

**J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED**

**REGULATORY DISCLOSURE PREPARED UNDER THE BANKING (DISCLOSURE) RULES**

**31ST DECEMBER 2018**

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 1 Key prudential ratios

Key prudential ratios disclosures as required by section 16AB of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		31st December 2018	30th September 2018	30th June 2018	31st March 2018	31st December 2017
	<b>Regulatory capital (amount)</b>					
1	Common Equity Tier 1 (CET1)	999,241	1,006,667	1,000,390	935,262	903,185
2	Tier 1	999,241	1,006,667	1,000,390	935,262	903,185
3	Total capital	999,241	1,006,667	1,000,390	935,262	903,185
	<b>RWA (amount)</b>					
4	Total RWA	2,355,231	2,334,147	2,344,609	2,231,812	2,225,991
	<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>					
5	CET1 ratio (%)	42.1%	43.1%	42.2%	41.9%	40.3%
6	Tier 1 ratio (%)	42.1%	43.1%	42.2%	41.9%	40.3%
7	Total capital ratio (%)	42.1%	43.1%	42.2%	41.9%	40.3%
	<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>					
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.875%	1.25%
9	Countercyclical capital buffer requirement (%)	0.073%	0.277%	0.107%	0.409%	0.079%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	1.948%	2.152%	1.982%	2.284%	1.329%
12	CET1 available after meeting the AI's minimum capital requirements (%)	34.1%	35.1%	34.2%	33.9%	32.3%
	<b>Basel III leverage ratio</b>					
13	Total leverage ratio (LR) exposure measure	1,648,453	1,641,618	2,058,547	1,495,924	1,490,650
14	LR (%)	60.1%	61.3%	48.1%	62.5%	60.1%
	<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	227.9%	252.3%	214.6%	241.0%	255.8%
	<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 2 Overview of risk management

Risk is an inherent part of JPMorgan Chase & Co. (the “Group” or the “Firm”) business activities. The Firm’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 the Firm.

The Firm believes 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 functions; and
- Firmwide structures for risk governance.

The Firm follows a disciplined and balanced compensation framework with strong internal governance and independent Board oversight.

The independent status of the Risk Management organization is supported by a governance structure that provides for escalation of risk issues to senior management, the Firmwide Risk Committee, and the Board of Directors, as appropriate.

At the company level, the board of directors acts as a central governing committee for Hong Kong and is the primary oversight and escalation point for the country’s sub-committees including the:

- Review of business performance, progress of key initiatives, growth and cross LOB initiatives;
- Review of country performance, strategies and opportunities across LOBs and platforms;
- Review of significant Risk and Control issues and monitoring progress resolution plans;
- Review of significant Business support and Infrastructure matters; and
- Oversight for any business conducted in the country or booked into the country entities and country branches to ensure compliance with existing global and legal entity governance framework.

Hong Kong Risk Asset and Liability committee (RALCO) of the bank is delegated by the board of directors to provide the oversight of risks inherent in the firm’s business in Hong Kong, including but not limited to:

- Risks: Market, credit, liquidity oversight, operational risk framework and country risks
- Asset and Liability committee (ALCO): Funding, capital, liquidity management, financial statements and interest rate risk in banking book and relevant ALCO related regulatory/compliance matters

The HK RALCO is co-chaired by the Chief Risk Officer (CRO) and the Senior Financial Officer (SFO).

Other key committee is the HK Location operating committee (LOC). LOC is responsible for the oversight and control of operating risk within the location. HKLOC meetings are held on a monthly basis to review all operating risk matters. The respective operation area managers are responsible to escalate to their line regional managers and the Hong Kong Senior Country Business Manager.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 2 Overview of risk management (continued)

Stress testing is an integral part of the Group's risk management. The Group regularly performs stress-tests on the principal risks where appropriate and enables the firm to consider extreme situations in the internal and external business environment..

JPMC Risk Appetite is a high level statement of the firm's appetite for risk. The Risk Appetite framework integrates risk controls, earnings, capital management, liquidity management and return targets to set the firm's risk appetite in the context of its objectives for key stakeholders, including but not limited to shareholders, depositors, regulators and clients.

Risk appetite for quantitative parameters is set and evaluated in the context of the firm's business strategy and risk taking, as well as capital and liquidity planning as determined during the periodic assessment process. Firm level risk appetite is set for quantitative parameters across the following risk types: profitability risk, capital risk, credit risk, market risk, structural interest rate risk, and liquidity risk.

Risk appetite for qualitative factors is set and assessed in the context of the risk and control frameworks in place throughout the firm. These frameworks are governed by the Risk Governance policy, where each area of the firm is responsible for assessing and managing the risks in its business, at a minimum to meet the firm's risk management standards and within management's own chosen risk control standards. The company places key reliance on the LOB as the first line of defence in risk governance. Corporate functions are also responsible for the assessment of the risks they create including escalation of issues to the appropriate risk and control forum. While the firm's appetite for certain risks is not numerically quantified, firm level risk appetite is set for the following risk types: (i) operations risk; (ii) compliance risk; (iii) conduct risk; and (iv) reputation risk.

The LE is subject to the Firmwide risk appetite policy and leverage the firm's risk appetite framework. The Legal entity specific Risk appetite framework lay out any differences to the Firmwide framework. For the most part, these differences relate to the governance and quantitative parameters. With respect to the qualitative factors, the LE leverages the Firmwide framework, supported by its own assessment and monitoring protocols as required.

The group maintains risk management systems to measure and monitor exposures, identify areas of high risk, and ensure that the magnitude of risk is within the tolerance level.

#### Credit risk measurement

Refer to note 14 – General information about credit risk for details.

#### Liquidity risk measurement

Refer to note 13 – Liquidity risk management for details.

#### Market Risk measurement

Refer to note 31 – Qualitative disclosures related to market risk for details.

