response to those consequences.

**Conduct**

**Conduct failure by JPMorgan Chase employees can harm clients and customers, impact market integrity, damage JPMorgan Chase’s reputation and trigger litigation and regulatory action.**

JPMorgan Chase’s employees interact with clients, customers and counterparties, and with each other, every day. All employees are expected to demonstrate values and exhibit the behaviors that are an integral part of JPMorgan Chase’s How We Do Business Principles, including JPMorgan Chase’s commitment to “do first class business in a first class way.” JPMorgan Chase endeavors to embed conduct risk management throughout an employee’s life cycle, including recruiting, onboarding, training and development, and performance management. Conduct risk management is also an integral component of JPMorgan Chase’s promotion and compensation processes.

Notwithstanding these expectations, policies and practices, certain employees have in the past engaged in improper or illegal conduct, and these instances of misconduct have resulted in litigation as well as resolutions of governmental investigations or enforcement actions involving consent orders, deferred prosecution agreements, non-prosecution agreements and other civil or criminal sanctions. There is no assurance that further inappropriate or unlawful actions by employees will not occur, lead to a violation of the terms of these resolutions (and associated consequences), or that any such actions will always be detected, deterred or prevented.

JPMorgan Chase's reputation could be harmed, and collateral consequences could result, from a failure by one or more employees to act consistently with JPMorgan Chase's expectations, policies and practices, including by acting in ways that harm clients, customers, other market participants or other employees. Some examples of this include:

- improperly selling and marketing JPMorgan Chase's products or services
- engaging in insider trading, market manipulation or unauthorized trading
- engaging in improper or fraudulent behavior in connection with government relief programs
- facilitating a transaction where a material objective is to achieve a particular tax, accounting or financial disclosure treatment that may be subject to scrutiny by governmental or regulatory authorities, or where the proposed treatment is unclear or may not reflect the economic substance of the transaction
- failing to fulfill fiduciary obligations or other duties owed to clients or customers
- violating antitrust or anti-competition laws by colluding with other market participants to manipulate markets, prices or indices
- engaging in discriminatory behavior or harassment with respect to clients, customers or employees, or acting contrary to JPMorgan Chase's goal of fostering a diverse and inclusive workplace
- managing or reporting risks in ways that subordinate JPMorgan Chase's risk appetite to business performance goals or employee compensation objectives, and
- misappropriating property, confidential or proprietary information, or technology assets belonging to JPMorgan Chase, its clients and customers or third parties.

The consequences of any failure by employees to act consistently with JPMorgan Chase's expectations, policies or practices could include litigation, or regulatory or other governmental investigations or enforcement actions. Any of these proceedings or actions could result in judgments, settlements, fines, penalties or other sanctions, or lead to:

- financial losses
- increased operational and compliance costs
- greater scrutiny by regulators and other parties
- regulatory actions that require JPMorgan Chase to restructure, curtail or cease certain of its activities
- the need for significant oversight by JPMorgan Chase's management
- loss of clients or customers, and
- harm to JPMorgan Chase's reputation.

## Reputation

### **Damage to JPMorgan Chase's reputation could harm its businesses.**

Maintaining trust in JPMorgan Chase is critical to its ability to attract and retain clients, customers, investors and employees. Damage to JPMorgan Chase's reputation can therefore cause significant harm to JPMorgan Chase's business and prospects, and can arise from numerous sources, including:

- employee misconduct, including discriminatory behavior or harassment with respect to clients, customers or employees, or actions that are contrary to JPMorgan Chase's goal of fostering a diverse and inclusive workplace
- security breaches, including as a result of cyber attacks
- failure to safeguard client, customer or employee information
- failure to manage risk issues associated with its business activities or those of its clients, including failure to fully discharge publicly-announced commitments to support social and sustainability initiatives
- compliance or operational failures
- litigation or regulatory fines, penalties or other sanctions
- regulatory investigations or enforcement actions, or resolutions of these matters, and
- failure or perceived failure of clients, customers, counterparties or other parties to comply with laws, rules or regulations, including companies in which JPMorgan Chase has made principal investments, parties to joint ventures with JPMorgan Chase, and vendors with which JPMorgan Chase does business.

JPMorgan Chase's reputation may be significantly damaged by adverse publicity or negative information regarding JPMorgan Chase, whether or not true, that may be published or broadcast by the media or posted on social media, non-mainstream news services or other parts of the internet. This latter risk can be magnified by the speed and pervasiveness with which information is disseminated through those channels.

Social and environmental activists are increasingly targeting financial services firms such as JPMorgan Chase with public criticism for their relationships with clients that are engaged in certain sensitive industries, including businesses whose products are or are perceived to be harmful to human health, or whose activities negatively affect or are perceived to negatively affect the environment, workers' rights or communities. Activists have also engaged in public protests at JPMorgan Chase's headquarters and other properties. Activist criticism of JPMorgan Chase's relationships with clients in sensitive industries could potentially engender dissatisfaction among clients, customers, investors and employees with how JPMorgan Chase addresses social and sustainability concerns in its business activities. Alternatively, yielding to activism targeted at certain sensitive industries could damage JPMorgan Chase's relationships with clients and customers, and with governmental or regulatory bodies in jurisdictions in which JPMorgan Chase does business, whose views are not aligned with those of social and environmental activists. In either case, the resulting harm to JPMorgan Chase's reputation could:

- cause certain clients and customers to cease doing business with JPMorgan Chase

- impair JPMorgan Chase's ability to attract new clients and customers, or to expand its relationships with existing clients and customers
- diminish JPMorgan Chase's ability to hire or retain employees
- prompt JPMorgan Chase to cease doing business with certain clients or customers.
- cause certain investors to divest from investments in securities of JPMorgan Chase, or
- attract scrutiny from governmental or regulatory bodies.

Actions by the financial services industry generally or individuals in the industry can also affect JPMorgan Chase's reputation. For example, the reputation of the industry as a whole can be damaged by concerns that:

- consumers have been treated unfairly by a financial institution,
- a financial institution has acted inappropriately with respect to the methods used to offer products to customers

If JPMorgan Chase is perceived to have engaged in these types of behaviors, this could weaken its reputation among clients or customers.

**Failure to effectively manage potential conflicts of interest can result in litigation and enforcement actions, as well as damage JPMorgan Chase's reputation.**

JPMorgan Chase's ability to manage potential conflicts of interest is highly complex due to the broad range of its business activities which encompass a variety of transactions, obligations and interests with and among JPMorgan Chase's clients and customers. JPMorgan Chase can become subject to litigation and enforcement actions, and its reputation can be damaged, by the failure or perceived failure to:

- adequately address or appropriately disclose conflicts of interest, including potential conflicts of interest that may arise in connection with providing multiple products and services in, or having one or more investments related to, the same transaction
- deliver appropriate standards of service and quality
- treat clients and customers with the appropriate standard of care
- use client and customer data responsibly and in a manner that meets legal requirements and regulatory expectations
- provide fiduciary products or services in accordance with the applicable legal and regulatory standards, or
- handle or use confidential information of customers or clients appropriately or in compliance with applicable data protection and privacy laws, rules and regulations.

A failure or perceived failure to appropriately address conflicts of interest or fiduciary obligations could result in customer dissatisfaction, litigation and regulatory fines, penalties or other sanctions, and heightened regulatory scrutiny and enforcement actions, all of which can lead to lost revenue and higher operating costs and cause serious harm to JPMorgan Chase's reputation.

## Country

**An outbreak of hostilities between countries or within a country or region could have a material adverse effect on the global economy and on JPMorgan Chase's businesses within the affected region or globally.**

Aggressive actions by hostile governments or groups, including armed conflict or intensified cyber attacks, could expand in unpredictable ways by drawing in other countries or escalating into full-scale war with potentially catastrophic consequences, particularly if one or more of the combatants possess nuclear weapons. Depending on the scope of the conflict, the hostilities could result in:

- worldwide economic disruption
- heightened volatility in financial markets
- severe declines in asset values, accompanied by widespread sell-offs of investments
- substantial depreciation of local currencies, potentially leading to defaults by borrowers and counterparties in the affected region
- disruption of global trade, and
- diminished consumer, business and investor confidence.

Any of the above consequences could have significant negative effects on JPMorgan Chase's operations and earnings, both in the countries or regions directly affected by the hostilities or globally. Further, if the U.S. were to become directly involved in such a conflict, this could lead to a curtailment of any operations that JPMorgan Chase may have in the affected countries or region, as well as in any nation that is aligned against the U.S. in the hostilities. JPMorgan Chase could also experience more numerous and aggressive cyber attacks launched by or under the sponsorship of one or more of the adversaries in such a conflict.

**JPMorgan Chase's business and operations in certain countries can be adversely affected by local economic, political, regulatory and social factors.**

Some of the countries in which JPMorgan Chase conducts business have economies or markets that are less developed and more volatile or may have political, legal and regulatory regimes that are less established or predictable than other countries in which JPMorgan Chase operates. In addition, in some jurisdictions in which JPMorgan Chase conducts business, the local economy and business activity are subject to substantial government influence or control. Some of these countries have in the past experienced economic disruptions, including:

- extreme currency fluctuations
- high inflation
- low or negative growth, and
- defaults or reduced ability to service sovereign debt.

The governments in these countries have sometimes reacted to these developments by imposing restrictive policies that adversely affect the local and regional business environment, including:

- price, capital or exchange controls, including imposition of punitive transfer and convertibility restrictions or forced currency exchange

- expropriation or nationalization of assets or confiscation of property, including intellectual property, and
- changes in laws, rules and regulations.

The impact of these actions could be accentuated in trading markets that are smaller, less liquid and more volatile than more-developed markets. These types of government actions can negatively affect JPMorgan Chase's operations in the relevant country, either directly or by suppressing the business activities of local clients or multi-national clients that conduct business in the jurisdiction.

In addition, emerging markets countries, as well as certain more developed countries, have been susceptible to unfavorable social developments arising from poor economic conditions or governmental actions, including:

- widespread demonstrations or civil unrest
- general strikes and demonstrations
- crime and corruption
- security and personal safety issues
- outbreaks of hostilities
- overthrow of incumbent governments
- terrorist attacks, and
- other forms of internal discord.

These economic, political, regulatory and social developments have in the past resulted in, and in the future could lead to, conditions that can adversely affect JPMorgan Chase's operations in those countries and impair the revenues, growth and profitability of those operations. In addition, any of these events or circumstances in one country can affect JPMorgan Chase's operations and investments in another country or countries, including in the U.S.

## **People**

### **JPMorgan Chase's ability to attract and retain qualified and diverse employees is critical to its success.**

JPMorgan Chase's employees are its most important resource, and in many areas of the financial services industry, competition for qualified personnel is intense. JPMorgan Chase endeavors to attract talented and diverse new employees and retain, develop and motivate its existing employees. If JPMorgan Chase were unable to continue to attract or retain qualified and diverse employees, including successors to the Chief Executive Officer or members of the Operating Committee, JPMorgan Chase's performance, including its competitive position, could be materially and adversely affected.

### **Unfavorable changes in immigration or travel policies could adversely affect JPMorgan Chase's businesses and operations.**

JPMorgan Chase relies on the skills, knowledge and expertise of employees located throughout the world. Changes in immigration or travel policies in the U.S. and other countries that unduly restrict or otherwise make it more difficult for employees or their family members to work in, or travel to or transfer between, jurisdictions in which JPMorgan Chase has operations or conducts its business could

inhibit JPMorgan Chase's ability to attract and retain qualified employees, and thereby dilute the quality of its workforce, or could prompt JPMorgan Chase to make structural changes to its worldwide or regional operating models that cause its operations to be less efficient or more costly.

## **Legal**

### **JPMorgan Chase faces significant legal risks from litigation and formal and informal regulatory and government investigations.**

JPMorgan Chase is named as a defendant or is otherwise involved in many legal proceedings, including class actions and other litigation or disputes with third parties. Actions currently pending against JPMorgan Chase may result in judgments, settlements, fines, penalties or other sanctions adverse to JPMorgan Chase. Any of these matters could materially and adversely affect JPMorgan Chase's business, financial condition or results of operations, or cause serious reputational harm. As a participant in the financial services industry, it is likely that JPMorgan Chase will continue to experience a high level of litigation and regulatory and government investigations related to its businesses and operations.

Regulators and other government agencies conduct examinations of JPMorgan Chase and its subsidiaries both on a routine basis and in targeted exams, and JPMorgan Chase's businesses and operations are subject to heightened regulatory oversight. This heightened regulatory scrutiny, or the results of such an investigation or examination, may lead to additional regulatory investigations or enforcement actions. There is no assurance that those actions will not result in resolutions or other enforcement actions against JPMorgan Chase. Furthermore, a single event involving a potential violation of law or regulation may give rise to numerous and overlapping investigations and proceedings, either by multiple federal, state or local agencies and officials in the U.S. or, in some instances, regulators and other governmental officials in non-U.S. jurisdictions.

If another financial institution violates a law or regulation relating to a particular business activity or practice, this will often give rise to an investigation by regulators and other governmental agencies of the same or similar activity or practice by JPMorgan Chase.

These and other initiatives by U.S. and non-U.S. governmental authorities may subject JPMorgan Chase to judgments, settlements, fines, penalties or other sanctions, and may require JPMorgan Chase to restructure its operations and activities or to cease offering certain products or services. All of these potential outcomes could harm JPMorgan Chase's reputation or lead to higher operational costs, thereby reducing JPMorgan Chase's profitability, or result in collateral consequences. In addition, the extent of JPMorgan Chase's exposure to legal and regulatory matters can be unpredictable and could, in some cases, exceed the amount of reserves that JPMorgan Chase has established for those matters.

### **JPMorgan Chase Bank, N.A. is affected by the risks that affects its parent company.**

JPMorgan Chase Bank, N.A. and its subsidiaries are also subject to each of the risks above, in addition to further risks. Risks that affect JPMorgan Chase can also affect JPMorgan Chase Bank, N.A. as there is substantial overlap in the businesses of JPMorgan Chase Bank, N.A. and JPMorgan Chase. Further, JPMorgan Chase Bank, N.A. can be negatively affected by risks and other events affecting JPMorgan Chase even where JPMorgan Chase Bank, N.A. is not directly affected. For example, where JPMorgan Chase's reputation is damaged, JPMorgan Chase Bank, N.A.'s reputation would likely also be damaged which could negatively affect JPMorgan Chase Bank, N.A.

## TAXATION

We have based this summary of Hong Kong, The Netherlands and United States tax on current law and practice. It is intended to give potential investors an overview of what Hong Kong, The Netherlands and United States tax they might have to pay if they hold our structured products. It is not complete and we are not giving any tax advice. Any potential investors should consult their own tax adviser for more information about the tax consequences of acquiring, owning and disposing of the structured products in their particular circumstances, particularly if they are subject to special tax rules (for example, if they are a bank, dealer, insurance company or a tax-exempt entity). This summary assumes that each transaction with respect to the structured products is at arm's length.

### HONG KONG

#### Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

#### Capital Gains Tax

No tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

#### Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

#### Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty either when issued or on any subsequent transfer.

### THE NETHERLANDS TAXATION

*The following discussion is a summary of certain material Dutch tax considerations relating to structured products issued by J.P. Morgan Structured Products B.V. (“JPMSP”) held by a holder of structured products (a “Holder”) who is not a resident of The Netherlands, including where those structured products are held through a paying agent or custodian located in The Netherlands.*

*This summary is based on the laws and practice in force as of the date of this base listing document and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a structured product, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. This summary does not address the Dutch tax consequences for a Holder who is an affiliated (gelieerde) entity of JPMSP within the meaning of the Withholding Tax Act 2021 (Wet bronbelasting 2021). Generally, a Holder is regarded as 'affiliated' for these purposes if such Holder, whether alone or together with related parties or as part of a collaborating group (samenwerkende groep), can exercise decisive influence over JPMSP's activities (or if JPMSP can, either alone or together with related parties or as part of a collaborating*

*group, exercise such influence over the activities of such Holder, or if there is a third party, either alone or together with related parties or as part of a collaborating group, that can exercise such control over both JPMSP and such Holder).*

For the purpose of the paragraph "Taxes on Income and Capital Gains" below it is assumed that no Holder, being an individual or an entity, has or will have a substantial interest (*aanmerkelijk belang*), or – in the case of a Holder being an entity – a deemed substantial interest, in JPMSP and that no connected person (*verbonden persoon*) to the Holder has or will have a substantial interest in JPMSP.

With respect to structured products for which it is specified that physical delivery of shares of a company is applicable, it is furthermore assumed that where such company is a Dutch resident company no Holder has or will have a substantial interest (*aanmerkelijk belang*) or a deemed substantial interest in such company and that no connected person (*verbonden persoon*) to such Holder being an individual has or will have a substantial interest in such company.

Generally speaking, an individual has a substantial interest (*aanmerkelijk belang*) in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of the company or the issued and outstanding capital of any class of shares of the company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of the company.

Generally speaking, an entity has a substantial interest (*aanmerkelijk belang*) in a company if such entity, directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of the company or the issued and outstanding capital of any class of shares of the company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of the company. An entity has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term “entity” means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a Holder of a structured product, an individual holding a structured product or an entity holding a structured product, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such structured product or otherwise being regarded as owning a structured product for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to “The Netherlands” or “Dutch”, it refers only to the European part of the Kingdom of the Netherlands.

This summary does not address the tax consequences of any Holder of structured products who is a resident of any non-European part of the Kingdom of the Netherlands.

## **Withholding Tax**

All payments made by JPMSP under the structured products can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, unless the structured products qualify as debt that effectively functions as equity for purposes of article 10, paragraph 1, sub-paragraph (d) of the Corporate Tax Act (*Wet op de vennootschapsbelasting 1969*) or represent, are linked (to the performance of) or are convertible (in part or in whole) into (rights to purchase) (a) shares; (b) profit certificates (*winstbewijzen*); and/or (c) debt instruments having a maturity legally or de facto of more than 50 years, in each case issued by JPMSP or any other entity related to JPMSP. According to Supreme Court case law, the structured products effectively function as equity if (a) the structured products are subordinated to all other non-subordinated creditors of JPMSP, (b) the structured products do not have a fixed maturity or have a maturity of more than 50 years, and (c) payments under the structured products are entirely or almost entirely dependent on JPMSP's profits.

## **Taxes on Income and Capital Gains**

A Holder who is not, and is not deemed to be resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a structured product unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on, in whole or in part, through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands; or
- (ii) the Holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

## **Stamp/Transfer Taxes**

The subscription, issue, placement, allotment, delivery or transfer of a structured product will not be subject to stamp tax, transfer tax or any other similar tax or duty payable in The Netherlands.

## **Gift and Inheritance Taxes**

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a structured product by way of gift by, or on the death of, a Holder, unless:

- (i) the Holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or
- (ii) in the case of a gift of structured products by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

For purposes of Dutch gift and inheritance tax, an individual with Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death.

For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

For purposes of Dutch gift and inheritance tax, a gift that is made under a condition precedent is deemed to have been made at the moment such condition precedent is satisfied. If the condition precedent is fulfilled after the death of the donor, the gift is deemed to be made upon the death of the donor.

### **Exchange of information**

On 9 December 2014, the Council of the European Union adopted a Directive (EC Council Directive 2014/107/EU amending EU Council Directive 2011/16/EU) on the mandatory automatic exchange of information to implement the OECD measures known as the “**Common Reporting Standard**”. Member States were required to implement this Directive in respect of taxable periods from 1 January 2016 and to begin exchanging information pursuant to such Directive no later than 30 September 2017.

In accordance with the Common Reporting Standard, The Netherlands will provide to the tax authorities of another EU Member State (and certain non-EU countries and associated territories specified in said directive) details of payments of interest or other similar income paid by a person within The Netherlands to, or collected by such a person for, an individual resident in such other state.

## **UNITED STATES OF AMERICA**

### **Section 871(m)**

Under Section 871(m) of the Internal Revenue Code, enacted under the United States Hiring Incentives to Restore Employment Act of 2010, a “**dividend equivalent**” payment generally is treated as a dividend from sources within the United States and such payments generally would be subject to a 30 per cent. United States withholding tax if paid to a Non-U.S. Holder (as defined below). Under recently promulgated U.S. Treasury regulations and related official guidance issued pursuant to Section 871(m) of the Internal Revenue Code, payments (including deemed payments) with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities may be treated as dividend equivalents. Section 871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable U.S. Treasury regulations. Additionally, the applicable regulations and guidance exclude from the scope of Section 871(m) instruments issued before 1 January 2023 that do not have a delta of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes (each an “**Underlying Security**”). However, it is possible that the structured products could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Underlying Security or the structured products, and following such occurrence, the structured products could then be subject to withholding on dividend equivalent payments. The regulations provide that the delta of an instrument is the ratio of the change in fair market value of the instrument to the change in the fair market value of the property referenced by the instrument. The regulations and guidance are extremely complex, and significant aspects of their application to the structured products are uncertain. In addition, their application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. Holders are urged to consult with their own tax advisors regarding the possible implications of these regulations and guidance on their investment in the structured products.

If any payments are treated as dividend equivalents subject to withholding, we (or any applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

### **The Foreign Account Tax Compliance Act**

The Foreign Account Tax Compliance Act (“**FATCA**”) (Sections 1471 through 1474 of the Internal Revenue Code) generally imposes a 30 per cent. United States withholding tax on certain United States source payments, including interest (and original issue discount), dividends (and “**dividend equivalent**” payments), or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition (subject to the discussions below relating to the Proposed Regulations) of property of a type which can produce United States source interest or dividends (“**Withholdable Payments**”), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding United States account holders (including certain account holders that are foreign entities with United States owners) with such institution, or such institution otherwise complies with its obligations under FATCA. A structured product may constitute an account for these purposes. FATCA also generally imposes a withholding tax of 30 per cent. on Withholdable Payments made to a nonfinancial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial United States owners or a certification identifying the direct and indirect substantial United States owners of the entity, or otherwise establishes an exemption. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

The U.S. Treasury Department and the U.S. Internal Revenue Service have announced that FATCA withholding on payments of gross proceeds from the sale or disposition of a structured product will only apply to payments made after 31 December 2018. However, recently proposed regulations (which have not yet been finalized) (the “**Proposed Regulations**”) have eliminated this withholding requirement. Taxpayers are permitted to rely on the Proposed Regulations until final regulations are issued; however, final regulations could reinstate this withholding obligation (or otherwise modify the Proposed Regulations) at any time, possibly with retroactive effect.

In addition, under FATCA, “**passthru payments**” made by a foreign financial institution to “**recalcitrant holders**” or noncompliant foreign financial institutions are subject to a 30 per cent. United States withholding tax. A “**recalcitrant holder**” generally is a holder of an account with a foreign financial institution that fails to comply with certain requests for information that will help enable the relevant foreign financial institution to comply with its obligations under FATCA (a structured product may constitute an account for these purposes). Pursuant to U.S. Treasury regulations, a passthru payment is any Withholdable Payment and any “**foreign passthru payment**”, which has yet to be defined. This withholding tax, however, will not be imposed on payments that are treated as Withholdable Payments for FATCA purposes solely because such payments are treated as “dividend equivalent” payments under Section 871(m) of the Internal Revenue Code, if the obligations giving rise to such payments are executed on or before the date that is six months after the date on which such obligations are first treated as giving rise to “dividend equivalent” payments.

Under the current U.S. Treasury regulations and related official guidance issued by the U.S. Internal Revenue Service, the 30 per cent. United States withholding tax on “**recalcitrant holders**” or noncompliant foreign financial institutions generally may be imposed on “**foreign passthru payments**” made by us with respect to the structured products after the date of publication in the U.S. Federal Register of final regulations defining the term “**foreign passthru payment.**” However, payments on an obligation will not be treated as “**foreign passthru payments**” if such obligation is executed on or before the date that is six months after the date on which final regulations defining the term “**foreign passthru payment**” are filed with the U.S. Federal Register.

Under the Proposed Regulations, withholding on foreign passthru payments would not be required with respect to payments made before the date that is two years after the date of publication in the U.S. Federal Register of final regulations defining the term “foreign passthru payment”. Taxpayers are permitted to rely on the Proposed Regulations until final regulations are issued; however, final regulations could reinstate these withholding obligations (or otherwise modify the Proposed Regulations) at any time, possibly with retroactive effect.

If we determine that withholding is appropriate with respect to the structured products, we (or an applicable withholding agent) will withhold tax at the applicable statutory rate without being required to pay any additional amounts with respect to amounts so withheld.

Foreign financial institutions and nonfinancial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. Holders are urged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the structured products.

The above summary only applies to you if you are a Non-U.S. Holder. You are a Non-U.S. Holder unless you are: (1) an individual citizen or resident of the United States; (2) a corporation, partnership or other entity (excluding a trust) that is formed or organised under the laws of the United States or any political subdivision of the United States (or is taxable as an entity so formed or organised); (3) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; (4) a trust that is subject to the jurisdiction of a U.S. court and for which one or more “**United States persons**” (as defined in the Internal Revenue Code) control all of the substantial decisions, or has otherwise made an appropriate election under the U.S. tax regulations.

## GENERAL INFORMATION ABOUT US

### History, Development and Organisational Structure

J.P. Morgan Structured Products B.V. (JPMSP) was incorporated as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) in Amsterdam, The Netherlands, on 6 November 2006 to exist for an unlimited duration. JPMSP mainly operates under the Dutch Civil Code (*Burgerlijk Wetboek*) and the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) JPMSP was and remains registered at the Chamber of Commerce of Amsterdam under registered number 34259454 and has its registered offices at Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam, The Netherlands (telephone number +31 20 575 5600).

JPMSP is an indirect, wholly-owned subsidiary of JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. is one of the principal bank subsidiaries of JPMorgan Chase & Co., a company incorporated in the State of Delaware in the United States of America.

### Investment Policy

JPMSP may undertake independent investments in its sole discretion with the proceeds (net of third party costs) of an issuance of notes, warrants or certificates, subject to compliance with certain legal, tax and regulatory restrictions.

### Principal Activities

JPMSP's business principally consists of the issuance of securitised derivatives comprising notes, warrants and certificates, including equity-linked, reverse convertible and market participation notes (together, and for the purposes of this section only, the "**Securities**") and the subsequent hedging of those risk positions. All issuances which have been closed to date are subject to hedging arrangements. The proceeds of the sale of the Securities are used for general corporate purposes, including the entry into hedging arrangements with other J.P. Morgan affiliates. JPMSP anticipates that the hedging arrangements will be sufficient to hedge itself against the market risk of its securities issuance activities. JPMSP also has receipts from and makes payments to other J.P. Morgan affiliates.

It is anticipated that JPMSP will, for each issuance, enter into hedging arrangements with other J.P. Morgan affiliates, and that such arrangements will be sufficient to hedge its market risk for each such issuance. Accordingly, the ability of JPMSP to perform its obligations under the Securities may be affected by any inability or failure to perform, pursuant to its hedging arrangements, by such other J.P. Morgan affiliate.

### Principal Markets

During the financial year ended 31 December 2020, JPMSP issued Securities in the Asia Pacific region, Europe, the Middle East, Africa, Latin America and the United States of America.

### Trend Information

JPMSP's primary objective in 2021 will be 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.

## Directors and Officers

The administrative, management and supervisory bodies of JPMSP comprise its Board of Directors. Set forth below are the names and positions of JPMSP's Directors:

Name	Function	Business address
Wolbert Hinrik Kamphuijs	Managing Director	Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam, The Netherlands
Nicholas Jonathan Dargan	Managing Director	26/F Chater House, 8 Connaught Road Central, Hong Kong
Marleen Frederika Carola van der Werff	Managing Director	Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam, The Netherlands
Jozef Cornelis Petrus van Uffelen	Managing Director	Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam, The Netherlands
Sim Ee Cheah	Managing Director	25/F Chater House, 8 Connaught Road Central, Hong Kong

The principal outside activities of Mr. Kamphuijs, Mrs. van der Werff and Mr. van Uffelen are as employees of TMF Netherlands B.V., a trust company which was established in The Netherlands in 1970. Mr. Dargan is a Managing Director of the Investment Bank division at JPMorgan Chase and there are no principal outside activities performed by Mr. Dargan which are significant to JPMSP as Issuer. Ms. Cheah is a Managing Director at the Investment Bank division at JPMorgan Chase and there are no principal outside activities performed by Ms. Cheah which are significant to JPMSP as Issuer. All Directors hold office until removed.

Subject in the case of Mr. Kamphuijs, Mrs. van der Werff and Mr. van Uffelen to their duties to TMF Netherlands B.V., there are no material potential conflicts of interest between any duties owed to JPMSP by the Directors of JPMSP identified above and their private interests and/or outside duties.

## Corporate Governance

JPMSP complies with established and accepted principles of corporate governance in The Netherlands. The Board of Directors of JPMSP conducts itself in accordance with general principles of Dutch corporate law.

The Board of Directors has appointed a committee to authorise and transact issuances of Securities. No other committees made up for specific purposes or to perform specific functions have been appointed.

## Capital Structure

The authorised share capital of JPMSP is euro 90,000, divided into 90,000 ordinary shares of euro 1.00 each. At incorporation 18,000 ordinary shares were issued. By a notarial deed of share issuance dated 30 March 2007 an additional 2,000 ordinary shares were issued in consideration of U.S.\$500,000,000. The total issued and fully paid up share capital therefore amounts to 20,000 ordinary shares. JPMSP does not hold any of its own shares.

## **Memorandum and Articles of Association**

JPMSP's objects as set out in Article 3 of its Articles of Association are:

- (a) to incorporate, to participate in any way whatsoever, to manage, to supervise, to operate and to promote enterprises, businesses and companies;
- (b) to finance businesses and companies;
- (c) to borrow, to lend and to raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with the aforementioned;
- (d) to enter into swaps and any other derivative transactions whatsoever to hedge the company's exposure under any agreements, securities or other instruments whatsoever to which it is a party;
- (e) to supply advice and to render services to enterprises and companies with which the company forms a group and to third parties;
- (f) to render guarantees, to bind the company and to pledge its assets for obligations of the companies and enterprises with which it forms a group and on behalf of third parties;
- (g) to obtain, alienate, manage and exploit registered property and items of property in general;
- (h) to trade in currencies, securities and items of property in general;
- (i) to develop and trade in patent, trademarks, licences, knowhow and other intellectual and industrial property-rights; and
- (j) to perform any and all activity of industrial, financial or commercial nature, as well as everything pertaining to the foregoing, relating thereto or conducive thereto, all in the widest sense of the word.

### **Principal Establishments and Real Estate owned**

JPMSP does not own any principal establishments, which account for more than 10 per cent. (ten per cent.) of its revenues, nor does JPMSP own any real estate directly.

### **Dividends**

JPMSP has not paid any dividends since its incorporation on 6 November 2006.

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

**(Chamber of Commerce Number: 34259454)**

**Financial statements for the six month period ended 30 June 2020**

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Interim report for the six month period ended 30 June 2020**

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

## **Directors' report**

The directors present their report and the interim financial statements of J.P. Morgan Structured Products B.V. (the "Company") for the six month period ended 30 June 2020.

### **Principal activity**

The Company's primary activity is the management and issuance of structured products comprising certificates, warrants and other market participation notes, and the subsequent hedging ("hedge", "hedging") of these positions.

### **Review of business**

During the year, the Company continued to issue structured products. The proceeds from the sale of the structured products were used to fund the activities of other JPMorgan Chase & Co. (together with its subsidiaries "Firm" or "JPMorgan Chase") undertakings through certain economic hedging arrangements. The principal purpose of these hedging arrangements is to hedge against various risks associated with the issuance activity. During the period, the Company issued structured products to private investors or listed on exchanges in the Asia Pacific region, Europe, the Middle East, Africa, Latin America and the United States of America.

The Company's ultimate controlling entity is JPMorgan Chase & Co.

### **Key performance indicators ("KPI")**

As the Company is managed as part of the Corporate Investment Bank of JPMorgan Chase there are no KPI's that are specific to the Company. The results are monitored against expectations of the business activities. A more detailed description of the Firm's key performance indicators may be found within the JPMorgan Chase & Co. 2019 Annual Report.

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

The primary objective of the Company is the continued development of structured 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.

#### *COVID-19*

The Firm is monitoring Coronavirus Disease 2019 ("COVID-19"), based on the guidance being provided by the relevant health and government authorities, and continues to implement protocols and processes in response to the spread of the virus. For more detail on Firmwide measures refer to operational risk (page 26). The Company was not aware of any material adverse effects on the financial statements as a result of the COVID-19 pandemic.

### **Principal risks and uncertainties**

The Company's issuance activities expose it to financial and operational risks, which are managed by the Board of Directors, using the Firm's 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. 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 period are set out on page 5 and show the Company's profit for the period after taxation is \$16.2 million (2019: \$8.7 million).

No dividend was paid or proposed during the period (2019: nil).

### **Events after the reporting period**

The Directors are not aware of any events or circumstances which have taken place after 30 June 2020, but before these financial statements have been approved for issue, that could materially affect the financial position or results of the Company and which would require specific disclosure in these financial statements.

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

## **Directors' report (continued)**

### **Directors**

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

J.C.P. van Uffelen	(Appointed 6 March 2007)
W.H. Kamphuijs	(Appointed 1 September 2014)
M.F.C van der Werff	(Appointed 20 March 2018)
Sim Ee Cheah	(Appointed 13 December 2018)
N. Dargan	(Appointed 29 July 2019)

### **Composition of the Board**

The size and composition of the Board of Managing Directors and the combined experience and expertise should reflect the best fit for profile and strategy of the Company. With effect from the 20 March 2018, the Company complies with the gender diversity goals set out in article 2:276 section 2 of the Dutch Civil Code.

### **Creditor payment policy**

All invoices from suppliers were settled on the Company's behalf by an affiliated JPMorgan Chase company, JPMorgan Chase Bank, N.A until February 2020.

These invoices are now settled by the Company. It is the policy of the Company to pay invoices upon presentation, except where other arrangements have been negotiated with the supplier, and 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

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

The directors of the Company expect:

- a) that the Company will continue to issue structured products;
- 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 and give a true and fair view of the assets, liabilities, financial position and profit of the Company for the period ended 30 June 2020, and
- b) the interim report for the period ended 30 June 2020, consisting of the directors report and the financial statements, gives a true and fair view of the position as per the balance sheet date 30 June 2020.

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

### **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. fulfils the requirements at group level. Audit Committee of JPMorgan Chase & Co. covers the Firm, including the Company and is formed of entirely non-management, independent directors in compliance with the recommendations from the EU Commission. Details of the Charter, Membership, Duties and Responsibilities can be found on the Firm's website.

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Directors' report (continued)**

The financial statements on pages 4 to 29 were approved by the Board of Directors on 16 September 2020 and signed on its behalf by:

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W.H. Kamphuijs

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J.C.P. van Uffelen

**Date: 16 September 2020**

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Balance sheet**

	Notes	Unaudited 30 June 2020 \$'000	31 December 2019 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Trade and other receivables	7	5,400,000	4,400,000
<b>Current assets</b>			
Financial assets held at fair value through profit and loss	6	29,522,760	26,848,043
Trade and other receivables	7	113,803	293,895
Cash and cash equivalents	8	3,638,675	4,301,180
<b>Total assets</b>		<b>38,675,238</b>	<b>35,843,118</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities designated at fair value through profit or loss	9	22,537,400	22,908,559
Financial liabilities held at fair value through profit and loss	10	6,985,360	3,939,485
Trade and other payables	12	8,492,610	8,363,871
Current tax liabilities		6,616	7,726
Bank overdraft	8	74,209	60,607
<b>Total liabilities</b>		<b>38,096,195</b>	<b>35,280,248</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity shareholders of the Company</b>			
Share capital	13	26	26
Share premium reserve		499,997	499,997
Legal reserve		2	2
Retained earnings		79,018	62,845
<b>Total equity</b>		<b>579,043</b>	<b>562,870</b>
<b>Total liabilities and equity</b>		<b>38,675,238</b>	<b>35,843,118</b>

Chamber of Commerce Number: 34259454

The notes on pages 8 - 29 form an integral part of the financial statements.

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**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Income statement (unaudited)**

Six month period ended		Unaudited 30 June 2020	Unaudited 30 June 2019
	Notes	\$'000	\$'000
Fee and commission income	14	11,970	5,580
Fee and commission expense	14	(2,385)	(4,529)
Administrative expense		(7,844)	(805)
Net foreign exchange gain/(loss)		57	(9)
<b>Operating profit</b>		<b>1,798</b>	<b>237</b>
Interest income	15	49,009	91,198
Interest expense	15	(29,268)	(79,922)
<b>Net interest income</b>		<b>19,741</b>	<b>11,276</b>
<b>Profit before income tax</b>		<b>21,539</b>	<b>11,513</b>
Income tax expense	16	(5,366)	(2,844)
<b>Profit for the period attributable to equity shareholders of the Company</b>		<b>16,173</b>	<b>8,669</b>

The profit for the period resulted from continuing operations.

**Statement of comprehensive income**

There were no other items of comprehensive income or expense other than the profit for the financial period shown above (June 2019: \$nil). As a result, profit for the financial period represents total comprehensive income in both the current and prior financial period.

The notes on pages 8 - 29 form an integral part of the financial statements.

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Statement of changes in equity (unaudited)**

	Share capital	Share premium reserve	Legal reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2019</b>	26	499,997	2	40,257	540,282
Profit for the period	—	—	—	8,669	8,669
<b>Balance as at 30 June 2019</b>	26	499,997	2	48,926	548,951
<b>Balance as at 1 January 2020</b>	26	499,997	2	62,845	562,870
Profit for the period	—	—	—	16,173	16,173
<b>Balance as at 30 June 2020</b>	26	499,997	2	79,018	579,043

The notes on pages 8 - 29 form an integral part of the financial statements.

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Statement of cash flows (unaudited)**

		Unaudited 30 June 2020	Unaudited 30 June 2019
	Notes	\$'000	\$'000
<b>Cash flow from operating activities</b>			
<b>Profit before income tax</b>		<b>21,539</b>	<b>11,513</b>
Income tax paid		(6,476)	(882)
Interest income	15	(49,009)	(91,198)
Interest expense	15	29,268	79,922
Net foreign exchange (gains)/losses		(57)	9
		<b>(4,735)</b>	<b>(636)</b>
<b>Changes in working capital</b>			
(Increase) in financial assets held at fair value through profit and loss		(2,674,717)	(4,359,910)
(Increase)/decrease in trade and other receivables		(819,908)	571,999
Increase in financial liabilities held at fair value through profit and loss		3,045,875	1,038,369
(Decrease)/increase in financial liabilities designated at fair value through profit or loss		(371,159)	3,321,540
Increase in trade and other payables		128,739	1,841,220
		<b>(691,170)</b>	<b>2,413,218</b>
<b>Net cash (used in)/generated from operating activities</b>		<b>(695,905)</b>	<b>2,412,582</b>
<b>Cash flow from financing activities</b>			
Interest income	15	49,009	91,198
Interest expense	15	(29,268)	(79,922)
<b>Net cash generated from financing activities</b>		<b>19,741</b>	<b>11,276</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(676,164)</b>	<b>2,423,858</b>
<b>Net cash and cash equivalents at the beginning of the period</b>		<b>4,240,573</b>	<b>2,782,991</b>
Effect of exchange rate changes on cash and cash equivalents		57	(9)
<b>Net cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>3,564,466</b>	<b>5,206,840</b>

The notes on pages 8 - 29 form an integral part of the financial statements.

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

## **Notes to the financial statements**

### **1. General information**

J.P. Morgan Structured Products B.V. (the "Company") was incorporated on 6 November 2006 as a private company with limited liability and is incorporated and domiciled in The Netherlands, with registration number 34259454. The address of the registered office is at Herikerbergweg 238, Luna ArenA, 1101CM, Amsterdam, The Netherlands. 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 of the largest group in which the results of the Company are consolidated is J.P. Morgan Chase & Co. (together with its subsidiaries, the "Firm" or "JPMorgan Chase"), 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 group's consolidated financial statements can be obtained from 25 Bank Street, Canary Wharf, London E14 5JP, England.

The Company's main activity is the issuance of structured products comprising certificates, warrants and market participation notes, and the subsequent economic hedging ("hedge", "hedging") of the risk associated with these notes through hedging with other JPMorgan Chase companies. The valuation of a structured product will have no impact on the income statement, capital or net assets; as a change in valuation of a structured product will have an equal offsetting change in the value of the hedging transaction with other JPMorgan Chase undertakings.

These financial statements reflect the operations of the Company during the period from 1 January 2020 to 30 June 2020 and have been approved for issue by the Board of Directors on 16 September 2020.

### **2. Accounting convention**

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 guidance provided by the International Financial Reporting Standards Interpretations Committee ("IFRC IC") has been followed. The financial statements have been prepared on a going concern basis 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 4.

Restatement of prior year amounts have been made to conform with current year presentation and to correctly reflect the nature of the balances so as to provide additional transparency and information in these financial statements.

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

The following are the 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.

#### **3.1 Foreign currency translation**

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

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

#### **3.2 Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

U.S. dollars is considered as the functional and presentation currency of the Company.

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

## Notes to the financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### 3.3 Financial instruments

##### 3.3.1 Financial assets and financial liabilities

###### i. Recognition of financial assets and financial liabilities

The Company recognises financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade-date, which is the date on which the Company commits to purchase or sell an asset.

###### ii. Classification and measurement of financial assets and financial liabilities

On initial recognition, financial assets are classified and measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is based on both the business model for managing the financial assets and their contractual cash flow characteristics. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

On initial recognition, financial liabilities are classified as measured at either amortised cost or fair value through profit or loss.

###### iii. Financial assets and financial liabilities measured at amortised cost

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

Financial assets measured at amortised cost include trade and other receivables and cash and cash equivalents.

Financial liabilities are measured at amortised cost unless they are held for trading or are designated as measured at fair value through profit or loss. Financial liabilities measured at amortised cost include trade and other payables and bank overdraft.

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

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

Gains and losses arising on the disposal of financial assets measured at amortised cost are recognised in 'trading profit' or other non interest revenue as relevant.

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

Financial assets and financial liabilities are measured at fair value through profit or loss (FVTPL) if they are held for trading. Under IFRS 9, a financial asset or a financial liability is defined as "held for trading" if it is acquired or incurred principally for the purpose of selling or 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. However, such financial instruments are used by the Company predominantly in connection with its "client-driven" market-making and/or for hedging certain assets, liabilities, positions, cash flows or anticipated transactions (i.e. risk management activities). Financial assets and financial liabilities held for trading comprise both debt and equity securities, loans and derivatives and the related unrealised gains and losses.

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

## Notes to the financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### 3.3 Financial instruments (continued)

##### 3.3.1 Financial assets and financial liabilities (continued)

###### iv. Financial assets and financial liabilities measured at fair value through profit or loss (continued)

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

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

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

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

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

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

Changes in the fair value of financial assets and financial liabilities designated as measured at FVTPL are recognised in profit or loss except for gains/losses attributable to changes in the Company's own credit risk.

##### 3.3.2 Interest income and interest expense

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

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

##### 3.3.3 Trading profit

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

##### 3.3.4 Impairment of financial assets

The Company recognises ECL for financial assets that are measured at amortised cost.

Provisions for ECL are recognised on initial recognition of the financial instrument based on expectations of credit losses at that time. The credit loss allowance includes ECLs for financial instruments that may default in the next 12-month period for financial instruments that have not observed a significant increase in credit risk since initial recognition ("stage 1") or over a lifetime period for financial instruments that have observed a significant increase in credit risk since initial recognition ("stage 2"). The allowance also includes lifetime ECLs for financial instruments where there is objective evidence of credit-impairment at the reporting date ("stage 3"). In determining the appropriate stage for a financial instrument, the Company applies the definition of default consistent with the Basel definition of default to maintain uniformity of the definition across the Firm.

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

## Notes to the financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### 3.3 Financial instruments (continued)

##### 3.3.4 Impairment of financial assets (continued)

The determination of the stage for credit losses under the ECL model is dependent on the measurement of a significant increase in credit risk ('SICR'). In determining SICR, the Company has conducted quantitative tests, which considers, but is not limited to, existing risk management indicators, credit rating changes and reasonable and supportable forward-looking information. Forward-looking information reflects a range of scenarios that incorporate macro-economic factors that are composed and monitored by JPMorgan Chase's firm-wide specialised economic forecasting team.

The key input components for the quantification of expected credit loss through the ECL model includes the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Company seeks to efficiently and effectively leverage as much as possible existing regulatory and capital frameworks where overlap is present for IFRS 9. Differences observed between content in existing frameworks and requirements under IFRS 9 have been identified and are adjusted accordingly. The inputs to the ECL model capture historical datasets and a reasonable and supportable forecasting horizon to estimate expected credit losses.

#### 3.4 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

Further details on fair value measurements are provided in note 11 to the financial statements.

#### 3.5 Fee and commission income and expense

Fee and commissions obtained through Firm attribution agreements are recognised when the underlying contract becomes legally binding or at the agreed due date if later.

#### 3.6 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.

#### 3.7 Recognition of deferred day one profit and loss

The Company enters into transactions where fair value is determined using valuation models that use significant unobservable inputs. 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 significant unobservable inputs.

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

## **Notes to the financial statements (continued)**

### **3. Summary of significant accounting policies (continued)**

#### **3.7 Recognition of deferred day one profit and loss (continued)**

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.

#### **3.8 Cash and cash equivalents**

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

#### **3.9 Share capital**

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

#### **3.10 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.

### **4. Critical accounting estimates and judgements**

The preparation of financial statements generally 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 that 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 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 11.

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 11.

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 11.

### **5. Segmental analysis**

The Company's activities comprise only one business segment, namely Corporate and Investment Banking services. The Company issues structured notes, of which the majority are issued within EMEA. All fee and commission income is received from JPMorgan Chase undertakings within the EMEA region.

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

## Notes to the financial statements (continued)

### 6. Financial assets held at fair value through profit and loss

	Unaudited 30 June 2020	31 December 2019
	\$'000	\$'000
Financial assets held at fair value through profit and loss	29,522,760	26,848,043

Financial assets held at fair value through profit and loss predominantly represent derivatives and fully funded OTC financial instruments with other JPMorgan Chase undertakings, see note 11. Credit valuation adjustments ("CVA") are necessary to reflect counterparty credit quality in the valuation of assets measured at fair value. CVA for the current period for financial assets held at fair value through profit and loss is \$55.02 million (2019: \$29.8 million) which is fully offset by an equal and opposite amount in financial liabilities designated at fair value through profit or loss. (Refer note 9 and 10).

### 7. Trade and other receivables

	Unaudited 30 June 2020	31 December 2019
	\$'000	\$'000
<b>Trade and other receivables: amounts falling due after one year</b>		
Amounts owed by JPMorgan Chase undertakings	5,400,000	4,400,000
	<b>5,400,000</b>	<b>4,400,000</b>
Trade receivables	11,826	94,435
Amounts owed by JPMorgan Chase undertakings	101,977	199,460
	<b>113,803</b>	<b>293,895</b>

None of the amounts within trade and other receivables were past due or impaired as at 30 June 2020 and 31 December 2019.

### 8. Net cash and cash equivalents

	Unaudited 30 June 2020	31 December 2019
	\$'000	\$'000
Cash held with JPMorgan Chase undertakings	3,555,117	4,187,640
Cash held with third parties	83,558	113,540
	<b>3,638,675</b>	<b>4,301,180</b>
<b>Bank overdraft</b>		
Balances due to JPMorgan Chase undertakings	(116)	(29,425)
Balances due to third parties	(74,093)	(31,182)
	<b>(74,209)</b>	<b>(60,607)</b>
<b>Net cash and cash equivalents as reported for the period/year</b>	<b>3,564,466</b>	<b>4,240,573</b>

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Notes to the financial statements (continued)**

**9. Financial liabilities designated at fair value through profit or loss**

	<b>Unaudited 30 June 2020</b>	<b>31 December 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Financial liabilities designated at fair value through profit or loss	<b>22,537,400</b>	<b>22,908,559</b>

Financial liabilities designated at fair value through profit and loss include short term and long term structured notes. In certain instances, the customers have the rights to exercise put options. Other securities include early redemption clauses. As a result, the notes have been disclosed as having a maturity within one year in the table above. The contractual payments associated with the notes issued by the Company are predominantly guaranteed by JPMorgan Chase Bank, N.A. and may be repayable on customer demand. The details of each note are set out in the prospectus for each issuance.

Debit valuation adjustments are necessary to reflect the credit quality of the Firm in the valuation of such liabilities. The directors consider that the Company is fully 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 its own credit and funding risk in the financial liabilities designated at fair value through profit or loss and held at fair value through profit and loss for the period ended 30 June 2020 is \$55.02 million (31 December 2019: \$29.8 million). This is fully offset by an equal and opposite amount in financial assets held at fair value through profit and loss (refer to note 6).

**10. Financial liabilities held at fair value through profit and loss**

	<b>Unaudited 30 June 2020</b>	<b>31 December 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Financial liabilities held at fair value through profit and loss	<b>6,985,360</b>	<b>3,939,485</b>

Financial liabilities held at fair value through profit or loss consists of warrants and derivatives.

**11. Assets and liabilities measured at fair value**

**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 prices or quotes are not available, fair value is based on valuation models and other valuation techniques that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters, including yield curves, interest rates, volatilities, prices (such as commodity, equity or debt prices), correlations, 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 Firm's positions are recorded at fair value. The valuation control function verifies fair value estimates provided by the risk-taking functions by leveraging independently derived prices, valuation inputs and other market data, where available.

Debit valuation adjustments ("DVA") are taken to reflect the credit quality of the Company in the valuation of liabilities measured at fair value. The Firm also incorporates the impact of funding in its valuation estimates where there is evidence that a market participant in the principal market would incorporate it in a transfer of the instrument.

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

## Notes to the financial statements (continued)

### 11. Assets and liabilities measured at fair value(continued)

#### Valuation process (continued)

Credit valuation adjustments (“CVA”) are necessary to reflect counterparty credit quality in the valuation of assets measured at fair value.

#### 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 terms such as maturity and use as inputs market-based or independently sourced parameters. The Model Risk Governance and Review 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.

#### Valuation methodologies

The following table describes the valuation methodologies used by the Firm 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
<b>Structured notes</b>	<ul style="list-style-type: none"> <li>Valuations are based on discounted cash flow analysis that consider the embedded derivative and the terms and payment structure of the note.</li> <li>The embedded derivative features are considered using models such as the Black-Scholes option pricing model, simulation models, or a combination of models that use observable or unobservable valuation inputs, depending on the embedded derivative. The specific inputs used vary according to the nature of the embedded derivative features, as described in the discussion below regarding derivative valuation. Adjustments are then made to this base valuation to reflect the Firm’s own credit risk (DVA).</li> </ul>	Level 2 or 3
<b>Equity securities</b>	Quoted market prices are used.	Level 1
<b>Derivatives and fully funded OTC financial instruments</b>	Derivatives that are valued using models such as the Black-Scholes option pricing model, simulation models, or a combination of models, that use observable or unobservable valuation inputs as well as considering the contractual terms. The key valuation inputs used will depend on the type of derivative and the nature of the underlying instruments and may include equity prices, commodity prices, interest rate yield curves, foreign exchange rates, volatilities, correlations, credit default swaps (“CDS”) spreads and recovery rates. Additionally, the credit quality of the counterparty and of the Firm’s as well as market funding levels may also be considered.	Level 2 or 3

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

## Notes to the financial statements (continued)

### 11. Assets and liabilities measured at fair value (continued)

#### Valuation methodologies (continued)

The following tables present the assets and liabilities reported at fair value as of 30 June 2020 and 31 December 2019, by major product category and fair value hierarchy.

#### Assets and liabilities measured at fair value on a recurring basis

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Unaudited at 30 June 2020</b>				
<b>Financial assets held at fair value through profit and loss:</b>				
Financial assets held at fair value through profit and loss	516,471	17,068,992	11,937,297	29,522,760
<b>Total financial assets</b>	<b>516,471</b>	<b>17,068,992</b>	<b>11,937,297</b>	<b>29,522,760</b>
<b>Financial liabilities held at fair value through profit and loss:</b>				
Financial liabilities held at fair value through profit and loss	—	(6,328,292)	(657,068)	(6,985,360)
<b>Financial liabilities designated at fair value through profit or loss:</b>				
Structured notes	—	(11,894,426)	(10,642,974)	(22,537,400)
<b>Total financial liabilities</b>	<b>—</b>	<b>(18,222,718)</b>	<b>(11,300,042)</b>	<b>(29,522,760)</b>
<b>At 31 December 2019</b>				
<b>Financial assets held at fair value through profit and loss:</b>				
Financial assets held at fair value through profit and loss	398,437	15,581,473	10,868,133	26,848,043
<b>Total financial assets</b>	<b>398,437</b>	<b>15,581,473</b>	<b>10,868,133</b>	<b>26,848,043</b>
<b>Financial liabilities held at fair value through profit and loss:</b>				
Financial liabilities held at fair value through profit and loss	—	(3,580,485)	(359,000)	(3,939,485)
<b>Financial liabilities designated at fair value through profit or loss:</b>				
Structured notes	—	(13,015,441)	(9,893,117)	(22,908,558)
<b>Total financial liabilities</b>	<b>—</b>	<b>(16,595,926)</b>	<b>(10,252,117)</b>	<b>(26,848,043)</b>

The Company hedges all structured note issuances by entering into hedging transactions with other JPMorgan Chase companies. The hedging transactions can be booked as multiple elements in order to ensure the risk associated with the notes is fully hedged. Each of these elements is classified in the fair value hierarchy in line with the requirements of IFRS 13 'Fair Value Measurement', and as such the fair value hierarchy of the structured notes and hedges can differ.

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

## Notes to the financial statements (continued)

### 11. Assets and liabilities measured at fair value (continued)

#### Level 3 valuations

The Firm has established well structured 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 valuation models and other valuation techniques that use significant unobservable inputs are 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 valuation model or other valuation technique to use.

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 underlyings, 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.

Product/instrument	Asset	Liability	Net fair value	Principal valuation technique	Unobservable input	Range of input values
Unaudited at 30 June 2020	\$'000	\$'000	\$'000			
Derivatives and fully funded OTC financial instruments	11,937,297	(657,068)	11,280,229	Option pricing	Interest rate correlation	(65)% - 94%
					Interest rate spread volatility	20bps - 30bps
					Interest rate - FX correlation	(50)% - 35%
					Equity correlation	25% - 100%
					Equity - FX correlation	(77)% - 55%
					Equity - Interest rate correlation	20% - 35%
					Equity volatility	4% - 123%
Structured notes	—	(10,642,974)	(10,642,974)	Option pricing	Interest rate correlation	(65)% - 94%
					Interest rate spread volatility	20bps - 30bps
					Interest rate - FX correlation	(50)% - 35%
					Equity correlation	25% - 100%
					Equity - FX correlation	(77)% - 55%
					Equity - Interest rate correlation	20% - 35%
					Equity volatility	4% - 123%
<b>Total</b>	<b>11,937,297</b>	<b>(11,300,042)</b>	<b>637,255</b>			

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Notes to the financial statements (continued)**

**11. 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
At 31 December 2019	\$'000	\$'000	\$'000			
Derivatives and fully funded OTC financial instruments	10,868,133	(359,000)	10,509,133	Option pricing	Interest rate correlation	(65)% -94%
					Interest rate spread volatility	20bps - 30bps
					Interest rate - FX correlation	(58)% -40%
					Equity correlation	10% -97%
					Equity - FX correlation	(81)% -60%
					Equity - Interest rate correlation	25% - 35%
					Equity volatility	9% - 93%
Structured notes	—	(9,893,117)	(9,893,117)	Option pricing	Interest rate correlation	(65)% - 94%
					Interest rate spread volatility	20bps - 30bps
					Interest rate - FX correlation	(58)% - 40%
					Equity correlation	10% - 97%
					Equity - FX correlation	(81)% - 60%
					Equity - Interest rate correlation	25% - 35%
					Equity volatility	9% - 93%
<b>Total</b>	<b>10,868,133</b>	<b>(10,252,117)</b>	<b>616,016</b>			

The categories presented in the tables have been aggregated based upon the product type.

**Changes in and ranges of unobservable inputs**

The following discussion provides a description of the impact on 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.

**Correlation** - Correlation is a measure of the relationship between the movements of two variables. 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 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. For example, a short correlation position, where volatility increases, 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 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.

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

## Notes to the financial statements (continued)

### 11. Assets and liabilities measured at fair value (continued)

#### *Fair value of financial instruments valued using techniques that incorporate unobservable inputs*

Price risk from the issued instruments is matched by entering into equal and offsetting OTC financial transactions with other JPMorgan Chase companies so that any price risk is effectively hedged. As at 30 June 2020, the use of alternative inputs would not change the results of the Company. Consequently, no sensitivity analysis for level 3 financial instruments is disclosed.

#### **Movement in Level 3 assets and liabilities**

##### **Financial assets held at fair value through profit and loss**

	<b>Unaudited</b>	<b>31 December 2019</b>
	<b>30 June 2020</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>
At 1 January	<b>10,868,133</b>	<b>10,207,604</b>
Total (loss)/gain recognised in income statement *	(1,057,497)	871,612
Purchases	6,891,939	8,459,897
Settlements	(4,695,298)	(6,686,051)
Transfers into level 3	743,244	356,480
Transfers out of level 3	(813,224)	(2,341,409)
<b>Total assets at fair value</b>	<b>11,937,297</b>	<b>10,868,133</b>
<b>Change in unrealised (loss)/gain related to financial instruments</b>	<b>(279,656)</b>	<b>614,670</b>

##### **Financial liabilities held at fair value through profit and loss and designated at fair value through profit or loss**

	<b>Unaudited</b>	<b>31 December 2019</b>
	<b>30 June 2020</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>
At 1 January	<b>10,252,117</b>	<b>9,131,189</b>
Total gain recognised in income statement *	(1,113,283)	(10,257)
Purchases	448,569	386,190
Issuances	5,706,600	10,278,657
Settlements	(3,994,189)	(7,665,299)
Transfers into level 3	601,508	398,149
Transfers out of level 3	(601,280)	(2,266,512)
<b>Total liabilities at fair value</b>	<b>11,300,042</b>	<b>10,252,117</b>
<b>Change in unrealised (gain)/loss related to financial instruments</b>	<b>(382,553)</b>	<b>51,770</b>

\* As explained above, the Company's hedging transactions are booked as multiple elements in order to ensure the risk associated with the notes is fully hedged, and as such the levelling of the structured notes and hedges can differ. The gain recognised in the income statement as a result of changes in fair value related to level 3 financial instruments, including any changes to unrealised gain is offset by an equal and opposite impact as a result of changes in fair value of the related hedging instruments that are classified across multiple fair value levels.

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

## Notes to the financial statements (continued)

### 11. Assets and liabilities measured at fair value (continued)

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

For the period ended 30 June 2020 and 31 December 2019, there were no transfers between levels 1 and 2.

For the period ended 30 June 2020, transfers from level 2 to level 3 included the following:

- \$743 million of assets driven by reduction in observability of derivatives and fully funded OTC financial instruments.
- \$602 million of liabilities driven by a reduction in observability of structured notes.

For the period ended 30 June 2020, transfers from level 3 to level 2 included the following:

- \$813 million of assets driven by increase in observability of derivatives and fully funded OTC financial instruments.
- \$601 million of liabilities driven by increase in observability of structured notes.

During the year ended 31 December 2019, transfers from level 2 to level 3 included the following:

- \$356 million of assets driven by reduction in observability of derivatives and fully funded OTC financial instruments.
- \$398 million of liabilities driven by a reduction in observability of structured notes.

During the year ended 31 December 2019, transfers from level 3 to level 2 included the following:

- \$2,341 million of assets driven by increase in observability of derivatives and fully funded OTC financial instruments.
- \$2,266 million of liabilities driven by increase in observability of structured notes.

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 trade and other receivables, cash and cash equivalents, trade and other payables and bank overdraft.

The company has \$9,152.5 million (31 December 2019: \$8,955.1 million) of financial assets and \$8,566.8 million (31 December 2019: \$8,424.5 million) of current financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

#### Offsetting financial assets and financial liabilities

No financial assets and liabilities have been offset in the balance sheet as at 30 June 2020 (31 December 2019: nil).

Financial instruments, recognised within financial assets and liabilities held at fair value through profit and loss, which were subject to master netting arrangements or other similar agreements but not offset, as at 30 June 2020, amounted to \$6,038.7 million (31 December 2019: \$578.7 million).

### 12. Trade and other payables

	<b>Unaudited</b>	<b>31 December 2019</b>
	<b>30 June 2020</b>	<b>31 December 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	94,922	165,579
Amounts owed to JPMorgan Chase undertakings	8,397,688	8,198,292
	<b>8,492,610</b>	<b>8,363,871</b>

Current year trade and other payables predominantly consist of variation margin received from other JPMorgan Chase undertakings.

**J.P. MORGAN STRUCTURED PRODUCTS B.V.**  
**Notes to the financial statements (continued)**

**13. Share capital**

	<b>Unaudited 30 June 2020</b>	<b>31 December 2019</b>
	<b>€'000</b>	<b>€'000</b>
<b>Authorised share capital</b>		
90,000 (2019: 90,000) Ordinary shares of €1.00 each	<b>90</b>	<b>90</b>

	<b>Unaudited 30 June 2020</b>	<b>31 December 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Issued and fully paid share capital</b>		
20,000 (2019: 20,000) Ordinary shares of €1.00 each	<b>26</b>	<b>26</b>

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. There has been no change in the amount of authorised share capital during the period.

**14. Operating profit**

Included in operating profit are net gains/(losses) from financial liabilities designated at FVTPL and financial assets and liabilities held at FVTPL:

	<b>Unaudited 30 June 2020</b>	<b>Unaudited 30 June 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Net loss/(gain) on financial liabilities designated at FVTPL	(1,029,219)	1,634,160
Net gain/(loss) on financial assets and liabilities mandatory at FVTPL	1,029,219	(1,634,160)
	<b>—</b>	<b>—</b>

All fee and commission income is receivable from other JPMorgan Chase undertakings.

All fee and commission expense is paid by other JPMorgan Chase undertakings and reimbursed by the Company.

**15. Interest income and expenses**

All interest income and expenses are from financial instruments held at amortised cost, which are receivable from or due to JPMorgan Chase undertakings respectively.

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

## Notes to the financial statements (continued)

### 16. Income tax expense

	Unaudited 30 June 2020	Unaudited 30 June 2019
	\$'000	\$'000
Income tax expense:		
Current tax	5,366	2,864
Adjustment in respect of previous years	—	(20)
<b>Tax on profit on ordinary activities</b>	<b>5,366</b>	<b>2,844</b>
Profit for the year before tax	<b>21,539</b>	<b>11,513</b>
Tax calculated at applicable tax rates	5,366	2,864
Adjustments in respect of previous years	—	(20)
<b>Income tax expense</b>	<b>5,366</b>	<b>2,844</b>

The standard tax rate in the Netherlands is 25% (2019: 25%). A tax rate of 16.5% (2019: 19%) is applied to the first €200,000 (2019: €200,000).

### 17. Financial 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, and the Company believe that effective risk management requires:

- Acceptance of responsibility, including identification and escalation of risk issues, by all individuals within the Firm;
- Ownership of risk identification, assessment, data and management within each of the lines of business and Corporate; and
- Firmwide structures for risk governance.

JPMorgan Chase's risk governance structure is based on the principle that each line of business is responsible for managing the risk inherent in its business, albeit with appropriate corporate oversight. Each LOB risk committee is responsible for decisions regarding the business risk strategy, policies (as appropriate) and controls. Therefore, each LOB within the Company forms part of the firmwide risk governance structure.

The Company exercises oversight through the Board of Directors which are aligned to the Firm risk management framework and regulatory requirements.

#### Risk Summary

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

A detailed description of the policies and processes adopted by the Firm may be found within the JPMorgan Chase & Co. 2019 Annual Report on Form 10-K. The report is available at <https://jpmorganchaseco.gcs-web.com/financial-information/sec-filings>

#### Credit risk

Credit risk is the risk associated with the default or change in credit profile of a client, counterparty or customer. Credit risk management is an independent risk management function that monitors, measures and manages credit risk throughout the Firm and defines credit risk policies and procedures. The credit risk function reports to the Firm's Chief Risk Officer ("CRO").

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

## Notes to the financial statements (continued)

### 17. Financial risk management (continued)

#### Credit risk (continued)

#### Expected credit loss measurement

#### Approach to measuring expected credit losses

The Company estimates credit impairment through an allowance for expected credit losses ("ECLs"). ECLs are recognised for financial assets that are measured at amortised cost. The measurement of ECLs must reflect:

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

The measurement of ECL also reflects how the Company manages the financial instruments it uses for credit risk purposes such as Traditional Credit Products ("TCP"), and non-traditional credit products ("Non-TCP"). The Company does not hold any TCP instruments. Non-TCP consist of financial assets measured at amortised cost which include trade and other receivables and cash instruments.

The following table sets out the balances of the Company's financial assets that are measured at amortised cost within the Non-TCP category:

Balance sheet categories	Non-TCP	
	June 2020	Dec 2019
	\$'000	\$'000
<b>Assets</b>		
Trade and other receivables	5,513,803	4,693,895
Cash and cash equivalents	3,638,675	4,301,180

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

For Non-TCPs, the Company utilises a combination of an established provision matrix, as well as quantitative and qualitative considerations to estimate ECLs.

During the year, the Company did not recognise any ECL on Non-TCP balances as the ECL related to these exposures is assessed as immaterial. The Company's approach to measuring ECLs for Non-TCP portfolios depends on the type of instrument. Refer to the Credit exposures section below for an analysis per balance sheet line item.

#### Credit exposures

#### Balance sheet exposure by financial asset

The table below presents the Company's gross balance sheet exposure to financial assets without taking account of any collateral or economic hedges in place.

	June 2020	Dec 2019
	\$'000	\$'000
Financial assets held at fair value through profit and loss	29,522,760	26,848,043
Trade and other receivables	5,513,803	4,693,895
Cash and cash equivalents	3,638,675	4,301,180
	<b>38,675,238</b>	<b>35,843,118</b>

Included within the above assets, are balances held with other JPMorgan Chase undertakings of \$38,036 million (2019: \$35,229 million).

Financial assets held at fair value through profit and loss does not include equity securities captured under market risk.

The Company's credit exposures and credit risk mitigants are further described below. As no material ECL allowance is recognised on Non-TCP financial assets, refer below for further discussion.

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

## Notes to the financial statements (continued)

### 17. Financial risk management (continued)

#### Credit risk (continued)

*Credit exposures (continued)*

#### Trade and other receivables

Trade and other receivables mainly consist of amounts due from brokers/dealers such as failed sales, unsettled cash and amounts due from JPMorgan Chase undertakings.

Failed sale receivables generally have minimal credit risk due to the low probability of default of a 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.

Unsettled cash receivables relate to cash collateral paid to counterparties in respect of derivative financial instruments. Margin posted in cash is reflected as a receivable from the counterparty and is carried at amortised cost. The Company includes these receivables in Stage 1 due to the robust multi-layered credit protection inherent in the design and operations of the margin posted model.

The majority of amounts due from JPMorgan Chase undertakings are with a borrower who is a Material Legal Entity ("MLE"). As MLEs are adequately capitalised to ensure the MLE can fulfil all of its debt obligations even in the event of an orderly liquidation of JPMorgan Chase and are of investment grade, these inter-company receivables are included in Stage 1 as they are held with MLEs and considered to not have an increase in credit risk that would result in material expected credit losses. Receivables from MLEs are only included in Stage 2 if the obligor is no longer considered an MLE and there is evidence of credit deterioration of the obligor, or if certain support triggers defined in the JPMorgan Chase's Resolution Plan occur. Receivables from MLEs are not credit-impaired as the Firm ensures MLEs are more than adequately capitalised as required by the Firm's Resolution Plan. The Company recognises no allowance on these balances.

#### Cash and cash equivalents

The Company places substantially all of its deposits with banks which are of investment-grade. The Company includes cash and cash equivalents in Stage 1 as investment-grade institutions are considered to have high quality credit with low risk of default and therefore a significant increase in credit risk is not deemed probable or material. The Company recognises no allowance on these balances.

#### Liquidity risk

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

The Company's issuances are economically hedged with the OTC transactions with other JPMorgan Chase undertakings. To the extent that settlement-related timing differences between issuances and the OTC hedge may result in funding requirements, these are funded by other Firm companies involved in the transactions. The contractual payments associated with the notes issued by the Company are predominantly guaranteed by JPMorgan Chase Bank, N.A.

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

	June 2020	Dec 2019
	Less than	Less than
	1 year	1 year
	<u>\$'000</u>	<u>\$'000</u>
Financial liabilities designated at fair value through profit or loss	22,537,400	22,908,559
Financial liabilities held at fair value through profit and loss	6,985,360	3,939,485
Bank overdraft	74,209	60,607
Trade and other payables	8,492,610	8,363,871
	<b>38,089,579</b>	<b>35,272,522</b>

Included with the above liabilities, the balances held with other JPMorgan Chase undertakings are \$17,923 million (2019: \$14,467 million).

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

## Notes to the financial statements (continued)

### 17. Financial risk management (continued)

#### Market risk

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

Market Risk, arising from the Company's issuances are economically hedged by equal and offsetting OTC transactions with other Firm companies. Should this change, the Company's market risk would be managed as part of the enterprise wide Market Risk management framework.

#### Operational risk

Operational risk is the risk associated with an adverse outcome resulting from inadequate or failed internal processes or systems; human factors or external events impacting the Firm's processors or systems; it includes compliance risk, conduct risk, legal risk and estimations and model risk.

Operational risk is inherent in the Company's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, cybersecurity attacks, inappropriate employee behaviour, failure to comply with applicable laws, and regulations or failure of vendors to perform in accordance with their agreements. Operational Risk Management attempts to manage operational risk at appropriate levels in light of the Company's financial position, the characteristics of its businesses, and the markets and regulatory environments in which it operates.

#### *Risk management*

The Firm's Compliance, Conduct, and Operational Risk ("CCOR") Management Framework is designed to enable the Firm to govern, identify, measure, monitor and test, manage and report on the Firm's operational risk. The Company's approach mirrors the Firmwide approach.

Operational risk can manifest itself in various ways. Operational risk subcategories such as Compliance risk, Conduct risk, Legal risk and Estimations and Model risk, as well as other operational risks, can lead to losses which are captured through the Firm's operational risk measurement processes. More information on these risk subcategories, where relevant, can be found in the respective risk management sections.

#### *Cybersecurity risk*

Cybersecurity risk is an important, continuous and evolving focus for the Firm and Company. The Firm and Company devotes significant resources to protecting and continuing to improve the security of the Firm and Company's computer systems, software, networks and other technology assets. These security efforts are intended to protect against, among other things, cybersecurity attacks by unauthorised 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 cyberdefense capabilities and to strengthen its partnerships with the appropriate government and law enforcement agencies and other businesses in order to understand the full spectrum of cybersecurity risks in the operating environment, enhance defenses and improve resiliency against cybersecurity threats. The Firm actively participates in discussions of cybersecurity risks with law enforcement, government officials, peer and industry groups, and has significantly increased efforts to educate employees and clients on the topic.

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

To protect the confidentiality, integrity and availability of the Firm's infrastructure, resources and information, the Firm maintains a cybersecurity program designed to prevent, detect, and respond to cyberattacks. The Audit Committee is updated periodically on the Firm's Information Security Program, recommended changes, cybersecurity policies and practices, ongoing efforts to improve security, as well as its efforts regarding significant cybersecurity events.

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

## Notes to the financial statements (continued)

### 17. Financial risk management (continued)

#### Operational risk (continued)

##### *Business resiliency risk*

The Firm is monitoring the COVID-19 coronavirus outbreak closely, based on the guidance being provided by the relevant health and government authorities, and continues to implement protocols and processes in response to the spread of the virus. The Firm has organised a central team to continue to consider what steps should be taken around the globe to protect our employees, prepare our businesses, and serve our clients and the communities where we live and work. In addition, teams across functions, businesses and regions continue to meet regularly to understand the global situation and to ensure any emerging developments relating to the well-being of our employees or the resiliency of our businesses are addressed quickly. Our business remains operational and senior leaders across the firm continue to monitor operational metrics.

#### Compliance risk

Compliance risk, a subcategory of operational risk, is the risk of failing to comply with laws, rules, regulations or codes of conduct and standards of self-regulatory organisations applicable to the business activities of the Firm.

Each Line of Business ("LOB") and Corporate within the Company hold primary ownership and accountability for managing compliance risks. The Firm's Compliance Organisation ("Compliance"), which is independent of the line of business, works closely with senior management to provide independent review, monitoring and oversight of business operations with a focus on compliance with the regulatory obligations applicable to the offering of the Firm's products and services to clients and customers.

These compliance risks relate to a wide variety of legal and regulatory obligations, depending on the LOB and the jurisdiction, and include those related to products and services, relationships and interactions with clients and customers, and employee activities. For example, compliance risks include those associated with anti-money laundering compliance, trading activities, market conduct, and complying with the rules and regulations related to the offering of products and services across jurisdictional borders. Compliance risk is also inherent in the Firm's activities, including a failure to exercise an applicable standard of care, to act in the best interest of clients and customers or to treat clients and customers fairly.

Other functions provide oversight of significant regulatory obligations that are specific to their respective areas of responsibility.

CCOR Management implements policies and standards designed to govern, identify, measure, monitor and test, manage, and report compliance risk.

