

Credit Rating Report

JPMorgan Chase Bank (China) Company Limited

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

February 24, 2021

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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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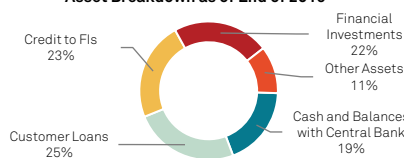
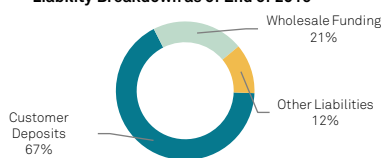
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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
JPMorgan Chase Bank (China) Company Limited	Issuer Credit Rating	AAA _{spc}	February 24, 2021	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 2019, it reported total assets of 47.3 billion RMB.

Asset Breakdown as of End of 2019**Liability Breakdown as of End of 2019**

Economy and Industry Trends: S&P Global (China) Ratings expects China to maintain above-average economic growth relative to other middle-income economies in the next few years. However, growth is likely to come under pressure from U.S.-China tensions and ongoing efforts to restructure the economy and reduce financial risks. We believe the government will maintain its restrained fiscal and macroprudential policy stance as it looks to support sustainable economic development in 2021. In addition, benefiting from China's strict and rapid pandemic response measures, we expect any COVID-related impact on the country's economic development in 2021 to remain under control.

Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a U-shaped economic recovery. Although China's commercial banking sector reported stable asset quality performance in the first three quarters of 2020, we continue to expect higher pressure on credit cost and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe the stand-alone credit profiles of commercial banks are likely to show greater differentiation. Due to their strong capital buffer and prudent risk appetite, foreign bank subsidiaries, a small subsector in China's banking sector, maintained stable stand-alone credit quality during the pandemic. In addition, the generally strong resilience of their parent banks outside China amid COVID-19 has also contributed to their stable issuer credit quality.

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)

	2016	2017	2018	2019
Total assets (bil)	49.69	43.36	52.85	47.26
Customer deposits (bil)	24.34	21.72	25.13	24.99
Net income (bil)	0.11	0.17	0.53	0.28
Reported regulatory capital adequacy ratio (%)	34.04	30.89	23.33	27.54
Return on average equity (%)	1.30	1.97	5.85	2.82
Non-performing loan ratio (%)	-	-	-	-
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A
Customer deposits/total liabilities (%)	59.73	62.42	58.18	66.96

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_{spc}+
Group Support	+4
Issuer Credit Rating	AAA_{spc}
Outlook	Stable

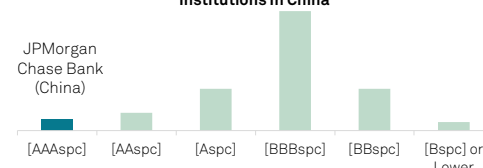
Business Position: It has a very small commercial banking operation in China with a limited and selective client base mostly composed of first-class global financial institutions and multinationals and leading Chinese corporations. Its business benefits tremendously from cross-selling activities with 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 times 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 [AAAspc] can be adjusted by "+" and "-".

Peer Group Comparison

(The peer group includes JPMorgan Chase Bank (China), Citibank (China), Mizuho (China), DBS (China), OCBC (China) and ANZ (China))

(2017-2019 three-year average)	JPMorgan Chase Bank (China)	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	47.82	170.53	39.09	94.67	118.58	92.96
Customer deposits (bil)	23.95	131.07	16.31	56.63	76.08	42.57
Net income (bil)	0.33	2.06	0.20	0.76	1.05	0.44
Reported regulatory capital adequacy ratio (%)	27.25	27.25	15.53	19.63	18.61	19.18
Return on average equity (%)	3.55	11.37	2.59	5.65	6.97	4.39
Non-performing loans ratio (%)	-	1.43	-	0.52	0.53	0.39
Reserve coverage ratio (%)	N/A	5,854.95	240.77	1,505.21	1,530.87	479.20
Customer deposits/total liabilities (%)	62.52	86.51	49.39	63.25	68.32	57.25

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 _{spc}	February 24, 2021	Stable

Stand-alone Credit Profile (SACP)			External Support			Issuer Credit Rating (ICR)	
	a _{spc} +	+		+4			
Anchor	bbb+		Group Support	+4		AAA _{spc} /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"> — We believe that it is extremely likely to receive support from its parent in times of need. 	<ul style="list-style-type: none"> — Its stand-alone business size is small in China.
<ul style="list-style-type: none"> — It has very strong capitalization. 	
<ul style="list-style-type: none"> — It has very prudent risk management and its asset quality is one of the best in the industry. 	

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.](#)
- [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 to maintain above-average economic growth relative to other middle-income economies in the next few years. However, growth is likely to come under pressure from U.S.-China tensions and ongoing efforts to restructure the economy and reduce financial risks. We believe the government will maintain its restrained fiscal and macroprudential policy stance as it looks to support sustainable economic development in 2021. In addition, benefiting from China's strict and rapid pandemic response measures, we expect any COVID-related impact on the country's economic development in 2021 to remain under control.

Despite the pandemic, we believe that the overall credit outlook for commercial banks in China will remain stable because of strong government support and our expectations of a U-shaped economic recovery. Although China's commercial banking sector reported stable asset quality performance in the first three quarters of 2020, we continue to expect higher pressure on credit cost and profitability going forward because of the pandemic. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while regional banks are under more pressure. Therefore, we believe the stand-alone credit profiles of commercial banks are likely to show greater differentiation. And government support has been important for the regional bank sub-sector to remain stable.

