

## Credit Rating Report

# JPMorgan Chase Bank (China) Company Limited

Issuer Credit Rating\*: AAA<sub>spc</sub>; Outlook: Stable

February 24, 2020

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\* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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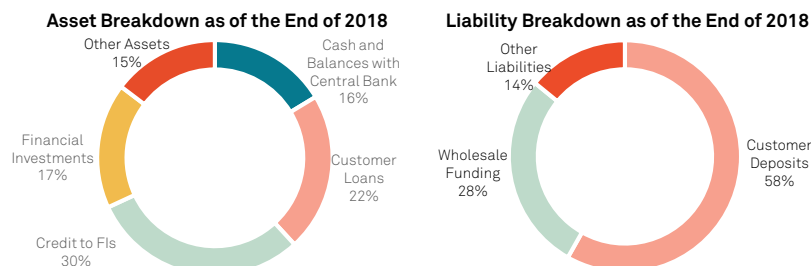
This document is prepared in both English and Chinese. The English translation is for reference only, and the Chinese version will prevail in the event of any inconsistency between the English version and the Chinese version.

## Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
JPMorgan Chase Bank (China) Company Limited	Issuer Credit Rating	AAA <sub>spc</sub>	February 24, 2020	Stable

**Industry Classification:** Commercial Bank

**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 2018, it reported total assets of 52.8 billion RMB.



**Economy and Industry Trends:** S&P Global (China) Ratings expects China's GDP growth rate to further slow down in 2020, as negative trends weighing down on the economy merge with ongoing efforts to improve the quality of economic development. While maintaining high GDP growth is no longer an absolute must, we believe there is still ample policy space to maintain economic and financial stability in the event of a significant or sudden drop in growth. Financial stability is a priority, and in our view that means China will avoid resorting to blow-out stimulus.

The overall credit profile of commercial banks in China will remain stable, while their asset quality pressure will get worse as economic uncertainty rises. In our opinion, some small and medium-sized domestic banks may continue to face challenges in liquidity management in 2020. Some small banks may also face legacy bad debt problems and weak capitalization. Meanwhile, state-owned mega banks are expected to maintain stable operations and resilient profitability. Most foreign bank subsidiaries have had lower risk appetite than their domestic peers in the past decade and their asset quality performance has been less affected by the economic slowdown in China.

**Credit Highlights:** JPMorgan Chase Bank (China) serves a very selective client base mainly composed of strong multinationals and leading Chinese corporations and financial institutions. Its business benefits tremendously from the synergy with its parent. Nevertheless, its business footprints in China are still limited. It has a very strong capitalization base, with capital adequacy ratios much higher than the industry average in China. Its profitability level is lower than the industry average thanks to its low risk appetite and low leverage, but still sufficient to keep its capital base stable. It has very prudent risk management and its asset quality metrics are one of the best among commercial banks in China. As a fully owned bank subsidiary, it is an integral part of JPMorgan's global banking network. In our view, its issuer credit quality is closely aligned with its parent and it is extremely likely that it will receive parental support in times of stress. We view the issuer credit quality of JPMorgan Chase Bank N.A., its parent, as extremely high.

**Key Metrics of JPMorgan Chase Bank (China)**

	2015	2016	2017	2018
Total assets (bil)	39.15	49.69	43.36	52.84
Customer deposits (bil)	15.79	24.34	21.72	25.13
Net income (bil)	0.33	0.11	0.17	0.56
Reported regulatory capital adequacy ratio (%)	34.25	34.04	30.89	23.33
Return on average equity (%)	4.13	1.30	1.97	6.11
Non-performing loans ratio (%)	-	-	-	-
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A
Customer deposits/total liabilities (%)	51.16	59.73	62.42	58.19

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

**Rating Snapshot**

Anchor	bbb+
Business Position	-1
Capital and Earnings	+2
Risk Position	+2
Funding and Liquidity	0
Stand-alone Credit Profile	a <sub>spc</sub> +
Group Support	+4
Issuer Credit Rating	AAA <sub>spc</sub>
Outlook	Stable

**Business Position:** It has a very small commercial banking operation in China with a limited and selective client base mostly composed of first-class global financial institutions and multinationals and leading Chinese corporations. Its business benefits tremendously from cross-selling activities with its parent. It has an advantage in cross-border banking services.

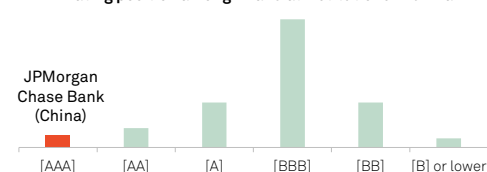
**Capital and Earnings:** It has a very strong capitalization base, with capital adequacy ratios much higher than the industry average in China. Its profitability level is low but sustainable in the sense of maintaining its capitalization thanks to the slow growth of its risk-weighted assets.

**Risk Position:** It takes a very prudent approach to risk management. Its asset quality metrics are one of the best in China. Its risk management is fully integrated into its parent's global risk management framework.

**Funding and Liquidity:** Its funding structure stability is consistent with the industry average. Its corporate deposit base is small but relatively stable. The liquidity profile of its asset structure is better than the industry average.

**External Support:** JPMorgan has very strong credit quality. JPMorgan Chase Bank (China) is extremely likely to receive extraordinary support from its parent in time of need, considering the fact that it is a fully-owned subsidiary with a commercial banking license and an integral part of JPMorgan's global banking operations.

JPMorgan Chase Bank (China)'s relative issuer credit rating position among financial institutions in China



Note: This chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Ratings below AAA<sub>spc</sub> can be adjusted by "+" and "-".

**Peer Group Comparison**

(The peer group includes JPMorgan Chase Bank (China), Citibank (China) Co., Ltd., OCBC Wing Hang Bank (China) Ltd., Australia and New Zealand Bank (China) Company Ltd., and Societe Generale (China) Ltd.)