##### *Governance and oversight*

Compliance is led by the Firm's Chief Compliance Officer ("CCO") who reports to the Firm's CRO. The regional CCOs, including the EMEA CCO, are part of this structure. The Firm maintains oversight and coordination of its compliance risk through the implementation of the CCOR Risk Management Framework. At a Company level, in the UK the regional CCO is a member of the EMEA Management Committee and the UK Audit & Compliance Committee.

##### *Code of Conduct*

The Firm has a Code of Conduct ("Code") that sets out the Firm's expectation that employees will conduct themselves with integrity at all times and provides the principles that govern employee conduct with clients, customers, shareholders and one another, as well as with the markets and communities in which the Firm does business. The Code requires employees to promptly report 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 employees to report 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.

All newly hired employees are assigned Code training and current employees are periodically assigned Code training on an ongoing basis. Employees are required to affirm their compliance with the Code periodically. Employees can report any potential or actual violations of the Code through the Code Reporting Hotline by phone or the internet. It is administered by an outside service provider. The Code prohibits retaliation against anyone who raises an issue or concern in good faith.

#### Legal Risk

Legal risk is the risk of loss primarily caused by the actual or alleged failure to meet legal obligations that arise from the rule of law in jurisdictions in which the Firm and the Company operates, agreements with clients and customers, and products and services offered by the Company and the Firm.

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

## Notes to the financial statements (continued)

### 17. Financial risk management (continued)

#### Legal Risk (continued)

##### *Overview*

The global Legal function (“Legal”) provides legal services and advice to the Company and the Firm. Legal is responsible for managing the Firm’s exposure to legal risk by:

- Managing actual and potential litigation and enforcement matters, including internal reviews and investigations related to such matters;
- Advising on products and services, including contract negotiation and documentation;
- Advising on offering and marketing documents and new business initiatives;
- Managing dispute resolution;
- Interpreting existing laws, rules and regulations, and advising on changes thereto;
- Advising on advocacy in connection with contemplated and proposed laws, rules and regulations; and
- Providing legal advice to the LOBs, inclusive of LOB aligned Operations, Technology and Oversight & Controls (the “first line of defence”), Risk Management and Compliance (the “second line of defence”), and the Internal Audit function (the “third line of defence”).

Legal selects, engages and manages outside counsel for the Firm on all matters in which outside counsel is engaged. In addition, Legal advises the Firm’s Conflicts Office which reviews the Firm’s wholesale transactions that may have the potential to create conflicts of interest for the Firm.

##### *Governance and oversight*

The Firm’s General Counsel reports to the CEO and is a member of the Operating Committee, the Firmwide Risk Committee and the Firmwide Control Committee. The Firm’s General Counsel and other members of Legal report on significant legal matters to the Firm’s Board of Directors and periodically to the Audit Committee. Each region, including EMEA, has a General Counsel who is responsible for managing legal risk across all lines of business and functions in the region. Legal serves on and advises various committees (including new business initiative and reputation risk committees) and advises the Firm’s LOBs and Corporate on potential reputation risk issues.

#### Reputation risk

Reputation risk is the risk that an action or inaction may negatively impact the Firm’s integrity and reduce confidence in the Firm’s competence held by various constituents, including clients, counterparties, customers, investors, regulators, employees, communities or the broader public.

##### *Organisation and management*

Reputation Risk Management is an independent risk management function that establishes the governance framework for managing reputation risk across the Firm. As reputation risk is inherently difficult to identify, manage, and quantify, an independent reputation risk management governance function is critical.

The Firm’s reputation risk management function includes the following activities:

- Establishing a Firmwide Reputation Risk Governance policy and standards consistent with the reputation risk framework
- Managing the governance infrastructure and processes that support consistent identification, escalation, management and monitoring of reputation risk issues Firmwide; and
- Providing guidance to LOB Reputation Risk Offices (“RRO”), as appropriate.

The types of events that give rise to reputation risk are broad and could be introduced in various ways, including by the Firm’s employees and the clients, customers and counterparties with which the Firm does business. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Firm.

##### *Governance and oversight*

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

Reputation risk issues deemed material are escalated as appropriate.

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

## Notes to the financial statements (continued)

### 18. Managed capital

Total equity of \$579.0 million (2019: \$562.9 million) constitutes the managed capital of the Company, which consists entirely of issued share capital, share premium reserve, legal reserve and retained earnings.

The directors are responsible for setting the objectives, policies and processes relating to the management of the Company's capital and maintain a set of policy documents to assist in discharging their responsibilities.

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) Other JPMorgan Chase undertakings.

None of the Directors received remuneration from the Company during the period ( 2019: \$nil). The Company did not employ any staff in 2020 or 2019.

The Company's parent undertaking is detailed in note 1. There were no transactions with the parent undertaking during the period.

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

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

	Unaudited JPMorgan Chase undertakings 30 June 2020 \$'000	JPMorgan Chase undertakings 31 December 2019 \$'000
Financial assets held at fair value through profit and loss	28,979,404	26,442,201
Trade and other receivables	5,501,977	4,599,460
Cash and cash equivalents	3,555,117	4,187,640
Financial liabilities held at fair value through profit and loss	(6,038,672)	(3,613,891)
Financial liabilities designated at fair value through profit or loss	(3,486,408)	(2,625,100)
Trade and other payables	(8,397,688)	(8,198,292)
Bank overdraft	(116)	(29,425)

#### (ii) Income and expenses

	Unaudited JPMorgan Chase undertakings 30 June 2020 \$'000	Unaudited JPMorgan Chase undertakings 30 June 2019 \$'000
Net (loss)/gain*	(1,031,372)	1,399,042
Fees and commission income	11,970	5,580
Fees and commission expense	(2,385)	(4,529)
Net Interest income	19,741	11,276

\*Previous year numbers have been restated to conform with current year presentation.

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

## **Notes to the financial statements (continued)**

### **20. Proposed appropriation of net results**

Management propose to appropriate profit for the year 2019 to the retained earnings. No dividend was paid or proposed during the period (2019: nil).

**By order of the Board of Directors**

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W.H. Kamphuijs

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J.C.P. van Uffelen

**Date: 16 September 2020**

### **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 financial statements from which it appears that payment of dividends is permissible.

## INFORMATION RELATING TO THE GUARANTOR

### History, Development and Organisational Structure

JPMorgan Chase Bank, National Association (“**JPMorgan Chase Bank, N.A.**”) is a wholly-owned bank subsidiary of JPMorgan Chase & Co. (“**JPMorgan Chase**”), which is a leading global financial services firm and one of the largest banking institutions in the United States of America (“**U.S.**”), with operations worldwide. JPMorgan Chase Bank, N.A.’s main office is located in Columbus, Ohio, and it has U.S. branches in 38 states and Washington, D.C. as of 31 December 2020. JPMorgan Chase Bank, N.A. operates throughout the U.S. as well as through non-U.S. bank branches and subsidiaries, and representative offices. JPMorgan Chase Bank, N.A. either directly or through such branches, subsidiaries and offices offers a wide range of banking services to its U.S. and non-U.S. customers, including investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank, N.A. serves millions of customers in the U.S. and globally many of the world’s most prominent corporate, institutional and government clients. JPMorgan Chase Bank, N.A.’s principal operating subsidiary outside the U.S. is J.P. Morgan Securities plc, a U.K.-based subsidiary.

JPMorgan Chase Bank, N.A. is a national banking association organised under U.S. federal law. JPMorgan Chase Bank, N.A. was initially organised as a New York banking corporation on 26 November 1968, and converted into a national banking association on 13 November 2004. JPMorgan Chase Bank, N.A. is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency (the “**OCC**”), a bureau of the U.S. Department of the Treasury. JPMorgan Chase Bank, N.A. is a member of the U.S. Federal Reserve System and its U.S. domestic deposits are insured by the Federal Deposit Insurance Corporation (the “**FDIC**”). Its U.S. Federal Reserve Bank Identification Number is 852218.

The powers of JPMorgan Chase Bank, N.A. are set forth in the U.S. National Bank Act and include all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes.

The registered office of JPMorgan Chase Bank, N.A. is located at 1111 Polaris Parkway, Columbus, Ohio 43240, U.S.A. JPMorgan Chase Bank, N.A.’s principal place of business is located at 383 Madison Avenue, New York, New York 10179, U.S.A. and its telephone number is +1 212 270 6000.

### Principal Activities and Principal Markets

JPMorgan Chase Bank, N.A.’s activities are organised and integrated with the businesses of JPMorgan Chase and consequently JPMorgan Chase Bank, N.A. is dependent on JPMorgan Chase (including subsidiaries of JPMorgan Chase & Co. and JPMorgan Chase Bank, N.A.) to conduct its business. A description of these businesses, and the products and services they provide to their respective client bases, follows.

### *Consumer & Community Banking*

Consumer & Community Banking (“**CCB**”) offers services to consumers and businesses through bank branches, ATMs, digital (including mobile and online) and telephone banking. CCB is organized into Consumer & Business Banking (including Consumer Banking, J.P. Morgan Wealth Management and Business Banking), Home Lending (including Home Lending Production, Home Lending Servicing and Real Estate Portfolios) and Card & Auto. Consumer & Business Banking offers deposit and investment products, payments and services to consumers, and lending, deposit, and cash management and payment solutions to small businesses. Home Lending includes mortgage origination and servicing activities, as well as portfolios consisting of residential mortgages and home equity loans. Card & Auto issues credit cards to consumers and small businesses and originates and services auto loans and leases.

### *Corporate & Investment Bank*

The Corporate & Investment Bank (“**CIB**”), which consists of Banking and Markets & Securities Services, offers a broad suite of investment banking, market-making, prime brokerage, and treasury and securities products and services to a global client base of corporations, investors, financial institutions, merchants, government and municipal entities. Banking offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital-raising in equity and debt markets, as well as loan origination and syndication. Banking also includes Wholesale Payments, which provides payments services enabling clients to manage payments and receipts globally, and cross-border financing. Markets & Securities Services includes Markets, a global market-maker across products, including cash and derivative instruments, which also offers sophisticated risk management solutions, prime brokerage, and research. Markets & Securities Services also includes Securities Services, a leading global custodian which provides custody, fund accounting and administration, and securities lending products principally for asset managers, insurance companies and public and private investment funds.

### *Commercial Banking*

Commercial Banking (“**CB**”) provides comprehensive financial solutions, including lending, wholesale payments, investment banking and asset management products across three primary client segments: Middle Market Banking, Corporate Client Banking and Commercial Real Estate Banking. Other includes amounts not aligned with a primary client segment. Middle Market Banking covers small and mid-sized companies, local governments and nonprofit clients. Corporate Client Banking covers large corporations. Commercial Real Estate Banking covers investors, developers, and owners of multifamily, office, retail, industrial and affordable housing properties.

### *Asset & Wealth Management*

Asset & Wealth Management (“**AWM**”), with client assets of \$3.7 trillion, is a global leader in investment and wealth management.

#### *Asset Management*

Offers multi-asset investment management solutions across equities, fixed income, alternatives and money market funds to institutional and retail investors providing for a broad range of clients’ investment needs.

#### *Wealth Management*

Provides retirement products and services, brokerage, custody, trusts and estates, loans, mortgages, deposits and investment management to high net worth clients.

The majority of AWM’s client assets are in actively managed portfolios.

## *Corporate*

The Corporate segment consists of Treasury and Chief Investment Office (“**CIO**”) and Other Corporate, which includes corporate staff functions and expense that is centrally managed. Treasury and CIO is predominantly responsible for measuring, monitoring, reporting and managing JPMorgan Chase’s liquidity, funding, capital, structural interest rate and foreign exchange risks. The major Other Corporate functions include Real Estate, Technology, Legal, Corporate Finance, Human Resources, Internal Audit, Risk Management, Compliance, Control Management, Corporate Responsibility and various Other Corporate groups.

### **Executive Officers and Directors**

#### *Executive Officers*

The following persons are the Executive Officers of JPMorgan Chase Bank, N.A. as at the date of this base listing document. The business address of each Executive Officer is 383 Madison Avenue, New York, New York 10179, U.S.A.

<b>Name</b>	<b>Title</b>
James Dimon	Chief Executive Officer and President
Ashley Bacon	Chief Risk Officer
Lori A. Beer	Chief Information Officer
Mary Callahan Erdoes	Chief Executive Officer of Asset & Wealth Management
Stacey Friedman	General Counsel
Marianne Lake	Chief Executive Officer of Consumer Lending
Robin Leopold	Head of Human Resources
Douglas B. Petno	Chief Executive Officer of Commercial Banking
Jennifer A. Piepszak	Chief Financial Officer
Daniel E. Pinto	Chief Operating Officer and Chief Executive Officer of Corporate & Investment Bank
Peter L. Scher	Head of Corporate Responsibility and Chairman of the Mid Atlantic Region
Gordon A. Smith	Chief Operating Officer and Chief Executive Officer of Consumer & Community Banking

#### *Directors*

The following persons are the members of the Board of Directors of JPMorgan Chase Bank, N.A. as at the date of this base listing document. The business address of each Director is JPMorgan Chase Bank, N.A., 383 Madison Avenue, New York, New York 10179, U.S.A.

Name	Principal Occupation
Linda B. Bammann	Retired Deputy Head of Risk Management of JPMorgan Chase & Co.
Stephen B. Burke, Non-Executive Chairman of the Board	Senior Advisor of Comcast Corporation
Todd A. Combs	Investment Officer at Berkshire Hathaway Inc.
James S. Crown	Chairman and Chief Executive Officer of Henry Crown and Company
James Dimon	Chairman of the Board and Chief Executive Officer of JPMorgan Chase & Co.
Timothy P. Flynn	Retired Chairman and Chief Executive Officer of KPMG
Melody Hobson	Co-CEO and President of Ariel Investments, LLC
Michael A. Neal	Retired Vice Chairman of General Electric Company and Retired Chairman and Chief Executive Officer of GE Capital
Phebe N. Novakovic	Chairman and Chief Executive Officer of General Dynamics Corporation
Virginia M. Rometty	Retired Executive Chairman, President and Chief Executive Officer of International Business Machines Corporation

## Financial Information

JPMorgan Chase Bank, N.A. prepares annual and semiannual consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”). Additionally, where applicable, the accounting and financial reporting policies of JPMorgan Chase Bank, N.A. conform to the accounting and reporting guidelines prescribed by the U.S. bank regulatory authorities. The audited consolidated financial statements of JPMorgan Chase Bank, N.A. as at and for the year ended 31 December 2020 comprising consolidated balance sheets at 31 December 2020 and 2019 and the related consolidated statements of income, changes in stockholder’s equity, comprehensive income and cash flows for each of the three years ended 31 December 2020 are included in this base listing document. In addition, JPMorgan Chase Bank, N.A.’s annual and semiannual consolidated financial statements, as they become available, can be viewed on the websites of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)), the U.K. National Storage Mechanism ([www.morningstar.co.uk/uk/nsm](http://www.morningstar.co.uk/uk/nsm)) and Euronext Dublin ([www.ise.ie](http://www.ise.ie)). JPMorgan Chase Bank, N.A. files quarterly Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices (“Call Reports”) with the U.S. Federal Financial Institutions Examination Council (the “FFIEC”). The non-confidential portions of the Call Reports can be viewed on the FFIEC’s website at <https://cdr.ffiec.gov/public/>. The Call Reports are prepared in accordance with regulatory instructions issued by the FFIEC and not U.S. GAAP. The Call Reports are supervisory and regulatory documents; they are not primarily accounting documents, do not conform with U.S. GAAP and do not provide a complete range of financial disclosure about JPMorgan Chase Bank, N.A. The Call Reports are not incorporated by reference in, and shall not be deemed to be part of, this base listing document.

## Risk Management

Risk is an inherent part of JPMorgan Chase’s business activities. When JPMorgan Chase extends a consumer or wholesale loan, advises customers and clients on their investment decisions, makes markets in securities, or offers other products or services, JPMorgan Chase takes on some degree of risk. JPMorgan Chase’s overall objective is to manage its businesses, and the associated risks, in a manner that balances serving the interests of its clients, customers and investors and protects the safety and soundness of JPMorgan Chase.

JPMorgan Chase believes that effective risk management requires, among other things:

- Acceptance of responsibility, including identification and escalation of risks by all individuals within JPMorgan Chase;
- Ownership of risk identification, assessment, data and management within each of the line of business (“LOBs”) and Corporate; and
- Firmwide structures for risk governance.

JPMorgan Chase follows a disciplined and balanced compensation framework with strong internal governance and independent oversight by the Board of Directors (the “Board”). The impact of risk and control issues is carefully considered in JPMorgan Chase’s performance evaluation and incentive compensation processes.

### **Risk governance and oversight framework**

JPMorgan Chase’s risk management governance and oversight framework involves understanding drivers of risks, types of risks, and impacts of risks.

*Drivers of Risks* are factors that cause a risk to exist. Drivers of risks include the economic environment, regulatory and government policy, competitor and market evolution, business decisions, process and judgment error, deliberate wrongdoing, dysfunctional markets, and natural disasters.

*Types of Risks* are categories by which risks manifest themselves. Risks are generally categorized in the following four risk types:

- Strategic risk is the risk to earnings, capital, liquidity or reputation associated with poorly designed or failed business plans or inadequate response to changes in the operating environment.
- Credit and investment risk is the risk associated with the default or change in credit profile of a client, counterparty or customer; or loss of principal or a reduction in expected returns on investments, including consumer credit risk, wholesale credit risk, and investment portfolio risk.
- Market risk is the risk associated with the effect of changes in market factors, such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.
- Operational risk is the risk associated with an adverse outcome resulting from inadequate or failed internal processes or systems; human factors; or external events impacting JPMorgan Chase’s processes or systems; it includes compliance, conduct, legal, and estimations and model risk.

*Impacts of Risks* are consequences of risks, both quantitative and qualitative. There may be many consequences of risks manifesting, including quantitative impacts such as a reduction in earnings and capital, liquidity outflows, and fines or penalties, or qualitative impacts such as reputation damage, loss of clients and customers, and regulatory and enforcement actions.

JPMorgan Chase’s risk governance and oversight framework is managed on a Firmwide basis. JPMorgan Chase has an Independent Risk Management (“IRM”) function, which consists of the Risk Management and Compliance organizations. The Chief Executive Officer (“CEO”) appoints, subject to approval by the Risk Committee of the Board (“Board Risk Committee”), JPMorgan Chase’s Chief Risk Officer (“CRO”) to lead the IRM organization and manage the risk governance structure of JPMorgan Chase. The framework is subject to approval by the Board Risk Committee in the form of the risk

governance and oversight policy. JPMorgan Chase's CRO oversees and delegates authorities to LOB CROs, Firmwide Risk Executives ("FREs"), and JPMorgan Chase's Chief Compliance Officer ("CCO"), who each establish Risk Management and Compliance organizations, set JPMorgan Chase's risk governance policies and standards, and define and oversee the implementation of JPMorgan Chase's risk governance. The LOB CROs are responsible for risks that arise in their LOBs, while FREs oversee risk areas that span across the individual LOB, functions and regions.

### **Three lines of defense**

JPMorgan Chase relies upon each of its LOBs and Corporate areas giving rise to risk to operate within the parameters identified by the IRM function, and within its own management-identified risk and control standards. Each LOB and Treasury & CIO, including their aligned Operations, Technology and Control Management, are JPMorgan Chase's "first line of defense" and own the identification of risks, as well as the design and execution of controls to manage those risks. The first line of defense is responsible for adherence to applicable laws, rules and regulations and for the implementation of the risk management structure (which may include policy, standards, limits, thresholds and controls) established by IRM.

The IRM function is independent of the businesses and is JPMorgan Chase's "second line of defense." The IRM function independently assesses and challenges the first line of defense risk management practices. IRM is also responsible for its own adherence to applicable laws, rules and regulations and for the implementation of policies and standards established by IRM with respect to its own processes.

Internal Audit is an independent function that provides objective assessment on the adequacy and effectiveness of JPMorgan Chasewide processes, controls, governance and risk management as the "third line of defense." The Internal Audit Function is headed by the General Auditor, who reports to the Audit Committee and administratively to the CEO.

In addition, there are other functions that contribute to JPMorgan Chasewide control environment but are not considered part of a particular line of defense, including Finance, Human Resources and Legal.

### **Risk identification and ownership**

Each LOB and Corporate area owns the ongoing identification of risks, as well as the design and execution of controls, inclusive of IRM-specified controls, to manage those risks. To support this activity, JPMorgan Chase has a formal risk identification framework designed to facilitate their responsibility to identify material risks inherent to JPMorgan Chase, catalog them in a central repository and review the most material risks on a regular basis. The IRM function reviews and challenges the LOB and Corporate's identified risks, maintains the central repository and provides the consolidated Firmwide results to JPMorgan Chasewide Risk Committee ("FRC") and Board Risk Committee.

### **Risk appetite**

JPMorgan Chase's overall appetite for risk is governed by a "Risk Appetite" framework. The framework and JPMorgan Chase's risk appetite are set and approved by JPMorgan Chase's CEO, Chief Financial Officer ("CFO") and CRO. Quantitative parameters and qualitative factors are used to monitor and measure JPMorgan Chase's capacity to take risk consistent with its stated risk appetite. Qualitative factors have been established to assess select operational risks, and impact to JPMorgan Chase's reputation. Risk Appetite results are reported to the Board Risk Committee.

## **Risk governance and oversight structure**

The independent status of the IRM function is supported by a governance structure that provides for escalation of risk issues to senior management, the FRC, and the Board, as appropriate.

JPMorgan Chase's Operating Committee, which consists of JPMorgan Chase's CEO, CRO, CFO, General Counsel, CEOs of the LOBs and other senior executives, is accountable to and may refer matters to JPMorgan Chase's Board. The Operating Committee is responsible for escalating to the Board the information necessary to facilitate the Board's exercise of its duties.

## **Board oversight**

JPMorgan Chase's Board provides oversight of risk. The Board Risk Committee is the principal committee that oversees risk matters. The Audit Committee oversees the control environment, and the Compensation & Management Development Committee oversees compensation and other management-related matters. Each committee of the Board oversees reputational risks and conduct risks within its scope of responsibility.

The JPMorgan Chase Bank, N.A. Board is responsible for the oversight of management of the bank. The JPMorgan Chase Bank, N.A. Board accomplishes this function acting directly and through the principal standing committees of JPMorgan Chase's Board. Risk and control oversight on behalf of JPMorgan Chase Bank, N.A. is primarily the responsibility of the Risk Committee and the Audit Committee, respectively, and, with respect to compensation and other management-related matters, the Compensation & Management Development Committee.

*The Board Risk Committee* assists the Board in its oversight of management's responsibility to implement a global risk management framework reasonably designed to identify, assess and manage JPMorgan Chase's risks. The Board Risk Committee's responsibilities include approval of applicable primary risk policies and review of certain associated frameworks, analysis and reporting established by management. Breaches in risk appetite and parameters, issues that may have a material adverse impact on JPMorgan Chase, including capital and liquidity issues, and other significant risk-related matters are escalated to the Board Risk Committee, as appropriate.

*The Audit Committee* assists the Board in its oversight of management's responsibility to ensure that there is an effective system of controls reasonably designed to safeguard JPMorgan Chase's assets and income, ensure the integrity of JPMorgan Chase's financial statements, and maintain compliance with JPMorgan Chase's ethical standards, policies, plans and procedures, and with laws and regulations. It also assists the Board in its oversight of JPMorgan Chase's independent registered public accounting firm's qualifications, independence and performance, and of the performance of JPMorgan Chase's Internal Audit function.

*The Compensation & Management Development Committee ("CMDC")* assists the Board in its oversight of JPMorgan Chase's compensation principles and practices. The CMDC reviews and approves JPMorgan Chase's compensation and qualified benefits programs. The Committee reviews the performance of Operating Committee members against their goals, and approves their compensation awards. In addition, the CEO's award is subject to ratification by the independent directors of the Board. The CMDC also reviews the development of and succession for key executives, and provides oversight of JPMorgan Chase's culture, including reviewing updates from management regarding significant conduct issues and any related employee actions, including compensation actions.

*The Public Responsibility Committee* assists the Board in its oversight of JPMorgan Chase's positions and practices on public responsibility matters such as community investment, fair lending, sustainability, consumer practices and other public policy issues that reflect JPMorgan Chase's values and character and could impact JPMorgan Chase's reputation among its stakeholders. The Committee also provides guidance on these matters to management and the Board, as appropriate.

*The Corporate Governance & Nominating Committee* exercises general oversight with respect to the governance of the Board. It reviews the qualifications of and recommends to the Board proposed nominees for election to the Board. The Committee evaluates and recommends to the Board corporate governance practices applicable to JPMorgan Chase. It also appraises the framework for assessing the Board's performance and self-evaluation.

## **Management oversight**

JPMorgan Chase's senior management-level committees that are primarily responsible for key risk-related functions include:

*JPMorgan Chasewide Risk Committee* is JPMorgan Chase's highest management-level risk committee. It provides oversight of the risks inherent in JPMorgan Chase's businesses and serves as an escalation point for risk topics and issues raised by underlying committees and/or FRC members.

*JPMorgan Chasewide Control Committee* is an escalation committee for senior management to review and discuss JPMorgan Chasewide operational risk environment including identified issues, operational risk metrics and significant events that have been escalated.

*Line of Business and Regional Risk Committees* are responsible for providing oversight of the governance, limits, and controls that are in place through the scope of their activities. These committees review the ways in which the particular LOB or the business operating in a particular region could be exposed to adverse outcomes with a focus on identifying, accepting, escalating and/or requiring remediation of matters brought to these committees.

*Line of Business and Corporate Function Control Committees* oversee the operational risk and control environment of their respective business or function, inclusive of operational Risk, compliance and conduct risks. As part of that mandate, they are responsible for reviewing indicators of elevated or emerging risks and other data that may impact the level of operating risk in a business or function, addressing key operational risk issues, focusing on processes with control concerns and overseeing control remediation.

*JPMorgan Chasewide Asset and Liability Committee* is responsible for overseeing JPMorgan Chase's asset and liability management ("ALM") activities and the management of liquidity risk, balance sheet, interest rate risk, and capital risk.

*JPMorgan Chasewide Valuation Governance Forum* is composed of senior finance and risk executives and is responsible for overseeing the management of risks arising from valuation activities conducted across JPMorgan Chase.

## **Supervision and regulation**

JPMorgan Chase Bank, N.A. operates and is subject to regulation under federal and state banking and other laws in the United States, including the National Banking Act and the Federal Deposit Insurance Act, as well as the applicable laws of each of the various jurisdictions outside the United States in which it does business. For additional information concerning the supervision and regulation of

JPMorgan Chase Bank, N.A. and the significant laws and regulations to which it is subject, see “**Supervision and regulation**” in Note 1 to the Consolidated Financial Statements of JPMorgan Chase Bank, N.A. for the year ended 31 December 2020 included in this base listing document.

## Financial Information

### *Selected financial information*

The selected consolidated financial data set forth in the below table have been extracted from the audited Consolidated Financial Statements of JPMorgan Chase Bank, N.A. for the year ended 31 December 2020. This information should be read in conjunction with the notes to the Consolidated Financial Statements and the other detailed financial information concerning JPMorgan Chase Bank, N.A.

<b>Selected income statement data</b> <b>(in USD millions)</b>	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
Total net revenue	U.S.\$105,359	U.S.\$105,355
Provision for credit losses	17,483	5,593
Total noninterest expense	60,715	60,003
Income before income tax expense	27,161	39,759
Net income	21,032	31,339

<b>Selected balance sheet data</b> <b>(in USD millions)</b>	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
Trading assets	U.S.\$297,394	U.S.\$222,383
Investment Securities	589,097	397,203
Loans, net of allowance for loan losses	982,957	982,859
Total assets	3,025,285	2,337,646
Deposits	2,253,482	1,650,488
Long-term debt	82,443	121,719
Total stockholders' equity	270,060	246,097

### *Independent Accountants*

The consolidated financial statements of JPMorgan Chase Bank, N.A. as of 31 December 2020 and 2019 and for each of the three years ended 31 December 2020, included in this document, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

## Litigation

For a summary of certain significant legal proceedings involving JPMorgan Chase Bank, N.A., see Note 27 to the Consolidated Financial Statements of JPMorgan Chase Bank, N.A. for the year ended 31 December 2020 included in this base listing document.

## Credit Ratings

The structured products to be offered by the Issuer and guaranteed by JPMorgan Chase Bank, N.A. will not be rated, unless otherwise specified in the launch announcement and supplemental listing document relating to such structured products. The following table, which is presented solely for the convenience of prospective purchasers of structured products of the Issuer, sets forth the credit ratings for JPMorgan Chase Bank, N.A.'s long term debt (as of the day immediately preceding the date

of this base listing document). Credit ratings are determined by the rating agencies based upon information furnished to them by the relevant obligor as well as information obtained by the rating agencies from other sources. Credit ratings are not a recommendation to purchase, hold or sell any security, and may be changed, superseded or withdrawn at any time by any of the rating agencies. **Prospective purchasers should check the current credit ratings of JPMorgan Chase Bank, N.A. before purchasing any structured products of the Issuer.** Information concerning the current ratings of JPMorgan Chase Bank, N.A.'s debt can be obtained from the relevant rating agencies and can also be viewed on JPMorgan Chase & Co.'s investor relations website at <https://www.jpmorganchase.com/corporate/investor-relations/fixed-income.htm>. Neither the Issuer nor JPMorgan Chase Bank, N.A. undertakes to update the information set forth in the below table.

<b>Rating agency</b>	<b>Current credit ratings of the guarantor's long-term debt (as of the day immediately preceding the date of this base listing document)</b>
S&P Global Ratings	A+ (stable outlook)
Moody's Investors Service, Inc.	Aa2 (stable outlook)

**Additional Information**

Additional information concerning JPMorgan Chase Bank, N.A., including the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K of JPMorgan Chase & Co. filed by JPMorgan Chase & Co. with the U.S. Securities and Exchange Commission ("**Periodic Reports**"), as they become available, can be viewed on the SEC's website at [www.sec.gov](http://www.sec.gov). Those reports and additional information concerning JPMorgan Chase Bank, N.A. can also be viewed on JPMorgan Chase & Co.'s investor relations website at <https://jpmorganchaseco.gcs-web.com/financial-information/sec-filings>. No websites that are cited or referred to herein shall be deemed to form part of, or to be incorporated by reference in, this base listing document. **The Periodic Reports are not included or incorporated by reference in and shall not be deemed to be part of, this base listing document.**

**JPMORGAN CHASE BANK,  
NATIONAL ASSOCIATION**

(a wholly-owned subsidiary of JPMorgan Chase & Co.)

**CONSOLIDATED FINANCIAL STATEMENTS**  
For the three years ended December 31, 2020

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## FOR THE THREE YEARS ENDED DECEMBER 31, 2020

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## Report of Independent Auditors

To the Board of Directors and Shareholder of JPMorgan Chase Bank, National Association

We have audited the accompanying consolidated financial statements of JPMorgan Chase Bank, National Association and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholder’s equity and cash flows for each of the three years in the period ended December 31, 2020.

### **Management’s Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors’ Responsibility**

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company’s preparation and fair presentation of the consolidated 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JPMorgan Chase Bank, National Association and its subsidiaries as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 and Note 13 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on certain financial instruments in 2020. Our opinion is not modified with respect to this matter.

February 23, 2021

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PricewaterhouseCoopers LLP • 300 Madison Avenue • New York, NY 10017

## Consolidated statements of income

JPMorgan Chase Bank, National Association  
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	2020	2019	2018
<b>Revenue</b>			
Investment banking fees	\$ 3,527	\$ 3,217	\$ 3,368
Principal transactions	14,784	11,564	11,814
Lending- and deposit-related fees <sup>(a)</sup>	6,510	6,625	6,382
Asset management, administration and commissions <sup>(a)</sup>	12,406	11,720	10,704
Investment securities gains/(losses)	802	253	(395)
Mortgage fees and related income	3,092	2,036	1,253
Card income <sup>(b)</sup>	4,435	5,076	4,743
Other income	5,890	6,206	5,612
<b>Noninterest revenue</b>	<b>51,446</b>	<b>46,697</b>	<b>43,481</b>
Interest income	58,900	75,666	68,781
Interest expense	4,987	17,008	12,624
<b>Net interest income</b>	<b>53,913</b>	<b>58,658</b>	<b>56,157</b>
<b>Total net revenue</b>	<b>105,359</b>	<b>105,355</b>	<b>99,638</b>
Provision for credit losses	17,483	5,593	4,872
<b>Noninterest expense</b>			
Compensation expense	28,725	28,257	26,541
Occupancy expense	4,249	4,132	3,801
Technology, communications and equipment expense	9,890	9,400	8,404
Professional and outside services	5,692	5,917	5,839
Marketing <sup>(b)</sup>	2,338	3,193	2,899
Other expense	9,821	9,104	9,904
<b>Total noninterest expense</b>	<b>60,715</b>	<b>60,003</b>	<b>57,388</b>
<b>Income before income tax expense</b>	<b>27,161</b>	<b>39,759</b>	<b>37,378</b>
Income tax expense	6,129	8,420	8,425
<b>Net income</b>	<b>\$ 21,032</b>	<b>\$ 31,339</b>	<b>\$ 28,953</b>

(a) During the first half of 2020, the Bank reclassified certain fees from asset management, administration and commissions to lending- and deposit-related fees. Prior-period amounts have been revised to conform with the current presentation.

(b) During the first half of 2020, the Bank reclassified certain spend-based credit card reward costs from marketing expense to be a reduction of card income, with no effect on net income. Prior-period amounts have been revised to conform with the current presentation.

The Notes to Consolidated Financial Statements are an integral part of these statements.

## Consolidated statements of comprehensive income

JPMorgan Chase Bank, National Association  
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	2020		2019		2018
<b>Net income</b>	\$	<b>21,032</b>	\$	31,339	\$ 28,953
<b>Other comprehensive income/(loss), after-tax</b>					
Unrealized gains/(losses) on investment securities		4,146		2,869	(1,806)
Translation adjustments, net of hedges		242		(4)	57
Fair value hedges		—		—	1
Cash flow hedges		2,322		167	(198)
Defined benefit pension and OPEB plans		(3)		656	(1,969)
DVA on fair value option elected liabilities		(45)		(319)	321
<b>Total other comprehensive income/(loss), after-tax</b>		<b>6,662</b>		3,369	(3,594)
<b>Comprehensive income</b>	\$	<b>27,694</b>	\$	34,708	\$ 25,359

The Notes to Consolidated Financial Statements are an integral part of these statements.

## Consolidated balance sheets

JPMorgan Chase Bank, National Association  
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

December 31, (in millions, except share data)	2020	2019
<b>Assets</b>		
Cash and due from banks	\$ 24,205	\$ 21,164
Deposits with banks	501,564	240,953
Federal funds sold and securities purchased under resale agreements (included \$180,360 and \$5,682 at fair value)	344,222	211,397
Securities borrowed (included \$16,930 and \$6,237 at fair value)	44,333	38,776
Trading assets (included assets pledged of \$47,012 and \$52,148) <sup>(a)</sup>	297,394	222,383
Available-for-sale securities (amortized cost of \$380,848 and \$344,317; included assets pledged of \$37,354 and \$16,139)	387,276	349,663
Held-to-maturity securities (net of allowance for credit losses of \$78)	201,821	47,540
<b>Investment securities, net of allowance for credit losses</b>	<b>589,097</b>	<b>397,203</b>
Loans (included \$44,381 and \$44,854 at fair value) <sup>(a)</sup>	1,011,275	995,965
Allowance for loan losses	(28,318)	(13,106)
<b>Loans, net of allowance for loan losses</b>	<b>982,957</b>	<b>982,859</b>
Accrued interest and accounts receivable	71,659	54,232
Premises and equipment	26,115	25,258
Goodwill, MSRs and other intangible assets	43,512	44,986
Other assets (included \$8,423 and \$9,851 at fair value and assets pledged of \$1,662 and \$1,374) <sup>(a)</sup>	100,227	98,435
<b>Total assets<sup>(b)</sup></b>	<b>\$ 3,025,285</b>	<b>\$ 2,337,646</b>
<b>Liabilities</b>		
Deposits (included \$14,700 and \$28,662 at fair value)	\$ 2,253,482	\$ 1,650,488
Federal funds purchased and securities loaned or sold under repurchase agreements (included \$98,915 and \$5,501 at fair value)	135,909	86,549
Short-term borrowings (included \$8,664 and \$3,865 at fair value)	10,882	8,521
Trading liabilities	126,491	87,643
Accounts payable and other liabilities (included \$4,679 and \$6,483 at fair value)	128,496	118,815
Beneficial interests issued by consolidated variable interest entities	17,522	17,814
Long-term debt (included \$36,789 and \$40,271 at fair value)	82,443	121,719
<b>Total liabilities<sup>(b)</sup></b>	<b>2,755,225</b>	<b>2,091,549</b>
Commitments and contingencies (refer to Notes 25, 26 and 27)		
<b>Stockholder's equity</b>		
Preferred stock (\$1 par value; authorized 15,000,000 shares; issued 0 shares)	—	—
Common stock (\$12 par value; authorized 200,000,000 shares; issued 168,971,750 shares)	2,028	2,028
Additional paid-in capital	115,248	110,297
Retained earnings	144,366	132,016
Accumulated other comprehensive income	8,418	1,756
<b>Total stockholder's equity</b>	<b>270,060</b>	<b>246,097</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 3,025,285</b>	<b>\$ 2,337,646</b>

Effective January 1, 2020, the Bank adopted the CECL accounting guidance. Refer to Note 1 for further information.

- (a) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.
- (b) The following table presents information on assets and liabilities related to VIEs that are consolidated by the Bank at December 31, 2020 and 2019. The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of the Bank. The assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs and exclude intercompany balances that eliminate in consolidation. Refer to Note 14 for a further discussion.

December 31, (in millions)	2020	2019
<b>Assets</b>		
Trading assets	\$ 1,912	\$ 2,183
Loans	37,563	42,931
All other assets	524	713
<b>Total assets</b>	<b>\$ 39,999</b>	<b>\$ 45,827</b>
<b>Liabilities</b>		
Beneficial interests issued by consolidated variable interest entities	\$ 17,522	\$ 17,814
All other liabilities	167	371
<b>Total liabilities</b>	<b>\$ 17,689</b>	<b>\$ 18,185</b>

The Notes to Consolidated Financial Statements are an integral part of these statements.

## Consolidated statements of changes in stockholder's equity

JPMorgan Chase Bank, National Association  
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	2020	2019	2018
<b>Common stock</b>			
Balance at January 1 and December 31	\$ 2,028	\$ 2,028	\$ 2,028
<b>Additional paid-in capital</b>			
Balance at January 1	110,297	123,792	118,898
Cash capital contribution from JPMorgan Chase & Co.	5,000	–	1,094
Return of capital to JPMorgan Chase & Co.	–	(13,500)	–
Adjustments to capital due to transactions with JPMorgan Chase & Co.	(49)	5	3,800
Balance at December 31	115,248	110,297	123,792
<b>Retained earnings</b>			
Balance at January 1	132,016	126,622	123,849
Cumulative effect of change in accounting principles	(2,682)	55	(680)
Net income	21,032	31,339	28,953
Cash dividends paid to JPMorgan Chase & Co.	(6,000)	(26,000)	(25,500)
Balance at December 31	144,366	132,016	126,622
<b>Accumulated other comprehensive income</b>			
Balance at January 1	1,756	(1,613)	1,375
Cumulative effect of change in accounting principles	–	–	606
Adjustments to AOCI due to transactions with JPMorgan Chase & Co.	–	–	(1,623)
Other comprehensive income/(loss), after-tax	6,662	3,369	(1,971)
Balance at December 31	8,418	1,756	(1,613)
<b>Total stockholder's equity</b>	<b>\$ 270,060</b>	<b>\$ 246,097</b>	<b>\$ 250,829</b>

Effective January 1, 2020, the Bank adopted the CECL accounting guidance. Refer to Note 1 for further information.

The Notes to Consolidated Financial Statements are an integral part of these statements.

## Consolidated statements of cash flows

JPMorgan Chase Bank, National Association  
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

Year ended December 31, (in millions)	2020	2019	2018
<b>Operating activities</b>			
Net income	\$ 21,032	\$ 31,339	\$ 28,953
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Provision for credit losses	17,483	5,593	4,872
Depreciation and amortization	8,355	8,102	7,541
Deferred tax (benefit)/expense	(3,860)	1,021	1,600
Other	(802)	(253)	395
Originations and purchases of loans held-for-sale <sup>(a)</sup>	(166,499)	(164,606)	(171,984)
Proceeds from sales, securitizations and paydowns of loans held-for-sale <sup>(a)</sup>	175,426	166,687	163,014
Net change in:			
Trading assets <sup>(a)</sup>	(102,464)	(5,316)	(14,044)
Securities borrowed	(5,427)	6,691	(6,304)
Accrued interest and accounts receivable	(17,569)	(4,416)	(1,450)
Other assets <sup>(a)</sup>	(26,562)	(26,486)	(8,884)
Trading liabilities	63,155	(7,933)	14,521
Accounts payable and other liabilities	1,455	(4,076)	10,888
Other operating adjustments <sup>(a)</sup>	1,163	3,149	(548)
<b>Net cash provided by/(used in) operating activities</b>	<b>(35,114)</b>	<b>9,496</b>	<b>28,570</b>
<b>Investing activities</b>			
Net change in:			
Federal funds sold and securities purchased under resale agreements	(132,774)	64,083	(120,260)
Held-to-maturity securities:			
Proceeds from paydowns and maturities	21,360	3,423	2,945
Purchases	(12,400)	(13,427)	(9,368)
Available-for-sale securities:			
Proceeds from paydowns and maturities	57,518	51,795	36,912
Proceeds from sales	149,758	69,953	45,953
Purchases	(397,095)	(242,149)	(95,090)
Proceeds from sales and securitizations of loans held-for-investment	23,561	62,070	29,826
Other changes in loans, net <sup>(a)</sup>	(50,292)	(51,598)	(82,676)
All other investing activities, net	(2,609)	(3,249)	(1,525)
<b>Net cash (used in) investing activities</b>	<b>(342,973)</b>	<b>(59,099)</b>	<b>(193,283)</b>
<b>Financing activities</b>			
Net change in:			
Deposits	622,154	103,887	24,191
Federal funds purchased and securities loaned or sold under repurchase agreements	49,262	(21,364)	13,336
Short-term borrowings	1,815	(13,964)	12,693
Beneficial interests issued by consolidated variable interest entities	1,329	4,223	1,680
Proceeds from long-term borrowings	38,373	45,147	37,441
Payments of long-term borrowings	(80,062)	(43,370)	(51,179)
Cash capital contribution from JPMorgan Chase & Co.	5,000	–	1,094
Return of capital to JPMorgan Chase & Co.	–	(13,500)	–
Dividends paid to JPMorgan Chase & Co.	(6,000)	(26,000)	(25,500)
All other financing activities, net	765	123	613
<b>Net cash provided by financing activities</b>	<b>632,636</b>	<b>35,182</b>	<b>14,369</b>
Effect of exchange rate changes on cash and due from banks and deposits with banks	9,103	(208)	(2,807)
Net increase/(decrease) in cash and due from banks and deposits with banks	263,652	(14,629)	(153,151)
Cash and due from banks and deposits with banks at the beginning of the period	262,117	276,746	429,897
<b>Cash and due from banks and deposits with banks at the end of the period</b>	<b>\$ 525,769</b>	<b>\$ 262,117</b>	<b>\$ 276,746</b>
Cash interest paid	\$ 5,616	\$ 17,004	\$ 11,565
Cash income taxes paid, net <sup>(b)</sup>	9,369	6,200	3,183

(a) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.

(b) Includes \$7.4 billion, \$4.7 billion and \$1.7 billion paid to JPMorgan Chase & Co. in 2020, 2019 and 2018, respectively. Refer to Note 22 for discussion of income taxes.

The Notes to Consolidated Financial Statements are an integral part of these statements.

## Notes to consolidated financial statements

JPMorgan Chase Bank, National Association  
(a wholly-owned subsidiary of JPMorgan Chase & Co.)

### Note 1 – Overview and basis of presentation

JPMorgan Chase Bank, National Association (“JPMorgan Chase Bank, N.A.”) and its subsidiaries, (collectively, the “Bank”), is a wholly-owned bank subsidiary of JPMorgan Chase & Co. (“JPMorgan Chase”), which is a leading global financial services firm in the United States of America (“U.S.”), with operations worldwide. JPMorgan Chase Bank, N.A. is a national banking association that is chartered by the Office of the Comptroller of the Currency (“OCC”), a bureau of the U.S. Department of the Treasury. JPMorgan Chase Bank, N.A.’s main office is located in Columbus, Ohio, and it has U.S. branches in 38 states and Washington, D.C. as of December 31, 2020. JPMorgan Chase Bank, N.A. operates nationally as well as through non-U.S. bank branches and subsidiaries, and representative offices. The Bank either directly or through such branches, subsidiaries and offices offers a wide range of banking services to its U.S. and non-U.S. customers including investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Bank serves millions of customers in the U.S. and many of the world’s most prominent corporate, institutional and government clients. JPMorgan Chase Bank, N.A.’s principal operating subsidiary in the United Kingdom (“U.K.”) is J.P. Morgan Securities plc. The U.K.’s transition period for its departure from the European Union (“EU”), which is commonly referred to as “Brexit,” formally ended on December 31, 2020, and accordingly, from January 1, 2021, the U.K. is no longer obligated to implement EU laws. The Bank’s legal entities in Germany, Luxembourg and Ireland are now licensed to provide and are providing services to the Bank’s EU clients.

The JPMorgan Chase Bank, N.A. Board of Directors is responsible for the oversight of management of JPMorgan Chase Bank, N.A. The JPMorgan Chase Bank, N.A. Board of Directors accomplishes this function acting directly and through the principal standing committees of JPMorgan Chase’s Board of Directors. Risk and control oversight is primarily the responsibility of the Risk Committee and the Audit Committee, respectively, and, with respect to compensation and other management-related matters, the Compensation & Management Development Committee. Each committee of JPMorgan Chase’s Board of Directors oversees reputational risks and conduct risks within its scope of responsibility.

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the U.S. (“U.S. GAAP”). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by regulatory authorities.

Certain amounts reported in prior periods have been reclassified to conform with the current presentation.

**Internal merger of legal entities under common control**  
*Merger with Chase Bank USA, National Association (“Chase Bank USA, N.A.”).* On May 18, 2019, JPMorgan Chase completed the merger of Chase Bank USA, N.A. with and into JPMorgan Chase Bank, N.A., with JPMorgan Chase Bank, N.A. as the surviving bank.

In accordance with U.S. GAAP, the merger was accounted for as a transaction between legal entities under common control and was considered a change in the reporting entity. Therefore, the net assets of Chase Bank USA, N.A. were merged at their carrying value and are included in these Consolidated Financial Statements for all periods presented.

#### Supervision and regulation

The Bank is subject to regulation under U.S. federal and state laws, as well as the applicable laws of the jurisdictions outside the U.S. in which the Bank does business.

In the U.S., the Bank is supervised and regulated by the OCC and, with respect to certain matters, by the Federal Deposit Insurance Corporation (the “FDIC”). J.P. Morgan Securities plc is regulated by the U.K. Prudential Regulation Authority (the “PRA”) and the U.K. Financial Conduct Authority (the “FCA”).

The Bank’s other non-U.S. subsidiaries are regulated by the banking, securities, prudential and conduct regulatory authorities in the countries in which they operate.

*Restrictions on transactions with affiliates.* The Bank is subject to restrictions imposed by federal law on extensions of credit to, investments in stock or securities of, and derivatives, securities lending and certain other transactions with, JPMorgan Chase & Co. and certain other affiliates. These restrictions prevent JPMorgan Chase & Co. and other affiliates from borrowing from such subsidiaries unless the loans are secured in specified amounts and comply with certain other requirements.

Refer to “Supervision and regulation” in the Annual Report on Form 10-K of JPMorgan Chase for the year ended December 31, 2020, filed with the U.S. Securities and Exchange Commission on February 23, 2021 for additional information concerning the supervision and regulation of JPMorgan Chase Bank, N.A.

#### Consolidation

The Consolidated Financial Statements include the accounts of the Bank and other entities in which the Bank has a controlling financial interest. All material intercompany balances and transactions between the consolidated Bank group of entities have been eliminated. The Bank regularly enters into transactions with JPMorgan Chase and its various subsidiaries collectively, JPMorgan Chase affiliates. These transactions are considered to be related party

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transactions. Refer to Note 20 for further discussion of the Bank's related party transactions.

Assets held for clients in an agency or fiduciary capacity by the Bank are not assets of the Bank and are not included on the Consolidated balance sheets.

The Bank determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity.

### *Voting interest entities*

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity's operations. For these types of entities, the Bank's determination of whether it has a controlling interest is primarily based on the amount of voting equity interests held. Entities in which the Bank has a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give the Bank control, are consolidated by the Bank.

Investments in companies in which the Bank has significant influence over operating and financing decisions (but does not own a majority of the voting equity interests) are accounted for (i) in accordance with the equity method of accounting (which requires the Bank to recognize its proportionate share of the entity's net earnings), or (ii) at fair value if the fair value option was elected. These investments are generally included in other assets, with income or loss included in noninterest revenue.

Certain Bank-sponsored asset management funds are structured as limited partnerships or limited liability companies. The Bank does not generally consolidate these funds as the Bank is not the general partner or managing member and therefore does not have a controlling financial interest.

### *Variable interest entities*

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

The most common type of VIE is a special purpose entity ("SPE"). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. The basic SPE structure involves a company selling assets to the SPE; the SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE's investors and other parties that have rights to those cash flows. SPEs are generally

structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets.

The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether the Bank has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Bank considers all the facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, or owners of call options or liquidation rights over the VIE's assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Bank has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Bank considers all of its economic interests, including debt and equity investments, servicing fees, and derivatives or other arrangements deemed to be variable interests in the VIE. This assessment requires that the Bank apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Bank.

The Bank performs on-going reassessments of: (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and are therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Bank's involvement with a VIE cause the Bank's consolidation conclusion to change.

Refer to Note 14 for further discussion of the Bank's VIEs.

## **Revenue recognition**

### *Interest income*

The Bank recognizes interest income on loans, debt securities, and other debt instruments, generally on a level-yield basis, based on the underlying contractual rate. Refer to Note 7 for further discussion of interest income.

#### *Revenue from contracts with customers*

The Bank recognizes noninterest revenue from certain contracts with customers, in investment banking fees, deposit-related fees, asset management administration and commissions, and components of card income, when the Bank's related performance obligations are satisfied. Refer to Note 6 for further discussion of the Bank's revenue from contracts with customers.

#### *Principal transactions revenue*

The Bank carries a portion of its assets and liabilities at fair value. Changes in fair value are reported primarily in principal transactions revenue. Refer to Notes 2 and 3 for further discussion of fair value measurement. Refer to Note 6 for further discussion of principal transactions revenue.

#### **Use of estimates in the preparation of consolidated financial statements**

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expense, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates.

#### **Foreign currency translation**

The Bank revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in the Consolidated statements of comprehensive income. Gains and losses relating to nonfunctional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported in the Consolidated statements of income.

#### **Offsetting assets and liabilities**

U.S. GAAP permits entities to present derivative receivables and derivative payables with the same counterparty and the related cash collateral receivables and payables on a net basis on the Consolidated balance sheets when a legally enforceable master netting agreement exists. U.S. GAAP also permits securities sold and purchased under repurchase agreements and securities borrowed or loaned under securities loan agreements to be presented net when specified conditions are met, including the existence of a legally enforceable master netting agreement. The Bank has elected to net such balances when the specified conditions are met.

The Bank uses master netting agreements with third parties and affiliates to mitigate counterparty credit risk in certain transactions, including derivative contracts, resale, repurchase, securities borrowed and securities loaned agreements. A master netting agreement is a single agreement with a counterparty that permits multiple transactions governed by that agreement to be terminated or accelerated and settled through a single payment in a

single currency in the event of a default (e.g., bankruptcy, failure to make a required payment or securities transfer or deliver collateral or margin when due). Upon the exercise of derivatives termination rights by the non-defaulting party (i) all transactions are terminated, (ii) all transactions are valued and the positive values of "in the money" transactions are netted against the negative values of "out of the money" transactions and (iii) the only remaining payment obligation is of one of the parties to pay the netted termination amount. Upon exercise of default rights under repurchase agreements and securities loan agreements in general (i) all transactions are terminated and accelerated, (ii) all values of securities or cash held or to be delivered are calculated, and all such sums are netted against each other and (iii) the only remaining payment obligation is of one of the parties to pay the netted termination amount.

Typical master netting agreements for these types of transactions also often contain a collateral/margin agreement that provides for a security interest in, or title transfer of, securities or cash collateral/margin to the party that has the right to demand margin (the "demanding party"). The collateral/margin agreement typically requires a party to transfer collateral/margin to the demanding party with a value equal to the amount of the margin deficit on a net basis across all transactions governed by the master netting agreement, less any threshold. The collateral/margin agreement grants to the demanding party, upon default by the counterparty, the right to set-off any amounts payable by the counterparty against any posted collateral or the cash equivalent of any posted collateral/margin. It also grants to the demanding party the right to liquidate collateral/margin and to apply the proceeds to an amount payable by the counterparty.

Refer to Note 5 for further discussion of the Bank's derivative instruments. Refer to Note 11 for further discussion of the Bank's securities financing agreements.

#### **Statements of cash flows**

For the Bank's Consolidated statements of cash flows, cash is defined as those amounts included in cash and due from banks and deposits with banks.

#### **Regulatory developments relating to the COVID-19 pandemic**

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and the Consolidated Appropriations Act were signed into law on March 27, 2020 and December 27, 2020, respectively. Set forth below is a summary as of the date of these financial statements of U.S. government actions currently impacting the Bank and U.S. government programs in which the Bank is participating.

*U.S. government facilities and programs.* Beginning April 3, 2020, the Paycheck Protection Program ("PPP") was established by the CARES Act and implemented by the Small Business Administration ("SBA"). The PPP provided the

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Bank with delegated authority to process and originate PPP loans until August 8, 2020. At December 31, 2020 the Bank's loan balances included approximately \$27 billion of loans under the PPP. When certain criteria are met, PPP loans are subject to forgiveness and the Bank will receive payment of the forgiveness amount from the SBA. PPP loans have a contractual term of two or five years and provide borrowers with an automatic payment deferral of principal and interest. As part of the Consolidated Appropriations Act, additional funding was provided for new PPP loans beginning in early January 2021. Refer to Note 12 for additional information on the Bank's loan balances.

On April 13, 2020, the Federal Reserve, the OCC and FDIC, collectively, the "federal banking agencies," issued an interim final rule (issued as final on September 29, 2020) to neutralize the regulatory capital effects of participating in the PPP on risk-based capital ratios by applying a zero percent risk weight to loans originated under the program. Refer to Note 24 for additional information on the Bank's risk-based capital ratios.

The rule also provides that if a PPP loan is pledged as collateral for a non-recourse loan under the Federal Reserve's Paycheck Protection Program Lending ("PPPL") Facility, the PPP loan can be excluded from leverage-based capital ratios. As of December 31, 2020, the Bank had not participated in the PPPL Facility.

*Reserve requirements.* On March 24, 2020, the Federal Reserve issued an interim final rule (issued as final on December 22, 2020) reducing reserve requirement ratios for all depository institutions to zero percent, effective March 26, 2020. Refer to Note 23 for additional information on the Bank's cash reserves.

*Regulatory Capital - Current Expected Credit Losses ("CECL") transition delay.* On March 31, 2020, the federal banking agencies issued an interim final rule (issued as final on August 26, 2020) that provided banking organizations with the option to delay the effects of CECL on regulatory capital for two years, followed by a three-year transition period ("CECL capital transition provisions"). Refer to Note 24 for additional information.

*Supplementary leverage ratio ("SLR") temporary revision.* On June 1, 2020, federal banking agencies issued an interim final rule that provides insured depository institutions with the option, subject to certain restrictions, to elect a temporary exclusion of U.S. Treasury securities and deposits at Federal Reserve Banks from the total leverage exposure for purposes of calculating the SLR. As of December 31, 2020 the Bank had not elected to apply this exclusion. Refer to Note 24 for additional information on the Bank's SLR.

*Loan modifications.* On April 7, 2020, the federal banking agencies along with the National Credit Union Administration, and the Consumer Financial Protection Bureau, in consultation with the state financial regulators, issued an interagency statement revising a March 22, 2020 interagency statement on loan modifications and the reporting for financial institutions working with customers affected by the COVID-19 pandemic (the "IA Statement"). The IA Statement reconfirmed that efforts to work with borrowers where the loans are prudently underwritten, and not considered past due or carried on nonaccrual status, should not result in the loans automatically being considered modified in a troubled debt restructuring ("TDR") for accounting and financial reporting purposes, or for purposes of their respective risk-based capital rules, which would otherwise require financial institutions subject to the capital rules to hold more capital. The IA Statement also clarified the interaction between its previous guidance and Section 4013 of the CARES Act, as extended by Section 541 of the Consolidated Appropriations Act, which provides certain financial institutions with the option to suspend the application of accounting guidance for TDRs for a limited period of time for loan modifications made to address the effects of the COVID-19 pandemic. Refer to Note 12 for additional information on the Bank's accounting policy for loan modifications.

### **Financial Accounting Standards Board ("FASB") accounting standards adopted since January 1, 2020**

#### ***Financial Instruments - Credit Losses***

Effective January 1, 2020 the Bank adopted the CECL framework established under this guidance, which requires earlier recognition of expected credit losses on loans and certain other instruments. CECL established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures and requires that management's estimate reflects credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions. Refer to Note 13 for further information. Prior to the adoption of the CECL accounting guidance, the Bank's allowance for credit losses represented management's estimate of probable credit losses inherent in the Bank's retained loan portfolios and certain lending-related commitments.

The following table presents the impacts to the allowance for credit losses and retained earnings upon adoption of this guidance on January 1, 2020:

(in billions)	December 31, 2019	CECL adoption impact	January 1, 2020
<b>Allowance for credit losses</b>			
Consumer, excluding credit card <sup>(a)</sup>	\$ 2.6	\$ 0.4	\$ 3.0
Credit card	5.7	5.5	11.2
Wholesale <sup>(a)</sup>	6.0	(1.6)	4.4
Total allowance for credit losses	\$ 14.3	\$ 4.3	\$ 18.6
<b>Retained earnings</b>			
Allowance increase		\$ 4.3	
Balance sheet reclassification <sup>(b)</sup>		(0.8)	
Total pre-tax impact		3.5	
Tax effect		(0.8)	
Decrease to retained earnings		\$ 2.7	

- (a) In conjunction with the adoption of CECL, the Bank reclassified risk-rated business banking and auto dealer loans and lending-related commitments from the consumer, excluding credit card portfolio segment to the wholesale portfolio segment, to align with the methodology applied when determining the allowance. Prior-period amounts have been revised to conform with the current presentation. Accordingly, \$0.6 billion of the allowance for credit losses at December 31, 2019 and \$(0.2) billion of the CECL adoption impact were reclassified.
- (b) Represents the recognition of the nonaccretable difference on purchased credit deteriorated loans and the Bank's election to recognize the reserve for uncollectible accrued interest on credit card loans in the allowance, both of which resulted in a corresponding increase to loans.

#### Securities Financing Agreements

As permitted by the guidance, the Bank elected the fair value option for certain securities financing agreements. The difference between their carrying amount and fair value was immaterial and was recorded as part of the Bank's cumulative-effect adjustment. Refer to Note 11 for further information.

#### Investment securities

Upon adoption, held-to-maturity ("HTM") securities are presented net of an allowance for credit losses. The guidance also amended the previous other-than-temporary impairment ("OTTI") model for available-for-sale ("AFS") securities to incorporate an allowance. Refer to Note 10 for further information.

#### Credit quality disclosures

As a result of the adoption of this guidance, the Bank expanded credit quality disclosures for financial assets measured at amortized cost particularly within the retained loan portfolios. Refer to Note 12 for further information.

#### PCD loans

The adoption resulted in a change in the accounting for purchased credit-impaired ("PCI") loans, which are considered purchased credit deteriorated ("PCD") loans under CECL. Upon adoption, the Bank recognized the nonaccretable difference on PCD loans in the allowance, which resulted in a corresponding increase to loans. PCD loans are subject to the Bank's nonaccrual and charge-off policies and are now reported in the consumer, excluding credit card portfolio's residential real estate loan class. Refer to Note 12 for further information.

#### Changes in credit portfolio segments and classes

In conjunction with the adoption of CECL, the Bank reclassified risk-rated loans and lending-related commitments from the consumer excluding credit card portfolio segment to the wholesale portfolio segment, to align with the methodology applied when determining the allowance. The Bank also revised its loan classes. Prior-period amounts have been revised to conform with the current presentation. Refer to Note 12 for further information.

#### Accrued interest receivables

As permitted by the guidance, the Bank elected to continue classifying accrued interest on loans, including accrued but unbilled interest on credit card loans, and investment securities in accrued interest and accounts receivables on the Consolidated balance sheets. For credit card loans, accrued interest once billed is then recognized in the loan balances, with the related allowance recorded in the allowance for credit losses. Changes in the allowance for credit losses on accrued interest on credit card loans are recognized in the provision for credit losses and charge-offs are recognized by reversing interest income. For other loans and securities, the Bank generally does not recognize an allowance for credit losses on accrued interest receivables, consistent with its policy to write them off no later than 90 days past due by reversing interest income.

#### Goodwill

Effective January 1, 2020, the Bank adopted new accounting guidance related to goodwill impairment testing. The adoption of the guidance requires recognition of an impairment loss when the estimated fair value of a reporting unit falls below its carrying value. It eliminated the requirement that an impairment loss be recognized only if the estimated implied fair value of the goodwill is below its carrying value. No impact upon adoption as the guidance was applied prospectively. Refer to Note 15 for further information.

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### Reference rate reform

Effective March 12, 2020, the FASB issued an accounting standards update providing various elective options, referred to as “practical expedients,” that are intended to simplify the operations impact of applying generally accepted accounting principles to contracts and hedge relationships affected by reference rate reform.

Effective January 7, 2021, the FASB issued an update which provides an election to account for derivatives modified to change the rate used for discounting, margining, or contract price alignment (collectively “discounting transition”) as modifications.

The Bank elected to apply certain of the practical expedients related to contract modifications and hedge accounting relationships, and discounting transition beginning in the second half of 2020. The main purpose of the practical expedients is to ease the administrative burden of accounting for contracts impacted by reference rate reform, and these elections did not have a material impact on the Consolidated Financial Statements.

### FASB accounting standards adopted January 1, 2018

Effective January 1, 2018, the Bank adopted several accounting standards resulting in a net decrease of \$680 million to retained earnings and a net increase of \$606 million to AOCI. The adoption of the recognition and measurement guidance resulted in \$456 million of fair value gains in the first half of 2018, recorded in total net revenue, on certain equity investments that were previously held at cost.

### Significant accounting policies

The following table identifies the Bank’s other significant accounting policies and the Note and page where a detailed description of each policy can be found.

Fair value measurement	Note 2	page 13
Fair value option	Note 3	page 32
Derivative instruments	Note 5	page 37
Noninterest revenue and noninterest expense	Note 6	page 51
Interest income and Interest expense	Note 7	page 54
Pension and other postretirement employee benefit plans	Note 8	page 55
Employee share-based incentives	Note 9	page 60
Investment securities	Note 10	page 62
Securities financing activities	Note 11	page 68
Loans	Note 12	page 71
Allowance for credit losses	Note 13	page 87
Variable interest entities	Note 14	page 93
Goodwill and Mortgage servicing rights	Note 15	page 101
Premises and equipment	Note 16	page 104
Leases	Note 18	page 105
Long-term debt	Note 19	page 107
Related party transactions	Note 20	page 108
Income taxes	Note 22	page 112
Off-balance sheet lending-related financial instruments, guarantees and other commitments	Note 25	page 118
Litigation	Note 27	page 125

## Note 2 – Fair value measurement

The Bank carries a portion of its assets and liabilities at fair value. These assets and liabilities are predominantly carried at fair value on a recurring basis (i.e., assets and liabilities that are measured and reported at fair value on the Bank's Consolidated balance sheets). Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment).

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices or inputs, where available. If prices or quotes are not available, fair value is based on valuation models and other valuation techniques that consider relevant transaction characteristics (such as maturity) and use, as inputs, observable or unobservable market parameters, including yield curves, interest rates, volatilities, prices (such as commodity, equity or debt prices), correlations, foreign exchange rates and credit curves. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, as described below.

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 Bank believes its valuation methods are appropriate and consistent with those of other market participants, the methods and assumptions used reflect management judgment and may vary across the Bank's businesses and portfolios.

The Bank uses various methodologies and assumptions in the determination of fair value. The use of different methodologies or assumptions by other market participants compared with those used by the Bank could result in the Bank deriving a different estimate of fair value at the reporting date.

### Valuation process

Risk-taking functions are responsible for providing fair value estimates for assets and liabilities carried on the Consolidated balance sheets at fair value. JPMorgan Chase's Valuation Control Group ("VCG"), which is part of JPMorgan Chase'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 Bank's positions are recorded at fair value. The Valuation Governance Forum ("VGF") is composed of senior finance and risk executives and is responsible for overseeing the management of risks arising from valuation activities conducted across JPMorgan Chase. The Firmwide VGF is chaired by the Firmwide head of the VCG (under the direction of JPMorgan Chase's Controller).

### Price verification process

The VCG verifies fair value estimates provided by the risk-taking functions by leveraging independently derived prices, valuation inputs and other market data, where available. Where independent prices or inputs are not available, the VCG performs additional review to ensure the reasonableness of the estimates. The additional review may include evaluating the limited market activity including client unwinds, benchmarking valuation inputs to those used for similar instruments, decomposing the valuation of structured instruments into individual components, comparing expected to actual cash flows, reviewing profit and loss trends, and reviewing trends in collateral valuation. There are also additional levels of management review for more significant or complex positions.

The VCG determines any valuation adjustments that may be required to the estimates provided by the risk-taking functions. No adjustments to quoted prices are applied for instruments classified within level 1 of the fair value hierarchy (refer to the discussion below for further information on the fair value hierarchy). For other positions, judgment is required to assess the need for valuation adjustments to appropriately reflect liquidity considerations, unobservable parameters, and, for certain portfolios that meet specified criteria, the size of the net open risk position. The determination of such adjustments follows a consistent framework across the Bank:

- Liquidity valuation adjustments are considered where an observable external price or valuation parameter exists but is of lower reliability, potentially due to lower market activity. Liquidity valuation adjustments are made based on current market conditions. Factors that may be considered in determining the liquidity adjustment include analysis of: (1) the estimated bid-offer spread for the instrument being traded; (2) alternative pricing points for similar instruments in active markets; and (3) the range of reasonable values that the price or parameter could take.
- The Bank manages certain portfolios of financial instruments on the basis of net open risk exposure and, as permitted by U.S. GAAP, has elected to estimate the fair value of such portfolios on the basis of a transfer of the entire net open risk position in an orderly transaction. Where this is the case, valuation adjustments may be necessary to reflect the cost of exiting a larger-than-normal market-size net open risk position. Where applied, such adjustments are based on factors that a relevant market participant would consider in the transfer of the net open risk position, including the size of the adverse market move that is likely to occur during the period required to reduce the net open risk position to a normal market-size.

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- Uncertainty adjustments related to unobservable parameters may be made when positions are valued using prices or input parameters to valuation models that are unobservable due to a lack of market activity or because they cannot be implied from observable market data. Such prices or parameters must be estimated and are, therefore, subject to management judgment. Adjustments are made to reflect the uncertainty inherent in the resulting valuation estimate.
- Where appropriate, the Bank also applies adjustments to its estimates of fair value in order to appropriately reflect counterparty credit quality (credit valuation adjustments (“CVA”)), the Bank’s own creditworthiness (debit valuation adjustments (“DVA”)) and the impact of funding (funding valuation adjustments (“FVA”)), using a consistent framework across the Bank.

### 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 terms such as maturity and use as inputs market-based or independently sourced parameters. Where this is the case the price verification process described above is applied to the inputs in those models.

Under the Bank’s Estimations and Model Risk Management Policy, the Model Risk Governance and Review (“MRGR”) reviews and approves new models, as well as material changes to existing models, prior to implementation in the operating environment. In certain circumstances exceptions may be granted to the Bank’s policy to allow a model to be used prior to review or approval. The MRGR may also require the user to take appropriate actions to mitigate the model risk if it is to be used in the interim. These actions will depend on the model and may include, for example, limitation of trading activity.

### Valuation hierarchy

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the observability of inputs to the valuation of an asset or liability as of the measurement date. 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 categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

Product/instrument	Valuation methodology	Classifications in the valuation hierarchy
Securities financing agreements	<p>Valuations are based on discounted cash flows, which consider:</p> <ul style="list-style-type: none"> <li>• Derivative features: refer to the discussion of derivatives below for further information.</li> <li>• Market rates for the respective maturity</li> <li>• Collateral characteristics</li> </ul>	Predominantly level 2
<b>Loans and lending-related commitments - wholesale</b>		
Loans carried at fair value (trading loans and non-trading loans) and associated lending-related commitments	<p>Where observable market data is available, valuations are based on:</p> <ul style="list-style-type: none"> <li>• Observed market prices (circumstances are infrequent)</li> <li>• Relevant broker quotes</li> <li>• Observed market prices for similar instruments</li> </ul> <p>Where observable market data is unavailable or limited, valuations are based on discounted cash flows, which consider the following:</p> <ul style="list-style-type: none"> <li>• Credit spreads derived from the cost of credit default swaps (“CDS”); or benchmark credit curves developed by the Bank, by industry and credit rating</li> <li>• Prepayment speed</li> <li>• Collateral characteristics</li> </ul>	Level 2 or 3
<b>Loans - consumer</b>		
Loans carried at fair value - conforming residential mortgage loans expected to be sold	Fair value is based on observable prices for mortgage-backed securities (“MBS”) with similar collateral and incorporates adjustments to these prices to account for differences between the securities and the value of the underlying loans, which include credit characteristics, portfolio composition, and liquidity.	Predominantly level 2
<b>Investment and trading securities</b>		
Investment and trading securities	Quoted market prices	Level 1
	<p>In the absence of quoted market prices, securities are valued based on:</p> <ul style="list-style-type: none"> <li>• Observable market prices for similar securities</li> <li>• Relevant broker quotes</li> <li>• Discounted cash flows</li> </ul> <p>In addition, the following inputs to discounted cash flows are used for the following products:</p> <p><i>Mortgage- and asset-backed securities (“ABS”) specific inputs:</i></p> <ul style="list-style-type: none"> <li>• Collateral characteristics</li> <li>• Deal-specific payment and loss allocations</li> <li>• Current market assumptions related to yield, prepayment speed, conditional default rates and loss severity</li> </ul> <p><i>Collateralized loan obligations (“CLOs”) specific inputs:</i></p> <ul style="list-style-type: none"> <li>• Collateral characteristics</li> <li>• Deal-specific payment and loss allocations</li> <li>• Expected prepayment speed, conditional default rates, loss severity</li> <li>• Credit spreads</li> <li>• Credit rating data</li> </ul>	Level 2 or 3
Physical commodities	Valued using observable market prices or data.	Level 1 or 2

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Product/instrument	Valuation methodology	Classifications in the valuation hierarchy
Derivatives	Exchange-traded derivatives that are actively traded and valued using the exchange price.	Level 1
	<p>Derivatives that are valued using models such as the Black-Scholes option pricing model, simulation models, or a combination of models that may use observable or unobservable valuation inputs as well as considering the contractual terms.</p> <p>The key valuation inputs used will depend on the type of derivative and the nature of the underlying instruments and may include equity prices, commodity prices, interest rate yield curves, foreign exchange rates, volatilities, correlations, CDS spreads and recovery rates. Additionally, the credit quality of the counterparty and of the Bank as well as market funding levels may also be considered.</p> <p>In addition, specific inputs used for derivatives that are valued based on models with significant unobservable inputs are as follows:</p> <p>Structured credit derivatives specific inputs include:</p> <ul style="list-style-type: none"> <li>• CDS spreads and recovery rates</li> <li>• Credit correlation between the underlying debt instruments</li> </ul> <p>Equity option specific inputs include:</p> <ul style="list-style-type: none"> <li>• Forward equity price</li> <li>• Equity volatility</li> <li>• Equity correlation</li> <li>• Equity-FX correlation</li> <li>• Equity-IR correlation</li> </ul> <p>Interest rate and FX exotic options specific inputs include:</p> <ul style="list-style-type: none"> <li>• Interest rate volatility</li> <li>• Interest rate spread volatility</li> <li>• Interest rate correlation</li> <li>• Foreign exchange correlation</li> <li>• Interest rate-FX correlation</li> </ul> <p>Commodity derivatives specific inputs include:</p> <ul style="list-style-type: none"> <li>• Commodity volatility</li> <li>• Forward commodity price</li> <li>• Commodity correlation</li> </ul> <p>Additionally, adjustments are made to reflect counterparty credit quality (CVA) and the impact of funding (FVA).</p>	Level 2 or 3
Mortgage servicing rights (“MSRs”)	Refer to Mortgage servicing rights in Note 15.	Level 3
Fund investments (e.g., mutual/collective investment funds, private equity funds, hedge funds, and real estate funds)	Net asset value (“NAV”)	Level 1
	<ul style="list-style-type: none"> <li>• NAV is supported by the ability to redeem and purchase at the NAV level.</li> <li>• Adjustments to the NAV as required, for restrictions on redemption (e.g., lock-up periods or withdrawal limitations) or where observable activity is limited.</li> </ul>	Level 2 or 3 <sup>(a)</sup>
Beneficial interests issued by consolidated VIEs	Valued using observable market information, where available.	Level 2 or 3
	In the absence of observable market information, valuations are based on the fair value of the underlying assets held by the VIE.	
Structured notes (included in deposits, short-term borrowings and long-term debt)	<ul style="list-style-type: none"> <li>• Valuations are based on discounted cash flow analyses that consider the embedded derivative and the terms and payment structure of the note.</li> <li>• The embedded derivative features are considered using models such as the Black-Scholes option pricing model, simulation models, or a combination of models that may use observable or unobservable valuation inputs, depending on the embedded derivative. The specific inputs used vary according to the nature of the embedded derivative features, as described in the discussion above regarding derivatives valuation. Adjustments are then made to this base valuation to reflect the Bank’s own credit risk (DVA).</li> </ul>	Level 2 or 3

(a) Excludes certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient.