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.

Due to their strong capital buffer and prudent risk appetite, foreign bank subsidiaries have maintained stable stand-alone credit quality during the pandemic. As of the end of September 2020, this subsector's average capital adequacy ratio was 18.56%, 16 bps higher than the end of 2019, and their average NPL ratio was 0.67%, the same as the end of 2019. They achieved an annualized ROA of 0.57% in the first three quarters of 2020, 6 bps lower than the same period of 2019. In addition, the generally strong resilience of their parent banks outside China amid COVID-19 has also contributed to their stable issuer credit quality.

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 2019, it reported total assets of 47.3 billion RMB, gross loans of 11.9 billion RMB and customer deposits of 25 billion RMB. It has eight branches in China.

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.

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 2019, JPMorgan Chase Bank (China) reported gross loans of 11.9 billion RMB, up by 1.4% YoY. Over the pandemic period, loan demand from its client base has been moderate because of the good cash position of its high-quality clients and heightened lending competition among banks operating in the looser monetary policy environment.

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 2019, it reported total deposits of 25.0 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 2019, 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				
(%)	2016	2017	2018	2019
Total assets /total assets of China's commercial banking industry	0.03	0.02	0.03	0.02
Gross customer loans/total loans of China's commercial banking industry	0.01	0.01	0.01	0.01

Customer deposits/total deposits of China's commercial banking industry	0.02	0.01	0.01	0.01
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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

	2016	2017	2018	2019
Total assets (bil)	49.69	43.36	52.85	47.26
Year-over-year growth of total assets (%)	26.94	(12.75)	21.89	(10.58)
Gross customer loans (bil)	10.45	10.97	11.75	11.91
Year-over-year growth of gross customer loans (%)	(18.08)	5.04	7.04	1.44
Customer deposits (bil)	24.34	21.72	25.13	24.99
Year-over-year growth of customer deposits (%)	54.18	(10.76)	15.71	(0.57)
Operating income (bil)	0.72	0.84	1.28	1.24
Year-over-year growth of operating income (%)	(25.29)	17.74	52.10	(3.42)
Net income (bil)	0.11	0.17	0.53	0.28
Year-over-year growth of net income (%)	(65.60)	54.15	208.18	(48.21)
Net fees and commissions income/operating income (%)	6.15	6.01	4.91	5.11

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

Table 3

Peer Comparison -- Business Position

(2017-2019 three-year avg.)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	47.82	170.53	39.09	94.67	118.58	92.96
Year-over-year growth of total assets (%)	(0.48)	9.15	(5.77)	2.42	3.67	3.01
Gross customer loans (bil)	11.54	66.53	10.01	34.84	45.24	35.56
Year-over-year growth of customer loans (%)	4.51	7.84	(9.98)	1.77	4.00	4.84
Customer deposits (bil)	23.95	131.07	16.31	56.63	76.08	42.57
Year-over-year growth of customer deposits (%)	1.46	9.17	(6.05)	1.36	3.17	1.20
Operating income (bil)	1.12	5.89	1.07	2.41	3.20	1.87
Year-over-year growth of operating income (%)	22.14	22.14	(4.42)	9.95	9.81	10.72
Net income (bil)	0.33	2.06	0.20	0.76	1.05	0.44

Year-over-year growth of net income (%)	71.38	174.29	30.06	68.99	70.58	49.65
Net fees and commissions income/operating income (%)	5.34	17.91	2.91	9.50	10.28	8.08

Note: We have chosen five foreign bank subsidiaries in China, including Citibank (China) Co., Ltd. (Citibank (China)), Mizuho Bank (China), Ltd. (Mizuho (China)), DBS Bank (China) Limited, (DBS(China)), OCBC Wing Hang Bank (China) Ltd. (OCBC (China)), and Australia and New Zealand Bank (China) Company Ltd. (ANZ (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 2017 to 2019. Therefore, the weights of JPMorgan Chase Bank (China), Citibank (China), Mizuho (China) and DBS (China), OCBC (China) and ANZ (China) are 8.42%, 30.02%, 21.40%, 21.95%, 11.33% and 6.88% respectively.

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

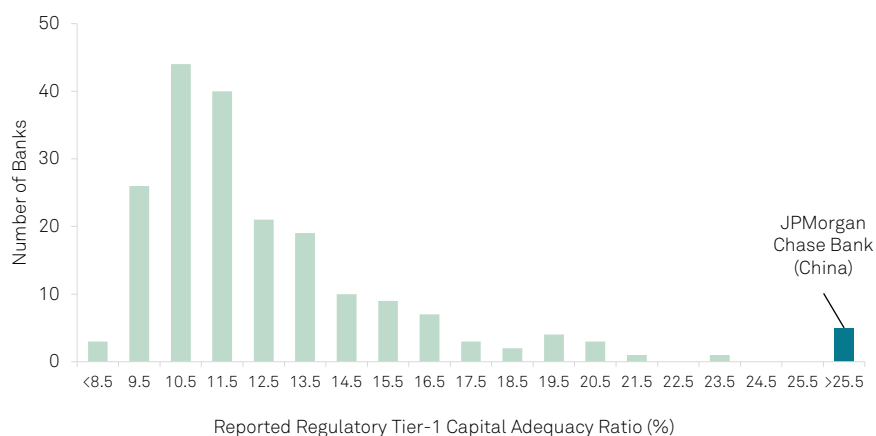
Capital and Earnings

JPMorgan Chase Bank (China)'s capitalization is much stronger than the industry average. Its reported regulatory tier-1 capital adequacy ratio was 26.9% as of the end of 2019, much higher than the industry average of 12%. In our view, the very strong capitalization is attributed to its small lending book, very high credit quality investment portfolio and low leverage level. We expect its capital adequacy ratios to remain above 20% in the next 12 months, among the highest in China. 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.