(2016-2018 three-year average)	JPMorgan Chase Bank (China)	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	48.63	168.93	18.62	68.38	108.45	48.63
Customer deposits (bil)	23.73	130.63	7.49	41.77	75.97	23.73
Net income (bil)	0.28	1.73	0.02	0.50	0.96	0.28
Reported regulatory capital adequacy ratio (%)	29.42	29.42	17.69	21.44	20.05	19.36
Return on average equity (%)	3.13	10.43	0.43	4.06	6.54	3.13
Non-performing loans ratio (%)	-	1.81	-	0.79	0.76	0.64
Reserve coverage ratio (%)	N/A	4,945.02	193.92	1,577.72	608.83	585.98
Customer deposits/total liabilities (%)	60.12	85.95	50.06	60.33	70.13	53.87

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

## Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
JPMorgan Chase Bank (China) Company Limited	Issuer Credit Rating	AAA <sub>spc</sub>	February 24, 2020	Stable

Stand-alone Credit Profile (SACP)			External Support		Issuer Credit Rating (ICR)	
	a <sub>spc</sub> +	+		+4		
Anchor	bbb+		Group Support	+4	AAA <sub>spc</sub> /Stable	
Business Position	-1					
Capital & Earnings	+2					
Risk Position	+2					
Funding & Liquidity	0					
Holistic Adjustment	0					

## Credit Highlights

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>We believe that it is extremely likely to receive support from its parent in times of need.</li> <li>It has very strong capitalization.</li> <li>It has very prudent risk management and its asset quality is one of the best in the industry.</li> </ul>	<ul style="list-style-type: none"> <li>Its stand-alone business size is small in China.</li> </ul>

## 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 stable.

**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 reduces its capitalization level.

**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.](#)

### Related Research & Commentary:

- [S&P Global \(China\) Ratings General Considerations on Rating Modifiers and Relative Ranking.](#)

**Model Applied:** None.

## Anchor

### Macro-Economic and Industry Trends

S&P Global (China) Ratings expects China's GDP growth rate to further slow down in 2020, as negative trends weighing down on the economy merge with ongoing efforts to improve the quality of economic development. While maintaining high GDP growth is no longer an absolute must, we believe there is still ample policy space to maintain economic and financial stability in the event of a significant or sudden drop in growth. Financial stability is a priority, and in our view that means China will avoid resorting to blow-out stimulus.

We believe that the overall macro economy of China will remain stable in 2020 in spite of the slowing down of GDP growth, and therefore, the general credit profile of China's commercial banking industry would also remain largely unchanged.

We expect asset quality deterioration to remain a challenge for commercial banks over the next two years as economic restructuring continues and uncertainty rises. Banks still need more time to clean up their legacy bad debt problems accumulated over previous years and they are also faced with new bad debt formation challenges.

Due to increasing challenges in asset quality control, we believe that the credit quality of commercial banks is likely to show greater differentiation in the foreseeable future. State-owned mega banks have demonstrated great resilience in both business operations and financial performance. In contrast, some smaller banks, especially those with very aggressive risk appetite in previous years, may face liquidity difficulties and capital base erosion over the next two years. We believe that the government is aware of the risks faced by these banks and measures are being taken to stabilize their operations and prevent any systemic level instability.

For the past decade, while domestic banks grew very fast, most foreign bank subsidiaries took a more conservative approach in loan book growth. There are 41 locally incorporated banks set up by foreign banks and their asset market share in China's commercial banking industry is less than 2%.

Although foreign bank subsidiaries typically have much smaller business franchises in China compared with their domestic peers, they offer a unique value proposition in providing sophisticated cross-border banking services.

Most foreign bank subsidiaries have had lower risk appetite than their domestic peers in the past decade and their asset quality performance has been less affected by the economic slowdown in China.

Foreign bank subsidiaries are typically fully-owned and tightly controlled by parents, share parents' brands and receive effective parental support in terms of cross-selling activities, capital injection and liquidity support. Therefore, their issuer credit quality is typically aligned with that of their parents outside China.

**Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "bbb+" to commercial banks in 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 2018, it reported total assets of 52.8 billion RMB, gross loans of 11.7 billion RMB and customer deposits of 25.1 billion RMB. It has eight branches in China.

## Business Position

As an integral part of one of 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.

In our view, the bank's core value proposition is about helping its clients access its parent's diversified commercial and investment banking services, and not about providing substantial credit lines on its own balance sheet. As of the end of 2018, it reported gross loans of 11.7 billion RMB.

The client base of JPMorgan Chase Bank (China) is mostly composed of leading multinational corporations and foreign companies which JPMorgan already serves at the global level, leading state-owned enterprises in China, and other national sector leaders.

The corporate deposits of JPMorgan Chase Bank (China) are typically generated from their clients' daily operations in the form of operating balances, therefore, although its total deposit base is small, we view it as relatively stable and low-cost. It doesn't conduct retail banking in China. As of the end of 2018, it reported total deposits of 25.1 billion RMB.

JPMorgan Chase Bank (China) has a very small market share in China in traditional lending and deposit taking businesses because it has been very selective in choosing its client base. As of the end of 2018, it had a market share of 0.01% for both loans and deposits in China.

**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 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.**

Table 1

JPMorgan Chase Bank (China) -- Market Share				
(%)	2015	2016	2017	2018
Total assets /total assets of China's commercial banking industry	0.03	0.03	0.02	0.03
Gross customer loans/total loans of China's commercial banking industry	0.02	0.01	0.01	0.01
Customer deposits/total deposits of China's commercial banking industry	0.01	0.02	0.01	0.01

Sources: JPMorgan Chase Bank (China), industry data released by CBIRC and PBOC, collected and adjusted by S&P Global (China) Ratings.

Table 2

JPMorgan Chase Bank (China) -- Business Position				
	2015	2016	2017	2018
Total assets (bil)	39.15	49.69	43.36	52.84
Year-over-year growth of total assets (%)	(6.98)	26.94	(12.75)	21.87
Gross customer loans (bil)	12.75	10.45	10.97	11.75
Year-over-year growth of gross customer loans (%)	(1.78)	(18.08)	5.04	7.04
Customer deposits (bil)	15.79	24.34	21.72	25.13
Year-over-year growth of customer deposits (%)	(28.69)	54.18	(10.76)	15.71
Operating income (bil)	0.96	0.72	0.84	1.28
Year-over-year growth of operating income (%)	(2.09)	(25.29)	17.74	51.23
Net income (bil)	0.33	0.11	0.17	0.56
Year-over-year growth of net income (%)	8.94	(65.60)	54.15	221.82
Net fees and commissions income/operating income (%)	4.12	6.15	6.01	4.77

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

Table 3

Peer Comparison -- Business Position						
(2016-2018 three-year avg.)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	<b>48.63</b>	168.93	18.62	68.38	108.45	48.63
Year-over-year growth of total assets (%)	<b>12.02</b>	22.26	(6.10)	7.32	6.65	5.98
Gross customer loans (bil)	<b>11.06</b>	63.79	4.70	23.46	39.65	11.60
Year-over-year growth of customer loans (%)	<b>(2.00)</b>	17.55	(4.03)	2.11	2.41	(0.87)
Customer deposits (bil)	<b>23.73</b>	130.63	7.49	41.77	75.97	23.73
Year-over-year growth of customer deposits (%)	<b>19.71</b>	19.71	(0.60)	8.47	7.93	3.30
Operating income (bil)	<b>0.95</b>	5.60	0.47	1.86	3.27	1.09
Year-over-year growth of operating income (%)	<b>14.56</b>	14.56	(3.41)	4.92	6.05	5.30
Net income (bil)	<b>0.28</b>	1.73	0.02	0.50	0.96	0.28
Year-over-year growth of net income (%)	<b>70.13</b>	432.95	20.12	124.12	62.85	60.79
Net fees and commissions income/operating income (%)	<b>5.64</b>	30.68	5.64	14.97	14.00	15.30

Note: We have chosen four foreign bank subsidiaries in China, including Citibank (China) Co., Ltd. (Citibank (China)), OCBC Wing Hang Bank (China) Ltd. (OCBC (China)), Australia and New Zealand Bank (China) Company Ltd. (ANZ (China)), and Societe Generale (China) Ltd. (SG (China)), for peer comparison purpose.

