

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE 2016

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED

	Note	30 June 2016 US\$'000	30 June 2015 US\$'000
Interest income	1	1,864	2,066
Interest expense	2	(7,074)	(15,506)
Net interest expense		(5,210)	(13,440)
Net fees and commission income	3	427,173	476,532
Net (loss)/gain from financial instruments at fair value through profit or loss	4	(16)	1,252
Other income	5	2,823	-
Total income		424,770	464,344
Operating expenses	6	(399,218)	(398,071)
Profit before tax		25,552	66,273
Taxation	7	(4,348)	(11,155)
Total comprehensive income for the period		21,204	55,118

REVIEW OF ACTIVITIES

The Company is a Restricted Licensed Bank with the Hong Kong Monetary Authority (“HKMA”) and a Registered Institution with the Hong Kong Securities and Futures Commission. The Company is incorporated and domiciled in Hong Kong. The Company is engaged in Corporate & Investment Bank related activities.

The first half unaudited profit after tax was US\$21 million for 2016, a decrease of US\$34 million compared with the same period last year, mainly contributed by the decrease in net fees and commission income relating to equities and capital market activities.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED BALANCE SHEET

	Note	As at 30 June 2016 US\$'000	As at 31 December 2015 US\$'000
ASSETS			
Balances with banks		1,134,329	1,108,716
Trading assets		35,755	22,550
Deferred tax assets		18,097	21,188
Other assets		230,008	165,276
Fixed assets	8	3,010	2,833
Total assets		<u>1,421,199</u>	<u>1,320,563</u>
EQUITY			
Share capital		402,000	402,000
Reserves		294,717	273,830
Total equity		<u>696,717</u>	<u>675,830</u>
LIABILITIES			
Deposits and balances from banks		228,262	179,621
Trading liabilities	9	6,472	4,423
Other liabilities		363,640	335,689
Taxation payable		1,108	-
Subordinated loan notes		125,000	125,000
Total liabilities		<u>724,482</u>	<u>644,733</u>
Total equity and liabilities		<u>1,421,199</u>	<u>1,320,563</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF CHANGES IN EQUITY

	Share capital US\$'000	Employee benefit reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Balance as at 1 January 2015	402,000	56,316	182,775	641,091
Total comprehensive income for the year	-	-	32,221	32,221
Transactions with owners				
Employee benefit expenses for the year	-	47,761	-	47,761
Employee benefit recharged by JPMorgan Chase	-	(45,243)	-	(45,243)
Total transactions with owners	-	2,518	-	2,518
Balance as at 31 December 2015	402,000	58,834	214,996	675,830
Total comprehensive income for the period	-	-	21,204	21,204
Transactions with owners				
Employee benefit expenses for the period	-	26,078	-	26,078
Employee benefit recharged by JPMorgan Chase	-	(26,395)	-	(26,395)
Total transactions with owners	-	(317)	-	(317)
Balance as at 30 June 2016	402,000	58,517	236,200	696,717

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Interest income

Interest income recognized on financial assets that are not at fair value through profit or loss amounted to US\$1,548,000 (first half of 2015: US\$496,000).

During the period, there was no interest income recognized on impaired financial assets (first half of 2015: Nil).

2 Interest expense

	For the six months ended	
	30 June 2016	30 June 2015
	US\$'000	US\$'000
Deposits and balances from banks	1,294	2,922
Trading liabilities	28	84
Subordinated loan notes	5,752	12,500
	<u>7,074</u>	<u>15,506</u>

Interest expense recognized on financial liabilities that are not at fair value through profit or loss amounted to US\$7,046,000 (first half of 2015: US\$15,422,000).

3 Net fees and commission income

	For the six months ended	
	30 June 2016	30 June 2015
	US\$'000	US\$'000
Fees and commission income	507,360	560,198
Fees and commission expense	(80,187)	(83,666)
Net fees and commission income	<u>427,173</u>	<u>476,532</u>

During the period, no fee income and fee expense, other than amounts included in determining the effective interest rate, have arisen from financial assets or financial liabilities that are not at fair value through profit or loss (first half of 2015: Nil).

During the period, there was no fee income and fee expense on trust and other fiduciary activities where the Company holds or invests on behalf of its customers (first half of 2015: Nil).