**2 Overview of risk management (continued)**

Operational risk measurement

In addition to the level of actual operational risk losses, operational risk measurement includes operational risk based capital based on the Basic Indicator Approach (according to Basel III – BIA). An internal scenario analysis procedure is also used to assist in quantifying material operational risks. The primary objective of scenario analysis is to provide senior management with a forward-looking view of exceptional but plausible operational risk events and to assess their potential outcome. Additionally, Scenario Analysis can also be used to facilitate the assessment of operational risk capital adequacy. Scenarios reflect risks that could materialize within the foreseeable future and may or may not have previously impacted JPMSAPL.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 3 Overview of RWA

Overview of RWA disclosures as required by section 16C of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		RWA		Minimum capital requirements
		31st December 2018	30th September 2018	31st December 2018
1	Credit risk for non-securitization exposures	583,567	565,980	46,685
2	Of which STC approach	583,567	565,980	46,685
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	96	33	8
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	96	33	8
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	51	19	4
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures – MBA	N/A	N/A	N/A
14	CIS exposures – FBA	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
15	Settlement risk	69	-	6
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	27,050	38,711	2,164
21	Of which STM approach	27,050	38,711	2,164
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	1,744,398	1,729,404	139,552
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
<b>27</b>	<b>Total</b>	<b>2,355,231</b>	<b>2,334,147</b>	<b>188,419</b>

N/A: Not applicable in the case of Hong Kong

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 4 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as required by section 16D of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
<b>Assets</b>							
Balances with banks	1,379,079	1,379,079	1,379,079	-	-	-	-
Financial assets at fair value through profit or loss	28,871	28,871	-	-	-	28,871	-
Deferred tax assets	18,981	18,981	-	-	-	-	18,981
Other assets	230,065	230,065	220,177	26	-	256	9,606
Taxation receivable	631	-	-	-	-	-	-
Fixed assets	944	944	944	-	-	-	-
<b>Total assets</b>	<b>1,658,571</b>	<b>1,657,940</b>	<b>1,600,200</b>	<b>26</b>	<b>-</b>	<b>29,127</b>	<b>28,587</b>
<b>Liabilities</b>							
Deposits and balances from banks	232,172	232,172	-	-	-	-	232,172
Other liabilities	408,177	408,177	-	-	-	-	408,177
Taxation payable	-	(631)	-	-	-	-	(631)
<b>Total liabilities</b>	<b>640,349</b>	<b>639,718</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>639,718</b>
			-	-	-	-	-

The difference between carrying values as reported in published financial statements and scope of regulatory consolidation is driven by receivable of local taxation provision included in carrying values of liabilities under regulatory scope.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 5 Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Main sources of differences between regulatory exposure amounts and carrying values in financial statements as required by section 16E of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Total	Items subject to:				
		credit risk framework	securitization framework	counterparty credit risk framework	market risk framework	
<b>1</b>	<b>Asset carrying value amount under scope of regulatory consolidation</b>	1,629,353	1,600,200	-	26	29,127
2	Liabilities carrying value amount under regulatory scope of consolidation	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	1,629,353	1,600,200	-	26	29,127
4	Off-balance sheet amounts	9,494	9,245	-	249	-
5	<i>Differences due to non-positive current exposure</i>	(13,212)	(13,212)	-	-	-
6	<i>Differences due to consideration of provisions</i>	2,651	2,651	-	-	-
<b>7</b>	<b>Exposure amounts considered for regulatory purposes</b>	<b>1,628,286</b>	<b>1,598,884</b>	<b>-</b>	<b>275</b>	<b>29,127</b>

The difference between accounting and regulatory exposure amounts is due to non-positive current exposures included in carrying value of assets, whereas only positive current exposures is included in the calculation of regulatory exposure amount under Banking (Capital) Rules.

### 6 Prudent valuation adjustments

The Company has no prudent valuation adjustments as at 31st December 2018.



## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 7 Composition of regulatory capital

Composition of regulatory capital disclosures as required by section 16FB of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	527,000	[a]
2	Retained earnings	421,849	[b]
3	Disclosed reserves	69,373	[c]
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	Not applicable	
6	<b>CET1 capital before regulatory adjustments</b>	1,018,222	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	Not applicable	
8	Goodwill (net of associated deferred tax liabilities)	Not applicable	
9	Other intangible assets (net of associated deferred tax liabilities)	Not applicable	
10	Deferred tax assets (net of associated deferred tax liabilities)	18,981	[d]
11	Cash flow hedge reserve	Not applicable	
12	Excess of total EL amount over total eligible provisions under the IRB approach	Not applicable	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	Not applicable	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	Not applicable	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	Not applicable	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	Not applicable	
17	Reciprocal cross-holdings in CET1 capital instruments	Not applicable	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	Not applicable	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	Not applicable	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	Not applicable	

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 7 Composition of regulatory capital (continued)

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	Not applicable	
26b	Regulatory reserve for general banking risks	Not applicable	
26c	Securitization exposures specified in a notice given by the MA	Not applicable	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	Not applicable	
26e	Capital shortfall of regulated non-bank subsidiaries	Not applicable	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	Not applicable	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	Not applicable	
28	<b>Total regulatory deductions to CET1 capital</b>	18,981	
29	<b>CET1 capital</b>	999,241	
	<b>AT1 capital: instruments</b>		
30	Qualifying AT1 capital instruments plus any related share premium	Not applicable	
31	of which: classified as equity under applicable accounting standards	Not applicable	
32	of which: classified as liabilities under applicable accounting standards	Not applicable	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	Not applicable	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	Not applicable	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	Not applicable	
36	<b>AT1 capital before regulatory deductions</b>	Not applicable	
	<b>AT1 capital: regulatory deductions</b>		
37	Investments in own AT1 capital instruments	Not applicable	
38	Reciprocal cross-holdings in AT1 capital instruments	Not applicable	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	Not applicable	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
41	National specific regulatory adjustments applied to AT1 capital	Not applicable	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	Not applicable	
43	<b>Total regulatory deductions to AT1 capital</b>	Not applicable	
44	<b>AT1 capital</b>	Not applicable	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	999,241	
	<b>Tier 2 capital: instruments and provisions</b>		
46	Qualifying Tier 2 capital instruments plus any related share premium	Not applicable	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	Not applicable	

**J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)**

**7 Composition of regulatory capital (continued)**

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	Not applicable	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	Not applicable	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	Not applicable	
51	<b>Tier 2 capital before regulatory deductions</b>	Not applicable	
	<b>Tier 2 capital: regulatory deductions</b>		
52	Investments in own Tier 2 capital instruments	Not applicable	
53	Reciprocal cross-holdings in Tier 2 capital instruments	Not applicable	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	Not applicable	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	Not applicable	
56	National specific regulatory adjustments applied to Tier 2 capital	Not applicable	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	Not applicable	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	Not applicable	
58	<b>Tier 2 capital (T2)</b>	Not applicable	
59	<b>Total regulatory capital (TC = T1 + T2)</b>	999,241	
60	<b>Total RWA</b>	2,355,231	
	<b>Capital ratios (as a percentage of RWA)</b>		
61	<b>CET1 capital ratio</b>	42.1%	
62	<b>Tier 1 capital ratio</b>	42.1%	
63	<b>Total capital ratio</b>	42.1%	
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	1.948%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	0.073%	
67	of which: higher loss absorbency requirement	N/A	
68	<b>CET1 (as a percentage of RWA) available after meeting minimum capital requirements</b>	34.1%	
	<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 7 Composition of regulatory capital (continued)