The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2016 to 2018. Therefore, the weights of JPMorgan Chase Bank (China), Citibank (China), OCBC (China), ANZ (China) and SG (China) are 14.22%, 49.41%, 18.67%, 12.25% and 5.45% respectively.

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

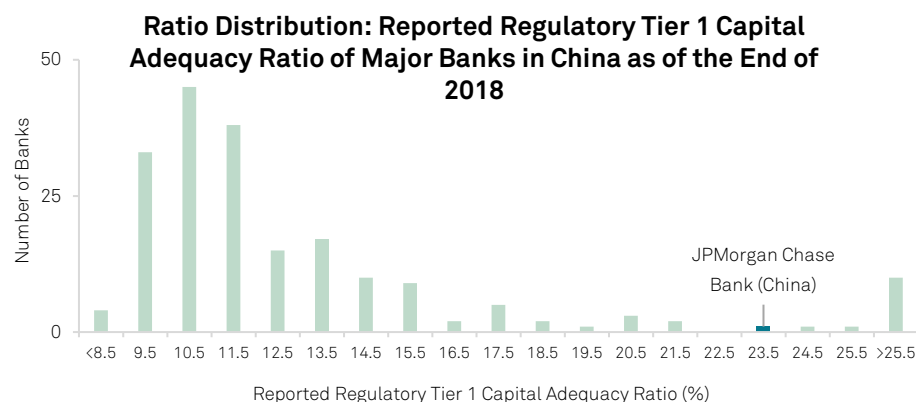
## Capital and Earnings

JPMorgan Chase Bank (China)'s capitalization is much stronger than the industry average in China. Its reported regulatory tier 1 capital adequacy ratio was 22.9% as of the end of 2018, much higher than the industry average of 11.6%. In our view, the very strong capitalization is attributed to its small lending book, very high credit quality investment portfolio and low leverage level. As long as it maintains its current business strategy, we expect its capital adequacy ratios to remain among the highest in China.

**We apply a two-notch uplift to its capital and earnings to reflect its very strong capitalization.**

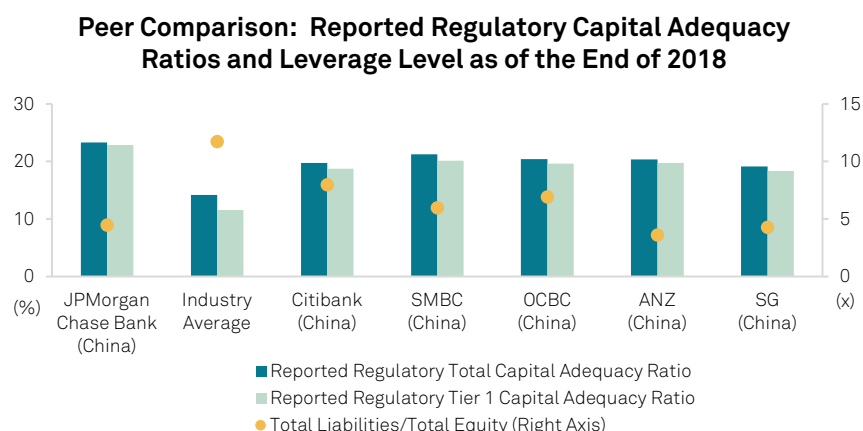
**Although its profitability is lower than the industry average, it is still sustainable in terms of keeping its capital base stable.**

Chart 1



Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

Chart 2

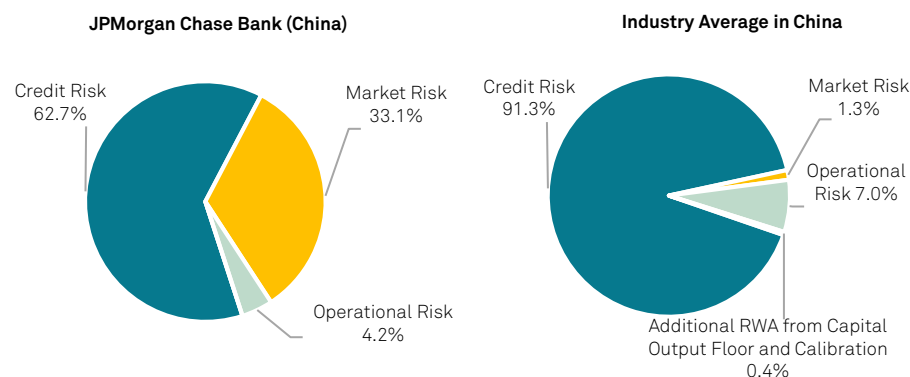


Sources: CBIRC, public information of peer banks, collected and adjusted by S&P Global (China) Ratings.

Thanks to low credit risk exposure, the structure of risk-weighted assets (“RWA”) of JPMorgan Chase Bank (China) is very different from the industry average. As of the end of 2018, credit risk only accounted for 63% of its RWA, while the industry average was 91%. As a result, market risk had a much more prominent influence, accounting for 33% of its RWA, while the industry-average market risk was only 1%. Thanks to the inherent volatile nature of market risk, the bank’s capital and earnings performance has a higher volatility compared with the industry average.



