FitchRatings

Fitch Upgrades JPM's IDRs to 'AA-'/'F1+'; Outlook Stable

Fitch Ratings-New York-21 June 2018: Fitch Ratings has today upgraded JPMorgan Chase & Co's (JPM) Long- and Short-term IDRs(Issuer Default Ratings) to 'AA-'/'F1+' from 'A+'/'F1' with a Stable Outlook. Fitch has also upgraded JPM's Viability Rating (VR) to aa-. With today's action, JPMorgan Chase Bank, N.A.'s (JPMCB) Long-Term IDR was upgraded to 'AA' from 'AA-' and it's VR upgraded to 'aa-' from 'a+'. JPMCB's Short-Term IDR was affirmed at 'F1+'. There has been no change to JPM's and JPMCB's Support Ratings (SR) or Support Rating Floor (SRF).

The IDRs, VRs and senior debt ratings have all been upgraded due to the bank's strong company profile, which has resulted in consistent performance over the long term. JPM has outperformed its peer Global Trading and Universal Banks (GTUBs) and is solidly placed relative to its similarly rated global peers. The Stable Outlook reflects Fitch's view that JPM will continue to leverage its diversified business model, strong global franchise to produce consistent and stable earnings, while maintaining sufficient levels of capital and liquidity.

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks.

KEY RATING DRIVERS

IDRS, VRS AND SENIOR DEBT

JPM's ratings upgrade reflects the bank's strong company profile, with industry leading franchise and proven business model. JPM's underlying earnings capacity is a key strength driven by its dominant domestic franchise and growing international franchise, strong funding flexibility, given its deposit raising capabilities and uninterrupted access to the global capital markets through a variety of economic cycles, strong liquidity profile, solid capital ratios, and experienced management team, which has deep bench strength. Asset quality has also been strong, particularly relative to peer.

In addition, despite the firm's large capital markets business, JPM has demonstrated that, through time, its capital markets business has been a less volatile revenue contributor than peer firms. The capital markets contribution to total revenues has also been fairly stable over time. However, the lower volatility experienced in the post-crisis period, as well as the focus on flow business rather than proprietary trading, has aided this greater stability.

JPM is expected to remain on track to outperform peers in earnings performance for 2018. While first quarter 2018 was a record, Fitch does not expect to see such robust earnings for the rest of the year, but expects to see continued strong earnings on a core basis. Fitch estimates adjusted pre-tax earnings were up about 11.7% year over year, adjusting for net interest income and non-interest income were up 10.3% and 13.4% year over year, respectively, while operating expenses expanded 5.2%, led by compensation and continued investment in the business.

Net income of $8.7 billion yielded returns on equity and tangible equity of 15% and 19%, respectively, on a reported basis, which remain at the upper-end of the peer group. Results for 1Q18 included a $505 million pre-tax gain related to new recognition and measurement accounting guidance for mark-to-market gains on certain equity investments previously held at cost. This gain was largely offset by losses on investment securities and legacy private equity investments, legal expenses, and several other items.

JPM's overall credit quality remains solid, with consumer and wholesale net charge-offs (NCOs) of 1.2% and 0% at 1Q18, respectively, compared with 1.58% and (0.02)% for the comparable period in 2017. Consumer and business banking, residential and auto lending all saw improvements in NCOs, with credit card losses increasing continuing consumer asset quality normalization trend. Card losses rose 38 basis points (bps) year over year, to 3.32% in 1Q18, but management's medium target remains around 3.25%-3.5%. Fitch believes JPM's credit quality compares favorably to the peer group.

JPM's Basel III tier 1 common equity (CET1) ratio dropped to 11.8% at March 31, 2018, as earnings were offset by distributions, AOCI adjustments and higher risk-weighted assets, which increased due to market activity. Fitch expects JPM's CET1 ratio to remain in a range of 11% to 12%, which is management's long-term target though the potential stress capital buffer may require a larger capital buffer. The ratio has grown significantly in recent years, with an increase in retained earnings and the issuance of perpetual preferred securities, and the gap with peers has narrowed meaningfully. JPM remains in the lower quartile for its peer group in terms of Fitch Core Capital, though compares well on a TCE/TA or Basel Leverage Ratio basis. JPM's 11.8% CET1 reflects its fully phased in standardized approach which is its binding constraint as under the advanced approach the ratio would have been 12.5%.

JPM has increased its total payout target to about 100% to remain in its targeted capital range. Fitch views the payout as more aggressive relative to peer; however, it recognizes that the firm's earnings capacity allows it to quickly accrete capital.

