

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE 2017

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED

	Note	30 June 2017 US\$'000	30 June 2016 US\$'000
Interest income	1	4,489	1,864
Interest expense	2	(4,147)	(7,074)
Net interest income/(expense)		342	(5,210)
Net fees and commission income	3	450,261	427,173
Net gain/(loss) from financial instruments at fair value through profit or loss	4	800	(16)
Other income	5	-	2,823
Total income		451,403	424,770
Operating expenses	6	(395,078)	(399,218)
Profit before tax		56,325	25,552
Taxation	7	(9,815)	(4,348)
Total comprehensive income for the period		46,510	21,204

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\$46.5 million for 2017, an increase of US\$25.3 million compared with the same period last year, mainly contributed by increase in net fees and commission income relating to equities and capital market activities and the reduction of interest expense due to conversion of subordinated loan notes in February 2017.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED BALANCE SHEET

	Note	As at 30 June 2017 US\$'000	As at 31 December 2016 US\$'000
ASSETS			
Balances with banks		1,135,499	1,152,739
Financial assets at fair value through profit or loss		12,142	29,283
Deferred tax assets	8	16,662	18,072
Other assets		169,711	164,837
Fixed assets	9	2,086	3,026
Total assets		<u>1,336,100</u>	<u>1,367,957</u>
EQUITY			
Share capital		527,000	402,000
Reserves		325,417	279,107
Total equity		<u>852,417</u>	<u>681,107</u>
LIABILITIES			
Deposits and balances from banks		197,084	220,930
Trading liabilities	10	3,585	4,758
Other liabilities		266,956	328,390
Taxation payable	11	16,058	7,772
Subordinated loan notes		-	125,000
Total liabilities		<u>483,683</u>	<u>686,850</u>
Total equity and liabilities		<u>1,336,100</u>	<u>1,367,957</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 2016	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	<u>402,000</u>	<u>58,517</u>	<u>236,200</u>	<u>696,717</u>
Balance as at 1 July 2016	402,000	58,517	236,200	696,717
Total comprehensive loss for the period	-	-	(19,975)	(19,975)
Transactions with owners				
Employee benefit expenses for the period	-	18,826	-	18,826
Employee benefit recharged by JPMorgan Chase	-	(14,461)	-	(14,461)
Total transactions with owners	-	4,365	-	4,365
Balance as at 31 December 2016	<u>402,000</u>	<u>62,882</u>	<u>216,225</u>	<u>681,107</u>
Balance as at 1 January 2017	402,000	62,882	216,225	681,107
Total comprehensive income for the period			46,510	46,510
Transactions with owners				
Employee benefit expenses for the period	-	15,887	-	15,887
Employee benefit recharged by JPMorgan Chase	-	(16,087)	-	(16,087)
Issue of ordinary shares related to subordinated loan notes conversion	125,000	-	-	125,000
Total transactions with owners	<u>125,000</u>	<u>(200)</u>	<u>-</u>	<u>124,800</u>
Balance as at 30 June 2017	<u>527,000</u>	<u>62,682</u>	<u>262,735</u>	<u>852,417</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED

	Note	30 June 2017 US\$'000	30 June 2016 US\$'000
Net cash (outflow)/inflow from operating activities	15	(14,276)	27,802
Cash flows from investing activities			
Purchase of fixed assets		(290)	(1,222)
Sales of fixed assets		274	18
Net cash outflow from investing activities		(16)	(1,204)
Cash flows from financing activities			
Issue of share capital		125,000	-
Conversion of subordinated loan notes		(125,000)	-
Net cash outflow from financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(14,292)	26,598
Cash and cash equivalents at 1st January		1,152,739	1,108,716
Exchange difference on cash and cash equivalents		(2,948)	(985)
Cash and cash equivalents at the end of the period		1,135,499	1,134,329

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1 Interest income

Interest income recognized on financial assets that are not at fair value through profit or loss amounted to US\$4,302,000 (first half of 2016: US\$1,548,000).

