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S&P Global
China Ratings

Surveillance Credit Rating Report

JPMorgan Chase Bank (China) Company Limited

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

Rating Date: February 23, 2024
Date of Expiry: February 22, 2025

Primary Credit Analyst:
Xiaochen Luan, CFA, FRM: +86-10-6516-6069; collins.luan@spgchinaratings.cn

Secondary Contacts:
Yanyu Wang, CFA: +86-10-6516-6056; stephanie.wang@spgchinaratings.cn
Jiachuan Xu: +86-10-6516-6018; jiachuan.xu@spgchinaratings.cn
Xuefei Zou, CPA: +86-10-6516-6063; eric.zou@spgchinaratings.cn

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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
JPMorgan Chase Bank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	February 23, 2024	Stable

Rating Snapshot:

Industry Classification	Commercial Bank
Anchor	a+
— Business Position	-1
— Capital and Earnings	+2
— Risk Position	+2
— Funding and Liquidity	0
— Holistic Adjustment	0
Stand-alone Credit Profile	$aa_{spc}+$
Group Support	+1
Issuer Credit Rating	AAA_{spc}
Outlook/Credit Watch	Stable

Anchor: The commercial banking sector owns exclusive license for taking public deposits and have significantly better access to funding than other financial institutions. The sector plays a critical role in maintaining broad financial stability. Hence, it is subject to strong regulatory oversight and receives ongoing government support, including but not limited to liquidity support from central bank. Therefore, we set our commercial banks' anchor at "a+".

Business Position: The bank has a small commercial banking operation in China with a limited high-credit-quality client base mostly composed of leading global and domestic corporations and financial institutions. There is strong business synergy with its parent, and it has competitive edge in cross-border banking services.

Capital and Earnings: Its capital adequacy ratio is much higher than the industry average. Changes in the debt size has led to fluctuations in capital adequacy ratios near a high level. We expect its capital adequacy ratios to stay very high for the next 12 months. The bank has maintained robust earnings growth in recent years, which is driven by its strong capacity in intermediate and trading business operations.

Risk Position: Its asset quality metrics are one of the best in China, with no bad debts for years. Thanks to its very prudent approach to risk management, it hasn't suffered any direct impact amid the ongoing credit down cycle for real estate sector. We expect its asset quality to stay solid. It has conducted strict and effective risk governance, and its risk management is an integral part of its parent's global risk management framework.

Funding and Liquidity: Its funding structure is stable, with a very prudent liquidity management framework in place. Its corporate deposit base is small but stable, and is able to fully meet the needs of funds from its lending business. Significant part of its wholesale funding comes via its parent and other related parties, thus with very good stability. In addition, the liquidity profile of its asset structure is better than the industry average.

External Support: JPMorgan has extremely strong credit quality. JPMorgan Chase Bank (China) is highly likely to receive extraordinary support from its parent in times of need, considering the fact that it is a fully owned subsidiary and an integral part of JPMorgan's global banking operations and the key part of the parent's long-term strategy in China.

Company Overview:

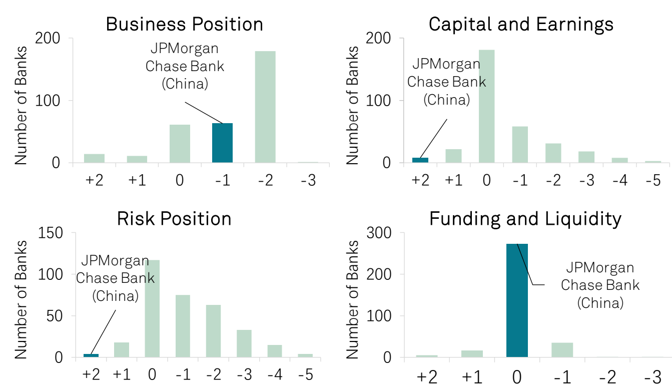
JPMorgan Chase Bank (China) Company Limited ("JPMorgan Chase Bank (China)") is a fully owned subsidiary of JPMorgan Chase Bank N.A., one of the largest and most diversified global banks in the world. As the global bank's locally incorporated bank in China, JPMorgan Chase Bank (China) is an integral part of its parent's global banking network and a key part of JPMorgan's China strategy. As of the end of 2022, it reported total assets of 63.7 billion RMB. In 2022, it generated operating income of 2 billion RMB and net income of 667 million RMB.

Key Metrics:

	2018	2019	2020	2021	2022
Total assets (bil.)	52.85	47.26	61.30	55.98	63.69
Customer deposits (bil.)	25.13	24.99	30.16	33.33	35.80
Net income (bil.)	0.53	0.28	0.23	0.47	0.67
Reported regulatory capital adequacy ratio (%)	23.33	27.54	21.71	26.56	27.99
Return on average equity (%)	5.85	2.82	2.25	4.51	6.03
Non-performing loan ratio (%)	-	-	-	-	-
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A	N/A
Customer deposits/total funding (%)	67.74	75.75	73.06	88.08	82.15

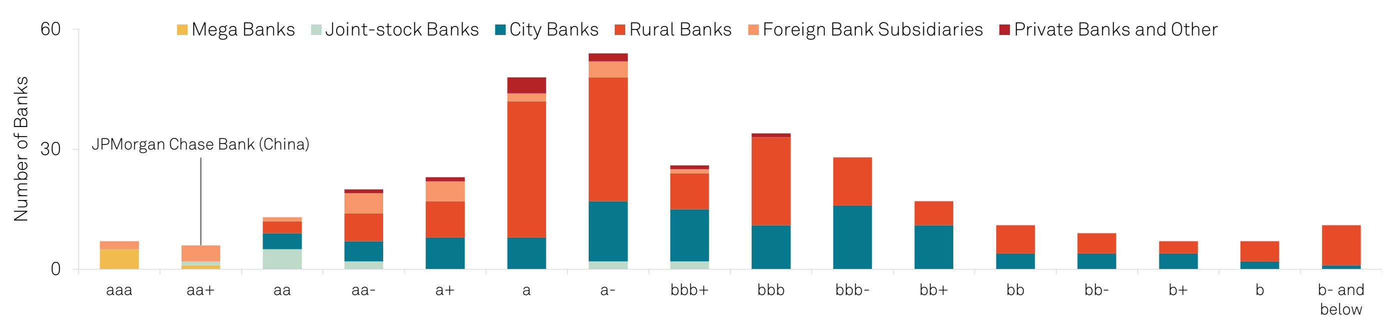
Sources: JPMorgan Chase Bank (China), collected and adjusted by S&P Global (China) Ratings.

