

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE 2019

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED

	Note	30 June 2019 US\$'000	30 June 2018 US\$'000
Interest income	1	18,319	9,253
Interest expense	2	<u>(3,424)</u>	<u>(2,096)</u>
Net interest income		14,895	7,157
Net fees and commission income	3	380,904	523,448
Net loss from financial instruments at fair value through profit or loss	4	(491)	(208)
Other income		<u>95</u>	<u>2</u>
Total income		395,403	530,399
Operating expenses	5	<u>(406,938)</u>	<u>(412,295)</u>
(Loss)/profit before tax		(11,535)	118,104
Taxation	6	<u>(785)</u>	<u>(19,531)</u>
Total comprehensive (loss)/income for the period		<u><u>(12,320)</u></u>	<u><u>98,573</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 loss after tax was US\$12.3 million for 2019, a decrease of US\$110.9 million compared with the same period last year, mainly contributed by 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 2019 US\$'000	As at 31 December 2018 US\$'000
ASSETS			
Balances with banks		1,315,850	1,379,079
Financial assets at fair value through profit or loss		88,270	28,871
Deferred tax assets	7	18,486	18,981
Other assets		264,151	230,065
Taxation receivable	9	419	631
Fixed assets	8	731	944
Right-of-use assets	13	1,608	—
Total assets		1,689,515	1,658,571
EQUITY			
Share capital		527,000	527,000
Reserves		478,902	491,222
Total equity		1,005,902	1,018,222
LIABILITIES			
Deposits and balances from banks		322,983	232,172
Other liabilities		358,919	408,177
Lease Liabilities	13	1,711	—
Total liabilities		683,613	640,349
Total equity and liabilities		1,689,515	1,658,571

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 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	—	(114)	—	(114)
Balance as at 30 June 2018	527,000	67,845	423,192	1,018,037
Balance as at 1 July 2018	527,000	67,845	423,192	1,018,037
Total comprehensive income for the period	—	—	(1,343)	(1,343)
Transactions with owners				
Employee benefit expenses for the period	—	25,432	—	25,432
Employee benefit recharged by JPMorgan Chase	—	(23,904)	—	(23,904)
Total transactions with owners	—	1,528	—	1,528
Balance as at 31 December 2018	527,000	69,373	421,849	1,018,222
Balance as at 1 January 2019	527,000	69,373	421,849	1,018,222
Total comprehensive income for the period	—	—	(12,320)	(12,320)
Transactions with owners				
Employee benefit expenses for the period	—	28,450	—	28,450
Employee benefit recharged by JPMorgan Chase	—	(28,450)	—	(28,450)
Total transactions with owners	—	—	—	—
Balance as at 30 June 2019	527,000	69,373	409,529	1,005,902

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

**UNAUDITED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED**

	Note	30 June 2019 US\$'000	30 June 2018 US\$'000
Net cash outflow from operating activities	12	<u>(65,712)</u>	<u>(53,509)</u>
Cash flows from investing activities			
Purchase of fixed assets		<u>(128)</u>	<u>(99)</u>
Net cash outflow from investing activities		<u>(128)</u>	<u>(99)</u>
Cash flows from financing activities			
Principal element of lease payments		<u>(467)</u>	<u>—</u>
Net cash inflow from financing activities		<u>(467)</u>	<u>—</u>
Net decrease in cash and cash equivalents		(66,307)	(53,608)
Cash and cash equivalents at 1st January		829,079	733,233
Exchange difference on cash and cash equivalents		<u>3,078</u>	<u>3,571</u>
Cash and cash equivalents at the end of the period		<u><u>765,850</u></u>	<u><u>683,196</u></u>
Representing:			
Balances with banks		1,315,850	1,233,196
Less: placements with bank with originally maturity more than three months		<u>(550,000)</u>	<u>(550,000)</u>
Cash and cash equivalents at the end of the period		<u><u>765,850</u></u>	<u><u>683,196</u></u>

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\$15,389,000 (first half of 2018: US\$8,983,000).

During the period, there was no interest income recognized on impaired financial assets (first half of 2018: Nil).

2 Interest expense

	For the six months ended	
	30 June 2019	30 June 2018
	US\$'000	US\$'000
Deposits and balances from banks	3,282	2,063
Trading liabilities	—	33
Others	142	—
	<u>3,424</u>	<u>2,096</u>

Interest expense recognized on financial liabilities that are not at fair value through profit or loss amounted to US\$3,424,000 (first half of 2018: US\$2,063,000).

3 Net fees and commission income

	For the six months ended	
	30 June 2019	30 June 2018
	US\$'000	US\$'000
Fees and commission income	508,088	636,666
Fees and commission expense	<u>(127,184)</u>	<u>(113,218)</u>
Net fees and commission income	<u>380,904</u>	<u>523,448</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 2018: 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 2018: Nil).