During the period, there was no interest income recognized on impaired financial assets (first half of 2016: Nil).

2 Interest expense

	For the six months ended	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Deposits and balances from banks	1,489	1,294
Trading liabilities	35	28
Subordinated loan notes	2,623	5,752
	<u>4,147</u>	<u>7,074</u>

Interest expense recognized on financial liabilities that are not at fair value through profit or loss amounted to US\$4,112,000 (first half of 2016: US\$7,046,000).

3 Net fees and commission income

	For the six months ended	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Fees and commission income	547,064	507,360
Fees and commission expense	(96,803)	(80,187)
Net fees and commission income	<u>450,261</u>	<u>427,173</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 2016: 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 2016: Nil).

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

	For the six months ended	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Net gain from foreign exchange trading	130	71
Net gain/(loss) from trading assets	670	(87)
	<u>800</u>	<u>(16)</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

5 Other income

	For the six months ended	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Gain on disposal of fixed assets	-	6
Other income	-	2,817
	<u>-</u>	<u>2,823</u>

6 Operating expenses

	For the six months ended	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Staff costs	164,110	174,386
Premises and equipment expenses	14,259	13,860
Depreciation expense for fixed assets (Note 9)	956	1,033
Service fees paid to group companies	177,752	174,657
Other expenses	38,001	35,282
	<u>395,078</u>	<u>399,218</u>

7 Taxation

	For the six months ended	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Current income tax		
- Hong Kong profits tax	8,385	1,108
- Overseas taxation	129	149
Deferred income tax	1,301	3,091
	<u>9,815</u>	<u>4,348</u>

8 Deferred tax assets

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

	30 June 2017	31 December 2016
	US\$'000	US\$'000
At 1 January	18,072	21,188
Currency translation differences	(109)	-
Charged to income statement (note 7)	(1,301)	(3,116)
At the end of the period / year	<u>16,662</u>	<u>18,072</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

9 Fixed Assets

	Leasehold improvements US\$'000	Furniture and equipment US\$'000	Total US\$'000
Cost			
As at 1 January 2017	1,969	42,974	44,943
Additions	-	290	290
Disposals	-	(688)	(688)
	<u>1,969</u>	<u>42,576</u>	<u>44,545</u>
As at 30 June 2017	<u>1,969</u>	<u>42,576</u>	<u>44,545</u>
Accumulated depreciation			
As at 1 January 2017	1,793	40,124	41,917
Charge for the period (Note 6)	17	939	956
Disposals	-	(414)	(414)
	<u>1,810</u>	<u>40,649</u>	<u>42,459</u>
As at 30 June 2017	<u>1,810</u>	<u>40,649</u>	<u>42,459</u>
Net book value	<u>159</u>	<u>1,927</u>	<u>2,086</u>
Cost			
As at 1 January 2016	1,968	42,778	44,746
Additions	31	2,206	2,237
Disposals	(30)	(2,010)	(2,040)
	<u>1,969</u>	<u>42,974</u>	<u>44,943</u>
As at 31 December 2016	<u>1,969</u>	<u>42,974</u>	<u>44,943</u>
Accumulated depreciation			
As at 1 January 2016	1,641	40,272	41,913
Charge for the year	180	1,853	2,033
Disposals	(28)	(2,001)	(2,029)
	<u>1,793</u>	<u>40,124</u>	<u>41,917</u>
As at 31 December 2016	<u>1,793</u>	<u>40,124</u>	<u>41,917</u>
Net book value	<u>176</u>	<u>2,850</u>	<u>3,026</u>

10 Trading liabilities

Trading liabilities of the Company did not contain any certificate of deposits as at 30 June 2017 and 31 December 2016.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

11 Taxation payable

The gross movement of the income tax payable is as follows:

	30 June 2017 US\$'000	31 December 2016 US\$'000
At 1 January	7,772	-
Currency translation differences	(99)	-
Charged to income statement (note 7)	8,514	14,551
Hong Kong tax paid	-	(6,337)
Overseas tax paid	(129)	(442)
	<u>16,058</u>	<u>7,772</u>

12 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 2017 and 31 December 2016.