Distribution of Rating Factors of Issuer Credit Quality for Major Banks in China



Source: S&P Global (China) Ratings.

Distribution of Stand-alone Credit Quality of Major Banks in China



Note 1: Our assessment on issuer credit quality does not consider the likelihood of group or government support in times of need but take into consideration the ongoing group or government support.
Note 2: The indicative issuer credit quality distributions expressed in this page are only our indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular entity (except for solicited rating projects) or the full credit rating process such as a rating committee. The opinions expressed herein are not and should not be represented as a credit rating and should not be taken as an indication of a final credit rating on any particular entity.
Source: S&P Global (China) Ratings.

Declaration

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Head of Analytics

May Zhong

Beijing

may.zhong@spgchinaratings.cn

Primary Credit Analyst

Xiaochen Luan

Beijing

collins.luan@spgchinaratings.cn

Secondary Contacts

Yanyu Wang

Beijing

stephanie.wang@spgchinaratings.cn

Jiachuan Xu

Beijing

jiachuan.xu@spgchinaratings.cn

Xuefei Zou

Beijing

eric.zou@spgchinaratings.cn

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
JPMorgan Chase Bank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	February 23, 2024	Stable

Stand-alone Credit Profile (SACP)	$aa_{spc}+$
Anchor	a+
Business Position	-1
Capital & Earnings	+2
Risk Position	+2
Funding & Liquidity	0
Holistic Adjustment	0

+

External Influence	+1
Supporting Entity	JPMorgan Chase Bank N.A.
External Support	Extremely Strong

Issuer Credit Rating (ICR)
AAA_{spc}/Stable

Credit Highlights

Key Strengths	Key Risks
— It has very strong capitalization.	— Its stand-alone business size is small in China.
— It has very prudent risk management and its asset quality is one of the best in the industry.	
— In times of need, it is extremely likely to receive support from its parent, which has extremely high credit quality.	

During the surveillance period, JPMorgan Chase Bank (China)'s business strength remained stable. Amid increased volatility in capital markets in the past two years, the bank effectively seized business opportunities and achieved sound revenue and profit growth. Meanwhile, decreasing capital consumption led to further increase in capital adequacy ratios. The bank continues to maintain very good asset quality, with no bad debts. The parent bank also maintains extremely strong credit quality. Therefore, there have been no adjustments to the bank's issuer credit rating during the surveillance period.

Rating Outlook

The stable outlook reflects our expectation that JPMorgan Chase Bank (China)'s business operations and financial strength will remain stable over the next two years or beyond. We also anticipate that its critical importance to its parent, JP Morgan Chase Bank N.A., will remain unchanged.

Downside Scenario:

We may consider lowering its ICR if we believe that the bank's importance to its parent declines, or its parent's issuer credit quality deteriorates significantly. In our view, both scenarios are highly unlikely in the foreseeable future.

We may consider lowering its SACP if the bank significantly raises its risk appetite or its capital adequacy deteriorates by a large margin.

Upside Scenario:

We may consider raising its SACP if its market share in China increases significantly.

Related Methodologies, Models & Research

Methodology Applied:

— S&P Global (China) Ratings Financial Institutions Methodology, December 22, 2023.

— S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking, May 21, 2019.

Model Applied: None.

Peer Comparison

	2021			2022		
	JPMorgan Chase Bank (China)	Commercial Bank Average	Foreign Bank Average	JPMorgan Chase Bank (China)	Commercial Bank Average	Foreign Bank Average
Total assets (bil.)	55.98	158.13	76.06	63.69	174.48	76.48
Net income (bil.)	0.47	1.20	0.52	0.67	1.26	0.54
Reported capital adequacy ratio (%)	26.56	15.13	18.03	27.99	15.17	19.29
Return on average assets (%)	0.80	0.79	0.56	1.11	0.76	0.59
Non-performing loan ratio (%)	-	1.73	0.56	-	1.63	0.72
Reserve coverage ratio (%)	N/A	196.91	362.75	N/A	205.85	301.97

Sources: JPMorgan Chase Bank (China), NAFR, Wind, collected and adjusted by S&P Global (China) Ratings.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "a+" to commercial banks in China.

We expect China's GDP growth to come under pressure in 2024 in the face of soft property sector and dented confidence among enterprises and consumers, but policy stimulus should act as a positive factor amid such headwinds. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly shifted our focus from economic growth rate to factors such as deleveraging and lowering inequality.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support. China's commercial banking sector continues to report stable capital and asset quality metrics, but we continue to expect pressure on credit cost and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while small- and medium-sized banks face more pressure. Therefore, we believe the SACPs of commercial banks are likely to show greater differentiation in the foreseeable future. Certain regional banks have weak capital positions, and their asset quality and profitability are sensitive to real estate and LGFV risks. Meanwhile, China's banking sector maintains stable access to funding and sound liquidity, which wins time for small- and medium-sized banks with significant risk exposure to mitigate such risks. In our opinion, ongoing strong regulatory and government support for the banking sector should keep overall credit quality stable.

Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. They are typically fully owned by their parents, sharing parents' brand, actively engaging in cross-selling activities, and enjoying on-going support in terms of capital injection and liquidity support. We expect strong support from the parent banks should the subsidiaries come under pressure. International banking groups generally maintain good credit quality, and strong and stable group support continue to play an important role in foreign bank subsidiaries' overall credit quality.

While Chinese banks have enjoyed rapid growth in the past decade, most foreign bank subsidiaries have seen modest loan book growth. There are 41 foreign bank subsidiaries in total and they only have a market share of 1% in the Chinese commercial banking industry. The mainstream Chinese banks have clear scale and pricing advantages in their loan business. Furthermore, China's mega banks are becoming increasingly adept at meeting the cross-border financing needs of domestic corporate clients. The fierce industry competition has led to growth challenges for foreign bank subsidiaries.