Chart 1

The bank has very strong capitalization

Industry Distribution: Reported Regulatory Tier-1 Capital Adequacy Ratio of Major Banks in China as of End of 2019



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

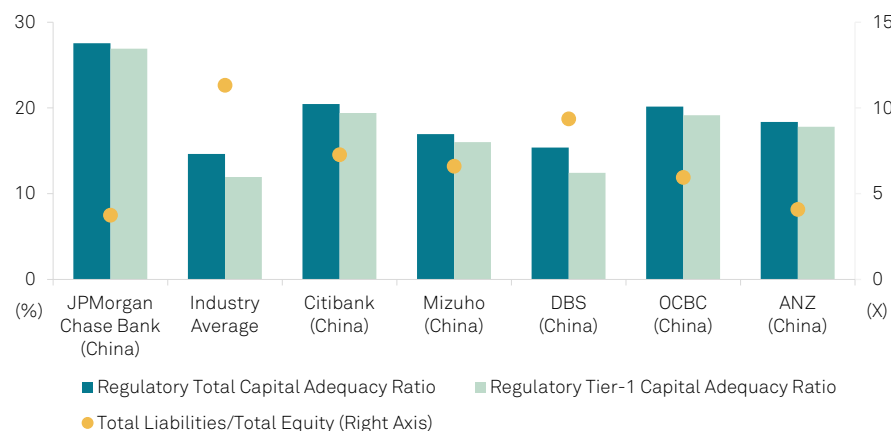
We apply a two-notch uplift to the bank's capital and earnings to reflect its very strong capitalization.

Its very good asset quality ensures very good solidity of its capital base.

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 Level as of End of 2019



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

Table 4

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

	2018A	2019A	2020E	2021F
Total risk-weighted assets (bil)	42.20	36.92	50.93	51.84
- Credit risk (bil)	26.46	22.51	24.76	28.49
- Market risk (bil)	13.96	12.31	24.10	20.96
- Operational risk (bil)	1.78	2.10	2.07	2.38
Tier-1 capital (bil)	9.65	9.94	10.33	10.67
Tier-1 capital adequacy ratio forecast by S&P Global (China) Ratings (%)			20	21

S&P Global (China) Ratings' base-case assumptions include: 1. The average growth rate of gross loans in 2020 and 2021 is around 4%; 2. as of the end of 2021, the bank's NPL remains minimal, and its loan loss reserves/gross loans ratio is around 2%; 3. its average net interest margin is about 1.4% for 2020 and 2021; 4. its average cost-to-income ratio is about 64% for 2020 and 2021; 5. its average return on average equity is around 3.5% for 2020 and 2021; 6. there is no dividend payout for 2020 and 2021; and 7. there is no plan for any hybrid bond issuance or equity capital injection.

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

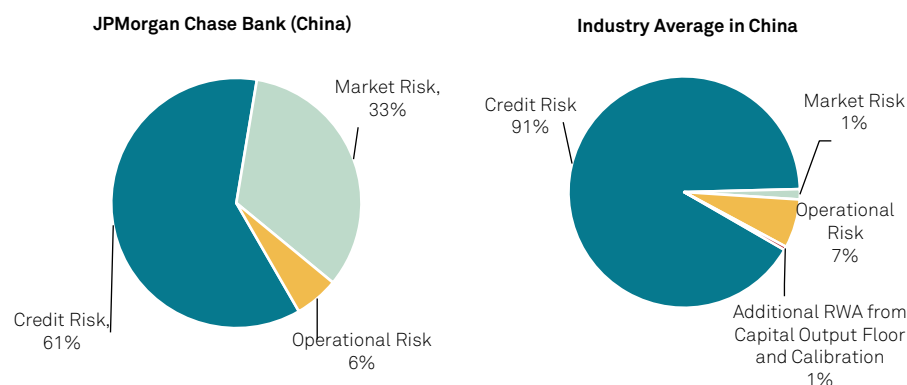
Sources: Regulatory filings of JPMorgan Chase Bank (China), and S&P Global (China) Ratings.

Thanks to its low credit risk exposure, market risk exposure represents a significant portion of the risk-weighted assets ("RWA") of JPMorgan Chase Bank (China). This differs from the usual structure in the industry, where credit risk is the dominant risk type. As of the end of 2019, credit risk and market risk accounted for 61% and 33% of its RWA respectively, while the industry average was 91% and 1% respectively. 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. Nevertheless, thanks to its prudent market risk management, we believe downside risk is effectively managed.