Chart 3

**Risk-Weighted Asset Breakdown as of the End of 2018**

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

Table 4

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

	2017A	2018A	2019E	2020F
Total risk-weighted assets (bil)	28.52	42.20	36.88	44.26
- Credit risk (bil)	19.88	26.46	25.51	33.16
- Market risk (bil)	7.06	13.96	9.60	9.00
- Operational risk (bil)	1.58	1.78	1.77	2.10
Total capital (bil)	8.81	9.84	10.16	10.62
Tier 1 capital (bil)	8.56	9.65	9.93	10.33
Total capital adequacy ratio forecast (%)	-	-	28	24
Tier 1 capital adequacy ratio forecast (%)	-	-	27	23

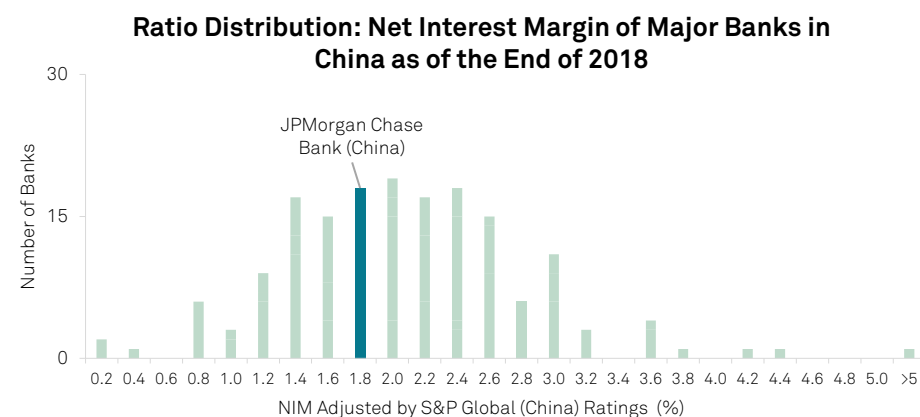
S&P Global (China) Ratings' base case assumptions include: 1. The grow rate of gross loans in 2020 would be round 20%; 2. As of the end of 2020, the bank would have no NPLs and loan loss reserves/gross loans ratio would be about 1.9%; 3. Its net interest margin would be about 1.6%; 4. Its cost-to-income ratio would be about 50%; 5. Return on average assets would be slightly lower than 1%, and return on average equity would around 4%; 6. Its dividend payout ratio would remain 0; and 7. There is no plan for any hybrid bond issuance or equity capital injection for 2020.

Note: A-actual; E-expected; F – forecast.

Sources: Regulatory filings of JPMorgan Chase Bank (China), and S&P Global (China) Ratings.

Net interest margin (“NIM”) of JPMorgan Chase Bank (China) is close to the industry average. In 2018, it had a NIM of 1.94%, 0.24 percentage points lower than the industry average. On one hand, it has a low-cost funding base mainly composed of a stable deposit base and borrowing from its parent; on the other hand, it has a low-risk client base which leads to low credit risk charge in its loan pricing.

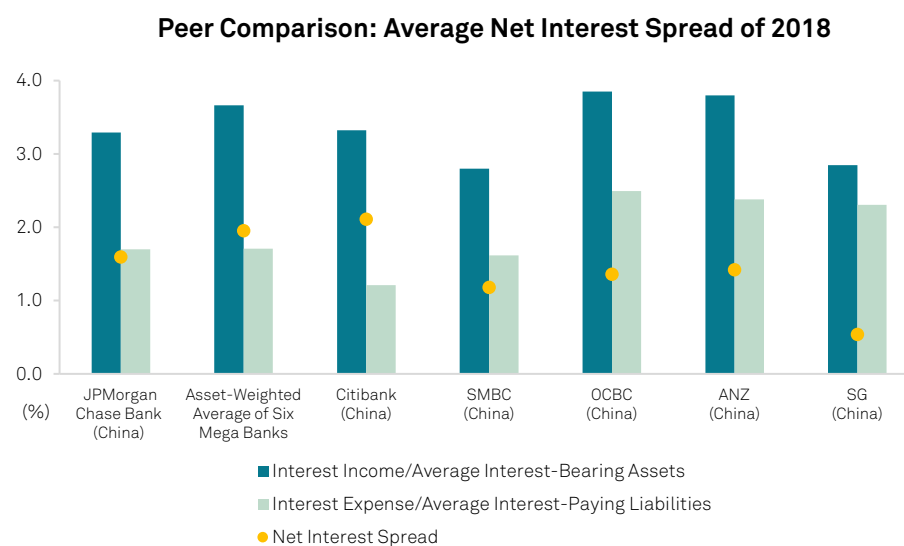
Chart 4



Note: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2]

Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

Chart 5

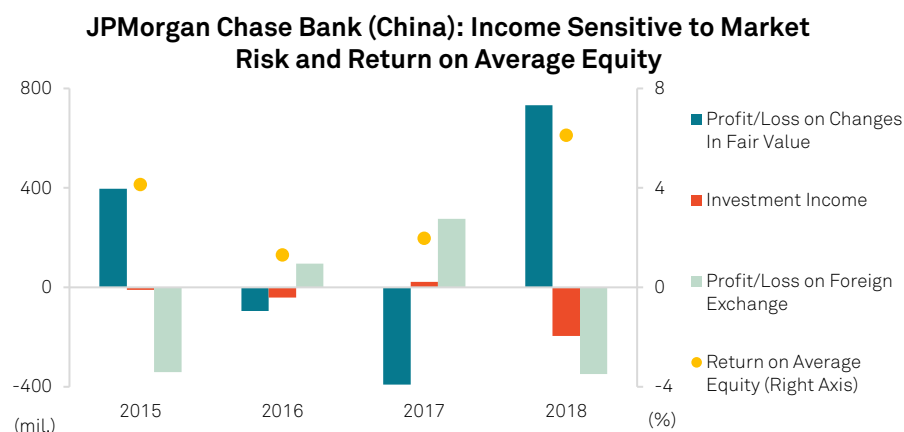


Note: Net Interest Spread = (interest income/average interest-bearing assets) – (interest expense/average interest-paying liabilities). The six Chinese mega banks are Industrial and Commercial Bank of China Limited, China Construction Bank Corporation, Agricultural Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd. and Postal Savings Bank of China Co., Ltd..

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

Because of market volatility, its investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange have fluctuated significantly through the years, leading to significant fluctuation of revenue and net income.