In recent years, many foreign bank subsidiaries' loan books shrank as they adhered to their low-risk growth strategies and the industry competition intensified. While they are smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services and play an indispensable role in China's commercial banking industry.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. As of the end of September 2023, their average capital adequacy ratio was 19.48%, 4.71 percentage points higher than the industry average. In recent years, shrinking loan business and decreased capital consumption led to an increase in capital adequacy for many foreign bank subsidiaries. We expect their capital adequacy ratios to remain at a high level in the next 12 months.

At present, the downward trend in market interest rates results in a decline in foreign bank subsidiaries' net interest margins ("NIMs") and profitability. However, thanks to their good asset quality, their credit cost remains controllable, with profit quality still at a good and solid level. NIM compression, high operating costs and revenue growth challenges will keep foreign bank subsidiaries' profitability at a low level.

Most foreign bank subsidiaries maintain lower risk appetite compared to their Chinese peers. The slowdown in Chinese economic growth have not had a significant impact on their asset quality performance. Furthermore, compared with their Chinese peers, many foreign bank subsidiaries have less exposure to risky real estate assets or high-risk LGFVs.

In addition, international banking groups have maintained good credit quality in recent years. Stable and strong group support plays an important role in ensuring the very good issuer credit quality of these China subsidiaries. The first half of 2023 saw banking turmoil in the US and Europe. Except for SPD Silicon Valley Bank which suffered direct impact, most foreign bank subsidiaries operating in China are not negatively affected by the incidents of Silicon Valley Bank and Credit Suisse.

We usually expect foreign bank subsidiaries to receive parental support in times of stress. Foreign bank subsidiaries are typically fully owned by their parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, capital injection and liquidity support. Although most of these subsidiaries' contribution to their parents' income and assets is limited, considering China's very important position in the world economy, we believe that the commitment of international banks in the Chinese market is long-term. In addition, the China subsidiaries also recommend overseas business of Chinese customers to their parent banks, and their actual contribution to parents is higher than what is reflected on their balance sheets.

Considering the economic risk and industry risk faced by China's commercial banking industry, we apply an anchor of a+ for JPMorgan Chase Bank (China).

Stand-alone Credit Profile

Set up in 2007, JPMorgan Chase Bank (China) is the fully owned subsidiary of JPMorgan Chase Bank N.A., which is the lead bank of JPMorgan Chase & Co. ("JPMorgan"), the holding company. JPMorgan is one of the largest and most diversified global banks in the world.

As the global bank's locally incorporated commercial bank in China, JPMorgan Chase Bank (China) is an integral part of its parent's global banking network and a key part of JPMorgan's China strategy. As of the end of 2022, it reported total assets of 63.7 billion RMB. It has eight branches in China (Beijing, Shanghai, Tianjin, Chengdu, Guangzhou, Shenzhen, Suzhou and Harbin).

Business Position

As an integral part of one of the largest and most diversified global banks, JPMorgan Chase Bank (China) is in a unique position to provide its corporate clients with global banking services through coordination with other entities within the JPMorgan family. JPMorgan can provide its corporate clients with diversified and sophisticated banking services across the world, including corporate and investment banking, commercial banking, treasury services and asset management.

JPMorgan Chase Bank (China) is dedicated to providing comprehensive financial solutions for its clients. Leveraging JPMorgan's global network, it acts as a point of entry for its parent into the domestic market through providing high-quality cross-border financial services. The bank has particular strengths in trade financing, cash management and US dollar clearing services. Meanwhile, the bank is committed to localization in the China market. It has continuously expanded its financial business licenses in China to offer its clients more diversified financial services and products with the aim of becoming a first-class financial service provider in China.

The bank focuses on fostering long-term relationships with its clients and maintains high lending criteria through strategically targeting superior fast-growing corporates with demand for cross-border banking services. Its client base is mainly composed of strong multinationals, large state-owned corporations, and industrial leading companies. The bank has significantly expanded its client base of high-quality medium-sized corporates since 2022 in a bid to deepen domestic financial services in China. New Chinese corporation clients has increased remarkably since 2023.

The bank's strategic focus is on providing high-quality cross-border financial services, and its lending business, small in scale and prone to volatility, is not a strategic priority. In our opinion, fluctuations in its loan book size do not affect its business stability in any material way. As of the end of 2022, its gross customer loans decreased by 13% YoY to 11.5 billion RMB, with average gross customer loans from 2018 to 2022 at around 11.7 billion RMB. Its loan book remained stable in 2023.

The bank has a very small market share in China in traditional lending and deposit taking businesses because of its non-lending-focused strategy. As of the end of 2022, its market share for loans and deposits in China was 0.01%.

Amid greater volatility in global capital markets in recent years, the bank has seized business opportunity to achieve decent income growth. In 2022, its operating income increased by 32% YoY to 2 billion RMB, of which 21% came from net interest income, 24% from service fees generated by cross-selling activities, and 53% from income sensitive to market risk (including investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange). In 2022, income sensitive to market risk totaled 1.08 billon RMB, up by 40% YoY. The consistent growth in income sensitive market risk has been the driver behind the bank's improved income and profit in recent years. In 2023, the bank's operating income was similar as in 2022.

The bank's income and profit from cross-selling activity with its parent bank were not fully reflected in its own financial statements, so its underlying business strength and stability are better than indicated in its financial statements.

The bank is an integral part of the global banking network of JPMorgan, one of the world's largest and most diversified global banks. It has competitive edge in providing cross-border banking services thanks to business synergy with its parent.

It has a very selective client base mostly composed of strong multinationals and leading Chinese corporations.

We apply a one-notch downward adjustment to its business position to reflect its small business size in China.

Capital and Earnings

We apply a two-notch uplift to the bank's capital and earnings to reflect its very strong capitalization.

Its very good asset quality ensures its solid capital base.

It has maintained healthy profitability in recent years.