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	Not applicable	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	Not applicable	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	Not applicable	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	Not applicable	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	Not applicable	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 7 Composition of regulatory capital (continued)

#### Notes to the template:

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

	Description	Hong Kong basis	Basel III basis
10	<b>Deferred tax assets (net of associated deferred tax liabilities)</b>	18,981	-
	<u>Explanation</u> As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		

Remarks:

The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 8 Reconciliation of regulatory capital to balance sheet

Reconciliation of regulatory capital to balance sheet as required by section 16FC of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at 31 December 2018 US\$'000	As at 31 December 2018 US\$'000	
<b>ASSETS</b>			
Balances with banks	1,379,079	1,379,079	
Financial assets at fair value through profit or loss	28,871	28,871	
Deferred tax assets	18,981	18,981	[d]
Other assets	230,065	230,065	
Taxation receivable	631	-	
Fixed assets	944	944	
<b>Total assets</b>	<b>1,658,571</b>	<b>1,657,940</b>	
<b>EQUITY</b>			
Share capital	527,000	527,000	[a]
Reserves	491,222	491,222	
<i>of which: retained earnings</i>		421,849	[b]
<i>disclosed reserves</i>		69,373	[c]
<b>Total equity</b>	<b>1,018,222</b>	<b>1,018,222</b>	
<b>LIABILITIES</b>			
Deposits and balances from banks	232,172	232,172	
Other liabilities	408,177	408,177	
Taxation payable	-	(631)	
<b>Total liabilities</b>	<b>640,349</b>	<b>639,718</b>	
<b>Total equity and liabilities</b>	<b>1,658,571</b>	<b>1,657,940</b>	

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 9 Main features of regulatory capital instruments

Main features of regulatory capital instruments as required by section 16FE of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		<b>Share capital</b>
1	Issuer	J.P. Morgan Securities (Asia Pacific) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	Common Equity Tier 1 capital
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US\$527,000,000
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Shares were issued in the following years: 1987, 2001, 2002, 2008, 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 10 Geographical distribution of credit exposures used in countercyclical capital buffer (“CCyB”)

Geographical distribution of credit exposures used in countercyclical capital buffer as required by section 16FG of the Banking (Disclosure) Rules (expressed in US\$’000 unless otherwise stated).

		As at 31st December 2018			
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CcyB ratio	AI-specific CCyB ratio (%)	CCyB amount
1	Hong Kong SAR	1.875%	3,581		
2	United Kingdom	1%	646		
3	Sum		4,227		
4	Total		100,611	0.073%	74

### 11 Summary comparison of accounting assets against leverage ratio (“LR”) exposure measure

Summary comparison of accounting assets against leverage ratio (“LR”) exposure measure as required by section 16FH of the Banking (Disclosure) Rules (expressed in US\$’000 unless otherwise stated).

	Item	Value under the LR framework
1	Total consolidated assets as per published financial statements	1,658,571
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	249
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet (“OBS”) items (i.e. conversion to credit equivalent amounts of OBS exposures)	9,245
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(19,612)
8	<b>Leverage ratio exposure measure</b>	<b>1,648,453</b>



## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 12 Leverage ratio (“LR”)

Leverage ratio as required by section 16FI of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		31st December 2018	30th September 2018
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	1,657,914	1,658,916
2	Less: Asset amounts deducted in determining Tier 1 capital	(18,981)	(17,396)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>1,638,933</b>	<b>1,641,520</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	26	1
5	Add-on amounts for PFE associated with all derivative contracts	249	97
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	<b>Total exposures arising from derivative contracts</b>	<b>275</b>	<b>98</b>
<b>Exposures arising from SFTs</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	<b>Total exposures arising from SFTs</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	9,245	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	<b>Off-balance sheet items</b>	<b>9,245</b>	<b>-</b>
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>999,241</b>	<b>1,006,667</b>
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	<b>1,648,453</b>	<b>1,641,618</b>
20b	<b>Adjustments for specific and collective provisions</b>	<b>-</b>	<b>-</b>
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>1,648,453</b>	<b>1,641,618</b>
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	<b>60.1%</b>	<b>61.3%</b>

As of 31st December 2018, the leverage ratio was 60.1%, decreased by 1.2% when compared to 30th September 2018. This is mainly driven by increase in total exposure from off-balance sheet forward deposit placed with bank.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 13 Liquidity risk management

Liquidity risk is the risk that the Firm 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 in support of 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 J.P. Morgan Securities (Asia Pacific) Limited (“JPMSAPL” or the “Company”). Liquidity risk oversight is managed through a dedicated firmwide Liquidity Risk Oversight group, reporting into the Chief Investment Office (“CIO”), Treasury and Corporate Chief Risk Officer. Liquidity Risk Oversight’s responsibilities includes but are not limited to:

- Establishing and monitoring limits and indicators, including liquidity risk appetite;
- Monitoring and reporting internal firmwide and legal entity 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 of liquidity positions, balance sheet variances and funding activities;
- Conducting ad hoc analysis to identify potential emerging liquidity risks; and
- Performing independent review of liquidity risk management processes.

#### Risk Governance and Measurement

Specific committees responsible for liquidity governance include firmwide Asset-Liability Committee (“ALCO”) as well as lines of business and regional ALCOs, and the CIO, Treasury and Corporate (“CTC”) Risk Committee (“CTC RC”). 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 JPMSAPL under a variety of adverse scenarios. Results of stress tests are therefore considered in the formulation of JPMSAPL’s funding plan 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.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 13 Liquidity risk management (continued)

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,
- 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.

#### 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 JPMSAPL). JPMSAPL is an integral part of the firmwide CFP framework. The CFP identifies the alternative contingent funding and liquidity resources available to the Firm (including JPMSAPL) in a period of stress.

Treasury and CIO maintains a legal entity addendum to the firmwide CFP, which is reviewed and approved by the Hong Kong RALCO and the JPMSAPL Board of Directors, at least annually.