Chart 6

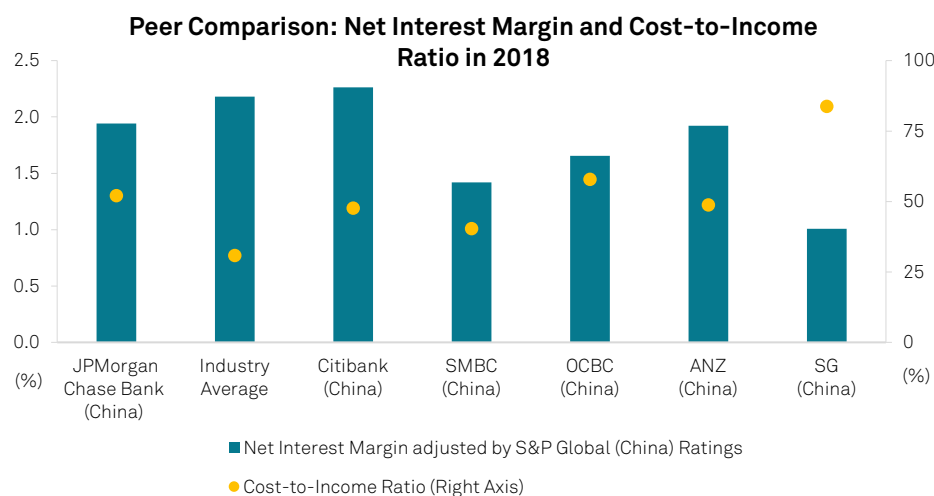


Note: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

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

JPMorgan Chase Bank (China)'s cost-to-income ratio is higher than the industry average because of its lack of economies of scale. High operational cost is common among foreign bank subsidiaries typically because of their high human resource costs. In 2018, the bank's cost-to-income ratio was 52%, 21 percentage points higher than the industry average.

Chart 7



Note 1: NIM adjusted by S&P Global (China) Ratings = net interest income / [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year) / 2].

Note 2: The industry average NIM was published by CBIRC.

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

Because of high operational cost and low leverage, profitability of JPMorgan Chase Bank (China) is lower than the industry average. Its return on average equity was 6% in 2018, lower than the industry average of 12%.

Although its ROE is low, we view its profitability level as sustainable in terms of maintaining its strong capital position because of the slow growth of its risk-weighted assets, and thus slow capital consumption under the current business strategy.

Table 5

JPMorgan Chase Bank (China) -- Capital and Earnings				
(%)	2015	2016	2017	2018
Reported regulatory tier 1 capital adequacy ratio	33.50	33.20	30.03	22.86
Reported regulatory total capital adequacy ratio	34.25	34.04	30.89	23.33
NIM adjusted by S&P Global (China) Ratings	2.16	1.53	1.83	1.94
Cost-to-income ratio	58.56	85.04	74.50	52.07
Return on average assets	0.80	0.25	0.37	1.16
Return on average equity	4.13	1.30	1.97	6.11

Note 1: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2].

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

Note 3: 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.

Table 6

Peer Comparison -- Capital and Earnings						
(2016-2018 three-year avg.) (%)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory tier 1 capital adequacy ratio	<b>28.70</b>	28.70	16.73	20.65	19.19	18.52
Reported regulatory total capital adequacy ratio	<b>29.42</b>	29.42	17.69	21.44	20.05	19.36
NIM adjusted by S&P Global (China) Ratings	<b>1.77</b>	1.99	0.75	1.56	1.78	1.68
Cost-to-income ratio	<b>70.54</b>	96.15	55.45	72.99	65.06	70.54
Return on average assets	<b>0.59</b>	1.04	0.08	0.54	0.74	0.59
Return on average equity	<b>3.13</b>	10.43	0.43	4.06	6.54	3.13

Note 1: We have chosen four foreign bank subsidiaries, including Citibank (China), OCBC (China), ANZ (China) and SG (China), for peer comparison purpose. For the calculation of asset-weighted average, the weights of JPMorgan Chase Bank (China), Citibank (China), OCBC (China), ANZ (China) and SG (China) are 14.22%, 49.41%, 18.67%, 12.25% and 5.45% respectively.

Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2].

Note 3: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2].

Note 4: Return on average equity = net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

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

## Risk Position

In our view, 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.

In our view, JPMorgan Chase Bank (China) has a very prudent approach to risk management and has a very low risk appetite. Its loan book is composed of a selective corporate client base mostly composed of leading multinationals and Chinese corporations with good credit standing.

Thanks to its very prudent underwriting standards, JPMorgan Chase Bank (China) has maintained very good asset quality metrics through the years. As of the end of 2018, it had no non-performing loans (“NPL”) and no overdue loans, and its special mention loans (“SML”) only accounted for 1.65% of its gross loans.

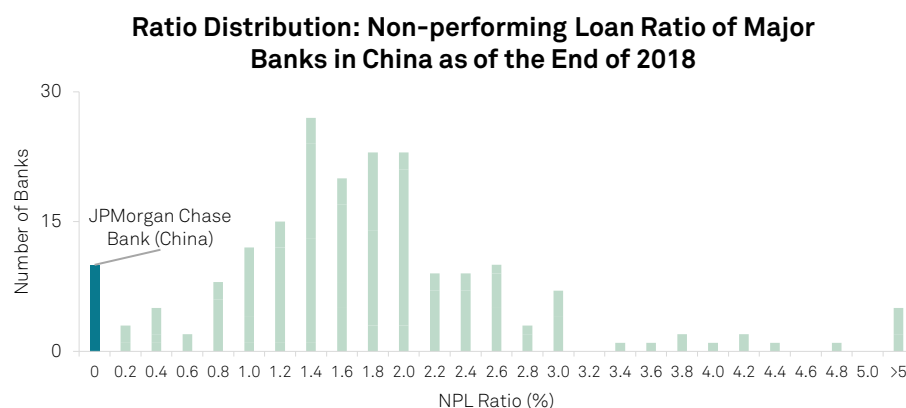
Because of the very good credit standing of its clientele base and its very strict credit risk classification practices, we view the probability of its SMLs migrating to NPLs as low. We expect the bank to maintain its current risk appetite in the foreseeable future.

**The bank has a very prudent approach to risk management.**

**It has a very selective corporate client base with very strong credit quality.**

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

Chart 8



Sources: S&P Global Market Intelligence Database, collected and adjusted by S&P Global (China) Ratings.

JPMorgan Chase Bank (China)’s investment portfolio has very high credit quality. As of the end of 2018, its investment portfolio accounted for 17% of its total assets, within which, 60% were government bonds of the Chinese government, 17% bonds issued by policy banks and 5% negotiable certificates of deposits (“NCD”) issued by top-tier Chinese commercial banks.

JPMorgan Chase Bank (China) also has a very selective financial institution client base in its interbank operations, which is mostly composed of top-tier Chinese banks, foreign bank subsidiaries and leading auto finance companies.

In our view, JPMorgan has deep expertise in managing complex market risk at the global level, and JPMorgan Chase Bank (China)’s market risk management is fully integrated into its parent’s system.