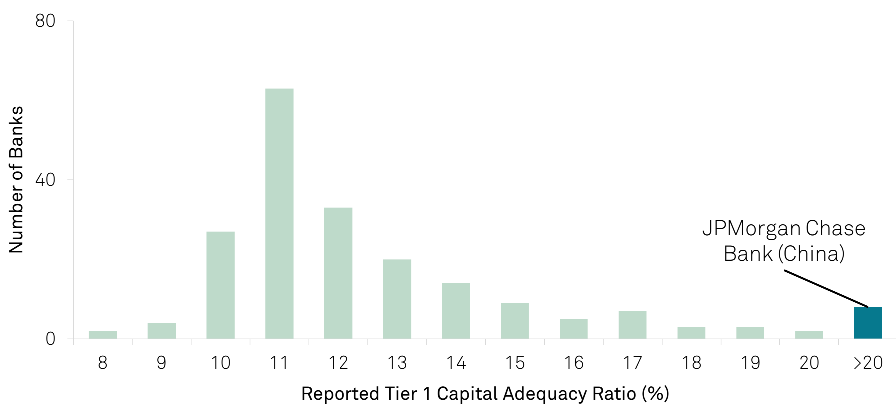
JPMorgan Chase Bank (China)'s capitalization is much stronger than the industry average. Its reported regulatory tier 1 capital adequacy ratio was 27.55% as of the end of 2022, much higher than the industry average of 12.30%. In our view, the very strong capitalization is attributed to its small lending book, an investment portfolio dominated by treasury bonds and policy bank bonds (low credit-risk weight for such exposures), and low leverage level. As of the end of September 2023, its tier 1 capital adequacy ratio was 25.9%. We expect the bank's tier 1 capital adequacy ratio to stay at about 26% as of the end of 2023 and slightly dip in 2024, but still maintaining above 25%.

The bank has enhanced its capital base in recent years through retaining its earnings. To support its business development, in December 2020, its parent bank increased its registered capital from 6.5 billion RMB to 8 billion RMB using undistributed earnings. It hasn't paid any dividend since establishment and all retained earnings have been used for daily operations and business expansion. Its shareholders' equity increased from 9.65 billion RMB at the end of 2018 to 11.33 billion RMB at the end of 2022.

Chart 1

The bank has very strong capitalization

Industry Comparison: Distribution of Reported Regulatory Tier 1 Capital Adequacy Ratio of Major Banks in China as of End of 2022

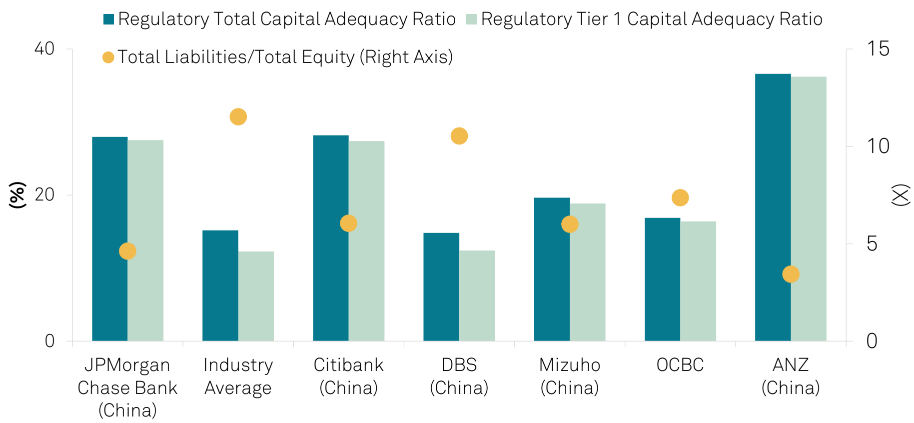


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 2

The bank's capital adequacy ratio is higher than the industry average and its peers

Peer Comparison: Reported Regulatory Capital Adequacy Ratios and Leverage Levels as of the End of 2022



Sources: NAFR, public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 1

JPMorgan Chas Bank (China) -- Capital Adequacy Forecast by S&P Global (China) Ratings

	2023E		2024F		
(Bil. RMB)	**Amount**	**YoY Change**	**Amount**	**YoY Change**	**Base case assumptions and conclusions**
Risk-weighted assets	44.3	9%	48.9	10%	The loan size is expected to remain flat in 2023 but RWA would grow by about 9% due to an adjustment in investment asset structure. RWA is estimated to grow by 10% in 2024 assuming accelerated expansion for the capital-consuming businesses such as lending and investment. Assuming a NIM of about 1.0%, cost-to-income ratio of around 65-70%, and loan loss reserve ratio of about 1.6%, the bank's ROE in 2024 is estimated to stay above 3%. We assume no dividend payout from the bank. We expect a slight positive impact on the bank's capital adequacy ratios in 2024 following the implementation of the Administrative Measures for Commercial Banks' Capital.
Tier 1 capital	11.8	5%	12.2	3%	
Tier 1 capital adequacy ratio forecast	About 26%		About 25%		

Note: E - estimate; F - forecast.

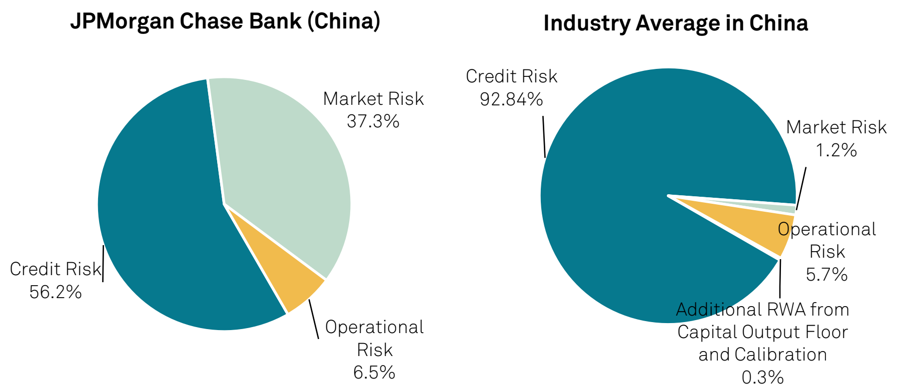
Source: S&P Global (China) Ratings.