#### Funding Strategy

As part of the Firm's overall liquidity management strategy, 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;
- Monitor exposures;
- Identify constraints on the transfer of liquidity between the Firm's legal entities; and
- Maintain the appropriate amount of surplus liquidity at a firmwide and legal entity level, where relevant.

#### Liquidity ratio

	31st December 2018
Average Liquidity Maintenance Ratio	<u>234.0%</u>

The average LMR as of 31st December 2018 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.

### 14 General information about credit risk

#### Credit Risk Organization and management framework

Credit risk management is an independent risk management function that monitors, measures, and manages credit risk throughout the J.P. Morgan group and defines credit risk policies and procedures. The credit risk function reports to the Firm's Chief Risk Officer ("CRO").

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 14 General information about credit risk (continued)

The Firm's credit risk management governance includes the following activities:

- Establishing a comprehensive credit risk policy framework;
- Monitoring, measuring, and managing credit risk across all portfolio segments, including transaction and exposure approval;
- Setting industry concentration limits and establishing underwriting guidelines;
- Assigning and managing credit authorities in connection with the approval of all credit exposure;
- Managing criticized exposures and delinquent loans; and
- Estimating credit losses and ensuring appropriate credit risk-based capital management.

The Credit Risk function is overseen in Hong Kong by the Hong Kong Chief Risk Officer who is co-chairman of the HKRALCO. Reporting to the Chief Risk Officer are Credit Officers who are responsible for analyzing specific portfolios of clients, negotiating credit documentation and assisting in execution of credit transactions. The Chief Risk Officer reports to the Asia Pacific Regional Chief Risk Officer and the Asia Pacific Senior Credit Executive.

Credit risk is within the second line of defense where it sets and oversees the credit risk management structure and independently assesses and challenges the business (first line of defense) risk management practices. The risk management function cannot be guarantor of the firm's operational performance and there are clear circumstances in which the firm accepts that an important reliance is placed on the performance of individuals and groups within each of the LOBs and functions to identify, manage, control, and escalate issues which would not be separately captured or validated by the second line of defense.

The internal audit function operates independently from other parts of the firm as the third line of defense. They perform independent testing and evaluation of processes and controls across the AI and firm.

#### Risk monitoring and management

The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision-making process of extending credit to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the lines of business.

Stress testing is important in measuring and managing credit risk in the Firm's credit portfolio. The process assesses the potential impact of alternative economic and business scenarios on estimated credit losses for the Firm. Economic scenarios and the underlying parameters are defined centrally, articulated in terms of macroeconomic factors, and applied across the businesses. The stress test results may indicate credit migration, changes in delinquency trends and potential losses in the credit portfolio. In addition to the periodic stress testing processes, management also considers additional stresses outside these scenarios, including industry and country-specific stress scenarios, as necessary. The Firm uses stress testing to inform decisions on setting risk appetite both at a Firm and LOB level, as well as to assess the impact of stress on individual counterparties.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 14 General information about credit risk (continued)

#### Risk reporting

To enable monitoring of credit risk and effective decision making, aggregate credit exposure, credit quality forecasts, concentration levels and risk profile changes are reported regularly to senior members of Credit Risk Management. Detailed portfolio reporting of industry, customer, product and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, risk committees, senior management and the Board of Directors as appropriate.

The firmwide approach to managing concentration risk and settlement risk is summarized below.

*Concentration risk* - 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 Firm 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 Firm's agreements. Senior management is significantly involved in the credit approval and review process, and risk levels are adjusted as needed to reflect the Firm's risk appetite. Credit risk concentrations are evaluated primarily by industry, geography and credit family, and monitored regularly on both an aggregate portfolio level and on an individual client or counterparty basis.

*Credit Family Thresholds* – Credit Family Thresholds are used for the management of and reporting on credit family concentration risk, and are applied according to the internal rating of the credit family. The requirements established by Credit Family Thresholds help to confirm that client business strategies are developed and executed taking into consideration credit risk appetite and reputational risk tolerance. Concentrations under family thresholds are managed by the LOB which has primary client management responsibility. While Credit Officers are responsible for approving credit exposure, adherence to the guidelines for credit family thresholds is primarily the responsibility of the business. All exposures greater than or equal to 1.75x the family threshold are reported quarterly to the Firmwide Risk Committee. This report will also identify any of the above exposures which are designated Long Term Over Threshold exposures.

*Industry Risk* – Industry limits are used to manage the firm's concentration to industries from wholesale credit exposures as detailed in the Industry Risk & U.S. State-Wide Management policy. Industry limits are established annually by the Firmwide Risk Executive Wholesale Credit Risk and LOB Chief Risk Officers in consultation with the wholesale businesses, and approved by the Firmwide Risk Committee. Limits are set and managed at both a consolidated wholesale level and individual LOB level. Industry risk management complements credit risk management and does not replace normal credit approval and review requirements. Presently there are no legal entity specific industry thresholds or limits applicable to JPMSAPL.

*Country Risk* – The Firm is exposed to country risk through its lending and deposits, investing, and market-making activities, whether cross-border or locally funded. The Country Risk Management is an independent risk management function that assesses, manages and monitors country risk originated across the Firm. The Firmwide Risk Executive for Country Risk reports to the Firm's CRO.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 14 General information about credit risk (continued)

#### JPMSAPL specific risk management

*JPMSAPL Large Exposures and Risk Concentrations* – At a local level, JPMSAPL monitors large exposures on a solo basis in accordance with Banking Ordinance section 81 & 83 and HKMA's supervisory Policy Manual on Large Exposures and Risk Concentrations (CR-G-8) and Connected Lending (CR-G-9). The purpose of the large exposure regime is to ensure that JPMSAPL manages its exposure to connected and third-party counterparties within appropriate limits set in relation to its capital resources.

*Settlement Risk and Delivery Risk* – JPMSAPL engages in equity brokerage and is a client facing entity. It is a market-maker for Hong Kong Government Bills and Notes. JPMSAPL also places funds with, and borrows funds from, JPMCB and other banks.

The majority of securities trades are settled via recognized clearing houses and exchanges, within standard settlement periods, on a Delivery versus Payment (“DVP”) basis. Free deliveries are subject to stringent Pillar 1 capital requirements.

