

# Jp morganand chase annual report

[Business](#), [Accounting](#)



JPMorgan and Chase 2011 Financial Analysis Abbiton Mumba , Bomboma Douti, Thuy Doan, Tracy Nguyen [Type the company address] General Information: JPMorgan Chase (NYSE: JPM) is one of the oldest financial institutions in the United States with a history dating back over 200 years. JPMorgan and Chase is basically included Chase- the U. S. consumer and commercial banking businesses serve customers under the Chase brand. The consumer businesses include: Branch, ATM, telephone and online banking, Credit cards, Small business, Homefinanceand home equity loans, Auto finance, Educationfinance, Retirement & Investing, Retail Checking.

The commercial banking businesses include: Middle Market, Corporate Client Banking, Commercial Real Estate, Business Credit, Equipment Finance, Commercial Term Lending, Community Development. - and JPMorgan which is J. P. Morgan clients include the world's most prominent corporations, governments, wealthy individuals and institutional investors. These businesses use the J. P. Morgan brand: Investment Bank, Asset Management, Treasury Services, Worldwide Securities Services, Private Banking, Private Client Services, One Equity Partners.

The corporate headquarters are in 270 Park Avenue, Midtown, Manhattan, New York City, New York, and the retail and commercial bank is headquartered in Chase Tower, Chicago Loop, Chicago, Illinois, United States. The biggest event recently that JPMorgan anticipating in is acquisition of Washington Mutual in 2008. JPMorgan Chase raised \$10 billion in a stock sale to cover write-downs and losses after taking on deposits and branches of Washington Mutual Through the acquisition, JPMorgan now owns the

former accounts of Provident Financial, a credit card issuer Washington Mutual acquired in 2005.

The company announced plans to complete the rebranding of Washington Mutual branches to Chase by late 2009. JPMorgan and Chase has the fiscal year end Dec 31. Internet Information: The internet address of the corporation is [www.jpmorgan.com](http://www.jpmorgan.com). The website provides broad information. The most important section is the “ Investor relation” section. We can find Financial Information including annual report/ proxy statements, SEC filing, earning release, credit releases, Investor presentations , shareholder information including stock price history.

The purpose of website is describe the corporation, provide customer service information, promote the industry the corporate in, provide employment information, publicize corporate citizenship. The annual reports and other different reports can be found in the government website [www.sec.gov](http://www.sec.gov). The primary Standard Classification (SIC) is 6021 6029 6712 and the Central Index Key (CIK) number assigned to corporations that file with the SEC is 19617. The latest form 10-K is dated February, 29th, 2012. Basically, JPMorgan and Chase have a moderate change in the price of the common stock over the last two years.

The biggest downward slope is between September 2011 to December 2011 and then it continues to be upward sloping. This fall price considers a narrow price range. Income Statement Compared to last year, Revenue growth decreased by -5.3168%. A decreased of \$5,460,000,000. The decline in net revenue from 2010 was driven by lower net interest income, securities gains, mortgage fees related income, and principal transactions revenue, <https://assignbuster.com/jp-morgan-chase-annual-report/>

partially offset by higher asset management, administration and commission revenue and higher other income.

The increase in noninterest expense was driven largely by higher compensation expense, reflecting increased headcount. Despite the fact that the revenue lost than last year, over the last 5 year the company experienced the increased revenue due to net inflows to products with higher margins, higher deposit and loan balances, and the effect of higher average market levels. Growth in Revenue decreases than last year but Growth in profit increases by 9. 2458%. Although the Net Revenue of the current year is less than last year but Pre-provision profit on 2010 decreases from \$16, 639, 000, 000 to \$7, 574, 000, 000.

That reason makes Growth in profit during the current year increased by 9. 2458%. Common-size Analysis: | Current Year| Previous Year| Revenue| 100%| 100%| Non-interest Expense| 64. 70%| 59. 59%| Interest Expense| 13. 99%| 12. 45%| Income Tax Expense| 7. 99%| 7. 29%| Income from continuing operations| 27. 51%| 24. 21%| Net Income| 19. 52%| 16. 91%| In general chase's total non-interest expenses in 2011 rose 5. 11% higher than the total non-interest expense in 2010. The net income in 2010 seems lower than 2011 due to less operating and investment activities in 2010.