The bank's market risk exposure represents a significant portion of its risk-weighted assets ("RWA"). This differs from the usual structure in the industry, where credit risk is the dominant risk type. As of the end of September 2023, credit risk and market risk accounted for 56% and 37% of its RWA, respectively, while the industry average was 93% and 1%, respectively. The Administrative Measures for Commercial Banks' Capital ("the Measures") has come into effect since January 1, 2024. The Measures provide refined measurement on credit risk-weighted assets under standardized approach and offer fundamental review on market risk-weighted assets. Given the high proportion of market risk exposure in the bank's RWA and its prudent management on market risk, we expect its market risk-weighted assets to reduce following the implementation of the Measures. Meanwhile, its credit risk-weighted assets may rise due to the increased risk weight for interbank credit exposure. In general, we expect the bank's reported regulatory capital adequacy to marginally improve as the Measures take effect.

Chart 3

Market risk represents a significant portion of the bank's risk-weighted assets

Industry Comparison: RWA Breakdown as of End of September 2023



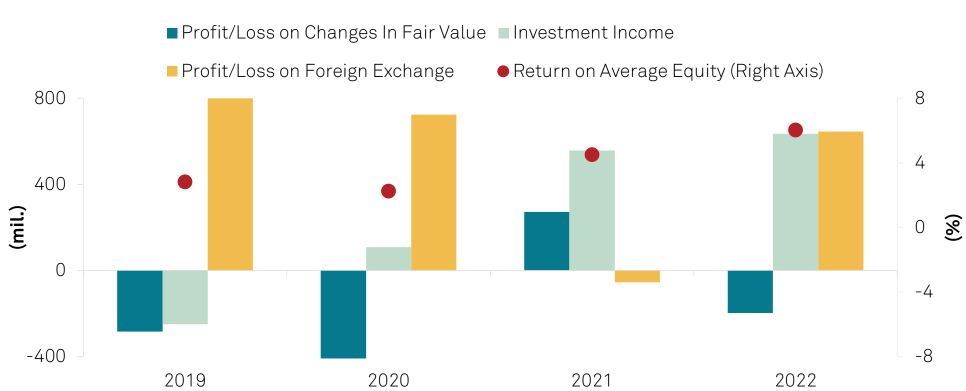
Sources: JPMorgan Chase Bank (China), NAFR, collected and adjusted by S&P Global (China) Ratings.

Due to the inherent volatile nature of market risk, the bank's capital and earnings performance has a higher volatility compared with the industry average. Nevertheless, thanks to its prudent stance on risk-taking and effective market risk management, we believe the downside risk is effectively managed.

Chart 4

Capital market volatility has a significant impact on the bank's profitability

JPMorgan Chase Bank (China): Income Sensitive to Market Risk and ROAE



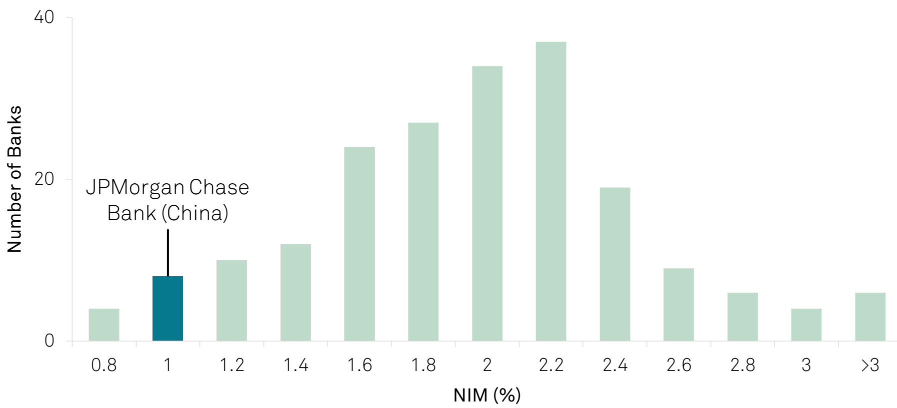
Note: ROAE = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].
Sources: JPMorgan Chase Bank (China), collected and adjusted by S&P Global (China) Ratings.

The net interest margin ("NIM") of JPMorgan Chase Bank (China) is below the industry average due to the low credit risk premium of its high credit quality assets. In 2022, it had a NIM of 0.97%, 0.94 percentage points lower than the industry average. The bank's low-risk credit client base leads to a lower credit risk premium in its loan pricing. Furthermore, its large holdings of low-yield treasury bonds mean it has a low average interest yield on its investment portfolio. Additionally, the accommodative monetary environment and multiple rounds of loan prime rate ("LPR") cuts have seen its NIM pressure increase. Thanks to the bank's proactive adjustment in asset allocation structure and increased NIM for its USD-denominated assets, it has seen a significantly milder NIM decline compared to the industry average. In 2022, its adjusted NIM dropped by 3 basis points YoY, while a decrease of 17 basis points was recorded for the commercial banking industry. In 2023, the bank continued to face less downward pressure on NIM compared to the industry average.

Chart 5

The bank's NIM is lower than the industry average

Industry Comparison: Distribution of NIM of Major Banks in China as of End of 2022



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

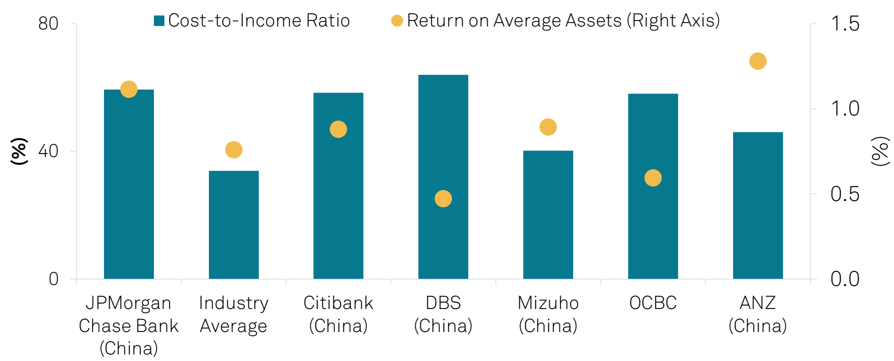
Thanks to its very good asset quality (with no bad debts reported to date), the bank's provisioning is mainly driven by regulatory requirements on the ratio of its reserves to gross customer loans. As of the end of 2022, its loan loss reserves/gross customer loans ratio was 1.64%, fully meeting the 1.5% minimum regulatory requirement. As the bank has no bad debts, any changes in loan impairment are dependent on how the scale of the bank's loan business changes. In 2022, it reversely provisioned 49 million RMB due to a decrease in loan size. As ABS was added in the investment portfolio, reserve on debt investments increased from zero in 2021 to 60 million RMB in 2022, based on a reserve to investment ratio of 1.3% for ABS investment. Considering the loan loss reserve reversal and increased provisioning on investments, the bank's credit impairment of assets came to 5.23 million RMB in 2022.