JPM created an intermediate holding company, JPMorgan Chase Holdings LLC (IHC), as part of its resolution plan. Under this structure, JPM's holding company has contributed substantial liquidity and capital to IHC, which it will then hold for the benefit of material entities. IHC is not expected to have third-party debt. Instead, it will channel capital and liquidity among material entities as and when required to supplement pre-positioned resources at these entities. This structure is designed to prevent capital and liquidity provided by IHC from becoming unduly trapped in any legal entities, thus improving the likelihood of an orderly resolution. A committed credit facility from IHC will be in place to supplement dividends from IHC and JPMCB, allowing liquidity to flow to the holding company under business as usual (BAU) terms in order to service holding company obligations.

The new structure has resulted in a meaningful increase in double leverage (176% at 1Q17), above 120%, which is a sensitivity outlined in criteria that would typically result in additional notching between JPM and its operating subsidiaries. However, the agency believes specific protections within the legal structure make it appropriate to look through the IHC when calculating double leverage and will provide for uninterrupted liquidity availability from the IHC under BAU. Additionally, Fitch believes that core double leverage, or double leverage assuming the IHC did not exist, will remain below 120%.

From a liquidity perspective, JPM's high-quality liquid assets (HQLA) remained strong, at $539 billion in the quarter, which was down $21 billion from YE2017 due to a decline in average cash HQLA resulting from client driven markets activity and debt maturities. Loans-to-deposits were 63% at quarter-end, which remains below the peer average. The bank's funding flexibility and access to the capital markets is a rating strength.

Fitch views management and governance as sound, with a deep bench of strength across its business units. The firm has several potential successors to CEO Jamie Dimon.

The Stable Outlook reflects expectations for continued operating consistency, superior funding flexibility, strong liquidity, and the maintenance of sufficient cushion on regulatory capital requirements. JPM has been successful adapting its business model to the evolving regulatory landscape and is expected to continue to make adjustments in order to optimize its capital structure.

The VRs remain equalized between JPM and its material operating subsidiaries. The common VR of JPM and its operating companies reflects the correlated performance, or failure rate between JPM and these subsidiaries. Fitch takes a group view on the credit profile from a failure perspective, while the IDR reflects each entity's non-performance (default) risk on senior debt. Fitch believes that the likelihood of failure is roughly equivalent, while the default risk at the operating companies that given a higher IDR would be lower given a sufficient qualifying junior debt (QJD) buffer in the form of TLAC at the BHC for domestic subsidiaries and internal, pre-positioned TLAC or QJD at JPMorgan AG and J.P. Morgan Securities plc. All U.S. bank subsidiaries carry a common VR, regardless of size, as U.S. banks are cross-guaranteed under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA).

DERIVATIVE COUNTERPARTY RATINGS
DCRs have been upgraded for JPM, JPMorgan Chase Bank N.A. and Bear Stearns Companies, LLC because they either have significant derivatives activity or are counterparties to Fitch-rated structured finance transactions. The DCRs are at the same level as the respective companies' Long-Term IDRs because they have no definitive preferential status over other senior obligations in a resolution scenario and therefore their ratings will move in line with the IDR.

SUPPORT RATING AND SUPPORT RATING FLOOR
The SR and SRF reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that JPM becomes non-viable. In Fitch's view, implementation of the Dodd Frank Orderly Liquidation Authority legislation is now sufficiently progressed to provide a framework for resolving banks that is likely to require holding company senior creditors participating in losses, if necessary, instead of or ahead of the company receiving sovereign support.

Any upward revision of the SR and SRF would be contingent on a positive change in the U.S.'s propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

The '1' Support Ratings for J.P. Morgan AG and J.P. Morgan Bank Luxembourg reflect Fitch's view that these entities are integral to JPM, and whose default would constitute significant reputational risk to its parent, thus increasing JPM's propensity to provide extraordinary support, if required.

J.P. Morgan Securities plc was also assigned a '1' Support Rating to reflect Fitch's view that it is also integral to JPM; its default would constitute significant reputational risk to its parent, thus increasing JPM's propensity to provide extraordinary support if required. The entity is a UK bank, and the primary UK arm for investment banking and capital markets activity for JPM and is designated a Material Legal Entity for U.S. regulatory resolution purposes.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital issued by JPM and its subsidiaries are all notched down from the common VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

Subordinated debt issued by the operating companies is rated at the same level as subordinated debt issued by JPM reflecting the potential for subordinated creditors in the operating companies to be exposed to loss ahead of senior creditors in JPM. Subordinated lower Tier 2 debt is rated one notch below the VR for loss severity, reflecting below average recoveries. These ratings were upgraded in tandem with the VR.