13 Derivative financial instruments

	Contract amounts US\$'000	Fair values	
		Assets US\$'000	Liabilities US\$'000
As at 30 June 2017			
Derivatives held for trading			
Exchange rate contracts - forwards	1,381	<u>2</u>	<u>1</u>
As at 31 December 2016			
Derivatives held for trading			
Exchange rate contracts - forwards	344	<u>-</u>	<u>3</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.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

14 Operating lease commitments

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

	30 June 2017 US\$'000	31 December 2016 US\$'000
- Not later than one year	1,359	1,721
- Later than one year and not later than five years	1,461	2,052
	<u>2,820</u>	<u>3,773</u>

15 Notes to statement of cash flows

Reconciliation of profit before taxation to net cash (outflow)/inflow from operating activities:

	30 June 2017 US\$'000	30 June 2016 US\$'000
Profit before taxation	56,325	25,552
Foreign exchange difference	2,958	985
Depreciation charge for fixed assets	956	1,033
Gain on disposal of fixed assets	-	(6)
Transfer to employee benefit reserve	(200)	(317)
	<u>60,039</u>	<u>27,247</u>
Net cash inflow before changes in operating assets and liabilities	60,039	27,247
Decrease/(increase) in financial assets at fair value through profit or loss	17,141	(13,205)
Increase in other assets	(4,874)	(64,732)
(Decrease)/increase in deposits and balances from banks	(23,846)	48,641
(Decrease)/increase in trading liabilities	(1,173)	2,049
(Decrease)/increase in other liabilities	(61,434)	27,951
	<u>(14,147)</u>	<u>27,951</u>
Net cash (outflow)/inflow from operations	(14,147)	27,951
Overseas tax paid	(129)	(149)
	<u>(14,276)</u>	<u>27,802</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

16 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 2017	31 December 2016
CET1 capital ratio	<u>38.8%</u>	<u>31.6%</u>
Tier 1 capital ratio	<u>38.8%</u>	<u>31.6%</u>
Total capital ratio	<u>38.8%</u>	<u>37.6%</u>
Capital conservation buffer ratio	<u>1.25%</u>	<u>0.625%</u>

17 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 2017	31 December 2016
Leverage ratio	<u>62.9%</u>	<u>49.1%</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

18 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 2017	31 December 2016
Countercyclical capital buffer ratio	<u>0.038%</u>	<u>0.037%</u>

19 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:

	Non-bank private sector					
	Banks US\$'000	Official sector US\$'000	Non-bank financial institutions US\$'000	Non-financial private sector US\$'000	Others US\$'000	Total US\$'000
As at 30 June 2017						
Developed countries	<u>1,078,461</u>	<u>-</u>	<u>70,367</u>	<u>-</u>	<u>-</u>	<u>1,148,828</u>
As at 31 December 2016						
Developed countries	<u>1,103,680</u>	<u>-</u>	<u>70,825</u>	<u>-</u>	<u>-</u>	<u>1,174,505</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

20 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 2017				
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	6,570	-	6,570	-
Total	<u>6,570</u>	<u>-</u>	<u>6,570</u>	<u>-</u>
Total assets after provision	<u>1,336,100</u>			
On-balance sheet exposures as percentage of total assets	<u>0.49%</u>			
As at 31 December 2016				
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	9,000	-	9,000	-
Total	<u>9,000</u>	<u>-</u>	<u>9,000</u>	<u>-</u>
Total assets after provision	<u>1,367,957</u>			
On-balance sheet exposures as percentage of total assets	<u>0.66%</u>			

