



# STANDISH



## JPMorgan Chase Bank

**RATING:** Q2  
**Other Ratings as of:** December 2008  
**Moody's:** Aaa  
**S & P:** AA-  
**Fitch:** AA-

**State of Domicile:** Delaware  
**Holding Company:** J.P. Morgan Chase & Company

**J**P Morgan Chase Bank is a wholly-owned subsidiary of J.P. Morgan Chase & Company (JPM). Following two large mergers in the past eight years (Chase Manhattan in 2000 and Bank One in 2004), JPM today is one of the three largest banks in the US, with \$1.6 trillion in assets, 170,000 employees and operations in 50 countries.

In 2008, JPM received \$25 billion in Troubled Asset Relief Program (TARP) funds from the US Treasury. JPM maintains that they did not need the capital, but they are using it to make loans and add liquidity to the financial markets. In acquisitions, JPM agreed in March to acquire Bear Stearns, the investment bank that almost failed due to mortgage losses. The Federal Reserve Bank of New York provided \$30 billion to cover any losses JPM might have with the assets acquired from Bear Stearns. JPM announced in November 2008 that it will acquire UBS Commodities Canada Ltd., the Canadian energy operations of UBS AG, as well as the firm's global agricultural business. Additionally, JPM announced that it would be buying the banking operations unit from Washington Mutual, which was taken over by the FDIC in November after suffering significant losses caused by mortgage-related losses.

JPM has six major business lines and is competitive in each. By line of business, 2007 earnings were split as follows: Investment Bank, 20%, Retail Financial Services, 20%, Card Services, 19%, Corporate 12%, Asset Management 13%, Treasury and Securities Services, 9% and Commercial Banking 7%. Investment banking provides loan syndication, underwriting and merger and acquisitions services. Retail Financial Services houses consumer and small business loans, residential lending, insurance, and operates the fourth largest branch network in the US, with 3,152 branches, 9,186 ATMs and \$207 billion in core deposits. Card Services had \$149 billion in managed receivables at year-end. Through Commercial Lending, JPM is the nation's second largest middle market lending group and is a strong commercial real estate and asset-based lender. Asset and Wealth Management services institutional, high-net-worth and retail investors and advisors and has \$1.2 trillion in assets under management. Treasury and Securities Services is one of the world's largest cash management providers and one of the world's largest custodians.

In 2007, JPM's results were hurt by volatility in capital markets, although net income was up 13% to \$15.4 billion, a better performance than most peers. ROE for the year was 13%, up from 12% in 2006. Investment banking net

income fell 15% to \$3.1 billion, although JPM remained ranked #1 in global syndicated loans, #1 in credit derivatives, #1 in global investment banking fees and #2 in global equity and equity—related. Within the investment bank, JPM maintained at year-end \$26.4 billion of funded and unfunded leveraged loan commitments with gross markdowns exceeding 6% (the markdowns taken were in line with other leveraged loan providers). JPM has \$2.7 billion in subprime exposure (direct and through CDOs), offset by \$2 billion in hedges and short positions. JPM also has \$5.5 billion in CDO warehouse and unsold positions as of year-end, with 92% of the underlying related to corporate credit and reportedly negligible subprime exposure. Lastly, the investment bank has \$15.5 billion in CMBS exposure and \$6.4 billion of Alt-A mortgage exposure. While together these potential problem areas are not small, in the scope of JPM's balance sheet, they are manageable. We do expect, however, that a weaker economic environment and/or continued capital markets volatility would produce additional write-downs in these areas in 2008.

Aside from investment banking, JPM's retail group performed relatively well in 2007, with JPM #2 in deposit market share nationally. Higher home equity reserves against anticipated higher mortgage-related losses weighed negatively on the group's earnings, however, and \$15.5 billion in subprime mortgage balances at year-end will also weigh down 2008 performance. JPM was one of only a few banks that added subprime exposure in 2007, believing that the risk/reward is now more appropriately priced in the market. Credit cards are also experiencing higher delinquency rates (3.48% 30 day delinquency at year-end, up from 3.13% year over year) and higher charge-offs (3.68% at year end, up from 3.33% y/y). Commercial banking had a strong year, and treasury and securities services continues to benefit from market volatility, with earnings up 28% over 2006, with a 32% pretax margin and 47% ROE.

JPM prides itself on a strong balance sheet and, in this current environment, it should serve the bank well. Tier 1 capital at year-end was 8.4% and JPM benefits from strong liquidity and funding. JPM management has publicly noted its ability and willingness to acquire other banks, although in recent years the bank has not acquired any other large competitors. Excess capital will be deployed to internal opportunities, to grow capital defensively and for acquisitions. JPM is one of a few US banks in a strong enough position starting in 2008 to be able to acquire others this year.

## JPMorgan Chase Bank

### Strengths:

- Large established and diversified global operations and services
- Over the last few years has demonstrated strong improvement in profitability measures
- Capital levels are adequate, with a new management team that values high levels of equity

### Weaknesses:

- Exposure to market sensitive areas creates earnings volatility
- Profitability, while improving, remains below peers

### Key Statistics — J.P. Morgan Chase & Co. (Heritage JPM)

| (\$ millions)            | 2007      | 2006      | 2005      | 2004      | 2003    | CAGR/<br>Average |
|--------------------------|-----------|-----------|-----------|-----------|---------|------------------|
| Total Assets             | 1,562,147 | 1,351,520 | 1,198,942 | 1,157,248 | 770,912 | 15.5%            |
| Equity                   | 123,211   | 115,790   | 107,211   | 105,653   | 46,154  | 23.8%            |
| Equity/Assets            | 7.89%     | 8.57%     | 8.94%     | 7.80%     | 5.86%   | 7.81%            |
| Net Income               | 15,365    | 14,444    | 8,483     | 4,466     | 6,719   | 56.0%            |
| Tier 1 Capital Ratio     | 8.50%     | 8.70%     | 8.50%     | 8.70%     | 8.40%   | 8.43%            |
| Total Capital Ratio      | 12.60%    | 12.30%    | 12.00%    | 12.20%    | 11.70%  | 12.16%           |
| Return on Average Assets | 1.05%     | 1.13%     | 0.72%     | 0.46%     | 0.87%   | 0.85%            |
| Return on Average Equity | 12.86%    | 12.96%    | 7.98%     | 5.88%     | 15.43%  | 11.02%           |

Source: Company reports and SEC filings.  
2007 figures are preliminary.



► A BNY MELLON ASSET MANAGEMENT COMPANY<sup>SM</sup>

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