Apart the item labeled other expenses and amortization of intangibles; all the other expenses were slightly higher. The increase in non-interest expense was driven largely by higher compensation expense reflecting headcount. The operating cost as part of the non-interest expense was definitely higher compared to 2010. The higher headcount visibly explains this increase. The provision for credit lost was 8. 41% lower than the 2010

provision. This was due to the amelioration of collection from customers. Consumer business modestly improved and mortgage net charge-offs and delinquencies improved.

It is probably included in the item " other expenses" which were lower than 2010 but 6. 38% higher than 2009. Tax Burden: The total revenue in 2011 was 5. 62% lower than the revenue in 2011 but the bottom line was a lot higher than the previous year (2. 61%). The tax burden became consequently higher than the previous year; actually about 0. 7%. The increase in the tax burden due to the higher income in 2011 was definitely the result of the lower provision in credit loss in 2011. The provision in 2010 was about twice the provision in 2011, because of the lower interest revenue.

Profitability in 2011 was better than the one in 2010. As a percentage of total revenue, net income was 2. 61% higher than the one in 2010. Net income in 2011 was by itself 9. 2 % higher than the one in 2010. This was again the result of the lower provision for credit losses. The consumer portfolio also improved. The decline in 2010 was driven by lower net interest income, security gains, mortgage fees and related income. The other-than-temporary impairment losses are included in securities gains for the periods presented was \$27million in 2011 and \$94 million in 2010. Balance sheet JPMorgan Chase ; Co. s one of the oldest, largest and best-known financial institutions in the world. The firm's legacy dates back to 1799 and operates in more than 50 countries. JPMorgan and Chase is proved to be a mature firm with higher capital and liquidity. The Total Assets on the balance sheet grew \$148, 187 million, year ending Dec 31, 2011 from previous year ending Dec 31 2010

representing a percentage of 0.07. The change in Assets were partly due to the acquisition of RBS Sempra on July 1, 2010 and the transaction in 2011 of RBS Sempra which is a commodities' global oil, global metals and European power and gas businesses.

This acquisition almost doubled the number of clients the firm's commodities' business can serve and has enabled the firm to offer clients more products in more regions of the world. J. P Morgan Chase completed purchase of the remaining interest in High bridge, which resulted in \$228 million Capital surplus. Missing Common size analysis Cash Flow Statement: The cash flows resulting from operation activities in 2010 and 2011 were - \$3752 million and \$95, 932 million. The cash flow resulting from investing activities in 2010 and 2011 was \$54, 002 million and -\$170, 752.

The cash flow resulting from financing activities in 2010 and 2011 was -\$49, 217 million and \$107, 706 million. There was a significant increasing in cash \$ 32, 035 in 2011 and a little \$1, 361 million in 2010. The beginning in cash balance was \$27, 567 million and \$26, 206 million respectively in 2011 and 2010. The ending cash balance in 2011 and 2010 were \$59, 602 million and \$27, 567 million. There were three significant sources of cash which were from a hug number of net change in deposit, proceeds from long-term borrowings and trust preferred capital debt securities and from net earnings and sell securities.

The three most significant uses of cash were taken from acquisition of businesses or dispositions, purchase securities and loans out and proceed from sales, securitizations and pay downs of loans held-for-sale and net change in trading assets. Based on a comparison of the income statement to <https://assignbuster.com/jp-morgan-chase-annual-report/>

the statement of the cash flows, depreciation and amortization in intangible was add back to statement of cash flow and other-than-temporary impairment losses are included in securities gains for the periods presented, caused the greatest differences net income ( loss) and the cash flow from operation. Statement of changes in Stockholders' Equity:

The number of common shares outstanding has decreased over 3 years. On March 18, 2011, the Board of Directors approved a \$15. 0 billion common equity (i. e. , common stock and warrants) repurchase program, of which \$8. 95 billion was authorized for repurchase in 2011. The \$15. 0 billion repurchase program superseded a \$10. 0 billion repurchase program approved in 2007. During 2011 and 2010, the Firm repurchased (on a trade-date basis) an aggregate of 240 million and 78 million shares of common stock and warrants, for \$8. 95 billion and \$3. 0 billion, at an average price per unit of \$37. 35 and \$38. 9, respectively. The Firm did not repurchase any of the warrants during 2010, and did not repurchase any shares of its common stock or warrants during 2009. As of December 31, 2011, approximately 408 million unissued shares of common stock were reserved for issuance under various employee incentive, compensation, option and stock purchase plans, director compensation plans, and the warrants sold by the U. S. Treasury.