Products not settled on DAP (Delivery After Payment), DVP or PvP (Payment vs. Payment) terms require settlement exposure to be quantified, monitored and controlled. Settlement risk is calculated using the Duration Based Settlement Risk (DBSE) metric. It measures the amount of purchased contracts which may be delivered on a single day to a particular counterparty (or eligible borrowers). The measure takes into account the duration of settlement risk resulting from settling different currencies locally and it incorporates settlement fail amounts in the exposure. Business units are required to obtain credit approval for Daily Settlement Limits (DSLs) for clients trading products not settled on DAP or PvP. A DSL is a notional amount that limits the US\$ equivalent receivable value of non-DAP/non-DvP/non-PvP transactions contracted to settle on a particular date. DBSE is monitored against DSL.

*Positions booked Offshore* – JPMorgan is a global bank operating in multiple jurisdictions and has a global transfer pricing policy for derivative market making and related transactions. JPMSAPL follows this global transfer pricing policy. For positions booked in offshore entities (i.e. not in JPMSAPL) where risk managers are employed by JPMSAPL, profits and losses will be attributed from the booking entities to JPMSAPL under the global transfer pricing policy. Regulatory capital, if required, is held either in the offshore regulated entities or at the JPMCB NY consolidated level. As a parent bank, JPMCB NY is required under the NY capital rule to monitor and maintain the capital adequacy for the Group on a consolidated basis (including bank branches and subsidiaries, regulated and non-regulated). It is our global model to maintain regulatory capital in the booking entities or at the JPMCB NY consolidated level. Local management will continuously re-assess if additional capital is needed due to changes in regulations or change in operating model.

With the introduction of the hedge agreement with J.P.Morgan International Finance Limited (“JPMIF”), the market risks of offshore booked positions where profits and losses are attributed to JPMSAPL is effectively transferred to JPMIF. The daily VaR figure reported is used for internal monitoring purpose. This report is prepared by the market risk reporting team and circulated to the relevant stakeholders to monitor the market risks associated with these offshore positions. The VaR report will be validated by product controllers, market risk managers and HK Finance on a bimonthly basis for completeness of portfolios captured in the daily VaR report.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 15 Credit quality of exposures

Credit quality of exposures as required by section 16H of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Gross carrying amounts of		Allowances / impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
Loan	-	-	-	-
Debt Securities	-	28,871	-	28,871
Off-balance sheet exposures	-	9,245	-	9,245
<b>Total</b>	-	<b>38,116</b>	-	<b>38,116</b>

### 16 Changes in defaulted loans and debt securities

Changes in defaulted loans and debt securities as required by section 16I of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Amount
<b>Defaulted loans and debt securities at end of the previous reporting period</b>	-
Loans and debt securities that have defaulted since the last reporting period	-
Returned to non-defaulted status	-
Amounts written off	-
Other changes	-
<b>Defaulted loans and debt securities at end of the current reporting period</b>	-

### 17 Additional disclosure related to credit quality of exposures

The Company classifies the debt securities as fair value through profit or loss ("FVTPL") in accordance to applicable accounting standards and the Company's accounting policies.

Financial assets measured at FVTPL is measured at fair market value. The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants. Financial assets measured at FVTPL does not have past due or impaired exposure.

For determining impairments, the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 17 Additional disclosure related to credit quality of exposures (continued)

Restructured exposure means the original terms of repayment of the exposure have been revised because of the inability of the obligor to meet the original repayment terms. It does not include an exposure where the exposure has subsequently been serviced by the obligor in accordance with the revised repayment terms continuously for (i) in the case of an exposure with monthly payments (including both interest and principal), a period of not less than 6 months; or (ii) in any other case, a period of not less than 12 months.

There were no exposures which are past due for more than 90 days but are not impaired.

There were no impaired exposures, accounting past due exposures and restructured exposures as at 31st December 2018.

#### a. Breakdown by geographical areas

	In US\$'000 Amount
Hong Kong	17,560
Asia Pacific excluding Hong Kong	20,556
<b>Total</b>	<b>38,116</b>

#### b. Breakdown by industry

	In US\$'000 Amount
Government	28,523
Financial institutions	9,245
Corporates	348
<b>Total</b>	<b>38,116</b>

#### c. Breakdown by residual maturity

	In US\$'000 Amount
Up to 3 months	10,521
Over 3 months - 1 year	4,392
Over 1 year - 5 years	20,244
Over 5 years	2,959
<b>Total</b>	<b>38,116</b>



## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 18 Qualitative disclosures related to credit risk mitigation

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

Management of the Firm's wholesale credit risk exposure is accomplished through a number of means, including collateral and other risk-reduction techniques. There was no credit risk mitigation used by the Company.

### 19 Overview of recognized credit risk mitigation

Overview of recognized credit risk mitigation as required by section 16L of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	-	-	-	-	-
2	Debt securities	28,871	-	-	-	-
3	<b>Total</b>	28,871	-	-	-	-
4	Of which defaulted	-	-	-	-	-

### 20 Qualitative disclosures on use of ECAI ratings under STC approach

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the external credit assessment institutions ("ECAIs") that the Company has used to determine the risk weights of the exposures from banks, securities firms and other corporates.

The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 21 Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

Credit risk exposures and effects of recognized credit risk mitigation – for STC approach as required by section 16N of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Exposure classes	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	1,435,344	9,245	1,435,344	9,245	454,349	31.5%
5	Securities firm exposures	49,914	-	49,914	-	24,957	50.0%
6	Corporate exposures	75,306	-	75,306	-	75,306	100.0%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	51	-	51	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	28,955	-	28,955	-	28,955	100.0%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	<b>Total</b>	<b>1,589,570</b>	<b>9,245</b>	<b>1,589,570</b>	<b>9,245</b>	<b>583,567</b>	<b>36.5%</b>

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 22 Credit risk exposures by asset classes and by risk weights – for STC approach

Credit risk exposures by asset classes and by risk weights – for STC approach as required by section 16O of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

Exposure class	Risk Weight											Total credit risk exposures amount (post CCF and post CRM)
	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	-
PSE exposures	-	-	-	-	-	-	-	-	-	-	-	-
Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	-
Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	-
Bank exposures	-	-	893,151	-	551,438	-	-	-	-	-	-	1,444,589
Securities firm exposures	-	-	-	-	49,914	-	-	-	-	-	-	49,914
Corporate exposures	-	-	-	-	-	-	75,306	-	-	-	-	75,306
CIS exposures	-	-	-	-	-	-	-	-	-	-	-	-
Cash items	51	-	-	-	-	-	-	-	-	-	-	51
Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures which are not past due exposures	-	-	-	-	-	-	28,955	-	-	-	-	28,955
Past due exposures	-	-	-	-	-	-	-	-	-	-	-	-
Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>51</b>	<b>-</b>	<b>893,151</b>	<b>-</b>	<b>601,352</b>	<b>-</b>	<b>104,261</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,598,815</b>

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 23 Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

The Company has adopted the Current Exposure Method for regulatory capital calculation of its counterparty credit risk (“CCR”) arising from its exposure in the banking and trading book.