The following table presents the assets and liabilities reported at fair value as of December 31, 2020 and 2019, by major product category and fair value hierarchy.

### Assets and liabilities measured at fair value on a recurring basis

December 31, 2020 (in millions)	Fair value hierarchy			Derivative netting adjustments <sup>(f)</sup>	Total fair value
	Level 1	Level 2	Level 3		
Federal funds sold and securities purchased under resale agreements	\$ –	\$ 180,360	\$ –	\$ –	\$ 180,360
Securities borrowed	–	16,930	–	–	16,930
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. GSEs and government agencies <sup>(a)</sup>	–	13,955	387	–	14,342
Residential - nonagency	–	1,209	13	–	1,222
Commercial - nonagency	–	377	1	–	378
<b>Total mortgage-backed securities</b>	–	15,541	401	–	15,942
U.S. Treasury, GSEs and government agencies <sup>(a)</sup>	18,407	454	–	–	18,861
Obligations of U.S. states and municipalities	–	5,234	5	–	5,239
Certificates of deposit, bankers' acceptances and commercial paper	–	562	–	–	562
Non-U.S. government debt securities	26,771	40,671	182	–	67,624
Corporate debt securities	–	15,644	441	–	16,085
Loans <sup>(b)</sup>	–	6,091	874	–	6,965
Asset-backed securities	–	488	3	–	491
<b>Total debt instruments</b>	45,178	84,685	1,906	–	131,769
Equity securities	62,131	2,234	124	–	64,489
Physical commodities <sup>(c)</sup>	64	4,693	–	–	4,757
Other	–	17,202	344	–	17,546
<b>Total debt and equity instruments<sup>(d)</sup></b>	107,373	108,814	2,374	–	218,561
Derivative receivables:					
Interest rate	755	450,724	2,333	(418,741)	35,071
Credit	–	11,747	623	(11,967)	403
Foreign exchange	145	205,950	1,195	(191,580)	15,710
Equity	–	80,098	9,294	(68,331)	21,061
Commodity	–	30,534	131	(24,129)	6,536
<b>Total derivative receivables</b>	900	779,053	13,576	(714,748)	78,781
<b>Total trading assets<sup>(e)</sup></b>	108,273	887,867	15,950	(714,748)	297,342
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. GSEs and government agencies <sup>(a)</sup>	21,018	92,283	–	–	113,301
Residential - nonagency	–	10,233	–	–	10,233
Commercial - nonagency	–	2,855	–	–	2,855
<b>Total mortgage-backed securities</b>	21,018	105,371	–	–	126,389
U.S. Treasury and government agencies	201,950	–	–	–	201,950
Obligations of U.S. states and municipalities	–	19,575	–	–	19,575
Certificates of deposit	–	–	–	–	–
Non-U.S. government debt securities	13,135	9,793	–	–	22,928
Corporate debt securities	–	168	–	–	168
Asset-backed securities:					
Collateralized loan obligations	–	10,048	–	–	10,048
Other	–	6,218	–	–	6,218
<b>Total available-for-sale securities</b>	236,103	151,173	–	–	387,276
Loans <sup>(b)</sup>	–	42,107	2,274	–	44,381
Mortgage servicing rights	–	–	3,276	–	3,276
Other assets <sup>(b)(e)</sup>	4,500	3,866	57	–	8,423
<b>Total assets measured at fair value on a recurring basis</b>	\$ 348,876	\$ 1,282,303	\$ 21,557	\$ (714,748)	\$ 937,988
Deposits	\$ –	\$ 11,752	\$ 2,948	\$ –	\$ 14,700
Federal funds purchased and securities loaned or sold under repurchase agreements	–	98,915	–	–	98,915
Short-term borrowings	–	6,350	2,314	–	8,664
Trading liabilities:					
Debt and equity instruments <sup>(d)</sup>	51,693	13,145	49	–	64,887
Derivative payables:					
Interest rate	727	412,723	4,842	(406,088)	12,204
Credit	–	13,267	828	(12,270)	1,825
Foreign exchange	131	217,469	1,567	(197,775)	21,392
Equity	–	77,514	10,469	(68,914)	19,069
Commodity	–	30,404	901	(24,191)	7,114
<b>Total derivative payables</b>	858	751,377	18,607	(709,238)	61,604
<b>Total trading liabilities</b>	52,551	764,522	18,656	(709,238)	126,491
Accounts payable and other liabilities	4,619	–	60	–	4,679
Long-term debt	–	22,392	14,397	–	36,789
<b>Total liabilities measured at fair value on a recurring basis</b>	\$ 57,170	\$ 903,931	\$ 38,375	\$ (709,238)	\$ 290,238

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December 31, 2019 (in millions)	Fair value hierarchy			Derivative netting adjustments <sup>(b)</sup>	Total fair value
	Level 1	Level 2	Level 3		
Federal funds sold and securities purchased under resale agreements	\$ —	\$ 5,682	\$ —	\$ —	\$ 5,682
Securities borrowed	—	6,237	—	—	6,237
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. GSEs and government agencies <sup>(a)</sup>	—	4,929	708	—	5,637
Residential - nonagency	—	971	14	—	985
Commercial - nonagency	—	204	1	—	205
<b>Total mortgage-backed securities</b>	—	6,104	723	—	6,827
U.S. Treasury, GSEs and government agencies <sup>(a)</sup>	19,241	1,105	—	—	20,346
Obligations of U.S. states and municipalities	—	4,021	6	—	4,027
Certificates of deposit, bankers' acceptances and commercial paper	—	221	—	—	221
Non-U.S. government debt securities	26,600	27,169	155	—	53,924
Corporate debt securities	—	11,619	531	—	12,150
Loans <sup>(b)</sup>	—	6,332	646	—	6,978
Asset-backed securities	—	387	6	—	393
<b>Total debt instruments</b>	45,841	56,958	2,067	—	104,866
Equity securities	52,030	77	96	—	52,203
Physical commodities <sup>(c)</sup>	32	1,528	—	—	1,560
Other	—	14,037	268	—	14,305
<b>Total debt and equity instruments<sup>(d)</sup></b>	97,903	72,600	2,431	—	172,934
Derivative receivables:					
Interest rate	381	331,505	1,421	(306,094)	27,213
Credit	—	13,921	623	(13,891)	653
Foreign exchange	119	141,207	517	(132,840)	9,003
Equity	—	51,370	6,141	(50,882)	6,629
Commodity	—	24,131	100	(18,334)	5,897
<b>Total derivative receivables</b>	500	562,134	8,802	(522,041)	49,395
<b>Total trading assets<sup>(e)</sup></b>	98,403	634,734	11,233	(522,041)	222,329
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. GSEs and government agencies <sup>(a)</sup>	—	110,117	—	—	110,117
Residential - nonagency	—	12,989	1	—	12,990
Commercial - nonagency	—	5,181	—	—	5,181
<b>Total mortgage-backed securities</b>	—	128,287	1	—	128,288
U.S. Treasury and government agencies	139,436	—	—	—	139,436
Obligations of U.S. states and municipalities	—	28,819	—	—	28,819
Certificates of deposit	—	77	—	—	77
Non-U.S. government debt securities	12,966	8,821	—	—	21,787
Corporate debt securities	—	845	—	—	845
Asset-backed securities:					
Collateralized loan obligations	—	24,991	—	—	24,991
Other	—	5,420	—	—	5,420
<b>Total available-for-sale securities</b>	152,402	197,260	1	—	349,663
Loans <sup>(b)</sup>	—	44,356	498	—	44,854
Mortgage servicing rights	—	—	4,699	—	4,699
Other assets <sup>(b)(e)</sup>	6,431	3,371	49	—	9,851
<b>Total assets measured at fair value on a recurring basis</b>	\$ 257,236	\$ 891,640	\$ 16,480	\$ (522,041)	\$ 643,315
Deposits	\$ —	\$ 25,290	\$ 3,372	\$ —	\$ 28,662
Federal funds purchased and securities loaned or sold under repurchase agreements	—	5,501	—	—	5,501
Short-term borrowings	—	2,349	1,516	—	3,865
Trading liabilities:					
Debt and equity instruments <sup>(d)</sup>	34,370	12,398	38	—	46,806
Derivative payables:					
Interest rate	434	303,116	2,695	(297,797)	8,448
Credit	—	14,014	738	(13,183)	1,569
Foreign exchange	111	147,039	1,477	(135,498)	13,129
Equity	—	52,139	7,626	(48,626)	11,139
Commodity	—	25,625	169	(19,242)	6,552
<b>Total derivative payables</b>	545	541,933	12,705	(514,346)	40,837
<b>Total trading liabilities</b>	34,915	554,331	12,743	(514,346)	87,643
Accounts payable and other liabilities	6,464	—	19	—	6,483
Long-term debt	—	24,903	15,368	—	40,271
<b>Total liabilities measured at fair value on a recurring basis</b>	\$ 41,379	\$ 612,374	\$ 33,018	\$ (514,346)	\$ 172,425

(a) At December 31, 2020 and 2019, included total U.S. GSE obligations of \$79.7 billion and \$82.2 billion, respectively, which were mortgage-related.

(b) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.

(c) Physical commodities inventories are generally accounted for at the lower of cost or net realizable value. "Net realizable value" is a term defined in U.S. GAAP as not exceeding fair value less costs to sell ("transaction costs"). Transaction costs for the Bank's physical commodities inventories are either not applicable or immaterial to the value of the inventory. Therefore, net realizable value approximates fair value for the Bank's physical commodities inventories. When fair value hedging has been applied (or when net realizable value is below cost), the carrying value of physical commodities approximates fair value, because under fair value hedge accounting, the cost basis is adjusted for

changes in fair value. Refer to Note 5 for a further discussion of the Bank's hedge accounting relationships. To provide consistent fair value disclosure information, all physical commodities inventories have been included in each period presented.

- (d) Balances reflect the reduction of securities owned (long positions) by the amount of identical securities sold but not yet purchased (short positions).
- (e) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not required to be classified in the fair value hierarchy. At December 31, 2020 and 2019 the fair values of these investments, which include certain hedge funds, private equity funds, real estate and other funds, were \$52 million and \$72 million, respectively. Included in these balances at December 31, 2020 and 2019, were trading assets of \$52 million and \$54 million, respectively, and other assets of zero and \$18 million, respectively.
- (f) As permitted under U.S. GAAP, the Bank has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. The level 3 balances would be reduced if netting were applied, including the netting benefit associated with cash collateral. Additionally, includes derivative receivables and payables with affiliates on a net basis. Refer to Note 20 for information regarding our derivative activities with affiliates.

### Level 3 valuations

The Bank has established well-structured processes for determining fair value, including for instruments where fair value is estimated using significant unobservable inputs (level 3). Refer to pages 13-16 of this Note for further information on the Bank's valuation process and a detailed discussion of the determination of fair value for individual financial instruments.

Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available to the Bank. For instruments valued using internally developed valuation models and other valuation techniques that use significant unobservable inputs and are therefore classified within level 3 of the fair value hierarchy, judgments 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 valuation model or other valuation technique to use. Second, due to the lack of observability of significant inputs, management must assess relevant empirical data in deriving valuation inputs including transaction details, yield curves, interest rates, prepayment speed, default rates, volatilities, correlations, prices (such as commodity, equity or debt prices), valuations of comparable instruments, foreign exchange rates and credit curves.

The following table presents the Bank'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 the weighted or arithmetic 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 level 1 and/or level 2 inputs are not included in the table. In addition, the Bank manages the risk of the observable components of level 3 financial instruments using securities and derivative positions that are classified within levels 1 or 2 of the fair value hierarchy.

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 Bank's view, the input range, weighted and arithmetic average values do not reflect the degree of input uncertainty or an assessment of the reasonableness of the Bank's estimates and assumptions. Rather, they reflect the characteristics of the various instruments held by the Bank 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 underlyings, 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 Bank at each balance sheet date.

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### Level 3 inputs<sup>(a)</sup>

December 31, 2020							
Product/Instrument	Fair value (in millions)	Principal valuation technique	Unobservable inputs <sup>(g)</sup>	Range of input values			Average <sup>(i)</sup>
Residential mortgage-backed securities and loans <sup>(b)</sup>	\$ 1,199	Discounted cash flows	Yield	0%	-	15%	6%
			Prepayment speed	0%	-	22%	9%
			Conditional default rate	0%	-	30%	14%
			Loss severity	0%	-	107%	6%
Commercial mortgage-backed securities and loans <sup>(c)</sup>	440	Market comparables	Price	\$0	-	\$100	\$84
Corporate debt securities	441	Market comparables	Price	\$4	-	\$116	\$78
Loans <sup>(d)</sup>	1,910	Market comparables	Price	\$10	-	\$104	\$72
Asset-backed securities	3	Market comparables	Price	\$40	-	\$41	\$41
Net interest rate derivatives	(2,529)	Option pricing	Interest rate volatility	7bps	-	513bps	102bps
			Interest rate spread volatility	11bps	-	23bps	15bps
			Interest rate correlation	(65)%	-	99%	35%
			IR-FX correlation	(35)%	-	50%	0%
			Prepayment speed	0%	-	30%	8%
Net credit derivatives	(241)	Discounted cash flows	Credit correlation	34%	-	65%	48%
			Credit spread	3bps	-	1,302bps	441bps
			Recovery rate	0%	-	67%	46%
			Conditional default rate	2%	-	100%	58%
			Loss severity		100%		100%
Net foreign exchange derivatives	(236)	Market comparables	Price	\$1	-	\$115	\$71
			Option pricing	IR-FX correlation	(40)%	-	65%
	(136)	Discounted cash flows	Prepayment speed		9%		9%
			Net equity derivatives	(1,175)	Option pricing	Forward equity price <sup>(h)</sup>	61%
Equity volatility	4%	-				137%	33%
Equity correlation	18%	-				99%	60%
Equity-FX correlation	(80)%	-				55%	(26)%
Equity-IR correlation	20%	-				50%	28%
Net commodity derivatives	(770)	Option pricing	Oil Commodity Forward	\$600 / MT	-	\$609 / MT	\$605 / MT
			Forward power price	\$12 / MWH	-	\$55 / MWH	\$34 / MWH
			Commodity volatility	1%	-	58%	29%
			Commodity correlation	(49)%	-	95%	23%
MSRs	3,276	Discounted cash flows	Refer to Note 15				
Other assets	401	Discounted cash flows	Credit spread		45bps		45bps
Long-term debt, short-term borrowings, and deposits <sup>(e)</sup>	18,841	Option pricing	Interest rate volatility	7bps	-	513bps	102bps
			Interest rate correlation	(65)%	-	99%	35%
			IR-FX correlation	(35)%	-	50%	0%
			Equity correlation	18%	-	99%	60%
			Equity-FX correlation	(80)%	-	55%	(26)%
			Equity-IR correlation	20%	-	50%	28%
	818	Discounted Cash Flows	Credit correlation	34%	-	65%	48%
Other level 3 assets and liabilities, net <sup>(f)</sup>	202						

- (a) The categories presented in the table have been aggregated based upon the product type, which may differ from their classification on the Consolidated balance sheets. Furthermore, the inputs presented for each valuation technique in the table are, in some cases, not applicable to every instrument valued using the technique as the characteristics of the instruments can differ.
- (b) Comprises U.S. GSE and government agency securities of \$387 million, nonagency securities of \$13 million and non-trading loans of \$799 million.
- (c) Comprises nonagency securities of \$1 million, trading loans of \$43 million and non-trading loans of \$396 million.
- (d) Comprises trading loans of \$831 million and non-trading loans of \$1.1 billion.
- (e) Long-term debt, short-term borrowings and deposits include structured notes issued by the Bank that are financial instruments that typically contain embedded derivatives. The estimation of the fair value of structured notes includes the derivative features embedded within the instrument. The significant unobservable inputs are broadly consistent with those presented for derivative receivables.
- (f) Includes level 3 assets and liabilities that are insignificant both individually and in aggregate.
- (g) Price is a significant unobservable input for certain instruments. When quoted market prices are not readily available, reliance is generally placed on price-based internal valuation techniques. The price input is expressed assuming a par value of \$100.
- (h) Forward equity price is expressed as a percentage of the current equity price.
- (i) Amounts represent weighted averages except for derivative related inputs where arithmetic averages are used.

### *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 do 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.

The following discussion also provides a description of attributes of the underlying instruments and external market factors that affect the range of inputs used in the valuation of the Bank's positions.

**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 annualized 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.

The yield and the credit spread of a particular mortgage-backed security primarily reflect the risk inherent in the instrument. The yield is also impacted by the absolute level of the coupon paid by the instrument (which may not correspond directly to the level of inherent risk). Therefore, the range of yield and credit spreads reflects the range of risk inherent in various instruments owned by the Bank. The risk inherent in mortgage-backed securities is driven by the subordination of the security being valued and the characteristics of the underlying mortgages within the collateralized pool, including borrower FICO scores, loan-to-value ("LTV") ratios for residential mortgages and the nature of the property and/or any tenants for commercial mortgages. For corporate debt securities, obligations of U.S. states and municipalities and other similar instruments, credit spreads reflect the credit quality of the obligor and the tenor of the obligation.

**Prepayment speed** – The prepayment speed is a measure of the voluntary unscheduled principal repayments of a prepayable obligation in a collateralized 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.

Prepayment speeds may vary from collateral pool to collateral pool, and are driven by the type and location of the underlying borrower, and the remaining tenor of the obligation as well as the level and type (e.g., fixed or floating) of interest rate being paid by the borrower. Typically collateral pools with higher borrower credit quality have a higher prepayment rate than those with lower borrower credit quality, all other factors being equal.

**Conditional default rate** – The conditional default rate is a measure of the reduction in the outstanding collateral balance underlying a collateralized obligation as a result of defaults. While there is typically no direct relationship between conditional default rates and prepayment speeds, collateralized obligations for which the underlying collateral has high prepayment speeds will tend to have lower conditional default rates. 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. Conditional default rates reflect the quality of the collateral underlying a securitization and the structure of the securitization itself. Based on the types of securities owned in the Bank's market-making portfolios, conditional default rates are most typically at the lower end of the range presented.

**Loss severity** – The loss severity (the inverse concept is the recovery rate) is the expected amount of future realized 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.

The loss severity applied in valuing a mortgage-backed security investment depends on factors relating to the underlying mortgages, including the LTV ratio, the nature of the lender's lien on the property and other instrument-specific factors.

**Correlation** – Correlation is a measure of the relationship between the movements of two variables. 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, foreign exchange and commodity) 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

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correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement.

The level of correlation used in the valuation of derivatives with multiple underlying risks depends on a number of factors including the nature of those risks. For example, the correlation between two credit risk exposures would be different than that between two interest rate risk exposures. Similarly, the tenor of the transaction may also impact the correlation input, as the relationship between the underlying risks may be different over different time periods. Furthermore, correlation levels are very much dependent on market conditions and could have a relatively wide range of levels within or across asset classes over time, particularly in volatile market conditions.

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.

The level of volatility used in the valuation of a particular option-based derivative depends on a number of factors, including the nature of the risk underlying the option (e.g., the volatility of a particular equity security may be significantly different from that of a particular commodity index), the tenor of the derivative as well as the strike price of the option.

Forward price - Forward price is the price at which the buyer agrees to purchase the asset underlying a forward contract on the predetermined future delivery date, and is such that the value of the contract is zero at inception.

The forward price is used as an input in the valuation of certain derivatives and depends on a number of factors including interest rates, the current price of the underlying asset, and the expected income to be received and costs to be incurred by the seller as a result of holding that asset until the delivery date. An increase in the forward can result in an increase or a decrease in a fair value measurement.

### Changes in level 3 recurring fair value measurements

The following tables include a rollforward of the Consolidated balance sheets amounts (including changes in fair value) for financial instruments classified by the Bank within level 3 of the fair value hierarchy for the years ended December 31, 2020, 2019 and 2018. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable inputs to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Bank risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of the Bank's risk management activities related to such level 3 instruments.

Year ended December 31, 2020 (in millions)	Fair value measurements using significant unobservable inputs							Fair value at Dec. 31, 2020	Change in unrealized gains/(losses) related to financial instruments held at Dec. 31, 2020
	Fair value at January 1, 2020	Total realized/ unrealized gains/ (losses)	Purchases <sup>(e)</sup>	Sales	Settlements <sup>(h)</sup>	Transfers into level 3 <sup>(i)</sup>	Transfers (out of) level 3 <sup>(i)</sup>		
<b>Assets:<sup>(a)</sup></b>									
Trading assets:									
Debt instruments:									
Mortgage-backed securities:									
U.S. GSEs and government agencies	\$ 708	\$ (147)	\$ –	\$ (136)	\$ (38)	\$ –	\$ –	\$ 387	\$ (141)
Residential - nonagency	14	–	–	–	(1)	–	–	13	–
Commercial - nonagency	1	–	–	–	–	–	–	1	–
<b>Total mortgage-backed securities</b>	<b>723</b>	<b>(147)</b>	<b>–</b>	<b>(136)</b>	<b>(39)</b>	<b>–</b>	<b>–</b>	<b>401</b>	<b>(141)</b>
U.S. Treasury, GSEs and government agencies	–	–	–	–	–	–	–	–	–
Obligations of U.S. states and municipalities	6	–	–	(1)	–	–	–	5	–
Non-U.S. government debt securities	155	21	281	(245)	(7)	–	(23)	182	11
Corporate debt securities	531	50	516	(210)	(290)	402	(558)	441	(22)
Loans <sup>(b)</sup>	646	(60)	981	(471)	(68)	790	(944)	874	(35)
Asset-backed securities	6	(2)	4	(4)	(1)	–	–	3	–
<b>Total debt instruments</b>	<b>2,067</b>	<b>(138)</b>	<b>1,782</b>	<b>(1,067)</b>	<b>(405)</b>	<b>1,192</b>	<b>(1,525)</b>	<b>1,906</b>	<b>(187)</b>
Equity securities	96	100	10	(427)	–	479	(134)	124	(6)
Other	268	320	654	(521)	(404)	62	(35)	344	78
<b>Total trading assets - debt and equity instruments</b>	<b>2,431</b>	<b>282<sup>(d)</sup></b>	<b>2,446</b>	<b>(2,015)</b>	<b>(809)</b>	<b>1,733</b>	<b>(1,694)</b>	<b>2,374</b>	<b>(115)<sup>(d)</sup></b>
Net derivative receivables: <sup>(c)</sup>									
Interest rate	(1,274)	2,356	308	(1,634)	(2,193)	(380)	308	(2,509)	12
Credit	(115)	(207)	71	(154)	173	59	(32)	(205)	(120)
Foreign exchange	(960)	173	48	(37)	226	13	165	(372)	103
Equity	(1,485)	362	3,782	(2,644)	(991)	(528)	329	(1,175)	(996)
Commodity	(69)	(545)	34	(244)	335	(299)	18	(770)	262
<b>Total net derivative receivables</b>	<b>(3,903)</b>	<b>2,139<sup>(d)</sup></b>	<b>4,243</b>	<b>(4,713)</b>	<b>(2,450)</b>	<b>(1,135)</b>	<b>788</b>	<b>(5,031)</b>	<b>(739)<sup>(d)</sup></b>
Available-for-sale securities:									
Mortgage-backed securities	1	–	–	–	(1)	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–	–	–
<b>Total available-for-sale securities</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Loans <sup>(b)</sup>	498	(353) <sup>(d)</sup>	891	(82)	(547)	2,554	(687)	2,274	(17) <sup>(d)</sup>
Mortgage servicing rights	4,699	(1,540) <sup>(e)</sup>	1,192	(176)	(899)	–	–	3,276	(1,540) <sup>(e)</sup>
Other assets <sup>(b)</sup>	49	20 <sup>(d)</sup>	2	–	(14)	–	–	57	23 <sup>(d)</sup>

Year ended December 31, 2020 (in millions)	Fair value measurements using significant unobservable inputs							Fair value at Dec. 31, 2020	Change in unrealized (gains)/losses related to financial instruments held at Dec. 31, 2020	
	Fair value at January 1, 2020	Total realized/ unrealized (gains)/ losses	Purchases	Sales	Issuances	Settlements <sup>(h)</sup>	Transfers into level 3 <sup>(i)</sup>			Transfers (out of) level 3 <sup>(i)</sup>
<b>Liabilities:<sup>(a)</sup></b>										
Deposits	\$ 3,372	\$ 163 <sup>(d)(f)</sup>	\$ –	\$ –	\$ 648	\$ (560)	\$ 268	\$ (943)	\$ 2,948	\$ 324 <sup>(d)(f)</sup>
Short-term borrowings	1,516	(180) <sup>(d)(f)</sup>	–	–	5,118	(4,167)	81	(54)	2,314	93 <sup>(d)(f)</sup>
Trading liabilities - debt and equity instruments	38	(17) <sup>(d)</sup>	(154)	10	–	(1)	179	(6)	49	(3) <sup>(d)</sup>
Accounts payable and other liabilities	19	41 <sup>(d)</sup>	–	–	–	–	–	–	60	41 <sup>(d)</sup>
Long-term debt	15,368	11 <sup>(d)(f)</sup>	(1)	–	5,910	(6,644)	802	(1,049)	14,397	1,223 <sup>(d)(f)</sup>

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Year ended December 31, 2019 (in millions)	Fair value measurements using significant unobservable inputs							Fair value at Dec. 31, 2019	Change in unrealized gains/(losses) related to financial instruments held at Dec. 31, 2019
	Fair value at January 1, 2019	Total realized/ unrealized gains/ (losses)	Purchases <sup>(g)</sup>	Sales	Settlements <sup>(h)</sup>	Transfers into level 3 <sup>(i)</sup>	Transfers (out of) level 3 <sup>(i)</sup>		
<b>Assets:<sup>(a)</sup></b>									
Trading assets:									
Debt instruments:									
Mortgage-backed securities:									
U.S. GSEs and government agencies	\$ 487	\$ (55)	\$ 661	\$ (261)	\$ (124)	\$ –	\$ –	\$ 708	\$ (56)
Residential - nonagency	26	23	11	(32)	(2)	–	(12)	14	–
Commercial - nonagency	2	2	–	–	(4)	1	–	1	2
<b>Total mortgage-backed securities</b>	<b>515</b>	<b>(30)</b>	<b>672</b>	<b>(293)</b>	<b>(130)</b>	<b>1</b>	<b>(12)</b>	<b>723</b>	<b>(54)</b>
U.S. Treasury, GSEs and government agencies	–	–	–	–	–	–	–	–	–
Obligations of U.S. states and municipalities	11	–	–	–	(5)	–	–	6	–
Non-U.S. government debt securities	155	1	290	(287)	–	14	(18)	155	4
Corporate debt securities	232	28	369	(123)	(17)	103	(61)	531	(12)
Loans <sup>(b)</sup>	724	19	444	(507)	(73)	417	(378)	646	7
Asset-backed securities	24	(3)	–	(10)	(4)	3	(4)	6	(5)
<b>Total debt instruments</b>	<b>1,661</b>	<b>15</b>	<b>1,775</b>	<b>(1,220)</b>	<b>(229)</b>	<b>538</b>	<b>(473)</b>	<b>2,067</b>	<b>(60)</b>
Equity securities	94	5	38	(21)	(22)	46	(44)	96	15
Other	298	12	84	(128)	(53)	61	(6)	268	(30)
<b>Total trading assets - debt and equity instruments</b>	<b>2,053</b>	<b>32<sup>(d)</sup></b>	<b>1,897</b>	<b>(1,369)</b>	<b>(304)</b>	<b>645</b>	<b>(523)</b>	<b>2,431</b>	<b>(75)<sup>(d)</sup></b>
Net derivative receivables: <sup>(c)</sup>									
Interest rate	(447)	(665)	107	(768)	444	(71)	126	(1,274)	(691)
Credit	(105)	7	20	(8)	(14)	29	(44)	(115)	53
Foreign exchange	(455)	(557)	14	(409)	467	(21)	1	(960)	(434)
Equity	(1,017)	473	1,815	(504)	(2,250)	121	(123)	(1,485)	(172)
Commodity	(1,173)	458	49	(365)	85	(1)	878	(69)	238
<b>Total net derivative receivables</b>	<b>(3,197)</b>	<b>(284)<sup>(d)</sup></b>	<b>2,005</b>	<b>(2,054)</b>	<b>(1,268)</b>	<b>57</b>	<b>838</b>	<b>(3,903)</b>	<b>(1,006)<sup>(d)</sup></b>
Available-for-sale securities:									
Mortgage-backed securities	1	–	–	–	(1)	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–	–	–
<b>Total available-for-sale securities</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Loans <sup>(b)</sup>	801	84 <sup>(d)</sup>	212	(178)	(384)	128	(165)	498	23 <sup>(d)</sup>
Mortgage servicing rights	6,130	(1,180) <sup>(e)</sup>	1,489	(789)	(951)	–	–	4,699	(1,180) <sup>(e)</sup>
Other assets <sup>(b)</sup>	12	11 <sup>(d)</sup>	26	–	–	–	–	49	6 <sup>(d)</sup>

Year ended December 31, 2019 (in millions)	Fair value measurements using significant unobservable inputs							Fair value at Dec. 31, 2019	Change in unrealized (gains)/losses related to financial instruments held at Dec. 31, 2019	
	Fair value at January 1, 2019	Total realized/ unrealized (gains)/ losses	Purchases	Sales	issuances	Settlements <sup>(h)</sup>	Transfers into level 3 <sup>(i)</sup>			Transfers (out of) level 3 <sup>(i)</sup>
<b>Liabilities:<sup>(a)</sup></b>										
Deposits	\$ 4,189	\$ 295 <sup>(d)(f)</sup>	\$ –	\$ –	\$ 918	\$ (832)	\$ 12	\$ (1,210)	\$ 3,372	\$ 311 <sup>(d)(f)</sup>
Short-term borrowings	1,428	145 <sup>(d)(f)</sup>	–	–	3,092	(2,977)	19	(191)	1,516	112 <sup>(d)(f)</sup>
Trading liabilities - debt and equity instruments	46	(2) <sup>(d)</sup>	(13)	37	–	1	9	(40)	38	2 <sup>(d)</sup>
Accounts payable and other liabilities	–	9 <sup>(d)</sup>	–	10	–	–	–	–	19	9 <sup>(d)</sup>
Long-term debt	12,799	1,316 <sup>(d)(f)</sup>	–	–	7,317	(5,167)	280	(1,177)	15,368	1,646 <sup>(d)(f)</sup>

Year ended December 31, 2018 (in millions)	Fair value measurements using significant unobservable inputs							Fair value at Dec. 31, 2018	Change in unrealized gains/(losses) related to financial instruments held at Dec. 31, 2018
	Fair value at January 1, 2018	Total realized/ unrealized gains/ (losses)	Purchases <sup>(e)</sup>	Sales	Settlements <sup>(h)</sup>	Transfers into level 3 <sup>(i)</sup>	Transfers (out of) level 3 <sup>(i)</sup>		
<b>Assets:<sup>(a)</sup></b>									
Trading assets:									
Debt instruments:									
Mortgage-backed securities:									
U.S. GSEs and government agencies	\$ 289	\$ (16)	\$ 443	\$ (164)	\$ (65)	\$ –	\$ –	\$ 487	\$ (21)
Residential - nonagency	24	(1)	33	(41)	(2)	15	(2)	26	1
Commercial - nonagency	2	1	–	–	(1)	–	–	2	(2)
<b>Total mortgage-backed securities</b>	<b>315</b>	<b>(16)</b>	<b>476</b>	<b>(205)</b>	<b>(68)</b>	<b>15</b>	<b>(2)</b>	<b>515</b>	<b>(22)</b>
U.S. Treasury, GSEs and government agencies	1	–	–	–	–	–	(1)	–	–
Obligations of U.S. states and municipalities	15	1	–	–	(5)	–	–	11	1
Non-U.S. government debt securities	78	(22)	458	(277)	(11)	23	(94)	155	(9)
Corporate debt securities	191	(16)	331	(284)	(26)	230	(194)	232	13
Loans <sup>(b)</sup>	549	3	904	(483)	(183)	592	(658)	724	(20)
Asset-backed securities	51	–	14	–	(19)	–	(22)	24	9
<b>Total debt instruments</b>	<b>1,200</b>	<b>(50)</b>	<b>2,183</b>	<b>(1,249)</b>	<b>(312)</b>	<b>860</b>	<b>(971)</b>	<b>1,661</b>	<b>(28)</b>
Equity securities	121	(33)	92	(99)	–	84	(71)	94	24
Other	350	11	408	(223)	(209)	49	(88)	298	34
<b>Total trading assets - debt and equity instruments</b>	<b>1,671</b>	<b>(72)<sup>(d)</sup></b>	<b>2,683</b>	<b>(1,571)</b>	<b>(521)</b>	<b>993</b>	<b>(1,130)</b>	<b>2,053</b>	<b>30<sup>(d)</sup></b>
Net derivative receivables: <sup>(c)</sup>									
Interest rate	258	271	111	(641)	(557)	(27)	138	(447)	349
Credit	(33)	(37)	5	(6)	(57)	1	22	(105)	(27)
Foreign exchange	(441)	133	182	(290)	34	(115)	42	(455)	5
Equity	(1,887)	18	2,966	(1,769)	(1,555)	1,037	173	(1,017)	(133)
Commodity	(648)	(54)	8	(175)	(324)	(3)	23	(1,173)	47
<b>Total net derivative receivables</b>	<b>(2,751)</b>	<b>331<sup>(d)</sup></b>	<b>3,272</b>	<b>(2,881)</b>	<b>(2,459)</b>	<b>893</b>	<b>398</b>	<b>(3,197)</b>	<b>241<sup>(d)</sup></b>
Available-for-sale securities:									
Mortgage-backed securities	1	–	–	–	–	–	–	1	–
Asset-backed securities	276	1	–	–	(277)	–	–	–	–
<b>Total available-for-sale securities</b>	<b>277</b>	<b>1<sup>(i)</sup></b>	<b>–</b>	<b>–</b>	<b>(277)</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>
Loans <sup>(b)</sup>	2,059	18 <sup>(d)</sup>	469	(1,172)	(478)	159	(254)	801	(15) <sup>(d)</sup>
Mortgage servicing rights	6,030	230 <sup>(e)</sup>	1,246	(636)	(740)	–	–	6,130	230 <sup>(e)</sup>
Other assets <sup>(b)</sup>	–	–	14	(2)	–	–	–	12	–

Year ended December 31, 2018 (in millions)	Fair value measurements using significant unobservable inputs							Fair value at Dec. 31, 2018	Change in unrealized (gains)/losses related to financial instruments held at Dec. 31, 2018	
	Fair value at January 1, 2018	Total realized/ unrealized (gains)/ losses	Purchases	Sales	Issuances	Settlements <sup>(h)</sup>	Transfers into level 3 <sup>(i)</sup>			Transfers (out of) level 3 <sup>(i)</sup>
<b>Liabilities:<sup>(a)</sup></b>										
Deposits	\$ 4,150	\$ (135) <sup>(d)(f)</sup>	\$ –	\$ –	\$ 1,400	\$ (560)	\$ 2	\$ (668)	\$ 4,189	\$ (192) <sup>(d)(f)</sup>
Short-term borrowings	1,604	(188) <sup>(d)(f)</sup>	–	–	3,031	(2,999)	87	(107)	1,428	(129) <sup>(d)(f)</sup>
Trading liabilities - debt and equity instruments	37	30 <sup>(d)</sup>	(97)	101	–	(1)	10	(34)	46	16 <sup>(d)</sup>
Accounts payable and other liabilities	–	–	–	–	–	–	–	–	–	–
Long-term debt	10,154	(1,442) <sup>(d)(f)</sup>	–	–	7,465	(2,968)	623	(1,033)	12,799	(651) <sup>(d)(f)</sup>

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- (a) Level 3 assets at fair value as a percentage of total Bank assets accounted for at fair value (including assets measured at fair value on a nonrecurring basis) were 2%, 3% and 4% at December 31, 2020, 2019 and 2018, respectively. Level 3 liabilities at fair value as a percentage of total Bank liabilities at fair value (including liabilities measured at fair value on a nonrecurring basis) were 13%, 19% and 18% at December 31, 2020, 2019 and 2018, respectively.
- (b) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.
- (c) All level 3 derivatives are presented on a net basis, irrespective of underlying counterparty.
- (d) Predominantly reported in principal transactions revenue, except for changes in fair value for mortgage loans, and lending-related commitments originated with the intent to sell, and mortgage loan purchase commitments, which are reported in mortgage fees and related income.
- (e) Changes in fair value for MSRs are reported in mortgage fees and related income.
- (f) Realized (gains)/losses due to DVA for fair value option elected liabilities are reported in principal transactions revenue, and they were \$2 million for the year ended December 31, 2020 and not material for the years ended December 31, 2019 and 2018, respectively. Unrealized (gains)/losses are reported in OCI, and they were \$40 million, \$175 million and \$(161) million for the years ended December 31, 2020, 2019 and 2018, respectively.
- (g) Loan originations are included in purchases.
- (h) Includes financial assets and liabilities that have matured, been partially or fully repaid, impacts of modifications, deconsolidation associated with beneficial interests in VIEs and other items.
- (i) All transfers into and/or out of level 3 are based on changes in the observability and/or significance of the valuation inputs and are assumed to occur at the beginning of the quarterly reporting period in which they occur.
- (j) Realized gains/(losses) on AFS securities, as well as other-than-temporary impairment ("OTTI") losses that are recorded in earnings, are reported in investment securities gains/(losses). Unrealized gains/(losses) are reported in OCI. There were no realized gains/(losses) and foreign exchange hedge accounting adjustments recorded in income on AFS securities for the years ended December 31, 2020 and 2019, respectively, and \$1 million recorded for the year ended December 31, 2018. There were no material unrealized gains/(losses) recorded on AFS securities in OCI for the years ended December 31, 2020, 2019 and 2018, respectively.

### Level 3 analysis

#### *Consolidated balance sheets changes*

Level 3 assets at fair value including assets measured at fair value on a nonrecurring basis were 0.8% of total Bank assets at December 31, 2020. The following describes significant changes to level 3 assets since December 31, 2019, for those items measured at fair value on a recurring basis. Refer to Assets and liabilities measured at fair value on a nonrecurring basis on page 28 for further information on changes impacting items measured at fair value on a nonrecurring basis.

#### *For the year ended December 31, 2020*

Level 3 assets at December 31, 2020 increased by \$5.1 billion from December 31, 2019 driven by:

- \$3.2 billion increase in gross equity derivative receivables due to gains, purchases and transfers, net of settlements.
- \$1.8 billion increase in non-trading loans due to net transfers.

partially offset by:

- \$1.4 billion decrease in MSRs due to losses and settlements partially offset by purchases.

Refer to the sections below for additional information.

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

During the year ended December 31, 2020, significant transfers from level 2 into level 3 included the following:

- \$1.7 billion of total debt and equity instruments, largely equity securities and trading loans, driven by a decrease in observability.
- \$4.6 billion of gross equity derivative receivables and \$5.2 billion of gross equity derivative payables as a result of a decrease in observability and an increase in the significance of unobservable inputs.
- \$2.6 billion of non-trading loans driven by a decrease in observability.

During the year ended December 31, 2020, significant transfers from level 3 into level 2 included the following:

- \$1.7 billion of total debt and equity instruments, predominantly corporate debt and trading loans, driven by an increase in observability.
- \$3.8 billion of gross equity derivative receivables and \$4.1 billion of gross equity derivative payables as a result of an increase in observability and a decrease in the significance of unobservable inputs.

During the year ended December 31, 2019, significant transfers from level 2 into level 3 included the following:

- \$859 million of gross equity derivative receivables as a result of a decrease in observability and an increase in the significance of unobservable inputs.

During the year ended December 31, 2019, significant transfers from level 3 into level 2 included the following:

- \$2.0 billion of gross equity derivative receivables and \$1.9 billion of gross equity derivative payables as a result of an increase in observability and a decrease in the significance of unobservable inputs.
- \$1.0 billion of gross commodities derivative payables as a result of an increase in observability.
- \$1.2 billion of deposits driven by an increase in observability and a decrease in the significance of unobservable inputs.
- \$1.2 billion of long-term debt driven by an increase in observability and a decrease in the significance of unobservable inputs.

During the year ended December 31, 2018, significant transfers from level 2 into level 3 included the following:

- \$1.2 billion of total debt and equity instruments, the majority of which were trading loans, driven by a decrease in observability.
- \$2.7 billion of gross equity derivative receivables and \$1.7 billion of gross equity derivative payables as a result of a decrease in observability and an increase in the significance of unobservable inputs.

During the year ended December 31, 2018, significant transfers from level 3 into level 2 included the following:

- \$1.3 billion of total debt and equity instruments, the majority of which were trading loans, driven by an increase in observability.
- \$2.0 billion of gross equity derivative receivables and \$2.2 billion of gross equity derivative payables as a result of an increase in observability and a decrease in the significance of unobservable inputs.
- \$1.0 billion of long-term debt driven by an increase in observability.

All transfers are based on changes in the observability and/or significance of the valuation inputs and are assumed to occur at the beginning of the quarterly reporting period in which they occur.

#### *Gains and losses*

The following describes significant components of total realized/unrealized gains/(losses) for instruments measured at fair value on a recurring basis for the years ended December 31, 2020, 2019 and 2018.

These amounts exclude any effects of the Bank's risk management activities where the financial instruments are classified as level 1 and 2 of the fair value hierarchy. Refer to Changes in level 3 recurring fair value measurements rollforward tables on pages 22-26 for further information on these instruments.

#### **2020**

- \$548 million of net gains on assets, driven by gains in net interest rate derivative receivables due to market movements partially offset by losses in MSRs reflecting faster prepayment speeds on lower rates. Refer to Note 15 for information on MSRs.

#### **2019**

- \$1.3 billion of net losses on assets predominantly driven by MSRs reflecting faster prepayment speeds on lower rates. Refer to Note 15 for information on MSRs.
- \$1.8 billion of net losses on liabilities largely driven by market movements in long-term debt.

#### **2018**

- \$1.7 billion of net gains on liabilities predominantly driven by market movements in long-term debt.

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### Assets and liabilities measured at fair value on a nonrecurring basis

The following tables present the assets and liabilities held as of December 31, 2020 and 2019, respectively, for which nonrecurring fair value adjustments were recorded during the years ended December 31, 2020 and 2019, respectively, by major product category and fair value hierarchy.

December 31, 2020 (in millions)	Fair value hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Loans	\$ –	\$ 1,313 <sup>(c)</sup>	\$ 1,040 <sup>(d)</sup>	\$ 2,353
Other assets <sup>(a)</sup>	–	5	140	145
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$ –</b>	<b>\$ 1,318</b>	<b>\$ 1,180</b>	<b>\$ 2,498</b>
Accounts payable and other liabilities <sup>(b)</sup>	–	–	12	12
<b>Total liabilities measured at fair value on a nonrecurring basis</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 12</b>	<b>\$ 12</b>

December 31, 2019 (in millions)	Fair value hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Loans	\$ –	\$ 3,463 <sup>(c)</sup>	\$ 269	\$ 3,732
Other assets	–	14	585	599
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$ –</b>	<b>\$ 3,477</b>	<b>\$ 854</b>	<b>\$ 4,331</b>

- (a) Primarily includes equity securities without readily determinable fair values that were adjusted based on observable price changes in orderly transactions from an identical or similar investment of the same issuer (measurement alternative). Of the \$140 million in level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2020, \$7 million related to equity securities adjusted based on the measurement alternative. These equity securities are classified as level 3 due to the infrequency of the observable prices and/or the restrictions on the shares.
- (b) There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2019.
- (c) Primarily includes certain mortgage loans that were reclassified to held-for sale.
- (d) Of the \$1.0 billion in level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2020, \$602 million related to residential real estate loans carried at the net realizable value of the underlying collateral (e.g., collateral-dependent loans). These amounts are classified as level 3 as they are valued using information from broker's price opinions, appraisals and automated valuation models and discounted based upon the Bank's experience with actual liquidation values. These discounts ranged from 13% to 46% with a weighted average of 27%.

### Nonrecurring fair value changes

The following table presents the total change in value of assets and liabilities for which fair value adjustments have been recognized for the years ended December 31, 2020, 2019 and 2018, related to assets and liabilities held at those dates.

December 31, (in millions)	2020	2019	2018
Loans <sup>(a)</sup>	\$ (393)	\$ (272)	\$ (63)
Other assets <sup>(b)</sup>	(45)	62	225
Accounts payable and other liabilities	(11)	–	–
<b>Total nonrecurring fair value gains/(losses)</b>	<b>\$ (449)</b>	<b>\$ (210)</b>	<b>\$ 162</b>

- (a) Includes the impact of certain mortgage loans that were reclassified to held-for-sale.
- (b) Included \$(6) million, \$82 million and \$241 million for the years ended December 31, 2020, 2019 and 2018, respectively, of net (losses)/gains as a result of the measurement alternative.

Refer to Note 12 for further information about the measurement of collateral-dependent loans.

### Equity securities without readily determinable fair values

The Bank measures certain equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer, with such changes recognized in other income.

In its determination of the new carrying values upon observable price changes, the Bank may adjust the prices if deemed necessary to arrive at the Bank's estimated fair values. Such adjustments may include adjustments to reflect the different rights and obligations of similar securities, and other adjustments that are consistent with the Bank's valuation techniques for private equity direct investments.

The following table presents the carrying value of equity securities without readily determinable fair values held as of December 31, 2020 and 2019, that are measured under the measurement alternative and the related adjustments recorded during the periods presented for those securities with observable price changes. These securities are included in the nonrecurring fair value tables when applicable price changes are observable.

As of or for the year ended December 31, (in millions)	2020	2019
<b>Other assets</b>		
Carrying value <sup>(a)</sup>	\$ 592	\$ 589
Upward carrying value changes <sup>(b)</sup>	1	86
Downward carrying value changes/impairment <sup>(c)</sup>	(7)	(4)

(a) The period-end carrying values reflect cumulative purchases and sales in addition to upward and downward carrying value changes.

(b) The cumulative upward carrying value changes between January 1, 2018 and December 31, 2020 were \$339 million.

(c) The cumulative downward carrying value changes/impairment between January 1, 2018 and December 31, 2020 were \$(20) million.

Included in other assets above is the Bank's interest in approximately 40 million Visa Class B common shares, recorded at a nominal carrying value. These shares are subject to certain transfer restrictions currently and will be convertible into Visa Class A common shares upon final resolution of certain litigation matters involving Visa. The conversion rate of Visa Class B common shares into Visa Class A common shares is 1.6228 at December 31, 2020, and may be adjusted by Visa depending on developments related to the litigation matters.

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### **Additional disclosures about the fair value of financial instruments that are not carried on the Consolidated balance sheets at fair value**

U.S. GAAP requires disclosure of the estimated fair value of certain financial instruments, which are included in the following table. However, this table does not include other items, such as nonfinancial assets, intangible assets, certain financial instruments, and customer relationships. In the opinion of management, these items, in the aggregate, add significant value to the Bank, but their fair value is not disclosed in this table.

### *Financial instruments for which carrying value approximates fair value*

Certain financial instruments that are not carried at fair value on the Consolidated balance sheets are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks, deposits with banks, federal funds sold, securities purchased under resale agreements and securities borrowed, short-term receivables and accrued interest receivable, short-term borrowings, federal funds purchased, securities loaned and sold under repurchase agreements, accounts payable, and accrued liabilities. In addition, U.S. GAAP requires that the fair value of deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value; recognition of the inherent funding value of these instruments is not permitted.

The following table presents by fair value hierarchy classification the carrying values and estimated fair values at December 31, 2020 and 2019, of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and their classification within the fair value hierarchy.

(in billions)	December 31, 2020					December 31, 2019				
	Carrying value	Estimated fair value hierarchy			Total estimated fair value	Carrying value	Estimated fair value hierarchy			Total estimated fair value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>Financial assets</b>										
Cash and due from banks	\$ 24.2	\$ 24.2	\$ —	\$ —	\$ 24.2	\$ 21.2	\$ 21.2	\$ —	\$ —	\$ 21.2
Deposits with banks	501.6	501.6	—	—	501.6	241.0	241.0	—	—	241.0
Accrued interest and accounts receivable	70.6	—	71.3	0.1	71.4	52.8	—	52.8	—	52.8
Federal funds sold and securities purchased under resale agreements	163.9	—	163.9	—	163.9	205.7	—	205.7	—	205.7
Securities borrowed	27.4	—	27.4	—	27.4	32.5	—	32.5	—	32.5
Investment securities, held-to-maturity	201.8	53.2	152.3	—	205.5	47.5	0.1	48.8	—	48.9
Loans, net of allowance for loan losses <sup>(a)</sup>	938.6	—	209.2	753.8	963.0	938.0	—	213.1	733.2	946.3
Other	50.6	—	49.0	1.6	50.6	46.5 <sup>(b)</sup>	—	45.8 <sup>(b)</sup>	0.7	46.5
<b>Financial liabilities</b>										
Deposits	\$2,238.8	\$ —	\$2,237.9	\$ —	\$2,237.9	\$1,621.8	\$ —	\$1,622.1	\$ —	\$1,622.1
Federal funds purchased and securities loaned or sold under repurchase agreements	37.0	—	37.0	—	37.0	81.0	—	81.0	—	81.0
Short-term borrowings	2.2	—	2.2	—	2.2	4.7	—	4.7	—	4.7
Accounts payable and other liabilities	87.2	—	83.0	3.8	86.8	73.3	0.1	70.1	2.7	72.9
Beneficial interests issued by consolidated VIEs	17.5	—	17.6	—	17.6	17.8	—	17.9	—	17.9
Long-term debt	45.6	—	42.4	3.2	45.6	81.2	—	77.8	3.5	81.3

- (a) Fair value is typically estimated using a discounted cash flow model that incorporates the characteristics of the underlying loans (including principal, contractual interest rate and contractual fees) and other key inputs, including expected lifetime credit losses, interest rates, prepayment rates, and primary origination or secondary market spreads. For certain loans, the fair value is measured based on the value of the underlying collateral. Carrying value of the loan takes into account the loan's allowance for loan losses, which represents the loan's expected credit losses over its remaining expected life. The difference between the estimated fair value and carrying value of a loan is generally attributable to changes in market interest rates, including credit spreads, market liquidity premiums and other factors that affect the fair value of a loan but do not affect its carrying value.
- (b) Prior-period amounts have been revised to conform with the current presentation.

The majority of the Bank's lending-related commitments are not carried at fair value on a recurring basis on the Consolidated balance sheets. The carrying value and the estimated fair value of these wholesale lending-related commitments were as follows for the periods indicated.

(in billions)	December 31, 2020					December 31, 2019				
	Carrying value <sup>(a)(b)</sup>	Estimated fair value hierarchy			Total estimated fair value	Carrying value <sup>(a)(b)</sup>	Estimated fair value hierarchy			Total estimated fair value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
Wholesale lending-related commitments	\$ 2.2	\$ —	\$ —	\$ 2.1	\$ 2.1	\$ 1.2	\$ —	\$ —	\$ 1.9	\$ 1.9

- (a) Excludes the current carrying values of the guarantee liability and the offsetting asset, each of which is recognized at fair value at the inception of the guarantees.
- (b) Includes the wholesale allowance for lending-related commitments.

The Bank does not estimate the fair value of consumer off-balance sheet lending-related commitments. In many cases, the Bank can reduce or cancel these commitments by providing the borrower notice or, in some cases as permitted by law, without notice. Refer to page 15 of this Note for a further discussion of the valuation of lending-related commitments.

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### Note 3 – Fair value option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments.

The Bank has elected to measure certain instruments at fair value for several reasons including to mitigate income statement volatility caused by the differences between the measurement basis of elected instruments (e.g., certain instruments that otherwise would be accounted for on an accrual basis) and the associated risk management arrangements that are accounted for on a fair value basis, as well as to better reflect those instruments that are managed on a fair value basis.

The Bank's election of fair value includes the following instruments:

- Loans purchased or originated as part of securitization warehousing activity, subject to bifurcation accounting, or managed on a fair value basis, including lending-related commitments
- Certain securities financing agreements
- Owned beneficial interests in securitized financial assets that contain embedded credit derivatives, which would otherwise be required to be separately accounted for as a derivative instrument
- Structured notes, which are predominantly financial instruments that contain embedded derivatives, that are issued as part of client-driven activities
- Certain long-term beneficial interests issued by consolidated securitization trusts where the underlying assets are carried at fair value

### Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated statements of income for the years ended December 31, 2020, 2019 and 2018, for items for which the fair value option was elected. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

December 31, (in millions)	2020			2019			2018		
	Principal transactions	All other income	Total changes in fair value recorded <sup>(e)</sup>	Principal transactions	All other income	Total changes in fair value recorded <sup>(e)</sup>	Principal transactions	All other income	Total changes in fair value recorded <sup>(e)</sup>
Federal funds sold and securities purchased under resale agreements	\$ 51	\$ –	\$ 51	\$ 4	\$ –	\$ 4	\$ 2	\$ –	\$ 2
Securities borrowed	130	–	130	133	–	133	22	–	22
Trading assets:									
Debt and equity instruments, excluding loans	1,425	1 <sup>(d)</sup>	1,426	2,496	–	2,496	(1,881)	1 <sup>(d)</sup>	(1,880)
Loans reported as trading assets:									
Changes in instrument-specific credit risk <sup>(a)</sup>	126	–	126	229	–	229	(4)	–	(4)
Other changes in fair value <sup>(a)</sup>	–	–	–	(1)	–	(1)	27	–	27
Loans:									
Changes in instrument-specific credit risk <sup>(a)</sup>	184	7 <sup>(d)</sup>	191	468	2 <sup>(d)</sup>	470	396	–	396
Other changes in fair value <sup>(a)</sup>	471	3,239 <sup>(d)</sup>	3,710	267	1,224 <sup>(d)</sup>	1,491	138	185 <sup>(d)</sup>	323
Other assets <sup>(a)</sup>	(6)	–	(6)	(4)	–	(4)	(7)	–	(7)
Deposits <sup>(b)</sup>	(747)	–	(747)	(1,751)	–	(1,751)	181	–	181
Federal funds purchased and securities loaned or sold under repurchase agreements	(98)	–	(98)	(104)	–	(104)	(1)	–	(1)
Short-term borrowings <sup>(b)</sup>	(272)	–	(272)	(638)	–	(638)	374	–	374
Trading liabilities	2	–	2	6	–	6	1	–	1
Other liabilities	(52)	–	(52)	(16)	–	(16)	–	–	–
Long-term debt <sup>(b)(c)</sup>	(1,317)	(1) <sup>(d)</sup>	(1,318)	(2,655)	1 <sup>(d)</sup>	(2,654)	1,272	–	1,272

- (a) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.
- (b) Unrealized gains/(losses) due to instrument-specific credit risk (DVA) for liabilities for which the fair value option has been elected are recorded in OCI and subsequently recorded in principal transactions revenue when realized. Realized gains/(losses) due to instrument-specific credit risk recorded in principal transactions revenue were \$4 million for the year ended December 31, 2020 and were not material for the years ended December 31, 2019 and 2018.
- (c) Long-term debt measured at fair value predominantly relates to structured notes. Although the risk associated with the structured notes is actively managed, the gains/(losses) reported in this table do not include the income statement impact of the risk management instruments used to manage such risk.
- (d) Reported in mortgage fees and related income.
- (e) Changes in fair value exclude contractual interest, which is included in interest income and interest expense for all instruments other than hybrid financial instruments. Refer to Note 7 for further information regarding interest income and interest expense.

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### Determination of instrument-specific credit risk for items for which the fair value option was elected

The following describes how the gains and losses that are attributable to changes in instrument-specific credit risk, were determined.

- Loans and lending-related commitments: For floating-rate instruments, all changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based on an analysis of borrower-specific credit spread and recovery

information, where available, or benchmarking to similar entities or industries.

- Long-term debt: Changes in value attributable to instrument-specific credit risk were derived principally from observable changes in the Bank's credit spread as observed in the bond market.
- Securities financing agreements: Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned; as a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit risk related to these agreements.

### Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2020 and 2019, for loans, long-term debt and long-term beneficial interests for which the fair value option has been elected.

December 31, (in millions)	2020			2019		
	Contractual principal outstanding	Fair value	Fair value over/ (under) contractual principal outstanding	Contractual principal outstanding	Fair value	Fair value over/ (under) contractual principal outstanding
<b>Loans</b>						
<b>Nonaccrual loans</b>						
Loans reported as trading assets <sup>(a)</sup>	\$ 2,401	\$ 555	\$ (1,846)	\$ 1,623	\$ 234	\$ (1,389)
Loans <sup>(a)</sup>	1,813	1,500	(313)	871	682	(189)
<b>Subtotal</b>	<b>4,214</b>	<b>2,055</b>	<b>(2,159)</b>	<b>2,494</b>	<b>916</b>	<b>(1,578)</b>
<b>90 or more days past due and government guaranteed<sup>(b)</sup></b>						
Loans reported as trading assets	–	–	–	–	–	–
Loans	328	316	(12)	138	129	(9)
<b>Subtotal</b>	<b>328</b>	<b>316</b>	<b>(12)</b>	<b>138</b>	<b>129</b>	<b>(9)</b>
<b>All other performing loans<sup>(c)</sup></b>						
Loans reported as trading assets <sup>(a)</sup>	7,223	6,410	(813)	7,579	6,744	(835)
Loans <sup>(a)</sup>	41,926	42,565	639	43,848	44,042	194
<b>Subtotal</b>	<b>49,149</b>	<b>48,975</b>	<b>(174)</b>	<b>51,427</b>	<b>50,786</b>	<b>(641)</b>
<b>Total loans</b>	<b>\$ 53,691</b>	<b>\$ 51,346</b>	<b>\$ (2,345)</b>	<b>\$ 54,059</b>	<b>\$ 51,831</b>	<b>\$ (2,228)</b>
<b>Long-term debt</b>						
Principal-protected debt	\$ 12,384 <sup>(e)</sup>	\$ 12,912	\$ 528	\$ 18,063 <sup>(e)</sup>	\$ 18,085	\$ 22
Nonprincipal-protected debt <sup>(d)</sup>	NA	23,877	NA	NA	22,186	NA
<b>Total long-term debt</b>	<b>NA</b>	<b>\$ 36,789</b>	<b>NA</b>	<b>NA</b>	<b>\$ 40,271</b>	<b>NA</b>

(a) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.

(b) These balances are excluded from nonaccrual loans as the loans are insured and/or guaranteed by U.S. government agencies.

(c) There were no performing loans that were ninety days or more past due as of December 31, 2020 and 2019.

(d) Remaining contractual principal is not applicable to nonprincipal-protected structured notes. Unlike principal-protected structured notes, for which the Bank is obligated to return a stated amount of principal at maturity, nonprincipal-protected structured notes do not obligate the Bank to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note. However, investors are exposed to the credit risk of the Bank as issuer for both nonprincipal-protected and principal-protected notes.

(e) Where the Bank issues principal-protected zero-coupon or discount notes, the balance reflects the contractual principal payment at maturity or, if applicable, the contractual principal payment at the Bank's next call date.

At December 31, 2020 and 2019, the contractual amount of lending-related commitments for which the fair value option was elected was \$18.1 billion and \$8.6 billion, respectively, with a corresponding fair value of \$(39) million and \$(120) million, respectively. Refer to Note 25 for further information regarding off-balance sheet lending-related financial instruments. Prior-period amounts have been revised to conform with the current presentation.

#### **Note 4 – Credit risk concentrations**

Concentrations of credit risk arise when a number of clients, counterparties or 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.

The Bank regularly monitors various segments of its credit portfolios to assess potential credit risk concentrations and to obtain additional collateral when deemed necessary and permitted under the Bank's agreements. Senior management is significantly involved in the credit approval and review process, and risk levels are adjusted as needed to reflect the Bank's risk appetite.

In the Bank's consumer portfolio, concentrations are managed primarily by product and by U.S. geographic region, with a key focus on trends and concentrations at the portfolio level, where potential credit risk concentrations can be remedied through changes in underwriting policies and portfolio guidelines. Refer to Note 12 for additional information on the geographic composition of the Bank's consumer loan portfolios. In the wholesale portfolio, credit risk concentrations are evaluated primarily by industry and monitored regularly on both an aggregate portfolio level and on an individual client or counterparty basis.

The Bank's wholesale exposure is managed through loan syndications and participations, loan sales, securitizations, credit derivatives, master netting agreements, collateral and other risk-reduction techniques. Refer to Note 12 for additional information on loans.

The Bank does not believe that its exposure to any particular loan product or industry segment (e.g., real estate), or its exposure to residential real estate loans with high LTV ratios, results in a significant concentration of credit risk.

Terms of loan products and collateral coverage are included in the Bank's assessment when extending credit and establishing its allowance for loan losses.

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The table below presents both on-balance sheet and off-balance sheet consumer and wholesale credit exposure by the Bank's three credit portfolio segments as of December 31, 2020 and 2019. The wholesale industry of risk category is generally based on the client or counterparty's primary business activity.

In conjunction with the adoption of CECL, the Bank reclassified risk-rated loans and lending-related commitments from the consumer, excluding credit card portfolio segment to the wholesale portfolio segment, to align with the methodology applied when determining the allowance. Prior-period amounts have been revised to conform with the current presentation. Refer to Note 1 for further information.

December 31, (in millions)	2020				2019			
	Credit exposure <sup>(h)(i)</sup>	On-balance sheet		Off-balance sheet <sup>(i)(k)</sup>	Credit exposure <sup>(h)(i)</sup>	On-balance sheet		Off-balance sheet <sup>(i)(k)</sup>
		Loans <sup>(i)</sup>	Derivatives			Loans <sup>(i)</sup>	Derivatives	
<b>Consumer, excluding credit card</b>	<b>\$ 375,817</b>	<b>\$ 318,498</b>	<b>\$ –</b>	<b>\$ 57,319</b>	<b>\$ 357,879</b>	<b>\$ 317,711</b>	<b>\$ –</b>	<b>\$ 40,168</b>
<b>Credit card<sup>(a)</sup></b>	<b>802,722</b>	<b>144,216</b>	<b>–</b>	<b>658,506</b>	<b>819,644</b>	<b>168,924</b>	<b>–</b>	<b>650,720</b>
<b>Total consumer-related<sup>(a)</sup></b>	<b>1,178,539</b>	<b>462,714</b>	<b>–</b>	<b>715,825</b>	<b>1,177,523</b>	<b>486,635</b>	<b>–</b>	<b>690,888</b>
<b>Wholesale-related<sup>(b)</sup></b>								
Real Estate	148,489	118,299	1,385	28,805	150,919	117,708	619	32,592
Individuals and Individual Entities <sup>(c)</sup>	121,985	109,191	1,750	11,044	104,704	94,298	693	9,713
Consumer & Retail	108,424	38,999	2,802	66,623	106,845	36,845	1,423	68,577
Technology, Media & Telecommunications	71,925	14,687	4,252	52,986	59,833	15,322	2,766	41,745
Industrials	66,465	21,138	1,851	43,476	62,477	22,057	878	39,542
Asset Managers	65,137	30,558	8,838	25,741	53,389	23,875	7,018	22,496
Healthcare	59,833	19,282	3,132	37,419	50,458	17,383	2,000	31,075
Banks & Finance Cos	54,547	31,257	8,293	14,997	51,098	31,267	5,401	14,430
Automotive	43,331	17,128	5,995	20,208	35,118	18,844	368	15,906
Oil & Gas	39,099	11,231	1,620	26,248	41,560	13,059	813	27,688
State & Municipal Govt <sup>(d)</sup>	37,904	17,694	2,324	17,886	29,609	12,811	1,974	14,824
Utilities	29,905	4,825	3,171	21,909	34,640	5,100	2,428	27,112
Chemicals & Plastics	17,176	4,884	856	11,436	17,499	4,864	459	12,176
Central Govt	17,001	3,396	12,288	1,317	14,817	2,840	10,429	1,548
Transportation	16,220	6,555	1,495	8,170	14,483	5,239	715	8,529
Metals & Mining	15,447	4,854	786	9,807	15,499	5,364	315	9,820
Insurance	13,139	1,042	2,525	9,572	12,345	1,355	2,281	8,709
Securities Firms	6,742	418	4,808	1,516	6,560	562	4,500	1,498
Financial Markets Infrastructure	6,369	19	3,610	2,740	4,093	13	2,455	1,625
All other <sup>(e)</sup>	100,676	58,032	7,000	35,644	79,586	51,349	1,860	26,377
<b>Subtotal</b>	<b>1,039,814</b>	<b>513,489</b>	<b>78,781</b>	<b>447,544</b>	<b>945,532</b>	<b>480,155</b>	<b>49,395</b>	<b>415,982</b>
Loans held-for-sale and loans at fair value	35,072	35,072	–	–	29,175	29,175	–	–
Receivables from customers <sup>(f)</sup>	12,458	–	–	–	4,923	–	–	–
<b>Total wholesale-related</b>	<b>1,087,344</b>	<b>548,561</b>	<b>78,781</b>	<b>447,544</b>	<b>979,630</b>	<b>509,330</b>	<b>49,395</b>	<b>415,982</b>
<b>Total exposure<sup>(g)(h)</sup></b>	<b>\$ 2,265,883</b>	<b>\$ 1,011,275</b>	<b>\$ 78,781</b>	<b>\$ 1,163,369</b>	<b>\$ 2,157,153</b>	<b>\$ 995,965</b>	<b>\$ 49,395</b>	<b>\$ 1,106,870</b>

(a) Also includes commercial card lending-related commitments.

(b) The industry rankings presented in the table as of December 31, 2019, are based on the industry rankings of the corresponding exposures at December 31, 2020, not actual rankings of such exposures at December 31, 2019.

(c) Individuals and Individual Entities predominantly consists of wealth management clients and includes exposure to personal investment companies and personal and testamentary trusts.

(d) In addition to the credit risk exposure to states and municipal governments (both U.S. and non-U.S.) at December 31, 2020 and 2019, noted above, the Bank held: \$5.2 billion and \$4.0 billion, respectively, of trading assets; \$19.6 billion and \$28.8 billion, respectively, of AFS securities; and \$12.8 billion and \$4.8 billion, respectively, of held-to-maturity ("HTM") securities, issued by U.S. state and municipal governments. Refer to Note 2 and Note 10 for further information.

(e) All other includes: SPEs and Private education and civic organizations, representing approximately 92% and 8%, respectively, at December 31, 2020 and 90% and 10%, respectively, at December 31, 2019. Refer to Note 14 for more information on exposures to SPEs.

(f) Receivables from customers reflect held-for-investment margin loans to brokerage clients that are collateralized by assets maintained in the clients' brokerage accounts (e.g., cash on deposit, liquid and readily marketable debt or equity securities). Because of this collateralization, no allowance for credit losses is generally held against these receivables. To manage its credit risk the Bank establishes margin requirements and monitors the required margin levels on an ongoing basis, and requires clients to deposit additional cash or other collateral, or to reduce positions, when appropriate. These receivables are reported within accrued interest and accounts receivable on the Bank's Consolidated balance sheets.

(g) Excludes cash placed with banks of \$515.1 billion and \$252.5 billion, at December 31, 2020 and 2019, respectively, which is predominantly placed with various central banks, primarily Federal Reserve Banks.

(h) Credit exposure is net of risk participations and excludes the benefit of credit derivatives used in credit portfolio management activities held against derivative receivables or loans and liquid securities and other cash collateral held against derivative receivables.

(i) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans, which resulted in a corresponding reclassification of certain off-balance sheet commitments. Prior-period amounts have been revised to conform with the current presentation.

(j) At December 31, 2020, included \$27.2 billion of retained loans under the PPP, of which \$19.2 billion and \$8.0 billion included in consumer and wholesale, respectively. PPP loans are guaranteed by the SBA. Other than in certain limited circumstances, the Bank typically does not recognize charge-offs, classify as nonaccrual nor record an allowance for loan losses on these loans.

(k) Represents lending-related financial instruments.

## Note 5 – Derivative instruments

Derivative contracts derive their value from underlying asset prices, indices, reference rates, other inputs or a combination of these factors and may expose counterparties to risks and rewards of an underlying asset or liability without having to initially invest in, own or exchange the asset or liability. The Bank makes markets in derivatives for clients and also uses derivatives to hedge or manage its own risk exposures. Predominantly all of the Bank's derivatives are entered into for market-making or risk management purposes.

### *Market-making derivatives*

The majority of the Bank's derivatives are entered into for market-making purposes. Clients use derivatives to mitigate or modify interest rate, credit, foreign exchange, equity and commodity risks. The Bank actively manages the risks from its exposure to these derivatives by entering into other derivative contracts or by purchasing or selling other financial instruments that partially or fully offset the exposure from client derivatives.

### *Risk management derivatives*

The Bank manages certain market and credit risk exposures using derivative instruments, including derivatives in hedge accounting relationships and other derivatives that are used to manage risks associated with specified assets and liabilities.

The Bank generally uses interest rate derivatives to manage the risk associated with changes in interest rates. Fixed-rate assets and liabilities appreciate or depreciate in market value as interest rates change. Similarly, interest income and expense increase or decrease as a result of variable-rate assets and liabilities resetting to current market rates, and as a result of the repayment and subsequent origination or issuance of fixed-rate assets and liabilities at current market rates. Gains and losses on the derivative instruments related to these assets and liabilities are expected to substantially offset this variability.

Foreign currency derivatives are used to manage the foreign exchange risk associated with certain foreign currency-denominated (i.e., non-U.S. dollar) assets and liabilities and forecasted transactions, as well as the Bank's net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent values of the foreign currency-denominated assets and liabilities or the forecasted revenues or expenses increase or decrease. Gains or losses on the derivative instruments related to these foreign currency-denominated assets or liabilities, or forecasted transactions, are expected to substantially offset this variability.

Commodities derivatives are used to manage the price risk of certain commodities inventories. Gains or losses on these derivative instruments are expected to substantially offset the depreciation or appreciation of the related inventory.

Credit derivatives are used to manage the counterparty credit risk associated with loans and lending-related commitments. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event, such as bankruptcy or a failure to pay an obligation when due. Credit derivatives primarily consist of CDS. Refer to the Credit derivatives section on pages 48–50 of this Note for a further discussion of credit derivatives.

Refer to the risk management derivatives gains and losses table on page 48 of this Note, and the hedge accounting gains and losses tables on pages 45–48 of this Note for more information about risk management derivatives.

### *Derivative counterparties and settlement types*

The Bank enters into OTC derivatives with third parties and JPMorgan Chase affiliates, which are negotiated and settled bilaterally with the derivative counterparty. The Bank also enters into, as principal, certain exchange-traded derivatives ("ETD") such as futures and options, and "cleared" over-the-counter ("OTC-cleared") derivative contracts with central counterparties ("CCPs"). ETD contracts are generally standardized contracts traded on an exchange and cleared by the CCP, which is the Bank's counterparty from the inception of the transactions. OTC-cleared derivatives are traded on a bilateral basis and then novated to the CCP for clearing.

### *Derivative clearing services*

The Bank provides clearing services for clients in which the Bank acts as a clearing member at certain exchanges and clearing houses. The Bank does not reflect the clients' derivative contracts in its Consolidated Financial Statements. Refer to Note 25 for further information on the Bank's clearing services.

### **Accounting for derivatives**

All free-standing derivatives that the Bank executes for its own account are required to be recorded on the Consolidated balance sheets at fair value.

As permitted under U.S. GAAP, the Bank nets derivative assets and liabilities, and the related cash collateral receivables and payables, when a legally enforceable master netting agreement exists between the Bank and the derivative counterparty. Refer to Note 1 for further discussion of the offsetting of assets and liabilities. The accounting for changes in value of a derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are reported and measured at fair value through earnings. The tabular disclosures on pages 41–48 of this Note provide additional information on the amount of, and reporting for, derivative assets, liabilities, gains and losses. Refer to Notes 2 and 3 for a further discussion of derivatives embedded in structured notes.

## Notes to consolidated financial statements

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### *Derivatives designated as hedges*

The Bank applies hedge accounting to certain derivatives executed for risk management purposes – generally interest rate, foreign exchange and commodity derivatives. However, the Bank does not seek to apply hedge accounting to all of the derivatives involved in its risk management activities. For example, the Bank does not apply hedge accounting to purchased CDS used to manage the credit risk of loans and lending-related commitments, because of the difficulties in qualifying such contracts as hedges. For the same reason, the Bank does not apply hedge accounting to certain interest rate and foreign exchange derivatives used for risk management purposes.

