

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE 2018

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED

	Note	30 June 2018 US\$'000	30 June 2017 US\$'000
Interest income	1	9,253	4,489
Interest expense	2	(2,096)	(4,147)
Net interest income		<u>7,157</u>	<u>342</u>
Net fees and commission income	3	523,448	450,261
Net (loss)/gain from financial instruments at fair value through profit or loss	4	(208)	800
Other income		<u>2</u>	<u>-</u>
Total income		530,399	451,403
Operating expenses	5	(412,295)	(395,078)
Profit before tax		<u>118,104</u>	<u>56,325</u>
Taxation	6	(19,531)	(9,815)
Total comprehensive income for the period		<u><u>98,573</u></u>	<u><u>46,510</u></u>

REVIEW OF ACTIVITIES

J.P. Morgan Securities (Asia Pacific) Limited (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\$98.6 million for 2018, an increase of US\$52.1 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.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED BALANCE SHEET

	Note	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
ASSETS			
Balances with banks		1,233,196	1,283,233
Financial assets at fair value through profit or loss		12,572	30,447
Deferred tax assets	7	17,647	16,393
Other assets		272,542	175,275
Fixed assets	8	1,187	1,688
Total assets		<u>1,537,144</u>	<u>1,507,036</u>
EQUITY			
Share capital		527,000	527,000
Reserves		491,037	392,578
Total equity		<u>1,018,037</u>	<u>919,578</u>
LIABILITIES			
Deposits and balances from banks		172,754	283,752
Trading liabilities	9	3,373	3,469
Other liabilities		316,021	293,968
Taxation payable	10	26,959	6,269
Total liabilities		<u>519,107</u>	<u>587,458</u>
Total equity and liabilities		<u>1,537,144</u>	<u>1,507,036</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 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	125,000	(200)	-	124,800
Balance as at 30 June 2017	527,000	62,682	262,735	852,417
Balance as at 1 July 2017	527,000	62,682	262,735	852,417
Total comprehensive income for the period	-	-	61,884	61,884
Transactions with owners				
Employee benefit expenses for the period	-	22,208	-	22,208
Employee benefit recharged by JPMorgan Chase	-	(16,931)	-	(16,931)
Total transactions with owners	-	5,277	-	5,277
Balance as at 31 December 2017	527,000	67,959	324,619	919,578
Balance as at 1 January 2018	527,000	67,959	324,619	919,578
Total comprehensive income for the period	-	-	98,573	98,573
Transactions with owners				
Employee benefit expenses for the period	-	35,288	-	35,288
Employee benefit recharged by JPMorgan Chase	-	(35,402)	-	(35,402)
Total transactions with owners	527,000	(114)	-	(114)
Balance as at 30 June 2018	527,000	67,845	423,192	1,018,037

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED

	Note	30 June 2018 US\$'000	30 June 2017 US\$'000
Net cash outflow from operating activities	14	(53,509)	(14,276)
Cash flows from investing activities			
Purchase of fixed assets		(99)	(290)
Sales of fixed assets		-	274
Net cash outflow from investing activities		(99)	(16)
Cash flows from financing activities			
Issue of share capital		-	125,000
Conversion of subordinated loan notes		-	(125,000)
Net cash inflow from financing activities		-	-
Net decrease in cash and cash equivalents		(53,608)	(14,292)
Cash and cash equivalents at 1st January		733,233	602,739
Exchange difference on cash and cash equivalents		3,571	(2,948)
Cash and cash equivalents at the end of the period		683,196	585,499
Representing:			
Balances with banks		1,233,196	1,135,499
Less: placements with bank with originally maturity more than three months		(550,000)	(550,000)
Cash and cash equivalents at the end of the period		683,196	585,499

Comparative information has been restated to conform to changes in presentation in the current period.

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\$8,983,000 (first half of 2017: US\$4,302,000).

During the period, there was no interest income recognized on impaired financial assets (first half of 2017: Nil).

2 Interest expense

	For the six months ended	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Deposits and balances from banks	2,063	1,489
Trading liabilities	33	35
Subordinated loan notes	-	2,623
	<u>2,096</u>	<u>4,147</u>

Interest expense recognized on financial liabilities that are not at fair value through profit or loss amounted to US\$2,063,000 (first half of 2017: US\$4,112,000).

3 Net fees and commission income

	For the six months ended	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Fees and commission income	636,666	547,064
Fees and commission expense	(113,218)	(96,803)
Net fees and commission income	<u>523,448</u>	<u>450,261</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 2017: 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 2017: Nil).