Similar to other foreign banks operating in China, the bank's cost-to-income ratio is higher than the industry average. In 2022, the bank's ratio of adjusted business and administrative expenses to operating income was 59%, 4 percentage points higher than in 2021 and 25 percentage points higher than the industry average. The high cost is attributed to its small size, high human resource cost, and continuous investment in technology.

Chart 6

The bank has an industry-leading return on average assets in 2022

Peer Comparison: Cost-to-Income Ratio and Return on Average Assets in 2022



Note 1: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year)/2].

Sources: NAFR, public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank's profitability has materially improved in recent years. Because of a strong growth in income sensitive to market risk, its return on average assets rose by 0.31 percentage point YoY to 1.11% in 2022, higher than the commercial banks' average of 0.76% and foreign bank subsidiaries' average of 0.59%. Its return on average equity increased by 1.53 percentage points YoY to 6.03%. The bank maintained solid profitability in 2023.

Risk Position

The bank has a very prudent approach to risk management.

It has a very selective corporate client base with very strong credit quality, mainly including multinationals and leading domestic corporations.

Therefore, we apply a two-notch uplift adjustment to its risk position to reflect its superior asset quality metrics.

JPMorgan has a sophisticated risk management framework at the global level and the risk management of JPMorgan Chase Bank (China) is fully integrated into the global risk management of its parent, resulting in prudent and effective risk governance between the bank and its parent. In our view, JPMorgan has deep expertise in managing complex market risk at the global level, and JPMorgan Chase Bank (China) has built an effective market risk management system, which has been integrated into the framework of its parent. In recent years, the bank has focused on improving the localization of its risk management procedures, refining its operational risk management and strengthening its investment in localizing its IT systems.

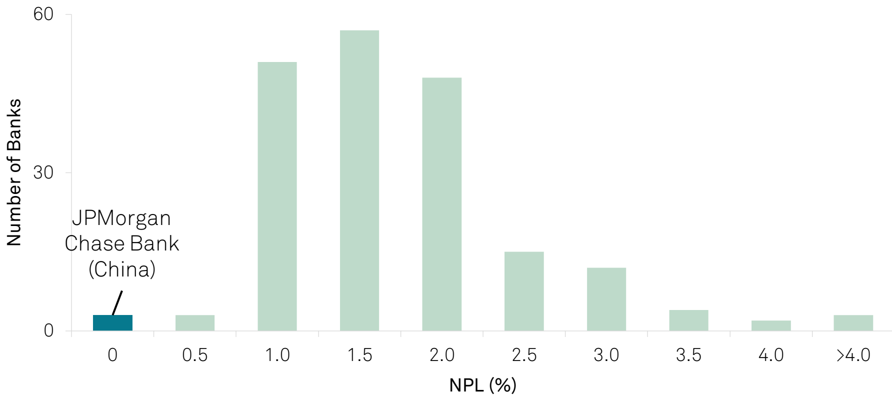
The bank has a very prudent approach to risk management and has a very low risk appetite. We expect the bank's asset quality to remain excellent. Its loan book is composed of a selective corporate client base primarily containing leading multinationals and large Chinese corporations with very good credit standing. The bank's high lending standards mean it has maintained good credit asset quality for many years. To date, the bank has no non-performing loans and no overdue loans.

Considering its prudent underwriting standards and very strict credit risk classification practices, we view the probability of its special mention loans migrating to non-performing as very low. In our view, the movements to its SML ratio would not have a significant impact on its actual asset quality performance. As of the end of 2022, SMLs accounted for 4.34% of its total loans. Given its stringent loan classification practices, the Measures on Commercial Banks' Financial Asset Classification effective in July 2023 would not have a major impact on the bank's current loan risk indicators. In addition, it hasn't suffered any material impact directly in the current credit down cycle since it adheres to high lending standards and has no exposure to real estate and LGFVs.

Chart 7

The bank has zero bad debts

Industry Comparison: Distribution of Non-performing Loan Ratio of Major Banks in China as of End of 2022



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

JPMorgan Chase (China)'s investment business and interbank business have very high asset quality. Most of its investment assets are treasury bonds and policy bank bonds, which have very low risk and high liquidity. As of the end of 2022, 73% of the bank's investment portfolio were Chinese treasury bonds, 8% policy bank bonds, and the rest were mainly asset-backed securities added in 2022. With credit risk at a controllable level, the bank has expanded into asset-backed securities investment since 2022 to diversify its portfolio and enhance investment returns. As of the end of 2022, the net investment in asset-backed securities was 4.5 billion RMB, representing 19% of total investments. These asset-backed securities were all senior notes, the underlying assets for which mainly comprised those with high granularity and short maturity, such as car loans, consumer loans, and micro and small enterprise loans. The bank collaborates with leading platform companies that show strong risk management capacity and conducts risk surveillance and monitoring on a regular basis. It also applies high standards to its interbank business, where it mainly works with China's mega banks, leading joint-stock banks, and top-quality city banks.

Funding and Liquidity

The bank has a stable funding base and very prudent liquidity management. It has strong liquidity.

Therefore, there is no notching adjustment for funding and liquidity.

JPMorgan Chase Bank (China) has a stable funding base mainly composed of customer deposits. As of the end of 2022, 82% of its total funding were customer deposits, and 18% wholesale funding. Corporate deposits largely come from daily operating activities of its corporate clients. Therefore, while its deposit base is small, its deposit stability is good. In addition, the bank does not conduct retail banking business in China and has no retail deposits.

The bank's robust deposit growth in recent years fully meets the needs of funds from its lending business. As of the end of 2022, its customer deposits grew by 7% YoY to 35.8 billion RMB, with CAGR of 9% from 2020 to 2022. Given the stable loan book in the same period, the bank's loan-to-deposit ratio moved down from 40% in 2021 to 32% in 2022. In 2023, it sustained sound deposit growth.