To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability or forecasted transaction and type of risk to be hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. To assess effectiveness, the Bank uses statistical methods such as regression analysis, nonstatistical methods such as dollar-value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item, and qualitative comparisons of critical terms and the evaluation of any changes in those terms. The extent to which a derivative has been, and is expected to continue to be, highly effective at offsetting changes in the fair value or cash flows of the hedged item must be assessed and documented at least quarterly. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

There are three types of hedge accounting designations: fair value hedges, cash flow hedges and net investment hedges. The Bank uses fair value hedges primarily to hedge fixed-rate long-term debt, AFS securities and certain commodities inventories. For qualifying fair value hedges, the changes in

the fair value of the derivative, and in the value of the hedged item for the risk being hedged, are recognized in earnings. Certain amounts excluded from the assessment of effectiveness are recorded in OCI and recognized in earnings over the life of the derivative. If the hedge relationship is terminated, then the adjustment to the hedged item continues to be reported as part of the basis of the hedged item, and for benchmark interest rate hedges, is amortized to earnings as a yield adjustment. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item – primarily net interest income and principal transactions revenue.

The Bank uses cash flow hedges primarily to hedge the exposure to variability in forecasted cash flows from floating-rate assets and liabilities and foreign currency-denominated revenue and expense. For qualifying cash flow hedges, changes in the fair value of the derivative are recorded in OCI and recognized in earnings as the hedged item affects earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item – primarily noninterest revenue, net interest income and compensation expense. If the hedge relationship is terminated, then the change in value of the derivative recorded in accumulated other comprehensive income/(loss) (“AOCI”) is recognized in earnings when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is expected to not occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in earnings.

The Bank uses net investment hedges to protect the value of the Bank’s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. For qualifying net investment hedges, changes in the fair value of the derivatives due to changes in spot foreign exchange rates are recorded in OCI as translation adjustments. Amounts excluded from the assessment of effectiveness are recorded directly in earnings.

The following table outlines the Bank's primary uses of derivatives and the related hedge accounting designation or disclosure category.

Type of Derivative	Use of Derivative	Designation and disclosure	Page reference
Manage specifically identified risk exposures in qualifying hedge accounting relationships:			
• Interest rate	Hedge fixed rate assets and liabilities	Fair value hedge	45-46
• Interest rate	Hedge floating-rate assets and liabilities	Cash flow hedge	47
• Foreign exchange	Hedge foreign currency-denominated assets and liabilities	Fair value hedge	45-46
• Foreign exchange	Hedge foreign currency-denominated forecasted revenue and expense	Cash flow hedge	47
• Foreign exchange	Hedge the value of the Bank's investments in non-U.S. dollar functional currency entities	Net investment hedge	48
• Commodity	Hedge commodity inventory	Fair value hedge	45-46
Manage specifically identified risk exposures not designated in qualifying hedge accounting relationships:			
• Interest rate	Manage the risk associated with mortgage commitments, warehouse loans and MSRs	Specified risk management	48
• Credit	Manage the credit risk associated with wholesale lending exposures	Specified risk management	48
• Interest rate and foreign exchange	Manage the risk associated with certain other specified assets and liabilities	Specified risk management	48
Market-making derivatives and other activities:			
• Various	Market-making and related risk management	Market-making and other	48
• Various	Other derivatives	Market-making and other	48

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### Notional amount of derivative contracts

The following table summarizes the notional amount of derivative contracts outstanding as of December 31, 2020 and 2019.

December 31, (in billions)	Notional amounts <sup>(b)</sup>	
	2020	2019
<b>Interest rate contracts</b>		
Swaps	\$ 21,642	\$ 21,724
Futures and forwards	2,439	2,793
Written options	3,389	3,948
Purchased options	3,689	4,366
<b>Total interest rate contracts</b>	<b>31,159</b>	<b>32,831</b>
<b>Credit derivatives<sup>(a)</sup></b>	<b>1,191</b>	<b>1,214</b>
<b>Foreign exchange contracts</b>		
Cross-currency swaps	3,962	3,647
Spot, futures and forwards	6,904	5,609
Written options	830	701
Purchased options	825	718
<b>Total foreign exchange contracts</b>	<b>12,521</b>	<b>10,675</b>
<b>Equity contracts</b>		
Swaps	586	561
Futures and forwards	120	125
Written options	566	566
Purchased options	550	549
<b>Total equity contracts</b>	<b>1,822</b>	<b>1,801</b>
<b>Commodity contracts</b>		
Swaps	335	385
Spot, futures and forwards	202	215
Written options	136	144
Purchased options	111	129
<b>Total commodity contracts</b>	<b>784</b>	<b>873</b>
<b>Total derivative notional amounts</b>	<b>\$ 47,477</b>	<b>\$ 47,394</b>

(a) Refer to the Credit derivatives discussion on page 48-50 for more information on volumes and types of credit derivative contracts.

(b) Represents the sum of gross long and gross short notional derivative contracts with third-parties and JPMorgan Chase affiliates. Refer to Note 20 for additional information on related party derivatives.

While the notional amounts disclosed above give an indication of the volume of the Bank's derivatives activity, the notional amounts significantly exceed, in the Bank's view, the possible losses that could arise from such transactions. For most derivative contracts, the notional amount is not exchanged; it is simply a reference amount used to calculate payments.

### Impact of derivatives on the Consolidated balance sheets

The tables below include derivative receivables and payables with affiliates on a net basis. Refer to Note 20 for information regarding our derivative activities with affiliates.

The following table summarizes information on derivative receivables and payables (before and after netting adjustments) that are reflected on the Bank's Consolidated balance sheets as of December 31, 2020 and 2019, by accounting designation (e.g., whether the derivatives were designated in qualifying hedge accounting relationships or not) and contract type.

#### Free-standing derivative receivables and payables<sup>(a)</sup>

December 31, 2020 (in millions)	Gross derivative receivables				Gross derivative payables			
	Not designated as hedges	Designated as hedges	Total derivative receivables	Net derivative receivables <sup>(b)</sup>	Not designated as hedges	Designated as hedges	Total derivative payables	Net derivative payables <sup>(b)</sup>
<b>Trading assets and liabilities</b>								
Interest rate	\$ 453,025	\$ 787	\$ 453,812	\$ 35,071	\$ 418,292	\$ –	\$ 418,292	\$ 12,204
Credit	12,370	–	12,370	403	14,095	–	14,095	1,825
Foreign exchange	207,085	205	207,290	15,710	217,645	1,522	219,167	21,392
Equity	89,392	–	89,392	21,061	87,983	–	87,983	19,069
Commodity	29,778	887	30,665	6,536	29,917	1,388	31,305	7,114
<b>Total fair value of trading assets and liabilities</b>	<b>\$ 791,650</b>	<b>\$ 1,879</b>	<b>\$ 793,529</b>	<b>\$ 78,781</b>	<b>\$ 767,932</b>	<b>\$ 2,910</b>	<b>\$ 770,842</b>	<b>\$ 61,604</b>

December 31, 2019 (in millions)	Gross derivative receivables				Gross derivative payables			
	Not designated as hedges	Designated as hedges	Total derivative receivables	Net derivative receivables <sup>(b)</sup>	Not designated as hedges	Designated as hedges	Total derivative payables	Net derivative payables <sup>(b)</sup>
<b>Trading assets and liabilities</b>								
Interest rate	\$ 332,595	\$ 710	\$ 333,305	\$ 27,213	\$ 306,244	\$ 1	\$ 306,245	\$ 8,448
Credit	14,545	–	14,545	653	14,751	–	14,751	1,569
Foreign exchange	141,675	168	141,843	9,003	147,958	670	148,628	13,129
Equity	57,511	–	57,511	6,629	59,765	–	59,765	11,139
Commodity	24,199	33	24,232	5,897	25,790	4	25,794	6,552
<b>Total fair value of trading assets and liabilities</b>	<b>\$ 570,525</b>	<b>\$ 911</b>	<b>\$ 571,436</b>	<b>\$ 49,395</b>	<b>\$ 554,508</b>	<b>\$ 675</b>	<b>\$ 555,183</b>	<b>\$ 40,837</b>

(a) Balances exclude structured notes for which the fair value option has been elected. Refer to Note 3 for further information.

(b) As permitted under U.S. GAAP, the Bank has elected to net derivative receivables and derivative payables and the related cash collateral receivables and payables when a legally enforceable master netting agreement exists.

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### Derivatives netting

The following tables present, as of December 31, 2020 and 2019, gross and net derivative receivables and payables by contract and settlement type. Derivative receivables and payables, as well as the related cash collateral from the same counterparty, have been netted on the Consolidated balance sheets where the Bank has obtained an appropriate legal opinion with respect to the master netting agreement. Where such a legal opinion has not been either sought or obtained, amounts are not eligible for netting on the Consolidated balance sheets, and those derivative receivables and payables are shown separately in the tables below.

In addition to the cash collateral received and transferred that is presented on a net basis with derivative receivables and payables, the Bank receives and transfers additional collateral (financial instruments and cash). These amounts mitigate counterparty credit risk associated with the Bank's derivative instruments, but are not eligible for net presentation:

- collateral that consists of certain liquid securities and other cash collateral held at third-party custodians, which are shown separately as "Collateral not nettable on the Consolidated balance sheets" in the tables below, up to the fair value exposure amount.
- the amount of collateral held or transferred that exceeds the fair value exposure at the individual counterparty level, as of the date presented, which is excluded from the tables below; and
- collateral held or transferred that relates to derivative receivables or payables where an appropriate legal opinion has not been either sought or obtained with respect to the master netting agreement, which is excluded from the tables below.

December 31, (in millions)	2020			2019		
	Gross derivative receivables	Amounts netted on the Consolidated balance sheets	Net derivative receivables	Gross derivative receivables	Amounts netted on the Consolidated balance sheets	Net derivative receivables
<b>U.S. GAAP nettable derivative receivables</b>						
<b>Interest rate contracts:</b>						
Over-the-counter ("OTC")	\$ 430,545	\$ (401,106)	\$ 29,439	\$ 319,493	\$ (296,646)	\$ 22,847
OTC-cleared	17,478	(17,240)	238	9,244	(9,190)	54
Exchange-traded <sup>(a)</sup>	553	(395)	158	347	(258)	89
<b>Total interest rate contracts</b>	<b>448,576</b>	<b>(418,741)</b>	<b>29,835</b>	<b>329,084</b>	<b>(306,094)</b>	<b>22,990</b>
<b>Credit contracts:</b>						
OTC	7,945	(7,658)	287	10,414	(10,033)	381
OTC-cleared	4,326	(4,309)	17	3,864	(3,858)	6
<b>Total credit contracts</b>	<b>12,271</b>	<b>(11,967)</b>	<b>304</b>	<b>14,278</b>	<b>(13,891)</b>	<b>387</b>
<b>Foreign exchange contracts:</b>						
OTC	202,449	(190,756)	11,693	139,644	(132,682)	6,962
OTC-cleared	834	(819)	15	185	(152)	33
Exchange-traded <sup>(a)</sup>	35	(5)	30	10	(6)	4
<b>Total foreign exchange contracts</b>	<b>203,318</b>	<b>(191,580)</b>	<b>11,738</b>	<b>139,839</b>	<b>(132,840)</b>	<b>6,999</b>
<b>Equity contracts:</b>						
OTC	62,520	(55,474)	7,046	44,749	(42,313)	2,436
Exchange-traded <sup>(a)</sup>	14,397	(12,857)	1,540	9,793	(8,569)	1,224
<b>Total equity contracts</b>	<b>76,917</b>	<b>(68,331)</b>	<b>8,586</b>	<b>54,542</b>	<b>(50,882)</b>	<b>3,660</b>
<b>Commodity contracts:</b>						
OTC	20,187	(17,298)	2,889	14,189	(12,403)	1,786
OTC-cleared	20	(20)	—	28	(28)	—
Exchange-traded <sup>(a)</sup>	6,829	(6,811)	18	6,153	(5,903)	250
<b>Total commodity contracts</b>	<b>27,036</b>	<b>(24,129)</b>	<b>2,907</b>	<b>20,370</b>	<b>(18,334)</b>	<b>2,036</b>
<b>Derivative receivables with appropriate legal opinion</b>	<b>768,118</b>	<b>(714,748)</b>	<b>53,370</b> <sup>(d)</sup>	<b>558,113</b>	<b>(522,041)</b>	<b>36,072</b> <sup>(d)</sup>
<b>Derivative receivables where an appropriate legal opinion has not been either sought or obtained</b>	<b>25,411</b>		<b>25,411</b>	<b>13,323</b>		<b>13,323</b>
<b>Total derivative receivables recognized on the Consolidated balance sheets</b>	<b>\$ 793,529</b>		<b>\$ 78,781</b>	<b>\$ 571,436</b>		<b>\$ 49,395</b>
<b>Collateral not nettable on the Consolidated balance sheets</b> <sup>(b)(c)</sup>			<b>(14,559)</b>			<b>(12,987)</b>
<b>Net amounts</b>			<b>\$ 64,222</b>			<b>\$ 36,408</b>

December 31, (in millions)	2020			2019		
	Gross derivative payables	Amounts netted on the Consolidated balance sheets	Net derivative payables	Gross derivative payables	Amounts netted on the Consolidated balance sheets	Net derivative payables
<b>U.S. GAAP nettable derivative payables</b>						
<b>Interest rate contracts:</b>						
OTC	\$ 397,916	\$ (386,932)	\$ 10,984	\$ 294,595	\$ (287,526)	\$ 7,069
OTC-cleared	19,019	(18,815)	204	10,047	(9,968)	79
Exchange-traded <sup>(a)</sup>	358	(341)	17	365	(303)	62
<b>Total interest rate contracts</b>	<b>417,293</b>	<b>(406,088)</b>	<b>11,205</b>	<b>305,007</b>	<b>(297,797)</b>	<b>7,210</b>
<b>Credit contracts:</b>						
OTC	9,580	(8,214)	1,366	11,201	(9,794)	1,407
OTC-cleared	4,075	(4,056)	19	3,390	(3,389)	1
<b>Total credit contracts</b>	<b>13,655</b>	<b>(12,270)</b>	<b>1,385</b>	<b>14,591</b>	<b>(13,183)</b>	<b>1,408</b>
<b>Foreign exchange contracts:</b>						
OTC	214,087	(196,954)	17,133	145,897	(135,340)	10,557
OTC-cleared	836	(819)	17	186	(152)	34
Exchange-traded <sup>(a)</sup>	34	(2)	32	12	(6)	6
<b>Total foreign exchange contracts</b>	<b>214,957</b>	<b>(197,775)</b>	<b>17,182</b>	<b>146,095</b>	<b>(135,498)</b>	<b>10,597</b>
<b>Equity contracts:</b>						
OTC	62,742	(56,057)	6,685	45,876	(40,061)	5,815
Exchange-traded <sup>(a)</sup>	13,666	(12,857)	809	8,959	(8,565)	394
<b>Total equity contracts</b>	<b>76,408</b>	<b>(68,914)</b>	<b>7,494</b>	<b>54,835</b>	<b>(48,626)</b>	<b>6,209</b>
<b>Commodity contracts:</b>						
OTC	19,926	(17,291)	2,635	15,671	(13,350)	2,321
OTC-cleared	32	(32)	–	30	(30)	–
Exchange-traded <sup>(a)</sup>	7,390	(6,868)	522	6,007	(5,862)	145
<b>Total commodity contracts</b>	<b>27,348</b>	<b>(24,191)</b>	<b>3,157</b>	<b>21,708</b>	<b>(19,242)</b>	<b>2,466</b>
<b>Derivative payables with appropriate legal opinion</b>	<b>749,661</b>	<b>(709,238)</b>	<b>40,423</b>	<b>542,236</b>	<b>(514,346)</b>	<b>27,890</b>
<b>Derivative payables where an appropriate legal opinion has not been either sought or obtained</b>	<b>21,181</b>		<b>21,181</b>	<b>12,947</b>		<b>12,947</b>
<b>Total derivative payables recognized on the Consolidated balance sheets</b>	<b>\$ 770,842</b>		<b>\$ 61,604</b>	<b>\$ 555,183</b>		<b>\$ 40,837</b>
<b>Collateral not nettable on the Consolidated balance sheets<sup>(b)(c)</sup></b>			<b>(11,751)</b>			<b>(6,934)</b>
<b>Net amounts</b>			<b>\$ 49,853</b>			<b>\$ 33,903</b>

(a) Exchange-traded derivative balances that relate to futures contracts are settled daily.

(b) Includes certain liquid securities and other cash collateral held at third-party custodians related to derivative instruments where an appropriate legal opinion has been obtained. For some counterparties, the collateral amounts of financial instruments may exceed the derivative receivables and derivative payables balances. Where this is the case, the total amount reported is limited to the net derivative receivables and net derivative payables balances with that counterparty. During the second half of 2020, the Bank refined its approach for disclosing additional collateral held by the Bank that may be used as security when the fair value of the client's exposure is in the Bank's favor. Prior-period amounts have been revised to conform with the current presentation.

(c) Derivative collateral relates only to OTC and OTC-cleared derivative instruments.

(d) Net derivatives receivable included cash collateral netted of \$89.2 billion and \$69.3 billion at December 31, 2020 and 2019, respectively. Net derivatives payable included cash collateral netted of \$83.7 billion and \$61.6 billion at December 31, 2020 and 2019, respectively. Derivative cash collateral relates to OTC and OTC-cleared derivative instruments.

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### Liquidity risk and credit-related contingent features

In addition to the specific market risks introduced by each derivative contract type, derivatives expose the Bank to credit risk – the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by the Bank proves to be of insufficient value to cover the payment obligation. It is the policy of the Bank to actively pursue, where possible, the use of legally enforceable master netting arrangements and collateral agreements to mitigate derivative counterparty credit risk inherent in derivative receivables.

While derivative receivables expose the Bank to credit risk, derivative payables expose the Bank to liquidity risk, as the derivative contracts typically require the Bank to post cash or securities collateral with counterparties as the fair value of the contracts moves in the counterparties' favor or upon specified downgrades in JPMorgan Chase Bank, N.A.'s and its subsidiaries' respective credit ratings. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Bank or the counterparty, at the fair value of the derivative contracts. The following table shows the aggregate fair value of net derivative payables related to OTC and OTC-cleared derivatives that contain contingent collateral or termination features that may be triggered upon a ratings downgrade, and the associated collateral the Bank has posted in the normal course of business, at December 31, 2020 and 2019.

### OTC and OTC-cleared derivative payables containing downgrade triggers

December 31, (in millions)	2020	2019
Aggregate fair value of net derivative payables	\$ 27,662	\$ 14,655
Collateral posted	26,283	13,319

The following table shows the impact of a single-notch and two-notch downgrade of the long-term issuer ratings of the Bank and its subsidiaries at December 31, 2020 and 2019, related to OTC and OTC-cleared derivative contracts with contingent collateral or termination features that may be triggered upon a ratings downgrade. Derivatives contracts generally require additional collateral to be posted or terminations to be triggered when the predefined threshold rating is breached. A downgrade by a single rating agency that does not result in a rating lower than a preexisting corresponding rating provided by another major rating agency will generally not result in additional collateral (except in certain instances in which additional initial margin may be required upon a ratings downgrade), nor in termination payments requirements. The liquidity impact in the table is calculated based upon a downgrade below the lowest current rating of the rating agencies referred to in the derivative contract.

### Liquidity impact of downgrade triggers on OTC and OTC-cleared derivatives

December 31, (in millions)	2020		2019	
	Single-notch downgrade	Two-notch downgrade	Single-notch downgrade	Two-notch downgrade
Amount of additional collateral to be posted upon downgrade <sup>(a)</sup>	\$ 119	\$ 1,243	\$ 189	\$ 1,467
Amount required to settle contracts with termination triggers upon downgrade <sup>(b)</sup>	153	2,440	104	1,395

(a) Includes the additional collateral to be posted for initial margin.

(b) Amounts represent fair values of derivative payables, and do not reflect collateral posted.

### Derivatives executed in contemplation of a sale of the underlying financial asset

In certain instances the Bank enters into transactions in which it transfers financial assets but maintains the economic exposure to the transferred assets by entering into a derivative with the same counterparty in contemplation of the initial transfer. The Bank generally accounts for such transfers as collateralized financing transactions as described in Note 11, but in limited circumstances they may qualify to be accounted for as a sale and a derivative under U.S. GAAP. The amount of such transfers accounted for as a sale where the associated derivative was outstanding was not material at both December 31, 2020 and 2019.

## Impact of derivatives on the Consolidated statements of income

The following tables provide information related to gains and losses recorded on derivatives based on their hedge accounting designation or purpose. Refer to Note 20 for information regarding our derivative activities with affiliates.

### Fair value hedge gains and losses

The following tables present derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pre-tax gains/(losses) recorded on such derivatives and the related hedged items for the years ended December 31, 2020, 2019 and 2018, respectively. The Bank includes gains/(losses) on the hedging derivative in the same line item in the Consolidated statements of income as the related hedged item.

Year ended December 31, 2020 (in millions)	Gains/(losses) recorded in income			Income statement impact of excluded components <sup>(e)</sup>		OCI impact
	Derivatives	Hedged items	Income statement impact	Amortization approach	Changes in fair value	Derivatives - Gains/(losses) recorded in OCI <sup>(f)</sup>
<b>Contract type</b>						
Interest rate <sup>(a)(b)</sup>	\$ (5,111)	\$ 4,361	\$ (750)	\$ —	\$ (827)	\$ —
Foreign exchange <sup>(c)</sup>	(1,817)	1,991	174	—	174	—
Commodity <sup>(d)</sup>	(1,492)	1,507	15	—	15	—
<b>Total</b>	<b>\$ (8,420)</b>	<b>\$ 7,859</b>	<b>\$ (561)</b>	<b>\$ —</b>	<b>\$ (638)</b>	<b>\$ —</b>

Year ended December 31, 2019 (in millions)	Gains/(losses) recorded in income			Income statement impact of excluded components <sup>(e)</sup>		OCI impact
	Derivatives	Hedged items	Income statement impact	Amortization approach	Changes in fair value	Derivatives - Gains/(losses) recorded in OCI <sup>(f)</sup>
<b>Contract type</b>						
Interest rate <sup>(a)(b)</sup>	\$ (3,255)	\$ 3,067	\$ (188)	\$ —	\$ (204)	\$ —
Foreign exchange <sup>(c)</sup>	531	(49)	482	—	482	—
Commodity <sup>(d)</sup>	(242)	244	2	—	1	—
<b>Total</b>	<b>\$ (2,966)</b>	<b>\$ 3,262</b>	<b>\$ 296</b>	<b>\$ —</b>	<b>\$ 279</b>	<b>\$ —</b>

Year ended December 31, 2018 (in millions)	Gains/(losses) recorded in income			Income statement impact of excluded components <sup>(e)</sup>		OCI impact
	Derivatives	Hedged items	Income statement impact	Amortization approach	Changes in fair value	Derivatives - Gains/(losses) recorded in OCI <sup>(f)</sup>
<b>Contract type</b>						
Interest rate <sup>(a)(b)</sup>	\$ 516	\$ (624)	\$ (108)	\$ —	\$ (105)	\$ —
Foreign exchange <sup>(c)</sup>	1,937	(1,461)	476	(35)	476	1
Commodity <sup>(d)</sup>	(21)	11	(10)	—	(10)	—
<b>Total</b>	<b>\$ 2,432</b>	<b>\$ (2,074)</b>	<b>\$ 358</b>	<b>\$ (35)</b>	<b>\$ 361</b>	<b>\$ 1</b>

- (a) Primarily consists of hedges of the benchmark (e.g., London Interbank Offered Rate (“LIBOR”)) interest rate risk of fixed-rate long-term debt and AFS securities. Gains and losses were recorded in net interest income.
- (b) Excludes the amortization expense associated with the inception hedge accounting adjustment applied to the hedged item. This expense is recorded in net interest income and substantially offsets the income statement impact of the excluded components. Also excludes the accrual of interest on interest rate swaps and the related hedged items.
- (c) Primarily consists of hedges of the foreign currency risk of AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives and the hedged items due to changes in foreign currency rates and the income statement impact of excluded components were recorded primarily in principal transactions revenue and net interest income.
- (d) Consists of overall fair value hedges of physical commodities inventories that are generally carried at the lower of cost or net realizable value (net realizable value approximates fair value). Gains and losses were recorded in principal transactions revenue.
- (e) The assessment of hedge effectiveness excludes certain components of the changes in fair values of the derivatives and hedged items such as forward points on foreign exchange forward contracts, time values and cross-currency basis spreads. Excluded components may impact earnings either through amortization of the initial amount over the life of the derivative or through fair value changes recognized in the current period.
- (f) Represents the change in value of amounts excluded from the assessment of effectiveness under the amortization approach, predominantly cross-currency basis spreads. The amount excluded at inception of the hedge is recognized in earnings over the life of the derivative.

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As of December 31, 2020 and 2019, the following amounts were recorded on the Consolidated balance sheets related to certain cumulative fair value hedge basis adjustments that are expected to reverse through the income statement in future periods as an adjustment to yield.

December 31, 2020 (in millions)	Carrying amount of the hedged items <sup>(a)(b)</sup>	Cumulative amount of fair value hedging adjustments included in the carrying amount of hedged items:		
		Active hedging relationships	Discontinued hedging relationships <sup>(d)(e)</sup>	Total
<b>Assets</b>				
Investment securities - AFS	\$ 139,684 <sup>(c)</sup>	\$ 3,572	\$ 847	\$ 4,419
<b>Liabilities</b>				
Long-term debt	\$ 1,155	\$ 205	\$ (11)	\$ 194

December 31, 2019 (in millions)	Carrying amount of the hedged items <sup>(a)(b)</sup>	Cumulative amount of fair value hedging adjustments included in the carrying amount of hedged items:		
		Active hedging relationships	Discontinued hedging relationships <sup>(d)(e)</sup>	Total
<b>Assets</b>				
Investment securities - AFS	\$ 125,779 <sup>(c)</sup>	\$ 2,110	\$ 278	\$ 2,388
<b>Liabilities</b>				
Long-term debt	\$ 1,058	\$ 183	\$ (8)	\$ 175

- (a) Excludes physical commodities with a carrying value of \$4.7 billion and \$1.5 billion at December 31, 2020 and 2019, respectively, to which the Bank applies fair value hedge accounting. As a result of the application of hedge accounting, these inventories are carried at fair value, thus recognizing unrealized gains and losses in current periods. Since the Bank exits these positions at fair value, there is no incremental impact to net income in future periods.
- (b) Excludes hedged items where only foreign currency risk is the designated hedged risk, as basis adjustments related to foreign currency hedges will not reverse through the income statement in future periods. At December 31, 2020 and 2019, the carrying amount excluded for available-for-sale securities is \$14.5 billion and \$14.9 billion, respectively.
- (c) Carrying amount represents the amortized cost, net of allowance if applicable. Refer to Note 10 for additional information.
- (d) Represents basis adjustments existing on the balance sheet date associated with hedged items that have been de-designated from qualifying fair value hedging relationships.
- (e) Positive amounts related to assets represent cumulative fair value hedge basis adjustments that will reduce net interest income in future periods. Positive (negative) amounts related to liabilities represent cumulative fair value hedge basis adjustments that will increase (reduce) net interest income in future periods.

### Cash flow hedge gains and losses

The following tables present derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pre-tax gains/(losses) recorded on such derivatives, for the years ended December 31, 2020, 2019 and 2018, respectively. The Bank includes the gains/(losses) on the hedging derivative in the same line item in the Consolidated statements of income as the change in cash flows on the related hedged item.

Year ended December 31, 2020 (in millions)	Derivatives gains/(losses) recorded in income and other comprehensive income/(loss)		
	Amounts reclassified from AOCI to income	Amounts recorded in OCI	Total change in OCI for period
<b>Contract type</b>			
Interest rate <sup>(a)</sup>	\$ 568	\$ 3,582	\$ 3,014
Foreign exchange <sup>(b)</sup>	—	41	41
<b>Total</b>	<b>\$ 568</b>	<b>\$ 3,623</b>	<b>\$ 3,055</b>

Year ended December 31, 2019 (in millions)	Derivatives gains/(losses) recorded in income and other comprehensive income/(loss)		
	Amounts reclassified from AOCI to income	Amounts recorded in OCI	Total change in OCI for period
<b>Contract type</b>			
Interest rate <sup>(a)</sup>	\$ (28)	\$ (3)	\$ 25
Foreign exchange <sup>(b)</sup>	(74)	121	195
<b>Total</b>	<b>\$ (102)</b>	<b>\$ 118</b>	<b>\$ 220</b>

Year ended December 31, 2018 (in millions)	Derivatives gains/(losses) recorded in income and other comprehensive income/(loss)		
	Amounts reclassified from AOCI to income	Amounts recorded in OCI <sup>(c)</sup>	Total change in OCI for period
<b>Contract type</b>			
Interest rate <sup>(a)</sup>	\$ 43	\$ (42)	\$ (85)
Foreign exchange <sup>(b)</sup>	(26)	(201)	(175)
<b>Total</b>	<b>\$ 17</b>	<b>\$ (243)</b>	<b>\$ (260)</b>

(a) Primarily consists of hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of non-U.S. dollar-denominated revenue and expense. The income statement classification of gains and losses follows the hedged item - primarily noninterest revenue and compensation expense.

The Bank did not experience any forecasted transactions that failed to occur for the years ended 2020, 2019 and 2018.

Over the next 12 months, the Bank expects that approximately \$818 million (after-tax) of net gains recorded in AOCI at December 31, 2020, related to cash flow hedges will be recognized in income. For cash flow hedges that have been terminated, the maximum length of time over which the derivative results recorded in AOCI will be recognized in earnings is approximately nine years, corresponding to the timing of the originally hedged forecasted cash flows. For open cash flow hedges, the maximum length of time over which forecasted transactions are hedged is approximately seven years. The Bank's longer-dated forecasted transactions relate to core lending and borrowing activities.

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### Net investment hedge gains and losses

The following table presents hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pre-tax gains/(losses) recorded on such instruments for the years ended December 31, 2020, 2019 and 2018.

Year ended December 31, (in millions)	2020		2019		2018	
	Amounts recorded in income <sup>(a)(b)</sup>	Amounts recorded in OCI	Amounts recorded in income <sup>(a)(b)</sup>	Amounts recorded in OCI	Amounts recorded in income <sup>(a)(b)</sup>	Amounts recorded in OCI
Foreign exchange derivatives	\$ (82)	\$ (1,191)	\$ 56	\$ 130	\$ (19)	\$ 941

(a) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on foreign exchange forward contracts. The Bank elects to record changes in fair value of these amounts directly in other income.

(b) Excludes amounts reclassified from AOCI to income on the sale or liquidation of hedged entities. The Bank reclassified net pre-tax gains/(losses) of \$11 million and \$4 million to other income, and \$(23) million to other expense related to the liquidation of certain legal entities during the years ended December 31, 2020, 2019 and 2018, respectively. Refer to Note 21 for further information.

### Gains and losses on derivatives used for specified risk management purposes

The following table presents pre-tax gains/(losses) recorded on a limited number of derivatives, not designated in hedge accounting relationships, that are used to manage risks associated with certain specified assets and liabilities, including certain risks arising from mortgage commitments, warehouse loans, MSRs, wholesale lending exposures, and foreign currency denominated assets and liabilities.

Year ended December 31, (in millions)	Derivatives gains/(losses) recorded in income		
	2020	2019	2018
<b>Contract type</b>			
Interest rate <sup>(a)</sup>	\$ 2,994	\$ 1,502	\$ 79
Credit <sup>(b)</sup>	(176)	(41)	(21)
Foreign exchange <sup>(c)</sup>	32	(32)	152
<b>Total</b>	<b>\$ 2,850</b>	<b>\$ 1,429</b>	<b>\$ 210</b>

(a) Primarily represents interest rate derivatives used to hedge the interest rate risk inherent in mortgage commitments, warehouse loans and MSRs, as well as written commitments to originate warehouse loans. Gains and losses were recorded predominantly in mortgage fees and related income.

(b) Relates to credit derivatives used to mitigate credit risk associated with lending exposures in the Bank's wholesale businesses. These derivatives do not include credit derivatives used to mitigate counterparty credit risk arising from derivative receivables, which is included in gains and losses on derivatives related to market-making activities and other derivatives. Gains and losses were recorded in principal transactions revenue.

(c) Primarily relates to derivatives used to mitigate foreign exchange risk of specified foreign currency-denominated assets and liabilities. Gains and losses were recorded in principal transactions revenue.

### Gains and losses on derivatives related to market-making activities and other derivatives

The Bank makes markets in derivatives in order to meet the needs of customers and uses derivatives to manage certain risks associated with net open risk positions from its market-making activities, including the counterparty credit risk arising from derivative receivables. All derivatives not included in the hedge accounting or specified risk management categories above are included in this category. Gains and losses on these derivatives are primarily recorded in principal transactions revenue. Refer to Note 6 for information on principal transactions revenue.

### Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

The Bank is both a purchaser and seller of protection in the credit derivatives market and uses these derivatives for two primary purposes. First, in its capacity as a market-maker, the Bank actively manages a portfolio of credit derivatives by purchasing and selling credit protection, predominantly on corporate debt obligations, to meet the needs of customers. Second, as an end-user, the Bank uses credit derivatives to manage credit risk associated with lending exposures (loans and unfunded commitments) and derivatives counterparty exposures in the Bank's wholesale businesses, and to manage the credit risk arising from certain financial instruments in the Bank's market-making businesses. Following is a summary of various types of credit derivatives.

#### Credit default swaps

Credit derivatives may reference the credit of either a single reference entity ("single-name") or a broad-based index. The Bank purchases and sells protection on both single-name and index-reference obligations. Single-name CDS and index CDS contracts are either OTC or OTC-cleared derivative contracts. Single-name CDS are used to manage the default risk of a single reference entity, while index CDS contracts are used to manage the credit risk associated with the broader credit markets or credit market segments. Like the S&P 500 and other market indices, a CDS index consists of a portfolio of CDS across many reference entities. New series of CDS indices are periodically established with a new underlying portfolio of reference entities to reflect changes in the credit markets. If one of the reference entities in the

index experiences a credit event, then the reference entity that defaulted is removed from the index. CDS can also be referenced against specific portfolios of reference names or against customized exposure levels based on specific client demands: for example, to provide protection against the first \$1 million of realized credit losses in a \$10 million portfolio of exposure. Such structures are commonly known as tranche CDS.

For both single-name CDS contracts and index CDS contracts, upon the occurrence of a credit event, under the terms of a CDS contract neither party to the CDS contract has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the reference obligation at settlement of the credit derivative contract, also known as the recovery value. The protection purchaser does not need to hold the debt instrument of the underlying reference entity in order to receive amounts due under the CDS contract when a credit event occurs.

#### *Credit-related notes*

A credit-related note is a funded credit derivative where the issuer of the credit-related note purchases from the note investor credit protection on a reference entity or an index. Under the contract, the investor pays the issuer the par value of the note at the inception of the transaction, and in return, the issuer pays periodic payments to the investor, based on the credit risk of the referenced entity. The issuer also repays the investor the par value of the note at maturity unless the reference entity (or one of the entities that makes up a reference index) experiences a specified credit event. If a credit event occurs, the issuer is not obligated to repay the par value of the note, but rather, the issuer pays the investor the difference between the par value of the note and the fair value of the defaulted reference obligation at the time of settlement. Neither party to the credit-related note has recourse to the defaulting reference entity.

The following tables present a summary of the notional amounts of credit derivatives and credit-related notes the Bank sold and purchased as of December 31, 2020 and 2019. Upon a credit event, the Bank as a seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. The Bank manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. Other purchased protection referenced in the following tables includes credit derivatives bought on related, but not identical, reference positions (including indices, portfolio coverage and other reference points) as well as protection purchased through credit-related notes.

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The Bank does not use notional amounts of credit derivatives as the primary measure of risk management for such derivatives, because the notional amount does not take into account the probability of the occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges, each of which reduces, in the Bank's view, the risks associated with such derivatives.

### Total credit derivatives and credit-related notes

December 31, 2020 (in millions)	Maximum payout/Notional amount			
	Protection sold	Protection purchased with identical underlyings <sup>(b)</sup>	Net protection (sold)/purchased <sup>(c)</sup>	Other protection purchased <sup>(d)</sup>
<b>Credit derivatives</b>				
Credit default swaps	\$ (524,785)	\$ 543,409	\$ 18,624	\$ 4,001
Other credit derivatives <sup>(a)</sup>	(52,511)	57,440	4,929	9,015
<b>Total credit derivatives</b>	<b>(577,296)</b>	<b>600,849</b>	<b>23,553</b>	<b>13,016</b>
Credit-related notes	–	–	–	10,229
<b>Total</b>	<b>\$ (577,296)</b>	<b>\$ 600,849</b>	<b>\$ 23,553</b>	<b>\$ 23,245</b>

December 31, 2019 (in millions)	Maximum payout/Notional amount			
	Protection sold	Protection purchased with identical underlyings <sup>(b)</sup>	Net protection (sold)/purchased <sup>(c)</sup>	Other protection purchased <sup>(d)</sup>
<b>Credit derivatives</b>				
Credit default swaps	\$ (547,953)	\$ 556,560	\$ 8,607	\$ 3,846
Other credit derivatives <sup>(a)</sup>	(50,556) <sup>(e)</sup>	48,041 <sup>(e)</sup>	(2,515)	6,964
<b>Total credit derivatives</b>	<b>(598,509)</b>	<b>604,601</b>	<b>6,092</b>	<b>10,810</b>
Credit-related notes	–	–	–	9,590
<b>Total</b>	<b>\$ (598,509)</b>	<b>\$ 604,601</b>	<b>\$ 6,092</b>	<b>\$ 20,400</b>

(a) Other credit derivatives predominantly consist of credit swap options and total return swaps.

(b) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.

(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.

(d) Represents protection purchased by the Bank on referenced instruments (single-name, portfolio or index) where the Bank has not sold any protection on the identical reference instrument.

(e) Prior-period amounts have been revised to conform with the current presentation.

The following tables summarize the notional amounts by the ratings, maturity profile, and total fair value, of credit derivatives and credit-related notes as of December 31, 2020 and 2019, where the Bank is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of credit derivatives and credit-related notes where the Bank is the purchaser of protection are comparable to the profile reflected below.

### Protection sold – credit derivatives and credit-related notes ratings<sup>(a)</sup>/maturity profile

December 31, 2020 (in millions)	<1 year	1-5 years	>5 years	Total notional amount	Fair value of receivables <sup>(b)</sup>	Fair value of payables <sup>(b)</sup>	Net fair value
<b>Risk rating of reference entity</b>							
Investment-grade	\$ (106,215)	\$ (307,784)	\$ (29,317)	\$ (443,316)	\$ 5,502	\$ (605)	\$ 4,897
Noninvestment-grade	(31,809)	(97,272)	(4,899)	(133,980)	3,961	(1,709)	2,252
<b>Total</b>	<b>\$ (138,024)</b>	<b>\$ (405,056)</b>	<b>\$ (34,216)</b>	<b>\$ (577,296)</b>	<b>\$ 9,463</b>	<b>\$ (2,314)</b>	<b>\$ 7,149</b>
December 31, 2019 (in millions)	<1 year <sup>(c)</sup>	1-5 years	>5 years	Total notional amount	Fair value of receivables <sup>(b)(c)</sup>	Fair value of payables <sup>(b)(c)</sup>	Net fair value
<b>Risk rating of reference entity</b>							
Investment-grade	\$ (119,968)	\$ (311,433)	\$ (31,690)	\$ (463,091)	\$ 6,092	\$ (810)	\$ 5,282
Noninvestment-grade	(41,799)	(87,705)	(5,915)	(135,418)	4,275	(2,671)	1,604
<b>Total</b>	<b>\$ (161,767)</b>	<b>\$ (399,138)</b>	<b>\$ (37,605)</b>	<b>\$ (598,509)</b>	<b>\$ 10,367</b>	<b>\$ (3,481)</b>	<b>\$ 6,886</b>

(a) The ratings scale is primarily based on external credit ratings defined by S&P and Moody's.

(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements including cash collateral netting.

(c) Prior-period amounts have been revised to conform with the current presentation.

## Note 6 – Noninterest revenue and noninterest expense

### Noninterest revenue

The Bank records noninterest revenue from certain contracts with customers in investment banking fees, deposit-related fees, asset management, administration, and commissions, and components of card income. The related contracts are often terminable on demand and the Bank has no remaining obligation to deliver future services. For arrangements with a fixed term, the Bank may commit to deliver services in the future. Revenue associated with these remaining performance obligations typically depends on the occurrence of future events or underlying asset values, and is not recognized until the outcome of those events or values are known.

### Investment banking fees

This revenue category includes debt and equity underwriting and advisory fees. As an underwriter, the Bank helps clients raise capital via public offering and private placement of various types of debt and equity instruments. Underwriting fees are primarily based on the issuance price and quantity of the underlying instruments, and are recognized as revenue typically upon execution of the client's transaction. The Bank also manages and syndicates loan arrangements. Credit arrangement and syndication fees, included within debt underwriting fees, are recorded as revenue after satisfying certain retention, timing and yield criteria.

The Bank also provides advisory services, by assisting its clients with mergers and acquisitions, divestitures, restructuring and other complex transactions. Advisory fees are recognized as revenue typically upon execution of the client's transaction.

The following table presents the components of investment banking fees.

Year ended December 31, (in millions)	2020	2019	2018
<b>Underwriting</b>			
Equity	\$ 616	\$ 439	\$ 488
Debt	2,065	1,914	1,993
<b>Total underwriting</b>	<b>2,681</b>	<b>2,353</b>	<b>2,481</b>
Advisory	846	864	887
<b>Total investment banking fees</b>	<b>\$ 3,527</b>	<b>\$ 3,217</b>	<b>\$ 3,368</b>

### Principal transactions

Principal transactions revenue is driven by many factors, including:

- the bid-offer spread, which is the difference between the price at which a market participant is willing and able to sell an instrument to the Bank and the price at which another market participant is willing and able to buy it from the Bank, and vice versa; and
- realized and unrealized gains and losses on financial instruments and commodities transactions, including those accounted for under the fair value option, primarily used in client-driven market-making activities, and on private equity investments.
  - Realized gains and losses result from the sale of instruments, closing out or termination of transactions, or interim cash payments.
  - Unrealized gains and losses result from changes in valuation.

In connection with its client-driven market-making activities, the Bank transacts in debt and equity instruments, derivatives and commodities, including physical commodities inventories and financial instruments that reference commodities.

Principal transactions revenue also includes realized and unrealized gains and losses related to:

- derivatives designated in qualifying hedge accounting relationships, primarily fair value hedges of commodity and foreign exchange risk;
- derivatives used for specific risk management purposes, primarily to mitigate credit risk and foreign exchange risk

Refer to Note 5 for further information on the income statement classification of gains and losses from derivatives activities.

In the financial commodity markets, the Bank transacts in OTC derivatives (e.g., swaps, forwards, options) and ETD that reference a wide range of underlying commodities. In the physical commodity markets, the Bank primarily purchases and sells precious metals.

## Notes to consolidated financial statements

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The following table presents all realized and unrealized gains and losses recorded in principal transactions revenue. This table excludes interest income and interest expense on trading assets and liabilities, which are an integral part of the overall performance of the Bank's client-driven market-making activities and cash deployment activities. Refer to Note 7 for further information on interest income and interest expense.

Trading revenue is presented primarily by instrument type. The Bank's client-driven market-making activities generally utilize a variety of instrument types in connection with their market-making and related risk-management activities; accordingly, the trading revenue presented in the table below is not representative of the total revenue of the Bank's client-driven market making activities.

Year ended December 31, (in millions)	2020	2019	2018
<b>Trading revenue by instrument type</b>			
Interest rate <sup>(a)</sup>	\$ 3,298	\$ 2,399 <sup>(c)</sup>	\$ 2,601 <sup>(c)</sup>
Credit <sup>(b)</sup>	1,682	1,004 <sup>(c)</sup>	1,142 <sup>(c)</sup>
Foreign exchange	4,232	3,251 <sup>(c)</sup>	3,503 <sup>(c)</sup>
Equity	3,889	4,170 <sup>(c)</sup>	3,981 <sup>(c)</sup>
Commodity	1,682	739 <sup>(c)</sup>	596 <sup>(c)</sup>
<b>Total trading revenue</b>	<b>14,783</b>	<b>11,563</b>	<b>11,823</b>
Private equity gains/(losses)	1	1	(9)
<b>Principal transactions</b>	<b>\$ 14,784</b>	<b>\$ 11,564</b>	<b>\$ 11,814</b>

- (a) Includes the impact of changes in funding valuation adjustments on derivatives.  
(b) Includes the impact of changes in credit valuation adjustments on derivatives, net of the associated hedging activities.  
(c) Prior-period amounts have been revised to conform with the current presentation.

### Lending- and deposit-related fees

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

The following table presents the components of lending- and deposit-related fees.

Year ended December 31, (in millions)	2020	2019	2018
Lending-related fees	\$ 1,270	\$ 1,183	\$ 1,122
Deposit-related fees <sup>(a)</sup>	5,240	5,442	5,260
<b>Total lending- and deposit-related fees</b>	<b>\$ 6,510</b>	<b>\$ 6,625</b>	<b>\$ 6,382</b>

- (a) During the first half of 2020, the Bank reclassified certain fees from asset management, administration and commissions to lending- and deposit-related fees. Prior-period amounts have been revised to conform with the current presentation.

### Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services and other products. The Bank manages assets on behalf of its clients, including investors in Bank-sponsored funds and owners of separately managed investment accounts. Management fees are typically based on the value of assets under management and are collected and recognized at the end of each period over which the management services are provided and the value of the managed assets is known. The Bank also receives performance-based management fees, which are earned based on exceeding certain benchmarks or other performance targets and are accrued and recognized when the probability of reversal is remote, typically at the end of the related billing period. The Bank has contractual arrangements with third parties to provide distribution and other services in connection with its asset management activities. Amounts paid to these third-party service providers are generally recorded in professional and outside services expense.

The following table presents the components of the Bank asset management, administration and commissions.

Year ended December 31, (in millions)	2020	2019	2018
<b>Asset management fees</b>			
Investment management fees <sup>(a)</sup>	\$ 2,133	\$ 2,043	\$ 2,049
All other asset management fees	59	46	53
<b>Total asset management fees</b>	<b>2,192</b>	<b>2,089</b>	<b>2,102</b>
<b>Total administration fees<sup>(b)</sup></b>			
	<b>2,242</b>	<b>2,193</b>	<b>2,177</b>
<b>Commissions and other fees</b>			
Brokerage commissions <sup>(c)</sup>	1,542	1,254	1,284
All other commissions and fees <sup>(d)(e)</sup>	6,430	6,184	5,141
<b>Total commissions and fees</b>	<b>7,972</b>	<b>7,438</b>	<b>6,425</b>
<b>Total asset management, administration and commissions</b>	<b>\$ 12,406</b>	<b>\$ 11,720</b>	<b>\$ 10,704</b>

- (a) Represents fees earned from managing assets on behalf of the Bank's clients, including investors in Bank-sponsored funds and owners of separately managed investment accounts.  
(b) Predominantly includes fees for custody, securities lending, funds services and securities clearance. These fees are recorded as revenue over the period in which the related service is provided.  
(c) Represents commissions earned when the Bank acts as a broker, by facilitating its clients' purchases and sales of securities and other financial instruments. Brokerage commissions are collected and recognized as revenue upon occurrence of the client transaction. The Bank reports certain costs paid to third-party clearing houses and exchanges net against commission revenue.  
(d) Includes fees earned for services provided to affiliates. Refer to Note 20 for additional information.  
(e) During the first half of 2020, the Bank reclassified certain fees from asset management, administration and commissions to lending- and deposit-related fees. Prior-period amounts have been revised to conform with the current presentation.

In addition, included in all other commissions and fees are fees earned by the Bank for providing operational support and services to JPMorgan Chase and its subsidiaries. Refer

to Note 20 for further information on related party transactions.

### Mortgage fees and related income

This revenue category reflects net production and net mortgage servicing revenue.

Net production revenue includes fees and income recognized as earned on mortgage loans originated with the intent to sell, and the impact of risk management activities associated with the mortgage pipeline and warehouse loans. Net production revenue also includes gains and losses on sales and lower of cost or fair value adjustments on mortgage loans held-for-sale (excluding certain repurchased loans insured by U.S. government agencies), and changes in the fair value of financial instruments measured under the fair value option.

Net mortgage servicing revenue includes operating revenue earned from servicing third-party mortgage loans, which is recognized over the period in which the service is provided; changes in the fair value of MSRs; the impact of risk management activities associated with MSRs; and gains and losses on securitization of excess mortgage servicing. Net mortgage servicing revenue also includes gains and losses on sales and lower of cost or fair value adjustments of certain repurchased loans insured by U.S. government agencies.

Refer to Note 15 for further information on risk management activities and MSRs.

Net interest income from mortgage loans is recorded in interest income.

### Card income

This revenue category includes interchange and other income from credit and debit card transactions; and fees earned from processing card transactions for merchants, both of which are recognized when purchases are made by a cardholder and presented net of certain transaction-related costs. Card income also includes account origination costs and annual fees, which are deferred and recognized on a straight-line basis over a 12-month period.

Certain credit card products offer the cardholder the ability to earn points based on account activity, which the cardholder can choose to redeem for cash and non-cash rewards. The cost to the Bank related to these proprietary rewards programs varies based on multiple factors including the terms and conditions of the rewards programs, cardholder activity, cardholder reward redemption rates and cardholder reward selections. The Bank maintains a liability for its obligations under its rewards programs and reports the current-period cost as a reduction of card income.

#### Credit card revenue sharing agreements

The Bank has contractual agreements with numerous co-brand partners that grant the Bank exclusive rights to issue co-branded credit card products and market them to the customers of such partners. These partners endorse the co-

brand credit card programs and provide their customer or member lists to the Bank. The partners may also conduct marketing activities and provide rewards redeemable under their own loyalty programs that the Bank will grant to co-brand credit cardholders based on account activity. The terms of these agreements generally range from five to ten years.

The Bank typically makes payments to the co-brand credit card partners based on the cost of partners' marketing activities and loyalty program rewards provided to credit cardholders, new account originations and sales volumes. Payments to partners based on marketing efforts undertaken by the partners are expensed by the Bank as incurred and reported as marketing expense. Payments for partner loyalty program rewards are reported as a reduction of card income when incurred. Payments to partners based on new credit card account originations are accounted for as direct loan origination costs and are deferred and recognized as a reduction of card income on a straight-line basis over a 12-month period. Payments to partners based on sales volumes are reported as a reduction of card income when the related interchange income is earned.

The following table presents the components of card income:

Year ended December 31, (in millions)	2020	2019	2018
Interchange and merchant processing income	\$ 18,563	\$ 20,370	\$ 18,808
Reward costs and partner payments <sup>(a)</sup>	(13,637)	(14,540)	(13,320) <sup>(c)</sup>
Other card income <sup>(b)</sup>	(491)	(754)	(745)
<b>Total card income</b>	<b>\$ 4,435</b>	<b>\$ 5,076</b>	<b>\$ 4,743</b>

- (a) During the first half of 2020, the Bank reclassified certain spend-based credit card reward costs from marketing expense to be a reduction of card income, with no effect on net income. Prior-period amounts have been revised to conform with the current presentation.
- (b) Predominantly represents the amortization of account origination costs and annual fees, which are deferred and recognized on a straight-line basis over a 12-month period.
- (c) Includes an adjustment to the credit card rewards liability of approximately \$330 million, recorded during the first half of 2018.

Refer to Note 18 for information on operating lease income included within other income.

### Noninterest expense

#### Other expense

Other expense on the Bank's Consolidated statements of income included the following:

Year ended December 31, (in millions)	2020	2019	2018
Legal expense	\$ 793	\$ 206	\$ 75
Federal Deposit Insurance Corporation ("FDIC")-related expense	717	457	1,239

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### Note 7 – Interest income and Interest expense

Interest income and interest expense are recorded in the Consolidated statements of income and classified based on the nature of the underlying asset or liability.

The following table presents the components of interest income and interest expense:

Year ended December 31, (in millions)	2020	2019	2018
<b>Interest income</b>			
Loans <sup>(a)(b)</sup>	\$43,731	\$51,799	\$48,967
Taxable securities	7,841	7,959	5,645
Non-taxable securities <sup>(c)</sup>	1,142	1,273	1,498
Total investment securities <sup>(a)</sup>	8,983	9,232	7,143
Trading assets-debt instruments <sup>(b)</sup>	3,677	4,662	3,537
Federal funds sold and securities purchased under resale agreements	1,575	4,742	2,241
Securities borrowed	(15) <sup>(d)</sup>	304	195
Deposits with banks	748	3,884	5,909
All other interest-earning assets <sup>(b)</sup>	201	1,043	789
<b>Total interest income</b>	<b>58,900</b>	<b>75,666</b>	<b>68,781</b>
<b>Interest expense</b>			
Interest-bearing deposits	2,698	10,761	7,311
Federal funds purchased and securities loaned or sold under repurchase agreements	520	1,996	1,210
Trading liabilities - debt, short-term and all other interest-bearing liabilities	647	1,521	1,475
Long-term debt	914	2,187	2,178
Beneficial interest issued by consolidated VIEs	208	543	450
<b>Total interest expense</b>	<b>4,987</b>	<b>17,008</b>	<b>12,624</b>
<b>Net interest income</b>	<b>53,913</b>	<b>58,658</b>	<b>56,157</b>
Provision for credit losses	17,483	5,593	4,872
<b>Net interest income after provision for credit losses</b>	<b>\$36,430</b>	<b>\$53,065</b>	<b>\$51,285</b>

- (a) Includes the amortization/accretion of unearned income (e.g., purchase premiums/discounts, net deferred fees/costs, and others.).
- (b) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans and other assets. Prior-period amounts have been revised to conform with the current presentation.
- (c) Represents securities that are tax-exempt for U.S. federal income tax purposes.
- (d) Negative interest income is related to the impact of current interest rates combined with the fees paid on client-driven securities borrowed balances.

Interest income and interest expense includes the current-period interest accruals for financial instruments measured at fair value, except for derivatives and financial instruments containing embedded derivatives that would be separately accounted for in accordance with U.S. GAAP, absent the fair value option election; for those instruments, all changes in fair value including any interest elements, are reported in principal transactions revenue. For financial instruments that are not measured at fair value, the related interest is included within interest income or interest expense, as applicable. Refer to Notes 12, 10, 11 and 19, for further information on accounting for interest income and interest expense related to loans, investment securities, securities financing activities (i.e., securities purchased or sold under resale or repurchase agreements; securities borrowed; and securities loaned) and long-term debt, respectively.

## Note 8 – Pension and other postretirement employee benefit plans

The Bank has various defined benefit pension plans and other postretirement employee benefit (“OPEB”) plans that provide benefits to its employees in the U.S. and certain non-U.S. locations. The Bank also provides a qualified defined contribution plan in the U.S. and maintains other similar arrangements in certain non-U.S. locations.

The principal defined benefit pension plan in the U.S. is a qualified noncontributory plan that provides benefits to substantially all U.S. employees who were hired prior to December 2, 2017 by JPMorgan Chase. The Bank has frozen the U.S. defined benefit pension plan (the “Plan Freeze”). Effective as of January 1, 2020 (and January 1, 2019 for new hires), new pay credits have been directed to the U.S. defined contribution plan. Interest credits will continue to accrue on the U.S. defined benefit pension plan. As a result of the Plan Freeze, a curtailment was triggered and a remeasurement of the U.S. defined benefit pension obligation and plan assets occurred as of November 30, 2018. The plan design change did not have a material impact on the U.S. defined benefit pension plan or the Bank’s Consolidated Financial Statements.

The Bank also has defined benefit pension plans that are offered in certain non-U.S. locations based on factors such as eligible compensation, age and/or years of service. It is the Bank’s policy to fund the pension plans in amounts sufficient to meet the requirements under applicable laws. The Bank does not anticipate at this time making any contribution to the U.S. defined benefit pension plan in

2021. The 2021 contributions to the non-U.S. defined benefit pension plans are expected to be \$50 million of which \$35 million are contractually required.

The Bank also has a number of nonqualified noncontributory defined benefit pension plans that are unfunded. These plans provide supplemental defined pension benefits to certain employees.

The Bank offers postretirement medical and life insurance benefits to certain U.S. retirees and postretirement medical benefits to certain qualifying U.S. employees through JPMorgan Chase plans. Postretirement medical benefits are also offered to certain qualifying U.K. employees.

Pension and OPEB accounting guidance generally requires that the difference between plan assets at fair value and the benefit obligation be measured and recorded on the balance sheet. Plans that are overfunded (excess of plan assets over benefit obligation) are recorded in other assets and plans that are underfunded (excess benefit obligation over plan assets) are recorded in other liabilities. Gains or losses resulting from changes in the benefit obligation and the fair value of plan assets are recorded in OCI and recognized as part of the net periodic benefit cost over subsequent periods as discussed in the Gains and losses section of this Note. Additionally, benefits earned during the year are reported in compensation expense; all other components of net periodic defined benefit costs are reported in other expense in the Consolidated statements of income.

The following table presents the pretax changes in benefit obligations, plan assets, the net funded status, and the amounts recorded in AOCI on the Consolidated balance sheets for the Bank's defined benefit pension and OPEB plans.

As of or for the year ended December 31, (in millions)	Defined benefit pension and OPEB plans	
	2020	2019
<b>Change in projected and accumulated benefit obligations, U.S. defined benefit pension plans</b>		
Benefit obligation, beginning of year	\$ (13,222)	\$ (12,042)
Benefits earned during the year	(2)	(327)
Interest cost on benefit obligations	(420)	(516)
Plan amendments	–	(5)
Net gain/(loss)	(1,085)	(939)
Benefits paid	636	685
Transfer from JPMorgan Chase	(6)	(78)
<b>Benefit obligations, end of year, U.S. defined benefit pension plans</b>	<b>\$ (14,099)</b>	<b>\$ (13,222)</b>
Benefit obligations, other defined benefit pension and OPEB plans	(4,401)	(3,836)
<b>Benefit obligations, end of year</b>	<b>\$ (18,500)</b>	<b>\$ (17,058)</b>
<b>Change in plan assets, U.S. defined benefit pension plans</b>		
Fair value of plan assets, beginning of year	\$ 16,329	\$ 14,521
Actual return on plan assets	1,901	2,465
Bank contributions	25	28
Benefits paid	(636)	(685)
<b>Fair value of plan assets, end of year, U.S. defined benefit pension plans</b>	<b>\$ 17,619</b>	<b>\$ 16,329</b>
Fair value of plan assets, other defined benefit pension and OPEB plans	4,541	4,044
<b>Fair value of plan assets, end of year</b>	<b>\$ 22,160</b>	<b>\$ 20,373</b>
<b>Net funded status, U.S. defined benefit pension plans</b>	<b>\$ 3,520</b>	<b>\$ 3,107</b>
Net funded status, other defined benefit pension and OPEB plans	140	208
<b>Net funded status</b>	<b>\$ 3,660</b>	<b>\$ 3,315</b>
<b>Amounts recorded in accumulated other comprehensive income/(loss), U.S. defined benefit pension plans</b>		
Net gain/(loss), U.S. defined benefit pension plans	\$ (1,546)	\$ (1,732)
Prior service credit/(cost), U.S. defined benefit pension plans	(4)	(5)
<b>Accumulated other comprehensive income/(loss), end of year, U.S. defined benefit pension plans</b>	<b>\$ (1,550)</b>	<b>\$ (1,737)</b>
Accumulated other comprehensive income/(loss), other defined benefit pension and OPEB plans	(729)	(541)
<b>Accumulated other comprehensive income/(loss)</b>	<b>\$ (2,279)</b>	<b>\$ (2,278)</b>

The following table presents the weighted-average actuarial assumptions used to value the benefit obligations for the U.S. defined benefit pension plans.

As of December 31,	U.S. defined benefit pension plans	
	2020	2019
Discount rate	2.50%	3.30%
Rate of compensation increase	NA	NA
Interest crediting rate	4.65	4.65

### Gains and losses

For the Bank's defined benefit pension plans, fair value is used to determine the expected return on plan assets. Amortization of net gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess is amortized over the average expected remaining lifetime of plan participants, which for the U.S.

defined benefit pension plans is currently 37 years and for the non-U.S. defined benefit pension plans is the period appropriate for the affected plan. For the years ended December 31, 2020 and 2019, the net gain was primarily attributable to a market-driven increase in the fair value of plan assets, predominantly offset by a decrease in the discount rate.

The following table presents the components of net periodic benefit costs reported in the Consolidated statements of income for the Bank's defined benefit pension, defined contribution, and OPEB plans, and in other comprehensive income for the defined benefit pension and OPEB plans.

Year ended December 31, (in millions)	Pension and OPEB plans		
	2020	2019	2018
<b>Components of net periodic benefit cost, U.S. defined benefit pension plans</b>			
Benefits earned during the year	\$ 2	\$ 327	\$ 323
Interest cost on benefit obligations	420	516	473
Expected return on plan assets	(634)	(776)	(836)
Amortization:			
Net (gain)/loss	6	146	76
Prior service (credit)/cost	—	—	(21)
Curtailed (gain)/loss	—	—	21
<b>Net periodic defined benefit plan cost/(credit), U.S. defined benefit pension plans <sup>(a)</sup></b>	<b>\$ (206)</b>	<b>\$ 213</b>	<b>\$ 36</b>
Other defined benefit pension and OPEB plans	(3)	6	(6)
<b>Total net periodic defined benefit plan cost/(credit)</b>	<b>\$ (209)</b>	<b>\$ 219</b>	<b>\$ 30</b>
Total defined contribution plans	1,201	844	741
<b>Total pension and OPEB cost included in noninterest expense</b>	<b>\$ 992</b>	<b>\$ 1,063</b>	<b>\$ 771</b>
<b>Changes recognized in other comprehensive income, U.S. defined benefit pension plans</b>			
Transfer from JPMorgan Chase	\$ 1	\$ 17	\$ 2,177
Prior service (credit)/cost arising during the year	—	5	—
Net (gain)/loss arising during the year	(181)	(750)	487
Amortization of net (loss)/gain	(6)	(146)	(76)
Amortization of prior service (cost)/credit	—	—	21
Curtailed (loss)/gain	—	—	(21)
<b>Total recognized in other comprehensive income, U.S. defined benefit pension plans</b>	<b>\$ (186)</b>	<b>\$ (874)</b>	<b>\$ 2,588</b>
Other defined benefit pension and OPEB plans	183	28	(9)
<b>Total recognized in other comprehensive income</b>	<b>\$ (3)</b>	<b>\$ (846)</b>	<b>\$ 2,579</b>
<b>Total recognized in net periodic defined benefit plan cost/(credit) and other comprehensive income</b>	<b>\$ (212)</b>	<b>\$ (627)</b>	<b>\$ 2,609</b>

(a) Includes \$(27) million, \$9 million and \$(43) million, for the years ended December 31, 2020, 2019 and 2018, respectively, that was charged by the Bank to JPMorgan Chase and its non-bank subsidiaries for their share of the U.S. qualified defined benefit pension plan expense.

The following table presents the weighted-average actuarial assumptions used to determine the net periodic benefit costs for the U.S. defined benefit pension plans.

Year ended December 31, (in millions)	U.S. defined benefit pension plans		
	2020	2019	2018
Discount rate	3.30%	4.30%	3.70 / 4.50%
Expected long-term rate of return on plan assets	4.00	5.50	5.50
Rate of compensation increase	NA	2.30	2.30
Interest crediting rate	4.65	4.90	4.90

### Plan assumptions

The Bank's expected long-term rate of return for defined benefit pension plan assets is a blended weighted average, by asset allocation of the projected long-term returns for the various asset classes, taking into consideration local market conditions and the specific allocation of plan assets. Returns on asset classes are developed using a forward-looking approach and are not strictly based on historical returns. Consideration is also given to current market conditions and the portfolio mix of each plan.

The discount rate used in determining the benefit obligation under the U.S. defined benefit pension plan was provided by the Bank's actuaries. This rate was selected by reference to the yields on portfolios of bonds with maturity dates and coupons that closely match each of the plan's projected cash flows.

At December 31, 2020, the Bank decreased the discount rates used to determine its benefit obligations for the U.S. defined benefit pension plans in light of current market interest rates, which is expected to decrease expense by approximately \$65 million in 2021. The 2021 expected long-term rate of return on U.S. defined benefit pension plan assets is 3.00%.

The following table represents the effect of a 25-basis point decline in the expected long-term rate of return of 3.00% and discount rate of 2.50%.

Effect on U.S. defined benefit pension plans			
(in millions)	Pension expense	Benefit obligation	
Expected long-term rate of return	\$ 43	NA	
Discount rate	\$ (21)	\$	403

### Investment strategy and asset allocation

The assets of the Bank's defined benefit pension plans are held in various trusts and are invested in well-diversified portfolios of equity and fixed income securities, cash and cash equivalents, and alternative investments.

The investment policies for the assets of the Bank's defined benefit pension plans are to optimize the risk-return relationship as appropriate to the needs and goals of each plan. Assets are managed by a combination of internal and external investment managers. The Bank regularly reviews the asset allocations and asset managers, as well as other factors that could impact the portfolios, which are rebalanced when deemed necessary.

Investments held by the Bank's defined benefit pension plans include financial instruments which are exposed to various risks such as interest rate, market and credit risks. Exposure to a concentration of credit risk is mitigated by the broad diversification of both U.S. and non-U.S. investments. Additionally, the investments in each of the collective investment funds and/or registered investment companies are further diversified into various financial instruments. As of December 31, 2020, assets held by the Bank's defined benefit pension plans do not include securities issued by JPMorgan Chase or its affiliates, except through indirect exposures through investments in ETFs, mutual funds and collective investment funds managed by third-parties. The defined benefit pension plans hold investments that are sponsored or managed by affiliates of JPMorgan Chase in the amount of \$2.7 billion and \$3.1 billion, as of December 31, 2020 and 2019, respectively.

The following table presents the weighted-average asset allocation of the fair values of total plan assets at December 31 for the years indicated, as well as the respective approved asset allocation ranges by asset class.

December 31,	U.S. defined benefit pension plan <sup>(c)</sup>		
	Asset Allocation	% of plan assets	
		2020	2019
<b>Asset class</b>			
Debt securities <sup>(a)</sup>	42-100%	77 %	74 %
Equity securities	0-40	15	16
Real estate	0-4	1	1
Alternatives <sup>(b)</sup>	0-15	7	9
<b>Total</b>	100 %	100 %	100 %

(a) Debt securities primarily includes cash and cash equivalents, corporate debt, U.S. federal, state, local and non-U.S. government, asset-backed and mortgage-backed securities.

(b) Alternatives primarily include limited partnerships.

(c) Represents the U.S. defined benefit pension plan only as it is the most significant plan. The other U.S. defined benefit pension plans are unfunded.

## Fair value measurement of the plans' assets and liabilities

Refer to Note 2 for information on fair value measurements, including descriptions of level 1, 2, and 3 of the fair value hierarchy and the valuation methods employed by the Bank.

### Pension plan assets and liabilities measured at fair value

December 31, (in millions)	Defined benefit pension plans							
	2020				2019			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Equity securities	\$ 2,353	\$ –	\$ 2	\$ 2,355	\$ 2,259	\$ 3	\$ 2	\$ 2,264
Corporate debt securities	–	7,414	11	7,425	–	6,474	2	6,476
U.S. federal, state, local and non-U.S. government debt securities	1,395	360	–	1,755	1,616	401	–	2,017
Mortgage-backed securities	461	1,184	31	1,676	312	681	4	997
Other <sup>(a)</sup>	788	861	201	1,850	718	49	250	1,017
U.S. defined benefit pension plans <sup>(b)</sup>	\$ 4,997	\$ 9,819	\$ 245	\$ 15,061	\$ 4,905	\$ 7,608	\$ 258	\$ 12,771
Other defined benefit pension plans <sup>(c)</sup>	2,008	2,046	–	4,054	1,806	1,773	–	3,579
<b>Total assets measured at fair value</b>	<b>\$ 7,005</b>	<b>\$ 11,865</b>	<b>\$ 245</b>	<b>\$ 19,115</b>	<b>\$ 6,711</b>	<b>\$ 9,381</b>	<b>\$ 258</b>	<b>\$ 16,350</b>

(a) Other consists primarily of mutual funds, money market funds and participating annuity contracts.

(b) At December 31, 2020 and 2019, excludes \$3.2 billion and \$3.9 billion, respectively, of certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient, and \$606 million and \$343 million, respectively, of net defined benefit pension plan payables, primarily for investments sold and purchased, which are not required to be classified in the fair value hierarchy. Investments in level 3 of the valuation hierarchy include \$199 million and \$250 million of participating annuity contracts at December 31, 2020 and 2019, respectively.

(c) At December 31, 2020 and 2019, excludes \$487 million and \$465 million, respectively, of certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient.

### Estimated future benefit payments

The following table presents benefit payments expected to be paid for the U.S. defined benefit pension plans for the years indicated.

Year ended December 31, (in millions)	U.S. defined benefit pension plans
2021	\$ 909
2022	914
2023	894
2024	843
2025	826
Years 2026-2030	3,828

## Notes to consolidated financial statements

JPMorgan Chase Bank, National Association  
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### Note 9 – Employee share-based incentives

#### Employee share-based awards

The Bank's employees receive annual incentive compensation based on their performance, the performance of their business and JPMorgan Chase's consolidated operating results. The Bank's employees participate, to the extent they meet minimum eligibility requirements, in various share-based incentive plans sponsored by JPMorgan Chase.

In 2020, 2019 and 2018, JPMorgan Chase granted long-term share-based awards to certain employees under its Long-Term Incentive Plan ("LTIP"), as amended and restated effective May 15, 2018. Under the terms of the LTIP, as of December 31, 2020, 67 million shares of JPMorgan Chase's common stock were available for issuance through May 2022. The LTIP is the only active plan under which JPMorgan Chase is currently granting share-based incentive awards. In the following discussion, the LTIP, plus prior JPMorgan Chase plans and plans assumed as the result of acquisitions, are referred to collectively as the "LTI Plans," and such plans constitute JPMorgan Chase's share-based incentive plans.

Restricted stock units ("RSUs") are awarded at no cost to the recipient upon their grant. Generally, RSUs are granted annually and vest at a rate of 50% after two years and 50% after three years and are converted into shares of common stock as of the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination based on age or service-related requirements, subject to post-employment and other restrictions. All RSU awards are subject to forfeiture until vested and contain clawback provisions that may result in cancellation under certain specified circumstances. Predominantly all 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.

Performance share units ("PSUs") are granted annually, and approved by JPMorgan Chase's Board of Directors, to members of JPMorgan Chase's Operating Committee under the variable compensation program. PSUs are subject to JPMorgan Chase's achievement of specified performance criteria over a three-year period. The number of awards that vest can range from zero to 150% of the grant amount. In addition, dividends that accrue during the vesting period are reinvested in dividend equivalent share units. PSUs and the related dividend equivalent share units are converted into shares of common stock after vesting.

Once the PSUs and dividend equivalent share units have vested, the shares of common stock that are delivered, after applicable tax withholding, must be held for an additional two-year period, for a total combined vesting and holding period of approximately five to eight years from the grant date depending on regulations in certain countries.

Under the LTI Plans, stock appreciation rights ("SARs") and stock options have generally been granted with an exercise price equal to the fair value of JPMorgan Chase's common stock on the grant date. SARs and stock options generally expire ten years after the grant date. There were no material grants of SARs or stock options in 2020, 2019 and 2018.

The Bank separately recognizes compensation expense for each tranche of each award, net of estimated forfeitures, as if it were a separate award with its own vesting date. Generally, for each tranche granted, compensation expense is recognized on a straight-line basis 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 Bank accrues the estimated value of awards expected to be awarded to employees as of the grant date without giving consideration to the impact of post-employment restrictions. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee's full-career eligibility date or the vesting date of the respective tranche.

### RSUs, PSUs, SARs and stock options activity

Generally, compensation expense for RSUs and PSUs is measured based on the number of units granted multiplied by the stock price at the grant date, and for SARs and stock options, is measured at the grant date using the Black-Scholes valuation model. Compensation expense for these awards is recognized in net income as described previously. The following table summarizes the Bank's RSUs, PSUs, SARs and stock options activity for 2020.

Year ended December 31, 2020 (in thousands, except weighted-average data, and where otherwise stated)	RSUs/PSUs		SARs/Options			
	Number of units	Weighted-average grant date fair value	Number of awards	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	38,265	\$ 99.23	4,571	\$ 41.30		
Granted	13,160	131.15	–	–		
Exercised or vested	(15,893)	96.86	(1,948)	41.24		
Forfeited	(938)	111.37	(3)	120.98		
Canceled	NA	NA	(11)	39.33		
Transferred	(46)	99.23	124	41.30		
<b>Outstanding, December 31</b>	<b>34,548</b>	<b>\$ 112.06</b>	<b>2,733</b>	<b>\$ 41.40</b>	<b>1.5</b>	<b>\$ 231,431</b>
Exercisable, December 31	NA	NA	2,733	41.40	1.5	231,431

The total fair value of RSUs that vested during the years ended December 31, 2020, 2019 and 2018, was \$2.1 billion, \$2.1 billion and \$2.5 billion, respectively. The total intrinsic value of options exercised during the years ended December 31, 2020, 2019 and 2018, was \$148 million, \$441 million and \$282 million, respectively.

### Compensation expense

The Bank recognized the following compensation expense related to its various employee share-based incentive plans in its Consolidated statements of income.