Table 7

JPMorgan Chase Bank (China) -- Risk Position				
(%)	2015	2016	2017	2018
Non-performing loan ratio	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans	1.69	2.78	2.56	1.65
Loan loss reserves/gross customer loans	2.55	2.85	2.91	1.79
Reserve coverage ratio	N/A	N/A	N/A	N/A
Loan loss reserves/ (non-performing loans + special mention loans)	150.35	102.45	113.66	108.24
Net write-offs/average gross customer loans	-	-	-	-

Note: N/A – not applicable.

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

Table 8

(2016-2018 three-year avg.) (%)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	-	1.81	-	0.79	0.76	0.64
(Non-performing loans + special mention loans)/gross customer loans	<b>2.33</b>	3.00	0.36	1.93	2.40	2.33
Loan loss reserves/gross customer loans	<b>2.52</b>	4.09	2.50	3.02	2.81	2.64
Reserve coverage ratio	<b>N/A</b>	4,945.02	193.92	1,577.72	608.83	585.98
Loan loss reserves/ (non-performing loans + special mention loans)	<b>108.12</b>	4,414.11	94.83	1,096.10	416.16	121.52
Net write-offs/average gross customer loans	-	1.09	-	0.29	0.17	0.16

Note 1: N/A – not applicable.

Note 2: We have chosen four foreign bank subsidiaries, including Citibank (China), OCBC (China), ANZ (China) and SG (China), for peer comparison purpose. For the calculation of asset-weighted average, the weights of JPMorgan Chase Bank (China), Citibank (China), OCBC (China), ANZ (China) and SG (China) are 14.22%, 49.41%, 18.67%, 12.25% and 5.45% respectively.

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

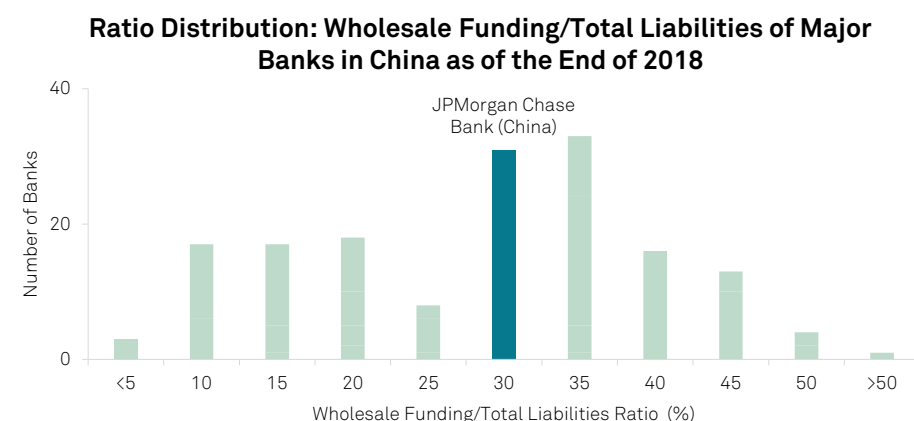
## Funding and Liquidity

The funding structure of JPMorgan Chase Bank (China) is generally in line with the industry average. As of the end of 2018, 58% of its total liabilities were customer deposits, and 28% were wholesale funding.

**The bank has an average funding base and prudent liquidity management.**

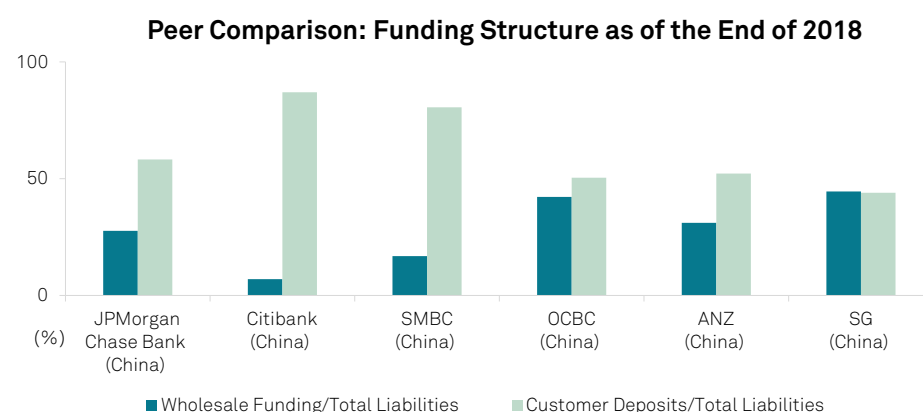
**Therefore, there is no notching adjustment for funding and liquidity.**

Chart 9



The wholesale funding of JPMorgan Chase Bank (China) is stable because the majority is provided by its parent. As of the end of 2018, its borrowed amount from its parent was worth 10.7 billion RMB, accounting for 89% of its total wholesale funding.

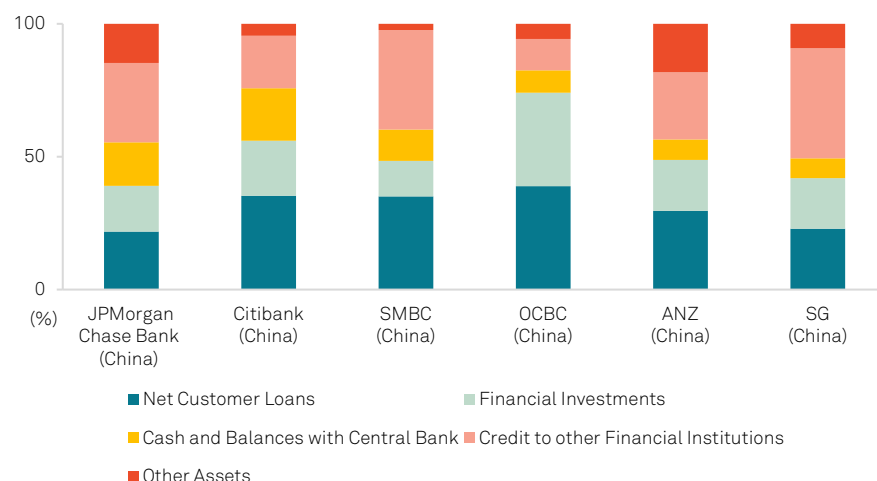
Chart 10



In our view, the bank has ample liquid assets to use as a buffer against any liquidity needs in times of stress. The liquidity profile of its assets is significantly better than the industry average. As of the end of 2018, its net loans accounted for only 22% of its total assets, cash and deposits to the central bank accounted for 16%, credit to other financial institutions 30%, and its investment portfolio of government bonds, policy bank bonds and NCDs, 14%.