Chart 3

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

JPMorgan Chase Bank (China): Risk-Weighted Asset Breakdown as of End of 2019



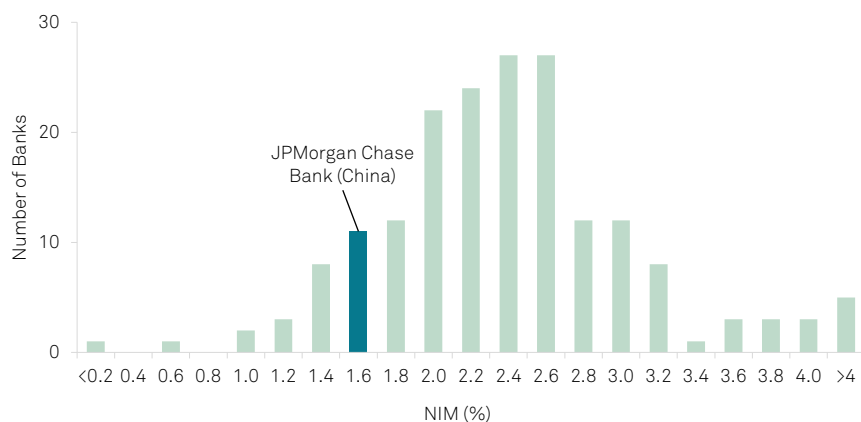
Sources: JPMorgan Chase Bank (China), CBIRC, collected and adjusted by S&P Global (China) Ratings.

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 2019, it had a NIM of 1.5%, down by 0.5 percentage point compared to 2018, and 0.7 percentage point lower than the industry average. On one hand, it has a low-cost funding base mainly composed of a stable deposit base and borrowings 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 and it also has large treasury bond holdings which generate a lower interest yield. One reason for its NIM pressure is its asset allocation shifting from loan lending to treasury bond investment when loan demand weakens. We expect its NIM to remain under pressure during the pandemic period, similar to other banks, given the looser monetary policy environment and the government's loan prime rate reform.

Chart 4

The bank's NIM is lower than the industry average

Industry Distribution: Net Interest Margin of Major Banks in China in 2019

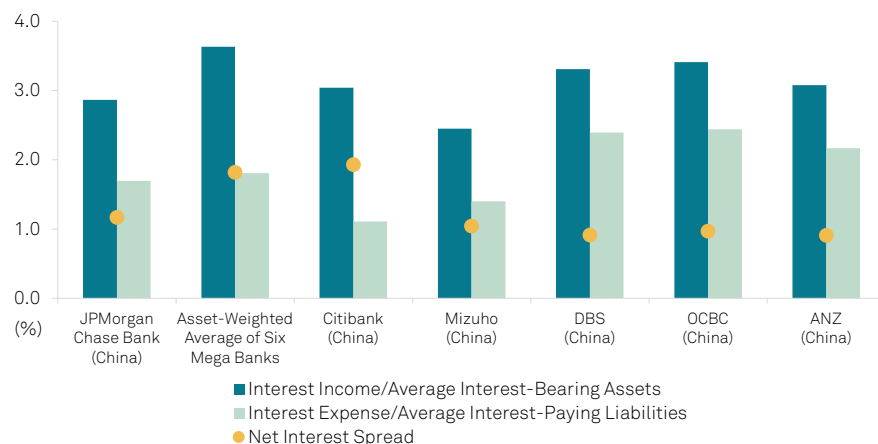


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 5

With low-credit risk assets, the bank's net interest spread is lower than the average level of six mega banks, but higher than the average of its peers

Peer Comparison: Average Net Interest Spread in 2019



Note 1: Net Interest Spread = (interest income/average interest-bearing assets) – (interest expense/average interest-paying liabilities).

Note 2: 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.

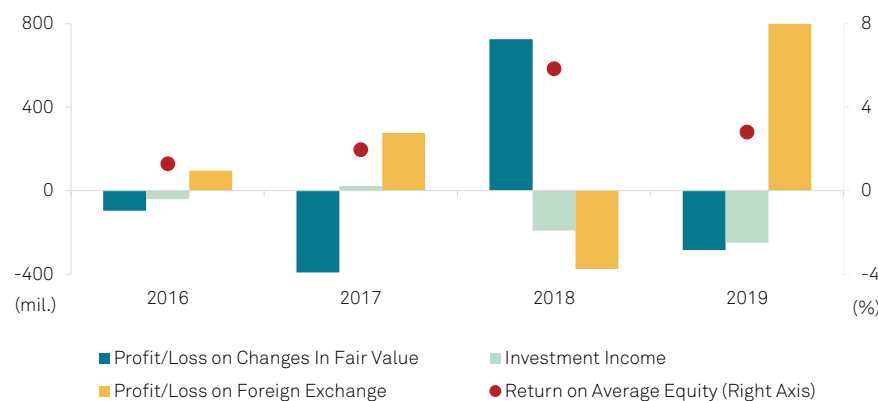
Sources: Public information of peer banks, collected and adjusted by S&P Global (China) Ratings.

Because of market volatility, its investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange have fluctuated through the years, leading to high volatility of revenue and net income. We have observed heightened market volatility due to the pandemic and the responses of the central banks and the capital market to COVID. Considering the bank's rigorous execution of market risk limits, we believe the downside volatility is limited and under control.