As previously discussed, the Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision-making process of extending credit to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the lines of business.

As at 31st December 2018, no recognised credit derivative contract is applied as credit risk mitigation and no valid bilateral netting agreement is taken into account in the calculation of regulatory capital. The Company does not use guarantees and other forms of credit risk mitigation.

Wrong-way risk - the risk that exposure to a counterparty is positively correlated with the impact of a default by the same counterparty, which could cause exposure to increase at the same time as the counterparty’s capacity to meet its obligations is decreasing – is actively monitored as this risk could result in greater exposure at default compared with a transaction with another counterparty that does not have this risk.

### 24 Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as required by section 16W of the Banking (Disclosure) Rules (expressed in US\$’000 unless otherwise stated).

		Replacement cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	26	249		1	275	96
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	<b>Total</b>						96

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 25 CVA capital charge

CVA capital charge as required by section 16X of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	275	51
4	Total	275	51

### 26 Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as required by section 16Y of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
Sovereign exposures		-	-	-	-	-	-	-	-	-	-	-
PSE exposures		-	-	-	-	-	-	-	-	-	-	-
Of which: domestic PSEs		-	-	-	-	-	-	-	-	-	-	-
Of which: foreign PSEs		-	-	-	-	-	-	-	-	-	-	-
Multilateral development bank exposures		-	-	-	-	-	-	-	-	-	-	-
Bank exposures		-	-	137	-	138	-	-	-	-	-	275
Securities firm exposures		-	-	-	-	-	-	-	-	-	-	-
Corporate exposures		-	-	-	-	-	-	-	-	-	-	-
CIS exposures		-	-	-	-	-	-	-	-	-	-	-
Regulatory retail exposures		-	-	-	-	-	-	-	-	-	-	-
Residential mortgage loans		-	-	-	-	-	-	-	-	-	-	-
Other exposures which are not past due exposures		-	-	-	-	-	-	-	-	-	-	-
Significant exposures to commercial entities		-	-	-	-	-	-	-	-	-	-	-
Total		-	-	137	-	138	-	-	-	-	-	275

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 27 Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as required by section 16ZA of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-

### 28 Credit-related derivatives contracts

Credit-related derivatives contracts as required by section 16ZB of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

	Protection bought	Protection sold
<b>Notional amounts</b>		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit-related options	-	-
Other credit-related derivative contracts	-	-
<b>Total notional amounts</b>	-	-
<b>Fair values</b>		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 29 Exposures to CCPs

Credit-related derivatives contracts as required by section 16ZD of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		Exposure after CRM	RWA
<b>1</b>	<b>Exposures of the AI as clearing member or client to qualifying CCPs (total)</b>		-
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	-	-
3	(i) OTC derivative transactions	-	-
4	(ii) Exchange-traded derivative contracts	-	-
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets subject to valid cross-product netting agreements	-	-
7	Segregated initial margin	-	
8	Unsegregated initial margin	-	-
9	Funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
<b>11</b>	<b>Exposures of the AI as clearing member or client to non-qualifying CCPs (total)</b>		-
12	Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13	(i) OTC derivative transactions	-	-
14	(ii) Exchange-traded derivative contracts	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets subject to valid cross-product netting agreements	-	-
17	Segregated initial margin	-	
18	Unsegregated initial margin	-	-
19	Funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

### 30 Securitization Exposures

The Company has no securitization exposures as at 31st December 2018.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 31 Qualitative disclosures related to market risk

#### (a) Firmwide Market Risk Management

##### Market Risk Management Definition and Governance

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.

The firm, through its lines of business (“LOBs”), may be exposed to market risk as a result of various financial activities, including trading, funding, underwriting and investing. This policy applies to the firm in aggregate.

Market Risk Management monitors market risks throughout the Firm and defines market risk policies and procedures. The Market Risk Management function reports to the Firm’s CRO, and seeks to manage risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the firm’s market risk profile.

The Firmwide Risk Executive (FRE) Market Risk and LOB Chief Risk Officers (CROs) are responsible for establishing an effective market risk organization. The FRE Market Risk and lines of business (LOB) Heads of Market Risk establish the framework to measure, monitor and control market risk.

##### Approach to Risk Management

##### *Market Risk Measurement*

There is no single measure to capture market risk and therefore the Firm uses various metrics both statistical and non-statistical to assess risk. As the appropriate set of risk measures utilized for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases.

#### (i) Value-At-Risk (“VAR”)

The Firm utilises VaR, a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment. The Firm has a single VaR framework used as a basis for calculating Risk Management VaR and Regulatory VaR. The framework is employed across the Firm using historical simulation based on data for the previous 12 months.

Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. These VaR results are reported to senior management, the Board of Directors and regulators. The Regulatory VaR model framework currently assumes a ten business-day holding period and an expected tail loss methodology which approximates a 99% confidence level. Regulatory VaR is applied to “covered” positions as defined by Basel III, which may be different than the positions included in the Firm’s Risk Management VaR.



**31 Qualitative disclosures related to market risk (continued)**

(a) Firmwide Market Risk Management (continued)

Approach to Risk Management (continued)

*Market Risk Measurement (continued)*

(ii) Stress Testing

Along with VaR, stress testing is an important tool in measuring and controlling risk. The Firmwide Stress Infrastructure (FSI) is intended to capture the Firm's exposure to unlikely but plausible events in abnormal markets. The Firm runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

The Firm uses a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. The flexibility of the stress testing framework allows risk managers to construct new, specific scenarios that can be used to form decisions about future possible stress events.

Stress testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realized, and to stress test the relationships between market prices under extreme scenarios.

Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the respective LOBs and Firm's senior management to allow them to better understand the sensitivity of positions to certain defined events and to enable them to manage their risks with more transparency. In addition, results are reported to the Board of Directors.

Stress scenarios are defined and reviewed by Market Risk, and significant changes are reviewed by the relevant LOB Risk Committees and may be redefined on a periodic basis to reflect current market conditions.

(iii) Non-statistical risk measures such as credit spreads, net open positions, basis point values, option sensitivities, are utilized within specific market context and aggregated across businesses.