Year ended December 31, (in millions)	2020	2019	2018
Cost of prior grants of RSUs, PSUs, SARs and stock options that are amortized over their applicable vesting periods	\$ 817	\$ 842	\$ 904
Accrual of estimated costs of share-based awards to be granted in future periods including those to full-career eligible employees	934	804	778
<b>Total compensation expense related to employee share-based incentive plans</b>	<b>\$ 1,751</b>	<b>\$ 1,646</b>	<b>\$ 1,682</b>

There are no separate plans solely for the employees of the Bank and, therefore, the share-based compensation expense for the Bank is determined based upon employee participation in the JPMorgan Chase plans and effected through a charge from JPMorgan Chase, which is cash settled.

At December 31, 2020, approximately \$496 million (pretax) of compensation expense related to unvested awards had not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.6 years. The Bank does not capitalize any compensation expense related to share-based compensation awards to employees.

### Tax benefits

The Bank is recognizing income tax benefits (including tax benefits from dividends or dividend equivalents) related to share-based incentive arrangements recognized in the Bank's Consolidated statements of income for the years ended December 31, 2020, 2019 and 2018, were \$599 million, \$667 million and \$753 million, respectively.

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### Note 10 – Investment securities

Investment securities consist of debt securities that are classified as AFS or HTM. Debt securities classified as trading assets are discussed in Note 2. Predominantly all of the Bank's AFS and HTM securities are held in connection with its asset-liability management activities.

AFS securities are carried at fair value on the Consolidated balance sheets. Unrealized gains and losses, after any applicable hedge accounting adjustments or allowance for credit losses, are reported in AOCI. The specific identification method is used to determine realized gains and losses on AFS securities, which are included in investment securities gains/(losses) on the Consolidated statements of income. HTM securities, which the Bank has the intent and ability to hold until maturity, are carried at amortized cost, net of allowance for credit losses, on the Consolidated balance sheets.

For both AFS and HTM securities, purchase discounts or premiums are generally amortized into interest income on a level-yield basis over the contractual life of the security. However, premiums on certain callable debt securities are amortized to the earliest call date.

Effective January 1, 2020, the Bank adopted the CECL accounting guidance, which also amended the AFS securities impairment guidance. Refer to Note 1 for further information.

During 2020, the Bank transferred \$164.2 billion of investment securities from AFS to HTM for capital management purposes. AOCI included pretax unrealized gains of \$5.0 billion on the securities at the dates of transfer.

Unrealized gains or losses at the date of transfer of these securities continue to be reported in AOCI and are amortized into interest income on a level-yield basis over the remaining life of the securities. This amortization will offset the effect on interest income of the amortization of the premium or discount resulting from the transfer recorded at fair value.

Transfers of securities from AFS to HTM are non-cash transactions and are recorded at fair value.

The amortized costs and estimated fair values of the investment securities portfolio were as follows for the dates indicated.

December 31, (in millions)	2020				2019			
	Amortized cost <sup>(e)</sup>	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost <sup>(e)</sup>	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Available-for-sale securities</b>								
Mortgage-backed securities:								
U.S. GSEs and government agencies <sup>(a)</sup>	\$ 110,979	\$ 2,372	\$ 50	\$ 113,301	\$ 107,811	\$ 2,395	\$ 89	\$ 110,117
Residential:								
U.S.	6,246	224	3	6,467	10,223	233	6	10,450
Non-U.S.	3,751	20	5	3,766	2,477	64	1	2,540
Commercial	2,818	71	34	2,855	5,130	64	13	5,181
<b>Total mortgage-backed securities</b>	<b>123,794</b>	<b>2,687</b>	<b>92</b>	<b>126,389</b>	<b>125,641</b>	<b>2,756</b>	<b>109</b>	<b>128,288</b>
U.S. Treasury and government agencies	199,909	2,141	100	201,950	139,162	449	175	139,436
Obligations of U.S. states and municipalities	18,191	1,385	1	19,575	26,744	2,076	1	28,819
Certificates of deposit	—	—	—	—	77	—	—	77
Non-U.S. government debt securities	22,587	354	13	22,928	21,427	377	17	21,787
Corporate debt securities	165	4	1	168	823	22	—	845
Asset-backed securities:								
Collateralized loan obligations	10,055	24	31	10,048	25,038	9	56	24,991
Other	6,147	87	16	6,218	5,405	35	20	5,420
<b>Total available-for-sale securities<sup>(b)</sup></b>	<b>380,848</b>	<b>6,682</b>	<b>254</b>	<b>387,276</b>	<b>344,317</b>	<b>5,724</b>	<b>378</b>	<b>349,663</b>
<b>Held-to-maturity securities<sup>(c)</sup></b>								
Mortgage-backed securities:								
U.S. GSEs and government agencies <sup>(a)</sup>	107,889	2,968	29	110,828	36,523	1,165	62	37,626
U.S. Residential	4,345	8	30	4,323	—	—	—	—
Commercial	2,602	77	—	2,679	—	—	—	—
<b>Total mortgage-backed securities</b>	<b>114,836</b>	<b>3,053</b>	<b>59</b>	<b>117,830</b>	<b>36,523</b>	<b>1,165</b>	<b>62</b>	<b>37,626</b>
U.S. Treasury and government agencies	53,184	50	—	53,234	51	—	1	50
Obligations of U.S. states and municipalities	12,751	519	—	13,270	4,797	299	—	5,096
Asset-backed securities:								
Collateralized loan obligations	21,050	90	2	21,138	6,169	—	—	6,169
<b>Total held-to-maturity securities, net of allowance for credit losses<sup>(d)</sup></b>	<b>201,821</b>	<b>3,712</b>	<b>61</b>	<b>205,472</b>	<b>47,540</b>	<b>1,464</b>	<b>63</b>	<b>48,941</b>
<b>Total investment securities, net of allowance for credit losses<sup>(e)</sup></b>	<b>\$ 582,669</b>	<b>\$ 10,394</b>	<b>\$ 315</b>	<b>\$ 592,748</b>	<b>\$ 391,857</b>	<b>\$ 7,188</b>	<b>\$ 441</b>	<b>\$ 398,604</b>

(a) Includes AFS U.S. GSE obligations with fair values of \$65.8 billion and \$78.5 billion, and HTM U.S. GSE obligations with amortized cost of \$86.3 billion and \$31.6 billion, at December 31, 2020 and 2019, respectively. As of December 31, 2020, mortgage-backed securities issued by Fannie Mae and Freddie Mac each exceeded 10% of JPMorgan Chase Bank, N.A.'s total stockholder's equity; the amortized cost and fair value of such securities were \$95.7 billion and \$98.8 billion, and \$54.7 billion and \$55.8 billion, respectively.

(b) There was no allowance for credit losses on AFS securities at December 31, 2020.

(c) The Bank purchased \$12.4 billion, \$13.4 billion and \$9.4 billion of HTM securities for the years ended December 31, 2020, 2019 and 2018, respectively.

(d) HTM securities measured at amortized cost are reported net of allowance for credit losses of \$78 million at December 31, 2020.

(e) Excludes \$2.1 billion and \$1.9 billion of accrued interest receivables at December 31, 2020 and 2019, respectively. The Bank did not reverse through interest income any accrued interest receivables for the years ended December 31, 2020 and 2019.

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At December 31, 2020, the investment securities portfolio consisted of debt securities with an average credit rating of AA+ (based upon external ratings where available, and where not available, based primarily upon internal risk ratings). Risk ratings are used to identify the credit quality of securities and differentiate risk within the portfolio. The Bank's internal risk ratings generally align with the qualitative characteristics (e.g., borrower capacity to meet financial commitments and vulnerability to changes in the

economic environment) defined by S&P and Moody's, however the quantitative characteristics (e.g., probability of default ("PD") and loss given default ("LGD")) may differ as they reflect internal historical experiences and assumptions. Risk ratings are assigned at acquisition, are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary over the life of the investment for updated information affecting the issuer's ability to fulfill its obligations.

### AFS securities impairment

The following tables present the fair value and gross unrealized losses by aging category for AFS securities at December 31, 2020 and 2019. The tables exclude U.S. Treasury and government agency securities and U.S. GSE and government agency MBS with unrealized losses of \$150 million and \$264 million, at December 31, 2020 and 2019, respectively; changes in the value of these securities are generally driven by changes in interest rates rather than changes in their credit profile given the explicit or implicit guarantees provided by the U.S. government.

December 31, 2020 (in millions)	Available-for-sale securities with gross unrealized losses					
	Less than 12 months		12 months or more		Total fair value	Total gross unrealized losses
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses		
<b>Available-for-sale securities</b>						
Mortgage-backed securities:						
Residential:						
U.S.	\$ 562	\$ 3	\$ 32	\$ —	\$ 594	\$ 3
Non-U.S.	2,507	4	235	1	2,742	5
Commercial	699	18	124	16	823	34
<b>Total mortgage-backed securities</b>	<b>3,768</b>	<b>25</b>	<b>391</b>	<b>17</b>	<b>4,159</b>	<b>42</b>
Obligations of U.S. states and municipalities	49	1	—	—	49	1
Certificates of deposit	—	—	—	—	—	—
Non-U.S. government debt securities	2,709	9	968	4	3,677	13
Corporate debt securities	43	1	5	—	48	1
Asset-backed securities:						
Collateralized loan obligations	5,248	18	2,645	13	7,893	31
Other	268	1	685	15	953	16
<b>Total available-for-sale securities with gross unrealized losses</b>	<b>\$ 12,085</b>	<b>\$ 55</b>	<b>\$ 4,694</b>	<b>\$ 49</b>	<b>\$ 16,779</b>	<b>\$ 104</b>

December 31, 2019 (in millions)	Available-for-sale securities with gross unrealized losses					
	Less than 12 months		12 months or more		Total fair value	Total gross unrealized losses
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses		
<b>Available-for-sale securities</b>						
Mortgage-backed securities:						
Residential:						
U.S.	\$ 1,072	\$ 3	\$ 423	\$ 3	\$ 1,495	\$ 6
Non-U.S.	13	—	420	1	433	1
Commercial	1,287	12	199	1	1,486	13
<b>Total mortgage-backed securities</b>	<b>2,372</b>	<b>15</b>	<b>1,042</b>	<b>5</b>	<b>3,414</b>	<b>20</b>
Obligations of U.S. states and municipalities	186	1	—	—	186	1
Certificates of deposit	77	—	—	—	77	—
Non-U.S. government debt securities	3,970	13	1,406	4	5,376	17
Corporate debt securities	—	—	—	—	—	—
Asset-backed securities:						
Collateralized loan obligations	10,364	11	7,756	45	18,120	56
Other	1,639	9	753	11	2,392	20
<b>Total available-for-sale securities with gross unrealized losses</b>	<b>\$ 18,608</b>	<b>\$ 49</b>	<b>\$ 10,957</b>	<b>\$ 65</b>	<b>\$ 29,565</b>	<b>\$ 114</b>

As a result of the adoption of the amended AFS securities impairment guidance, an allowance for credit losses on AFS securities is required for impaired securities if a credit loss exists.

AFS securities are considered impaired if the fair value is less than the amortized cost.

The Bank recognizes impairment losses in earnings if the Bank has the intent to sell the debt security, or if it is more likely than not that the Bank will be required to sell the debt security before recovery of its amortized cost. In these circumstances the impairment loss recognized in investment securities gains/(losses) is equal to the full difference between the amortized cost (net of allowance if applicable) and the fair value of the securities.

For impaired debt securities that the Bank has the intent and ability to hold, the securities are evaluated to determine if a credit loss exists. If it is determined that a credit loss exists, that loss is recognized as an allowance for credit losses through the provision for credit losses in the Consolidated Statements of Income, limited by the amount of impairment. Any impairment not due to credit losses is recorded in OCI.

Factors considered in evaluating credit losses include adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; and payment structure of the security.

When assessing securities issued in a securitization for credit losses, the Bank estimates cash flows considering relevant market and economic data, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement, and compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitization structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss exists.

For beneficial interests in securitizations that are rated below "AA" at their acquisition, or that can be contractually prepaid or otherwise settled in such a way that the Bank would not recover substantially all of its recorded investment, the Bank evaluates impairment for credit losses when there is an adverse change in expected cash flows.

*Allowance for credit losses*

Based on its assessment, the Bank did not recognize an allowance for credit losses on impaired AFS securities as of January 1, 2020 or December 31, 2020.

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### HTM securities – credit risk

The adoption of the CECL accounting guidance requires management to estimate expected credit losses on HTM securities over the remaining expected life and recognize this estimate as an allowance for credit losses. As a result of the adoption of this guidance, the Bank recognized an allowance for credit losses on HTM obligations of U.S. states and municipalities of \$10 million as a cumulative-effect adjustment to retained earnings as of January 1, 2020.

#### *Credit quality indicator*

The primary credit quality indicator for HTM securities is the risk rating assigned to each security. At December 31, 2020, all HTM securities were rated investment grade and were current and accruing, with approximately 98% rated at least AA+.

#### *Allowance for credit losses*

The allowance for credit losses on HTM obligations of U.S. states and municipalities and commercial mortgage-backed securities is calculated by applying statistical credit loss factors (estimated PD and LGD) to the amortized cost. The credit loss factors are derived using a weighted average of five internally developed eight-quarter macroeconomic scenarios, followed by a single year straight-line interpolation to revert to long run historical information for periods beyond the forecast period. Refer to Note 13 for further information on the eight-quarter macroeconomic forecast.

The allowance for credit losses on HTM collateralized loan obligations and U.S. residential mortgage-backed securities is calculated as the difference between the amortized cost and the present value of the cash flows expected to be collected, discounted at the security's effective interest rate. These cash flow estimates are developed based on expectations of underlying collateral performance derived using the eight-quarter macroeconomic forecast and the single year straight-line interpolation, as well as considering the structural features of the security.

The application of different inputs and assumptions into the calculation of the allowance for credit losses is subject to significant management judgment, and emphasizing one input or assumption over another, or considering other inputs or assumptions, could affect the estimate of the allowance for credit losses on HTM securities.

The allowance for credit losses on HTM securities was \$78 million as of December 31, 2020, reflecting \$68 million recognized in the provision for credit losses for the year ended December 31, 2020.

### Selected impacts of investment securities on the Consolidated statements of income

Year ended December 31, (in millions)	2020	2019	2018
Realized gains	\$ 3,080	\$ 645	\$ 211
Realized losses	(2,278)	(392)	(606)
<b>Net investment securities gains/ (losses)</b>	<b>\$ 802</b>	<b>\$ 253</b>	<b>\$ (395)</b>
<b>Provision for credit losses</b>	<b>\$ 68</b>	NA	NA

## Contractual maturities and yields

The following table presents the amortized cost and estimated fair value at December 31, 2020, of the Bank's investment securities portfolio by contractual maturity.

By remaining maturity December 31, 2020 (in millions)	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years <sup>(b)</sup>	Total
<b>Available-for-sale securities</b>					
Mortgage-backed securities					
Amortized cost	\$ —	\$ 741	\$ 7,797	\$ 115,256	\$ 123,794
Fair value	—	756	8,139	117,494	126,389
Average yield <sup>(a)</sup>	— %	1.66 %	1.67 %	2.57 %	2.51 %
U.S. Treasury and government agencies					
Amortized cost	\$ 33,633	\$ 110,033	\$ 46,827	\$ 9,416	\$ 199,909
Fair value	33,678	111,014	47,675	9,583	201,950
Average yield <sup>(a)</sup>	0.42 %	0.53 %	0.79 %	0.48 %	0.57 %
Obligations of U.S. states and municipalities					
Amortized cost	\$ 11	\$ 190	\$ 977	\$ 17,013	\$ 18,191
Fair value	11	198	1,039	18,327	19,575
Average yield <sup>(a)</sup>	3.59 %	4.49 %	4.73 %	4.76 %	4.76 %
Non-U.S. government debt securities					
Amortized cost	\$ 8,282	\$ 8,011	\$ 5,615	\$ 679	\$ 22,587
Fair value	8,297	8,225	5,726	680	22,928
Average yield <sup>(a)</sup>	1.25 %	1.70 %	0.68 %	0.17 %	1.24 %
Corporate debt securities					
Amortized cost	\$ —	\$ 91	\$ 74	\$ —	\$ 165
Fair value	—	91	77	—	168
Average yield <sup>(a)</sup>	— %	1.87 %	1.92 %	— %	1.89 %
Asset-backed securities					
Amortized cost	\$ 554	\$ 2,569	\$ 5,987	\$ 7,092	\$ 16,202
Fair value	554	2,591	5,990	7,131	16,266
Average yield <sup>(a)</sup>	1.31 %	2.00 %	1.33 %	1.48 %	1.50 %
<b>Total available-for-sale securities</b>					
Amortized cost	\$ 42,480	\$ 121,635	\$ 67,277	\$ 149,456	\$ 380,848
Fair value	42,540	122,875	68,646	153,215	387,276
Average yield <sup>(a)</sup>	0.59 %	0.65 %	0.99 %	2.62 %	1.48 %
<b>Held-to-maturity securities</b>					
Mortgage-backed securities					
Amortized cost	\$ —	\$ 158	\$ 11,908	\$ 102,791	\$ 114,857
Fair value	—	160	12,707	104,963	117,830
Average yield <sup>(a)</sup>	— %	1.56 %	2.42 %	2.94 %	2.88 %
U.S. Treasury and government agencies					
Amortized cost	\$ 501	\$ 42,477	\$ 10,206	\$ —	\$ 53,184
Fair value	501	42,511	10,222	—	53,234
Average yield <sup>(a)</sup>	1.86 %	0.60 %	0.94 %	— %	0.67 %
Obligations of U.S. states and municipalities					
Amortized cost	\$ —	\$ 65	\$ 532	\$ 12,211	\$ 12,808
Fair value	—	67	565	12,638	13,270
Average yield <sup>(a)</sup>	— %	3.09 %	3.57 %	3.62 %	3.62 %
Asset-backed securities					
Amortized cost	\$ —	\$ —	\$ 11,617	\$ 9,433	\$ 21,050
Fair value	—	—	11,658	9,480	21,138
Average yield <sup>(a)</sup>	— %	— %	1.40 %	1.33 %	1.37 %
<b>Total held-to-maturity securities</b>					
Amortized cost	\$ 501	\$ 42,700	\$ 34,263	\$ 124,435	\$ 201,899
Fair value	501	42,738	35,152	127,081	205,472
Average yield <sup>(a)</sup>	1.86 %	0.60 %	1.65 %	2.88 %	2.19 %

(a) Average yield is computed using the effective yield of each security owned at the end of the period, weighted based on the amortized cost of each security. The effective yield considers the contractual coupon, amortization of premiums and accretion of discounts, and the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable. The effective yield excludes unscheduled principal prepayments; and accordingly, actual maturities of securities may differ from their contractual or expected maturities as certain securities may be prepaid. However, for certain callable debt securities, the average yield is calculated to the earliest call date.

(b) Substantially all of the Bank's U.S. residential MBS and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated weighted-average life, which reflects anticipated future prepayments, is approximately 5 years for agency residential MBS, 4 years for agency residential collateralized mortgage obligations and 3 years for nonagency residential collateralized mortgage obligations.

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### Note 11 – Securities financing activities

The Bank enters into resale, repurchase, securities borrowed and securities loaned agreements (collectively, “securities financing agreements”) primarily to finance the Bank’s inventory positions, acquire securities to cover short sales, accommodate customers’ financing needs, settle other securities obligations and to deploy the Bank’s excess cash.

Securities financing agreements are treated as collateralized financings on the Bank’s Consolidated balance sheets. Where appropriate under applicable accounting guidance, securities financing agreements with the same counterparty are reported on a net basis. Refer to Note 1 for further discussion of the offsetting of assets and liabilities. Fees received and paid in connection with securities financing agreements are recorded over the life of the agreement in interest income and interest expense on the Consolidated statements of income.

The Bank has elected the fair value option for certain securities financing agreements. Refer to Note 3 for further information regarding the fair value option. The securities financing agreements for which the fair value option has been elected are reported within securities purchased under resale agreements, securities loaned or sold under repurchase agreements, and securities borrowed on the Consolidated balance sheets. Generally, for agreements carried at fair value, current-period interest accruals are recorded within interest income and interest expense, with changes in fair value reported in principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with accounting guidance for hybrid instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

Securities financing agreements not elected under the fair value option are measured at amortized cost. As a result of the Bank’s credit risk mitigation practices described below, the Bank did not hold any allowance for credit losses with respect to resale and securities borrowed arrangements as of December 31, 2020 and 2019.

#### Credit risk mitigation practices

Securities financing agreements expose the Bank primarily to credit and liquidity risk. To manage these risks, the Bank monitors the value of the underlying securities (predominantly high-quality securities collateral, including government-issued debt and U.S. GSEs and government agencies MBS) 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 and securities borrowed agreements, the Bank 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 and securities loaned agreements, credit risk exposure arises to the extent that the value of underlying securities advanced exceeds the value of the initial cash principal received, and any collateral amounts exchanged.

Additionally, the Bank 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 Bank’s policy to take possession, where possible, of the securities underlying resale and securities borrowed agreements. Refer to Note 26 for further information regarding assets pledged and collateral received in securities financing agreements.

The table below summarizes the gross and net amounts of the Bank's securities financing agreements, as of December 31, 2020 and 2019. When the Bank has obtained an appropriate legal opinion with respect to a master netting agreement with a counterparty and where other relevant netting criteria under U.S. GAAP are met, the Bank nets, on the Consolidated balance sheets, the balances outstanding under its securities financing agreements with the same counterparty. In addition, the Bank exchanges securities and/or cash collateral with its counterparty to reduce the economic exposure with the counterparty, but such collateral is not eligible for net Consolidated balance sheet presentation. Where the Bank has obtained an appropriate legal opinion with respect to the counterparty master netting agreement, such collateral, along with securities financing balances that do not meet all these relevant netting criteria under U.S. GAAP, is presented in the table below as "Amounts not nettable on the Consolidated balance sheets," and reduces the "Net amounts" presented. Where a legal opinion has not been either sought or obtained, the securities financing balances are presented gross in the "Net amounts" below.

December 31, (in millions)	2020				
	Gross amounts	Amounts netted on the Consolidated balance sheets	Amounts presented on the Consolidated balance sheets	Amounts not nettable on the Consolidated balance sheets <sup>(b)</sup>	Net amounts <sup>(c)</sup>
<b>Assets</b>					
Securities purchased under resale agreements	\$ 548,172	\$ (203,950)	\$ 344,222	\$ (324,002)	\$ 20,220
Securities borrowed	45,861	(1,528)	44,333	(38,827)	5,506
<b>Liabilities</b>					
Securities sold under repurchase agreements	\$ 330,335	\$ (203,950)	\$ 126,385	\$ (124,504)	\$ 1,881
Securities loaned and other <sup>(a)</sup>	13,225	(1,528)	11,697	(11,677)	20
December 31, (in millions)	2019				
	Gross amounts	Amounts netted on the Consolidated balance sheets	Amounts presented on the Consolidated balance sheets	Amounts not nettable on the Consolidated balance sheets <sup>(b)</sup>	Net amounts <sup>(c)</sup>
<b>Assets</b>					
Securities purchased under resale agreements	\$ 434,716	\$ (223,330)	\$ 211,386	\$ (194,759) <sup>(d)</sup>	\$ 16,627 <sup>(d)</sup>
Securities borrowed	40,100	(1,324)	38,776	(33,840)	4,936
<b>Liabilities</b>					
Securities sold under repurchase agreements	\$ 301,127	\$ (223,330)	\$ 77,797	\$ (76,487)	\$ 1,310
Securities loaned and other <sup>(a)</sup>	14,557	(1,324)	13,233	(13,211)	22

- (a) Includes securities-for-securities lending agreements of \$4.6 billion and \$6.5 billion at December 31, 2020 and 2019, respectively, accounted for at fair value, where the Bank is acting as lender. In the Consolidated balance sheets, the Bank recognizes the securities received at fair value within other assets and the obligation to return those securities within accounts payable and other liabilities.
- (b) In some cases, collateral exchanged with a counterparty exceeds the net asset or liability balance with that counterparty. In such cases, the amounts reported in this column are limited to the related net asset or liability with that counterparty.
- (c) Includes securities financing agreements that provide collateral rights, but where an appropriate legal opinion with respect to the master netting agreement has not been either sought or obtained. At December 31, 2020 and 2019, included \$16.2 billion and \$10.2 billion, respectively, of securities purchased under resale agreements; \$4.6 billion and \$3.9 billion, respectively, of securities borrowed; \$567 million and \$372 million, respectively, of securities sold under repurchase agreements. There were no securities loaned and other agreements where the Bank has not received an appropriate legal opinion at December 31, 2020 and 2019.
- (d) Prior-period amounts have been revised to conform with the current presentation.

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The tables below present as of December 31, 2020 and 2019 the types of financial assets pledged in securities financing agreements and the remaining contractual maturity of the securities financing agreements.

December 31, (in millions)	Gross liability balance			
	2020		2019	
	Securities sold under repurchase agreements	Securities loaned and other	Securities sold under repurchase agreements	Securities loaned and other
Mortgage-backed securities:				
U.S. GSEs and government agencies	\$ 21,617	\$ —	\$ 2,850	\$ —
Residential - nonagency	—	—	97	—
U.S. Treasury, GSEs and government agencies	140,299	4,400	141,705	6,310
Obligations of U.S. states and municipalities	681	57	—	—
Non-U.S. government debt	160,047	1,900	149,141	1,580
Corporate debt securities	7,685	458	7,293	299
Asset-backed securities	6	—	41	—
Equity securities	—	6,410	—	6,368
<b>Total</b>	<b>\$ 330,335</b>	<b>\$ 13,225</b>	<b>\$ 301,127</b>	<b>\$ 14,557</b>

2020 (in millions)	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Total securities sold under repurchase agreements	\$ 99,648	\$ 155,812	\$ 61,943	\$ 12,932	\$ 330,335
Total securities loaned and other	10,385	1,807	—	1,033	13,225

2019 (in millions)	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Total securities sold under repurchase agreements	\$ 106,463	\$ 127,504	\$ 46,732	\$ 20,428	\$ 301,127
Total securities loaned and other	9,586	3,104	189	1,678	14,557

### Transfers not qualifying for sale accounting

At December 31, 2020 and 2019, the Bank held \$598 million and \$743 million, respectively, of financial assets for which the rights have been transferred to third parties; however, the transfers did not qualify as a sale in accordance with U.S. GAAP. These transfers have been recognized as collateralized financing transactions. The transferred assets are recorded in trading assets and loans, and the corresponding liabilities are recorded predominantly in short-term borrowings on the Consolidated balance sheets.

## Note 12 – Loans

### Loan accounting framework

The accounting for a loan depends on management's strategy for the loan. The Bank accounts for loans based on the following categories:

- Originated or purchased loans held-for-investment (i.e., "retained")
- Loans held-for-sale
- Loans at fair value

Effective January 1, 2020, the Bank adopted the CECL accounting guidance. Refer to Note 1 for further information.

The following provides a detailed accounting discussion of the Bank's loans by category:

#### *Loans held-for-investment*

Originated or purchased loans held-for-investment are recorded at the principal amount outstanding, net of the following: charge-offs; interest applied to principal (for loans accounted for on the cost recovery method); unamortized discounts and premiums; and net deferred loan fees or costs. Credit card loans also include billed finance charges and fees.

#### *Interest income*

Interest income on performing loans held-for-investment is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the contractual life of the loan as an adjustment of yield.

The Bank classifies accrued interest on loans, including accrued but unbilled interest on credit card loans, in accrued interest and accounts receivables on the Consolidated balance sheets. For credit card loans, accrued interest once billed is then recognized in the loan balances, with the related allowance recorded in the allowance for credit losses. Changes in the allowance for credit losses on accrued interest on credit card loans are recognized in the provision for credit losses and charge-offs are recognized by reversing interest income. Expected losses related to accrued interest on certain performing, modified loans to borrowers impacted by COVID-19 are considered in the Bank's allowance for loan losses. For other loans, the Bank generally does not recognize an allowance for credit losses on accrued interest receivables, consistent with its policy to write them off no later than 90 days past due by reversing interest income.

#### *Nonaccrual loans*

Nonaccrual loans are those on which the accrual of interest has been suspended. Loans (other than credit card loans and certain consumer loans insured by U.S. government agencies) are placed on nonaccrual status and considered nonperforming when full payment of principal and interest

is not expected, regardless of delinquency status, or when principal and interest has been in default for a period of 90 days or more, unless the loan is both well-secured and in the process of collection. A loan is determined to be past due when the minimum payment is not received from the borrower by the contractually specified due date or for certain loans (e.g., residential real estate loans), when a monthly payment is due and unpaid for 30 days or more. Finally, collateral-dependent loans are typically maintained on nonaccrual status.

On the date a loan is placed on nonaccrual status, all interest accrued but not collected is reversed against interest income. In addition, the amortization of deferred amounts is suspended. Interest income on nonaccrual loans may be recognized as cash interest payments are received (i.e., on a cash basis) if the recorded loan balance is deemed fully collectible; however, if there is doubt regarding the ultimate collectibility of the recorded loan balance, all interest cash receipts are applied to reduce the carrying value of the loan (the cost recovery method). For consumer loans, application of this policy typically results in the Bank recognizing interest income on nonaccrual consumer loans on a cash basis.

A loan may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

As permitted by regulatory guidance, credit card loans are generally exempt from being placed on nonaccrual status; accordingly, interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full.

#### *Allowance for loan losses*

The allowance for loan losses represents the estimated expected credit losses in the held-for-investment loan portfolio at the balance sheet date and is recognized on the balance sheet as a contra asset, which brings the amortized cost to the net carrying value. Changes in the allowance for loan losses are recorded in the provision for credit losses on the Bank's Consolidated statements of income. Refer to Note 13 for further information on the Bank's accounting policies for the allowance for loan losses.

#### *Charge-offs*

Consumer loans are generally charged off or charged down to the lower of the amortized cost or the net realizable value of the underlying collateral (i.e., fair value less estimated costs to sell), with an offset to the allowance for loan losses, upon reaching specified stages of delinquency in accordance with standards established by the Federal Financial Institutions Examination Council ("FFIEC"). Residential real estate loans, unmodified credit card loans and scored business banking loans are generally charged off no later than 180 days past due. Scored auto and

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modified credit card loans are charged off no later than 120 days past due.

Certain consumer loans are charged off or charged down to their net realizable value earlier than the FFIEC charge-off standards in certain circumstances as follows:

- Loans modified in a troubled debt restructuring (“TDR”) that are determined to be collateral-dependent.
- Loans to borrowers who have experienced an event that suggests a loss is either known or highly certain are subject to accelerated charge-off standards (e.g., residential real estate and auto loans are charged off or charged down within 60 days of receiving notification of a bankruptcy filing).
- Auto loans upon repossession of the automobile.

Other than in certain limited circumstances, the Bank typically does not recognize charge-offs on the government-guaranteed portion of loans.

Wholesale loans are charged off when it is highly certain that a loss has been realized. The determination of whether to recognize a charge-off includes many factors, including the prioritization of the Bank’s claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower’s equity or the loan collateral.

When a loan is charged down to the lower of its amortized cost or the estimated net realizable value of the underlying collateral, the determination of the fair value of the collateral depends on the type of collateral (e.g., securities, real estate). In cases where the collateral is in the form of liquid securities, the fair value is based on quoted market prices or broker quotes. For illiquid securities or other financial assets, the fair value of the collateral is generally estimated using a discounted cash flow model.

For residential real estate loans, collateral values are based upon external valuation sources. When it becomes likely that a borrower is either unable or unwilling to pay, the Bank utilizes a broker’s price opinion, appraisal and/or an automated valuation model of the home based on an exterior-only valuation (“exterior opinions”), which is then updated at least every twelve months, or more frequently depending on various market factors. As soon as practicable after the Bank receives the property in satisfaction of a debt (e.g., by taking legal title or physical possession), the Bank generally obtains an appraisal based on an inspection that includes the interior of the home (“interior appraisals”). Exterior opinions and interior appraisals are discounted based upon the Bank’s experience with actual liquidation values as compared with the estimated values provided by exterior opinions and interior appraisals, considering state-specific factors.

For commercial real estate loans, collateral values are generally based on appraisals from internal and external valuation sources. Collateral values are typically updated

every six to twelve months, either by obtaining a new appraisal or by performing an internal analysis, in accordance with the Bank’s policies. The Bank also considers both borrower- and market-specific factors, which may result in obtaining appraisal updates or broker price opinions at more frequent intervals.

### ***Loans held-for-sale***

Loans held-for-sale are measured at the lower of cost or fair value, with valuation changes recorded in noninterest revenue. For consumer loans, the valuation is performed on a portfolio basis. For wholesale loans, the valuation is performed on an individual loan basis.

Interest income on loans held-for-sale is accrued and recognized based on the contractual rate of interest.

Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees or costs and discounts or premiums are an adjustment to the basis of the loan and therefore are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or loss recognized at the time of sale.

Because these loans are recognized at the lower of cost or fair value, the Bank’s allowance for loan losses and charge-off policies do not apply to these loans. However, loans held-for-sale are subject to the nonaccrual policies described above.

### ***Loans at fair value***

Loans for which the fair value option has been elected are measured at fair value, with changes in fair value recorded in noninterest revenue.

Interest income on these loans is accrued and recognized based on the contractual rate of interest. Changes in fair value are recognized in noninterest revenue. Loan origination fees are recognized upfront in noninterest revenue. Loan origination costs are recognized in the associated expense category as incurred.

Because these loans are recognized at fair value, the Bank’s allowance for loan losses and charge-off policies do not apply to these loans. However, loans at fair value are subject to the nonaccrual policies described above.

Refer to Note 3 for further information on the Bank’s elections of fair value accounting under the fair value option. Refer to Note 2 and Note 3 for further information on loans carried at fair value and classified as trading assets.

### Loan classification changes

Loans in the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio at the lower of cost or fair value on the date of transfer. Credit-related losses are charged against the allowance for loan losses; non-credit related losses such as those due to changes in interest rates or foreign currency exchange rates are recognized in noninterest revenue.

In the event that management decides to retain a loan in the held-for-sale portfolio, the loan is transferred to the held-for-investment portfolio at amortized cost on the date of transfer. These loans are subsequently assessed for impairment based on the Bank's allowance methodology. Refer to Note 13 for a further discussion of the methodologies used in establishing the Bank's allowance for loan losses.

### Loan modifications

The Bank seeks to modify certain loans in conjunction with its loss mitigation activities. Through the modification, the Bank grants one or more concessions to a borrower who is experiencing financial difficulty in order to minimize the Bank's economic loss and avoid foreclosure or repossession of the collateral, and to ultimately maximize payments received by the Bank from the borrower. The concessions granted vary by program and by borrower-specific characteristics, and may include interest rate reductions, term extensions, payment delays, principal forgiveness, or the acceptance of equity or other assets in lieu of payments. Such modifications are accounted for and reported as TDRs. Loans with short-term and other insignificant modifications that are not considered concessions are not TDRs.

Loans, except for credit card loans, modified in a TDR are generally placed on nonaccrual status, although in many cases such loans were already on nonaccrual status prior to modification. These loans may be returned to performing status (the accrual of interest is resumed) if the following criteria are met: (i) the borrower has performed under the modified terms for a minimum of six months and/or six payments, and (ii) the Bank has an expectation that repayment of the modified loan is reasonably assured based on, for example, the borrower's debt capacity and level of future earnings, collateral values, LTV ratios, and other current market considerations. In certain limited and well-defined circumstances in which the loan is current at the modification date, such loans are not placed on nonaccrual status at the time of modification.

Loans modified in TDRs are generally measured for impairment using the Bank's established asset-specific allowance methodology, which considers the expected re-default rates for the modified loans. A loan modified in a TDR generally remains subject to the asset-specific component of the allowance throughout its remaining life, regardless of whether the loan is performing and has been returned to accrual status. Refer to Note 13 for further

discussion of the methodology used to estimate the Bank's asset-specific allowance.

The Bank has granted various forms of assistance to customers and clients impacted by the COVID-19 pandemic, including payment deferrals and covenant modifications. The majority of the Bank's COVID-19 related loan modifications have not been considered TDRs because:

- they represent short-term or other insignificant modifications, whether under the Bank's regular loan modification assessments or as permitted by regulatory guidance, or
- the Bank has elected to apply the option to suspend the application of accounting guidance for TDRs as provided by the CARES Act and extended by the Consolidated Appropriations Act.

To the extent that certain modifications do not meet any of the above criteria, the Bank accounts for them as TDRs.

As permitted by regulatory guidance, the Bank does not place loans with deferrals granted due to COVID-19 on nonaccrual status where such loans are not otherwise reportable as nonaccrual. The Bank considers expected losses of principal and accrued interest associated with all COVID-19 related loan modifications in its allowance for credit losses.

Assistance provided in response to the COVID-19 pandemic could delay the recognition of delinquencies, nonaccrual status, and net charge-offs for those customers who would have otherwise moved into past due or nonaccrual status.

### Foreclosed property

The Bank acquires property from borrowers through loan restructurings, workouts, and foreclosures. Property acquired may include real property (e.g., residential real estate, land, and buildings) and commercial and personal property (e.g., automobiles, aircraft, railcars, and ships).

The Bank recognizes foreclosed property upon receiving assets in satisfaction of a loan (e.g., by taking legal title or physical possession). For loans collateralized by real property, the Bank generally recognizes the asset received at foreclosure sale or upon the execution of a deed in lieu of foreclosure transaction with the borrower. Foreclosed assets are reported in other assets on the Consolidated balance sheets and initially recognized at fair value less estimated costs to sell. Each quarter the fair value of the acquired property is reviewed and adjusted, if necessary, to the lower of cost or fair value. Subsequent adjustments to fair value are charged/credited to noninterest revenue. Operating expense, such as real estate taxes and maintenance, are charged to other expense.

In response to the COVID-19 pandemic, the Bank has temporarily suspended certain foreclosure activities. This could delay recognition of foreclosed properties until the foreclosure moratoriums are lifted.

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### Loan portfolio

The Bank's loan portfolio is divided into three portfolio segments, which are the same segments used by the Bank to determine the allowance for loan losses: Consumer, excluding credit card; Credit card; and Wholesale. Within each portfolio segment the Bank monitors and assesses the credit risk in the following classes of loans, based on the risk characteristics of each loan class.

In conjunction with the adoption of CECL, the Bank revised its loan classes. Prior-period amounts have been revised to conform with the current presentation:

- The consumer, excluding credit card portfolio segment's residential mortgage and home equity loans and lending-related commitments have been combined into a residential real estate class.
- Upon adoption of CECL, the Bank elected to discontinue the pool-level accounting for PCI loans and to account for these loans on an individual loan basis. PCI loans are considered PCD loans under CECL and are subject to the Bank's nonaccrual and charge-off policies. PCD loans are now reported in the consumer, excluding credit card portfolio segment's residential real estate class.
- Risk-rated business banking and auto dealer loans and lending-related commitments were reclassified from the consumer, excluding credit card portfolio segment, to the wholesale portfolio segment, to align with the methodology applied when determining the allowance. The remaining scored auto and business banking loans and lending-related commitments have been combined into an auto and other class.
- The wholesale portfolio segment's classes, previously based on the borrower's primary business activity, have been revised to align with the loan classifications as defined by the bank regulatory agencies, based on the loan's collateral, purpose, and type of borrower.

Consumer, excluding credit card	Credit card	Wholesale <sup>(c)</sup>
<ul style="list-style-type: none"> <li>• Residential real estate<sup>(a)</sup></li> <li>• Auto and other<sup>(b)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Credit card loans</li> </ul>	<ul style="list-style-type: none"> <li>• Secured by real estate</li> <li>• Commercial and industrial</li> <li>• Other<sup>(d)</sup></li> </ul>

(a) Includes scored mortgage and home equity loans.

(b) Includes scored auto and business banking loans and overdrafts.

(c) Includes certain risk-rated business banking and auto dealer loans for which the wholesale methodology is applied when determining the allowance for loan losses.

(d) Includes loans to financial institutions, states and political subdivisions, SPEs, nonprofits, personal investment companies and trusts, as well as loans to individuals and individual entities (predominantly wealth management clients). Refer to Note 14 for more information on SPEs.

The following tables summarize the Bank's loan balances by portfolio segment.

December 31, 2020 (in millions)	Consumer, excluding credit card	Credit card	Wholesale	Total <sup>(b)(c)</sup>
Retained	\$ 302,118	\$ 143,432	\$ 513,489	\$ 959,039
Held-for-sale	1,302	784	5,769	7,855
At fair value <sup>(a)</sup>	15,078	–	29,303	44,381
<b>Total</b>	<b>\$ 318,498</b>	<b>\$ 144,216</b>	<b>\$ 548,561</b>	<b>\$ 1,011,275</b>

December 31, 2019 (in millions)	Consumer, excluding credit card	Credit card	Wholesale	Total <sup>(b)(c)</sup>
Retained	\$ 294,980	\$ 168,924	\$ 480,155	\$ 944,059
Held-for-sale	3,002	–	4,050	7,052
At fair value <sup>(a)</sup>	19,729	–	25,125	44,854
<b>Total</b>	<b>\$ 317,711</b>	<b>\$ 168,924</b>	<b>\$ 509,330</b>	<b>\$ 995,965</b>

(a) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans. Prior-period amounts have been revised to conform with the current presentation.

(b) Excludes \$2.9 billion of accrued interest receivables at both December 31, 2020 and 2019. The Bank wrote off accrued interest receivables of \$121 million and \$50 million for the years ended December 31, 2020, and 2019, respectively.

(c) Loans (other than those for which the fair value option has been elected) are presented net of unamortized discounts and premiums and net deferred loan fees or costs. These amounts were not material as of December 31, 2020 and 2019.

The following tables provide information about the carrying value of retained loans purchased, sold and reclassified to held-for-sale during the periods indicated. Loans that were reclassified to held-for-sale and sold in a subsequent period are excluded from the sales line of this table.

Year ended December 31, (in millions)	2020			
	Consumer, excluding credit card	Credit card	Wholesale	Total
Purchases	\$ 3,474 <sup>(b)(c)</sup>	\$ —	\$ 1,159	\$ 4,633
Sales	350	—	17,916	18,266
Retained loans reclassified to held-for-sale <sup>(a)</sup>	2,079	787	1,580	4,446

Year ended December 31, (in millions)	2019			
	Consumer, excluding credit card	Credit card	Wholesale	Total
Purchases	\$ 1,282 <sup>(b)(c)</sup>	\$ —	\$ 1,291	\$ 2,573
Sales	30,474	—	23,445	53,919
Retained loans reclassified to held-for-sale <sup>(a)</sup>	9,188	—	2,371	11,559

Year ended December 31, (in millions)	2018			
	Consumer, excluding credit card	Credit card	Wholesale	Total
Purchases	\$ 2,543 <sup>(b)(c)</sup>	\$ —	\$ 2,354	\$ 4,897
Sales	9,984	—	16,757	26,741
Retained loans reclassified to held-for-sale <sup>(a)</sup>	36	—	2,276	2,312

(a) Reclassifications of loans to held-for-sale are non-cash transactions.

(b) Predominantly includes purchases of residential real estate loans, including the Bank's voluntary repurchases of certain delinquent loans from loan pools as permitted by Government National Mortgage Association ("Ginnie Mae") guidelines for the years ended December 31, 2020, 2019 and 2018. The Bank typically elects to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the Federal Housing Administration ("FHA"), Rural Housing Services ("RHS"), and/or the U.S. Department of Veterans Affairs ("VA").

(c) Excludes purchases of retained loans sourced through the correspondent origination channel and underwritten in accordance with the Bank's standards. Such purchases were \$15.3 billion, \$16.6 billion and \$18.6 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

### Gains and losses on sales of loans

Net gains/(losses) on sales of loans and lending-related commitments (including adjustments to record loans and lending-related commitments held-for-sale at the lower of cost or fair value) recognized in noninterest revenue was \$(45) million for the year ended December 31, 2020 of which \$(37) million was related to loans. Net gains on sales of loans was \$386 million for the year ended December 31, 2019. Gains and losses on sales of loans was not material for the year ended December 31, 2018. In addition, the sale of loans may also result in write downs, recoveries or changes in the allowance recognized in the provision for credit losses.

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### Consumer, excluding credit card loan portfolio

Consumer loans, excluding credit card loans, consist primarily of scored residential mortgages, home equity loans and lines of credit, auto and business banking loans, with a focus on serving the prime consumer credit market. The portfolio also includes home equity loans secured by junior liens, prime mortgage loans with an interest-only payment period, and certain payment-option loans that may result in negative amortization.

The following table provides information about retained consumer loans, excluding credit card, by class.

December 31, (in millions)	2020	2019
Residential real estate	\$ 225,293	\$ 243,298
Auto and other <sup>(a)</sup>	76,825	51,682
<b>Total retained loans</b>	<b>\$ 302,118</b>	<b>\$ 294,980</b>

(a) At December 31, 2020, included \$19.2 billion of loans in business banking under the PPP.

Delinquency rates are the primary credit quality indicator for consumer loans. Loans that are more than 30 days past due provide an early warning of borrowers who may be experiencing financial difficulties and/or who may be unable or unwilling to repay the loan. As the loan continues to age, it becomes more clear whether the borrower is likely to be unable or unwilling to pay. In the case of residential real estate loans, late-stage delinquencies (greater than 150 days past due) are a strong indicator of loans that will ultimately result in a foreclosure or similar liquidation transaction. In addition to delinquency rates, other credit quality indicators for consumer loans vary based on the class of loan, as follows:

- For residential real estate loans, the current estimated LTV ratio, or the combined LTV ratio in the case of junior lien loans, is an indicator of the potential loss severity in the event of default. Additionally, LTV or combined LTV ratios can provide insight into a borrower's continued willingness to pay, as the delinquency rate of high-LTV loans tends to be greater than that for loans where the borrower has equity in the collateral. The geographic distribution of the loan collateral also provides insight as to the credit quality of the portfolio, as factors such as the regional economy, home price changes and specific events such as natural disasters, will affect credit quality. The borrower's current or "refreshed" FICO score is a secondary credit quality indicator for certain loans, as FICO scores are an indication of the borrower's credit payment history. Thus, a loan to a borrower with a low FICO score (less than 660) is considered to be of higher risk than a loan to a borrower with a higher FICO score. Further, a loan to a borrower with a high LTV ratio and a low FICO score is at greater risk of default than a loan to a borrower that has both a high LTV ratio and a high FICO score.
- For scored auto and business banking loans, geographic distribution is an indicator of the credit performance of the portfolio. Similar to residential real estate loans, geographic distribution provides insights into the portfolio performance based on regional economic activity and events.

## Residential real estate

The following table provides information on delinquency, which is the primary credit quality indicator for retained residential real estate loans.

(in millions, except ratios)	December 31, 2020									December 31, 2019	
	Term loans by origination year						Revolving loans			Total	Total
	2020	2019	2018	2017	2016	Prior to 2016	Within the revolving period	Converted to term loans			
<b>Loan delinquency<sup>(a)(b)</sup></b>											
Current	\$ 55,562	\$ 31,820	\$ 13,900	\$ 20,410	\$ 27,978	\$ 50,226	\$ 7,370	\$ 15,792	\$ 223,058	\$ 239,963	
30-149 days past due	9	25	20	22	29	673	21	245	1,044	1,908	
150 or more days past due	3	14	10	18	18	842	22	264	1,191	1,427	
<b>Total retained loans</b>	<b>\$ 55,574</b>	<b>\$ 31,859</b>	<b>\$ 13,930</b>	<b>\$ 20,450</b>	<b>\$ 28,025</b>	<b>\$ 51,741</b>	<b>\$ 7,413</b>	<b>\$ 16,301</b>	<b>\$ 225,293</b>	<b>\$ 243,298</b>	
% of 30+ days past due to total retained loans <sup>(c)</sup>	0.02 %	0.12 %	0.22 %	0.20 %	0.17 %	2.85 %	0.58 %	3.12 %	0.97 %	1.35 %	

(a) Individual delinquency classifications include mortgage loans insured by U.S. government agencies as follows: current included \$36 million and \$10 million; 30-149 days past due included \$16 million and \$18 million; and 150 or more days past due included \$24 million and \$26 million at December 31, 2020 and 2019, respectively.

(b) At December 31, 2020, loans under payment deferral programs offered in response to the COVID-19 pandemic which are still within their deferral period and performing according to their modified terms are generally not considered delinquent.

(c) At December 31, 2020 and 2019, residential real estate loans excluded mortgage loans insured by U.S. government agencies of \$40 million and \$44 million, respectively, that are 30 or more days past due. These amounts have been excluded based upon the government guarantee.

Approximately 35% of the total revolving loans are senior lien loans; the remaining balance are junior lien loans. The lien position the Bank holds is considered in the Bank's allowance for credit losses. Revolving loans that have been converted to term loans have higher delinquency rates than those that are still within the revolving period. That is primarily because the fully-amortizing payment that is generally required for those products is higher than the minimum payment options available for revolving loans within the revolving period.

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### Nonaccrual loans and other credit quality indicators

The following table provides information on nonaccrual and other credit quality indicators for retained residential real estate loans.

(in millions, except weighted-average data)	December 31, 2020		December 31, 2019	
Nonaccrual loans <sup>(a)(b)(c)(d)(e)</sup>	\$	5,310	\$	2,780
90 or more days past due and government guaranteed <sup>(f)</sup>		33		37
<b>Current estimated LTV ratios<sup>(g)(h)</sup></b>				
Greater than 125% and refreshed FICO scores:				
Equal to or greater than 660	\$	10	\$	31
Less than 660		18		38
101% to 125% and refreshed FICO scores:				
Equal to or greater than 660		72		134
Less than 660		65		132
80% to 100% and refreshed FICO scores:				
Equal to or greater than 660		2,365		5,953
Less than 660		435		763
Less than 80% and refreshed FICO scores:				
Equal to or greater than 660		208,448		219,465
Less than 660		12,072		14,678
No FICO/LTV available		1,732		2,050
U.S. government-guaranteed		76		54
<b>Total retained loans</b>	<b>\$</b>	<b>225,293</b>	<b>\$</b>	<b>243,298</b>
Weighted average LTV ratio <sup>(g)(i)</sup>		54 %		55 %
Weighted average FICO <sup>(h)(i)</sup>		763		758
<b>Geographic region<sup>(j)</sup></b>				
California	\$	73,444	\$	82,147
New York		32,285		31,994
Florida		13,981		13,667
Texas		13,771		14,473
Illinois		13,130		15,587
Colorado		8,235		8,447
Washington		7,916		8,990
New Jersey		7,227		7,752
Massachusetts		5,784		6,210
Connecticut		5,024		4,954
All other <sup>(k)</sup>		44,496		49,077
<b>Total retained loans</b>	<b>\$</b>	<b>225,293</b>	<b>\$</b>	<b>243,298</b>

- (a) Includes collateral-dependent residential real estate loans that are charged down to the lower of amortized cost or the fair value of the underlying collateral less costs to sell. The Bank reports, in accordance with regulatory guidance, residential real estate loans that have been discharged under Chapter 7 bankruptcy and not reaffirmed by the borrower ("Chapter 7 loans") as collateral-dependent nonaccrual TDRs, regardless of their delinquency status. At December 31, 2020, approximately 7% of Chapter 7 residential real estate loans were 30 days or more past due, respectively.
- (b) At December 31, 2020, nonaccrual loans included \$1.6 billion of PCD loans. Prior to the adoption of CECL, nonaccrual loans excluded PCI loans as the Bank recognized interest income on each pool of PCI loans as each of the pools was performing.
- (c) Generally, all consumer nonaccrual loans have an allowance. In accordance with regulatory guidance, certain nonaccrual loans that are considered collateral-dependent have been charged down to the lower of amortized cost or the fair value of their underlying collateral less costs to sell. If the value of the underlying collateral improves subsequent to the charge down, the related allowance may be negative.
- (d) Interest income on nonaccrual loans recognized on a cash basis was \$161 million and \$166 million for the years ended December 31, 2020 and 2019, respectively.
- (e) Generally excludes loans under payment deferral programs offered in response to the COVID-19 pandemic. Includes loans to customers that have exited COVID-19 payment deferral programs and are 90 or more days past due, predominantly all of which were also at least 150 days past due and therefore considered collateral-dependent. Collateral-dependent loans are charged down to the lower of amortized cost or fair value of the underlying collateral less costs to sell.
- (f) These balances are excluded from nonaccrual loans as the loans are guaranteed by U.S. government agencies. Typically, the principal balance of the loans is insured and interest is guaranteed at a specified reimbursement rate subject to meeting agreed-upon servicing guidelines. At both December 31, 2020 and 2019, these balances included \$33 million of loans that are no longer accruing interest based on the agreed-upon servicing guidelines. For the remaining balance, interest is being accrued at the guaranteed reimbursement rate. There were no loans that were not guaranteed by U.S. government agencies that are 90 or more days past due and still accruing interest at December 31, 2020 and 2019.
- (g) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models using nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. Current estimated combined LTV for junior lien home equity loans considers all available lien positions, as well as unused lines, related to the property.
- (h) Refreshed FICO scores represent each borrower's most recent credit score, which is obtained by the Bank on at least a quarterly basis.
- (i) Excludes loans with no FICO and/or LTV data available.
- (j) The geographic regions presented in the table are ordered based on the magnitude of the corresponding loan balances at December 31, 2020.
- (k) At December 31, 2020 and 2019, included mortgage loans insured by U.S. government agencies of \$76 million and \$54 million, respectively. These amounts have been excluded from the geographic regions presented based upon the government guarantee

### Loan modifications

Modifications of residential real estate loans, where the Bank grants concessions to borrowers who are experiencing financial difficulty are generally accounted for and reported as TDRs. Loans with short-term or other insignificant modifications that are not considered concessions are not TDRs nor are loans for which the Bank has elected to apply the option to suspend the application of accounting guidance for TDRs as provided by the CARES Act and extended by the Consolidated Appropriations Act. The carrying value of new TDRs was \$819 million, \$490 million and \$735 million for the years ended December 31, 2020, 2019 and 2018, respectively. There were no additional

commitments to lend to borrowers whose residential real estate loans have been modified in TDRs.

#### **Nature and extent of modifications**

The Bank's proprietary modification programs as well as government programs, including U.S. GSE programs, generally provide various concessions to financially troubled borrowers including, but not limited to, interest rate reductions, term or payment extensions and delays of principal and/or interest payments that would otherwise have been required under the terms of the original agreement.

The following table provides information about how residential real estate loans were modified in TDRs under the Bank's loss mitigation programs described above during the periods presented. This table excludes Chapter 7 loans where the sole concession granted is the discharge of debt, loans with short-term or other insignificant modifications that are not considered concessions, and loans for which the Bank has elected to apply the option to suspend the application of accounting guidance for TDRs as provided by the CARES Act and extended by the Consolidated Appropriations Act.

Year ended December 31,	2020	2019	2018
Number of loans approved for a trial modification	5,522	5,869	7,163
Number of loans permanently modified	6,850	4,917	7,846
<b>Concession granted:<sup>(a)</sup></b>			
Interest rate reduction	50 %	77 %	54 %
Term or payment extension	49	71	62
Principal and/or interest deferred	14	13	29
Principal forgiveness	2	5	7
Other <sup>(b)</sup>	66	63	51

(a) Represents concessions granted in permanent modifications as a percentage of the number of loans permanently modified. The sum of the percentages exceeds 100% because predominantly all of the modifications include more than one type of concession. Concessions offered on trial modifications are generally consistent with those granted on permanent modifications.

(b) Includes variable interest rate to fixed interest rate modifications and payment delays that meet the definition of a TDR for the years ended December 31, 2020, 2019 and 2018.

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### Financial effects of modifications and redefaults

The following table provides information about the financial effects of the various concessions granted in modifications of residential real estate loans under the loss mitigation programs described above and about redefaults of certain loans modified in TDRs for the periods presented. The following table presents only the financial effects of permanent modifications and do not include temporary concessions offered through trial modifications. This table also excludes Chapter 7 loans where the sole concession granted is the discharge of debt, loans with short-term or other insignificant modifications that are not considered concessions, and loans for which the Bank has elected to apply the option to suspend the application of accounting guidance for TDRs as provided by the CARES Act and extended by the Consolidated Appropriations Act.

Year ended December 31, (in millions, except weighted-average data)	2020	2019	2018
Weighted-average interest rate of loans with interest rate reductions - before TDR	5.09 %	5.67 %	5.50 %
Weighted-average interest rate of loans with interest rate reductions - after TDR	3.28	3.81	3.60
Weighted-average remaining contractual term (in years) of loans with term or payment extensions - before TDR	22	20	21
Weighted-average remaining contractual term (in years) of loans with term or payment extensions - after TDR	39	39	38
Charge-offs recognized upon permanent modification	\$ 5	\$ 1	\$ 2
Principal deferred	16	19	30
Principal forgiven	5	7	17
Balance of loans that redefaulted within one year of permanent modification <sup>(a)</sup>	\$ 199	\$ 166	\$ 160

(a) Represents loans permanently modified in TDRs that experienced a payment default in the periods presented, and for which the payment default occurred within one year of the modification. The dollar amounts presented represent the balance of such loans at the end of the reporting period in which such loans defaulted. For residential real estate loans modified in TDRs, payment default is deemed to occur when the loan becomes two contractual payments past due. In the event that a modified loan redefaults, it will generally be liquidated through foreclosure or another similar type of liquidation transaction. Redefaults of loans modified within the last twelve months may not be representative of ultimate redefault levels.

At December 31, 2020, the weighted-average estimated remaining lives of residential real estate loans permanently modified in TDRs were 6 years. The estimated remaining lives of these loans reflect estimated prepayments, both voluntary and involuntary (i.e., foreclosures and other forced liquidations).

### Active and suspended foreclosure

At December 31, 2020 and 2019, the Bank had residential real estate loans, excluding those insured by U.S. government agencies, with a carrying value of \$846 million and \$1.2 billion, respectively, that were not included in REO, but were in the process of active or suspended foreclosure.

## Auto and other

The following table provides information on delinquency, which is the primary credit quality indicator for retained auto and other consumer loans.

(in millions, except ratios)	December 31, 2020									December 31, 2019	
	Term Loans by origination year						Revolving loans			Total	Total
	2020	2019	2018	2017	2016	Prior to 2016	Within the revolving period	Converted to term loans			
<b>Loan delinquency<sup>(a)</sup></b>											
Current	\$46,169	<sup>(b)</sup> \$12,829	\$ 7,367	\$ 4,521	\$ 2,058	\$ 742	\$ 2,517	\$ 158	\$ 76,361	\$51,005	
30-119 days past due	97	107	77	53	42	23	30	17	446	667	
120 or more days past due	—	—	—	1	—	1	8	8	18	10	
<b>Total retained loans</b>	<b>\$46,266</b>	<b>\$12,936</b>	<b>\$ 7,444</b>	<b>\$ 4,575</b>	<b>\$ 2,100</b>	<b>\$ 766</b>	<b>\$ 2,555</b>	<b>\$ 183</b>	<b>\$ 76,825</b>	<b>\$51,682</b>	
% of 30+ days past due to total retained loans	0.21 %	0.83 %	1.03 %	1.18 %	2.00 %	3.13 %	1.49 %	13.66 %	0.60 %	1.31 %	

(a) At December 31, 2020, loans under payment deferral programs offered in response to the COVID-19 pandemic which are still within their deferral period and performing according to their modified terms are generally not considered delinquent.

(b) At December 31, 2020, included \$19.2 billion of loans in business banking under the PPP. PPP loans are guaranteed by the SBA. Other than in certain limited circumstances, the Bank typically does not recognize charge-offs, classify as nonaccrual nor record an allowance for loan losses on these loans.

## Nonaccrual and other credit quality indicators

The following table provides information on nonaccrual and other credit quality indicators for retained auto and other consumer loans.

(in millions, except ratios)	Total Auto and other	
	December 31, 2020	December 31, 2019
<b>Nonaccrual loans<sup>(a)(b)(c)</sup></b>	151	146
<b>Geographic region<sup>(d)</sup></b>		
California	\$ 12,302	\$ 7,795
New York	8,824	3,706
Texas	8,235	5,457
Florida	4,668	3,025
Illinois	3,768	2,443
New Jersey	2,646	1,798
Arizona	2,465	1,347
Ohio	2,163	1,490
Pennsylvania	1,924	1,721
Colorado	1,910	1,247
All other	27,920	21,653
<b>Total retained loans</b>	<b>\$ 76,825</b>	<b>\$ 51,682</b>

(a) There were no loans that were 90 or more days past due and still accruing interest at December 31, 2020 and 2019.

(b) All nonaccrual auto and other consumer loans generally have an allowance. Certain nonaccrual loans that are considered collateral-dependent have been charged down to the lower of amortized cost or the fair value of their underlying collateral less costs to sell. If the value of the underlying collateral improves subsequent to the charge down, the related allowance may be negative.

(c) Interest income on nonaccrual loans recognized on a cash basis was not material for the years ended December 31, 2020 and 2019.

(d) The geographic regions presented in this table are ordered based on the magnitude of the corresponding loan balances at December 31, 2020.

## Loan modifications

Certain other consumer loan modifications are considered to be TDRs as they provide various concessions to borrowers who are experiencing financial difficulty. Loans with short-term or other insignificant modifications that are not considered concessions are not TDRs.

The impact of these modifications, as well as new TDRs, were not material to the Bank for the years ended December 31, 2020, 2019 and 2018. Additional commitments to lend to borrowers whose loans have been modified in TDRs as of December 31, 2020 and 2019 were not material.

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### Credit card loan portfolio

The credit card portfolio segment includes credit card loans originated and purchased by the Bank. Delinquency rates are the primary credit quality indicator for credit card loans as they provide an early warning that borrowers may be experiencing difficulties (30 days past due); information on those borrowers that have been delinquent for a longer period of time (90 days past due) is also considered. In addition to delinquency rates, the geographic distribution of the loans provides insight as to the credit quality of the portfolio based on the regional economy.

While the borrower's credit score is another general indicator of credit quality, the Bank does not view credit scores as a primary indicator of credit quality because the

borrower's credit score tends to be a lagging indicator. The distribution of such scores provides a general indicator of credit quality trends within the portfolio; however, the score does not capture all factors that would be predictive of future credit performance. Refreshed FICO score information, which is obtained at least quarterly, for a statistically significant random sample of the credit card portfolio is indicated in the following table. FICO is considered to be the industry benchmark for credit scores.

The Bank generally originates new card accounts to prime consumer borrowers. However, certain cardholders' FICO scores may decrease over time, depending on the performance of the cardholder and changes in the credit score calculation.

The following table provides information on delinquency, which is the primary credit quality indicator for retained credit card loans.

(in millions, except ratios)	December 31, 2020			December 31, 2019	
	Within the revolving period	Converted to term loans <sup>(b)</sup>	Total	Total	
<b>Loan delinquency<sup>(a)</sup></b>					
Current and less than 30 days past due and still accruing	\$ 139,783	\$ 1,239	\$ 141,022	\$	165,767
30-89 days past due and still accruing	997	94	1,091		1,550
90 or more days past due and still accruing	1,277	42	1,319		1,607
<b>Total retained loans</b>	<b>\$ 142,057</b>	<b>\$ 1,375</b>	<b>\$ 143,432</b>	<b>\$</b>	<b>168,924</b>
<b>Loan delinquency ratios</b>					
% of 30+ days past due to total retained loans	1.60 %	9.89 %	1.68 %		1.87 %
% of 90+ days past due to total retained loans	0.90	3.05	0.92		0.95

(a) At December 31, 2020, loans under payment deferral programs offered in response to the COVID-19 pandemic which are still within their deferral period and performing according to their modified terms are generally not considered delinquent.

(b) Represents TDRs.

### Other credit quality indicators

The following table provides information on other credit quality indicators for retained credit card loans.

(in millions, except ratios)	December 31, 2020		December 31, 2019	
<b>Geographic region<sup>(a)</sup></b>				
California	\$	20,921	\$	25,783
Texas		14,544		16,728
New York		11,919		14,544
Florida		9,562		10,830
Illinois		8,006		9,579
New Jersey		5,927		7,165
Ohio		4,673		5,406
Pennsylvania		4,476		5,245
Colorado		4,092		4,763
Michigan		3,553		4,164
All other		55,759		64,717
<b>Total retained loans</b>	<b>\$</b>	<b>143,432</b>	<b>\$</b>	<b>168,924</b>
<b>Percentage of portfolio based on carrying value with estimated refreshed FICO scores</b>				
Equal to or greater than 660		85.9 %		84.0 %
Less than 660		13.9		15.4
No FICO available		0.2		0.6

(a) The geographic regions presented in the table are ordered based on the magnitude of the corresponding loan balances at December 31, 2020.

### Loan modifications

The Bank may offer one of a number of loan modification programs granting concessions to credit card borrowers who are experiencing financial difficulty. The Bank grants concessions for most of the credit card loans under long-term programs. These modifications involve placing the customer on a fixed payment plan, generally for 60 months, and typically include reducing the interest rate on the credit card. Substantially all modifications under the Bank's long-term programs are considered to be TDRs. Loans with short-term or other insignificant modifications that are not considered concessions are not TDRs.

If the cardholder does not comply with the modified payment terms, then the credit card loan continues to age and will ultimately be charged-off in accordance with the Bank standard charge-off policy. In most cases, the Bank does not reinstate the borrower's line of credit.

### Financial effects of modifications and redefaults

The following table provides information about the financial effects of the concessions granted on credit card loans modified in TDRs and redefaults for the periods presented. For all periods disclosed, new enrollments were less than 1% of total retained credit card loans.

Year ended December 31, (in millions, except weighted-average data)	2020	2019	2018
Balance of new TDRs <sup>(a)</sup>	\$ 818	\$ 961	\$ 866
Weighted-average interest rate of loans - before TDR	18.04 %	19.07 %	17.98 %
Weighted-average interest rate of loans - after TDR	4.64	4.70	5.16
Balance of loans that redefaulted within one year of modification <sup>(b)</sup>	\$ 110	\$ 148	\$ 116

(a) Represents the outstanding balance prior to modification.

(b) Represents loans modified in TDRs that experienced a payment default in the periods presented, and for which the payment default occurred within one year of the modification. The amounts presented represent the balance of such loans as of the end of the quarter in which they defaulted.

For credit card loans modified in TDRs, payment default is deemed to have occurred when the borrower misses two consecutive contractual payments. Defaulted modified credit card loans remain in the modification program and continue to be charged off in accordance with the Bank's standard charge-off policy.

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### Wholesale loan portfolio

Wholesale loans include loans made to a variety of clients, ranging from large corporate and institutional clients to high-net-worth individuals.

The primary credit quality indicator for wholesale loans is the internal risk rating assigned to each loan. Risk ratings are used to identify the credit quality of loans and differentiate risk within the portfolio. Risk ratings on loans consider the probability of default (“PD”) and the loss given default (“LGD”). The PD is the likelihood that a loan will default. The LGD is the estimated loss on the loan that would be realized upon the default of the borrower and takes into consideration collateral and structural support for each credit facility.

Management considers several factors to determine an appropriate internal risk rating, including the obligor’s debt capacity and financial flexibility, the level of the obligor’s earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. The Bank’s internal risk ratings generally align with the qualitative characteristics (e.g., borrower capacity to meet financial commitments and vulnerability to changes in the economic environment) defined by S&P and Moody’s, however the quantitative characteristics (e.g., PD and LGD) may differ as they reflect internal historical experiences and assumptions. The Bank generally considers internal ratings with qualitative characteristics equivalent to BBB-/Baa3 or higher as investment grade, and these ratings have a lower PD and/or lower LGD than non-investment grade ratings.

Noninvestment-grade ratings are further classified as noncriticized and criticized, and the criticized portion is further subdivided into performing and nonaccrual loans, representing management’s assessment of the collectibility of principal and interest. Criticized loans have a higher PD than noncriticized loans. The Bank’s definition of criticized aligns with the U.S. banking regulatory definition of criticized exposures, which consist of special mention, substandard and doubtful categories.

Risk ratings are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary for updated information affecting the obligor’s ability to fulfill its obligations.

As noted above, the risk rating of a loan considers the industry in which the obligor conducts its operations. As part of the overall credit risk management framework, the Bank focuses on the management and diversification of its industry and client exposures, with particular attention paid to industries with actual or potential credit concern. Refer to Note 4 for further detail on industry concentrations.

The following tables provide information on internal risk rating, which is the primary credit quality indicator for retained wholesale loans.

December 31, (in millions, except ratios)	Secured by real estate		Commercial and industrial		Other <sup>(b)</sup>		Total retained loans	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Loans by risk ratings</b>								
Investment-grade	\$ 90,128	\$ 96,611	\$ 71,835	<sup>(a)</sup> \$ 80,386	\$ 216,260	\$ 185,420	\$ 378,223	<sup>(a)</sup> \$ 362,417
Noninvestment-grade:								
Noncriticized	26,138	22,493	57,999	60,437	32,510	27,099	116,647	110,029
Criticized performing	3,234	1,131	10,991	4,395	1,079	1,126	15,304	6,652
Criticized nonaccrual	483	183	1,928	844	904	30	3,315	1,057
<b>Total noninvestment-grade</b>	<b>29,855</b>	<b>23,807</b>	<b>70,918</b>	<b>65,676</b>	<b>34,493</b>	<b>28,255</b>	<b>135,266</b>	<b>117,738</b>
<b>Total retained loans</b>	<b>\$ 119,983</b>	<b>\$ 120,418</b>	<b>\$ 142,753</b>	<b>\$ 146,062</b>	<b>\$ 250,753</b>	<b>\$ 213,675</b>	<b>\$ 513,489</b>	<b>\$ 480,155</b>
% of investment-grade to total retained loans	75.12 %	80.23 %	50.32 %	55.04 %	86.24 %	86.78 %	73.66 %	75.48 %
% of total criticized to total retained loans	3.10	1.09	9.05	3.59	0.79	0.54	3.63	1.61
% of criticized nonaccrual to total retained loans	0.40	0.15	1.35	0.58	0.36	0.01	0.65	0.22

Secured by real estate											
December 31, 2020										December 31, 2019	
(in millions)	Term loans by origination year						Revolving loans			Total	Total
	2020	2019	2018	2017	2016	Prior to 2016	Within the revolving period	Converted to term loans			
<b>Loans by risk ratings</b>											
Investment-grade	\$ 16,542	\$ 19,575	\$ 12,192	\$ 11,017	\$ 13,439	\$ 16,265	\$ 1,098	\$ —	\$ 90,128	\$ 96,611	
Noninvestment-grade	3,335	4,339	4,206	2,916	2,575	11,994	489	1	29,855	23,807	
<b>Total retained loans</b>	<b>\$ 19,877</b>	<b>\$ 23,914</b>	<b>\$ 16,398</b>	<b>\$ 13,933</b>	<b>\$ 16,014</b>	<b>\$ 28,259</b>	<b>\$ 1,587</b>	<b>\$ 1</b>	<b>\$ 119,983</b>	<b>\$ 120,418</b>	

Commercial and industrial											
December 31, 2020										December 31, 2019	
(in millions)	Term loans by origination year						Revolving loans			Total	Total
	2020	2019	2018	2017	2016	Prior to 2016	Within the revolving period	Converted to term loans			
<b>Loans by risk ratings</b>											
Investment-grade	\$ 21,139	<sup>(a)</sup> \$ 7,304	\$ 2,934	\$ 1,748	\$ 1,032	\$ 1,263	\$ 36,414	\$ 1	\$ 71,835	\$ 80,386	
Noninvestment-grade	15,187	8,636	5,130	2,104	497	2,439	36,852	73	70,918	65,676	
<b>Total retained loans</b>	<b>\$ 36,326</b>	<b>\$ 15,940</b>	<b>\$ 8,064</b>	<b>\$ 3,852</b>	<b>\$ 1,529</b>	<b>\$ 3,702</b>	<b>\$ 73,266</b>	<b>\$ 74</b>	<b>\$ 142,753</b>	<b>\$ 146,062</b>	

Other <sup>(b)</sup>											
December 31, 2020										December 31, 2019	
(in millions)	Term loans by origination year						Revolving loans			Total	Total
	2020	2019	2018	2017	2016	Prior to 2016	Within the revolving period	Converted to term loans			
<b>Loans by risk ratings</b>											
Investment-grade	\$ 30,926	\$ 10,169	\$ 6,982	\$ 6,206	\$ 3,522	\$ 12,157	\$ 145,519	\$ 779	\$ 216,260	\$ 185,420	
Noninvestment-grade	5,612	2,221	1,641	550	109	517	23,719	124	34,493	28,255	
<b>Total retained loans</b>	<b>\$ 36,538</b>	<b>\$ 12,390</b>	<b>\$ 8,623</b>	<b>\$ 6,756</b>	<b>\$ 3,631</b>	<b>\$ 12,674</b>	<b>\$ 169,238</b>	<b>\$ 903</b>	<b>\$ 250,753</b>	<b>\$ 213,675</b>	

(a) At December 31, 2020, included \$8.0 billion of loans under the PPP, of which \$7.4 billion is included in commercial and industrial. PPP loans are guaranteed by the SBA and considered investment-grade. Other than in certain limited circumstances, the Bank typically does not recognize charge-offs, classify as nonaccrual nor record an allowance for loan losses on these loans.

(b) Includes loans to financial institutions, states and political subdivisions, SPEs, nonprofits, personal investment companies and trusts, as well as loans to individuals and individual entities (predominantly wealth management clients). Refer to Note 14 for more information on SPEs.

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The following table presents additional information on retained loans secured by real estate within the Wholesale portfolio, which consists of loans secured wholly or substantially by a lien or liens on real property at origination. Multifamily lending includes financing for acquisition, leasing and construction of apartment buildings. Other commercial lending largely includes financing for acquisition, leasing and construction, largely for office, retail and industrial real estate. Included in secured by real estate loans is \$6.4 billion and \$6.3 billion as of December 31, 2020 and 2019, respectively, of construction and development loans made to finance land development and on-site construction of commercial, industrial, residential, or farm buildings.