4 Net (loss)/gain from financial instruments at fair value through profit or loss

	For the six months ended	
	30 June 2016	30 June 2015
	US\$'000	US\$'000
Net gain from foreign exchange trading	71	97
Net (loss)/gain from trading assets	(87)	1,155
	<u>(16)</u>	<u>1,252</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Other income

	For the six months ended	
	30 June 2016	30 June 2015
	US\$'000	US\$'000
Gain on disposal of fixed assets	6	-
Other income	2,817	-
	<u>2,823</u>	<u>-</u>

6 Operating expenses

	For the six months ended	
	30 June 2016	30 June 2015
	US\$'000	US\$'000
Staff costs	174,386	180,489
Premises and equipment expenses	13,860	13,710
Depreciation expense for fixed assets (Note 8)	1,033	864
Service fees paid to group companies	174,657	161,635
Other expenses	35,282	41,373
	<u>399,218</u>	<u>398,071</u>

7 Taxation

	For the six months ended	
	30 June 2016	30 June 2015
	US\$'000	US\$'000
Current income tax		
- Hong Kong profits tax	1,108	1,193
- Overseas taxation	149	113
Deferred income tax	3,091	9,849
	<u>4,348</u>	<u>11,155</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 Fixed Assets

	Leasehold improvements US\$'000	Furniture and equipment US\$'000	Total US\$'000
Cost			
As at 1 January 2016	1,968	42,778	44,746
Additions	32	1,190	1,222
Disposals	(31)	(518)	(549)
As at 30 June 2016	<u>1,969</u>	<u>43,450</u>	<u>45,419</u>
Accumulated depreciation			
As at 1 January 2016	1,641	40,272	41,913
Charge for the period (Note 6)	127	906	1,033
Disposals	(28)	(509)	(537)
As at 30 June 2016	<u>1,740</u>	<u>40,669</u>	<u>42,409</u>
Net book value	<u>229</u>	<u>2,781</u>	<u>3,010</u>
Cost			
As at 1 January 2015	1,968	41,325	43,293
Additions	-	1,586	1,586
Disposals	-	(133)	(133)
As at 31 December 2015	<u>1,968</u>	<u>42,778</u>	<u>44,746</u>
Accumulated depreciation			
As at 1 January 2015	1,421	38,921	40,342
Charge for the year	220	1,483	1,703
Disposals	-	(132)	(132)
As at 31 December 2015	<u>1,641</u>	<u>40,272</u>	<u>41,913</u>
Net book value	<u>327</u>	<u>2,506</u>	<u>2,833</u>

9 Trading liabilities

Trading liabilities of the Company did not contain any certificate of deposits as at 30 June 2016 and 31 December 2015.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Loans and advances

There were no loans and advances to customers and banks, impaired assets, rescheduled advances, overdue or repossessed assets as at 30 June 2016 and 31 December 2015.

11 Derivative financial instruments

	Contract amounts US\$'000	Fair values	
		Assets US\$'000	Liabilities US\$'000
As at 30 June 2016			
Derivatives held for trading			
Exchange rate contracts - forwards	256	-	-
		<u> </u>	<u> </u>
As at 31 December 2015			
Derivatives held for trading			
Exchange rate contracts - forwards	5,174	-	-
		<u> </u>	<u> </u>

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date, they do not represent the amounts at risk. The above derivative assets and liabilities are computed at a transaction level and shown on a gross basis with no offsetting presentation due to bilateral netting agreements.

12 Operating lease commitments

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2016 US\$'000	31 December 2015 US\$'000
- Not later than one year	1,007	1,642
- Later than one year and not later than five years	82	502
	<u> </u>	<u> </u>
	<u>1,089</u>	<u>2,144</u>

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NOTES TO THE FINANCIAL STATEMENTS

13 Capital structure and adequacy

The capital ratios below are computed in accordance with the Banking (Capital) Rules of the Banking Ordinance.

Capital disclosures as required by section 24 of the Banking (Disclosure) Rules can be viewed on the website: <https://www.jpmorgan.com/pages/jpmorgan/ap/hk/home>

Capital ratios	30 June 2016	31 December 2015
CET1 capital ratio	<u>35.6%</u>	<u>32.4%</u>
Tier 1 capital ratio	<u>35.6%</u>	<u>32.4%</u>
Total capital ratio	<u>42.2%</u>	<u>38.6%</u>
Capital conservation buffer ratio	<u>0.625%</u>	<u>-</u>

14 Leverage ratio

The leverage ratios below are computed in accordance with the Banking (Capital) Rules of the Banking Ordinance.

Leverage ratio disclosures as required by section 24A of the Banking (Disclosure) Rules can be viewed on the website: <https://www.jpmorgan.com/pages/jpmorgan/ap/hk/home>

	30 June 2016	31 December 2015
Leverage ratio	<u>48.3%</u>	<u>50.4%</u>

15 Countercyclical capital buffer ratio

The countercyclical capital buffer ratio below are computed in accordance with the Banking (Capital) Rules of the Banking Ordinance.