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

	For the six months ended	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Net (loss)/gain from foreign exchange trading	(305)	130
Net gain from trading assets	97	670
	<u>(208)</u>	<u>800</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

5 Operating expenses

	For the six months ended	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Staff costs	182,058	164,110
Premises and equipment expenses	12,768	14,259
Depreciation expense for fixed assets (Note 8)	600	956
Service fees paid to group companies	173,022	177,752
Other expenses	43,847	38,001
	<u>412,295</u>	<u>395,078</u>

6 Taxation

	For the six months ended	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Current income tax		
- Hong Kong profits tax	20,742	8,385
- Overseas taxation	110	129
Deferred income tax	(1,321)	1,301
	<u>19,531</u>	<u>9,815</u>

7 Deferred tax assets

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

	30 June 2018	31 December 2017
	US\$'000	US\$'000
At 1 January	16,393	18,072
Credited/(charged) to income statement (note 6)	1,321	(1,550)
Currency translation differences	(67)	(129)
	<u>17,647</u>	<u>16,393</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

8 Fixed Assets

	Leasehold improvements US\$'000	Furniture and equipment US\$'000	Total US\$'000
Cost			
As at 1 January 2018	1,969	39,076	41,045
Additions	58	41	99
	<u>2,027</u>	<u>39,117</u>	<u>41,144</u>
As at 30 June 2018	<u>2,027</u>	<u>39,117</u>	<u>41,144</u>
Accumulated depreciation			
As at 1 January 2018	1,826	37,531	39,357
Charge for the period (Note 5)	18	582	600
	<u>1,844</u>	<u>38,113</u>	<u>39,957</u>
As at 30 June 2018	<u>1,844</u>	<u>38,113</u>	<u>39,957</u>
Net book value	<u>183</u>	<u>1,004</u>	<u>1,187</u>
Cost			
As at 1st January 2017	1,969	42,974	44,943
Additions	-	687	687
Disposals	-	(4,585)	(4,585)
	<u>1,969</u>	<u>39,076</u>	<u>41,045</u>
As at 31st December 2017	<u>1,969</u>	<u>39,076</u>	<u>41,045</u>
Accumulated depreciation			
As at 1st January 2017	1,793	40,124	41,917
Charge for the year	33	1,704	1,737
Disposals	-	(4,297)	(4,297)
	<u>1,826</u>	<u>37,531</u>	<u>39,357</u>
As at 31st December 2017	<u>1,826</u>	<u>37,531</u>	<u>39,357</u>
Net book value	<u>143</u>	<u>1,545</u>	<u>1,688</u>

9 Trading liabilities

Trading liabilities of the Company did not contain any certificates of deposit as at 30 June 2018 and 31 December 2017.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

10 Taxation payable

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

	30 June 2018 US\$'000	31 December 2017 US\$'000
At 1 January	6,269	7,772
Currency translation differences	(52)	(82)
Charged to income statement (note 6)	20,852	22,659
Hong Kong tax paid	-	(23,642)
Overseas tax paid	(110)	(438)
At the end of the period / year	<u>26,959</u>	<u>6,269</u>

11 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 2018 and 31 December 2017.

12 Derivative financial instruments

	Contract amounts US\$'000	Fair values	
		Assets US\$'000	Liabilities US\$'000
As at 30 June 2018			
Derivatives held for trading			
Exchange rate contracts - forwards	5,004	-	-
Other derivatives	539,000	-	-
As at 31 December 2017			
Derivatives held for trading			
Exchange rate contracts - forwards	675	-	-
Other derivatives	-	-	-

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)

13 Operating lease commitments

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

	30 June 2018 US\$'000	31 December 2017 US\$'000
- Not later than one year	2,303	2,332
- Later than one year and not later than five years	3,268	4,466
	<u>5,571</u>	<u>6,798</u>

14 Notes to statement of cash flows

Reconciliation of profit before taxation to net cash outflow from operating activities:

	30 June 2018 US\$'000	30 June 2017 US\$'000
Profit before taxation	118,104	56,325
Foreign exchange difference	(3,556)	2,958
Depreciation charge for fixed assets	600	956
Transfer to employee benefit reserve	(114)	(200)
	<u>115,034</u>	<u>60,039</u>
Net cash inflow before changes in operating assets and liabilities	115,034	60,039
Decrease in financial assets at fair value through profit or loss	17,875	17,141
Increase in other assets	(97,267)	(4,874)
Decrease in deposits and balances from banks	(110,998)	(23,846)
Decrease in trading liabilities	(96)	(1,173)
Increase/(decrease) in other liabilities	22,053	(61,434)
	<u>(53,399)</u>	<u>(14,147)</u>
Net cash outflow from operations	(53,399)	(14,147)
Overseas tax paid	(110)	(129)
	<u>(53,509)</u>	<u>(14,276)</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

15 Capital structure and adequacy

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

Capital ratios	30 June 2018	31 December 2017
CET1 capital ratio	<u>42.2%</u>	<u>40.3%</u>
Tier 1 capital ratio	<u>42.2%</u>	<u>40.3%</u>
Total capital ratio	<u>42.2%</u>	<u>40.3%</u>
Capital conservation buffer ratio	<u>1.875%</u>	<u>1.25%</u>

The Semi-annually Regulatory Disclosure as at 30 June 2018 prepared under the Banking (Disclosure) Rules can be viewed on the website:

<https://www.jpmorgan.com/pages/jpmorgan/ap/hk/home>

16 International claims

The Company's country risk exposures in the table below are prepared in accordance with the HKMA Return of International Banking Statistics guidelines. 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			Total US\$'000
			Non-bank financial institutions US\$'000	Non-financial private sector US\$'000	Others US\$'000	
As at 30 June 2018						
Developed countries	<u>1,328,254</u>	<u>-</u>	<u>91,033</u>	<u>-</u>	<u>-</u>	<u>1,419,287</u>
			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 31 December 2017						
Developed countries	<u>1,247,975</u>	<u>-</u>	<u>61,019</u>	<u>-</u>	<u>-</u>	<u>1,308,994</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

17 Non-bank Mainland exposures

Type of Counterparties	On balance sheet exposures US\$'000	Off balance sheet exposures US\$'000	Total US\$'000	Specific provisions US\$'000
As at 30 June 2018				
Central government, central government- owned entities and their subsidiaries and joint ventures (JVs)	3,791	-	3,791	-
	<u>3,791</u>	<u>-</u>	<u>3,791</u>	<u>-</u>
Total	<u>3,791</u>	<u>-</u>	<u>3,791</u>	<u>-</u>
Total assets after provision	<u>1,537,144</u>			
On-balance sheet exposures as percentage of total assets	<u>0.25%</u>			
As at 31 December 2017				
Central government, central government- owned entities and their subsidiaries and joint ventures (JVs)	6,699	-	6,699	-
	<u>6,699</u>	<u>-</u>	<u>6,699</u>	<u>-</u>
Total	<u>6,699</u>	<u>-</u>	<u>6,699</u>	<u>-</u>
Total assets after provision	<u>1,507,036</u>			
On-balance sheet exposures as percentage of total assets	<u>0.44%</u>			

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

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 2018						
	CNY US\$'000	HKD US\$'000	INR US\$'000	NZD US\$'000	PKR US\$'000	Others US\$'000	Total US\$'000
Equivalent in USD							
Spot assets	36,694	85,788	548	13,151	661	100,985	237,827
Spot liabilities	(33,008)	(92,320)	-	(14,196)	(1)	(102,016)	(241,541)
Forward purchases	-	2,028	-	-	-	515	2,543
Forward sales	(453)	(2,028)	-	-	-	(2)	(2,483)
Net long/(short) position	<u>3,233</u>	<u>(6,532)</u>	<u>548</u>	<u>(1,045)</u>	<u>660</u>	<u>(518)</u>	<u>(3,654)</u>

	31 December 2017						
	CNY US\$'000	HKD US\$'000	INR US\$'000	NZD US\$'000	PKR US\$'000	Others US\$'000	Total US\$'000
Equivalent in USD							
Spot assets	79,133	119,838	799	4,662	655	114,971	320,058
Spot liabilities	(76,636)	(123,723)	-	(5,467)	(1)	(114,368)	(320,195)
Forward purchases	-	-	-	-	-	632	632
Forward sales	(20)	-	-	-	-	(23)	(43)
Net long/(short) position	<u>2,477</u>	<u>(3,885)</u>	<u>799</u>	<u>(805)</u>	<u>654</u>	<u>1,212</u>	<u>452</u>

The Company has no net structural position in any particular foreign currency (31 December 2017: Nil).

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

19 Liquidity

Liquidity risk

Liquidity risk is the risk that JPMorgan Chase & Co. (the “Firm”), including the Company, will be unable to meet its contractual and contingent 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.

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 Chief Risk Officer (“CTC CRO”), who reports to the Chief Risk Officer (“CRO”), as part of the independent risk management function, has responsibilities for Firmwide Liquidity Risk Oversight. Liquidity Risk Oversight’s responsibilities include:

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

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 Risk/ Asset and Liability Management Committee (“RALCO”), co-chaired by the CRO 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.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

19 Liquidity (continued)

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 legal entities such as regulatory, legal, or other restrictions.

Liquidity outflow assumptions are modelled across a range of time horizons and currency dimensions 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 equity and long-term debt issuances, and JPMorgan Chase Holdings LLC ("the 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 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 and meet contractual and contingent financial obligations through normal economic cycles as well as during stress events, and
- 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.

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

- Analyzing and understanding the liquidity characteristics of the assets and liabilities of lines of business and the Company, taking into account legal, regulatory and operational restrictions;
- Defining and monitoring the Company's liquidity strategies, policies, guidelines, reporting and country addendum to firmwide Contingency Funding Plan ("CFP");
- Managing compliance with regulatory requirements related to funding and liquidity risk; and
- Setting transfer pricing in accordance with underlying liquidity characteristics of balance sheet assets and liabilities as well as certain off-balance sheet items.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

19 Liquidity (continued)

Contingency Funding Plan

The Firm's CFP, which is approved by the firmwide ALCO and 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 funding and liquidity resources available to the Firm (including the Company) in a period of stress.

Treasury and CIO maintain a country addendum to the firmwide CFP, which is reviewed and approved by the Hong Kong RALCO and the Company's Board of Directors.

Liquidity ratio

	For the six months ended	
	30 June 2018	30 June 2017
Average Liquidity Maintenance Ratio	<u>227.8%</u>	<u>285.9%</u>

The average LMR as of 30 June 2018 and 30 June 2017 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, 13 September 2018