December 31, (in millions, except ratios)	Multifamily		Other Commercial		Total retained loans secured by real estate	
	2020	2019	2020	2019	2020	2019
Retained loans secured by real estate	\$ 73,078	\$ 73,840	\$ 46,905	\$ 46,578	\$ 119,983	\$ 120,418
Criticized	1,144	340	2,573	974	3,717	1,314
% of total criticized to total retained loans secured by real estate	1.57 %	0.46 %	5.49 %	2.09 %	3.10 %	1.09 %
Criticized nonaccrual	\$ 56	\$ 28	\$ 427	\$ 155	\$ 483	\$ 183
% of criticized nonaccrual loans to total retained loans secured by real estate	0.08 %	0.04 %	0.91 %	0.33 %	0.40 %	0.15 %

The following table provides additional information about retained wholesale loans, including geographic distribution, delinquency and net charge-offs.

December 31, (in millions)	Secured by real estate		Commercial and industrial		Other		Total retained loans	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Loans by geographic distribution<sup>(a)</sup></b>								
Total U.S.	\$ 116,997	\$ 117,836	\$ 109,384	\$ 111,851	\$ 179,472	\$ 149,104	\$ 405,853	\$ 378,791
Total non-U.S.	2,986	2,582	33,369	34,211	71,281	64,571	107,636	101,364
<b>Total retained loans</b>	<b>\$ 119,983</b>	<b>\$ 120,418</b>	<b>\$ 142,753</b>	<b>\$ 146,062</b>	<b>\$ 250,753</b>	<b>\$ 213,675</b>	<b>\$ 513,489</b>	<b>\$ 480,155</b>
<b>Loan delinquency<sup>(b)</sup></b>								
Current and less than 30 days past due and still accruing	\$ 118,884	\$ 120,119	\$ 140,147	\$ 144,732	\$ 248,221	\$ 213,225	\$ 507,252	\$ 478,076
30-89 days past due and still accruing	601	115	657	449	1,607	415	2,865	979
90 or more days past due and still accruing <sup>(c)</sup>	15	1	21	37	21	5	57	43
Criticized nonaccrual	483	183	1,928	844	904	30	3,315	1,057
<b>Total retained loans</b>	<b>\$ 119,983</b>	<b>\$ 120,418</b>	<b>\$ 142,753</b>	<b>\$ 146,062</b>	<b>\$ 250,753</b>	<b>\$ 213,675</b>	<b>\$ 513,489</b>	<b>\$ 480,155</b>
Net charge-offs/(recoveries)	\$ 10	\$ 44	\$ 746	\$ 335	\$ 53	\$ 36	\$ 809	\$ 415
% of net charge-offs/(recoveries) to end-of-period retained loans	0.01 %	0.04 %	0.52 %	0.23 %	0.02 %	0.02 %	0.16 %	0.09 %

(a) The U.S. and non-U.S. distribution is determined based predominantly on the domicile of the borrower.

(b) The credit quality of wholesale loans is assessed primarily through ongoing review and monitoring of an obligor's ability to meet contractual obligations rather than relying on the past due status, which is generally a lagging indicator of credit quality. Generally excludes loans under payment deferral programs offered in response to the COVID-19 pandemic.

(c) Represents loans that are considered well-collateralized and therefore still accruing interest.

### Nonaccrual loans

The following table provides information on retained wholesale nonaccrual loans.

December 31, (in millions)	Secured by real estate		Commercial and industrial		Other		Total retained loans	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Nonaccrual loans<sup>(a)</sup></b>								
With an allowance	\$ 351	\$ 169	\$ 1,664	\$ 688	\$ 800	\$ 29	\$ 2,815	\$ 886
Without an allowance <sup>(b)</sup>	132	14	264	156	104	1	500	171
<b>Total nonaccrual loans<sup>(c)</sup></b>	<b>\$ 483</b>	<b>\$ 183</b>	<b>\$ 1,928</b>	<b>\$ 844</b>	<b>\$ 904</b>	<b>\$ 30</b>	<b>\$ 3,315</b>	<b>\$ 1,057</b>

(a) Loans that were modified in response to the COVID-19 pandemic continue to be risk-rated in accordance with the Bank's overall credit risk management framework. As of December 31, 2020, predominantly all of these loans were considered performing.

(b) When the discounted cash flows, collateral value or market price equals or exceeds the amortized cost of the loan, the loan does not require an allowance. This typically occurs when the loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.

(c) Interest income on nonaccrual loans recognized on a cash basis were not material for the years ended December 31, 2020, and 2019.

### Loan modifications

Certain loan modifications are considered to be TDRs as they provide various concessions to borrowers who are experiencing financial difficulty. Loans with short-term or other insignificant modifications that are not considered concessions are not TDRs nor are loans for which the Bank has elected to apply the option to suspend the application of accounting guidance for TDRs as

provided by the CARES Act and extended by the Consolidated Appropriations Act. The carrying value of TDRs was \$954 million and \$501 million as of December 31, 2020 and 2019, respectively. The carrying value of new TDRs was \$734 million, \$407 million and \$718 million for the years ended December 31, 2020, 2019 and 2018, respectively. The impact of these modifications, as well as new TDRs, were not material to the Bank for the years ended December 31, 2020, 2019 and 2018.

### Note 13 – Allowance for credit losses

Effective January 1, 2020, the Bank adopted the CECL accounting guidance. The adoption of this guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This framework requires that management's estimate reflects credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions. Refer to Note 1 for further information.

The Bank's allowance for credit losses comprises:

- the allowance for loan losses, which covers the Bank's retained loan portfolios (scored and risk-rated) and is presented separately on the Consolidated balance sheets,
- the allowance for lending-related commitments, which is presented on the Consolidated balance sheets in accounts payable and other liabilities, and
- the allowance for credit losses on investment securities, which covers the Bank's HTM and AFS securities and is recognized within Investment Securities on the Consolidated balance sheets.

The income statement effect of all changes in the allowance for credit losses is recognized in the provision for credit losses.

Determining the appropriateness of the allowance for credit losses is complex and requires significant judgment by management about the effect of matters that are inherently uncertain. At least quarterly, the allowance for credit losses is reviewed by the CRO, the CFO and the Controller of JPMorgan Chase. Subsequent evaluations of credit exposures, considering the macroeconomic conditions, forecasts and other factors then prevailing, may result in significant changes in the allowance for credit losses in future periods.

The Bank's policies used to determine its allowance for loan losses and its allowance for lending-related commitments are described in the following paragraphs. Refer to Note 10 for a description of the policies used to determine the allowance for credit losses on investment securities.

#### Methodology for allowances for loan losses and lending-related commitments

The allowance for loan losses and allowance for lending-related commitments represents expected credit losses over the remaining expected life of retained loans and lending-related commitments that are not unconditionally cancellable. The Bank does not record an allowance for future draws on unconditionally cancellable lending-related commitments (e.g., credit cards). Expected losses related to accrued interest on credit card loans and certain performing, modified loans to borrowers impacted by

COVID-19 are considered in the Bank's allowance for loan losses. However, the Bank does not record an allowance on other accrued interest receivables, due to its policy to write these receivables off no later than 90 days past due by reversing interest income.

The expected life of each instrument is determined by considering its contractual term, expected prepayments, cancellation features, and certain extension and call options. The expected life of funded credit card loans is generally estimated by considering expected future payments on the credit card account, and determining how much of those amounts should be allocated to repayments of the funded loan balance (as of the balance sheet date) versus other account activity. This allocation is made using an approach that incorporates the payment application requirements of the Credit Card Accountability Responsibility and Disclosure Act of 2009, generally paying down the highest interest rate balances first.

The estimate of expected credit losses includes expected recoveries of amounts previously charged off or expected to be charged off, even if such recoveries result in a negative allowance.

#### Collective and Individual Assessments

When calculating the allowance for loan losses and the allowance for lending-related commitments, the Bank assesses whether exposures share similar risk characteristics. If similar risk characteristics exist, the Bank estimates expected credit losses collectively, considering the risk associated with a particular pool and the probability that the exposures within the pool will deteriorate or default. The assessment of risk characteristics is subject to significant management judgment. Emphasizing one characteristic over another or considering additional characteristics could affect the allowance.

- Relevant risk characteristics for the consumer portfolio include product type, delinquency status, current FICO scores, geographic distribution, and, for collateralized loans, current LTV ratios.
- Relevant risk characteristics for the wholesale portfolio include LOB, geography, risk rating, delinquency status, level and type of collateral, industry, credit enhancement, product type, facility purpose, tenor, and payment terms.

The majority of the Bank's credit exposures share risk characteristics with other similar exposures, and as a result are collectively assessed for impairment ("portfolio-based component"). The portfolio-based component covers consumer loans, performing risk-rated loans and certain lending-related commitments.

If an exposure does not share risk characteristics with other exposures, the Bank generally estimates expected credit

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losses on an individual basis, considering expected repayment and conditions impacting that individual exposure (“asset-specific component”). The asset-specific component covers modified PCD loans, loans modified or reasonably expected to be modified in a TDR, collateral-dependent loans, as well as, risk-rated loans that have been placed on nonaccrual status.

### *Portfolio-based component*

The portfolio-based component begins with a quantitative calculation that considers the likelihood of the borrower changing delinquency status or moving from one risk rating to another. The quantitative calculation covers expected credit losses over an instrument’s expected life and is estimated by applying credit loss factors to the Bank’s estimated exposure at default. The credit loss factors incorporate the probability of borrower default as well as loss severity in the event of default. They are derived using a weighted average of five internally developed macroeconomic scenarios over an eight-quarter forecast period, followed by a single year straight-line interpolation to revert to long run historical information for periods beyond the eight-quarter forecast period. The five macroeconomic scenarios consist of a central, relative adverse, extreme adverse, relative upside and extreme upside scenario, and are updated by the Bank’s central forecasting team. The scenarios take into consideration the Bank’s overarching economic outlook, internal perspectives from subject matter experts across the Bank, and market consensus and involve a governed process that incorporates feedback from senior management.

The eight-quarter forecast incorporates hundreds of macroeconomic variables (“MEVs”) that are relevant for exposures across the Bank, with modeled credit losses being driven primarily by a subset of less than twenty variables, including U.S. real gross domestic product (“GDP”), U.S. unemployment, U.S. equity prices, corporate credit spreads, oil prices, commercial real estate prices, and house price index (“HPI”). The specific variables that have the greatest effect on the modeled losses of each portfolio vary by portfolio and geography.

The COVID-19 pandemic has stressed many MEVs to degrees not experienced in recent history, which has created additional challenges in the use of modeled credit loss estimates and increased the reliance on management judgment. In periods where certain MEVs are outside the range of historical experience on which the Bank’s models have been trained, the Bank makes adjustments to appropriately address these economic circumstances. The Bank also considers the impact of other events, such as government unemployment benefits or other stimulus programs, when determining whether adjustments are necessary.

The quantitative calculation is adjusted to take into consideration model imprecision, emerging risk assessments, trends and other subjective factors that are not yet reflected in the calculation. These adjustments are

accomplished in part by analyzing the historical loss experience, including during stressed periods, for each major product or model. Management applies judgment in making this adjustment, including taking into account uncertainties associated with the economic and political conditions, quality of underwriting standards, borrower behavior, credit concentrations or deterioration within an industry, product or portfolio, as well as other relevant internal and external factors affecting the credit quality of the portfolio. In certain instances, the interrelationships between these factors create further uncertainties.

Throughout 2020, the Bank made adjustments to its quantitative calculation which placed significant weighting on its adverse scenarios, as a result of continued uncertainty related to the COVID-19 pandemic.

The application of different inputs into the quantitative calculation, and the assumptions used by management to adjust the quantitative calculation, are subject to significant management judgment, and emphasizing one input or assumption over another, or considering other inputs or assumptions, could affect the estimate of the allowance for loan losses and the allowance for lending-related commitments.

### *Asset-specific component*

To determine the asset-specific component of the allowance, collateral-dependent loans (including those loans for which foreclosure is probable) and larger, nonaccrual risk-rated loans in the wholesale portfolio segment are generally evaluated individually, while smaller loans (both scored and risk-rated) are aggregated for evaluation using factors relevant for the respective class of assets.

The Bank generally measures the asset-specific allowance as the difference between the amortized cost of the loan and the present value of the cash flows expected to be collected, discounted at the loan’s original effective interest rate. Subsequent changes in impairment are generally recognized as an adjustment to the allowance for loan losses. For collateral-dependent loans, the fair value of collateral less estimated costs to sell is used to determine the charge-off amount for declines in value (to reduce the amortized cost of the loan to the fair value of collateral) or the amount of negative allowance that should be recognized (for recoveries of prior charge-offs associated with improvements in the fair value of collateral).

The asset-specific component of the allowance for loan losses for loans that have been or are expected to be modified in TDRs incorporates the effect of the modification on the loan’s expected cash flows (including forgone interest, principal forgiveness, as well as other concessions), and also the potential for redefault. For residential real estate loans modified in or expected to be modified in TDRs, the Bank develops product-specific probability of default estimates, which are applied at a loan level to compute expected losses. In developing these probabilities of default, the Bank considers the relationship between the credit

quality characteristics of the underlying loans and certain assumptions about housing prices and unemployment, based upon industry-wide data. The Bank also considers its own historical loss experience to-date based on actual redefaulted modified loans. For credit card loans modified in or expected to be modified in TDRs, expected losses incorporate projected delinquencies and charge-offs based on the Bank's historical experience by type of modification program. For wholesale loans modified or expected to be modified in TDRs, expected losses incorporate management's expectation of the borrower's ability to repay under the modified terms.

Estimating the timing and amounts of future cash flows is highly judgmental as these cash flow projections rely upon

estimates such as loss severities, asset valuations, default rates (including redefault rates on modified loans), the amounts and timing of interest or principal payments (including any expected prepayments) or other factors that are reflective of current and expected market conditions. These estimates are, in turn, dependent on factors such as the duration of current overall economic conditions, industry-, portfolio-, or borrower-specific factors, the expected outcome of insolvency proceedings as well as, in certain circumstances, other economic factors. All of these estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

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### Allowance for credit losses and related information

The table below summarizes information about the allowances for loan losses and lending-related commitments, and includes a breakdown of loans and lending-related commitments by impairment methodology. Refer to Note 10 for further information on the allowance for credit losses on investment securities.

The adoption of the CECL accounting guidance resulted in a change in the accounting for PCI loans, which are considered PCD loans. In conjunction with the adoption of CECL, the Bank reclassified risk-rated loans and lending-related commitments from the consumer, excluding credit card portfolio segment to the wholesale portfolio segment, to align with the methodology applied when determining the allowance. Prior-period amounts have been revised to conform with the current presentation. Refer to Note 1 for further information.

(Table continued on next page)

Year ended December 31, (in millions)	2020 <sup>(e)</sup>			
	Consumer, excluding credit card	Credit card	Wholesale	Total
<b>Allowance for loan losses</b>				
Beginning balance at January 1,	\$ 2,537	\$ 5,683	\$ 4,886	\$ 13,106
Cumulative effect of a change in accounting principle	297	5,517	(1,632)	4,182
Gross charge-offs	805	5,077	954	6,836
Gross recoveries collected	(630)	(791)	(145)	(1,566)
<b>Net charge-offs</b>	<b>175</b>	<b>4,286</b>	<b>809</b>	<b>5,270</b>
Write-offs of PCI loans <sup>(a)</sup>	NA	NA	NA	NA
Provision for loan losses	974	10,886	4,436	16,296
Other	1	–	3	4
<b>Ending balance at December 31,</b>	<b>\$ 3,634</b>	<b>\$ 17,800</b>	<b>\$ 6,884</b>	<b>\$ 28,318</b>
<b>Allowance for lending-related commitments</b>				
Beginning balance at January 1,	\$ 12	\$ –	\$ 1,178	\$ 1,190
Cumulative effect of a change in accounting principle	133	–	(36)	97
Provision for lending-related commitments	42	–	1,077	1,119
Other	–	–	(1)	(1)
<b>Ending balance at December 31,</b>	<b>\$ 187</b>	<b>\$ –</b>	<b>\$ 2,218</b>	<b>\$ 2,405</b>
<b>Total allowance for credit losses</b>	<b>\$ 3,821</b>	<b>\$ 17,800</b>	<b>\$ 9,102</b>	<b>\$ 30,723</b>
<b>Allowance for loan losses by impairment methodology</b>				
Asset-specific <sup>(b)</sup>	\$ (7)	\$ 633	\$ 681	\$ 1,307
Portfolio-based	3,641	17,167	6,203	27,011
PCI	NA	NA	NA	NA
<b>Total allowance for loan losses</b>	<b>\$ 3,634</b>	<b>\$ 17,800</b>	<b>\$ 6,884</b>	<b>\$ 28,318</b>
<b>Loans by impairment methodology</b>				
Asset-specific <sup>(b)</sup>	\$ 16,625	\$ 1,375	\$ 3,606	\$ 21,606
Portfolio-based	285,493	142,057	509,883	937,433
PCI	NA	NA	NA	NA
<b>Total retained loans</b>	<b>\$ 302,118</b>	<b>\$ 143,432</b>	<b>\$ 513,489</b>	<b>\$ 959,039</b>
<b>Collateral-dependent loans</b>				
Net charge-offs	\$ 133	\$ –	\$ 75	\$ 208
Loans measured at fair value of collateral less cost to sell	4,954	–	184	5,138
<b>Allowance for lending-related commitments by impairment methodology</b>				
Asset-specific	\$ –	\$ –	\$ 114	\$ 114
Portfolio-based	187	–	2,104	2,291
<b>Total allowance for lending-related commitments<sup>(c)</sup></b>	<b>\$ 187</b>	<b>\$ –</b>	<b>\$ 2,218</b>	<b>\$ 2,405</b>
<b>Lending-related commitments by impairment methodology</b>				
Asset-specific	\$ –	\$ –	\$ 577	\$ 577
Portfolio-based <sup>(d)</sup>	37,783	–	424,576	462,359
<b>Total lending-related commitments</b>	<b>\$ 37,783</b>	<b>\$ –</b>	<b>\$ 425,153</b>	<b>\$ 462,936</b>

- (a) Prior to the adoption of CECL, write-offs of PCI loans were recorded against the allowance for loan losses when actual losses for a pool exceeded estimated losses that were recorded as purchase accounting adjustments at the time of acquisition. A write-off of a PCI loan was recognized when the underlying loan was removed from a pool.
- (b) Includes modified PCD loans and loans that have been modified or are reasonably expected to be modified in a TDR. Also includes risk-rated loans that have been placed on nonaccrual status for the wholesale portfolio segment. The asset-specific credit card allowance for loans modified, or reasonably expected to be modified, in a TDR is calculated based on the loans' original contractual interest rates and does not consider any incremental penalty rates.
- (c) The allowance for lending-related commitments is reported in accounts payable and other liabilities on the Consolidated balance sheets.
- (d) At December 31, 2020, 2019 and 2018, lending-related commitments excluded \$19.5 billion, \$9.8 billion and \$8.7 billion, respectively, for the consumer, excluding credit card portfolio segment; \$658.5 billion, \$650.7 billion and \$605.4 billion, respectively, for the credit card portfolio segment; and \$22.4 billion, \$24.1 billion and \$24.8 billion, respectively, for the wholesale portfolio segment, which were not subject to the allowance for lending-related commitments.
- (e) Excludes HTM securities, which had an allowance for credit losses of \$78 million and a provision for credit losses of \$68 million as of and for the year ended December 31, 2020.

(table continued from previous page)

2019				2018			
Consumer, excluding credit card	Credit card	Wholesale	Total	Consumer, excluding credit card	Credit card	Wholesale	Total
\$ 3,433	\$ 5,184	\$ 4,808	\$ 13,425	\$ 3,890	\$ 4,884	\$ 4,770	\$ 13,544
NA	NA	NA	NA	NA	NA	NA	NA
902	5,436	472	6,810	977	5,011	322	6,310
(536)	(588)	(57)	(1,181)	(827)	(493)	(173)	(1,493)
366	4,848	415	5,629	150	4,518	149	4,817
151	–	–	151	187	–	–	187
(378)	5,348	487	5,457	(121)	4,818	188	4,885
(1)	(1)	6	4	1	–	(1)	–
\$ 2,537	\$ 5,683	\$ 4,886	\$ 13,106	\$ 3,433	\$ 5,184	\$ 4,808	\$ 13,425
\$ 12	\$ –	\$ 1,042	\$ 1,054	\$ 12	\$ –	\$ 1,056	\$ 1,068
NA	NA	NA	NA	NA	NA	NA	NA
–	–	136	136	–	–	(13)	(13)
–	–	–	–	–	–	(1)	(1)
\$ 12	\$ –	\$ 1,178	\$ 1,190	\$ 12	\$ –	\$ 1,042	\$ 1,054
\$ 2,549	\$ 5,683	\$ 6,064	\$ 14,296	\$ 3,445	\$ 5,184	\$ 5,850	\$ 14,479
\$ 75	\$ 477	\$ 295	\$ 847	\$ 143	\$ 440	\$ 350	\$ 933
1,475	5,206	4,591	11,272	1,502	4,744	4,458	10,704
987	–	–	987	1,788	–	–	1,788
\$ 2,537	\$ 5,683	\$ 4,886	\$ 13,106	\$ 3,433	\$ 5,184	\$ 4,808	\$ 13,425
\$ 5,955	\$ 1,452	\$ 1,123	\$ 8,530	\$ 6,612	\$ 1,319	\$ 1,459	\$ 9,390
268,662	167,472	479,032	915,166	305,102	155,297	474,168	934,567
20,363	–	–	20,363	24,034	–	3	24,037
\$ 294,980	\$ 168,924	\$ 480,155	\$ 944,059	\$ 335,748	\$ 156,616	\$ 475,630	\$ 967,994
\$ 46	\$ –	\$ 36	\$ 82	\$ 16	\$ –	\$ 29	\$ 45
2,051	–	87	2,138	2,074	–	206	2,280
\$ –	\$ –	\$ 102	\$ 102	\$ –	\$ –	\$ 99	\$ 99
12	–	1,076	1,088	12	–	943	955
\$ 12	\$ –	\$ 1,178	\$ 1,190	\$ 12	\$ –	\$ 1,042	\$ 1,054
\$ –	\$ –	\$ 474	\$ 474	\$ –	\$ –	\$ 469	\$ 469
30,417	–	391,439	421,856	26,502	–	373,922	400,424
\$ 30,417	\$ –	\$ 391,913	\$ 422,330	\$ 26,502	\$ –	\$ 374,391	\$ 400,893

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### Discussion of changes in the allowance during 2020

The increase in the allowance for loan losses and lending-related commitments was primarily driven by an increase in the provision for credit losses, reflecting the deterioration in and uncertainty around the future macroeconomic environment as a result of the impact of the COVID-19 pandemic.

As of December 31, 2020, the Bank's central case reflected U.S. unemployment rates of approximately 7% through the second quarter of 2021 and remaining above 5% until the second half of 2022. This compared with relatively low levels of unemployment of approximately 4% throughout 2020 and 2021 in the Bank's January 1, 2020 central case.

Further, while the Bank's January 1, 2020 central case U.S. GDP forecast reflected a 1.7% expansion in 2020, actual U.S. GDP contracted approximately 2.5% in 2020. As of December 31, 2020, the Bank's central case assumptions reflect a return to pre-pandemic GDP levels in the fourth quarter of 2021.

Due to elevated uncertainty in the near term outlook, driven by the potential for increased infection rates and related lock downs resulting from the pandemic, as well as the prospect that government and other consumer relief measures set to expire may not be extended, the Bank has placed significant weighting on its adverse scenarios. These scenarios incorporate more punitive macroeconomic factors than the central case assumptions, resulting in weighted average U.S. unemployment rates remaining elevated throughout 2021 and 2022, ending the fourth quarter of 2022 at approximately 6%, and in U.S. GDP ending 2022 approximately 0.9% higher than fourth quarter 2019 actual pre-pandemic levels.

The Bank's central case assumptions reflected U.S. unemployment rates and U.S. real GDP as follows:

	Assumptions at January 1, 2020		
	2Q20	4Q20 <sup>(b)</sup>	2Q21
U.S. unemployment rate <sup>(a)</sup>	3.7%	3.8%	4.0%
Cumulative change in U.S. real GDP from 12/31/2019	0.9%	1.7%	2.4%

	Assumptions at December 31, 2020		
	2Q21	4Q21	2Q22
U.S. unemployment rate <sup>(a)</sup>	6.8%	5.7%	5.1%
Cumulative change in U.S. real GDP from 12/31/2019	(1.9)%	0.6%	2.0%

(a) Reflects quarterly average of forecasted U.S. unemployment rate.

(b) 4Q20 actual U.S. unemployment rate (quarterly average) was 6.8%.  
4Q20 actual cumulative change in U.S. real GDP from 4Q19 was (2.5%).

Subsequent changes to this forecast and related estimates will be reflected in the provision for credit losses in future periods.

## Note 14 – Variable interest entities

Refer to Note 1 for a further description of the Bank’s accounting policies regarding consolidation of VIEs.

The following table summarizes the most significant types of Bank-sponsored VIEs. The Bank considers a “sponsored” VIE to include any entity where: (1) The Bank is the primary beneficiary of the structure; (2) the VIE is used by the Bank to securitize Bank assets; (3) the VIE issues financial instruments with the JPMorgan Chase Bank, N.A. name; or (4) the entity is a JPMorgan Chase Bank, N.A.-administered asset-backed commercial paper conduit.

<i>Transaction Type</i>	<i>Activity</i>	<i>Consolidated Financial Statements page reference</i>
Credit card securitization trusts	Securitization of originated credit card receivables	93-94
Mortgage securitization trusts	Servicing and securitization of both originated and purchased residential mortgages	94-95
Mortgage and other securitization trusts	Securitization of both originated and purchased residential and commercial mortgages, and other consumer loans	94-95
Multi-seller conduits	Assist clients in accessing the financial markets in a cost-efficient manner and structures transactions to meet investor needs	95-96
Municipal bond vehicles	Financing of municipal bond investments	96

The Bank is also involved with VIEs (both third-party and Bank-sponsored), but to a lesser extent, as follows:

- The Bank provides financing and lending-related services to a wide spectrum of clients, including certain third-party-sponsored entities that may meet the definition of a VIE. The Bank does not control the activities of these entities and does not consolidate these entities. The Bank’s maximum loss exposure, regardless of whether the entity is a VIE, is generally limited to loans and lending-related commitments which are reported and disclosed in the same manner as any other third-party transaction.
- The Bank is involved with entities that may meet the definition of VIEs; however these entities are generally subject to specialized investment company accounting, which does not require the consolidation of investments, including VIEs.
- The Bank invests in securities generally issued by third parties which may meet the definition of VIEs (e.g., issuers of asset-backed securities). In general, the Bank does not have the power to direct the significant activities of these entities and therefore does not consolidate these entities. Refer to Note 10 for further information on the Bank’s investment securities portfolio.
- The Bank also invests in and provides financing and other services to VIEs sponsored by third parties. Refer to page 98 of this Note for more information on the VIEs sponsored by third parties.

### Significant Bank-sponsored variable interest entities

#### Credit card securitizations

The Bank may securitize originated credit card loans, primarily through the Chase Issuance Trust (the “Trust”). The Bank’s continuing involvement in credit card securitizations includes servicing the receivables, retaining an undivided seller’s interest in the receivables, retaining certain senior and subordinated securities and maintaining escrow accounts.

The Bank consolidates the assets and liabilities of its sponsored credit card trusts as it is considered to be the primary beneficiary of these securitization trusts based on the Bank’s ability to direct the activities of these VIEs through its servicing responsibilities and other duties, including making decisions as to the receivables that are transferred into those trusts and as to any related modifications and workouts. Additionally, the nature and extent of the Bank’s other continuing involvement with the trusts, as indicated above, obligates the Bank to absorb losses and gives the Bank the right to receive certain

benefits from these VIEs that could potentially be significant.

The underlying securitized credit card receivables and other assets of the securitization trusts are available only for payment of the beneficial interests issued by the securitization trusts; they are not available to pay the Bank’s other obligations or the claims of the Bank’s creditors.

The agreements with the credit card securitization trusts require the Bank to maintain a minimum undivided interest in the credit card trusts (generally 5%). As of December 31, 2020 and 2019, the Bank held undivided interests in Bank-sponsored credit card securitization trusts of \$5.4 billion and \$5.3 billion, respectively. The Bank maintained an average undivided interest in principal receivables owned by those trusts of approximately 39% and 50% for the years ended December 31, 2020 and 2019. The Bank did not retain any senior securities and retained \$1.5 billion and \$3.0 billion of subordinated

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securities in certain of its credit card securitization trusts as of December 31, 2020 and 2019, respectively. The Bank's undivided interests in the credit card trusts and securities retained are eliminated in consolidation.

### **Bank-sponsored mortgage and other securitization trusts**

The Bank securitizes (or has securitized) originated and purchased residential mortgages, commercial mortgages and other consumer loans. Depending on the particular transaction, as well as the respective business involved, the Bank may act as the servicer of the loans and/or retain certain beneficial interests in the securitization trusts.

The following table presents the total unpaid principal amount of assets held in Bank-sponsored private-label securitization entities, including those in which the Bank has continuing involvement, and those that are consolidated by the Bank. Continuing involvement includes servicing the loans, holding senior interests or subordinated interests (including amounts required to be held pursuant to credit risk retention rules), recourse or guarantee arrangements, and derivative contracts. In certain instances, the Bank's only continuing involvement is servicing the loans. The Bank's maximum loss exposure from retained and purchased interests is the carrying value of these interests. Refer to Securitization activity on page 99 of this Note for further information regarding the Bank's cash flows associated with and interests retained in nonconsolidated VIEs, and pages 99-100 of this Note for information on the Bank's loan sales and securitization activity related to U.S. GSEs and government agencies.

December 31, 2020 (in millions)	Principal amount outstanding			The Bank interest in securitized assets in nonconsolidated VIEs <sup>(c)(d)</sup>			
	Total assets held by securitization VIEs	Assets held in consolidated securitization VIEs	Assets held in nonconsolidated securitization VIEs with continuing involvement	Trading assets	Investment securities	Other financial assets	Total interests held by the Bank
<b>Securitization-related<sup>(a)</sup></b>							
Residential mortgage:							
Prime/Alt-A and option ARMs	\$ 38,328	\$ 1,693	\$ 31,002	\$ 297	\$ 717	\$ —	\$ 1,014
Subprime	8,855	46	8,244	—	—	—	—
Commercial and other <sup>(b)</sup>	118,832	—	35,128	380	1,549	262	2,191
<b>Total</b>	<b>\$ 166,015</b>	<b>\$ 1,739</b>	<b>\$ 74,374</b>	<b>\$ 677</b>	<b>\$ 2,266</b>	<b>\$ 262</b>	<b>\$ 3,205</b>

December 31, 2019 (in millions)	Principal amount outstanding			The Bank interest in securitized assets in nonconsolidated VIEs <sup>(c)(d)</sup>			
	Total assets held by securitization VIEs	Assets held in consolidated securitization VIEs	Assets held in nonconsolidated securitization VIEs with continuing involvement	Trading assets	Investment securities	Other financial assets	Total interests held by the Bank
<b>Securitization-related<sup>(a)</sup></b>							
Residential mortgage:							
Prime/Alt-A and option ARMs	\$ 46,844	\$ 2,759	\$ 37,602	\$ 316	\$ 608	\$ —	\$ 924
Subprime	9,974	—	9,338	—	—	—	—
Commercial and other <sup>(b)</sup>	110,596	—	31,453	159	772	241	1,172
<b>Total</b>	<b>\$ 167,414</b>	<b>\$ 2,759</b>	<b>\$ 78,393</b>	<b>\$ 475</b>	<b>\$ 1,380</b>	<b>\$ 241</b>	<b>\$ 2,096</b>

- (a) Excludes U.S. GSEs and government agency securitizations, which are not Bank-sponsored. Refer to pages 99-100 of this Note for information on the Bank's loan sales and securitization activity related to U.S. GSEs and government agencies.
- (b) Consists of securities backed by commercial real estate loans and non-mortgage-related consumer receivables purchased from third parties.
- (c) Excludes the following: retained servicing (refer to Note 15 for a discussion of MSRs); securities retained from loan sales and securitization activity related to U.S. GSEs and government agencies; interest rate and foreign exchange derivatives primarily used to manage interest rate and foreign exchange risks of securitization entities (refer to Note 5 for further information on derivatives). There were no senior and subordinated securities purchased in connection with the Bank's secondary market-making activities at December 31, 2020 and 2019, respectively.
- (d) As of December 31, 2020 and 2019, 73% and 63%, respectively, of the Bank's retained securitization interests, which are predominantly carried at fair value and include amounts required to be held pursuant to credit risk retention rules, were risk-rated "A" or better, on an S&P-equivalent basis. The retained interests in prime residential mortgages consisted of \$1.0 billion and \$894 million of investment-grade retained interests and \$10 million and \$30 million of noninvestment-grade retained interests at December 31, 2020 and 2019, respectively. The retained interests in commercial and other securitization trusts consisted of \$1.6 billion and \$803 million of investment-grade retained interests and \$637 million and \$369 million of noninvestment-grade retained interests at December 31, 2020 and 2019, respectively.

### *Residential mortgage*

The Bank securitizes originated residential mortgage loans, as well as residential mortgage loans purchased from third parties. The Bank generally retains servicing for all residential mortgage loans originated and may retain servicing for certain mortgage loans purchased. For securitizations of loans serviced by the Bank, it has the power to direct the significant activities of the VIE because it is responsible for decisions related to loan modifications and workouts. The Bank may also retain an interest upon securitization.

In addition, the Bank may engage in trading activities involving securities issued by Bank-sponsored securitization trusts. As a result, the Bank at times retains senior and/or subordinated interests (including residual interests and amounts required to be held pursuant to credit risk retention rules) in residential mortgage securitizations at the time of securitization, and/or reacquires positions in the secondary market in the normal course of business. In certain instances, as a result of the positions retained or reacquired by the Bank, when considered together with the servicing arrangements entered into, the Bank, is deemed to be the primary beneficiary of certain securitization trusts. Refer to the table on page 97 of this Note for more information on consolidated residential mortgage securitizations.

The Bank does not consolidate residential mortgage securitizations (Bank-sponsored or third-party-sponsored) when it is not the servicer (and therefore does not have the power to direct the most significant activities of the trust) or does not hold a beneficial interest in the trust that could potentially be significant to the trust. Refer to the table on page 97 of this Note for more information on the consolidated residential mortgage securitizations, and the table on the previous page of this Note for further information on interests held in nonconsolidated residential mortgage securitizations.

### *Commercial mortgages and other consumer securitizations*

The Bank originates and securitizes commercial mortgage loans, and engages in underwriting and trading activities involving the securities issued by securitization trusts. The Bank may retain unsold senior and/or subordinated interests (including amounts required to be held pursuant to credit risk retention rules) in commercial mortgage securitizations at the time of securitization but, generally, the Bank does not service commercial loan securitizations. Treasury and CIO may choose to invest in these securitizations as well. For commercial mortgage securitizations the power to direct the significant activities of the VIE generally is held by the servicer or investors in a specified class of securities (“controlling class”). The Bank generally does not retain an interest in the controlling class in its sponsored commercial mortgage securitization transactions. Refer to the table on page 97 of this Note for more information on the consolidated commercial mortgage securitizations, and the table on the previous page of this Note for further information on interests held in nonconsolidated securitizations.

### **Multi-seller conduits**

Multi-seller conduit entities are separate bankruptcy remote entities that provide secured financing, collateralized by pools of receivables and other financial assets, to customers of the Bank. The conduits fund their financing facilities through the issuance of highly rated commercial paper. The primary source of repayment of the commercial paper is the cash flows from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided to the conduits by the customers (i.e., sellers) or other third parties. Deal-specific credit enhancements are generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller. The deal-specific credit enhancements mitigate the Bank’s potential losses on its agreements with the conduits.

To ensure timely repayment of the commercial paper, and to provide the conduits with funding to provide financing to customers in the event that the conduits do not obtain funding in the commercial paper market, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it provided by the Bank. The Bank also provides the multi-seller conduit vehicles with uncommitted program-wide liquidity facilities and program-wide credit enhancement in the form of standby letters of credit. The amount of program-wide credit enhancement required is based upon commercial paper issuance and approximates 10% of the outstanding balance of commercial paper.

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The Bank consolidates its Bank-administered multi-seller conduits, as the Bank has both the power to direct the significant activities of the conduits and a potentially significant economic interest in the conduits. As administrative agent and in its role in structuring transactions, the Bank makes decisions regarding asset types and credit quality, and manages the commercial paper funding needs of the conduits. The Bank's interests that could potentially be significant to the VIEs include the fees received as administrative agent and liquidity and program-wide credit enhancement provider, as well as the potential exposure created by the liquidity and credit enhancement facilities provided to the conduits. Refer to page 97 of this Note for further information on consolidated VIE assets and liabilities.

In the normal course of business, the Bank makes markets in and invests in commercial paper issued by Bank-administered multi-seller conduits. The Bank held \$13.5 billion and \$16.3 billion of the commercial paper issued by Bank-administered multi-seller conduits at December 31, 2020 and 2019, respectively, which have been eliminated in consolidation. The Bank's investments reflect its funding needs and capacity and were not driven by market illiquidity. Other than the amounts required to be held pursuant to credit risk retention rules, the Bank is not obligated under any agreement to purchase the commercial paper issued by Bank-administered multi-seller conduits.

The Bank provides deal-specific liquidity as well as program-wide liquidity and credit enhancement to its administered multi-seller conduits, which have been eliminated in consolidation. The administered multi-seller conduits then provide certain of their clients with lending-related commitments. The unfunded commitments were \$12.2 billion and \$8.9 billion at December 31, 2020 and 2019, respectively, and are reported as off-balance sheet lending-related commitments in other unfunded commitments to extend credit. Refer to Note 25 for more information on off-balance sheet lending-related commitments.

### **Municipal bond vehicles**

Municipal bond vehicles or tender option bond ("TOB") trusts allow institutions to finance their municipal bond investments at short-term rates. In a typical TOB transaction, the trust purchases highly rated municipal bond(s) of a single issuer and funds the purchase by issuing two types of securities: (1) puttable floating-rate certificates ("floaters") and (2) inverse floating-rate residual interests ("residuals"). The floaters are typically purchased by money market funds or other short-term investors and may be tendered, with requisite notice, to the TOB trust. The residuals are retained by the investor seeking to finance its municipal bond investment. TOB transactions where the residual is held by a third-party investor are typically known as customer TOB trusts, and non-customer TOB trusts are transactions where the Residual is retained by the Bank. Customer TOB trusts are sponsored by a third party; refer to pages 98 of this Note for further information. The Bank serves as sponsor for all non-customer TOB transactions. The Bank may provide various services to a TOB trust, including liquidity or tender option provider, and/or sponsor.

The Bank often serves as the sole liquidity or tender option provider for the TOB trusts. The liquidity provider's obligation to perform is conditional and is limited by certain events ("Termination Events"), which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, an event of taxability on the municipal bonds or the immediate downgrade of the municipal bond to below investment grade. In addition, the liquidity provider's exposure is typically further limited by the high credit quality of the underlying municipal bonds, the excess collateralization in the vehicle, or, in certain transactions, the reimbursement agreements with the Residual holders.

Holders of the floaters may "put," or tender, their floaters to the TOB trust. If the remarketing agent cannot successfully remarket the floaters to another investor, the liquidity provider either provides a loan to the TOB trust for the TOB trust's purchase of the floaters, or it directly purchases the tendered floaters.

TOB trusts are considered to be variable interest entities. The Bank consolidates non-customer TOB trusts because as the Residual holder, the Bank has the right to make decisions that significantly impact the economic performance of the municipal bond vehicle, and it has the right to receive benefits and bear losses that could potentially be significant to the municipal bond vehicle.

## Consolidated VIE assets and liabilities

The following table presents information on assets and liabilities related to VIEs consolidated by the Bank as of December 31, 2020 and 2019.

December 31, 2020 (in millions)	Assets				Liabilities		
	Trading assets	Loans	Other <sup>(b)</sup>	Total assets <sup>(c)</sup>	Beneficial interests in VIE assets <sup>(d)</sup>	Other <sup>(e)</sup>	Total liabilities
<b>VIE program type</b>							
Bank-sponsored credit card trusts	\$ —	\$ 11,962	\$ 148	\$ 12,110	\$ 4,946	\$ 3	\$ 4,949
Bank-administered multi-seller conduits	2	23,787	188	23,977	10,523	56	10,579
Municipal bond vehicles	1,910	—	2	1,912	1,884	—	1,884
Mortgage securitization entities <sup>(a)</sup>	—	1,638	94	1,732	169	108	277
Other	—	176	92	268	—	—	—
<b>Total</b>	<b>\$ 1,912</b>	<b>\$ 37,563</b>	<b>\$ 524</b>	<b>\$ 39,999</b>	<b>\$ 17,522</b>	<b>\$ 167</b>	<b>\$ 17,689</b>

December 31, 2019 (in millions)	Assets				Liabilities		
	Trading assets	Loans	Other <sup>(b)</sup>	Total assets <sup>(c)</sup>	Beneficial interests in VIE assets <sup>(d)</sup>	Other <sup>(e)</sup>	Total liabilities
<b>VIE program type</b>							
Bank-sponsored credit card trusts	\$ —	\$ 14,986	\$ 266	\$ 15,252	\$ 6,470	\$ 6	\$ 6,476
Bank-administered multi-seller conduits	1	25,183	355	25,539	9,223	55	9,278
Municipal bond vehicles	1,903	—	4	1,907	1,880	3	1,883
Mortgage securitization entities <sup>(a)</sup>	—	2,762	64	2,826	241	130	371
Other	279	—	24	303	—	177	177
<b>Total</b>	<b>\$ 2,183</b>	<b>\$ 42,931</b>	<b>\$ 713</b>	<b>\$ 45,827</b>	<b>\$ 17,814</b>	<b>\$ 371</b>	<b>\$ 18,185</b>

(a) Includes residential and commercial mortgage securitizations.

(b) Includes assets classified as cash and other assets on the Consolidated balance sheets.

(c) The assets of the consolidated VIEs included in the program types above are used to settle the liabilities of those entities. The assets and liabilities include third-party assets and liabilities of consolidated VIEs and exclude intercompany balances that eliminate in consolidation.

(d) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated balance sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests generally do not have recourse to the general credit of the Bank. Included in beneficial interests in VIE assets are long-term beneficial interests of \$5.1 billion and \$6.7 billion at December 31, 2020 and 2019, respectively. Refer to Note 20 for additional information on interest-bearing long-term beneficial interests.

(e) Includes liabilities classified as accounts payable and other liabilities on the Consolidated balance sheets.

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### VIEs sponsored by third parties

The Bank enters into transactions with VIEs structured by other parties. These include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, remarketing agent, trustee or custodian. These transactions are conducted at arm's-length, and individual credit decisions are based on the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where the Bank does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, or a variable interest that could potentially be significant, the Bank generally does not consolidate the VIE, but it records and reports these positions on its Consolidated balance sheets in the same manner it would record and report positions in respect of any other third-party transaction.

#### *Tax credit vehicles*

The Bank holds investments in unconsolidated tax credit vehicles, which are limited partnerships and similar entities that own and operate affordable housing, energy, and other projects. These entities are primarily considered VIEs. A third party is typically the general partner or managing member and has control over the significant activities of the tax credit vehicles, and accordingly the Bank does not consolidate tax credit vehicles. The Bank generally invests in these partnerships as a limited partner and earns a return primarily through the receipt of tax credits allocated to the projects. The maximum loss exposure, represented by equity investments and funding commitments, was \$10.5 billion and \$8.9 billion, of which \$4.0 billion and \$3.0 billion was unfunded at December 31, 2020 and 2019, respectively. In order to reduce the risk of loss, the Bank assesses each project and withholds varying amounts of its capital investment until the project qualifies for tax credits. Refer to Note 22 for further information on affordable housing tax credits. Refer to Note 25 for more information on off-balance sheet lending-related commitments.

#### **Customer municipal bond vehicles (TOB trusts)**

The Bank may provide various services to customer TOB trusts, including liquidity or tender option provider. In certain customer TOB transactions, the Bank as liquidity

provider, has entered into a reimbursement agreement with the Residual holder. In those transactions, upon the termination of the vehicle, the Bank has recourse to the third-party Residual holders for any shortfall. The Bank does not have any intent to protect Residual holders from potential losses on any of the underlying municipal bonds. The Bank does not consolidate customer TOB trusts, since the Bank does not have the power to make decisions that significantly impact the economic performance of the municipal bond vehicle. The Bank's maximum exposure as a liquidity provider to customer TOB trusts at December 31, 2020 and 2019, was \$6.7 billion and \$5.5 billion, respectively. The fair value of assets held by such VIEs at December 31, 2020 and 2019 was \$10.5 billion and \$8.6 billion, respectively. Refer to Note 25 for more information on off-balance sheet lending-related commitments.

### Loan securitizations

The Bank has securitized and sold a variety of loans, including residential mortgage, credit card, and commercial mortgage. The purposes of these securitization transactions were to satisfy investor demand and to generate liquidity for the Bank.

For loan securitizations in which the Bank is not required to consolidate the trust, the Bank records the transfer of the loan receivable to the trust as a sale when all of the following accounting criteria for a sale are met: (1) the transferred financial assets are legally isolated from the Bank's creditors; (2) the transferee or beneficial interest holder can pledge or exchange the transferred financial assets; and (3) The Bank does not maintain effective control over the transferred financial assets (e.g., the Bank cannot repurchase the transferred assets before their maturity and it does not have the ability to unilaterally cause the holder to return the transferred assets).

For loan securitizations accounted for as a sale, the Bank recognizes a gain or loss based on the difference between the value of proceeds received (including cash, beneficial interests, or servicing assets received) and the carrying value of the assets sold. Gains and losses on securitizations are reported in noninterest revenue.

## Securitization activity

The following table provides information related to the Bank's securitization activities for the years ended December 31, 2020, 2019 and 2018, related to assets held in Bank-sponsored securitization entities that were not consolidated by the Bank, and where sale accounting was achieved at the time of the securitization.

Year ended December 31, (in millions)	2020		2019		2018	
	Residential mortgage <sup>(b)</sup>	Commercial and other <sup>(c)</sup>	Residential mortgage <sup>(b)</sup>	Commercial and other <sup>(c)</sup>	Residential mortgage <sup>(b)</sup>	Commercial and other <sup>(c)</sup>
Principal securitized	\$ 7,103	\$ 6,624	\$ 9,957	\$ 9,390	\$ 6,431	\$ 10,159
<b>All cash flows during the period:</b>						
Proceeds received from loan sales as cash or financial instruments <sup>(a)</sup>	\$ 7,321	\$ 6,865	\$ 10,238	\$ 9,544	\$ 6,449	\$ 10,218
Servicing fees collected	211	1	287	2	319	2
Cash flows received on interests	666	182	410	131	273	155

(a) The carrying value of the loans accounted for at fair value approximated the proceeds received upon loan sale. The proceeds received were primarily cash.

(b) Represents prime mortgages. Excludes loan securitization activity related to U.S. GSEs and government agencies.

(c) Includes commercial mortgage and other consumer loans.

Key assumptions used to value retained interests originated during the year are shown in the table below.

Year ended December 31,	2020	2019	2018
<b>Residential mortgage retained interest:</b>			
Weighted-average life (in years)	4.1	5.2	6.7
Weighted-average discount rate	2.5 %	3.7 %	4.7 %
<b>Commercial mortgage retained interest:</b>			
Weighted-average life (in years)	6.8	6.5	4.2
Weighted-average discount rate	3.0 %	4.1 %	3.7 %

## Loans and excess MSR's sold to U.S. government-sponsored enterprises and loans in securitization transactions pursuant to Ginnie Mae guidelines

In addition to the amounts reported in the securitization activity tables above, the Bank, in the normal course of business, sells originated and purchased mortgage loans and certain originated excess MSR's on a nonrecourse basis, predominantly to U.S. GSEs. These loans and excess MSR's are sold primarily for the purpose of securitization by the U.S. GSEs, who provide certain guarantee provisions (e.g., credit enhancement of the loans). The Bank also sells loans into securitization transactions pursuant to Ginnie Mae guidelines; these loans are typically insured or guaranteed by another U.S. government agency. The Bank does not consolidate the securitization vehicles underlying these transactions as it is not the primary beneficiary. For a limited number of loan sales, the Bank is obligated to share a portion of the credit risk associated with the sold loans with the purchaser. Refer to Note 25 for additional information about the Bank's loan sales- and securitization-related indemnifications. Refer to Note 15 for additional information about the impact of the Bank's sale of certain excess MSR's.

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The following table summarizes the activities related to loans sold to the U.S. GSEs, and loans in securitization transactions pursuant to Ginnie Mae guidelines.

Year ended December 31, (in millions)	2020	2019	2018
Carrying value of loans sold	\$ 81,153	\$ 92,349	\$ 44,609
Proceeds received from loan sales as cash	\$ 45	\$ 73	\$ 9
Proceeds from loan sales as securities <sup>(a)(b)</sup>	80,186	91,422	43,671
<b>Total proceeds received from loan sales<sup>(c)</sup></b>	<b>\$ 80,231</b>	<b>\$ 91,495</b>	<b>\$ 43,680</b>
Gains/(losses) on loan sales <sup>(d)(e)</sup>	\$ 6	\$ 499	\$ (93)

- (a) Includes securities from U.S. GSEs and Ginnie Mae that are generally sold shortly after receipt or retained as part of the Bank's investment securities portfolio.  
(b) Included in level 2 assets.  
(c) Excludes the value of MSRs retained upon the sale of loans.  
(d) Gains/(losses) on loan sales include the value of MSRs.  
(e) The carrying value of the loans accounted for at fair value approximated the proceeds received upon loan sale.

### Options to repurchase delinquent loans

In addition to the Bank's obligation to repurchase certain loans due to material breaches of representations and warranties as discussed in Note 25. The Bank also has the option to repurchase delinquent loans that it services for Ginnie Mae loan pools, as well as for other U.S. government agencies under certain arrangements. The Bank typically elects to repurchase delinquent loans from Ginnie Mae loan pools as it continues to service them and/or manage the foreclosure process in accordance with the applicable requirements, and such loans continue to be insured or guaranteed. When the Bank's repurchase option becomes exercisable, such loans must be reported on the Consolidated balance sheets as a loan with a corresponding liability. Refer to Note 12 for additional information.

The following table presents loans the Bank repurchased or had an option to repurchase, real estate owned, and foreclosed government-guaranteed residential mortgage loans recognized on the Bank's Consolidated balance sheets as of December 31, 2020 and 2019. Substantially all of these loans and real estate are insured or guaranteed by U.S. government agencies.

December 31, (in millions)	2020	2019
Loans repurchased or option to repurchase <sup>(a)</sup>	\$ 1,411	\$ 2,933
Real estate owned	9	41
Foreclosed government-guaranteed residential mortgage loans <sup>(b)</sup>	64	198

- (a) Predominantly all of these amounts relate to loans that have been repurchased from Ginnie Mae loan pools.  
(b) Relates to voluntary repurchases of loans, which are included in accrued interest and accounts receivable.

### Loan delinquencies and liquidation losses

The table below includes information about components of and delinquencies related to nonconsolidated securitized financial assets held in Bank-sponsored private-label securitization entities, in which the Bank has continuing involvement as of December 31, 2020 and 2019.

As of or for the year ended December 31, (in millions)	Securitized assets		90 days past due		Net liquidation losses	
	2020	2019	2020	2019	2020	2019
<b>Securitized loans</b>						
Residential mortgage:						
Prime/ Alt-A & option ARMs	\$ 31,002	\$ 37,602	\$ 3,646	\$ 1,673	\$ 147	\$ 370
Subprime	8,244	9,338	1,585	1,170	102	367
Commercial and other	35,128	31,453	1,704	86	11	1
<b>Total loans securitized</b>	<b>\$ 74,374</b>	<b>\$ 78,393</b>	<b>\$ 6,935</b>	<b>\$ 2,929</b>	<b>\$ 260</b>	<b>\$ 738</b>

## Note 15 – Goodwill and Mortgage servicing rights

### Goodwill

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of the net assets acquired, and can be adjusted up to one year from the acquisition date as more information is obtained about the fair value of assets acquired and liabilities assumed. Subsequent to initial recognition, goodwill is not amortized but is tested for impairment during the fourth quarter of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be an impairment.

The following table presents changes in the carrying amount of goodwill.

Year ended December 31, (in millions)	2020	2019	2018
Balance at beginning of period <sup>(a)</sup>	\$ 40,062	\$ 39,710	\$ 39,746
Changes during the period from:			
Business combinations <sup>(b)</sup>	–	349	–
Other <sup>(c)</sup>	13	3	(36)
<b>Balance at December 31,<sup>(a)</sup></b>	<b>\$ 40,075</b>	<b>\$ 40,062</b>	<b>\$ 39,710</b>

(a) Reflects gross goodwill balances as the Bank has not recognized any impairment losses to date.

(b) For 2019, represents goodwill associated with the acquisition of InstaMed a U.S. technology company specializing in healthcare payments.

(c) Primarily relates to foreign currency adjustments.

### Goodwill impairment testing

The Bank's goodwill was not impaired at December 31, 2020, 2019 and 2018.

Effective January 1, 2020, the Bank adopted new accounting guidance related to goodwill impairment testing. The adoption of the guidance requires recognition of an impairment loss when the estimated fair value of a reporting unit falls below its carrying value. It eliminated the requirement that an impairment loss be recognized only if the estimated implied fair value of the goodwill is below its carrying value.

The goodwill impairment test is performed by comparing the current fair value of the Bank with its carrying value. If the fair value is in excess of the carrying value, then the Bank's goodwill is considered not to be impaired. If the fair value is less than the carrying value, then an impairment

charge is recognized for the amount by which the Bank's carrying value exceeds its fair value, up to the amount of the Bank's goodwill.

Unanticipated declines in business performance, increases in credit losses, increases in capital requirements, as well as deterioration in economic or market conditions, adverse regulatory or legislative changes or increases in the estimated market cost of equity, could cause the estimated fair values of the Bank to decline in the future, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.

### Mortgage servicing rights

MSRs represent the fair value of expected future cash flows for performing servicing activities for others. The fair value considers estimated future servicing fees and ancillary revenue, offset by estimated costs to service the loans, and generally declines over time as net servicing cash flows are received, effectively amortizing the MSR asset against contractual servicing and ancillary fee income. MSRs are either purchased from third parties or recognized upon sale or securitization of mortgage loans if servicing is retained.

As permitted by U.S. GAAP, the Bank has elected to account for its MSRs at fair value. The Bank treats its MSRs as a single class of servicing assets based on the availability of market inputs used to measure the fair value of its MSR asset and its treatment of MSRs as one aggregate pool for risk management purposes. The Bank estimates the fair value of MSRs using an option-adjusted spread ("OAS") model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with the Bank's prepayment model, and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, costs to service, late charges and other ancillary revenue, and other economic factors. The Bank compares fair value estimates and assumptions to observable market data where available, and also considers recent market activity and actual portfolio experience.

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The fair value of MSR is sensitive to changes in interest rates, including their effect on prepayment speeds. MSR typically decrease in value when interest rates decline because declining interest rates tend to increase prepayments and therefore reduce the expected life of the net servicing cash flows that comprise the MSR asset. Conversely, securities (e.g., mortgage-backed securities), and certain derivatives (e.g., those for which the Bank

receives fixed-rate interest payments) increase in value when interest rates decline. The Bank uses combinations of derivatives and securities to manage the risk of changes in the fair value of MSR. The intent is to offset any interest-rate related changes in the fair value of MSR with changes in the fair value of the related risk management instruments.

The following table summarizes MSR activity for the years ended December 31, 2020, 2019 and 2018.

As of or for the year ended December 31, (in millions, except where otherwise noted)	2020	2019	2018
Fair value at beginning of period	\$ 4,699	\$ 6,130	\$ 6,030
MSR activity:			
Originations of MSRs	944	1,384	931
Purchase of MSRs	248	105	315
Disposition of MSRs <sup>(a)</sup>	(176)	(789)	(636)
<b>Net additions/(Dispositions)</b>	<b>1,016</b>	<b>700</b>	<b>610</b>
Changes due to collection/realization of expected cash flows	(899)	(951)	(740)
Changes in valuation due to inputs and assumptions:			
Changes due to market interest rates and other <sup>(b)</sup>	(1,568)	(893)	300
Changes in valuation due to other inputs and assumptions:			
Projected cash flows (e.g., cost to service)	(54)	(333) <sup>(e)</sup>	15
Discount rates	199	153	24
Prepayment model changes and other <sup>(c)</sup>	(117)	(107)	(109)
<b>Total changes in valuation due to other inputs and assumptions</b>	<b>28</b>	<b>(287)</b>	<b>(70)</b>
<b>Total changes in valuation due to inputs and assumptions</b>	<b>(1,540)</b>	<b>(1,180)</b>	<b>230</b>
<b>Fair value at December 31,</b>	<b>\$ 3,276</b>	<b>\$ 4,699</b>	<b>\$ 6,130</b>
Change in unrealized gains/(losses) included in income related to MSRs held at December 31,	\$ (1,540)	\$ (1,180)	\$ 230
Contractual service fees, late fees and other ancillary fees included in income	1,325	1,639	1,778
Third-party mortgage loans serviced at December 31, (in billions)	448.0	522.0	521.0
Servicer advances, net of an allowance for uncollectible amounts, at December 31, (in billions) <sup>(d)</sup>	1.8	2.0	3.0

(a) Includes excess MSR transferred to agency-sponsored trusts in exchange for stripped mortgage backed securities ("SMBS"). In each transaction, a portion of the SMBS was acquired by third parties at the transaction date; the Bank acquired the remaining balance of those SMBS as trading securities.

(b) Represents both the impact of changes in estimated future prepayments due to changes in market interest rates, and the difference between actual and expected prepayments.

(c) Represents changes in prepayments other than those attributable to changes in market interest rates.

(d) Represents amounts the Bank pays as the servicer (e.g., scheduled principal and interest, taxes and insurance), which will generally be reimbursed within a short period of time after the advance from future cash flows from the trust or the underlying loans. The Bank's credit risk associated with these servicer advances is minimal because reimbursement of the advances is typically senior to all cash payments to investors. In addition, the Bank maintains the right to stop payment to investors if the collateral is insufficient to cover the advance. However, certain of these servicer advances may not be recoverable if they were not made in accordance with applicable rules and agreements.

(e) The decrease in projected cash flows was largely related to default servicing assumption updates.

The following table presents the components of mortgage fees and related income (including the impact of MSR risk management activities) for the years ended December 31, 2020, 2019 and 2018.

Year ended December 31, (in millions)	2020	2019	2018
<b>Net production revenue</b>	<b>\$ 2,629</b>	\$ 1,618	\$ 268
<b>Net mortgage servicing revenue:</b>			
Operating revenue:			
Loan servicing revenue	1,367	1,533	1,835
Changes in MSR asset fair value due to collection/realization of expected cash flows	(899)	(951)	(740)
<b>Total operating revenue</b>	<b>468</b>	582	1,095
Risk management:			
Changes in MSR asset fair value due to market interest rates and other <sup>(a)</sup>	(1,568)	(893)	300
Other changes in MSR asset fair value due to other inputs and assumptions in model <sup>(b)</sup>	28	(287)	(70)
Change in derivative fair value and other	1,522	1,015	(341)
<b>Total risk management</b>	<b>(18)</b>	(165)	(111)
<b>Total net mortgage servicing revenue</b>	<b>450</b>	417	984
All other	12	1	1
<b>Mortgage fees and related income</b>	<b>\$ 3,091</b>	\$ 2,036	\$ 1,253

- (a) Represents both the impact of changes in estimated future prepayments due to changes in market interest rates, and the difference between actual and expected prepayments.
- (b) Represents the aggregate impact of changes in model inputs and assumptions such as projected cash flows (e.g., cost to service), discount rates and changes in prepayments other than those attributable to changes in market interest rates (e.g., changes in prepayments due to changes in home prices).

The table below outlines the key economic assumptions used to determine the fair value of the Bank's MSRs at December 31, 2020 and 2019, and outlines the sensitivities of those fair values to immediate adverse changes in those assumptions, as defined below.

December 31, (in millions, except rates)	2020	2019
Weighted-average prepayment speed assumption (constant prepayment rate)	14.90 %	11.67 %
Impact on fair value of 10% adverse change	\$ (206)	\$ (200)
Impact on fair value of 20% adverse change	(392)	(384)
Weighted-average option adjusted spread <sup>(a)</sup>	7.19 %	7.93 %
Impact on fair value of 100 basis points adverse change	\$ (134)	\$ (169)
Impact on fair value of 200 basis points adverse change	(258)	(326)

(a) Includes the impact of operational risk and regulatory capital.

Changes in fair value based on variations in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value are often highly interrelated and may not be linear. In this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which would either magnify or counteract the impact of the initial change.

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### Note 16 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. The Bank computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, the Bank uses the straight-line method computed over the lesser of the remainder of the lease term, or estimated useful life of the improvements.

The Bank capitalizes certain costs associated with the acquisition or development of internal-use software. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life and reviewed for impairment on an ongoing basis.

### Note 17 – Deposits

At December 31, 2020 and 2019, noninterest-bearing and interest-bearing deposits were as follows.

December 31, (in millions)	2020	2019
<b>U.S. offices</b>		
Noninterest-bearing (included \$10,089 and \$22,710 at fair value) <sup>(a)</sup>	\$ 576,104	\$ 399,038
Interest-bearing (included \$2,567 and \$2,534 at fair value) <sup>(a)</sup>	1,297,104	955,393
<b>Total deposits in U.S. offices</b>	<b>1,873,208</b>	<b>1,354,431</b>
<b>Non-U.S. offices</b>		
Noninterest-bearing (included \$1,486 and \$1,980 at fair value) <sup>(a)</sup>	24,612	20,997
Interest-bearing (included \$558 and \$1,438 at fair value) <sup>(a)</sup>	355,662	275,060
<b>Total deposits in non-U.S. offices</b>	<b>380,274</b>	<b>296,057</b>
<b>Total deposits<sup>(b)</sup></b>	<b>\$ 2,253,482</b>	<b>\$ 1,650,488</b>

(a) Includes structured notes classified as deposits for which the fair value option has been elected. Refer to Note 3 for further discussion.

(b) December 31, 2020 balance reflects inflows primarily driven by the COVID-19 pandemic and the related effect of certain government actions.

At December 31, 2020 and 2019, time deposits in denominations of \$250,000 or more were as follows.

December 31, (in millions)	2020	2019
U.S. offices	\$ 44,375	\$ 56,184
Non-U.S. offices	51,160	51,375
<b>Total</b>	<b>\$ 95,535</b>	<b>\$ 107,559</b>

At December 31, 2020, the maturities of interest-bearing time deposits were as follows.

December 31, 2020 (in millions)	U.S.	Non-U.S.	Total
2021	\$ 44,791	\$ 48,690	\$ 93,481
2022	12,007	181	12,188
2023	259	24	283
2024	210	37	247
2025	197	633	830
After 5 years	451	298	749
<b>Total</b>	<b>\$ 57,915</b>	<b>\$ 49,863</b>	<b>\$ 107,778</b>

## Note 18 – Leases

### The Bank as lessee

At December 31, 2020, the Bank was obligated under a number of noncancelable leases, predominantly operating leases for premises and equipment used primarily for business purposes. These leases generally have terms of 20 years or less, determined based on the contractual maturity of the lease, and include periods covered by options to extend or terminate the lease when the Bank is reasonably certain that it will exercise those options. All leases with lease terms greater than twelve months are reported as a lease liability with a corresponding right-of-use (“ROU”) asset. None of these lease agreements impose restrictions on the Bank’s ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements. Certain of these leases contain escalation clauses that will increase rental payments based on maintenance, utility and tax increases, which are non-lease components. The Bank elected not to separate lease and non-lease components of a contract for its real estate leases. As such, real estate lease payments represent payments on both lease and non-lease components.

Operating lease liabilities and ROU assets are recognized at the lease commencement date based on the present value of the future minimum lease payments over the lease term. The future lease payments are discounted at a rate that represents the Bank’s collateralized borrowing rate for financing instruments of a similar term and are included in accounts payable and other liabilities. The operating lease ROU asset, included in premises and equipment, also includes any lease prepayments made, plus initial direct costs incurred, less any lease incentives received. Rental expense associated with operating leases is recognized on a straight-line basis over the lease term, and generally included in occupancy expense in the Consolidated statements of income.

The following tables provide information related to the Bank’s operating leases:

December 31, (in millions, except where otherwise noted)	2020	2019
Right-of-use assets	\$ 7,498	\$ 7,545
Lease liabilities	8,082	8,108
Weighted average remaining lease term (in years)	8.8	8.9
Weighted average discount rate	3.39 %	3.61 %

#### Supplemental cash flow information

Cash paid for amounts included in the measurement of lease liabilities - operating cash flows	\$ 1,531	\$ 1,477
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#### Supplemental non-cash information

Right-of-use assets obtained in exchange for operating lease obligations	\$ 1,239	\$ 1,384
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Year ended December 31, (in millions)	2020	2019
<b>Rental expense</b>		
Gross rental expense	\$ 1,970	\$ 1,917
Sublease rental income	(143)	(156)
<b>Net rental expense</b>	\$ 1,827	\$ 1,761

The following table presents future payments under operating leases as of December 31, 2020:

Year ended December 31, (in millions)	
2021	\$ 1,509
2022	1,344
2023	1,187
2024	1,064
2025	900
After 2025	3,488
<b>Total future minimum lease payments</b>	9,492
Less: Imputed interest	(1,410)
<b>Total</b>	\$ 8,082

In addition to the table above, as of December 31, 2020, the Bank had additional future operating lease commitments of \$647 million that were signed but had not yet commenced. These operating leases will commence between 2021 and 2023 with lease terms up to 25 years.

### The Bank as lessor

The Bank provides auto and equipment lease financing to its customers through lease arrangements with lease terms that may contain renewal, termination and/or purchase options. Generally, the Bank’s lease financings are operating leases. These assets subject to operating leases are recognized in other assets on the Bank’s Consolidated balance sheets and are depreciated on a straight-line basis over the lease term to reduce the asset to its estimated residual value. Depreciation expense is included in technology, communications and equipment expense in the Consolidated statements of income. The Bank’s lease income is generally recognized on a straight-line basis over

the lease term and is included in other income in the Consolidated statements of income.

On a periodic basis, the Bank assesses leased assets for impairment, and if the carrying amount of the leased asset exceeds the undiscounted cash flows from the lease payments and the estimated residual value upon disposition of the leased asset, an impairment loss is recognized.

The risk of loss on auto and equipment leased assets relating to the residual value of the leased assets is monitored through projections of the asset residual values at lease origination and periodic review of residual values, and is mitigated through arrangements with certain manufacturers or lessees.

The following table presents the carrying value of assets subject to leases reported on the Consolidated balance sheets:

December 31, (in millions)	2020	2019
Carrying value of assets subject to operating leases, net of accumulated depreciation	\$ 21,154	\$ 23,585
Accumulated depreciation	6,387	6,121

The following table presents the Bank's operating lease income and the related depreciation expense on the Consolidated statements of income:

Year ended December 31, (in millions)	2020	2019	2018
Operating lease income	\$ 5,531	\$ 5,448	\$ 4,529
Depreciation expense	4,257	4,152	3,517

The following table presents future receipts under operating leases as of December 31, 2020:

Year ended December 31, (in millions)	
2021	\$ 3,678
2022	2,076
2023	608
2024	51
2025	24
After 2025	33
<b>Total future minimum lease receipts</b>	<b>\$ 6,470</b>

## Note 19 - Long-term debt

The Bank issues long-term debt denominated in various currencies, predominantly U.S. dollars, with both fixed and variable interest rates. Included in senior and subordinated debt below are various equity-linked or other indexed instruments, which the Bank has elected to measure at fair value. Changes in fair value are recorded in principal transactions revenue in the Consolidated statements of income, except for unrealized gains/(losses) due to DVA which are recorded in OCI. The following table is a summary of long-term debt carrying values (including unamortized premiums and discounts, issuance costs, valuation adjustments and fair value adjustments, where applicable) by remaining contractual maturity as of December 31, 2020.

By remaining maturity at December 31, (in millions, except rates)		2020				2019
		Under 1 year	1-5 years	After 5 years	Total	Total
<b>Long-term debt payable to JPMorgan Chase &amp; Co. and affiliates</b>						
Senior debt:	Variable rate	\$ 291	\$ 27,297	\$ 51	\$ 27,639	\$ 37,769
	Interest rates <sup>(a)</sup>	— %	0.56-0.63%	— %	0.56-0.63%	2.15-2.28%
Subordinated debt:	Variable rate	\$ —	\$ —	\$ —	\$ —	\$ 3,500
	Interest rates <sup>(a)</sup>	— %	— %	— %	— %	2.85-3.38%
	<b>Subtotal</b>	<b>\$ 291</b>	<b>\$ 27,297</b>	<b>\$ 51</b>	<b>\$ 27,639</b>	<b>\$ 41,269</b>
<b>Long-term debt issued to unrelated parties</b>						
Federal Home Loan Banks (“FHLB”) advances:	Fixed rate	\$ 7	\$ 45	\$ 71	\$ 123	\$ 135
	Variable rate	3,000	11,000	—	14,000	28,500
	Interest rates <sup>(a)</sup>	0.57-0.60%	0.19-0.24%	4.66-7.73%	0.19-7.73%	1.67-8.31% <sup>(h)</sup>
Senior debt:	Fixed rate	\$ 1,022	\$ 3,136	\$ 11,407	\$ 15,565	\$ 19,275
	Variable rate	7,189	10,706	6,912	24,807	32,235
	Interest rates <sup>(a)</sup>	— %	7.28 %	1.00-1.30%	1.00-7.28%	1.00-9.43%
Subordinated debt:	Fixed rate	\$ —	\$ 309	\$ —	\$ 309	\$ 305
	Interest rates <sup>(a)</sup>	— %	8.25 %	— %	8.25 %	8.25 %
	<b>Subtotal</b>	<b>\$ 11,218</b>	<b>\$ 25,196</b>	<b>\$ 18,390</b>	<b>\$ 54,804</b>	<b>\$ 80,450</b>
<b>Total long-term debt<sup>(b)(c)(d)</sup></b>		<b>\$ 11,509</b>	<b>\$ 52,493</b>	<b>\$ 18,441</b>	<b>\$ 82,443</b>	<b>\$ 121,719</b> <sup>(f)(g)</sup>
<b>Long-term beneficial interests:</b>						
	Fixed rate	\$ 625	\$ 1,747	\$ —	\$ 2,372	\$ 2,997
	Variable rate	1,924	649	169	2,742	3,713
	Interest rates	0.36-2.77%	0.56-2.16%	0.00-3.75%	0.00-3.75%	0.84-3.75
<b>Total long-term beneficial interests<sup>(e)</sup></b>		<b>\$ 2,549</b>	<b>\$ 2,396</b>	<b>\$ 169</b>	<b>\$ 5,114</b>	<b>\$ 6,710</b>

- (a) The interest rates shown are the range of contractual rates in effect at December 31, 2020 and 2019, respectively, including non-U.S. dollar fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in hedge accounting relationships, if applicable. The use of these derivative instruments modifies the Bank's exposure to the contractual interest rates disclosed in the table above. Including the effects of the hedge accounting derivatives, the range of modified rates in effect at December 31, 2020, for total long-term debt was 0.19% to 7.28%, versus the contractual range of 0.19% to 8.25% presented in the table above. The interest rate ranges shown exclude structured notes accounted for at fair value.
- (b) Included long-term debt of \$17.2 billion and \$32.0 billion secured by assets totaling \$166.4 billion and \$186.1 billion at December 31, 2020 and 2019, respectively. The amount of long-term debt secured by assets does not include amounts related to hybrid instruments.
- (c) Included \$36.8 billion and \$40.3 billion of long-term debt accounted for at fair value at December 31, 2020 and 2019, respectively.
- (d) Included \$3.3 billion and \$3.7 billion of outstanding zero-coupon notes at December 31, 2020 and 2019, respectively. The aggregate principal amount of these notes at their respective maturities is \$5.9 billion and \$7.0 billion, respectively. The aggregate principal amount reflects the contractual principal payment at maturity, which may exceed the contractual principal payment at the Bank's next call date, if applicable.
- (e) Included on the Consolidated balance sheets in beneficial interests issued by consolidated VIEs. Excluded short-term commercial paper and other short-term beneficial interests of \$12.4 billion and \$11.1 billion at December 31, 2020 and 2019, respectively.
- (f) At December 31, 2020, long-term debt in the aggregate of \$6.0 billion was redeemable at the option of the Bank in whole or in part, prior to maturity, based on the terms specified in the respective instruments.
- (g) The aggregate carrying values of debt that matures in each of the five years subsequent to 2020 is \$11.5 billion in 2021, \$32.3 billion in 2022, \$10.6 billion in 2023, \$6.9 billion in 2024 and \$2.7 billion in 2025.
- (h) Prior-period amounts have been revised to conform with the current presentation.

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The weighted-average contractual interest rates for total long-term debt excluding structured notes accounted for at fair value were 0.56% and 2.24% as of December 31, 2020 and 2019, respectively. In order to modify exposure to interest rate movements, the Bank utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issuances. The use of these instruments modifies the Bank's interest expense on the associated debt. The modified weighted-average interest rates for total long-term debt, including the effects of related derivative instruments, were 0.53% and 2.23% as of December 31, 2020 and 2019, respectively.