Risk Monitoring and Control

Market risk limits are employed as the primary control to align the firm's market risk with certain quantitative parameters within the firm's Risk Appetite framework.

Senior management, including the Firm's CEO, CRO and Market Risk Management are responsible for reviewing and approving limits on an ongoing basis. Limits that have not been reviewed within a specified time period by Market Risk Management are escalated to senior management.

Limit breaches are required to be reported in a timely manner to limit signatories. Market Risk Management and senior management as appropriate determine the course of action required to return to compliance, such as a reduction in risk or the granting a temporary increase in limits.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 31 Qualitative disclosures related to market risk (continued)

#### Risk Monitoring and Control (continued)

Aged or significant breaches are escalated to senior management, the LOB Risk Committee, and/or the Firmwide Risk Committee.

Additional controls beyond market risk limits - including but not limited to Authorized Instruments, Pre-Trade Governance and E-Trading Control - are also employed as a means to control market risk.

(b) Legal Entity Market Risk Management: JPMSAPL

#### Risk Governance & Policy framework

JPMSAPL's approach to market risk governance mirrors the firmwide approach is outlined in the Market Risk Management, J.P. Morgan Securities (Asia Pacific) Limited Policy ('Policy'). The Policy outlines the following:

- Responsibilities of the Legal Entity Risk Manager (LERM) and the Market Risk Officer (MRO);
- Market risk measures utilized such as VaR, Stress and non-statistical measures; and
- Controls such as JPMSAPL's market risk limits framework (limit levels, limit signatories, limit reviews, limit breach reporting and limit breach escalation).

JPMSAPL's Board of Directors (BoD) approves substantive changes to the Policy annually.

#### Risk Appetite

Market risk limits are set in accordance with the Firm's Risk Appetite Framework.

#### Approach to Risk Management

JPMSAPL applies the firmwide approach for Risk Management VaR as described in the Firmwide Market Risk Management section. JPMSAPL does not calculate Regulatory VaR for capital purposes since it uses the standardized approach to calculate capital.

#### Stress Testing

JPMSAPL applies the firmwide stress testing approach, established by the FSI framework as described in the earlier section across relevant portfolios managed within the legal entity.

#### Non-Statistical

JPMSAPL utilizes non-statistical risk measures to measure and monitor risk e.g. FX Delta, IR BPV, Credit Spread BPV etc.

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 31 Qualitative disclosures related to market risk (continued)

(b) Legal Entity Market Risk Management: JPMSAPL (continued)

#### Risk Monitoring and Control

##### *Limits*

JPMSAPL's market risk limits include VaR and Stress limits established for the legal entity, in aggregate, and for individual businesses/sub-businesses operating out of the legal entity:

- JPMSAPL's Risk/Asset & Liability Committee (RALCO) is the limit signatory specific legal entity level limits and delegates its approval authority to the LERM and the MRO; and
- Appropriate Business area representatives and Market Risk representatives are signatories to business area specific limits.

Market Risk reviews all market risk limits at least semi-annually. Limit reviews appropriately consider the underlying trading, investing and hedging strategies of the business, along with the limit utilization.

##### *Risk Reporting*

JPMSAPL has its own set of regular market risk reports and where applicable, comprises of granular market risk metrics which provide transparency into potential risk concentrations. Limit utilizations and notifications of market risk limit breaches are documented and sent to appropriate limit signatories daily. Aged and significant limit breaches are escalated to the APRC.

### 32 Market risk under STM approach

Market risk under STM approach as required by section 16ZL of the Banking (Disclosure) Rules (expressed in US\$'000 unless otherwise stated).

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	8,788
2	Equity exposures (general and specific risk)	696
3	Foreign exchange (including gold) exposures	17,566
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	<b>Total</b>	27,050

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 33 Interest rate exposures in banking book

Interest rate risk in the banking book is defined as Interest Rate Risk (“IRR”) resulting from the firm’s traditional banking activities (accrual accounted on and off balance sheet positions). IRR from non-trading activities can occur due to a variety of factors, including but not limited to:

- Difference in the timing among the maturity or re-pricing of assets, liabilities and off-balance sheet instruments;
- Differences in the balances of assets, liabilities and off-balance sheet instruments that re-price at the same time;
- Differences in the amounts by which short-term and long-term market interest rates change; and
- Impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change.

In JPMSAPL, the business activities exposed to interest rate risk in the banking book are confined to the Company’s non-trading portfolio (“the banking book”). These activities are minimal and short-dated, and largely involve inter-group takings and placings with JPMCB HK Branch or other JPMCB Bank entities. These activities are risk captured according to their contractual characteristics. JPMSAPL does not engage in deposit and loan activities.

Risk measurement for IRRBB is reported monthly.

### 34 Remuneration

The Company has complied with Part 3 (disclosure on remuneration) of CG-5 guideline issued by the HKMA, as well as remuneration disclosure as required by section 16ZS to 16ZV of the Banking (Disclosure) Rules. Below are the disclosures made pursuant to the requirements set out:

The design and implementation of the remuneration system:

Please refer to the JPMorgan Chase proxy statement dated 5th April 2019 for details on the remuneration policy, including the Compensation Discussion and Analysis and the JPMorgan Chase Compensation practice and principles. The proxy statement is available from JPMorgan Chase public website.

Aggregate quantitative information on remuneration for senior management and key personnel for the year ended 31st December 2018 and 2017 are as follows:

	Senior Management US\$'000		Key Personnel US\$'000	
	2018	2017	2018	2017
<b>Fixed Remuneration</b>				
Cash-based (non-deferred)	4,306	2,312	6,603	10,892
<b>Variable Remuneration</b>				
Cash-based (non-deferred)	10,347	6,095	7,702	15,397
Share and share linked instruments (deferred)	9,435	7,096	4,647	10,244

No sign-on awards were awarded to senior management and key personnel in 2018 (2017: Nil). No guaranteed bonuses were awarded in 2018 (2017: Nil). A total of US\$1,869,000 and US\$1,125,000 was awarded and/or made in severance to 5 individuals in 2018 and 4 individuals in 2017. The highest such award and/or made to a single person is US\$759,000 in 2018 (2017: US\$345,000).