Its wholesale funding is very stable and part of it comes from its parent bank and other related parties. As of the end of 2022, 1.9 billion RMB were borrowed from its parent bank, together with another 4.9 billion RMB from related parties, accounting for an aggregate of 87% of its total wholesale funding, compared to 99% in 2021.

The liquidity profile of its assets is significantly better than the industry average. As of the end of 2022, its net loans accounted for only 18% of total assets, cash and deposits to the central bank 13%, credit to other financial institutions 18%, and its investment portfolio of government bonds and policy bank bonds 30%.

Its asset structure features high proportion of short-term financial assets. As of the end of 2022, financial assets maturing within 3 months accounted for 55% of total financial assets, those with a maturity of 3 months to 1 year 10%, those with a maturity of 1 to 5 year 17%, and those with a maturity of over 5 years 2%.

In our view, the bank's liquidity management is very prudent. It conducts liquidity stress testing on a continuous basis to satisfy liquidity demand even in stress scenario. The bank has strong liquidity resilience. As of the end of September 2023, its liquidity ratio stood at 81%, its liquidity matching rate 290%, and high-quality liquidity asset adequacy ratio 290%, all far above the minimum regulatory requirements of 25%, 100% and 100%, respectively.

The bank has a stand-alone credit profile of aa_{spc}+, three notches higher than the anchor of a+, which reflect its small business scale in China, but very strong capital and asset quality.

Issuer Credit Rating

External Support

JPMorgan is one of the largest and most diversified global banks in the world. As of the date of this report, S&P Global Ratings has assigned a stand-alone credit profile of "a" and an issuer credit rating of "A+" with a "Stable" outlook to JPMorgan Chase Bank N.A. Based on the broad relationship observed between the credit opinions of S&P Global Ratings and S&P Global (China) Ratings, S&P Global (China) Ratings views the issuer credit quality of JPMorgan Chase Bank N.A. as extremely strong, equivalent to the issuer credit rating of "AAA_{spc}" in our national scale.

Table 2

Strengths and Risks of JPMorgan Identified By S&P Global Ratings	
Key Strengths	**Key Risks**
A highly diverse mix of global retail/commercial banking, capital markets, and asset management businesses with strong market positions	Complexity, particularly within its large capital markets business
A track record of better revenue stability	High sensitivity of some business lines to investor confidence—with wholesale funding and large commercial deposits--creating liquidity risks
Good capital and liquidity as required by its status as a globally systemically important bank (GSIB)	

Note: This strengths and risks analysis is an excerpt from the credit report on JPMorgan from S&P Global Ratings published December 2023, and it should be used and interpreted in the context of the rating criteria of S&P Global Ratings.

Sources: S&P Global Ratings, collected by S&P Global (China) Ratings

In our view, JPMorgan Chase Bank N.A. has extremely high issuer credit quality.

JPMorgan Chase Bank (China), as a fully owned subsidiary of JPMorgan, is an integral part of the global banking network of its parent.

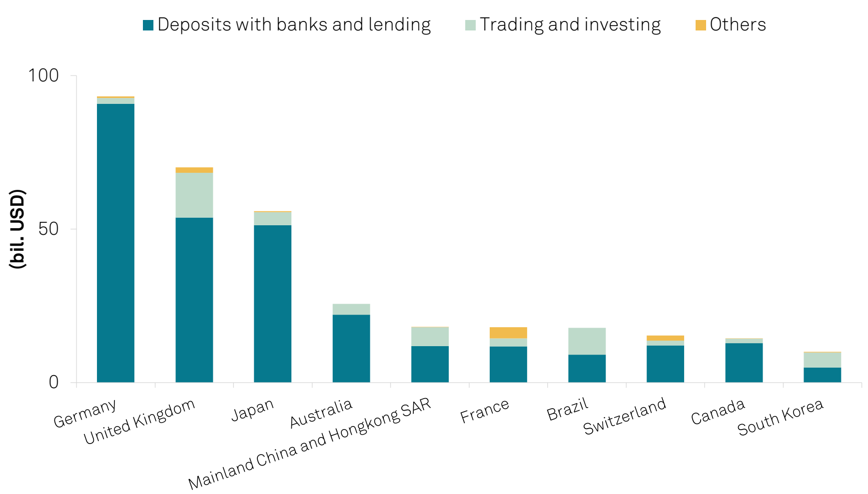
The extremely high likelihood of group support results in a one-notch uplift from its SACP of "aa$_{spc}$+" and therefore we assign an ICR of "AAA$_{spc}$" to JPMorgan Chase Bank (China).

JPMorgan Chase Bank (China) is wholly owned by JPMorgan Chase Bank N.A. and is an integral part of JPMorgan's global banking operations. There is strong business synergy between the bank and its parent. As of the end of 2022, JPMorgan Chase Bank (China) contributed 0.3% of its parent's total assets. In 2022, its net income accounted for 0.3% of its parent's net income. Nonetheless, the bank's actual contribution to its parent is much higher as the income and profit from cross-selling activity with its parent were not fully reflected in its own financial statements,

Chart 8

JPMorgan has large exposure to China at the group level

JPMorgan's Ten Largest Exposures by Country as of End of 2022 (excl. US)



Sources: Annual reports of JPMorgan Chase Bank N.A., collected and adjusted by S&P Global (China) Ratings.

JPMorgan Chase Bank (China) has an effective corporate governance arrangement with its parent, and JPMorgan has been providing strong on-going supervision and supports to the bank in both business operations and risk management. In addition, JPMorgan provides ongoing and stable funding support to JPMorgan Chase Bank (China) and has made a commitment to the Chinese banking regulator that, to the extent permitted by all applicable laws and regulations, it undertakes to replenish capital to the bank when necessary to comply with Chinese regulatory capital ratio requirement applicable to it.