### Note 20 - Related party transactions

JPMorgan Chase Bank, N.A. regularly enters into transactions with JPMorgan Chase and its various subsidiaries collectively, JPMorgan Chase affiliates. The following discussion summarizes the more significant types of transactions.

#### Securities financing activities

Securities financing activities include resale, repurchase, securities borrowed and securities loaned agreements entered into with JPMorgan Chase affiliates. Interest accrued in connection with securities financing agreements is recorded in interest income and interest expense. Refer to Note 11 for further discussion of securities financing activities.

#### Deposits

JPMorgan Chase affiliates may deposit excess funds into noninterest-bearing, interest-bearing demand or time deposit accounts with the Bank. Interest accrued on interest bearing deposits is recorded in interest expense by the Bank. Refer to Note 17 for further discussion of deposits.

#### Long-term debt

The Bank issues long-term debt to JPMorgan Chase affiliates as part of JPMorgan Chase's liquidity management strategy. Interest accrued on long-term debt is recorded in interest expense. Refer to Note 19 for further discussion of long-term debt.

The Bank's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Bank's credit ratings, financial ratios or earnings.

#### Derivative transactions

The Bank executes derivative transactions with JPMorgan Chase affiliates as part of its client driven market-making activities and to facilitate hedging certain risks for its affiliates. To accomplish this, the Bank predominantly enters into offsetting derivative transactions with third-parties and records both the third party and related-party gains and losses in principal transactions revenue. Refer to Note 5 for further discussion of derivatives activities.

#### Servicing agreements and fee arrangements

Through servicing agreements, the Bank provides and receives operational support and services to and from JPMorgan Chase affiliates. These servicing agreements cover certain occupancy, marketing, communication and technology services, and other shared corporate service costs. The Bank is allocated or allocates a share of the cost of the services over the relevant service period based on the agreed methodology. Fees earned by the Bank for services provided to affiliates are recorded in all other income, and fees incurred by the Bank for services from affiliates are recorded in noninterest expense.

Significant revenue- and expense-related transactions with these related parties are listed below.

Year ended December 31, (in millions)	2020	2019	2018
Interest income and Interest expense			
Interest income	\$ 448	\$ 2,726	\$ 911
Interest expense	1,108	3,799	2,498
<b>Net interest income</b>	<b>(660)</b>	<b>(1,073)</b>	<b>(1,587)</b>
Noninterest revenue			
Principal transactions	(9,728)	(8,517)	415
All other income <sup>(a)</sup>	6,126	5,700	4,624
<b>Total noninterest revenue</b>	<b>(3,602)</b>	<b>(2,817)</b>	<b>5,039</b>
<b>Noninterest expense<sup>(b)</sup></b>	<b>5,444</b>	<b>4,862</b>	<b>4,938</b>

Significant balances with these related parties are listed below.

December 31, (in millions)	2020	2019
<b>Assets</b>		
Federal funds sold and securities purchased under resale agreements	\$ 178,577	\$ 89,304
Accrued interest and accounts receivable	20,837	20,163
All other assets	3,617	4,457
<b>Liabilities</b>		
Deposits <sup>(c)</sup>	109,225	87,984
Federal funds purchased and securities loaned or sold under repurchase agreements	77,273	58,016
Accounts payable and other liabilities	9,330	10,993
Long-term debt	27,639	41,269

(a) Includes fees earned by the Bank for services provided to JPMorgan Chase affiliates of \$4.6 billion, \$4.6 billion and \$3.4 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

(b) Includes fees incurred for services provided by JPMorgan Chase affiliates of \$2.0 billion, \$1.7 billion and \$1.9 billion for the years ended December 31, 2020, 2019 and 2018, respectively.

(c) At December 31, 2020 and 2019, includes \$25.0 billion and \$20.0 billion that was pledged to support extensions of credit and other transactions requiring collateral with JPMorgan Chase as defined by Section 23A under the Federal Reserve Act, which defines the constraints that apply to U.S. banks in certain of their interactions with affiliates.

The following table summarizes information on derivative receivables and payables with JPMorgan Chase affiliates before and after netting adjustments for legally enforceable master netting agreements as of December 31, 2020 and 2019.

December 31, (in millions)	2020		2019	
	Gross derivative receivable/payable	Net derivative receivable/payable	Gross derivative receivable/payable	Net derivative receivable/payable
Derivative receivables from affiliates	\$ 103,518	\$ 313	\$ 53,231	\$ 265
Derivative payables to affiliates	107,474	157	56,532	51

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### Note 21 – Accumulated other comprehensive income/(loss)

AOCI includes the after-tax change in unrealized gains and losses on investment securities, foreign currency translation adjustments (including the impact of related derivatives), fair value changes of excluded components on fair value hedges, cash flow hedging activities, net loss and prior service costs/(credit) related to the Bank's defined benefit pension and OPEB plans, and fair value option-elected liabilities arising from changes in the Bank's own credit risk (DVA).

Year ended December 31, (in millions)	Unrealized gains/(losses) on investment securities	Translation adjustments, net of hedges	Fair value hedges	Cash flow hedges	Defined benefit pension and OPEB plans	DVA on fair value option elected liabilities	Accumulated other comprehensive income/(loss)
Balance at December 31, 2017	\$ 2,083	\$ (345)	\$ –	\$ 76	\$ (344)	\$ (95)	\$ 1,375
Cumulative effect of changes in accounting principles <sup>(a)</sup>	870	(193)	(1)	16	(65)	(21)	606
Net change	(1,806)	57	1	(198)	(1,969)	321	(3,594)
Balance at December 31, 2018	\$ 1,147	\$ (481)	\$ –	\$ (106)	\$ (2,378)	\$ 205	\$ (1,613)
Net change	2,869	(4)	–	167	656	(319)	3,369
Balance at December 31, 2019	\$ 4,016	\$ (485)	\$ –	\$ 61	\$ (1,722)	\$ (114)	\$ 1,756
Net change	4,146	242	–	2,322	(3)	(45)	6,662
<b>Balance at December 31, 2020</b>	<b>\$ 8,162<sup>(b)</sup></b>	<b>\$ (243)</b>	<b>\$ –</b>	<b>\$ 2,383</b>	<b>\$ (1,725)</b>	<b>\$ (159)</b>	<b>\$ 8,418</b>

(a) Represents the adjustment to AOCI as a result of the accounting standards adopted January 1, 2018. Refer to Note 1 for additional information.

(b) Includes after-tax net unamortized unrealized gains of \$3.3 billion related to AFS securities that have been transferred to HTM. Refer to Note 10 for further information.

The following table presents the pre-tax and after-tax changes in the components of OCI.

Year ended December 31, (in millions)	2020			2019			2018		
	Pre-tax	Tax effect	After-tax	Pre-tax	Tax effect	After-tax	Pre-tax	Tax effect	After-tax
<b>Unrealized gains/(losses) on investment securities:</b>									
Net unrealized gains/(losses) arising during the period	\$ 6,258	\$(1,502)	\$ 4,756	\$ 4,037	\$ (976)	\$ 3,061	\$(2,757)	\$ 649	\$(2,108)
Reclassification adjustment for realized (gains)/losses included in net income <sup>(a)</sup>	(802)	192	(610)	(253)	61	(192)	395	(93)	302
<b>Net change</b>	<b>5,456</b>	<b>(1,310)</b>	<b>4,146</b>	<b>3,784</b>	<b>(915)</b>	<b>2,869</b>	<b>(2,362)</b>	<b>556</b>	<b>(1,806)</b>
<b>Translation adjustments<sup>(b)</sup>:</b>									
Translation	1,200	(44)	1,156	(126)	26	(100)	(797)	118	(679)
Hedges	(1,202)	288	(914)	126	(30)	96	964	(228)	736
<b>Net change</b>	<b>(2)</b>	<b>244</b>	<b>242</b>	<b>–</b>	<b>(4)</b>	<b>(4)</b>	<b>167</b>	<b>(110)</b>	<b>57</b>
<b>Fair value hedges, net change<sup>(c)</sup>:</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>1</b>
<b>Cash flow hedges:</b>									
Net unrealized gains/(losses) arising during the period	3,623	(869)	2,754	118	(29)	89	(243)	58	(185)
Reclassification adjustment for realized (gains)/losses included in net income <sup>(d)</sup>	(568)	136	(432)	102	(24)	78	(17)	4	(13)
<b>Net change</b>	<b>3,055</b>	<b>(733)</b>	<b>2,322</b>	<b>220</b>	<b>(53)</b>	<b>167</b>	<b>(260)</b>	<b>62</b>	<b>(198)</b>
<b>Defined benefit pension and OPEB plans, net change:</b>	<b>3</b>	<b>(6)</b>	<b>(3)</b>	<b>846</b>	<b>(190)</b>	<b>656</b>	<b>(2,579)</b>	<b>610</b>	<b>(1,969)</b>
<b>DVA on fair value option elected liabilities, net change:</b>	<b>\$ (60)</b>	<b>\$ 15</b>	<b>\$ (45)</b>	<b>\$ (418)</b>	<b>\$ 99</b>	<b>\$ (319)</b>	<b>\$ 419</b>	<b>\$ (98)</b>	<b>\$ 321</b>
<b>Total other comprehensive income/(loss)</b>	<b>\$ 8,452</b>	<b>\$(1,790)</b>	<b>\$ 6,662</b>	<b>\$ 4,432</b>	<b>\$(1,063)</b>	<b>\$ 3,369</b>	<b>\$(4,614)</b>	<b>\$ 1,020</b>	<b>\$(3,594)</b>

(a) The pre-tax amount is reported in Investment securities gains/(losses) in the Consolidated statements of income.

(b) Reclassifications of pre-tax realized gains/(losses) on translation adjustments and related hedges are reported in other income/expense in the Consolidated statements of income. During the year ended December 31, 2020, the Bank reclassified a net pre-tax gain of \$6 million to other income related to the liquidation of legal entities, \$11 million related to net investment hedge gains and \$5 million related to cumulative translation adjustments. During the year ended December 31, 2019, the Bank reclassified net pre-tax gains of \$6 million to other income. This amount, which related to the liquidation of certain legal entities, is comprised of \$4 million related to net investment hedge gains and \$2 million related to cumulative translation adjustments. During the year ended December 31, 2018, the Bank reclassified a net pre-tax loss of \$174 million to other expense related to the liquidation of certain legal entities, \$23 million related to net investment hedge losses and \$151 million related to cumulative translation adjustments.

(c) Represents changes in fair value of cross-currency swaps attributable to changes in cross-currency basis spreads, which are excluded from the assessment of hedge effectiveness and recorded in other comprehensive income. The initial cost of cross-currency basis spreads is recognized in earnings as part of the accrual of interest on the cross-currency swap.

(d) The pre-tax amounts are primarily recorded in noninterest revenue, net interest income and compensation expense in the Consolidated statements of income.

## Notes to consolidated financial statements

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### Note 22 – Income taxes

The results of operations of the Bank are included in the consolidated federal, New York State, New York City and other state income tax returns filed by JPMorgan Chase. Pursuant to a tax sharing agreement, JPMorgan Chase allocates to the Bank its share of the consolidated income tax expense or benefit based upon statutory rates applied to the Bank's earnings as if it were filing separate income tax returns. Furthermore, JPMorgan Chase will reimburse the Bank for losses irrespective of whether the Bank would utilize losses on a separate return basis. The Bank uses the separate return adjusted for benefits-for-loss allocation methodology to provide income taxes on all transactions recorded in the Consolidated Financial Statements. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in the opinion of management, is more likely than not to be realized. State and local income taxes are provided on the Bank's taxable income at the effective income tax rate applicable to the consolidated JPMorgan Chase entity.

The tax sharing arrangement between JPMorgan Chase and the Bank allows for intercompany payments to or from JPMorgan Chase for outstanding current tax assets or liabilities.

Due to the inherent complexities arising from the nature of the Bank's businesses, and from conducting business and being taxed in a substantial number of jurisdictions, significant judgments and estimates are required to be made. Agreement of tax liabilities between the Bank and the many tax jurisdictions in which the Bank files tax returns may not be finalized for several years. Thus, the Bank's final tax-related assets and liabilities may ultimately be different from those currently reported.

#### Effective tax rate and expense

The following table presents a reconciliation of the applicable statutory U.S. federal income tax rate to the effective tax rate.

#### Effective tax rate

Year ended December 31,	2020	2019	2018
Statutory U.S. federal tax rate	21.0 %	21.0 %	21.0 %
Increase/(decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of U.S. federal income tax benefit	1.9	3.2	4.0
Tax-exempt income	(1.6)	(1.1)	(1.2)
Non-U.S. earnings	1.8	1.7	0.7
Business tax credits	(1.9)	(1.2)	(1.4)
Tax audit resolutions	–	(2.5)	–
Impact of the TCJA <sup>(a)</sup>	–	–	(1.2)
Other, net	1.4	0.1	0.6
<b>Effective tax rate</b>	<b>22.6 %</b>	<b>21.2 %</b>	<b>22.5 %</b>

(a) Represents changes in the estimates related to the remeasurement of certain deferred taxes and the deemed repatriation tax on non-U.S. earnings under SEC Staff Accounting Bulletin No. 118 which was completed in 2018.

The following table reflects the components of income tax expense/(benefit) included in the Consolidated statements of income.

Income tax expense/(benefit)			
Year ended December 31, (in millions)	2020	2019	2018
<b>Current income tax expense/(benefit)</b>			
U.S. federal	\$ 6,278	\$ 4,121	\$ 3,481
Non-U.S.	2,466	1,844	1,785
U.S. state and local	1,245	1,434	1,559
<b>Total current income tax expense/ (benefit)</b>	<b>9,989</b>	<b>7,399</b>	<b>6,825</b>
<b>Deferred income tax expense/(benefit)</b>			
U.S. federal	(3,160)	789	1,316
Non-U.S.	(113)	14	(102)
U.S. state and local	(587)	218	386
<b>Total deferred income tax expense/ (benefit)</b>	<b>(3,860)</b>	<b>1,021</b>	<b>1,600</b>
<b>Total income tax expense</b>	<b>\$ 6,129</b>	<b>\$ 8,420</b>	<b>\$ 8,425</b>

Total income tax expense includes \$25 million, \$1.1 billion and \$11 million of tax benefits recorded in 2020, 2019 and 2018, respectively, resulting from the resolution of tax audits.

#### Tax effect of items recorded in stockholder's equity

The preceding table does not reflect the tax effect of certain items that are recorded each period directly in stockholder's equity. The tax effect of all items recorded directly to stockholder's equity resulted in a decrease of \$1.0 billion and \$1.1 billion in 2020 and 2019, respectively, and an increase of \$902 million in 2018.

### Results from Non-U.S. earnings

The following table presents the U.S. and non-U.S. components of income before income tax expense.

Year ended December 31, (in millions)	2020	2019	2018
U.S.	\$ 19,528	\$ 32,766	\$ 30,380
Non-U.S. <sup>(a)</sup>	7,633	6,993	6,998
<b>Income before income tax expense</b>	<b>\$ 27,161</b>	<b>\$ 39,759</b>	<b>\$ 37,378</b>

(a) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the U.S.

The Bank will recognize any U.S. income tax expense it may incur on global intangible low tax income as income tax expense in the period in which the tax is incurred.

### Affordable housing tax credits

The Bank recognized \$1.5 billion of tax credits and other tax benefits associated with investments in affordable housing projects within income tax expense for each of the three years ended 2020, 2019 and 2018. The amount of amortization of such investments reported in income tax expense was \$1.2 billion, \$1.1 billion and \$1.2 billion, respectively. The carrying value of these investments, which are reported in other assets on the Bank's Consolidated balance sheets, was \$9.7 billion and \$8.6 billion at December 31, 2020 and 2019, respectively. The amount of commitments related to these investments, which are reported in accounts payable and other liabilities on the Bank's Consolidated balance sheets, was \$3.8 billion and \$2.8 billion at December 31, 2020 and 2019, respectively.

### Deferred taxes

Deferred income tax expense/(benefit) results from differences between assets and liabilities measured for financial reporting purposes versus income tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. The significant components of deferred tax assets and liabilities are reflected in the following table.

December 31, (in millions)	2020	2019
<b>Deferred tax assets</b>		
Allowance for loan losses	\$ 7,262	\$ 3,390
Employee benefits	—	—
Accrued expenses and other	2,643	2,223
Non-U.S. operations	714	766
Tax attribute carryforwards	376	308
<b>Gross deferred tax assets</b>	<b>10,995</b>	<b>6,687</b>
Valuation allowance	(386)	(330)
<b>Deferred tax assets, net of valuation allowance</b>	<b>\$ 10,609</b>	<b>\$ 6,357</b>
<b>Deferred tax liabilities</b>		
Depreciation and amortization	\$ 2,284	\$ 1,877
Mortgage servicing rights, net of hedges	2,184	2,354
Leasing transactions	5,076	5,543
Other, net	4,747	3,013
<b>Gross deferred tax liabilities</b>	<b>14,291</b>	<b>12,787</b>
<b>Net deferred tax (liabilities)/assets</b>	<b>\$ (3,682)</b>	<b>\$ (6,430)</b>

The Bank has recorded deferred tax assets of \$376 million at December 31, 2020, in connection with U.S. federal and non-U.S. net operating loss ("NOL") carryforwards and foreign tax credit ("FTC") carryforwards. At December 31, 2020, total U.S. federal NOL carryforwards were approximately \$45 million and non-U.S. NOL carryforwards were approximately \$114 million, and FTC carryforwards were \$336 million. If not utilized, a portion of the U.S. federal NOL carryforwards will expire between 2030 and 2036 whereas others have an unlimited carryforward period. Similarly, certain non-U.S. NOL carryforwards will expire between 2026 and 2036 whereas others have an unlimited carryforward period. The FTC carryforwards will expire between 2029 and 2030.

The valuation allowance at December 31, 2020, was due to FTC carryforwards and certain non-U.S. deferred tax assets, including NOL carryforwards.

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### Unrecognized tax benefits

At December 31, 2020, 2019 and 2018, the Bank's unrecognized tax benefits, excluding related interest expense and penalties, were \$3.0 billion, \$2.8 billion and \$3.6 billion, respectively, of which 2.2 billion, \$1.9 billion and \$2.9 billion, respectively, if recognized, would reduce the annual effective tax rate. Included in the amount of unrecognized tax benefits are certain items that would not affect the effective tax rate if they were recognized in the Consolidated statements of income. These unrecognized items include the tax effect of certain temporary differences, the portion of gross state and local unrecognized tax benefits that would be offset by the benefit from associated U.S. federal income tax deductions, and the portion of gross non-U.S. unrecognized tax benefits that would have offsets in other jurisdictions. JPMorgan Chase is presently under audit by a number of taxing authorities, most notably by the Internal Revenue Service as summarized in the Tax examination status table below.

As the Bank is presently under audit by a number of taxing authorities, it is reasonably possible that over the next 12 months the resolution of these examinations may increase or decrease the gross balance of unrecognized tax benefits by as much as approximately \$300 million. Upon settlement of an audit, the change in the unrecognized tax benefit would result from payment or income statement recognition.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits.

Year ended December 31, (in millions)	2020	2019	2018
Balance at January 1,	\$ 2,761	\$ 3,645	\$ 3,562
Increases based on tax positions related to the current period	382	541	659
Increases based on tax positions related to prior periods	355	77	564
Decreases based on tax positions related to prior periods	(467)	(426)	(880)
Decreases related to cash settlements with taxing authorities	(26)	(1,076)	(260)
<b>Balance at December 31,</b>	<b>\$ 3,005</b>	<b>\$ 2,761</b>	<b>\$ 3,645</b>

After-tax interest expense/(benefit) and penalties related to income tax liabilities recognized in income tax expense were \$111 million, \$(100) million and \$148 million in 2020, 2019 and 2018, respectively.

At December 31, 2020 and 2019, in addition to the liability for unrecognized tax benefits, the Bank had accrued \$681 million and \$539 million, respectively, for income tax-related interest and penalties.

### Tax examination status

The Bank is continually under examination by the Internal Revenue Service, by taxing authorities throughout the world, and by many state and local jurisdictions throughout the U.S. The following table summarizes the status of significant income tax examinations of the Bank and its consolidated subsidiaries as of December 31, 2020.

	Periods under examination	Status
JPMorgan Chase - U.S.	2009 - 2013	Field examination of amended returns
JPMorgan Chase - U.S.	2014 - 2016	Field Examination
JPMorgan Chase - New York State	2012 - 2014	Field Examination
JPMorgan Chase - New York City	2012 - 2014	Field Examination
JPMorgan Chase - California	2011 - 2012	Field Examination
JPMorgan Chase - U.K.	2006 - 2018	Field examination of certain select entities

## Note 23 – Restricted cash, other restricted assets and intercompany funds transfers

### Restricted cash and other restricted assets

Certain of the Bank's cash and other assets are restricted as to withdrawal or usage. These restrictions are imposed by various regulatory authorities based on the particular activities of the Bank.

The business of the Bank is subject to examination and regulation by the OCC. The Bank is a member of the U.S. Federal Reserve System, and its deposits in the U.S. are insured by the FDIC, subject to applicable limits.

The Bank is required to maintain cash reserves at certain non-US central banks.

The Bank is also subject to rules and regulations established by other U.S. and non U.S. regulators. As part of its compliance with the respective regulatory requirements, the Bank's broker-dealer activities are subject to certain restrictions on cash and other assets.

The following table presents the components of the Bank's restricted cash:

December 31, (in billions)	2020	2019
Cash reserves - Federal Reserve Banks <sup>(a)</sup>	\$ –	\$ 26.6
Segregated for the benefit of securities and cleared derivative customers	9.3	7.6
Cash reserves at non-U.S. central banks and held for other general purposes	5.1	3.9
<b>Total restricted cash<sup>(b)</sup></b>	<b>\$ 14.4</b>	<b>\$ 38.1</b>

(a) Effective March 26, 2020, the Federal Reserve eliminated reserve requirements for depository institutions.

(b) Comprises \$12.7 billion and \$36.8 billion in deposits with banks as of December 31, 2020 and 2019, respectively, and \$1.7 billion and \$1.3 billion in cash and due from banks as of December 31, 2020 and 2019, respectively, on the Consolidated balance sheets.

Also, as of December 31, 2020 and 2019, the Bank had cash pledged with clearing organizations for the benefit of customers of \$8.3 billion and \$4.4 billion, respectively.

### Intercompany funds transfers

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase & Co. and certain of its affiliates from borrowing from the Bank and other banking subsidiaries unless the loans are secured in specified amounts. Such secured loans provided by the Bank to any particular affiliate, together with certain other transactions with such affiliate (collectively referred to as "covered transactions"), are generally limited to 10% of the Bank's total capital, as determined by the risk-based capital guidelines; the aggregate amount of covered transactions between the Bank and all affiliates is limited to 20% of the Bank's total capital.

In addition to dividend restrictions set forth in statutes and regulations, the OCC, and under certain circumstances the FDIC, have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including the Bank if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At January 1, 2021, the Bank could pay, in the aggregate, approximately \$13 billion in dividends to JPMorgan Chase without the prior approval of its relevant banking regulators. The capacity to pay dividends in 2021 will be supplemented by the Bank's earnings during the year.

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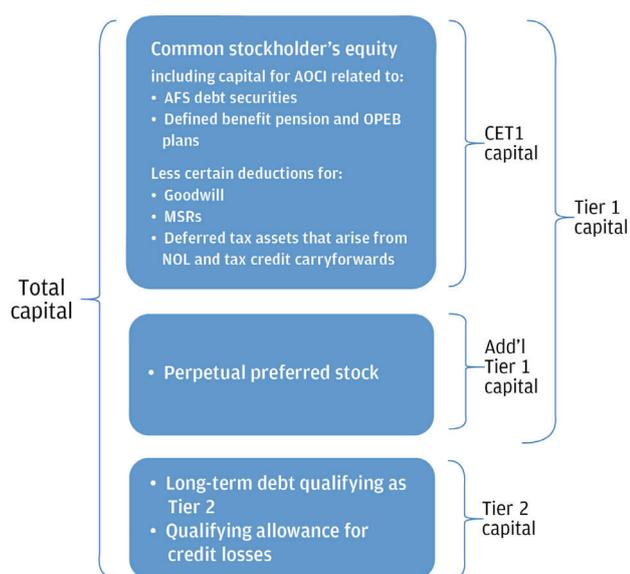
### Note 24 – Regulatory capital

The Bank’s banking regulator, the OCC, establishes capital requirements, including well-capitalized standards for national banks.

#### Basel III overview

The capital rules under Basel III establish minimum capital ratios and overall capital adequacy standards for banks, including JPMorgan Chase Bank, N.A. The minimum amount of regulatory capital that must be held by banks is determined by calculating risk-weighted assets (“RWA”), which are on-balance sheet assets and off-balance sheet exposures, weighted according to risk. Two comprehensive approaches are prescribed for calculating RWA: a standardized approach (“Basel III Standardized”), and an advanced approach (“Basel III Advanced”). For each of the risk-based capital ratios, the capital adequacy of the Bank is evaluated against the lower of the Standardized or Advanced approaches compared to their respective minimum capital ratios.

The three components of regulatory capital under the Basel III rules are as illustrated below:



#### Risk-weighted assets

Basel III establishes capital requirements for calculating credit risk RWA and market risk RWA, and in the case of Basel III Advanced, operational risk RWA. Key differences in the calculation of credit risk RWA between the Standardized and Advanced approaches are that for Basel III Advanced, credit risk RWA is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas for Basel III Standardized, credit risk RWA is generally based on supervisory risk-weightings which vary primarily by counterparty type and asset class. Market risk RWA is calculated on a generally consistent

basis between Basel III Standardized and Basel III Advanced. In addition to the RWA calculated under these approaches, the Bank may supplement such amounts to incorporate management judgment and feedback from its regulators.

#### Supplementary leverage ratio (“SLR”)

Basel III also includes a requirement for Advanced Approach banking organizations to calculate the SLR. The SLR is defined as Tier 1 capital under Basel III divided by the Bank’s total leverage exposure. Total leverage exposure is calculated by taking the Bank’s total average on-balance sheet assets, less amounts permitted to be deducted for Tier 1 capital, and adding certain off-balance sheet exposures, such as undrawn commitments and derivatives potential future exposure.

#### Risk-based capital regulatory minimums

All banking institutions are currently required to have a minimum CET1 capital ratio of 4.5% of risk-weighted assets.

Certain banking organizations, including JPMorgan Chase Bank, N.A. are required to hold additional amounts of capital to serve as a “capital conservation buffer”. The capital conservation buffer is intended to be used to absorb losses in times of financial or economic stress. The capital conservation buffer incorporates a fixed capital conservation buffer of 2.5% and a discretionary countercyclical capital buffer.

The U.S. federal regulatory capital standards include a framework for setting a discretionary countercyclical capital buffer taking into account the macro financial environment in which large, internationally active banks function. As of December 31, 2020, the U.S. countercyclical capital buffer remained at 0%. The Federal Reserve will continue to review the buffer at least annually. The buffer can be increased if the Federal Reserve, FDIC and OCC determine that systemic risks are meaningfully above normal and can be calibrated up to an additional 2.5% of RWA subject to a 12-month implementation period.

Failure to maintain regulatory capital equal to or in excess of the risk-based regulatory capital minimum plus the capital conservation buffer and any countercyclical buffer may result in limitations to the amount of capital that the Bank may distribute, as well as certain executive discretionary bonus payments.

Under the risk-based capital and leverage-based guidelines of the OCC, the Bank is required to maintain minimum ratios for CET1 capital, Tier 1 capital, Total capital, Tier 1 leverage and the SLR. Failure to meet these minimum requirements could cause the OCC to take action.

The following table presents the minimum and well-capitalized ratios to which the Bank was subject as of December 31, 2020 and 2019.

	Minimum capital ratios <sup>(a)(b)</sup>	Well-capitalized ratios <sup>(c)</sup>
<b>Capital ratios</b>		
CET1 capital	7.0 %	6.5 %
Tier 1 capital	8.5	8.0
Total capital	10.5	10.0
Tier 1 leverage	4.0	5.0
SLR	6.0	6.0

Note: The table above is as defined by the regulations issued by the OCC and FDIC and to which the Bank is subject.

- (a) Represents minimum SLR requirement of 3.0%, as well as, supplementary leverage buffer requirement of 3.0% for the Bank.  
(b) Represents the minimum capital ratios applicable to the Bank under Basel III. The CET1, Tier 1 and Total capital minimum capital ratios include a fixed capital conservation buffer requirement of 2.5%.  
(c) Represents requirements for the Bank pursuant to regulations issued under the FDIC Improvement Act.

#### Current Expected Credit Losses

The Bank initially elected to phase-in the January 1, 2020 (“day 1”) CECL adoption impact to retained earnings of \$2.7 billion to CET1 capital, at 25% per year in each of 2020 to 2023. As part of their response to the impact of the COVID-19 pandemic, on March 31, 2020, the federal banking agencies issued an interim final rule (issued as final on August 26, 2020) that provided the option to delay the effects of CECL on regulatory capital for two years, followed by a three-year transition period.

The final rule provides a uniform approach for estimating the effects of CECL compared to the legacy incurred loss model during the first two years of the transition period (the “day 2” transition amount), whereby the Bank may exclude from CET1 capital 25% of the change in the allowance for credit losses (excluding allowances on PCD loans). The cumulative day 2 transition amount as at December 31, 2021 that is not recognized in CET1 capital, as well as the \$2.7 billion day 1 impact, will be phased into CET1 capital at 25% per year beginning January 1, 2022. The Bank has elected to apply the CECL capital transition provisions, and accordingly, for the year ended December 31, 2020, the capital metrics of the Bank exclude \$5.8 billion, which is the \$2.7 billion day 1 impact to retained earnings and 25% of the \$12.2 billion increase in the allowance for credit losses (excluding allowances on PCD loans).

The impacts of the CECL capital transition provisions have also been incorporated into Tier 2 capital, adjusted average

assets, and total leverage exposure. Refer to Note 1 for further information on the CECL accounting guidance.

The following tables present the risk-based and leverage-based capital metrics for the Bank under both the Basel III Standardized and Basel III Advanced Approaches. As of December 31, 2020, the capital metrics are presented applying the CECL capital transition provisions. As of December 31, 2020 and 2019, the Bank was well-capitalized and met all capital requirements to which it was subject.

	Basel III Standardized		Basel III Advanced	
(in millions, except ratios)	Dec 31, 2020 <sup>(c)</sup>	Dec 31, 2019	Dec 31, 2020 <sup>(c)</sup>	Dec 31, 2019
<b>Risk-based capital metrics:</b>				
CET1 capital	\$ 234,235	\$ 206,848	\$ 234,235	\$ 206,848
Tier 1 capital	234,237	206,851	234,237	206,851
Total capital	252,045	224,390	239,673	214,091
Risk-weighted assets	1,492,138	1,457,689	1,343,185	1,269,991
CET1 capital ratio	15.7 %	14.2 %	17.4 %	16.3 %
Tier 1 capital ratio	15.7	14.2	17.4	16.3
Total capital ratio	16.9	15.4	17.8	16.9
<b>Leverage-based capital metrics:</b>				
Adjusted average assets <sup>(a)</sup>	\$2,970,285	\$2,353,432	\$2,970,285	\$2,353,432
Tier 1 leverage ratio	7.9	8.8	7.9	8.8
Total leverage exposure	NA	NA	\$3,688,797	\$3,044,509
SLR <sup>(b)</sup>	NA	NA	6.3 %	6.8 %

- (a) Adjusted average assets, for purposes of calculating the leverage ratio, includes total quarterly average assets adjusted for on-balance sheet assets that are subject to deduction from Tier 1 capital, predominantly goodwill and other intangible assets.  
(b) On June 1, 2020, federal banking agencies issued an interim final rule that provides insured depository institutions with the option, subject to certain restrictions, to elect a temporary exclusion of U.S. Treasury Securities and deposits at Federal Reserve Banks from the total leverage exposure for purposes of calculating the SLR. As of December 31, 2020, the Bank has not elected to apply this exclusion.  
(c) As of December 31, 2020, loans originated under the PPP receive a zero percent risk weight.

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### Note 25 – Off-balance sheet lending-related financial instruments, guarantees, and other commitments

The Bank provides lending-related financial instruments (e.g., commitments and guarantees) to address the financing needs of its customers and clients. The contractual amount of these financial instruments represents the maximum possible credit risk to the Bank should the customer or client draw upon the commitment or the Bank be required to fulfill its obligation under the guarantee, and should the customer or client subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees have historically been refinanced, extended, cancelled, or expired without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Bank's view, representative of its expected future credit exposure or funding requirements.

To provide for expected credit losses in wholesale and certain consumer lending-related commitments, an allowance for credit losses on lending-related commitments is maintained. Refer to Note 13 for further information regarding the allowance for credit losses on lending-related commitments, including the impact of the Bank's adoption of CECL accounting guidance on January 1, 2020. The following table summarizes the contractual amounts and carrying values of off-balance sheet lending-related financial instruments, guarantees and other commitments at December 31, 2020 and 2019. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. The Bank has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Bank can reduce or cancel credit card lines of credit by providing the borrower notice or, in some cases as permitted by law, without notice. In addition, the Bank typically closes credit card lines when the borrower is 60 days or more past due. The Bank may reduce or close HELOCs when there are significant decreases in the value of the underlying property, or when there has been a demonstrable decline in the creditworthiness of the borrower.

In conjunction with the adoption of CECL, the Bank reclassified risk-rated loans and lending-related commitments from the consumer, excluding credit card portfolio segment to the wholesale portfolio segment, to align with the methodology applied in determining the allowance. Prior-period amounts have been revised to conform with the current presentation. Refer to Note 1 for further information.

### Off-balance sheet lending-related financial instruments, guarantees and other commitments

By remaining maturity at December 31, (in millions)	Contractual amount						Carrying value <sup>(k)</sup>	
	2020					2019	2020	2019
	Expires in 1 year or less	Expires after 1 year through 3 years	Expires after 3 years through 5 years	Expires after 5 years	Total	Total		
<b>Lending-related</b>								
Consumer, excluding credit card:								
Residential real estate <sup>(a)</sup>	\$ 26,788	\$ 1,597	\$ 3,962	\$ 13,700	\$ 46,047	\$ 30,217	\$ 148	\$ 12
Auto and other	10,471	1	8	792	11,272	9,951	–	–
<b>Total consumer, excluding credit card</b>	<b>37,259</b>	<b>1,598</b>	<b>3,970</b>	<b>14,492</b>	<b>57,319</b>	<b>40,168</b>	<b>148</b>	<b>12</b>
Credit card <sup>(b)</sup>	658,506	–	–	–	658,506	650,720	–	–
<b>Total consumer<sup>(b)(c)</sup></b>	<b>695,765</b>	<b>1,598</b>	<b>3,970</b>	<b>14,492</b>	<b>715,825</b>	<b>690,888</b>	<b>148</b>	<b>12</b>
Wholesale:								
Other unfunded commitments to extend credit <sup>(d)(e)</sup>	94,437	174,290	128,502	16,267	413,496	378,780	2,144	951
Standby letters of credit and other financial guarantees <sup>(d)(f)</sup>	17,491	7,986	4,051	1,467	30,995	34,241	443	618
Other letters of credit <sup>(d)</sup>	2,982	45	26	–	3,053	2,961	14	4
<b>Total wholesale<sup>(c)</sup></b>	<b>114,910</b>	<b>182,321</b>	<b>132,579</b>	<b>17,734</b>	<b>447,544</b>	<b>415,982</b>	<b>2,601</b>	<b>1,573</b>
<b>Total lending-related</b>	<b>\$ 810,675</b>	<b>\$ 183,919</b>	<b>\$ 136,549</b>	<b>\$ 32,226</b>	<b>\$ 1,163,369</b>	<b>\$ 1,106,870</b>	<b>\$ 2,749</b>	<b>\$ 1,585</b>
<b>Other guarantees and commitments</b>								
Securities lending indemnification agreements and guarantees <sup>(g)</sup>	\$ 269,195	\$ –	\$ –	\$ –	\$ 269,195	\$ 222,601	\$ –	\$ –
Derivatives qualifying as guarantees	2,723	565	12,182	39,203	54,673	53,686	350	164
Unsettled resale and securities borrowed agreements	74,941	1,292	–	–	76,233	74,794	2	–
Unsettled repurchase and securities loaned agreements	75,382	612	–	–	75,994	57,623	(1)	–
Loan sale and securitization-related indemnifications:								
Mortgage repurchase liability	NA	NA	NA	NA	NA	NA	84	59
Loans sold with recourse	NA	NA	NA	NA	622	647	12	11
Exchange & clearing house guarantees and commitments <sup>(h)</sup>	42,923	–	–	–	42,923	101,157	–	–
<b>Other guarantees and commitments<sup>(e)(i)</sup></b>	<b>229</b>	<b>99</b>	<b>384</b>	<b>85</b>	<b>797</b>	<b>2,643</b>	<b>52</b>	<b>(68)</b>

(a) Includes certain commitments to purchase loans from correspondents.

(b) Also includes commercial card lending-related commitments.

(c) Predominantly all consumer and wholesale lending-related commitments are in the U.S.

(d) At December 31, 2020 and 2019, reflected the contractual amount net of risk participations totaling \$118 million and \$76 million, respectively, for other unfunded commitments to extend credit; \$8.5 billion and \$9.8 billion, respectively, for standby letters of credit and other financial guarantees; and \$357 million and \$546 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve these commitments are shown gross of risk participations.

(e) During the second half of 2020, the Bank reclassified certain fair value option elected lending-related positions from trading assets to loans, which resulted in a corresponding reclassification of commitments from Other guarantees and commitments to Wholesale other unfunded commitments to extend credit. Prior-period amounts have been revised to conform with the current presentation.

(f) At December 31, 2020 and 2019, included commitments to affiliates of \$13 million and zero, respectively.

(g) At December 31, 2020 and 2019, collateral held by the Bank in support of securities lending indemnification agreements was \$283.5 billion and \$234.4 billion, respectively. Securities lending collateral primarily consists of cash, G7 government securities, and securities issued by U.S. GSEs and government agencies.

(h) At December 31, 2020 and 2019, includes guarantees to the Fixed Income Clearing Corporation under the sponsored member repo program and commitments and guarantees associated with the Bank's membership in certain clearing houses.

(i) At December 31, 2020 and 2019, primarily includes letters of credit hedged by derivative transactions and managed on a market risk basis.

(j) Prior-period amounts have been revised to conform with the current presentation.

(k) For lending-related products, the carrying value represents the allowance for lending-related commitments and the guarantee liability; for derivative-related products, and lending-related commitments for which the fair value option was elected, the carrying value represents the fair value.

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### Other unfunded commitments to extend credit

Other unfunded commitments to extend credit generally consist of commitments for working capital and general corporate purposes, extensions of credit to support commercial paper facilities and bond financings in the event that those obligations cannot be remarketed to new investors, as well as committed liquidity facilities to clearing organizations. The Bank also issues commitments under multipurpose facilities which could be drawn upon in several forms, including the issuance of a standby letter of credit.

### Guarantees

U.S. GAAP requires that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. U.S. GAAP defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. The Bank considers the following off-balance sheet arrangements to be guarantees under U.S. GAAP: standby letters of credit and other financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements, certain derivative contracts and the guarantees under the sponsored member repo program.

As required by U.S. GAAP, the Bank initially records guarantees at the inception date fair value of the non-contingent obligation assumed (e.g., the amount of consideration received or the net present value of the premium receivable). For these obligations,

the Bank records this fair value amount in other liabilities with an offsetting entry recorded in cash (for premiums received), or other assets (for premiums receivable). Any premium receivable recorded in other assets is reduced as cash is received under the contract, and the fair value of the liability recorded at inception is amortized into income as lending and deposit-related fees over the life of the guarantee contract. The lending-related contingent obligation is recognized based on expected credit losses in addition to, and separate from, any non-contingent obligation.

Non-lending-related contingent obligations are recognized when the liability becomes probable and reasonably estimable. These obligations are not recognized if the estimated amount is less than the carrying amount of any non-contingent liability recognized at inception (adjusted for any amortization). Examples of non-lending-related contingent obligations include indemnifications provided in sales agreements, where a portion of the sale proceeds is allocated to the guarantee, which adjusts the gain or loss that would otherwise result from the transaction. For these indemnifications, the initial liability is amortized to income as the Bank's risk is reduced (i.e., over time or when the indemnification expires).

The contractual amount and carrying value of guarantees and indemnifications are included in the table on page 119.

For additional information on the guarantees, see below.

### Standby letters of credit and other financial guarantees

Standby letters of credit and other financial guarantees are conditional lending commitments issued by the Bank to guarantee the performance of a client or customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions.

The following table summarizes the contractual amount and carrying value of standby letters of credit and other financial guarantees and other letters of credit arrangements as of December 31, 2020 and 2019.

### Standby letters of credit, other financial guarantees and other letters of credit

December 31, (in millions)	2020		2019	
	Standby letters of credit and other financial guarantees	Other letters of credit	Standby letters of credit and other financial guarantees	Other letters of credit
Investment-grade <sup>(a)</sup>	\$ 22,863	\$ 2,263	\$ 26,879	\$ 2,137
Noninvestment-grade <sup>(a)</sup>	8,132	790	7,362	824
<b>Total contractual amount</b>	<b>\$ 30,995</b>	<b>\$ 3,053</b>	<b>\$ 34,241</b>	<b>\$ 2,961</b>
Allowance for lending-related commitments	\$ 80	\$ 14	\$ 216	\$ 4
Guarantee liability	363	—	402	—
<b>Total carrying value</b>	<b>\$ 443</b>	<b>\$ 14</b>	<b>\$ 618</b>	<b>\$ 4</b>
<b>Commitments with collateral</b>	<b>\$ 17,238</b>	<b>\$ 498</b>	<b>\$ 17,853</b>	<b>\$ 728</b>

(a) The ratings scale is based on the Bank's internal risk ratings. Refer to Note 12 for further information on internal risk ratings.

### Securities lending indemnifications

Through the Bank's securities lending program, counterparties' securities, via custodial and non-custodial arrangements, may be lent to third parties. As part of this program, the Bank provides an indemnification in the lending agreements which protects the lender against the failure of the borrower to return the lent securities. To minimize its liability under these indemnification agreements, the Bank obtains cash or other highly liquid collateral with a market value exceeding 100% of the value of the securities on loan from the borrower. Collateral is marked to market daily to help assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, the Bank would use the collateral held to purchase replacement securities in the market or to credit the lending client or counterparty with the cash equivalent thereof.

The cash collateral held by the Bank may be invested on behalf of the client in indemnified resale agreements, whereby the Bank indemnifies the client against the loss of principal invested. To minimize its liability under these agreements, the Bank obtains collateral with a market value exceeding 100% of the principal invested.

### Derivatives qualifying as guarantees

The Bank transacts in certain derivative contracts that have the characteristics of a guarantee under U.S. GAAP. These contracts include written put options that require the Bank to purchase assets upon exercise by the option holder at a specified price by a specified date in the future. The Bank may enter into written put option contracts in order to meet client needs, or for other trading purposes. The terms of written put options are typically five years or less.

Derivatives deemed to be guarantees also includes stable value contracts, commonly referred to as "stable value products", that require the Bank to make a payment of the difference between the market value and the book value of a counterparty's reference portfolio of assets in the event that market value is less than book value and certain other conditions have been met. Stable value products are transacted in order to allow investors to realize investment returns with less volatility than an unprotected portfolio. These contracts are typically longer-term or may have no stated maturity, but allow the Bank to elect to terminate the contract under certain conditions.

The notional value of derivatives guarantees generally represents the Bank's maximum exposure. However, exposure to certain stable value products is contractually limited to a substantially lower percentage of the notional amount.

The fair value of derivative guarantees reflects the probability, in the Bank's view, of whether the Bank will be required to perform under the contract. The Bank reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

The following table summarizes the derivatives qualifying as guarantees as of December 31, 2020 and 2019.

(in millions)	December 31, 2020	December 31, 2019
<b>Notional amounts</b>		
Derivative guarantees	\$ 54,673	\$ 53,686
Stable value contracts with contractually limited exposure	27,752	28,877
Maximum exposure of stable value contracts with contractually limited exposure	2,803	2,967
<b>Fair value</b>		
Derivative payables	350	164

In addition to derivative contracts that meet the characteristics of a guarantee, the Bank is both a purchaser and seller of credit protection in the credit derivatives market. Refer to Note 5 for a further discussion of credit derivatives.

### Unsettled securities financing agreements

In the normal course of business, the Bank enters into resale and securities borrowed agreements. At settlement, these commitments result in the Bank advancing cash to and receiving securities collateral from the counterparty. The Bank also enters into repurchase and securities loaned agreements. At settlement, these commitments result in the Bank receiving cash from and providing securities collateral to the counterparty. Such agreements settle at a future date. These agreements generally do not meet the definition of a derivative, and therefore, are not recorded on the Consolidated balance sheets until settlement date. These agreements predominantly have regular-way settlement terms. Refer to Note 11 for a further discussion of securities financing agreements.

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### Loan sales- and securitization-related indemnifications

#### *Mortgage repurchase liability*

In connection with the Bank's mortgage loan sale and securitization activities with U.S. GSEs the Bank has made representations and warranties that the loans sold meet certain requirements, and that may require the Bank to repurchase mortgage loans and/or indemnify the loan purchaser if such representations and warranties are breached by the Bank.

#### *Private label securitizations*

The liability related to repurchase demands associated with private label securitizations is separately evaluated by the Bank in establishing its litigation reserves.

Refer to Note 27 for additional information regarding litigation.

#### *Loans sold with recourse*

The Bank provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to the Bank is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. The Bank's securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At December 31, 2020 and 2019, the unpaid principal balance of loans sold with recourse totaled \$622 million and \$647 million, respectively. The carrying value of the related liability that the Bank has recorded in accounts payable and other liabilities on the Consolidated balance sheets, which is representative of the Bank's view of the likelihood it will have to perform under its recourse obligations, was \$12 million and \$11 million at December 31, 2020 and 2019, respectively.

### Other off-balance sheet arrangements

#### *Indemnification agreements - general*

In connection with issuing securities to investors outside the U.S., the Bank may agree to pay additional amounts to the holders of the securities in the event that, due to a change in tax law, certain types of withholding taxes are imposed on payments on the securities. The terms of the securities may also give the Bank the right to redeem the securities if such additional amounts are payable. The Bank may also enter into indemnification clauses in connection with the licensing of software to clients ("software licensees") or when it sells a business or assets to a third party ("third-party purchasers"), pursuant to which it indemnifies software licensees for claims of liability or damages that

may occur subsequent to the licensing of the software, or third-party purchasers for losses they may incur due to actions taken by the Bank prior to the sale of the business or assets. It is difficult to estimate the Bank's maximum exposure under these indemnification arrangements, since this would require an assessment of future changes in tax law and future claims that may be made against the Bank that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

### Merchant charge-backs

Under the rules of payment networks, the Bank, in its role as a merchant acquirer, retains a contingent liability for disputed processed credit and debit card transactions that result in a charge-back to the merchant. If a dispute is resolved in the cardholder's favor, Merchant Services will (through the cardholder's issuing bank) credit or refund the amount to the cardholder and will charge back the transaction to the merchant. If Merchant Services is unable to collect the amount from the merchant, Merchant Services will bear the loss for the amount credited or refunded to the cardholder. Merchant Services mitigates this risk by withholding future settlements, retaining cash reserve accounts or obtaining other collateral. In addition, Merchant Services recognizes a valuation allowance that covers the payment or performance risk to the Bank related to charge-backs. The carrying value of the valuation allowance was \$12 million and \$11 million at December 31, 2020 and 2019, respectively.

For the years ended December 31, 2020, 2019 and 2018, the Bank processed an aggregate volume of \$1,597.3 billion, \$1,511.5 billion, and \$1,366.1 billion, respectively.

#### *Clearing Services - Client Credit Risk*

The Bank provides clearing services for clients by entering into securities purchases and sales and derivative contracts with CCPs, including ETDs such as futures and options, as well as OTC-cleared derivative contracts. As a clearing member, the Bank stands behind the performance of its clients, collects cash and securities collateral (margin) as well as any settlement amounts due from or to clients, and remits them to the relevant CCP or client in whole or part. There are two types of margin: variation margin is posted on a daily basis based on the value of clients' derivative contracts and initial margin is posted at inception of a derivative contract, generally on the basis of the potential changes in the variation margin requirement for the contract.

As a clearing member, the Bank is exposed to the risk of nonperformance by its clients, but is not liable to clients for the performance of the CCPs. Where possible, the Bank seeks to mitigate its risk to the client through the collection of appropriate amounts of margin at inception and throughout the life of the transactions. The Bank can also cease providing clearing services if clients do not adhere to their obligations under the clearing agreement. In the event

of nonperformance by a client, the Bank would close out the client's positions and access available margin. The CCP would utilize any margin it holds to make itself whole, with any remaining shortfalls required to be paid by the Bank as a clearing member.

The Bank reflects its exposure to nonperformance risk of the client through the recognition of margin receivables from clients and margin payables to CCPs; the clients' underlying securities or derivative contracts are not reflected in the Bank's Consolidated Financial Statements.

It is difficult to estimate the Bank's maximum possible exposure through its role as a clearing member, as this would require an assessment of transactions that clients may execute in the future. However, based upon historical experience, and the credit risk mitigants available to the Bank, management believes it is unlikely that the Bank will have to make any material payments under these arrangements and the risk of loss is expected to be remote.

Refer to Note 5 for information on the derivatives that the Bank executes for its own account and records in its Consolidated Financial Statements.

#### *Exchange & Clearing House Memberships*

The Bank is a member of several securities and derivative exchanges and clearing houses, both in the U.S. and other countries, and it provides clearing services to its clients. Membership in some of these organizations requires the Bank to pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to the amount (or a multiple of the amount) of the Bank's contribution to the guarantee fund maintained by a clearing house or exchange as part of the resources available to cover any losses in the event of a member default. Alternatively, these obligations may also include a pro rata share of the residual losses after applying the guarantee fund. Additionally, certain clearing houses require the Bank as a member to pay a pro rata share of losses that may result from the clearing house's investment of guarantee fund contributions and initial margin, unrelated to and independent of the default of another member. Generally a payment would only be required should such losses exceed the resources of the clearing house or exchange that are contractually required to absorb the losses in the first instance. In certain cases, it is difficult to estimate the Bank's maximum possible exposure under these membership agreements, since this would require an assessment of future claims that may be made against the Bank that have not yet occurred. However, based on historical experience, management expects the risk of loss to the Bank to be remote. Where the Bank's maximum possible exposure can be estimated, the amount is disclosed in the table on page 119, in the Exchange & clearing house guarantees and commitments line.

#### *Sponsored member repo program*

The Bank acts as a sponsoring member to clear eligible overnight resale and repurchase agreements through the Government Securities Division of the Fixed Income Clearing Corporation ("FICC") on behalf of clients that become sponsored members under the FICC's rules. The Bank also guarantees to the FICC the prompt and full payment and performance of its sponsored member clients' respective obligations under the FICC's rules. The Bank minimizes its liability under these overnight guarantees by obtaining a security interest in the cash or high-quality securities collateral that the clients place with the clearing house; therefore, the Bank expects the risk of loss to be remote. The Bank's maximum possible exposure, without taking into consideration the associated collateral, is included in the Exchange & clearing house guarantees and commitments line on page 119. Refer to Note 11 for additional information on credit risk mitigation practices on resale agreements and the types of collateral pledged under repurchase agreements.

#### *Guarantees of subsidiaries and affiliates*

In the normal course of business, the Bank may provide counterparties with guarantees of certain of the trading and other obligations of its subsidiaries and affiliates on a contract-by-contract basis, as negotiated with the Bank's counterparties. The obligations of the subsidiaries are included on the Bank's Consolidated balance sheets or are reflected as off-balance sheet commitments; therefore, the Bank has not recognized a separate liability for these guarantees. As at December 31, 2020 and 2019, guarantees of obligations of affiliates provided by the Bank were not material. The Bank believes that the occurrence of any event that would trigger payments under these guarantees is remote.

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### Note 26 – Pledged assets and collateral

#### Pledged assets

The Bank pledges financial assets that it owns to maintain potential borrowing capacity at discount windows with Federal Reserve banks, various other central banks and FHLBs. Additionally, the Bank pledges assets for other purposes, including to collateralize repurchase and other securities financing agreements, to cover short sales and to collateralize derivative contracts and deposits and borrowings of affiliates. Certain of these pledged assets may be sold or repledged or otherwise used by the secured parties and are parenthetically identified on the Consolidated balance sheets as assets pledged.

The following table presents the Bank's pledged assets.

December 31, (in billions)	2020	2019
Assets that may be sold or repledged or otherwise used by secured parties	\$ 86.0	\$ 69.7
Assets that may not be sold or repledged or otherwise used by secured parties	52.1	37.7
Assets pledged at Federal Reserve banks and FHLBs	455.2	478.9
<b>Total pledged assets</b>	<b>\$ 593.3</b>	<b>\$ 586.3</b>

Total pledged assets do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. Refer to Note 14 for additional information on assets and liabilities of consolidated VIEs. Refer to Note 11 for additional information on the Bank's securities financing activities. Refer to Note 19 for additional information on the Bank's long-term debt. The significant components of the Bank's pledged assets were as follows.

December 31, (in billions)	2020	2019
Investment securities	\$ 85.4	\$ 41.7
Loans	420.5	460.3
Trading assets and other	87.4	84.3
<b>Total pledged assets</b>	<b>\$ 593.3</b>	<b>\$ 586.3</b>

#### Collateral

The Bank accepts financial assets as collateral that it is permitted to sell or repledge, deliver or otherwise use. This collateral is generally obtained under resale and other securities financing agreements, prime brokerage-related held-for-investment customer receivables and derivative contracts. Collateral is generally used under repurchase and other securities financing agreements, to cover short sales, and to collateralize derivative contracts and deposits.

The following table presents the fair value of collateral accepted.

December 31, (in billions)	2020	2019
Collateral permitted to be sold or repledged, delivered, or otherwise used	\$ 787.8	\$ 670.7
Collateral sold, repledged, delivered or otherwise used	589.3	532.3

## Note 27 - Litigation

### Contingencies

As of December 31, 2020, JPMorgan Chase and its subsidiaries, including but not limited to JPMorgan Chase Bank, N.A., are defendants, putative defendants or respondents in numerous legal proceedings, including private, civil litigations and regulatory/government investigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve each of JPMorgan Chase's lines of business and several geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel legal theories.

JPMorgan Chase believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is from \$0 to approximately \$1.5 billion at December 31, 2020. This estimated aggregate range of reasonably possible losses was based upon information available as of that date for those proceedings in which JPMorgan Chase believes that an estimate of reasonably possible loss can be made. For certain matters, JPMorgan Chase does not believe that such an estimate can be made, as of that date. JPMorgan Chase's estimate of the aggregate range of reasonably possible losses involves significant judgment, given:

- the number, variety and varying stages of the proceedings, including the fact that many are in preliminary stages,
- the existence in many such proceedings of multiple defendants, including JPMorgan Chase and JPMorgan Chase Bank, N.A., whose share of liability (if any) has yet to be determined,
- the numerous yet-unresolved issues in many of the proceedings, including issues regarding class certification and the scope of many of the claims, and
- the attendant uncertainty of the various potential outcomes of such proceedings, including where JPMorgan Chase has made assumptions concerning future rulings by the court or other adjudicator, or about the behavior or incentives of adverse parties or regulatory authorities, and those assumptions prove to be incorrect.

In addition, the outcome of a particular proceeding may be a result which JPMorgan Chase did not take into account in its estimate because JPMorgan Chase had deemed the likelihood of that outcome to be remote. Accordingly, JPMorgan Chase's estimate of the aggregate range of

reasonably possible losses will change from time to time, and actual losses may vary significantly.

Set forth below are descriptions of JPMorgan Chase's material legal proceedings in which JPMorgan Chase and its subsidiaries (which in certain instances include JPMorgan Chase Bank, N.A.) are involved or have been named as parties.

*Advisory and Other Activities.* In November 2020, JPMorgan Chase Bank, N.A. entered into a resolution with the Office of the Comptroller of the Currency ("OCC") regarding historical deficiencies in internal controls and internal audit for certain fiduciary activities. In connection with the resolution, JPMorgan Chase Bank, N.A. paid a \$250 million Civil Money Penalty. The OCC found that JPMorgan Chase Bank, N.A. has remediated the deficiencies that led to the penalty, and JPMorgan Chase Bank, N.A. already has controls in place to address the deficiencies.

*Amrapali.* India's Enforcement Directorate ("ED") is investigating JPMorgan India Private Limited in connection with investments made in 2010 and 2012 by two offshore funds formerly managed by JPMorgan Chase entities into residential housing projects developed by the Amrapali Group ("Amrapali"). In 2017, numerous creditors filed civil claims against Amrapali including petitions brought by home buyers relating to delays in delivering or failure to deliver residential units. The home buyers' petitions have been overseen by the Supreme Court of India since 2017 pursuant to its jurisdiction over public interest litigation. In July 2019, the Supreme Court of India issued an order making preliminary findings that Amrapali and other parties, including unspecified JPMorgan Chase entities and the offshore funds that had invested in the projects, violated certain currency control and money laundering provisions, and ordering the ED to conduct a further inquiry under India's Prevention of Money Laundering Act ("PMLA") and Foreign Exchange Management Act ("FEMA"). In May 2020, the Enforcement Directorate issued a provisional attachment order as part of the criminal PMLA proceedings freezing approximately \$25 million held by JPMorgan India Private Limited. In June 2020, the funds were transferred to an account held by the Supreme Court of India. A separate civil proceeding relating to alleged FEMA violations is ongoing. JPMorgan Chase is responding to and cooperating with the investigation.

*Federal Republic of Nigeria Litigation.* JPMorgan Chase Bank, N.A. operated an escrow and depository account for the Federal Government of Nigeria ("FGN") and two major international oil companies. The account held approximately \$1.1 billion in connection with a dispute among the clients over rights to an oil field. Following the settlement of the dispute, JPMorgan Chase Bank, N.A. paid out the monies in the account in 2011 and 2013 in

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accordance with directions received from its clients. In November 2017, the Federal Republic of Nigeria (“FRN”) commenced a claim in the English High Court for approximately \$875 million in payments made out of the accounts. The FRN, claiming to be the same entity as the FGN, alleges that the payments were instructed as part of a complex fraud not involving JPMorgan Chase Bank, N.A., but that JPMorgan Chase Bank, N.A. was or should have been on notice that the payments may be fraudulent. JPMorgan Chase Bank, N.A. applied for summary judgment and was unsuccessful. The claim is ongoing and a trial has been scheduled to commence in February 2022.

*Foreign Exchange Investigations and Litigation.* JPMorgan Chase previously reported settlements with certain government authorities relating to its foreign exchange (“FX”) sales and trading activities and controls related to those activities. Among those resolutions, in May 2015, JPMorgan Chase pleaded guilty to a single violation of federal antitrust law. In January 2017, JPMorgan Chase was sentenced, with judgment entered thereafter and a term of probation ending in January 2020. The term of probation has concluded, with JPMorgan Chase remaining in good standing throughout the probation period. The Department of Labor granted JPMorgan Chase a five-year exemption of disqualification that allows JPMorgan Chase and its affiliates to continue to rely on the Qualified Professional Asset Manager exemption under the Employee Retirement Income Security Act (“ERISA”) until January 2023. JPMorgan Chase will need to reapply in due course for a further exemption to cover the remainder of the ten-year disqualification period. A South Africa Competition Commission matter is the remaining FX-related governmental inquiry, and is currently pending before the South Africa Competition Tribunal.

In August 2018, the United States District Court for the Southern District of New York granted final approval to JPMorgan Chase’s settlement of a consolidated class action brought by U.S.-based plaintiffs, which principally alleged violations of federal antitrust laws based on an alleged conspiracy to manipulate foreign exchange rates and also sought damages on behalf of persons who transacted in FX futures and options on futures. Certain members of the settlement class filed requests to the Court to be excluded from the class, and certain of them filed a complaint against JPMorgan Chase and a number of other foreign exchange dealers in November 2018. A number of these actions remain pending. Further, putative class actions have been filed against JPMorgan Chase and a number of other foreign exchange dealers on behalf of certain consumers who purchased foreign currencies at allegedly inflated rates and purported indirect purchasers of FX instruments; these actions also remain pending in the District Court. In 2020, the Court approved a settlement by JPMorgan Chase and 11 other defendants of a class action filed by purported indirect purchasers for a total of \$10 million. In addition, some FX-related individual and putative class actions based

on similar alleged underlying conduct have been filed outside the U.S., including in the U.K., Israel and Australia.

*Interchange Litigation.* Groups of merchants and retail associations filed a series of class action complaints alleging that Visa and Mastercard, as well as certain banks, conspired to set the price of credit and debit card interchange fees and enacted related rules in violation of antitrust laws. In 2012, the parties initially settled the cases for a cash payment, a temporary reduction of credit card interchange, and modifications to certain credit card network rules. In 2017, after the approval of that settlement was reversed on appeal, the case was remanded to the United States District Court for the Eastern District of New York for further proceedings consistent with the appellate decision.

The original class action was divided into two separate actions, one seeking primarily monetary relief and the other seeking primarily injunctive relief. In September 2018, the parties to the class action seeking monetary relief finalized an agreement which amends and supersedes the prior settlement agreement. Pursuant to this settlement, the defendants collectively contributed an additional \$900 million to the approximately \$5.3 billion previously held in escrow from the original settlement. In December 2019, the amended agreement was approved by the District Court. Certain merchants appealed the District Court’s approval order, and those appeals are pending. Based on the percentage of merchants that opted out of the amended class settlement, \$700 million has been returned to the defendants from the settlement escrow in accordance with the settlement agreement. The class action seeking primarily injunctive relief continues separately.

In addition, certain merchants have filed individual actions raising similar allegations against Visa and Mastercard, as well as against JPMorgan Chase and other banks, and some of those actions remain pending.

*LIBOR and Other Benchmark Rate Investigations and Litigation.* JPMorgan Chase has responded to inquiries from various governmental agencies and entities around the world relating primarily to the British Bankers Association’s London Interbank Offered Rate (“LIBOR”) for various currencies and the European Banking Federation’s Euro Interbank Offered Rate (“EURIBOR”). The Swiss Competition Commission’s investigation relating to EURIBOR, to which JPMorgan Chase and other banks are subject, continues. In December 2016, the European Commission issued a decision against JPMorgan Chase and other banks finding an infringement of European antitrust rules relating to EURIBOR. JPMorgan Chase has filed an appeal of that decision with the European General Court, and that appeal is pending.

In addition, JPMorgan Chase has been named as a defendant along with other banks in a series of individual and putative class actions related to benchmarks, including

U.S. dollar LIBOR during the period that it was administered by the BBA and, in a separate consolidated putative class action, during the period that it was administered by ICE Benchmark Administration. These actions have been filed, or consolidated for pre-trial purposes, in the United States District Court for the Southern District of New York. In these actions, plaintiffs make varying allegations that in various periods, starting in 2000 or later, defendants either individually or collectively manipulated various benchmark rates by submitting rates that were artificially low or high. Plaintiffs allege that they transacted in loans, derivatives or other financial instruments whose values are affected by changes in these rates and assert a variety of claims including antitrust claims seeking treble damages.

In actions related to U.S. dollar LIBOR during the period that it was administered by the BBA, JPMorgan Chase has resolved certain of these actions, and others are in various stages of litigation. The District Court dismissed certain claims, including antitrust claims brought by some plaintiffs whom the District Court found did not have standing to assert such claims, and permitted certain claims to proceed, including antitrust, Commodity Exchange Act, Section 10(b) of the Securities Exchange Act and common law claims. The plaintiffs whose antitrust claims were dismissed for lack of standing have filed an appeal. The District Court granted class certification of antitrust claims related to bonds and interest rate swaps sold directly by the defendants and denied class certification motions filed by other plaintiffs. In the consolidated putative class action related to the time period that U.S. dollar LIBOR was administered by ICE Benchmark Administration, the District Court granted defendants' motion to dismiss plaintiffs' complaint, and the plaintiffs have appealed. JPMorgan Chase's settlements of putative class actions related to Swiss franc LIBOR, the Singapore Interbank Offered Rate and the Singapore Swap Offer Rate ("SIBOR"), and the Australian Bank Bill Swap Reference Rate, and one of the putative class actions related to U.S. dollar LIBOR remain subject to court approval. In the class actions related to SIBOR and Swiss franc LIBOR, the District Court concluded that the Court lacked subject matter jurisdiction, and plaintiffs' appeals of those decisions are pending.

In addition to the actions pending or consolidated in the Southern District of New York, in August 2020, a group of individual plaintiffs filed a lawsuit asserting antitrust claims in the United States District Court for the Northern District of California, alleging that JPMorgan Chase and other defendants were engaged in an unlawful agreement to set LIBOR and conspired to monopolize the market for LIBOR-based consumer loans and credit cards. The complaint seeks injunctive relief and monetary damages.

*Metals and U.S. Treasuries Investigations and Litigation and Related Inquiries.* JPMorgan Chase previously reported that it and/or certain of its subsidiaries had entered into resolutions with the U.S. Department of Justice ("DOJ"), the

U.S. Commodity Futures Trading Commission ("CFTC") and the U.S. Securities and Exchange Commission ("SEC"), which, collectively, resolved those agencies' respective investigations relating to historical trading practices by former employees in the precious metals and U.S. treasuries markets and related conduct from 2008 to 2016.

JPMorgan Chase entered into a Deferred Prosecution Agreement ("DPA") with the DOJ in which it agreed to the filing of a criminal information charging JPMorgan Chase & Co. with two counts of wire fraud and agreed, along with JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC, to certain terms and obligations as set forth therein. Under the terms of the DPA, the criminal information will be dismissed after three years, provided that JPMorgan Chase & Co., JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC fully comply with all of their obligations.

Across the three resolutions with the DOJ, CFTC and SEC, JPMorgan Chase & Co., JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC agreed to pay a total monetary amount of approximately \$920 million. A portion of the total monetary amount includes victim compensation payments.

Several putative class action complaints have been filed in the United States District Court for the Southern District of New York against JPMorgan Chase and certain former employees, alleging a precious metals futures and options price manipulation scheme in violation of the Commodity Exchange Act. Some of the complaints also allege unjust enrichment and deceptive acts or practices under the General Business Law of the State of New York. The Court consolidated these putative class actions in February 2019, and the consolidated action is stayed through May 2021. In addition, several putative class actions have been filed in the United States District Courts for the Northern District of Illinois and Southern District of New York against JPMorgan Chase, alleging manipulation of U.S. Treasury futures and options, and bringing claims under the Commodity Exchange Act. Some of the complaints also allege unjust enrichment. The actions in the Northern District of Illinois have been transferred to the Southern District of New York. The Court consolidated these putative class actions in October 2020 and set a deadline of February 2021 for the filing of a consolidated complaint. Two putative class action complaints have also been filed under the Securities Exchange Act of 1934 in the United States District Court for the Eastern District of New York against JPMorgan Chase and certain individual defendants on behalf of shareholders who acquired shares during the putative class period alleging that certain SEC filings of JPMorgan Chase were materially false or misleading in that they did not disclose certain information relating to the above-referenced investigations. Plaintiffs have filed a stipulation seeking consolidation of the actions and the appointment of co-lead plaintiffs and counsel, which is pending Court approval.

## Notes to consolidated financial statements

JPMorgan Chase Bank, National Association  
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*Wendel*. Since 2012, the French criminal authorities have been investigating a series of transactions entered into by senior managers of Wendel Investissement (“Wendel”) during the period from 2004 through 2007 to restructure their shareholdings in Wendel. JPMorgan Chase Bank, N.A., Paris branch provided financing for the transactions to a number of managers of Wendel in 2007. JPMorgan Chase has cooperated with the investigation. The investigating judges issued an *ordonnance de renvoi* in November 2016, referring JPMorgan Chase Bank, N.A. to the French *tribunal correctionnel* for alleged complicity in tax fraud. In January 2018, the Paris Court of Appeal issued a decision cancelling the *mise en examen* of JPMorgan Chase Bank, N.A. The Court of Cassation, France’s highest court, ruled in September 2018 that a *mise en examen* is a prerequisite for an *ordonnance de renvoi* and in January 2020 ordered the annulment of the *ordonnance de renvoi* referring JPMorgan Chase Bank, N.A. to the French tribunal correctionnel. The Court of Appeal found in January 2021 that it had no power to take further action against JPMorgan Chase following the Court of Cassation’s ruling. At the opening of a trial of the managers of Wendel in January 2021, the *tribunal correctionnel* directed the criminal authorities to clarify whether a further investigation should be opened against JPMorgan Chase, pending which the trial was postponed. In addition, a number of the managers have commenced civil proceedings against JPMorgan Chase Bank, N.A. The claims are separate, involve different allegations and are at various stages of proceedings.

\* \* \*

In addition to the various legal proceedings discussed above, JPMorgan Chase and its subsidiaries, including in certain cases, JPMorgan Chase Bank, N.A., are named as defendants or are otherwise involved in a substantial number of other legal proceedings. JPMorgan Chase and JPMorgan Chase Bank, N.A., each believe it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and it intends to defend itself vigorously. Additional legal proceedings may be initiated from time to time in the future.

JPMorgan Chase Bank, N.A., has established reserves for several hundred of its currently outstanding legal proceedings. In accordance with the provisions of U.S. GAAP for contingencies, JPMorgan Chase Bank, N.A., accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. JPMorgan Chase Bank, N.A., evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upward or downward, as appropriate, based on management’s best judgment after consultation with counsel. JPMorgan Chase Bank, N.A.’s legal expense was \$793 million, \$206 million and \$75 million for the years ended December 31, 2020, 2019 and 2018, respectively. Where a particular litigation matter involves one or more subsidiaries or affiliates of JPMorgan Chase, JPMorgan Chase determines the appropriate allocation of legal expense among those subsidiaries or affiliates (including,

where applicable, JPMorgan Chase Bank, N.A.). There is no assurance that JPMorgan Chase Bank N.A.’s litigation reserves will not need to be adjusted in the future. In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the claimants seek very large or indeterminate damages, or where the matters present novel legal theories, involve a large number of parties or are in early stages of discovery, JPMorgan Chase Bank, N.A. cannot state with confidence what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or consequences related to those matters. JPMorgan Chase Bank, N.A. believes, based upon its current knowledge and after consultation with counsel, consideration of the material legal proceedings described above and after taking into account its current litigation reserves and its estimated aggregate range of possible losses, that the other legal proceedings currently pending against it should not have a material adverse effect on JPMorgan Chase Bank, N.A.’s consolidated financial condition. JPMorgan Chase Bank, N.A. notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves it has currently accrued or that a matter will not have material reputational consequences. As a result, the outcome of a particular matter may be material to JPMorgan Chase Bank, N.A.’s operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase Bank, N.A.’s income for that period.

## **Note 28 – Business changes and developments**

### **Internal transfers of legal entities under common control**

From time to time there may be transfers of legal entities under common control between the Bank and JPMorgan Chase. Such transfers are accounted for at historical cost in accordance with U.S. GAAP and are reflected in the Consolidated Financial Statements prospectively when the impact of the transfers are not material to the Bank's Consolidated Financial Statements. Other than the Merger discussed in Note 1, there were no significant internal transfers of legal entities between the Bank and JPMorgan Chase for the years ended December 31, 2020, 2019 and 2018.

### **Subsequent events**

The Bank has performed an evaluation of events that have occurred subsequent to December 31, 2020, and through February 23, 2021 (the date the financial statements were available to be issued). There have been no material subsequent events that occurred during such period that would require disclosure or recognition in the Bank's Consolidated Financial Statements as of December 31, 2020.

## Supplementary information: Glossary of Terms and Acronyms

**2020 Form 10-K:** JPMorgan Chase & Co.'s Annual report on Form 10-K for year ended December 31, 2020, filed with the U.S. Securities and Exchange Commission.

**ABS:** Asset-backed securities

**AFS:** Available-for-sale

**Amortized cost:** Amount at which a financing receivable or investment is originated or acquired, adjusted for accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, charge-offs, foreign exchange, and fair value hedge accounting adjustments. For AFS securities, amortized cost is also reduced by any impairment losses recognized in earnings. Amortized cost is not reduced by the allowance for credit losses, except where explicitly presented net.

**AOCI:** Accumulated other comprehensive income/(loss)

**ARM:** Adjustable rate mortgage(s)

**Bank:** JPMorgan Chase Bank N.A.

**Beneficial interests issued by consolidated VIEs:** Represents the interest of third-party holders of debt, equity securities, or other obligations, issued by VIEs that the Bank consolidates.

**Benefit obligation:** Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

**CCP: "Central counterparty"** is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement.

**CDS:** Credit default swaps

**CECL:** Current Expected Credit Losses

**CET1 Capital:** Common equity Tier 1 capital

**CFO:** Chief Financial Officer

**Chase Bank USA, N.A.:** Chase Bank USA, National Association

**CLO:** Collateralized loan obligations

**CLTV:** Combined loan-to-value

**Collateral-dependent:** A loan is considered to be collateral-dependent when repayment of the loan is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty, including when foreclosure is deemed probable based on borrower delinquency.

**Credit derivatives:** Financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Upon the occurrence of a credit event by the reference entity, which may include, among other events, the bankruptcy or failure to pay its obligations, or certain restructurings of the debt of the reference entity, neither party has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value at the time of settling the credit derivative contract. The determination as to whether a credit event has occurred is generally made by the relevant International Swaps and Derivatives Association ("ISDA") Determinations Committee.