Chart 11

## Peer Comparison: Asset Breakdown as of the End of 2018



Note: Other assets of JPMorgan Chase Bank (China) mainly include derivative assets, margin deposits, down payment, advance payment, account receivables etc.

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

In our view, the liquidity management of JPMorgan Chase Bank (China) is prudent and its liquidity risk is at a controllable level. As of the end of 2018, its liquidity ratio stood at 85%, liquidity matching rate 180%, and high-quality liquidity asset adequacy ratio 428%, all above the minimum regulatory requirements of 25%, 100% and 100% respectively.

Table 9

## JPMorgan Chase Bank (China) – Funding and Liquidity

(%)	2015	2016	2017	2018
Customer loans/customer deposits	80.79	42.93	50.52	46.74
Customer deposits/total liabilities	51.16	59.73	62.42	58.19
Wholesale funding /total liabilities	33.28	24.06	22.53	27.71

Note: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + transactional monetary liabilities + bonds payable.

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

**The bank is assigned a stand-alone credit profile of “a<sub>spc</sub>+”, three notches higher than the bank anchor of “bbb+”. This SACP reflects its very strong capital base and very good asset quality, and it also takes into account its weakness as a very small operation in China.**



Table 10

### Peer Comparison -- Funding and Liquidity

(2016-2018 three-year avg.) (%)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	<b>46.73</b>	89.21	46.73	62.85	59.17	62.97
Customer deposits/total liabilities	<b>60.12</b>	85.95	50.06	60.33	70.13	53.87
Wholesale funding /total liabilities	<b>24.76</b>	40.00	7.79	27.95	20.56	30.32
Retail deposits/customer deposits	-	17.25	-	7.17	9.16	4.45

Note: We have chosen four foreign bank subsidiaries, including Citibank (China), OCBC (China), ANZ (China) and SG (China), for peer comparison purpose. For the calculation of asset-weighted average, the weights of JPMorgan Chase Bank (China), Citibank (China), OCBC (China), ANZ (China) and SG (China) are 14.22%, 49.41%, 18.67%, 12.25% and 5.45% respectively.

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

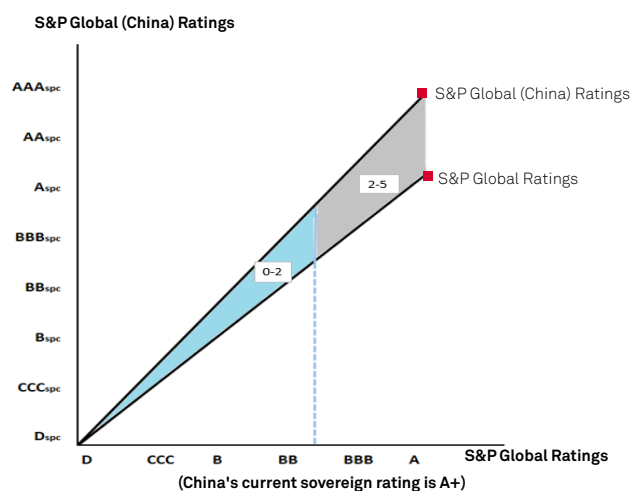
## Issuer Credit Rating

### External Support

JPMorgan is one of the largest and most diversified global banks in the world. S&P Global Ratings has assigned a stand-alone credit profile of “a” and an issuer credit rating of “A+” to JPMorgan Chase Bank N.A. Based on the broad relationship observed between the ratings 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<sub>spc</sub>” in our national scale.

Chart 12

### Broad Relationship Between Credit Opinions of S&P Global Ratings and S&P Global (China) Ratings



Sources: S&P Global (China) Ratings.

S&P Global Ratings' ratings on JPMorgan reflect its position as one of the largest and most diversified global banks, its strong market positions in several areas, and its solid track record over many years of generating good earnings, stable revenues, and avoiding outsize losses. S&P Global Ratings views the global bank's complexity, the high confidence sensitivity and volatility of its capital markets operation, and its reliance on wholesale funding and deposits in excess of insurance limits as rating weaknesses.

According to S&P Global Ratings, JPMorgan also has good capital levels, in the upper half of the band S&P Global Ratings consider to be adequate, and, as a GSIB, it must maintain higher regulatory capital ratios than peers. The company also manages its complex set of risks well and has performed well on regulatory capital stress testing. JPMorgan holds substantial liquidity, maintaining a regulatory liquidity coverage ratio well above 100%, to protect against sources of liquidity risk such as its wholesale funding, deposits in excess of Federal Deposit Insurance Corp. (FDIC) insurance limits, and lending commitments.

JPMorgan Chase Bank (China) is wholly owned by JPMorgan Chase Bank N.A. and is an integral part of JPMorgan's global banking operations, sharing its parent's name and brand. In addition to the bank, JPMorgan has also set up other entities in China, including a securities company, fund management company and futures company. Among those subsidiaries, JPMorgan Chase Bank (China) is one of the most important thanks to its license as a locally incorporated bank.

JPMorgan already has significant exposure to China. Its total exposure to China in 2018 was 19.3 billion USD, only behind the U.S., Germany, UK and Japan. As of the end of 2018, JPMorgan Chase Bank (China) accounted for only 0.3% of the total assets of JPMorgan Chase Bank N.A. and its net income was only 0.3% of that of its parent in 2018. Nevertheless, in our view, these numbers may have failed to fully reflect the importance of the locally incorporated bank, because a substantial part of the revenue and profits it helps generate through cross-selling activities are not reflected in its own financial statements.

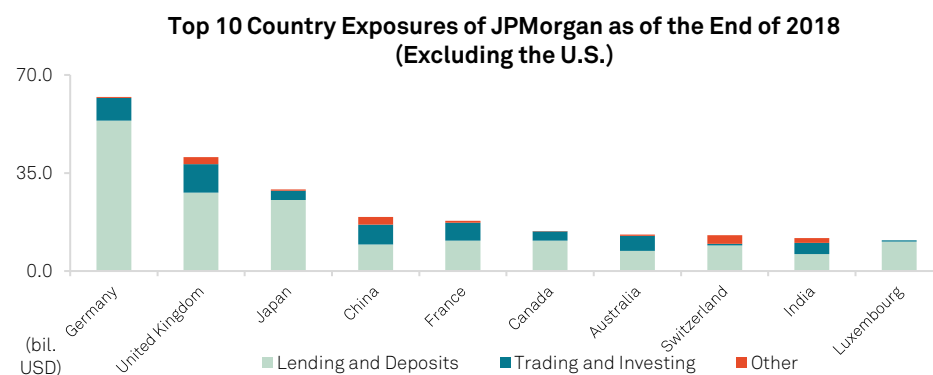
**In our view, JPMorgan Chase Bank N.A. has extremely high issuer credit quality.**

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

**We believe that the ratings of JPMorgan Chase Bank (China) are closely aligned with the issuer credit quality of its parent.**

**The extremely high likelihood of group support results in a four-notch uplift from its SACP of "a<sub>spc</sub>+" and therefore we assign an ICR of "AAA<sub>spc</sub>" to JPMorgan Chase Bank (China).**

Chart 13



Source: Annual Report of JPMorgan, collected and adjusted by S&P Global (China) Ratings.