Chart 6

Market volatility has a large impact on its earnings

JPMorgan Chase Bank (China): Income Sensitive to Market Risk and Return on Average Equity



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

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

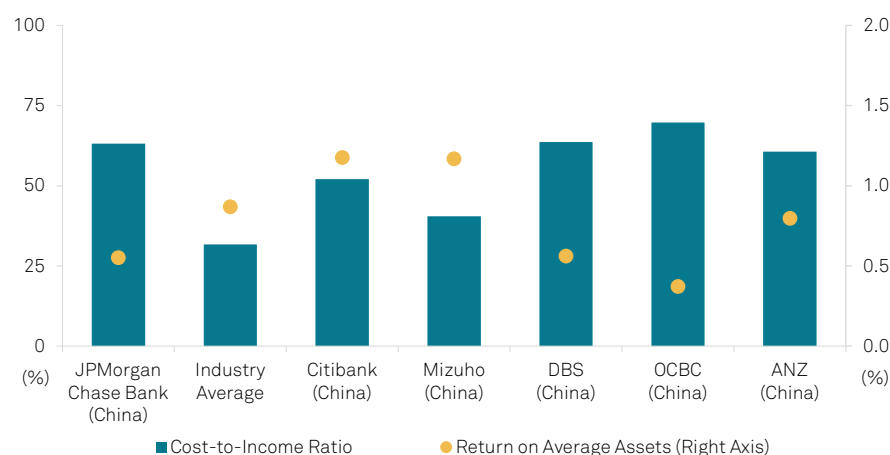
Thanks to its very good asset quality (with no bad debts reported as of the end of 2019), JPMorgan Chase Bank (China)'s provisioning decision is mainly driven by regulatory requirements on the ratio of its reserve to gross loans. Under its very good and stable asset quality, its credit cost as measured by the ratio of loan provisioning to average gross customer loans was only 0.03% from 2017 to 2019.

Similar to other foreign banks operating in China, JPMorgan Chase Bank (China)'s cost-to-income ratio is higher than the industry average. In 2019, the bank's cost-to-income ratio was 63%, up by 10 percentage points compared to 2018, and 31 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 7

Similar to its peers, the bank has a high cost-to-income ratio

Peer Comparison: Cost-to-Income Ratio and Return on Average Assets in 2019



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

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

We expect its profitability to remain moderate during the pandemic period. Nevertheless, given its slow consumption of capital and solid asset quality, we believe its capitalization will remain very strong despite low earnings. Its return on average equity was 2.8% in 2019, representing a 3-percentage point drop YoY, which is attributed to a lower NIM, a higher cost-to-income ratio, and an increase in provisioning.

Table 5

JPMorgan Chase Bank (China) -- Capital and Earnings				
(%)	2016	2017	2018	2019
Reported regulatory tier 1 capital adequacy ratio	33.20	30.03	22.86	26.92
Reported regulatory total capital adequacy ratio	34.04	30.89	23.33	27.54
NIM adjusted by S&P Global (China) Ratings	1.52	1.82	2.00	1.51
Cost-to-income ratio	85.04	74.50	53.54	63.12

Asset provisioning/pre-provision operating profits	(41.70)	12.03	(18.37)	22.67
Loan provisioning/average gross customer loans	(0.29)	0.23	(0.89)	0.75
Return on average assets	0.25	0.37	1.11	0.55
Return on average equity	1.30	1.97	5.85	2.82

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

(2017-2019 three-year avg.) (%)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory tier 1 capital adequacy ratio	26.60	26.60	12.56	18.44	17.24	18.37
Reported regulatory total capital adequacy ratio	27.25	27.25	15.53	19.63	18.61	19.18
NIM adjusted by S&P Global (China) Ratings	1.78	2.11	1.15	1.60	1.63	1.58
Cost-to-income ratio	63.72	74.94	44.33	61.21	58.13	64.68
Asset provisioning/pre-provision operating profits	5.44	26.90	(20.83)	4.00	7.92	4.48
Loan provisioning/average gross customer loans	0.03	0.38	(0.07)	0.09	0.13	0.04
Return on average assets	0.68	1.22	0.31	0.72	0.81	0.72
Return on average equity	3.55	11.37	2.59	5.65	6.97	4.39

Note 1: We have chosen five foreign bank subsidiaries, including Citibank (China), Mizuho (China), DBS (China), OCBC (China), and ANZ (China), for peer comparison purpose. For the calculation of asset-weighted average, the weights of JPMorgan Chase Bank (China), Citibank (China), Mizuho (China), DBS (China), OCBC (China), and ANZ (China) are 8.42%, 30.02%, 21.40%, 21.95%, 11.33% and 6.88% 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 very good credit standing.

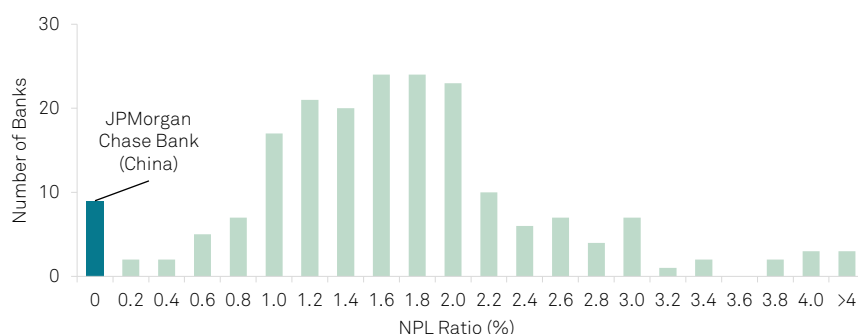
Thanks to its very prudent underwriting standards, JPMorgan Chase Bank (China) has maintained very good asset quality metrics through the years. As of the end of 2019, it had no non-performing loans (“NPL”) and no overdue loans, and its special mention loans (“SML”) only accounted for 1.06% of its gross loans.