**Criticized:** Criticized loans, lending-related commitments and derivative receivables that are classified as special mention, substandard and doubtful categories for regulatory purposes.

**CRO:** Chief Risk Officer

**CVA:** Credit valuation adjustment

**DVA:** Debit valuation adjustment

**Embedded derivatives:** are implicit or explicit terms or features of a financial instrument that affect some or all of the cash flows or the value of the instrument in a manner similar to a derivative. An instrument containing such terms or features is referred to as a "hybrid." The component of the hybrid that is the non-derivative instrument is referred to as the "host." For example, callable debt is a hybrid instrument that contains a plain vanilla debt instrument (i.e., the host) and an embedded option that allows the issuer to redeem the debt issue at a specified date for a specified amount (i.e., the embedded derivative). However, a floating rate instrument is not a hybrid composed of a fixed-rate instrument and an interest rate swap.

**ETD: "Exchange-traded derivatives":** Derivative contracts that are executed on an exchange and settled via a central clearing house.

**EU:** European Union

**Fannie Mae:** Federal National Mortgage Association

**FASB:** Financial Accounting Standards Board

**FCA:** Financial Conduct Authority

**FDIC:** Federal Deposit Insurance Corporation

**Federal Reserve:** The Board of the Governors of the Federal Reserve System

**FFIEC:** Federal Financial Institutions Examination Council

**FHA:** Federal Housing Administration

**FHLB:** Federal Home Loan Bank

## Glossary of Terms and Acronyms

**FICC:** The Fixed Income Clearing Corporation

**FICO score:** A measure of consumer credit risk provided by credit bureaus, typically produced from statistical models by Fair Isaac Corporation utilizing data collected by the credit bureaus.

**Free standing derivatives:** a derivative contract entered into either separate and apart from any of the Bank's other financial instruments or equity transactions. Or, in conjunction with some other transaction and is legally detachable and separately exercisable.

**FVA:** Funding valuation adjustment

**FX:** Foreign exchange

**G7: Group of Seven nations:** Countries in the G7 are Canada, France, Germany, Italy, Japan, the U.K. and the U.S.

**G7 government bonds:** Bonds issued by the government of one of the G7 nations.

**Ginnie Mae:** Government National Mortgage Association

**HELOC:** Home equity line of credit

**Home equity – senior lien:** Represents loans and commitments where the Bank holds the first security interest on the property.

**Home equity – junior lien:** Represents loans and commitments where the Bank holds a security interest that is subordinate in rank to other liens.

**HTM:** Held-to-maturity

**Investment-grade:** An indication of credit quality based on the Bank's internal risk assessment. The Bank considers ratings of BBB-/Baa3 or higher as investment-grade.

**ISDA:** International Swaps and Derivatives Association

**JPMorgan Chase:** JPMorgan Chase & Co.

**LGD:** Loss given default

**LIBOR:** London Interbank Offered Rate

**LTIP:** Long-term incentive plan

**LTV: "Loan-to-value":** For residential real estate loans, the relationship, expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate) securing the loan.

### *Origination date LTV ratio*

The LTV ratio at the origination date of the loan. Origination date LTV ratios are calculated based on the actual appraised values of collateral (i.e., loan-level data) at the origination date.

### *Current estimated LTV ratio*

An estimate of the LTV as of a certain date. The current estimated LTV ratios are calculated using estimated collateral values derived from a nationally recognized home price index measured at the metropolitan statistical area

("MSA") level. These MSA-level home price indices consist of actual data to the extent available and forecasted data where actual data is not available. As a result, the estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting LTV ratios are necessarily imprecise and should therefore be viewed as estimates.

### *Combined LTV ratio*

The LTV ratio considering all available lien positions, as well as unused lines, related to the property. Combined LTV ratios are used for junior lien home equity products.

**Master netting agreement:** A single agreement with a counterparty that permits multiple transactions governed by that agreement to be terminated or accelerated and settled through a single payment in a single currency in the event of a default (e.g., bankruptcy, failure to make a required payment or securities transfer or deliver collateral or margin when due).

**MBS:** Mortgage-backed securities

**Measurement alternative:** Measures equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer.

**Merchant Services:** offers merchants payment processing capabilities, fraud and risk management, data and analytics, and other payments services. Through Merchant Services, merchants of all sizes can accept payments via credit and debit cards and payments in multiple currencies.

**Merger:** On May 18, 2019, JPMorgan Chase merged its wholly-owned subsidiary, Chase Bank USA, N.A. with and into JPMorgan Chase Bank, N.A., with JPMorgan Chase Bank, N.A. as the surviving bank.

**MEV:** Macroeconomic variable

**Moody's:** Moody's Investor Services

### **Mortgage product types:**

#### *Alt-A*

Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited documentation; (ii) a high CLTV ratio; (iii) loans secured by non-owner occupied properties; or (iv) a debt-to-income ratio above normal limits. A substantial proportion of the Bank's Alt-A loans are those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.

#### *Option ARMs*

The option ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only or minimum payment. The minimum payment on an option

## Glossary of Terms and Acronyms

ARM loan is based on the interest rate charged during the introductory period. This introductory rate is usually significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan. Option ARM loans are subject to payment recast, which converts the loan to a variable-rate fully amortizing loan upon meeting specified loan balance and anniversary date triggers.

### *Prime*

Prime mortgage loans are made to borrowers with good credit records who meet specific underwriting requirements, including prescriptive requirements related to income and overall debt levels. New prime mortgage borrowers provide full documentation and generally have reliable payment histories.

### *Subprime*

Subprime loans are loans that, prior to mid-2008, were offered to certain customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) a high LTV ratio of greater than 80% (without borrower-paid mortgage insurance); (iii) a high debt-to-income ratio; (iv) an occupancy type for the loan is other than the borrower's primary residence; or (v) a history of delinquencies or late payments on the loan.

**MSA:** Metropolitan statistical areas

**MSR:** Mortgage servicing rights

**NA:** Data is not applicable or available for the period presented.

**NAV:** Net Asset Value

**Net charge-off/(recovery) rate:** Represents net charge-offs/(recoveries) (annualized) divided by average retained loans for the reporting period.

**Net interchange income** includes the following components:

- **Interchange income:** Fees earned by credit and debit card issuers on sales transactions.
- **Reward costs:** The cost to the Bank for points earned by cardholders enrolled in credit card rewards programs generally tied to sales transactions.
- **Partner payments:** Payments to co-brand credit card partners based on the cost of loyalty program rewards earned by cardholders on credit card transactions.

**Net mortgage servicing revenue:** Includes operating revenue earned from servicing third-party mortgage loans, which is recognized over the period in which the service is

provided; changes in the fair value of MSRs; the impact of risk management activities associated with MSRs; and gains and losses on securitization of excess mortgage servicing. Net mortgage servicing revenue also includes gains and losses on sales and lower of cost or fair value adjustments of certain repurchased loans insured by U.S. government agencies.

**Net production revenue:** Includes fees and income recognized as earned on mortgage loans originated with the intent to sell, and the impact of risk management activities associated with the mortgage pipeline and warehouse loans. Net production revenue also includes gains and losses on sales and lower of cost or fair value adjustments on mortgage loans held-for-sale (excluding certain repurchased loans insured by U.S. government agencies), and changes in the fair value of financial instruments measured under the fair value option.

**NOL:** Net operating loss

**Nonaccrual loans:** Loans for which interest income is not recognized on an accrual basis. Loans (other than credit card loans and certain consumer loans insured by U.S. government agencies) are placed on nonaccrual status when full payment of principal and interest is not expected, regardless of delinquency status, or when principal and interest have been in default for a period of 90 days or more unless the loan is both well-secured and in the process of collection. Collateral-dependent loans are typically maintained on nonaccrual status.

**OAS:** Option-adjusted spread

**OCC:** Office of the Comptroller of the Currency

**OCI:** Other comprehensive income/(loss)

**OPEB:** Other postretirement employee benefit

**OTTI:** Other-than-temporary impairment

**Over-the-counter ("OTC") derivatives:** Derivative contracts that are negotiated, executed and settled bilaterally between two derivative counterparties, where one or both counterparties is a derivatives dealer.

**Over-the-counter cleared ("OTC-cleared") derivatives:** Derivative contracts that are negotiated and executed bilaterally, but subsequently settled via a central clearing house, such that each derivative counterparty is only exposed to the default of that clearing house.

**PCD: "Purchased credit deteriorated"** assets represent acquired financial assets that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the Bank.

**PCI: "Purchased credit-impaired" loans** represented certain loans that were acquired and deemed to be credit-impaired on the acquisition date. The superseded FASB guidance allowed purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more

## Glossary of Terms and Acronyms

pools, provided that the loans had common risk characteristics (e.g., product type, LTV ratios, FICO scores, past due status, geographic location). A pool was then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

**PD:** Probability of default

**PPP:** Paycheck Protection Program

**PPPL Facility:** Paycheck Protection Program Lending Facility

**PRA:** Prudential Regulation Authority

**Principal transactions revenue:** Principal transactions revenue is driven by many factors, including:

- the bid-offer spread, which is the difference between the price at which a market participant is willing and able to sell an instrument to the Bank and the price at which another market participant is willing and able to buy it from the Bank, and vice versa; and
- realized and unrealized gains and losses on financial instruments and commodities transactions, including those accounted for under the fair value option, primarily used in client-driven market-making activities, and on private equity investments.
  - Realized gains and losses result from the sale of instruments, closing out or termination of transactions, or interim cash payments.
  - Unrealized gains and losses result from changes in valuation.

In connection with its client-driven market-making activities, the Bank transacts in debt and equity instruments, derivatives and commodities, including physical commodities inventories and financial instruments that reference commodities.

Principal transactions revenue also includes realized and unrealized gains and losses related to:

- derivatives designated in qualifying hedge accounting relationships, primarily fair value hedges of commodity and foreign exchange risk;
- derivatives used for specific risk management purposes, primarily to mitigate credit risk and foreign exchange risk.

**PSUs:** Performance share units

**REIT: “Real estate investment trust”:** A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage income property (i.e., equity REIT) and/or mortgage loans (i.e., mortgage REIT). REITs can be publicly or privately held and they also qualify for certain favorable tax considerations.

**REO:** Real estate owned

**Retained loans:** Loans that are held-for-investment (i.e.,

excludes loans held-for-sale and loans at fair value).

**RHS:** Rural Housing Service of the U.S. Department of Agriculture

**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 loan that would be realized upon the default and takes into consideration collateral and structural support for each credit facility.

**ROU assets:** Right-of-use assets

**RSU(s):** Restricted stock units

**RWA: “Risk-weighted assets”:** Basel III establishes two comprehensive approaches for calculating RWA (a Standardized approach and an Advanced approach) which include capital requirements for credit risk, market risk, and in the case of Basel III Advanced, also operational risk. Key differences in the calculation of credit risk RWA between the Standardized and Advanced approaches are that for Basel III Advanced, credit risk RWA is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas for Basel III Standardized, credit risk RWA is generally based on supervisory risk-weightings which vary primarily by counterparty type and asset class. Market risk RWA is calculated on a generally consistent basis between Basel III Standardized and Basel III Advanced.

**Scored portfolios:** Consumer loan portfolios that predominantly include residential real estate loans, credit card loans, auto loans to individuals and certain small business loans.

**S&P:** Standard and Poor’s 500 Index

**SAR(s):** Stock appreciation rights

**SEC:** Securities and Exchange Commission

**Securities financing agreements:** Include resale, repurchase, securities borrowed and securities loaned agreements

**SLR:** Supplementary leverage ratio

**SMBS:** Stripped mortgage-backed securities

**SPEs:** Special purpose entities

**Structured notes:** Structured notes are financial instruments whose cash flows are linked to the movement in one or more indexes, interest rates, foreign exchange rates, commodities prices, prepayment rates, or other market variables. The notes typically contain embedded (but not separable or detachable) derivatives. Contractual cash flows for principal, interest, or both can vary in amount and timing throughout the life of the note based on

## Glossary of Terms and Acronyms

non-traditional indexes or non-traditional uses of traditional interest rates or indexes.

**TCJA:** Tax Cuts and Jobs Act

**TDR: “Troubled debt restructuring”** is deemed to occur when the Bank modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty. Loans with short-term and other insignificant modifications that are not considered concessions are not TDRs.

**U.K.:** United Kingdom

**Unaudited:** Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

**U.S.:** United States of America

**U.S. government agencies:** U.S. government agencies include, but are not limited to, agencies such as Ginnie Mae and FHA, and do not include Fannie Mae and Freddie Mac which are U.S. government-sponsored enterprises (“U.S. GSEs”). In general, obligations of U.S. government agencies are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government in the event of a default.

**U.S. GAAP:** Accounting principles generally accepted in the U.S.

**U.S. GSE(s):** “U.S. government-sponsored enterprises” are quasi-governmental, privately-held entities established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress to improve the flow of credit to specific sectors of the economy and provide certain essential services to the public. U.S. GSEs include Fannie Mae and Freddie Mac, but do not include Ginnie Mae or FHA. U.S. GSE obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**U.S. Treasury:** U.S. Department of the Treasury

**VA:** U.S. Department of Veterans Affairs

**VCG:** Valuation Control Group

**VGf:** Valuation Governance Forum

**VIEs:** Variable interest entities

**Warehouse loans:** Consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as loans.

## **STATUTORY AND GENERAL INFORMATION ABOUT US AND THE GUARANTOR**

### **STATUTORY CONSENTS**

As a national banking association organised under the federal laws of the United States of America, the guarantor is empowered to give guarantees. Each issue of structured products will have the benefit of the guarantee.

### **NO MATERIAL ADVERSE CHANGE AND LITIGATION**

Save as disclosed in the section headed “General Information about Us” and the section headed “Information Relating to the Guarantor” in this base listing document, there has been no material adverse change in our or the guarantor’s financial position since the date of the most recently published audited financial statements of us or the guarantor on a consolidated basis respectively, as the case may be, that would have a material adverse effect on our ability to perform our obligations, or the guarantor’s ability to perform its obligations respectively in the context of any issue of structured products.

Save as disclosed in this base listing document, we and the guarantor are not aware, to the best of our and the guarantor’s knowledge and belief, of any litigation or claims of material importance in the context of any issue of structured products pending or threatened against us or the guarantor.

### **FINANCIAL INFORMATION ABOUT THE GUARANTOR**

As at the date of this base listing document, PricewaterhouseCoopers LLP, auditor of the guarantor, has given and has not withdrawn its written consent to the inclusion in this base listing document of its audit report dated 23 February 2021 (which relates to the guarantor’s financial statements for the year ended 31 December 2020 comprising consolidated balance sheets at 31 December 2020 and 2019 and the related consolidated statements of income, changes in stockholder’s equity, comprehensive income and cash flows for each of the three years ended 31 December 2020) in the form and context in which it is included. Its report was not prepared for incorporation in this base listing document.

PricewaterhouseCoopers LLP does not have any shareholding in the guarantor or any of the guarantor’s subsidiaries, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the guarantor or any of the guarantor’s subsidiaries.

### **OUR SERVICE OF PROCESS AGENT**

We have authorised J.P. Morgan Securities (Asia Pacific) Limited, 23-29/F, Chater House, 8 Connaught Road Central, Hong Kong to accept on our behalf and on behalf of the guarantor service of process and any other notices required to be served on either us or the guarantor in Hong Kong.

### **OUR AUTHORISED REPRESENTATIVES**

Our authorised representatives are Elaine Hue Mei Chan, Executive Director (who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, 23-29/F, Chater House, 8 Connaught Road Central, Hong Kong) and Yao Khoo, Shuy, Executive Director (who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, the Quayside, 77 Hoi Bun Road, Kwun Tong, Hong Kong). The guarantor’s authorised representative is Camille Modiano, Managing Director who can be contacted at J.P. Morgan Securities (Asia Pacific) Limited, 23-29/F, Chater House, 8 Connaught Road Central, Hong Kong.

## ANNEX 1

### TERMS AND CONDITIONS OF THE CASH-SETTLED STOCK WARRANTS

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

#### 1 Form; Status; Guarantee; Transfer and Title

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”) made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.

- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## **2 Warrant Rights and Exercise Expenses**

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(C)).
- (B) The Warrantholder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(C).

## **3 Automatic Exercise**

- (A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (“**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these Conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

## **4 Exercise of Warrants**

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the Global Warrant Certificate.
- (C) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions (the “**Settlement Date**”) in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” means:

In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

“**Average Price**” shall be the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Entitlement**” means the number of Shares to which the Warrants relate, as specified in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

“**Market Disruption Event**” means:

- (i) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (1) the Shares; or (2) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;
- (ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) result in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (iii) a limitation or closure of the Stock Exchange due to unforeseen circumstances.

“**Valuation Date**” means, subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

If the Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(C) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as recorded on the register.

- (D) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.
- (E) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(C) above.

## **5 Agent**

- (A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

## 6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Shares (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to subscribe

For the purposes of these Conditions, “**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Exercise Price (which shall be rounded to the nearest 0.001) shall be adjusted by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.
- (iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is one per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

- (B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a “Bonus Issue”), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

N: Number of additional Shares (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to receive

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares (a “**Subdivision**”) or consolidate its outstanding share capital into a smaller number of shares (a “**Consolidation**”), then:

(i) in the case of a Subdivision, the Entitlement shall be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) shall be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement shall be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) shall be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken effect.

- (D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would

have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

- (E) No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Cash Distribution Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same date that the Entitlement is adjusted.

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and

irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.

- (G) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warranholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warranholder in accordance with Condition 10 as soon as practicable after the determination thereof.

## **7 Purchase by the Issuer**

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## **8 Global Warrant Certificate**

A global warrant certificate (the “**Global Warrant Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

## **9 Meeting of Warranholder and Modification**

- (A) *Meetings of Warranholder.* Notices for convening meetings to consider any matter affecting the Warranholder’s interests will be given to the Warranholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warranholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warranholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warranholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warranholder) being or representing Warranholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warranholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warranholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

## **10 Notices**

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

## **11 Liquidation**

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## **12 Delisting of Company**

- (A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

### **13 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

### **14 Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (A) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
- (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),
- (each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

### **15 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

### **16 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

## **17 Governing Law**

The Warrants, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **18 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## **TERMS AND CONDITIONS OF THE CASH-SETTLED FOREIGN STOCK WARRANTS**

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### **1 Form; Status; Guarantee; Transfer and Title**

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”) made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).

- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.
- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## **2 Warrant Rights and Exercise Expenses**

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(C)).
- (B) The Warrantholder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(C).

## **3 Automatic Exercise**

- (A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (“**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these Conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

## **4 Exercise of Warrants**

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the Global Warrant Certificate.
- (C) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions (the “**Settlement Date**”) in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” means:

In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(if applicable) either (i) converted from the Underlying Currency into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted from the Underlying Currency into the Interim Currency at the First Exchange Rate and then converted from the Interim Currency into the Settlement Currency at the Second Exchange Rate.

In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(if applicable) either (i) converted from the Underlying Currency into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted from the Underlying Currency into the Interim Currency at the First Exchange Rate and then converted from the Interim Currency into the Settlement Currency at the Second Exchange Rate.

“**Average Price**” shall be the arithmetic mean of the official closing prices of one Share (as published by the Underlying Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Entitlement**” means the number of Shares to which the Warrants relate, as specified in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

“**Exchange Rate**”, if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**First Exchange Rate**”, if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Interim Currency**”, if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Market Disruption Event**” means:

- (i) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading (by reason of movements in price exceeding limits permitted by the Underlying Exchange or otherwise) on the Underlying Exchange in (1) the Shares; or (2) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material; or

- (ii) a closure of the Underlying Exchange or a disruption or limitation in trading on the Underlying Exchange due to any other unforeseen circumstances;

“**Second Exchange Rate**”, if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Underlying Currency**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Underlying Exchange**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Underlying Exchange Business Day**” means a day (excluding Saturdays, Sundays or public holidays) on which the Underlying Exchange is scheduled to open for dealings during its regular trading sessions;

“**Valuation Date**” means, subject as provided above in relation to a Market Disruption Event, each of the five Underlying Exchange Business Days immediately preceding the Expiry Date.

If the Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Underlying Exchange Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on an Underlying Exchange Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the official closing price of the Shares on the first succeeding Underlying Exchange Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five official closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Underlying Exchange Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Agent shall determine the official closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(C) shall be delivered at the risk and expense of the Warranholder to the Warranholder, or such bank, broker or agent in Hong Kong (if any) as recorded on the register.

- (D) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warranholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warranholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warranholder for any interest in respect of the amount due or any loss or damage that such Warranholder may suffer as a result of the existence of a Settlement Disruption Event.

- (E) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(C) above.

## 5 Agent

- (A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

## 6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted on the Underlying Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the official closing price of an existing Share as published by the Underlying Exchange on the last Underlying Exchange Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to subscribe

For the purposes of these Conditions, “**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Exercise Price shall be adjusted by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.
  - (iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is one per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Agent.
- (B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Underlying Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

N: Number of additional Share(s) (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to receive

In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares (a “**Subdivision**”) or consolidate its outstanding share capital into a smaller number of shares (a “**Consolidation**”), then:
- (i) in the case of a Subdivision, the Entitlement shall be increased whereas the Exercise Price shall be decreased in the same ratio as the Subdivision; and
  - (ii) in the case of a Consolidation, the Entitlement shall be decreased whereas the Exercise Price shall be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken effect.

- (D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Underlying Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

- (E) No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s official closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Underlying Exchange Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Cash Distribution Share price, being the official closing price of an existing Share as published by the Underlying Exchange on the last Underlying Exchange Business Day on which the Shares are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Exercise Price by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same date that the Entitlement is adjusted.

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.
- (G) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warranholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warranholder in accordance with Condition 10 as soon as practicable after the determination thereof.

## **7 Purchase by the Issuer**

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## **8 Global Warrant Certificate**

A global warrant certificate (the “**Global Warrant Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

## **9 Meeting of Warranholder and Modification**

- (A) *Meetings of Warranholder.* Notices for convening meetings to consider any matter affecting the Warranholder’s interests will be given to the Warranholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warranholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warranholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warranholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warranholder) being or representing Warranholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

## **10 Notices**

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

## **11 Liquidation**

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## **12 Delisting of Company**

(A) If at any time the Shares cease to be listed on the Underlying Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not

materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

- (B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Underlying Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

### **13 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

### **14 Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (A) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

## **15 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

## **16 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

## **17 Governing Law**

The Warrants, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **18 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## **TERMS AND CONDITIONS OF THE CASH-SETTLED WARRANTS OVER SINGLE UNIT TRUST**

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### **1 Form; Status; Guarantee; Transfer and Title**

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Trust are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”) made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.

- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## **2 Warrant Rights and Exercise Expenses**

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(C)).
- (B) The Warrantholder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(C).

## **3 Automatic Exercise**

- (A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (“**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these Conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

## **4 Exercise of Warrants**

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the Global Warrant Certificate.
- (C) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions (the “**Settlement Date**”) in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” means:

In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

“**Average Price**” shall be the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Entitlement**” means the number of Units to which the Warrants relate, as specified in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

“**Market Disruption Event**” means:

- (i) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (1) the Units; or (2) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;
- (ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “**BLACK**” rainstorm signal on any day which either (i) result in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “**BLACK**” rainstorm signal having been issued; or
- (iii) a limitation or closure of the Stock Exchange due to unforeseen circumstances.

“**Valuation Date**” means, subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

If the Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Agent shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(C) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as recorded on the register.

- (D) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.
- (E) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(C) above.

## **5 Agent**

- (A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

## 6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder of an existing Unit is entitled to subscribe

For the purposes of these Conditions, “**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Exercise Price (which shall be rounded to the nearest 0.001) shall be adjusted by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.
- (iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is one per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

- (B) If and whenever the Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Units of the Trust becomes entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

N: Number of additional Units (whether a whole or a fraction) per existing Unit each holder of an existing Unit is entitled to receive

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (C) If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a “**Subdivision**”) or consolidate the Units or any class of its outstanding Units into a smaller number of units (a “**Consolidation**”), then:

(i) in the case of a Subdivision, the Entitlement shall be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) shall be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement shall be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) shall be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken effect.

- (D) If it is announced that the Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to

such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

- (E) No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) (“**Ordinary Distribution**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit’s closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Cash Distribution Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the Ordinary Distribution and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the same date that the Entitlement is adjusted.

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the

applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.

- (G) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolder in accordance with Condition 10 as soon as practicable after the determination thereof.

## **7 Purchase by the Issuer**

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## **8 Global Warrant Certificate**

A global warrant certificate (the “**Global Warrant Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

## **9 Meeting of Warrantheolder and Modification**

- (A) *Meetings of Warrantheolder.* Notices for convening meetings to consider any matter affecting the Warrantheolder’s interests will be given to the Warrantheolder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantheolder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantheolder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantheolder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantheolder) being or representing Warrantheolder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantheolder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantheolder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantheolder being held if passed unanimously.

- (B) *Modification.* The Issuer may, without the consent of the Warrantheolders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

## 10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

## 11 Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) (“**Trustee**”) (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, “**Termination**” means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) (“**Manager**”) is required to terminate the Trust under the trust deed (“**Trust Deed**”) constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

## 12 Delisting of Trust

- (A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

- (B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

### **13 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

### **14 Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (A) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

### **15 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

## **16 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

## **17 Governing Law**

The Warrants, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **18 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## TERMS AND CONDITIONS OF THE CASH-SETTLED INDEX WARRANTS

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### 1 Form; Status; Guarantee; Transfer and Title

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”), made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.

- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## **2 Warrant Rights and Exercise Expenses**

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(C)).
- (B) The Warrantholder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(C).

## **3 Automatic Exercise**

- (A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (“**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these Conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

## **4 Exercise of Warrants**

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the Global Warrant Certificate.
- (C) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these Conditions (the “**Settlement Date**”) in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” means for every Board Lot, an amount calculated by the Issuer in accordance with the following formula, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate:

In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Index Business Day**” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions.

“**Index Exchange**” means the Stock Exchange or any other exchange as specified in the relevant Launch Announcement and Supplemental Listing Document.

“**Market Disruption Event**” means:

- (1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
  - (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or
  - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
  - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purpose of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “**BLACK**” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior

to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “**BLACK**” rainstorm signal having been issued;

- (3) the limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances.

“**Settlement Currency**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Valuation Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Any payment made pursuant to this Condition 4(C) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or other agent in Hong Kong (if any) as is recorded on the register.

- (D) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.
- (E) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(C) above.

## 5 Agent

- (A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

## 6 Adjustments

- (A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.
- (B) If (i) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts or commodities and other routine events), or (ii) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Agent shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).
- (C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.
- (D) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

## 7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## 8 Global Warrant Certificate

A global warrant certificate (the “**Global Warrant Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

## 9 Meeting of Warrantholder and Modification

- (A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder’s interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

- (B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction);
  - (ii) of a formal, minor or technical nature;
  - (iii) made to correct a manifest error; or

- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantheolders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

## **10 Notices**

All notices in English and Chinese to the Warrantheolder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantheolders.

## **11 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantheolder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

## **12 Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (A) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantheolder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantheolder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantheolder in such manner as shall be notified to the Warrantheolders in accordance with Condition 10.

## **13 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

#### **14 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

#### **15 Governing Law**

The Warrants, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

#### **16 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

#### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## TERMS AND CONDITIONS OF THE CASH-SETTLED STOCK INLINE WARRANTS

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of Inline Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Inline Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### 1 Form; Status; Guarantee; Transfer and Title

- (A) The Inline Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”) made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the Inline Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Inline Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Inline Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of Inline Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Inline Warrants. The expression “**Warrantholder**” shall be construed accordingly.

- (E) Trading in Inline Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## 2 **Inline Warrant Rights and Exercise Expenses**

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(C)).
- (B) The Warrantholder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Inline Warrants (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(C).

## 3 **Automatic Exercise**

- (A) All Inline Warrants shall be deemed to be automatically exercised on the Expiry Date.
- (B) In these Conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

## 4 **Exercise of Inline Warrants**

- (A) Inline Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the Global Warrant Certificate.
- (C) The Issuer will as soon as practicable and not later than the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions (the “**Settlement Date**”) in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all Inline Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” means EITHER:

- (1) if the Average Price is at or below the Upper Strike Price and at or above the Lower Strike Price:

$$\begin{array}{r} \text{Cash Settlement Amount} \\ \text{per Board Lot} \end{array} = \begin{array}{r} \text{Maximum Payoff Amount per Inline Warrant} \times \\ \text{one Board Lot} \end{array}$$

OR

(2) if the Average Price is above the Upper Strike Price or below the Lower Strike Price,

$$\begin{array}{rcl} \text{Cash Settlement Amount} & = & \text{Minimum Payoff Amount per Inline Warrant} \times \\ \text{per Board Lot} & & \text{one Board Lot} \end{array}$$

“**Average Price**” shall be the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Lower Strike Price**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

“**Market Disruption Event**” means:

- (i) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (1) the Shares; or (2) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;
- (ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) result in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (iii) a limitation or closure of the Stock Exchange due to unforeseen circumstances.

“**Maximum Payoff Amount per Inline Warrant**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Minimum Payoff Amount per Inline Warrant**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Upper Strike Price**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

“**Valuation Date**” means, subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

If the Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(C) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as recorded on the register.

- (D) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.
- (E) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(C) above.

## **5 Agent**

- (A) The Agent will be acting as agent of the Issuer in respect of the Inline Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Inline Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

## 6 Adjustments

- (A) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

Adjusted Upper Strike Price = Upper Strike Price ÷ Adjustment Factor

Adjusted Lower Strike Price = Lower Strike Price ÷ Adjustment Factor

Where:

$$\text{Adjustment Factor} = \frac{1+M}{1 + (R/S) \times M}$$

- S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis
- R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights
- M: Number of new Shares (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to subscribe

Provided that no adjustment will be made if the Adjustment Factor is equal to or less than 1.

For the purposes of these Conditions, “**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

*For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.*

- (B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) will be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

Adjusted Upper Strike Price = Upper Strike Price ÷ Adjustment Factor

Adjusted Lower Strike Price = Lower Strike Price ÷ Adjustment Factor

Where:

Adjustment Factor = 1 + N

N: Number of additional Shares (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to receive

*For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.*

- (C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares (a “**Subdivision**”) or consolidate its outstanding share capital into a smaller number of shares (a “**Consolidation**”), then:
- (i) in the case of a Subdivision, the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) shall be decreased in the same ratio as the Subdivision; and
  - (ii) in the case of a Consolidation, the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) shall be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken effect.

*For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.*

- (D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Inline Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Agent in its absolute discretion) so that the interests of the holders generally are not materially prejudiced as a consequence of such Restructuring Event (without considering the individual circumstances of any holder or the tax or other consequences that may result in any particular jurisdiction).

*For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.*

- (E) No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution in accordance with the following formula:

Adjusted Upper Strike Price = Upper Strike Price ÷ Adjustment Factor

Adjusted Lower Strike Price = Lower Strike Price ÷ Adjustment Factor

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

S: Cum-Cash Distribution Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

*For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.*

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Inline Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.

*For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.*

- (G) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warranholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warranholder in accordance with Condition 10 as soon as practicable after the determination thereof.

## 7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Inline Warrants at any time on or after the date of their issue and any Inline Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## 8 Global Warrant Certificate

A global warrant certificate (the “**Global Warrant Certificate**”) representing the Inline Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

## 9 Meeting of Warrantholder and Modification

- (A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder’s interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Inline Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Inline Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Inline Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Inline Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

- (B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Inline Warrants or the Instrument which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction);
  - (ii) of a formal, minor or technical nature;
  - (iii) made to correct a manifest error; or
  - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

## **10 Notices**

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

## **11 Liquidation**

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Inline Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## **12 Delisting of Company**

- (A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Inline Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

## **13 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Inline Warrants.

## **14 Illegality or Impracticability**

The Issuer is entitled to terminate the Inline Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (A) for it to perform its obligations under the Inline Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Inline Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Inline Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

## **15 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

## **16 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Inline Warrants.

## **17 Governing Law**

The Inline Warrants, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**”). The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Inline Warrants) shall be deemed to have submitted for all purposes in connection with the Inline Warrants, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **18 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## TERMS AND CONDITIONS OF THE CASH-SETTLED INDEX INLINE WARRANTS

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of Inline Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Inline Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### 1 Form; Status; Guarantee; Transfer and Title

- (A) The Inline Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”), made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the Inline Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Inline Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Inline Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of Inline Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).

- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the Inline Warrants. The expression “**Warrantholder**” shall be construed accordingly.
- (E) Trading in Inline Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## 2 **Inline Warrant Rights and Exercise Expenses**

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(C)).
- (B) The Warrantholder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Inline Warrants (the “**Exercise Expenses**”). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(C).

## 3 **Automatic Exercise**

- (A) All Inline Warrants shall be deemed to be automatically exercised on the Expiry Date.
- (B) In these Conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

## 4 **Exercise of Inline Warrants**

- (A) Inline Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel the Global Warrant Certificate.
- (C) The Issuer will as soon as practicable and not later than the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these Conditions (the “**Settlement Date**”) in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all Inline Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” means EITHER:

- (1) if the Closing Level is at or below the Upper Strike Level and at or above the Lower Strike Level:

$$\begin{array}{l} \text{Cash Settlement Amount} \\ \text{per Board Lot} \end{array} = \begin{array}{l} \text{Maximum Payoff Amount per Inline Warrant} \times \\ \text{one Board Lot} \end{array}$$

OR

(2) if the Closing Level is above the Upper Strike Level or below the Lower Strike Level:

$$\begin{array}{rcccl} \text{Cash Settlement Amount} & & & & \text{Minimum Payoff Amount per Inline Warrant} \times \\ \text{per Board Lot} & = & & & \text{one Board Lot} \end{array}$$

either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate;

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Index Business Day**” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions.

“**Index Exchange**” means the Stock Exchange or any other exchange as specified in the relevant Launch Announcement and Supplemental Listing Document.

“**Lower Strike Level**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Market Disruption Event**” means:

- (1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
  - (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or
  - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
  - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purpose of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “**BLACK**” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “**BLACK**” rainstorm signal having been issued;

- (3) the limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances.

“**Maximum Payoff Amount per Inline Warrant**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Minimum Payoff Amount per Inline Warrant**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Settlement Currency**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Upper Strike Level**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Valuation Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Any payment made pursuant to this Condition 4(C) shall be delivered at the risk and expense of the Warrantheader to the Warrantheader, or such bank, broker or other agent in Hong Kong (if any) as is recorded on the register.

- (D) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantheader on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantheader as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantheader for any interest in respect of the amount due or any loss or damage that such Warrantheader may suffer as a result of the existence of a Settlement Disruption Event.
- (E) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Warrantheader and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Warrantheader.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(C) above.

## 5 Agent

- (A) The Agent will be acting as agent of the Issuer in respect of the Inline Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Inline Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

## 6 Adjustments

- (A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.
- (B) If (i) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts or commodities and other routine events), or (ii) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Agent shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).
- (C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Inline Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.
- (D) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

## **7 Purchase by the Issuer**

The Issuer and any of its affiliates may purchase Inline Warrants at any time on or after the date of their issue and any Inline Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## **8 Global Warrant Certificate**

A global warrant certificate (the “**Global Warrant Certificate**”) representing the Inline Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

## **9 Meeting of Warrantholder and Modification**

- (A) Meetings of Warrantholder. Notices for convening meetings to consider any matter affecting the Warrantholder’s interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Inline Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Inline Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Inline Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Inline Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

- (B) Modification. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Inline Warrants or the Instrument which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction);
  - (ii) of a formal, minor or technical nature;
  - (iii) made to correct a manifest error; or
  - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

## **10 Notices**

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

## **11 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Inline Warrants.

## **12 Illegality or Impracticability**

The Issuer is entitled to terminate the Inline Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (A) for it to perform its obligations under the Inline Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Inline Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Inline Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

## **13 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

## **14 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Inline Warrants.

## **15 Governing Law**

The Inline Warrants, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"). The Issuer, the Guarantor and the Warrantholder (by its acquisition of the Inline Warrants) shall be deemed to have submitted for all purposes in connection with the Inline Warrants, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **16 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## TERMS AND CONDITIONS OF THE CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE STOCK

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of CBBCs. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### 1 Form; Status; Guarantee; Transfer and Title

- (A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”) made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Holders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the CBBCs after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the CBBCs. The expression “**Holder**” shall be construed accordingly.

- (E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended immediately upon the occurrence of a Mandatory Call Event or at the close of trading for the Trading Day immediately preceding the Expiry Date (whichever is earlier) in accordance with the requirements of the Stock Exchange.

## 2 CBBC Rights and Exercise Expenses

- (A) Every Board Lot entitles the Holder, upon compliance with Condition 3, to payment of the Cash Settlement Amount.
- (B) The Holder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the CBBCs (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(E).
- (C) For the purposes of these Conditions:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

“**Cash Settlement Amount**” means, subject to adjustment as provided in Condition 5:

- (a) following a Mandatory Call Event:

- (i) in the case of a series of Category R CBBCs, the Residual Value; or
- (ii) in the case of a series of Category N CBBCs, zero; and

- (b) at expiry:

- (i) in the case of a series of bull CBBCs:

$$\begin{array}{l} \text{Cash Settlement Amount per Board} \\ \text{Lot (if any) payable at expiry} \end{array} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

- (ii) in the case of a series of bear CBBCs:

$$\begin{array}{l} \text{Cash Settlement Amount per Board} \\ \text{Lot (if any) payable at expiry} \end{array} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero.

“**Category N CBBCs**” means a series of CBBCs where the Call Price is equal to the Strike Price.

“**Category R CBBCs**” means a series of CBBCs where the Call Price is different from the Strike Price.

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time.

“**Closing Price**” means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) on the Valuation Date.

“**Day of Notification**” means the Trading Day immediately following the day on which the Mandatory Call Event occurs.

“**Entitlement**” means the number of Shares to which the CBBCs relate, as specified in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5.

“**HKEX**” means Hong Kong Exchanges and Clearing Limited.

“**HKSCC**” means Hong Kong Securities Clearing Company Limited.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**Mandatory Call Event**” occurs when the Spot Price is, at any time on any Trading Day during the Observation Period:

- (a) in the case of a series of bull CBBCs, at or below the Call Price; and
- (b) in the case of a series of bear CBBCs, at or above the Call Price.

“**Market Disruption Event**” means:

- (1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (1) the Shares; or (2) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “**BLACK**” rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “**BLACK**” rainstorm signal having been issued; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

“**Maximum Trade Price**” means the highest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period.

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the day on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

- (a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price of the Shares and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition:

- (A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (B) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session.

“**Minimum Trade Price**” means the lowest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period.

“**Observation Period**” means the period commencing from and including the Observation Commencement Date (Hong Kong time) and ending at and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date.

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“**Residual Value**” means, subject to adjustment as provided in Condition 5:

- (a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

- (b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions (as the case may be).

“**Spot Price**” means:

- (a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official realtime dissemination mechanism for the Stock Exchange during such continuous trading session of the Stock Exchange in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and
- (b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (IEP) (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“**Trading Day**” means a day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions.

“**Trading Rules**” means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time.

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date unless the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred, then that day shall be postponed until the first succeeding Trading Day on which there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

- (i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and
- (ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

### 3 Exercise of CBBCs

- (A) CBBCs may only be exercised in Board Lots or integral multiples thereof.
- (B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.
- (C) (i) Subject to Condition 3(C)(ii), following the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange.
- (ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:
- (1) system malfunction or other technical errors of HKEX (such as the setting up of wrong Call Price and other parameters); or
  - (2) manifest errors caused by the relevant third party price source where applicable;
- and
- (a) in the case of paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and
  - (b) in the case of paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,
- in each case:
- (aa) such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification;
  - (bb) the Mandatory Call Event so triggered will be reversed; and
  - (cc) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules prescribed by the Stock Exchange from time to time.
- (D) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, cancel the Global Certificate.

- (E) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all CBBCs exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment made pursuant to this Condition 3(E) shall be delivered at the risk and expense of the Holder to the Holder, or such bank, broker or agent in Hong Kong (if any) as recorded on the register.

- (F) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.
- (G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Holder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(E) above.

#### **4 Agent**

- (A) The Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with Condition 9.

## 5 Adjustments

Adjustments may be made by the Agent to the terms of the CBBCs (including, but not limited to, the Call Price, Strike Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

- E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment
- S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis
- R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights
- M: Number of new Shares (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to subscribe

For the purposes of these Conditions, “**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Call Price and Strike Price (which shall be rounded to the nearest 0.001) shall be adjusted by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.
- (iii) For the purposes of Conditions 5(A) and 5(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is one per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

- (B) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement will be adjusted, subject to Condition 5(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

N: Number of additional Shares (whether a whole or a fraction) per existing Share each holder of an existing Share is entitled to receive

In addition, the Issuer shall adjust the Call Price and Strike Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares (a “**Subdivision**”) or consolidate its outstanding share capital into a smaller number of shares (a “**Consolidation**”), then:

(i) in the case of a Subdivision, the Entitlement shall be increased whereas the Call Price and Strike Price (which shall be rounded to the nearest 0.001) shall be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement shall be decreased whereas the Call Price and Strike Price (which shall be rounded to the nearest 0.001) shall be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken effect.

- (D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Agent in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would

have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

- (E) No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Cash Distribution price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Strike Price and Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and Call Price shall take effect on the same date that the Entitlement is adjusted.

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.
- (G) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with Condition 9 as soon as practicable after the determination thereof.

## **6 Purchase by the Issuer**

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## **7 Global Certificate**

A global certificate (the “**Global Certificate**”) representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

## **8 Meeting of Holder and Modification**

- (A) *Meetings of Holder.* Notices for convening meetings to consider any matter affecting the Holder’s interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

## **9 Notices**

All notices in English and Chinese to the Holder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

## **10 Liquidation**

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## **11 Delisting of Company**

- (A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).
- (B) Without prejudice to the generality of Condition 11(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with Condition 9 as soon as practicable after they are determined.

## **12 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

## **13 Illegality or Impracticability**

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or will become illegal or impracticable:

- (A) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
- (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),
- (each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

## **14 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

## **15 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions of the CBBCs has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

## **16 Governing Law**

The CBBC, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **17 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## **TERMS AND CONDITIONS OF THE CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS OVER INDEX**

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of CBBCs. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### **1 Form; Status; Guarantee; Transfer and Title**

- (A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 10) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”), made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Holders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the CBBCs after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the CBBCs. The expression “**Holder**” shall be construed accordingly.

- (E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended immediately upon the occurrence of a Mandatory Call Event or at the close of trading for the Trading Day immediately preceding the Expiry Date (whichever is earlier) in accordance with the requirements of the Stock Exchange.

## 2 CBBC Rights and Exercise Expenses

- (A) Every Board Lot entitles the Holder, upon compliance with Condition 3, to payment of the Cash Settlement Amount.
- (B) The Holder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the CBBCs (the “**Exercise Expenses**”). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(E).
- (C) For the purposes of these Conditions:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

“**Cash Settlement Amount**” means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula converted (if applicable) (i) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate:

- (a) a Mandatory Call Event:

- (i) in the case of a series of Category R CBBCs, the Residual Value; or
- (ii) in the case of a series of Category N CBBCs, zero; and

- (b) at expiry:

- (i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero.

“**Category N CBBCs**” means a series of CBBCs where the Call Level is equal to the Strike Level.

“**Category R CBBCs**” means a series of CBBCs where the Call Level is different from the Strike Level.

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time.

“**Day of Notification**” means the Trading Day immediately following the day on which the Mandatory Call Event occurs.

“**HKEX**” means Hong Kong Exchanges and Clearing Limited.

“**HKSCC**” means Hong Kong Securities Clearing Company Limited.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**Index Business Day**” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions.

“**Index Exchange**” means the Stock Exchange or any other exchange as specified in the relevant Launch Announcement and Supplemental Listing Document.

“**Mandatory Call Event**” occurs when the Spot Level is, at any time on any Index Business Day during the Observation Period:

- (a) in the case of a series of bull CBBCs, at or below the Call Level; and
- (b) in the case of a series of bear CBBCs, at or above the Call Level.

“**Market Disruption Event**” means:

- (1) the occurrence or existence, on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange of any of:
  - (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or
  - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchange on which such contracts are traded; or
  - (iii) the imposition of any exchange controls in respect of any currency involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “**BLACK**” rainstorm signal on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening

for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “**BLACK**” rainstorm signal having been issued; or

- (3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances.

“**Maximum Index Level**” means the highest Spot Level during the MCE Valuation Period.

“**MCE Valuation Period**” means:

- (a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Index Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Level(s) is/are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the day on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Level(s) is/are available. In that case:
  - (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
  - (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition:

- (A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

- (B) the afternoon session and the closing auction session (if applicable) of the same day, shall each be considered as one trading session.
- (b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Launch Announcement and Supplemental Listing Document.

“**Minimum Index Level**” means the lowest Spot Level during the MCE Valuation Period.

“**Observation Period**” means the period commencing from and including the Observation Commencement Date (Hong Kong time) and ending at and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date.

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“**Residual Value**” means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula converted (if applicable) (i) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate:

- (a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

“**Settlement Currency**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document.

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with these Conditions (as the case may be).

“**Spot Level**” means the spot level of the Index as compiled and published by the Index Compiler or, as the case may be, the Successor Index Compiler.

“**Trading Day**” means a day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions.

“**Trading Rules**” means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time.

“**Valuation Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

### 3 Exercise of CBBCs

- (A) CBBCs may only be exercised in Board Lots or integral multiples thereof.
- (B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.
- (C) (i) Subject to Condition 3(C)(ii), following the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange.
- (ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:
  - (1) system malfunction or other technical errors of HKEX (such as the setting up of wrong Call Level and other parameters); or
  - (2) manifest errors caused by the relevant third party price source where applicable;and
  - (a) in the case of paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and
  - (b) in the case of paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,in each case:
  - (aa) such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification;
  - (bb) the Mandatory Call Event so triggered will be reversed; and

(cc) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules prescribed by the Stock Exchange from time to time.

- (D) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, cancel the Global Certificate.
- (E) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts (following deduction of determined Exercise Expenses) for all CBBCs exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment made pursuant to this Condition 3(E) shall be delivered at the risk and expense of the Holder to the Holder, or such bank, broker or other agent in Hong Kong (if any) as is recorded on the register.

- (F) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.
- (G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Holder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(E) above.

#### **4 Agent**

- (A) The Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with Condition 9.

## 5 Adjustments

- (A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.
- (B) If (i) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts or commodities and other routine events), or (ii) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Agent shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).
- (C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not materially prejudicial to the interests of Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.
- (D) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

## 6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## 7 Global Certificate

A global certificate (the “**Global Certificate**”) representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

## 8 Meeting of Holder and Modification

- (A) *Meetings of Holder.* Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

- (B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);
  - (ii) of a formal, minor or technical nature;
  - (iii) made to correct a manifest error; or
  - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

## 9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

## **10 Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

## **11 Illegality or Impracticability**

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or will become illegal or impracticable:

- (A) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

## **12 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

## **13 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

## **14 Governing Law**

The CBBCs, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **15 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## TERMS AND CONDITIONS OF THE CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUST

*The relevant Conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the back of the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of CBBCs. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meanings given to them in the relevant launch announcement and supplemental listing document.*

### 1 Form; Status; Guarantee; Transfer and Title

- (A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Units of the Trust are issued in registered form subject to and with the benefit of the amended and restated instrument dated 3 May 2010 (the “**Instrument**”) made by J.P. Morgan Structured Products B.V. (the “**Issuer**”) and JPMorgan Chase Bank, National Association (the “**Guarantor**”) and the guarantee dated 7 April 2021 (the “**Guarantee**”) made by the Guarantor.

Copies of the Instrument and the Guarantee are available for inspection at the office of J.P. Morgan Securities (Asia Pacific) Limited as specified below. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

- (B) The settlement obligation of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms of the Guarantee, unconditionally and irrevocably guaranteed to the Holders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the CBBCs after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at maturity, by acceleration or otherwise).

- (C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (“**CCASS Rules**”).
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer, the Guarantor and the Agent as the absolute owner and holder of the CBBCs. The expression “**Holder**” shall be construed accordingly.

- (E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended immediately upon the occurrence of a Mandatory Call Event or at the close of trading for the Trading Day immediately preceding the Expiry Date (whichever is earlier) in accordance with the requirements of the Stock Exchange.

## 2 CBBC Rights and Exercise Expenses

- (A) Every Board Lot entitles the Holder, upon compliance with Condition 3, to payment of the Cash Settlement Amount.
- (B) The Holder will be required to pay any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the CBBCs (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(E).
- (C) For the purposes of these Conditions:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

“**Cash Settlement Amount**” means, subject to adjustment as provided in Condition 5:

- (a) following a Mandatory Call Event:
- (i) in the case of a series of Category R CBBCs, the Residual Value; or
- (ii) in the case of a series of Category N CBBCs, zero; and
- (b) at expiry:
- (i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

- (ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot (if any) payable at expiry} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero.

“**Category N CBBCs**” means a series of CBBCs where the Call Price is equal to the Strike Price.

“**Category R CBBCs**” means a series of CBBCs where the Call Price is different from the Strike Price.

“**CCASS Settlement Day**” has the meaning ascribed to the term “**Settlement Day**” in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time.

“**Closing Price**” means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) on the Valuation Date.

“**Day of Notification**” means the Trading Day immediately following the day on which the Mandatory Call Event occurs.

“**Entitlement**” means the number of Units to which the CBBCs relate, as specified in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 5.

“**HKEX**” means Hong Kong Exchanges and Clearing Limited.

“**HKSCC**” means Hong Kong Securities Clearing Company Limited.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**Mandatory Call Event**” occurs when the Spot Price is, at any time on any Trading Day during the Observation Period:

- (a) in the case of a series of bull CBBCs, at or below the Call Price; and
- (b) in the case of a series of bear CBBCs, at or above the Call Price.

“**Market Disruption Event**” means:

- (1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on, trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (1) the Units; or (2) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “**BLACK**” rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “**BLACK**” rainstorm signal having been issued; or;
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

“**Maximum Trade Price**” means the highest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period.

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the day on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

- (a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price of the Units and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition:

- (A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (B) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session.

“**Minimum Trade Price**” means the lowest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 5 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period.

“**Observation Period**” means the period commencing from and including the Observation Commencement Date (Hong Kong time) and ending at and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date.

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“**Residual Value**” means, subject to adjustment as provided in Condition 5:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions (as the case may be).

“**Spot Price**” means:

- (a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official realtime dissemination mechanism for the Stock Exchange during such continuous trading session of the Stock Exchange in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and
- (b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (IEP) (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“**Trading Day**” means a day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions.

“**Trading Rules**” means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time.

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date unless the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred, then that day shall be postponed until the first succeeding Trading Day on which there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

- (i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and
- (ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

### 3 Exercise of CBBCs

- (A) CBBCs may only be exercised in Board Lots or integral multiples thereof.
- (B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.
- (C) (i) Subject to Condition 3(C)(ii), following the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange.
- (ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:
- (1) system malfunction or other technical errors of HKEX (such as the setting up of wrong Call Price and other parameters); or
  - (2) manifest errors caused by the relevant third party price source where applicable;
- and
- (a) in the case of paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and
  - (b) in the case of paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,
- in each case:
- (aa) such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification;
  - (bb) the Mandatory Call Event so triggered will be reversed; and
  - (cc) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules prescribed by the Stock Exchange from time to time.
- (D) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, cancel the Global Certificate.

- (E) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses) for all CBBCs exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment made pursuant to this Condition 3(E) shall be delivered at the risk and expense of the Holder to the Holder, or such bank, broker or agent in Hong Kong (if any) as recorded on the register.

- (F) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.
- (G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent or nominee and the Holder and neither the Guarantor, the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(E) above.

#### **4 Agent**

- (A) The Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with Condition 9.

## 5 Adjustments

Adjustments may be made by the Agent to the terms of the CBBCs (including, but not limited to, the Call Price, Strike Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

- E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment
- S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis
- R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights
- M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder of an existing Unit is entitled to subscribe

For the purposes of these Conditions, “**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Call Price and Strike Price (which shall be rounded to the nearest 0.001) shall be adjusted by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.
- (iii) For the purposes of Conditions 5(A) and 5(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is one per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

- (B) If and whenever the Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement will be adjusted, subject to Condition 5(A)(iii), on the Business Day on which the trading in the Units of the Trust becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

N: Number of additional Unit(s) (whether a whole or a fraction) per existing Unit each holder of an existing Unit is entitled to receive

In addition, the Issuer shall adjust the Call Price and Strike Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (C) If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a “**Subdivision**”) or consolidate the Units or any class of its outstanding Units into a smaller number of units (a “**Consolidation**”), then:
- (i) in the case of a Subdivision, the Entitlement shall be increased whereas the Call Price and Strike Price (which shall be rounded to the nearest 0.001) shall be decreased in the same ratio as the Subdivision; and
  - (ii) in the case of a Consolidation, the Entitlement shall be decreased whereas the Call Price and Strike Price (which shall be rounded to the nearest 0.001) shall be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken effect.

- (D) If it is announced that the Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Agent in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been

entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

- (E) No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) (“**Ordinary Distribution**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent. or more of the Unit’s closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

S: Cum-Cash Distribution Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the Ordinary Distribution and the Cash Distribution have different ex- entitlement dates

In addition, the Issuer shall adjust the Strike Price and Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and Call Price shall take effect on the same date that the Entitlement is adjusted.

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer and/or the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is: (i) not prejudicial to the interests of Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) determined by the Issuer and/or Agent in good faith to be appropriate and commercially reasonable.
- (G) The Issuer and/or the Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with Condition 9 as soon as practicable after the determination thereof.

## **6 Purchase by the Issuer**

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

## **7 Global Certificate**

A global certificate (the “**Global Certificate**”) representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

## **8 Meeting of Holder and Modification**

- (A) *Meetings of Holder.* Notices for convening meetings to consider any matter affecting the Holder’s interests will be given to the Holder in accordance with the provisions of Condition 9. Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented. A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

## 9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

## 10 Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) (“**Trustee**”) (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 10, “**Termination**” means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) (“**Manager**”) is required to terminate the Trust under the trust deed (“**Trust Deed**”) constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

## 11 Delisting of Trust

- (A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is

reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

- (B) Without prejudice to the generality of Condition 11(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with Condition 9 as soon as practicable after they are determined.

## 12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further CBBCs, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

## 13 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or will become illegal or impracticable:

- (A) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (B) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

#### **14 Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

#### **15 Contracts (Rights of Third Parties) Ordinance**

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

#### **16 Governing Law**

The CBBC, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

#### **17 Language**

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

#### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

## ANNEX 2

### FORM OF GUARANTEE

#### Form of Guarantee

The following is the form of the Guarantee dated April 7, 2021 made by JPMorgan Chase Bank, National Association:

“J.P. Morgan Structured Products B.V. Hong Kong Structured Products Programme (the “**Programme**”).

J.P. Morgan Structured Products B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands (“**Obligor**”), from time to time issues standard warrants, inline warrants, callable bull/bear contracts and equity linked instruments (collectively, the “**Structured Products**”) (all holders of Structured Products, the “**Beneficiaries**”), (a) pursuant to an amended and restated instrument dated as of May 3rd 2010 (as amended and/or restated and/or supplemented from time to time) between the Obligor and JPMorgan Chase Bank, National Association, a national banking association organised under the federal laws of the United States of America (the “**Guarantor**”), (b) with the benefit of this guarantee (the “**Guarantee**”) and (c) under the terms and conditions of the Structured Products (the “**Conditions**”) set out in the base listing document for the Programme to be dated on or about April 7, 2021 (the “**Base Listing Document**”) and the Launch Announcement and Supplemental Listing Document (as defined in the Base Listing Document) to be prepared for each series of Structured Products (the foregoing, together, as amended and/or supplemented and/or restated from time to time, the “**Programme Documents**”).

This Guarantee is made by way of deed poll by the Guarantor in favour of the Beneficiaries and dated as of April 7, 2021. This Guarantee amends, supplants and replaces in its entirety, for all Structured Products issued by the Obligor under the Programme on or after April 7, 2021 (the “**Effective Date**”), the guarantee referenced in the base listing document for the Programme dated April 2, 2020 (the “**Original Guarantee**”) save as provided in the immediately following sentence. The Original Guarantee applies to all Structured Products issued under the Programme on or after April 2, 2020 and before the Effective Date and to any Structured Products which are expressed to be consolidated and form a single series with any Structured Products issued prior to the Effective Date.

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby agrees as follows:

- (1) **Guarantee.** The Guarantor, subject to the terms hereof and except as specifically set forth herein, absolutely and unconditionally guarantees to the Beneficiaries, the timely and complete payment and performance, as and when due, whether by acceleration or otherwise, of all contractual obligations and liabilities, whether now in existence or hereafter arising, of the Obligor to the Beneficiaries, set out under the Conditions applicable to the Structured Products from and after the Effective Date (the “**Obligations**”) and strictly in accordance with the Conditions, during the period from and including the Effective Date until no further obligations remain outstanding under such Structured Products. If the Obligor fails to meet any of its Obligations in full as and when due under the Conditions, the Guarantor shall meet or cause to be met such Obligation to such Beneficiary strictly in accordance with the Conditions, as if such Obligation were met by the Obligor.

- (2) **Guarantee of Obligation, not Collection.** This Guarantee is a guarantee of payment and performance and not of collection only. The Beneficiaries shall not be required to exhaust any right or remedy or to take any action against the Obligor or any other person or entity or any collateral as a condition to payment by the Guarantor hereunder.
- (3) **Guarantee Irrevocable.** This Guarantee is a continuing guarantee of all Obligations now or hereafter existing and shall remain in full force and effect until complete payment and performance of all Obligations and until no Structured Products enjoying the benefit of this Guarantee remains outstanding and no further Structured Products may be issued under the Programme. Notwithstanding anything to the contrary contained herein, this Guarantee shall not apply if, and to the extent that, the Guarantor or the Beneficiaries have so agreed in writing.
- (4) **Nature of Guarantee.** The Guarantor guarantees that the Obligations shall be timely performed and paid strictly in accordance with all applicable terms of the Programme Documents. The Guarantor's liability hereunder is irrespective of:
- (a) any change in the amount, time, manner or place of payment or performance of, or in any other term of, any Obligation, or any other amendment or waiver of or any consent to departure from any term of any Obligation;
  - (b) any release or amendment or waiver of, or consent to departure from, any other guarantee or support document, or any exchange, release or non-perfection of any collateral for any Obligation;
  - (c) the absence of any demand on the Obligor or any other person for payment or performance of any Obligation;
  - (d) the absence of any action to enforce any Obligation or any collateral therefor;
  - (e) any lack of validity, regularity or enforceability of any Programme Document or Obligation;
  - (f) the rendering of any judgment against the Obligor or any action to enforce the same;
  - (g) any liquidation, bankruptcy or insolvency of the Obligor or any proceeding relating thereto;
  - (h) any consolidation, merger, conveyance or transfer by the Obligor or other event which would afford to a guarantor relief, legal or equitable, from its obligation under the guarantee or other security; and
  - (i) any lack or limitation of status or of corporate power of the Obligor, or any incapacity or disability of any signatory for the Obligor, or of any other guarantor or obligor in respect of any Obligation, or any change whatsoever in the objects, capital structure, or business of the Obligor;

provided, however, that except as expressly set forth herein, (i) the Guarantor shall not be liable hereunder: (A) for any Obligation which the Obligor is excused from under and in accordance with the terms of the Programme Documents; (B) for any amount or performance in excess of the amount or performance actually due and owing by the Obligor to a Beneficiary, including but not limited to any set-off to which the Obligor would be entitled; or (C) if the Obligor is prohibited, unable or otherwise fails to make any payment, or any portion thereof or to perform any other obligation, because or arising out of an act of war,

insurrection or civil strife; an action by the government or any governmental authority or instrumentality thereof (whether de jure or de facto); legal constraint; terrorism; riots; or catastrophe; and (ii) any and all defences available to a guarantor under applicable law are reserved by the Guarantor and any defences, set-offs and counterclaims of the Obligor shall be available to the Guarantor to the same extent as such defences, set-offs or counterclaims are available to the Obligor and may be asserted by the Guarantor in respect of its obligations hereunder, in each case whether or not asserted by the Obligor.

- (5) **Formalities.** The Guarantor hereby waives diligence, presentment, demand of payment, any right to require a proceeding against the Obligor, protest or notice with respect to the Obligations or the amounts payable by the Obligor under the Programme Documents and all demands whatsoever, and covenants that this Guarantee shall not be discharged except by complete payment and performance of the Obligations. The grant of time or other indulgence to the Obligor shall in no manner release the Guarantor from any of its obligations hereunder.
- (6) **Reinstatement.** This Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment and performance of any of the Obligations is rescinded or must otherwise be returned by a Beneficiary upon the insolvency, bankruptcy or reorganisation of the Obligor or otherwise, all as though the payment and performance had not been made.
- (7) **Subrogation.** The Guarantor (1) shall have the right to assume the rights and payment obligations of the Obligor to such Beneficiary, together with any right of the Obligor to cure any event of default by or relating to the Obligor, notwithstanding any notice of default/termination previously sent by such Beneficiary to the Obligor, and thereby rescind any notice of default/termination given by such Beneficiary, and (2) shall be subrogated to all rights of the Beneficiaries against the Obligor in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee; provided, however, that the Guarantor shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until all amounts due and payable by the Obligor to the Beneficiaries in respect of the Obligations, up to the time of such subrogation, have been paid in full.
- (8) **Representations/Warranties.** The Guarantor represents and warrants to each Beneficiary that, as of the date hereof:
  - (a) it is a national banking association, duly formed and validly existing under the federal laws of the United States of America;
  - (b) it has the full power and authority to execute and deliver this Guarantee and to perform its obligations hereunder; it has taken all necessary action to authorise such execution, delivery and performance; and this Guarantee has been duly executed and delivered by the Guarantor and the execution, delivery and performance of this Guarantee by the Guarantor does not contravene or constitute a default under any statute, regulation or rule of any applicable governmental authority or under any provision of the Guarantor's certificate of incorporation or by-laws or any contractual restriction binding on the Guarantor;
  - (c) this Guarantee constitutes a legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, receivership or other similar laws affecting the rights of creditors generally or by general principles of equity; and

- (d) no authorisation, approval or consent of, and no filing or registration with, any governmental authority is necessary for the execution, delivery or performance by the Guarantor of this Guarantee or for the validity or enforceability hereof.
- (9) **Captions.** The headings and captions in this Guarantee are for convenience only and shall not affect the interpretation or construction of this Guarantee.
- (10) **Not Insured.** This Guarantee is not insured by the Federal Deposit Insurance Corporation of the United States of America.
- (11) A person who is not a Beneficiary has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of this Guarantee.
- (12) **Integration.** This Guarantee alone sets forth the entire understanding of the Guarantor and each Beneficiary relating to the guarantee of the Obligations and constitutes the entire contract between the parties relating to the subject matter hereof and supersedes any and all previous agreements and understandings, oral or written, express or implied, relating to the subject matter hereof.
- (13) **Service of Process.** The Guarantor agrees that service of process in Hong Kong may be made on it at the offices of J.P. Morgan Securities (Asia Pacific) Limited, which is currently at 23-29/F, Chater House, 8 Connaught Road Central, Hong Kong. Nothing in this Guarantee shall affect the right to serve process in any other manner permitted by law.
- (14) **GOVERNING LAW.** THIS GUARANTEE AND ALL MATTERS ARISING OUT OF OR RELATING TO THIS GUARANTEE SHALL BE GOVERNED BY, AND THIS GUARANTEE SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA ("HONG KONG"). THE GUARANTOR AGREES TO THE NON-EXCLUSIVE JURISDICTION OF THE COURTS OF HONG KONG OVER ANY DISPUTES ARISING UNDER OR RELATING TO THIS GUARANTEE.

**IN WITNESS WHEREOF**, the Guarantor has caused this Guarantee to be duly executed and delivered by its authorized officer as of the date first above written.

Dated as of April 7, 2021"

## ANNEX 3

### PURCHASE AND SALE

#### General

No action has been or will be taken by the Issuer or the Managers that would permit a public offering (other than Hong Kong) of any series of structured products or possession or distribution of any offering material in relation to any structured products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any structured products, or distribution of any offering material relating to structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer.

#### United States of America

The structured products which are subject to the base listing document and the relevant launch announcement and supplemental listing document and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), or any state securities law. Trading in the structured products has not been approved by the U.S. Commodity Futures Trading Commission under the U.S. Commodities Exchange Act, as amended, any U.S. federal or state banking authority or any other U.S. or foreign regulatory authority. The Guarantee has not been and will not be registered under the rules of the U.S. Office of the Comptroller of the Currency (the “**OCC**”). The Issuer has not registered, and does not intend to register, as an investment company under the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”). Accordingly, the structured products may not be legally or beneficially owned by any U.S. Person at any time nor offered, sold, transferred, pledged, assigned, delivered, exercised or redeemed at any time within the United States or to, or for the account or benefit of, any U.S. Person. The structured products and the Guarantee are being offered and sold only to non-U.S. Persons in offshore transactions in accordance with Regulation S under the Securities Act (“**Regulation S**”). Each of the Managers has represented and agreed, and any other entity who is appointed by the Issuer as a manager in connection with an issue of the structured products will represent and agree, that it, its affiliates, and any person acting on its or their behalf has not offered or sold and will not offer or sell the structured products at any time, directly or indirectly, within the United States or to, or for the account or benefit of, any U.S. Person, and that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to such structured products, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. The Guarantee may also be offered or sold in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(2) thereof and will be offered and sold pursuant to an exemption from the registration requirements of the OCC (including in compliance with Regulation S as such regulation is incorporated into the regulations of the OCC pursuant to 12 C.F.R. Section 16.5(g)). The terms used in this paragraph have the meanings given to them under Regulation S.

Each of the Managers has also agreed, and any other entity who is appointed by the Issuer in connection with an issue of the structured products will agree, that, at or prior to confirmation of a sale of the structured products, it, its affiliates, and any person acting on its or their behalf will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases such structured products from it (whether upon original issuance or in any secondary transaction) a written confirmation or notice stating that the purchaser is subject to the same restrictions on offers and sales and setting forth the restrictions on offers and sales of such structured products within the United States or to, or for the account or benefit of, any U.S. Person.

As used in this section, “United States” means the United States of America, its territories or possessions, any state of the United States, the District of Columbia or any other enclave of the United States government, its agencies or instrumentalities, and “U.S. person” means (a) any person who is a U.S. person as defined in Regulation S or (b) any person or entity other than one of the following:

- (i) a natural person who is not a resident of the United States;
- (ii) a partnership, corporation or other entity, other than an entity organised principally for passive investment, organised under the laws of a jurisdiction other than the United States and which has its principal place of business in a jurisdiction other than the United States;
- (iii) an estate or trust, the income of which is not subject to United States income tax regardless of source;
- (iv) an entity organised principally for passive investment such as a pool, investment company or other similar entity, provided that units of participation in the entity held by U.S. persons represent in the aggregate less than 10% of the beneficial interest in the entity, and that such entity was not formed principally for the purpose of facilitating investment by U.S. persons; or
- (v) a pension plan for the employees, officers or principals of an entity organised and with its principal place of business outside the United States.

#### *No ownership by U.S. Persons*

The structured products and the Guarantee may not be legally or beneficially owned by U.S. Persons at any time. Each holder and each beneficial owner of a structured product hereby represents, as a condition to purchasing or owning the structured product or any beneficial interest therein, that neither it nor any person for whose account or benefit the structured products are being purchased is located in the United States, is a U.S. Person or was solicited to purchase the structured products while present in the United States. Each holder and each beneficial owner of a structured product hereby agrees not to offer, sell or deliver any of the structured products at any time, directly or indirectly in the United States or to any U.S. Person.

#### *ERISA Restrictions*

In addition, unless otherwise specified in the launch announcement and supplemental listing document relating to a series of structured products, each purchaser (or transferee) and any person directing such purchase (or transfer) will represent and warrant, or will be deemed to have represented and warranted, on each day from the date on which the purchaser (or transferee) acquires the structured products through and including the date on which the purchaser (or transferee) disposes of its interest in the structured products, that the purchaser (or transferee) is not an “employee benefit plan” (as defined in Section 3(3) of Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”)) that is subject to the fiduciary responsibility provisions of ERISA, a “plan” that is subject to Section 4975 of the Internal Revenue Code, any entity whose underlying assets include “plan assets” by reason of any such employee plan’s or plan’s investment in the entity, or a governmental, church, non-U.S. or other plan that is subject to any law or regulation that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

## European Economic Area

Each of the Issuer and the Managers represents and agrees, and each further dealer appointed in respect of the structured products will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell, or otherwise make available any structured products which are the subject of the offering as contemplated by the base listing document to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - i. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - ii. a customer within the meaning of Directive 2016/97/EU (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - iii. not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended and superseded, the “**Prospectus Regulation**”); and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the structured products, to be offered so as to enable an investor to decide to purchase or subscribe the structured products.

## United Kingdom

Each of the Issuer and the Managers represents, warrants and agrees, and each further dealer appointed in respect of the structured products will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any structured products which are the subject of the offering contemplated by this base listing document to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - i. a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); or
  - ii. a customer within the meaning of the provisions of the Financial Services and Markets Act, as amended (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
  - iii. not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe for the structured products.

Each of the Issuer and the Managers further represents, warrants and agrees, and each further dealer appointed in respect of the structured products will be required to further represent, warrant and agree, that:

- (a) in respect to structured products having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any structured products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the structured products would otherwise constitute a contravention of Section 19 of FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any structured products in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

## **The Netherlands**

For selling restrictions in respect of The Netherlands, see “**European Economic Area**” above and the additional restrictions set forth below.

*Regulatory capacity to offer structured products in The Netherlands:* Each Manager has represented and agreed, and any other entity who is appointed by the Issuer as a manager in connection with an issue of the structured products which are the subject of the offering contemplated by the base listing document will represent and agree, that it has not offered to the public or sold, and will not offer to the public or sell, any of the structured products which are the subject of the offering contemplated by the base listing document in The Netherlands if it does not have the requisite Dutch regulatory capacity to make such offers or sales in The Netherlands.

## **General**

The offer and sale of structured products will also be subject to such other restrictions and requirements as may be set out in the relevant Launch Announcement and Supplemental Listing Document.

Persons interested in acquiring structured products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of structured products or their redemption; or (iii) the acquisition, holding or disposal of structured products.

## ANNEX 4

### A BRIEF GUIDE TO CREDIT RATINGS

Information set out in this Annex 4 is based on, extracted or reproduced from the website of S&P at <https://www.spglobal.com/ratings/en> and the website of Moody's at <https://www.moody's.com>, as of the day immediately preceding the date of this base listing document. Information appearing on those websites does not form part of this base listing document, and we accept no responsibility for the accuracy or completeness of the information appearing on those websites, except that we have accurately extracted and reproduced such information in this Annex 4 and take responsibility for such extraction and reproduction. We have not separately verified such information. There can be no assurance that such information will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided in this Annex 4 and/or what a credit rating means, you should seek independent professional advice.

#### **What is a credit rating?**

A credit rating is a forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific obligation.

#### **What do the credit ratings mean?**

Below are guidelines issued by S&P and Moody's on what each of their investment-grade ratings means, as of the day immediately preceding the date of this base listing document.

#### **S&P long-term issuer credit ratings**

##### *AAA*

An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

##### *AA*

An obligor rated 'AA' has very strong capacity to meet its financial commitments.

##### *A*

An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat susceptible to adverse economic conditions and changes in circumstances.

##### *BBB*

An obligor rated 'BBB' has adequate capacity to meet its financial commitments, but is more subject to adverse economic conditions.

##### *Plus (+) or minus (-)*

The above ratings (except for 'AAA') may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Please refer to <https://www.spglobal.com/ratings/en/about/understanding-ratings> for further details.

## **Moody's long-term ratings definitions**

### *Aaa*

Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

### *Aa*

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

### *A*

Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

### *Baa*

Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

### *Modifiers "1", "2" and "3"*

Moody's appends numerical modifiers 1, 2 and 3 to each of the above generic rating classifications (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to <https://www.moody.com/Pages/amr002002.aspx> for further details.

## **Rating Outlooks**

A rating outlook is an opinion regarding the likely rating direction over the medium term (for example, this is typically six months to two years for S&P). A rating outlook issued by S&P or Moody's will usually indicate whether the rating direction is likely to be "positive", "negative", "stable" or "developing". Please refer to the abovementioned websites of the relevant credit rating agencies for further details regarding rating outlooks published by the relevant credit rating agencies.

## **PARTIES**

### **Issuer**

J.P. Morgan Structured Products B.V.  
Luna ArenA  
Herikerbergweg 238  
1101 CM Amsterdam  
The Netherlands

### **Guarantor**

JPMorgan Chase Bank, National Association  
383 Madison Avenue  
New York, New York 10179  
United States of America

### **Managers**

J.P. Morgan Securities plc  
25 Bank Street  
Canary Wharf  
London E14 5JP  
England

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

### **Liquidity Provider**

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23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

### **Legal Advisers to the Issuer and the Guarantor (as to Hong Kong law)**

King & Wood Mallesons  
13/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Central  
Hong Kong

### **Agent**

J.P. Morgan Securities (Asia Pacific) Limited  
23-29/F, Chater House  
8 Connaught Road Central  
Hong Kong

### **Guarantor's Auditor**

PricewaterhouseCoopers LLP  
Independent Auditor  
300 Madison Avenue  
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United States of America