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 34 Remuneration (continued)

	Senior Management US\$'000		Key Personnel US\$'000	
	2018	2017	2018	2017
<b>Deferred Remuneration</b>				
<b>Outstanding Remuneration</b>				
Share and share linked instruments	20,847	20,942	11,701	23,389
<b>Total Outstanding Remuneration (deferred)</b>				
Vested	972	3,898	-	294
Unvested	19,874	17,044	11,701	23,095
Awarded during the year	8,531	6,881	4,575	9,862
Paid out during the year	13,072	8,289	8,518	11,294
Total amount of outstanding deferred remuneration and retained remuneration exposed to explicit/implicit adjustments	20,847	20,942	11,701	23,389

#### Notes:

- (1) Senior management comprises the Board of Directors, Chief Executive, Alternate Chief Executive and employees in Registered Manager roles. Key personnel comprises of all other designated material risk takers.
- (2) Aggregate quantitative information on 2018 remuneration described above is for 30 senior management and 45 key personnel on fixed remuneration and 30 senior management and 40 key personnel on variable remuneration (2017: 9 senior management and 58 key personnel on fixed remuneration and 8 senior management and 55 key personnel on variable remuneration). The increase in senior management and key personnel is mainly contributed by the introduction of a management accountability regime in 2018 which requires appointment of individuals as the "Principally Responsible Persons" for conducting or supervising the conduct of regulated activities.
- (3) The amounts described above include remuneration in respect of senior management and key personnel (as defined in the CG-5 Guideline on a Sound Remuneration System issued by the HKMA). Each of the senior management and key personnel has responsibilities beyond Hong Kong and, as a result, do not perform services exclusively for the Company. Thus, the remuneration disclosed above for such senior management and key personnel has been apportioned to reflect each individual's relative contribution to the Company's results for 2018.
- (4) The disclosure for senior management and key personnel has been combined in each category for "sign-on awards made" and "severance payments awarded and/or made". The categories of "severance payments made" and "severance payment awarded" have been combined into one category.
- (5) The compensation for independent control function professionals, including risk, compliance and audit, is ultimately determined by the functions.

### 35 Off-balance sheet exposures other than derivative transactions

Notional amounts	US\$'000
Forward deposits placed	9,245
Commitments which have an original maturity of not more than one year	639
Commitments which have an original maturity of more than one year	214
<b>Total</b>	<b>10,098</b>
<b>RWA</b>	<b>1,849</b>

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 36 Segmental information

#### (a) By class of business

The Company operates in the following classes of business:

31st December 2018	Corporate & Investment Bank US\$'000	Others US\$'000	Total US\$'000
Total assets	<u>475,449</u>	<u>1,183,122</u>	<u>1,658,571</u>
Total income	<u>918,145</u>	<u>51,636</u>	<u>969,781</u>
Profit before tax	<u>113,337</u>	<u>5,239</u>	<u>118,576</u>

#### Notes:

- Corporate & Investment Bank comprises mainly fixed income, foreign exchange, derivatives trading activities, securities agency, equity derivatives trading and equity capital markets activities.
- Others include Treasury Department and Corporate Sectors, and overhead expenses.

#### (b) Geographical concentrations of operating profit, profit before taxation, assets, liabilities and contingent liabilities and commitments

A majority of the Company's operating profit, profit before taxation, assets, liabilities and contingent liabilities and commitments are booked in Hong Kong.

#### (c) International claims

International claims are on-statement of financial position 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 cross-border claims are as follows:

As at 31st December 2018	Banks US\$'000	Official sector US\$'000	Non-bank private sector		Others US\$'000	Total US\$'000
			Non-bank financial institutions US\$'000	Non-financial private sector US\$'000		
Developed countries	<u>1,361,382</u>	<u>-</u>	<u>114,229</u>	<u>-</u>	<u>-</u>	<u>1,475,611</u>

## J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)

### 37 Rescheduled advances, repossessed assets and overdue assets

(a) Rescheduled advances

There were no rescheduled advances as at 31st December 2018.

(b) Repossessed assets

There were no assets repossessed by the Company as at 31st December 2018.

(c) Overdue assets

There were no overdue assets as at 31st December 2018.

### 38 Non-Bank Mainland exposures

Type of Counterparties	On statement of financial position exposures US\$'000	Off statement of financial position exposures US\$'000	Total US\$'000	Specific provisions US\$'000
As at 31st December 2018				
Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	9,557	-	9,557	-
Total	9,557	-	9,557	-
Total assets after provision	<u>1,658,571</u>			
On-statement of financial position exposures as percentage of total assets	<u>0.58%</u>			

There were no off-statement of financial position exposures and specific provisions for 2018.

### 39 Currency concentrations

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

Equivalent in US\$'000	2018				Total
	CNY	HKD	THB	Others	
Spot assets	46,855	104,239	10,191	107,876	269,161
Spot liabilities	(44,036)	(99,301)	(79)	(106,460)	(249,876)
Forward purchases	10,273	51	370	2,571	13,265
Forward sales	(9,508)	(51)	-	(1,991)	(11,550)
Net long position	<u>3,584</u>	<u>4,938</u>	<u>10,482</u>	<u>1,996</u>	<u>21,000</u>

The Company has no net structural position in any particular foreign currency.

## **J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED (UNAUDITED)**

### **40 Corporate governance**

The Company has adopted JPMorgan Chase's approach to Corporate Governance. The Board of JPMorgan Chase attaches great importance to maintaining a strong control environment and periodically reviews the Group's system of internal controls and risk management processes.

The Board of Directors of JPMorgan Chase exercises oversight of JPMorgan Chase as a whole. In particular, the Audit Committee of the Board of JPMorgan Chase has oversight responsibility for the auditing and financial reporting processes of JPMorgan Chase and reviews with management JPMorgan Chase's systems of internal controls and financial reporting. The Risk Policy Committee of the Board of Directors of JPMorgan Chase is responsible for oversight of the Chief Executive Officer's and senior management's responsibilities to assess and manage JPMorgan Chase's credit risk, market risk, interest rate risk, liquidity risk and reputation risk, and is also responsible for review of JPMorgan Chase's fiduciary and asset management activities.

To enable the Board and management of the Company to discharge their responsibilities effectively, the Board has delegated its daily management and oversight responsibilities to the location specific Committees in Hong Kong which review and as appropriate report on matters related to the Company, namely the HKRALCO and the Hong Kong Location Operating Committee.

To the extent applicable, the Company has complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.

The Company's disclosures are governed by the disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for the information the Company discloses to the general public. The disclosures of the Company has been subject to independent review in accordance with the Company's policies on disclosure and its financial reporting and governance processes.