Legacy Tier 1 securities are generally rated four notches below the VR, made up of two notches for high loss severity relative to average recoveries, and two further notches for non-performance risk, reflecting the fact that coupon omission is not fully discretionary. Due to the higher VR rating these legacy instruments were also upgraded.

JPM's preferred stock (Additional Tier 1) instruments are rated five notches below the VR. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are also notched down three times for very high non-performance risk, reflecting fully discretionary coupon omission. Given the VR upgrade, these instruments were also upgraded.

DEPOSIT RATINGS
The uninsured deposit ratings of JPMorgan Chase Bank N.A. and Chase Bank USA, N.A. are rated one notch higher than the banks' IDRs and senior unsecured debt because U.S. uninsured deposits benefit from depositor preference. U.S. depositor preference gives deposit liabilities superior recovery prospects in the event of default. Therefore, the deposit ratings were also upgraded with today's upgrade to the IDRs of the banks.

SUBSIDIARY AND AFFILIATED COMPANY
The Long-Term IDRs for the material U.S. operating entities are rated one notch above JPM's to reflect Fitch's belief that the U.S. single point of entry (SPE) resolution regime, the likely implementation of total loss absorbing capital (TLAC) requirements for U.S. G-SIBs, and the presence of substantial holding company debt, reduces the default risk of domestic operating subsidiaries' senior liabilities relative to holding company senior debt. In Fitch's view these buffers would provide substantial protection to senior unsecured obligations in the domestic operating entities in the event of group resolution, as they could be used to absorb losses

and recapitalize operating companies. Therefore, substantial holding company debt reduces the likelihood of default on operating company senior obligations. With today's rating action the subsidiary entities were also upgraded by one notch due to the large amount of qualifying junior debt available to them.

JPM's 'F1+' Short-Term IDRs and those of its bank subsidiaries reflect the current mapping between short and long-term IDRs. Today's upgrade of JPM to 'AA-' also resulted in and upgrade to 'F1+' for JPM and its non-bank operating subsidiaries.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

With today's rating action, Fitch does not believe there is any more upward rating momentum for JPM as it is now among the highest rated banks in the world and its deposit ratings are rated 'AA+'.

Negative rating actions could result from reputational damage or legal sanctions that impact the firm's market position and/or material asset quality weakening, which pressures JPM's earnings and its ability to build capital, deterioration in liquidity levels, material and unexpected litigation losses, and/or failure to address noted deficiencies in the firm's resolution plan that results in increased capital requirements and places the firm at a competitive disadvantage. Further, significant risk management or operational failures that result in material losses to the firm could also result in a negative rating action.

DERIVATIVE COUNTERPARTY RATING
DCRs are primarily sensitive to changes in the respective issuers' Long-Term IDRs. In addition, they could be upgraded to one notch above the IDR if a change in legislation (for example as recently proposed in the EU) creates legal preference for derivatives over certain other senior obligations and, in Fitch's view, the volume of all legally subordinated obligations provides a substantial enough buffer to protect derivative counterparties from default in a resolution scenario.

SUPPORT RATING AND SUPPORT RATING FLOOR
JPM's Support and Support Rating Floors are '5' and 'NF', respectively, and there is limited likelihood that these ratings will change over the near future.

Any upward revision of the SR and SRF would be contingent on a positive change in the U.S.'s propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.
The SRs for J.P. Morgan AG, J.P. Morgan Bank Luxembourg and J.P. Morgan Securities plc are sensitive to changes in our assessment of JPM's ability to

provide extraordinary support to these entities as well as their importance to the rest of the group.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
The ratings for JPM and its subsidiaries' subordinated debt and other hybrid capital ratings are primarily sensitive to a change in JPM's VRs. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

LONG- AND SHORT-TERM DEPOSIT RATINGS
The Long-and Short-Term deposit ratings are sensitive to any change in JPM's Long-and Short-Term IDR.

SUBSIDIARY AND AFFILIATED COMPANIES
Given that JPM's and the bank's VRs remain equalized, the bank's ratings are broadly sensitive to the same considerations that might affect JPM's VR.