21 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 2017						
	CNY 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	16,829	636	4,945	645	2,793	213,430	239,278
Spot liabilities	(13,686)	-	(5,585)	(1)	(270)	(214,162)	(233,704)
Forward purchases	-	-	-	-	-	563	563
Forward sales	(719)	-	-	-	-	(97)	(816)
Net long/(short) position	<u>2,424</u>	<u>636</u>	<u>(640)</u>	<u>644</u>	<u>2,523</u>	<u>(266)</u>	<u>5,321</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

21 Currency concentrations (continued)

	31 December 2016						
	CNY	INR	NZD	PKR	THB	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Equivalent in United States dollars							
Spot assets	24,024	304	3,125	535	2,046	226,935	256,969
Spot liabilities	(22,097)	-	(3,551)	(2)	(250)	(228,695)	(254,595)
Forward purchases	155	-	-	-	21	166	342
Forward sales	-	-	-	-	-	(2)	(2)
Net long/(short) position	2,082	304	(426)	533	1,817	(1,596)	2,714

The Company has no net structural position in any particular foreign currency (31 December 2016: Nil).

22 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

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

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

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

22 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 (“CTC”) Risk Committee. In addition, the Directors Risk Policy Committee (“DRPC”) reviews and recommends to the Board of Directors, for formal approval, the Firm’s liquidity risk tolerances, liquidity strategy and liquidity policy at least annually.

Liquidity Risk Oversight for the Company is governed by Hong Kong RALCO, co-chaired by the Chief Risk Officer and Senior Financial Officer.

As governed by the Hong Kong RALCO Term of Reference, where required, matters will be escalated from Hong Kong RALCO to the Board of Directors, Asia Pacific Capital and Liquidity Committee or Asia Pacific Risk Committee.

Internal Stress Testing

Liquidity stress tests are intended to ensure sufficient liquidity for the Company under a variety of adverse scenarios, including scenarios analyzed as part of the Firm’s resolution and recovery planning. Stress scenarios are produced for JPMorgan Chase & Co. (Parent Company) and the Firm’s material legal entities, including the Company, on a regular basis and ad hoc stress tests are performed, as needed, in response to specific market events or concerns.

Liquidity stress tests assume all of the Company’s contractual obligations are met and take into consideration varying levels of access to unsecured and secured funding markets, estimated non-contractual and contingent outflows and potential impediments to the availability and transferability of liquidity between jurisdictions and material legal entities such as regulatory, legal, or other restrictions. Liquidity outflow assumptions are modelled across a range of time horizons and contemplate both market and idiosyncratic stress. Results of stress tests are considered in the formulation of the Firm’s, including the Company’s, funding plan and assessment of its liquidity position. The Parent Company acts as a source of funding for the Firm through stock and long-term debt issuances, and JPMorgan Chase Holdings LLC (“IHC”) provides funding support to the ongoing operations of the Parent Company and its subsidiaries, as necessary. The Firm maintains liquidity at the Parent Company and the IHC, in addition to liquidity held at the operating subsidiaries, at levels sufficient to comply with liquidity risk tolerances and minimum liquidity requirements, to manage through periods of stress where access to normal funding sources is disrupted.

Liquidity management

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

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

22 Liquidity (continued)

Liquidity management (continued)

In the context of the Company's liquidity management, Treasury and CIO are responsible for:

- Analyzing and understanding the liquidity characteristics of the lines of business and the Company's assets and liabilities, taking into account legal, regulatory and operational restrictions
- Defining and monitoring the Company'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 Firmwide ALCO and approved by the DRPC, is a compilation of procedures and action plans for managing liquidity through stress events (including the Company). The Company is an integral part of the Firmwide CFP framework. The CFP identifies the alternative contingent liquidity resources available to the Firm (including the Company) in a stress event.

Treasury maintains a country addendum to the Firmwide CFP, which is reviewed and approved by the HK RALCO and the Company's Board of Directors.

Liquidity ratio

	For the six months ended	
	30 June 2017	30 June 2016
Average Liquidity Maintenance Ratio	<u>285.9%</u>	<u>273.0%</u>

The average LMR as of 30 June 2017 and 30 June 2016 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, 5 September 2017