Considering its very strict credit risk classification practices, we view the probability of its SMLs migrating to NPLs as very low, demonstrated by its zero bad debts so far. We expect the bank to maintain its current risk appetite in the foreseeable future and maintain very good asset quality performance despite of the pandemic.

Chart 8

The bank had zero bad debts as of end of 2019

Industry Distribution: Non-performing Loan Ratio of Major Banks in China as of End of 2019



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 2019, its investment portfolio accounted for 23% of its total assets, within which, 71% were Chinese government bonds, and 19% bonds issued by policy 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 and foreign bank subsidiaries.

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.

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.

Table 7

JPMorgan Chase Bank (China) -- Risk Position				
(%)	2016	2017	2018	2019
Non-performing loan ratio	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans	2.78	2.56	1.65	1.06
Loan loss reserves/gross customer loans	2.85	2.91	1.70	2.36
Reserve coverage ratio	N/A	N/A	N/A	N/A
Loan loss reserves/ (non-performing loans + special mention loans)	102.45	113.66	103.11	222.12
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

(2017-2019 three-year avg.) (%)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	-	1.43	-	0.52	0.53	0.39
Loan loss reserves/gross customer loans	2.33	2.95	2.23	2.47	2.43	2.40
Reserve coverage ratio	N/A	5,854.95	240.77	1,505.21	1,530.87	479.20
Net write-offs/average gross customer loans	-	0.48	-	0.25	0.26	0.21

Note 1: N/A – not applicable.

Note 2: We have chosen five foreign bank subsidiaries, including Citibank (China), Mizuho (China), DBS (China), OCBC (China), and ANZ (China), for peer comparison purpose. For the calculation of asset-weighted average, the weights of JPMorgan Chase Bank (China), Citibank (China), Mizuho (China), DBS (China), OCBC (China), and ANZ (China) are 8.42%, 30.02%, 21.40%, 21.95%, 11.33% and 6.88% respectively.

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

Funding and Liquidity

JPMorgan Chase Bank (China) has a stable funding base. As of the end of 2019, 67% of its total liabilities were customer deposits, and 21% were wholesale funding. Despite COVID, its deposit base has seen stable growth momentum thanks to the sound cash position of its client base and JPMorgan's strong international franchise in cash management.

The wholesale funding of JPMorgan Chase Bank (China) is very stable because the majority is provided by its parent and other related parties. As of the end of 2019, it had borrowed 4.3 billion RMB from its parent and 2.1 billion RMB from other related parties, accounting for 54% and 26% of its total wholesale funding, respectively.

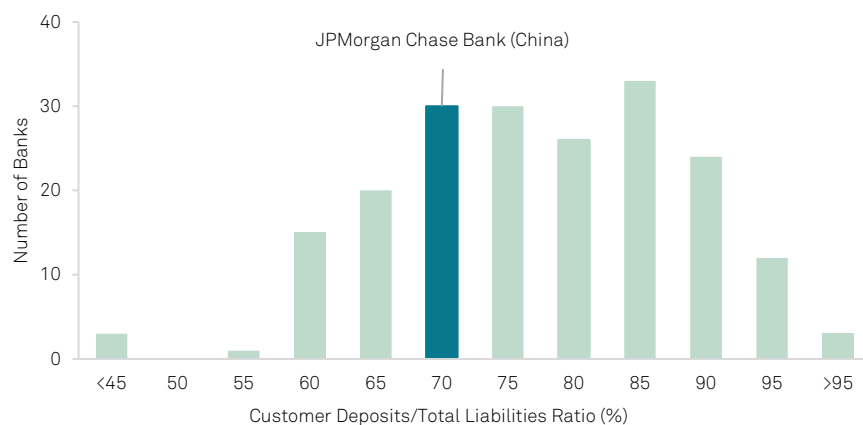
The bank has an average deposit base and very prudent liquidity management.

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

Chart 9

The bank has a stable funding base

Industry Distribution: Customer Deposits/Total Liabilities of Major Banks in China as of End of 2019