Countercyclical capital buffer ratio disclosures as required by section 24B of the Banking (Disclosure) Rules can be viewed on the website: <https://www.jpmorgan.com/pages/jpmorgan/ap/hk/home>

	30 June 2016	31 December 2015
Countercyclical capital buffer ratio	<u>0.028%</u>	<u>-</u>

There was no information disclosed relating to the countercyclical capital buffer ratio pursuant to section 45B of the Banking (Disclosure) Rules for 2015 because the applicable JCCyB ratios for Hong Kong and for jurisdictions outside Hong Kong are at 0% before 1 January 2016 according to section 3P and section 3Q of the Capital Rules.

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NOTES TO THE FINANCIAL STATEMENTS

16 International claims

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area. Claims on individual geographical areas, after risk transfer, amounting to 10% or more of aggregate international claims are as follows:

	Banks US\$'000	Official sector US\$'000	Non-bank private sector Non-bank financial institutions US\$'000	Non-financial private sector US\$'000	Others US\$'000	Total US\$'000
As at 30 June 2016						
Developed countries	<u>1,136,999</u>	<u>-</u>	<u>92,753</u>	<u>3,936</u>	<u>-</u>	<u>1,233,688</u>
As at 31 December 2015						
Developed countries	<u>1,076,669</u>	<u>-</u>	<u>69,183</u>	<u>-</u>	<u>-</u>	<u>1,145,852</u>

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NOTES TO THE FINANCIAL STATEMENTS

17 Non-bank Mainland exposures

Type of Counterparties	On balance sheet exposures	Off balance sheet exposures	Total	Specific provisions
	US\$'000	US\$'000	US\$'000	US\$'000
As at 30 June 2016				
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	12,792	-	12,792	-
Total	<u>12,792</u>	<u>-</u>	<u>12,792</u>	<u>-</u>
Total assets after provision	<u>1,421,199</u>			
On-balance sheet exposures as percentage of total assets	<u>0.9%</u>			
As at 31 December 2015				
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	10,209	-	10,209	-
Local governments, local government-owned entities and their subsidiaries and JVs	92	-	92	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	32,942	-	32,942	-
Total	<u>43,243</u>	<u>-</u>	<u>43,243</u>	<u>-</u>
Total assets after provision	<u>1,320,563</u>			
On-balance sheet exposures as percentage of total assets	<u>3.28%</u>			

18 Currency concentrations

The currency concentrations which constitute 10% or more of the total net open positions in all currencies other than United States dollars are as follows:

	30 June 2016								
	CNY US\$'000	HKD US\$'000	IDR US\$'000	INR US\$'000	NZD US\$'000	PKR US\$'000	THB US\$'000	Others US\$'000	Total US\$'000
Equivalent in United States dollars									
Spot assets	55,342	128,869	617	362	10,973	496	1,472	94,361	292,492
Spot liabilities	(52,617)	(130,537)	(114)	-	(11,274)	(1)	(423)	(94,399)	(289,365)
Forward purchases	-	-	-	-	-	-	-	144	144
Forward sales	(113)	-	-	-	-	-	-	-	(113)
Net long/ (short) position	<u>2,612</u>	<u>(1,668)</u>	<u>503</u>	<u>362</u>	<u>(301)</u>	<u>495</u>	<u>1,049</u>	<u>106</u>	<u>3,158</u>

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NOTES TO THE FINANCIAL STATEMENTS

18 Currency concentrations (continued)

	31 December 2015								
	CNY US\$'000	HKD US\$'000	IDR US\$'000	INR US\$'000	NZD US\$'000	PKR US\$'000	THB US\$'000	Others US\$'000	Total US\$'000
Equivalent in United States dollars									
Spot assets	20,035	102,202	440	464	499	397	1,740	84,374	210,151
Spot liabilities	(19,593)	(103,043)	(109)	-	(651)	(2)	(355)	(83,298)	(207,051)
Forward purchases	-	-	-	-	-	-	-	27	27
Forward sales	(323)	-	-	-	-	-	-	(319)	(642)
Net long/ (short) position	<u>119</u>	<u>(841)</u>	<u>331</u>	<u>464</u>	<u>(152)</u>	<u>395</u>	<u>1,385</u>	<u>784</u>	<u>2,485</u>

The Company has no net structural position in any particular foreign currency (31 December 2015: Nil).