Fitch has upgraded the following ratings:

JPMorgan Chase & Co
--Long-Term IDR to 'AA-' from 'A+';
--Long-Term senior debt to AA-' from 'A+';
--Long-Term subordinated debt to 'A+' from 'A';
--Derivative Counterparty Rating to 'AA-(dcr)' from 'A+(dcr)';
--Junior Subordinated Debt to 'BBB+' from 'BBB';
--Preferred stock to 'BBB' from 'BBB-';
--Short-Term IDR to 'F1+' from 'F1';
--Commercial paper to 'F1+' from 'F1';
--Viability to 'aa-' from 'a+'.

JPMorgan Chase Bank N.A.
--Long-Term deposits to 'AA+' from 'AA';
--Long-Term IDR to 'AA' from 'AA-';
--Long-Term senior debt to 'AA' from 'AA-';
--Long-Term subordinated debt to 'A+' from 'A';
--Derivative Counterparty Rating to 'AA(dcr)' from 'AA-(dcr)';
--Viability to 'aa-' from 'a+'.

Chase Bank USA, N.A.
--Long-Term deposits to 'AA+' from 'AA';
--Long-Term IDR to 'AA' from 'AA-';

--Long-Term senior debt to 'AA' from 'AA-';
--Long-Term subordinated debt to 'A+' from 'A';
--Viability to 'aa-' from 'a+'.

JPMorgan Bank & Trust Company, National Association
--Long-Term deposits to 'AA+' from 'AA';
--Long-Term IDR to 'AA' from 'AA-';
--Viability to 'aa-' from 'a+'.

JPMorgan Chase Bank, Dearborn
--Long-Term deposits to 'AA+' from 'AA';
--Long-Term IDR to 'AA' from 'AA-';
--Viability to 'aa-' from 'a+'.

Bear Stearns Companies LLC
--Long-Term IDR to 'AA-' from 'A+';
--Long-Term senior debt to AA-' from 'A+';
--Derivative Counterparty Rating to 'AA-(dcr)' from 'A+(dcr)';
--Short-Term IDR to 'F1+' from 'F1'.

J.P. Morgan Securities LLC
--Long-Term IDR to 'AA' from 'AA-'.

J.P. Morgan Securities plc
--Long-term IDR to 'AA' from 'AA-'.

J.P. Morgan AG
--Long-term IDR to 'AA'.

J.P. Morgan Bank Luxembourg
--Long-term Issuer Default Rating (IDR) to 'AA-' from 'A+';
--Short-term IDR to 'F1+' from F1.

Bank One Capital Trust III
--Preferred stock to 'BBB+' from 'BBB'.

Bank One Corp
--Long-Term subordinated debt to 'A+' from 'A'.

JP Morgan & Co., Inc.
--Long-Term senior debt at 'AA-' from 'A+';
--Long-Term subordinated debt to 'A+' from 'A'.

Morgan Guaranty Trust Co. of New York
--Long-Term senior debt to 'AA' from 'AA-'.

NBD Bank, N.A. (MI)
--Long-Term subordinated to 'A+' from 'A'.

The following ratings have been affirmed:

JPMorgan Chase & Co
--Support at '5'';
--Support Floor at 'NF'.

JPMorgan Chase Bank N.A.
--Short-Term IDR at 'F1+';
--Short-Term debt at 'F1+';
--Short-Term deposits at 'F1+';
--Support at '5';
--Support Floor at 'NF'.

Chase Bank USA, N.A.
--Short-Term IDR at 'F1+';
--Short-Term debt at 'F1+';
--Short-Term deposits at 'F1+';
--Support at '5'';
--Support Floor at 'NF'.

JPMorgan Bank & Trust Company, National Association
--Short-Term IDR at 'F1+';
--Short-Term deposits at 'F1+';
--Support at '5';
--Support Floor at 'NF'.

JPMorgan Chase Bank, Dearborn
--Short-Term IDR at 'F1+';
--Short-Term deposits at 'F1+';
--Support at '5';
--Support Floor at 'NF'.

J.P. Morgan Securities LLC
--Short-Term IDR at 'F1+';
--Short-Term debt at 'F1+'.

J.P. Morgan Securities plc

--Short-term IDR at 'F1+'.

J.P. Morgan AG
--Short-term IDR 'F1+';
--Short-term deposit rating 'F1+';
--Support Rating '1'.

J.P. Morgan Bank Luxembourg
--Support Rating of '1'.

Fitch has assigned the following rating:

J.P. Morgan Securities plc
--Support Rating '1'.

The Rating Outlook is Stable.

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

(https://www.fitchratings.com/site/re/10023430)
Non-Bank Financial Institutions Rating Criteria (pub. 22 Mar 2018)
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