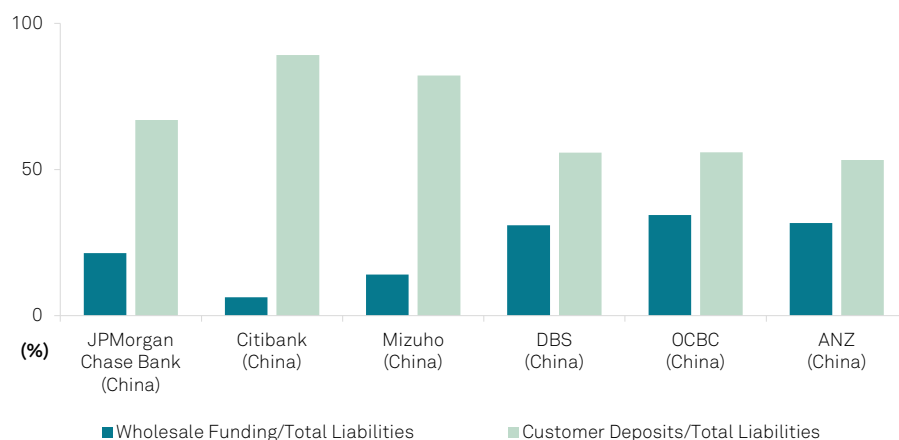


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 10

The bank's use of wholesale funding is in line with its peers

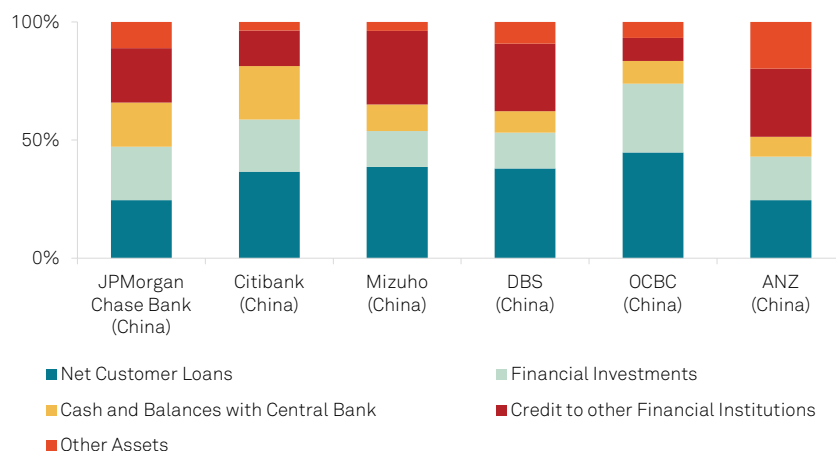
Peer Comparison: Funding Structure as of End of 2019



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

The liquidity profile of its assets is significantly better than the industry average. We believe the bank has abundant liquid assets to cover liquidity needs in times of stress. As of the end of 2019, its net loans accounted for only 25% of its total assets, cash and deposits to the central bank accounted for 19%, credit to other financial institutions 23%, and its investment portfolio of government bonds and policy bank bonds 20%.

Chart 11

The bank's assets have good liquidity**Peer Comparison: Asset Breakdown as of End of 2019**

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 very prudent and its liquidity risk is very well managed. It conducts liquidity stress testing on a continuous basis. As of the end of 2019, its liquidity ratio stood at 88%, liquidity matching rate 345%, and high-quality liquidity asset adequacy ratio 543%, all above the minimum regulatory requirements of 25%, 100% and 100% respectively.

Table 9

JPMorgan Chase Bank (China) – Funding and Liquidity

(%)	2016	2017	2018	2019
Customer loans/customer deposits	42.93	50.52	46.74	47.68
Customer deposits/total liabilities	59.73	62.42	58.18	66.96
Wholesale funding /total liabilities	24.06	22.53	27.70	21.44

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.

Table 10

Peer Comparison -- Funding and Liquidity

(2017-2019 three-year avg.) (%)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	48.31	91.53	48.31	65.58	64.55	61.09
Customer deposits/total liabilities	62.52	86.51	49.39	63.25	68.32	57.25
Wholesale funding /total liabilities	23.89	43.01	7.62	25.98	22.34	27.19
Retail deposits/customer deposits	-	16.44	-	7.05	8.35	5.14

Note1: We have chosen five foreign bank subsidiaries, including Citibank (China), Mizuho (China), DBC (China), OCBC (China) and ANZ (China), for peer comparison purpose. For the calculation of asset-weighted average,

The bank is assigned an SACP of “a_{spc}+”, 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 considers its small business size.

the weights of JPMorgan Chase Bank (China), Citibank (China), Mizuho (China), DBC (China), OCBC (China) and ANZ (China), are 8.42%, 30.02%, 21.40%, 21.95%, 11.33% and 6.88% respectively.

Note2: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + transactional monetary liabilities + bonds payable.

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 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.

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 in 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.

At the group level, JPMorgan has significant exposure to China. As of the end of 2019, its total exposure to China was 19.2 billion USD, similar to the previous year. The size of its exposure was only behind the U.S., Germany, Japan, and UK. As of the end of 2019, 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 0.1% of that of its parent in 2019. 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 the locally incorporated bank helps generate through cross-selling activities are not reflected in its own financial statements. We believe that China, as the second largest economy in the world, will remain a strategic priority for JPMorgan.

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_{spc}+” and therefore we assign an ICR of “AAA_{spc}” to JPMorgan Chase Bank (China).

Chart 12

JPMorgan, as a group, has significant exposure to China

Top 10 Country Exposures of JPMorgan as of End of 2019 (Excluding the U.S.)



Source: Annual Report of JPMorgan, 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.

JPMorgan has provided a funding support 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_{spc}” to JPMorgan Chase Bank (China), four notches higher than its stand-alone credit profile of “a_{spc}+”.