19 Liquidity

Liquidity risk

Liquidity risk is the risk that JPMorgan Securities (Asia Pacific) Limited (“JPMSAPL”) will be unable to meet its contractual and contingent obligations or that it does not have the appropriate amount, composition and tenor of funding and liquidity to support its assets.

Liquidity Risk Oversight

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

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

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NOTES TO THE FINANCIAL STATEMENTS

19 Liquidity (continued)

Risk Governance and Measurement

Specific committees responsible for liquidity governance include firmwide Asset-Liability Committee (“ALCO”) as well as line of business and regional ALCOs, and the Chief Investment Office, Treasury and Corporate Risk Committee (“CTC RC”).

The Firmwide ALCO, chaired by the Corporate Treasurer under the direction of the Chief Operating Officer (“COO”), monitors the Firm’s balance sheet, liquidity risk and structural interest rate risk. ALCO is responsible for reviewing and approving the Firm’s Funds Transfer Pricing Policy (through which lines of business “transfer” interest rate risk to Treasury). ALCO is also responsible for reviewing the Firm’s Liquidity Risk Oversight Policy and Contingency Funding Plan.

Risk oversight is managed through a dedicated Risk group reporting into the CTC Risk Officer (“CRO”). The CTC RC is the governing committee for Liquidity Risk Oversight.

The Hong Kong Risk/Asset and Liability Committee (“HK RALCO”) is JPMSAPL’s governance committee with oversight over liquidity risk management for JPMSAPL. The HK RALCO is co-chaired by the Hong Kong Legal Entity Chief Risk Officer and the Hong Kong Senior Financial Officer with representatives from Treasury, Finance, Legal, Compliance and other risk management functions including Liquidity Risk Oversight, as well as from all lines of business. The HK RALCO is responsible for reviewing the firmwide Liquidity Risk Oversight Policy (“Liquidity Policy”) and the country addendum to the firmwide Contingency Funding Plan (“CFP”) on an annual basis.

Internal Stress Testing

Liquidity stress tests are intended to ensure sufficient liquidity for JPMSAPL under a variety of adverse scenarios. Results of stress tests are therefore considered in the formulation of JPMSAPL’s funding plan and assessment of its liquidity position. Liquidity outflow assumptions are modeled across a range of time horizons and contemplate both market and idiosyncratic stress. Standard stress tests are performed on a regular basis and ad hoc stress tests are performed in response to specific market events or concerns.

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

Liquidity management

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

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NOTES TO THE FINANCIAL STATEMENTS

19 Liquidity (continued)

Liquidity management (continued)

Treasury is responsible for day to day liquidity management of JPMSAPL and for ensuring compliance with HKMA regulations. The team is responsible for, but not limited to;

- Analyzing and understanding the liquidity characteristics of the lines of business and JPMSAPL's assets and liabilities, taking into account legal, regulatory and operational restrictions;
- Defining and monitoring JPMSAPL's liquidity strategies, policies, guidelines, and country addendum to firmwide CFP;
- Managing liquidity within regulatory requirements and internal limits and indicators;
- Setting transfer pricing in accordance with underlying liquidity characteristics of balance sheet assets and liabilities as well as certain off-balance sheet items.

Contingency Funding Plan

The Firm's CFP, which is reviewed by ALCO and approved by the Directors Risk Policy Committee ("DRPC"), is a compilation of procedures and action plans for managing liquidity through stress events (including JPMSAPL). JPMSAPL is an integral part of the Firmwide CFP framework. The Firmwide CFP incorporates the limits and indicators set by the Liquidity Risk Oversight group. These limits and indicators are reviewed regularly to identify the emergence of risks or vulnerabilities in the Firm's liquidity positions. The CFP identifies the alternative contingent liquidity resources available to the Firm (including JPMSAPL) in a stress event.

Treasury maintains a country addendum to the Firmwide CFP, which is reviewed and approved by the Board of Directors and HK RALCO. As part of the CFP process, a list of country limits and indicators (both market and internal) set by the Liquidity Risk Oversight group are reviewed regularly, to identify the emergence of risks or vulnerabilities in JPMSAPL's liquidity position.

Liquidity ratio

	For the six months ended	
	30 June 2016	30 June 2015
Average Liquidity Maintenance Ratio	273.0%	563.5%

The average LMR as of 30 June 2016 and 30 June 2015 is calculated as the simple average of each calendar month's average LMR for the relevant period computed in accordance with the Banking (Liquidity) Rules.

On behalf of the Board

Hong Kong, 7th October 2016