JPMorgan views China as one of its biggest growth opportunities in the world and we believe it is strategically committed to China in the long term. As China further opens

up its financial market to foreign players, we believe that JPMorgan and its local subsidiaries will have more business opportunities in various business lines in China.

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.

JPMorgan has provided a substantial amount of wholesale funding to JPMorgan Chase Bank (China) and has made a commitment to the Chinese banking regulator that it will replenish capital to the bank when necessary to comply with Chinese regulations on bank capital management.

Therefore, we believe that JPMorgan Chase Bank (China) has critical importance to its parent and its ratings are closely aligned with the issuer credit quality of JPMorgan Chase Bank N.A.. Because of the extremely strong issuer credit quality of its parent, we assign an Issuer Credit Rating of “AAA<sub>spc</sub>” to JPMorgan Chase Bank (China), four notches higher than its stand-alone credit profile of “a<sub>spc</sub>+”.

## Appendix 1: Key Financial Data

JPMorgan Chase Bank (China) -- Key Financial Data				
	2015	2016	2017	2018
<b>Business Position</b>				
Total assets (bil)	39.15	49.69	43.36	52.84
Gross customer loans (bil)	12.75	10.45	10.97	11.75
Customer deposits (bil)	15.79	24.34	21.72	25.13
Total equity (bil)	8.29	8.95	8.56	9.65
Operating income (bil)	0.96	0.72	0.84	1.28
Net income (bil)	0.33	0.11	0.17	0.56
Total assets / total assets of China's commercial banking industry (%)	0.03	0.03	0.02	0.03
Customer loans/total loans of China's commercial banking industry (%)	0.02	0.01	0.01	0.01
Customer deposits/total deposits of China's commercial banking industry (%)	0.01	0.02	0.01	0.01
<b>Capital and Earnings</b>				
Reported regulatory total capital adequacy ratio (%)	34.25	34.04	30.89	23.33
Reported regulatory tier 1 capital adequacy ratio (%)	33.50	33.20	30.03	22.86
NIM adjusted by S&P Global (China) Ratings (%)	2.16	1.53	1.83	1.94
Cost-to-income ratio (%)	58.56	85.04	74.50	52.07
Return on average assets (%)	0.80	0.25	0.37	1.16
Return on average equity (%)	4.13	1.30	1.97	6.11
<b>Risk Position</b>				
Non-performing loan ratio (%)	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans (%)	1.69	2.78	2.56	1.65
Loan loss reserves/gross customer loans (%)	2.55	2.85	2.91	1.79
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A
Loan loss reserves/ (non-performing loans + special mention loans) (%)	150.35	102.45	113.66	108.24
Net write-offs/average gross customer loans (%)	-	-	-	-
<b>Funding and Liquidity</b>				
Retail deposits/customer deposits (%)	-	-	-	-
Customer deposits/total liabilities (%)	51.16	59.73	62.42	58.19
Wholesale funding /total liabilities (%)	33.28	24.06	22.53	27.71
Customer loans/customer deposits (%)	80.79	42.93	50.52	46.74

Note 1: N/A – not applicable.

Note 2: In our view, JPMorgan Chase Bank (China) has a clear business model and sound financial management. Its annual financial reports have been audited by PricewaterhouseCoopers. Therefore, we haven't conducted any material adjustments to its financial data.

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]

Note 4: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2]

Note 5: 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: Peer Comparison Data

Peer Comparison Data						
(2016-2018 three-year avg.)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	48.63	168.93	18.62	68.38	108.45	48.63
Gross customer loans (bil)	11.06	63.79	4.70	23.46	39.65	11.60
Customer deposits (bil)	23.73	130.63	7.49	41.77	75.97	23.73
Total equity (bil)	9.05	17.08	3.58	8.97	12.25	7.72
Operating income (bil)	0.95	5.60	0.47	1.86	3.27	1.09
Net income (bil)	0.28	1.73	0.02	0.50	0.96	0.28
Capital and Earnings						
Reported regulatory total capital adequacy ratio (%)	29.42	29.42	17.69	21.44	20.05	19.36
Reported regulatory tier 1 capital adequacy ratio (%)	28.70	28.70	16.73	20.65	19.19	18.52
NIM adjusted by S&P Global (China) Ratings (%)	1.77	1.99	0.75	1.56	1.78	1.68
Cost-to-income ratio (%)	70.54	96.15	55.45	72.99	65.06	70.54
Return on average assets (%)	0.59	1.04	0.08	0.54	0.74	0.59
Return on average equity (%)	3.13	10.43	0.43	4.06	6.54	3.13
Risk Position						
Non-performing loan ratio (%)	-	1.81	-	0.79	0.76	0.64
(Non-performing loans + special mention loans)/gross customer loans (%)	2.33	3.00	0.36	1.93	2.40	2.33
Loan loss reserves/gross customer loans (%)	2.52	4.09	2.50	3.02	2.81	2.64
Reserve coverage ratio (%)	N/A	4,945.02	193.92	1,577.72	608.83	585.98
Loan loss reserves/ (non-performing loans + special mention loans) (%)	108.12	4,414.11	94.83	1,096.10	416.16	121.52
Net write-offs/average gross customer loans (%)	-	1.09	-	0.29	0.17	0.16
Funding and Liquidity						
Customer loans/customer deposits (%)	46.73	89.21	46.73	62.85	59.17	62.97
Customer deposits/total liabilities (%)	60.12	85.95	50.06	60.33	70.13	53.87
Wholesale funding/total liabilities (%)	24.76	40.00	7.79	27.95	20.56	30.32
Retail deposits/customer deposits (%)	-	17.25	-	7.17	9.16	4.45

Note 1: N/A – not applicable.

Note 2: We have chosen four foreign bank subsidiaries, including Citibank (China), OCBC (China), ANZ (China) and SG (China), for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2016 to 2018. Therefore, the weights of JPMorgan Chase Bank (China), Citibank (China), OCBC (China), ANZ (China) and SG (China) are 14.22%, 49.41%, 18.67%, 12.25% and 5.45% respectively.

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]

Note 4: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2]

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

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

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