Appendix 1: Key Financial Data

JPMorgan Chase Bank (China) -- Key Financial Data				
	2016	2017	2018	2019
Business Position				
Total assets (bil)	49.69	43.36	52.85	47.26
Gross customer loans (bil)	10.45	10.97	11.75	11.91
Customer deposits (bil)	24.34	21.72	25.13	24.99
Total equity (bil)	8.95	8.56	9.65	9.94
Operating income (bil)	0.72	0.84	1.28	1.24
Net income (bil)	0.11	0.17	0.53	0.28
Total assets / total assets of China's commercial banking industry (%)	0.03	0.02	0.03	0.02
Customer loans/total loans of China's commercial banking industry (%)	0.01	0.01	0.01	0.01
Customer deposits/total deposits of China's commercial banking industry (%)	0.02	0.01	0.01	0.01
Capital and Earnings				
Reported regulatory total capital adequacy ratio (%)	34.04	30.89	23.33	27.54
Reported regulatory tier 1 capital adequacy ratio (%)	33.20	30.03	22.86	26.92
NIM adjusted by S&P Global (China) Ratings (%)	1.52	1.82	2.00	1.51
Cost-to-income ratio (%)	85.04	74.50	53.54	63.12
Asset provisioning/pre-provision operating profits (%)	(41.70)	12.03	(18.37)	22.67
Loan provisioning/average gross customer loans (%)	(0.29)	0.23	(0.89)	0.75
Return on average assets (%)	0.25	0.37	1.11	0.55
Return on average equity (%)	1.30	1.97	5.85	2.82
Risk Position				
Non-performing loan ratio (%)	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans (%)	2.78	2.56	1.65	1.06
Loan loss reserves/gross customer loans (%)	2.85	2.91	1.70	2.36
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A
Loan loss reserves/ (non-performing loans + special mention loans) (%)	102.45	113.66	103.11	222.12
Net write-offs/average gross customer loans (%)	-	-	-	-
Funding and Liquidity				
Customer loans/customer deposits (%)	42.93	50.52	46.74	47.68
Customer deposits/total liabilities (%)	59.73	62.42	58.18	66.96
Wholesale funding /total liabilities (%)	24.06	22.53	27.70	21.44
Retail deposits/customer deposits (%)	-	-	-	-

Note 1: N/A – not applicable.

Note 2: 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 3: JPMorgan Chase Bank (China)'s annual financial reports have been audited by PricewaterhouseCoopers.

Note 4: 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 5: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2].

Note 6: 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						
(2017-2019 three-year avg.)	JPMorgan Chase Bank (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	47.82	170.53	39.09	94.67	118.58	92.96
Gross customer loans (bil)	11.54	66.53	10.01	34.84	45.24	35.56
Customer deposits (bil)	23.95	131.07	16.31	56.63	76.08	42.57
Total equity (bil)	9.38	19.18	7.61	11.72	13.66	10.27
Operating income (bil)	1.12	5.89	1.07	2.41	3.20	1.87
Net income (bil)	0.33	2.06	0.20	0.76	1.05	0.44
Capital and Earnings						
Reported regulatory total capital adequacy ratio (%)	27.25	27.25	15.53	19.63	18.61	19.18
Reported regulatory tier 1 capital adequacy ratio (%)	26.60	26.60	12.56	18.44	17.24	18.37
NIM adjusted by S&P Global (China) Ratings (%)	1.78	2.11	1.15	1.60	1.63	1.58
Cost-to-income ratio (%)	63.72	74.94	44.33	61.21	58.13	64.68
Asset provisioning/pre-provision operating profits (%)	5.44	26.90	(20.83)	4.00	7.92	4.48
Loan provisioning/average gross customer loans (%)	0.03	0.38	(0.07)	0.09	0.13	0.04
Return on average assets (%)	0.68	1.22	0.31	0.72	0.81	0.72
Return on average equity (%)	3.55	11.37	2.59	5.65	6.97	4.39
Risk Position						
Non-performing loan ratio (%)	-	1.43	-	0.52	0.53	0.39
Loan loss reserves/gross customer loans (%)	2.33	2.95	2.23	2.47	2.43	2.40
Reserve coverage ratio (%)	N/A	5,854.95	240.77	1,505.21	1,530.87	479.20
Net write-offs/average gross customer loans (%)	-	0.48	-	0.25	0.26	0.21
Funding and Liquidity						
Customer loans/customer deposits (%)	48.31	91.53	48.31	65.58	64.55	61.09
Customer deposits/total liabilities (%)	62.52	86.51	49.39	63.25	68.32	57.25
Wholesale funding/total liabilities (%)	23.89	43.01	7.62	25.98	22.34	27.19
Retail deposits/customer deposits (%)	-	16.44	-	7.05	8.35	5.14

Note 1: N/A – not applicable.

Note 2: We have chosen five foreign bank subsidiaries, including Citibank (China), Mizuho (China), DBS (China), OCBC (China), and ANZ (China), for peer comparison purpose. For the calculation of asset-weighted average, the weights of JPMorgan Chase Bank (China), Citibank (China), Mizuho (China), DBS (China), OCBC (China), and ANZ (China) are 8.42%, 30.02%, 21.40%, 21.95%, 11.33% and 6.88% 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.

Appendix 3: Rating History

Issuer Credit Ratings of JPMorgan Chase Bank (China) by S&P Global (China) Ratings

Rating Type	Ratings	Outlook	Rating Date	Analysts	Related Reports
Initial Rating	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
Surveillance	AAA _{spc}	Stable	2021-02-24	Longtai Chen, Xiaochen Luan, Cong Cui	Current Report

Note: These ratings are conducted based on [S&P Global \(China\) Ratings Financial Institutions Methodology](#), and no quantitative model is used.

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