JPMorgan is committed to implementing its strategy in China. In addition to the banking subsidiary, JPMorgan has also set up other wholly-owned entities or joint ventures in China, including a securities company, fund management company and futures company, underlining its position as one of the strongest foreign financial groups capable of providing comprehensive financial services in China. JPMorgan Securities (China) Co., Ltd. became the first wholly foreign-owned securities company in China in 2021. In 2023, with the approval of the China Securities Regulatory Commission, J.P. Morgan Asset Management completed its wholly-owned holding of CIFM., who then became the sixth wholly foreign-owned public fund manager in China. In our view, among those subsidiaries, JPMorgan Chase Bank (China) is one of the most important for the group thanks to its license as a locally incorporated commercial bank.

Therefore, we believe that JPMorgan Chase Bank (China) has critical importance to its parent. Because of the extremely strong issuer credit quality of JPMorgan Chase Bank N.A., we assign an Issuer Credit Rating of "AAA_{spc}" to JPMorgan Chase Bank (China).

Appendix 1: Key Financial Data

JPMorgan Chase Bank (China) -- Key Financial Data	2018	2019	2020	2021	2022
Business Position					
Total assets (bil)	52.85	47.26	61.30	55.98	63.69
Gross customer loans (bil)	11.75	11.91	10.20	13.26	11.52
Customer deposits (bil)	25.13	24.99	30.16	33.33	35.80
Total equity (bil)	9.65	9.94	10.12	10.79	11.33
Operating income (bil)	1.28	1.24	1.15	1.55	2.05
Net income (bil)	0.53	0.28	0.23	0.47	0.67
Total assets / total assets of China's commercial banking industry (%)	0.03	0.02	0.02	0.02	0.02
Customer loans/total loans of China's commercial banking industry (%)	0.01	0.01	0.01	0.01	0.01
Customer deposits/total deposits of China's commercial banking industry (%)	0.01	0.01	0.01	0.01	0.01
Capital and Earnings					
Reported regulatory total capital adequacy ratio (%)	23.33	27.54	21.71	26.56	27.99
Reported regulatory tier 1 capital adequacy ratio (%)	22.86	26.92	21.30	26.00	27.55
NIM adjusted by S&P Global (China) Ratings (%)	2.28	1.68	1.50	1.00	0.97
Cost-to-income ratio (%)	53.54	63.06	71.77	55.20	59.41
Asset provisioning/pre-provision operating profits (%)	(18.37)	22.60	(27.35)	3.00	0.66
Loan provisioning/average gross customer loans (%)	(0.89)	0.75	(0.56)	0.30	(0.40)
Return on average assets (%)	1.11	0.55	0.42	0.80	1.11
Return on average equity (%)	5.85	2.82	2.25	4.51	6.03
Risk Position					
Non-performing loan ratio (%)	-	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans (%)	1.65	1.06	3.80	3.62	4.34
Loan loss reserves/gross customer loans (%)	1.70	2.36	2.00	1.80	1.64
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A	N/A
Loan loss reserves/ (non-performing loans + special mention loans) (%)	103.11	222.12	52.54	49.73	37.63
Net write-offs/average gross customer loans (%)	-	-	-	-	-
Funding and Liquidity					
Customer loans/customer deposits (%)	46.74	47.68	33.82	39.78	32.18
Customer deposits/total funding (%)	67.74	75.75	73.06	88.08	82.15
Wholesale funding /total funding (%)	32.26	24.25	26.94	11.92	17.85
Regulatory high quality liquidity asset adequacy ratio (%)	427.69	542.86	224.94	320.72	267.08
Regulatory liquidity matching ratio (%)	180.44	345.06	442.93	416.87	344.16

Note 1: In our view, JPMorgan Chase Bank (China) has a clear business model and sound financial management. Therefore, we haven't conducted any material adjustments to its financial data.

Note 2: JPMorgan Chase Bank (China)'s annual financial reports have been audited by PricewaterhouseCoopers.

Note 3: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year + total interest-bearing assets at the end of the year)/2]. Adjustments to net interest income consider the impact of interest expense on leasing obligations.

Note 4: To ensure comparability, we deduct interest expense on leasing obligations from both numerator (business and administrative expenses) and denominator (operating income) in our calculation of cost-to-income ratio for 2022.

Note 5: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year)/2]. Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year)/2].

Sources: JPMorgan Chase Bank (China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Rating History of JPMorgan Chase Bank (China) by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook/CreditWatch	Rating Date	Analysts	Related Reports
AAA_{spc}	Stable	2020-02-24	Xiaohong Chen, Xiaochen Luan, Cong Cui, Longtai Chen	Credit Rating Report: JPMorgan Chase Bank (China) Company Limited, February 24, 2020
AAA_{spc}	Stable	2021-02-24	Longtai Chen, Xiaochen Luan, Cong Cui	Credit Rating Report: JPMorgan Chase Bank (China) Company Limited, February 24, 2021
AAA_{spc}	Stable	2022-02-24	Longtai Chen, Xiaochen Luan, Cong Cui	Credit Rating Report: JPMorgan Chase Bank (China) Company Limited, February 24, 2022
AAA_{spc}	Stable	2023-02-24	Xiaochen Luan, Yanyu Wang, Jiachuan Xu	Credit Rating Report: JPMorgan Chase Bank (China) Company Limited, February 24, 2023
AAA_{spc}	Stable	2024-02-23	Xiaochen Luan, Yanyu Wang, Jiachuan Xu, Xuefei Zou	Current Report

Note: These ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used. S&P Global (China) Ratings revised its financial institutions methodology in December 2023. The revised methodology has been applied to the current rating report published February 2024. The bank's ICR remains unchanged but slight adjustments have been made to the assessment outcomes of specific rating factors based on the revised methodology. We view the bank's credit quality as stable and such adjustments are due to methodology revision.

Appendix 3: Rating Definitions

Category	Definition
AAA_{spc}	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA_{spc}	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A_{spc}	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB_{spc}	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB_{spc}	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B_{spc}	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC_{spc}	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC_{spc}	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C_{spc}	Unable to repay the debt.

Note: Ratings from AA_{spc} to CCC_{spc} may be added a "+" or "-" sign for minor adjustment to indicate a slightly higher or lower rating.

Appendix 4: Surveillance Plan

S&P Ratings (China) Co., Ltd. shall monitor the credit quality of the rated issuer on a periodic and an ongoing basis. If any material credit events are likely to change the credit quality of the issuer, we will conduct ad-hoc surveillance, and determine whether the outstanding ratings need to be adjusted.