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

4 Net loss from financial instruments at fair value through profit or loss

	For the six months ended	
	30 June 2019	30 June 2018
	US\$'000	US\$'000
Net gain/(loss) from foreign exchange trading	115	(305)
Net (loss)/gain from trading assets	(606)	97
	<u>(491)</u>	<u>(208)</u>

5 Operating expenses

	For the six months ended	
	30 June 2019	30 June 2018
	US\$'000	US\$'000
Staff costs	183,723	182,058
Premises and equipment expenses	12,247	12,768
Depreciation expense for fixed assets (note 8)	341	600
Service fees paid to group companies	163,619	173,022
Other expenses	47,008	43,847
	<u>406,938</u>	<u>412,295</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

6 Taxation

	For the six months ended	
	30 June 2019	30 June 2018
	US\$'000	US\$'000
Current income tax		
- Hong Kong profits tax	199	20,742
- Overseas taxation	30	110
Deferred income tax	556	(1,321)
	<u>785</u>	<u>19,531</u>

7 Deferred tax assets

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

	30 June 2019	31 December 2018
	US\$'000	US\$'000
At 1 January	18,981	16,393
(Charged)/credited to income statement (note 6)	(556)	2,622
Currency translation differences	61	(34)
At the end of the period/year	<u>18,486</u>	<u>18,981</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 2019	1,318	39,293	40,611
Additions	—	128	128
Disposals	—	(43)	(43)
	<u>1,318</u>	<u>39,378</u>	<u>40,696</u>
As at 30 June 2019	<u>1,318</u>	<u>39,378</u>	<u>40,696</u>
Accumulated depreciation			
As at 1 January 2019	1,153	38,514	39,667
Charge for the period (Note 5)	16	325	341
Disposals	—	(43)	(43)
	<u>1,169</u>	<u>38,796</u>	<u>39,965</u>
As at 30 June 2019	<u>1,169</u>	<u>38,796</u>	<u>39,965</u>
Net book value	<u>149</u>	<u>582</u>	<u>731</u>
Cost			
As at 1 January 2018	1,969	39,076	41,045
Additions	83	336	419
Disposals	(734)	(119)	(853)
	<u>1,318</u>	<u>39,293</u>	<u>40,611</u>
As at 31 December 2018	<u>1,318</u>	<u>39,293</u>	<u>40,611</u>
Accumulated depreciation			
As at 1 January 2018	1,826	37,531	39,357
Charge for the year	38	1,098	1,136
Disposals	(711)	(115)	(826)
	<u>1,153</u>	<u>38,514</u>	<u>39,667</u>
As at 31 December 2018	<u>1,153</u>	<u>38,514</u>	<u>39,667</u>
Net book value	<u>165</u>	<u>779</u>	<u>944</u>

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

9 Taxation receivable

The gross movement of the income tax (receivable)/payable is as follows:

	30 June 2019	31 December 2018
	US\$'000	US\$'000
At 1 January	(631)	6,269
Currency translation differences	13	(10)
Charged to income statement (note 6)	229	23,969
Hong Kong tax paid	—	(30,540)
Overseas tax paid	(30)	(319)
	<u>(419)</u>	<u>(631)</u>
At the end of the period / year	<u>(419)</u>	<u>(631)</u>

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 2019 and 31 December 2018.

11 Derivative financial instruments

	Contract amounts	Fair value	
	US\$'000	Assets US\$'000	Liabilities US\$'000
As at 30 June 2019			
Derivatives held for trading			
Exchange rate contracts - forwards	6,713	<u>4</u>	<u>1</u>
As at 31 December 2018			
Derivatives held for trading			
Exchange rate contracts - forwards	24,825	<u>26</u>	<u>24</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)

12 Notes to statement of cash flows

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

	30 June 2019	30 June 2018
	US\$'000	US\$'000
(Loss)/profit before taxation	(11,535)	118,104
Foreign exchange difference	(2,825)	(3,556)
Depreciation charge for fixed assets	341	600
Amortization of right-of-use assets	410	—
Transfer to employee benefit reserve	—	(114)
Interest element of lease payments	(141)	—
	<hr/>	<hr/>
Net cash (outflow)/inflow before changes in operating assets and liabilities	(13,750)	115,034
(Increase)/decrease in financial assets at fair value through profit or loss	(59,399)	17,875
Increase in other assets	(34,086)	(97,267)
Increase/(decrease) in deposits and balances from banks	90,811	(110,998)
Decrease in trading liabilities	—	(96)
(Decrease)/increase in other liabilities	(49,258)	22,053
	<hr/>	<hr/>
Net cash outflow from operations	(65,682)	(53,399)
Overseas tax paid	(30)	(110)
	<hr/>	<hr/>
Net cash outflow from operating activities	(65,712)	(53,509)

13 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Company's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Company has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

13 Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%

	2019 USD'000
Operating lease commitments disclosed as at 31 December 2018	855
Discounted using the lessee's incremental borrowing rate of at the date of initial application	805
Add: inclusion of renewal options under HKFRS 16	<u>1,862</u>
Lease liabilities recognised as at 1 January 2019	<u><u>2,667</u></u>

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 US\$'000	1 January 2019 US\$'000
Properties	<u>1,608</u>	<u>2,667</u>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets - increase by US\$2,667,000
- lease liabilities - increase by US\$2,667,000

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

13 Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of HKFRS 16 (continued)

Practical expedients applied

In applying HKFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs from the measurement of right-of-use assets at the date of initial application; and
- the use hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying HKAS 17 and Hong Kong (IFRIC) Interpretation 4 “Determining whether an Arrangement contains a Lease”.

(b) The Company's leasing activities and how these are accounted for

The Company leases offices and rental contracts are typically made for fixed periods of 1-5 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measure on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivables.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

13 Changes in accounting policies (continued)

(b) The Company's leasing activities and how these are accounted for (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Extension and termination options

Extension and termination options are included in a number of property leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of the extension and termination options held are exercisable only by the Company and not by the respective lessor.