Retained Earnings:	fixed	Dec 31 2011	Dec 31 2010
Beginning Retained earnings (2008)	\$54, 013, 000, 000	Net Income \$944. 00, 000	\$1, 001, 000, 000
Ending Retained Earnings	\$88, 315, 000, 000	\$73, 998, 000, 000	

From the number above we can conclude that Retained earnings increased in 2008 to \$88, 315, 000, 000 from \$73, 998, 000, 000 in 2010. Notes and supporting schedules to the financial statements. Cash and

cash equivalents: the corporation define their cash equivalents by fund invested in US, T-bills, moneymarket account, demand deposits or small-denomination time deposit and other investment with a maturity of 3 months or less when purchase.

Account receivable: The corporation has the gross Account Receivable of \$89, 087 million current year and \$102, 413 million in 2010 reflects to 30. 9% and 31. 5% percentage of uncollectible. The lower the ratio the better, JPMorgan and Chase’s percentage uncollectible for 2011 is slightly better than 2010. The results of the receivable turnover in 2011 and 2010 were 1. 48 times and 2. 69 times respectively. The higher the turnover is the better. However, the current year 2011 is lower than the previous year 2010.

This is the result of the higher revenue in 2010. Inventories: N/A Property and Depreciation: The Corporation classified its property, plant and equipment into five categories: land, buildings, leasehold improvements, furniture and fixtures, hardware and software. JPMorgan Chase computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, the Firm uses the straight-line method computed over the lesser of the remaining term of the leased facility or the estimated useful life of the leased asset.

None of the assets were recognized as impaired during the current year. The Accumulated Depreciation increased from \$13, 355, 000, 000 of last year to \$14, 041, 000, 000 of current year. Despite the land or construction in progress, percentage of Fixed Asset Depreciation was approximately 23. 17% last year and 23. 26 % this year. For the percentage of fixed asset depreciation do not included land and construction in progress, there is

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slightly increased from last year to this year. The increase in premise and equipment was predominantly due to renovation of J.

P Morgan Chase's headquarters in New York City, the purchase of a building in London, retail branch expansion in the US, and investment in technology hardware and software, as well as other equipment. The increase was particularly offset by depreciation and amortization. This implies that in the future the company will spend more money on replacing the old equipment and that means it impacts on the capital expenditure on their financial statement. However, the company applies on the fixed asset turnover to generate revenue. The ratios are 7.50 times last year and 7.0 this year

Operating and Capitalized leases: JP Morgan Chase hasn't declared any capitalized leases in the 2011 10K. We do have a section devoted to operating leases. Obligation associated with operating leases in 2011 was \$2,228 million, and expense associated with operating leases in the current year is \$1,825 million. Payment for operating leases next year is \$1,753 million.

Long term debt: JPMorgan Chase issues long-term debt denominated in various currencies, although predominantly U. S. dollars, with both fixed and variable interest rates.

Included in senior and subordinated debt below are various equity-linked or other indexed instruments, which the Firm has elected to measure at fair value. Changes in fair value are recorded in principal transactions revenue in the Consolidated Statements of Income. The following table is a summary of long-term debt carrying values (including unamortized original issue discount, valuation adjustments and fair value adjustments, where

applicable) by remaining contractual maturity as of December 31, 2011. Most debts were JPMorgan Chase Capital.

The five largest debt were JPMorgan Chase Capital X \$1, 016 million in amount with the rate of 7%, JPMorgan Chase Capital XXV \$2, 292 million in amount with the rate of 6. 8% rate, JPMorgan Chase Capitals XXVI \$1, 815 million in amount with the rate of 8. 0% , JPMorgan Chase Capitals XXVIII \$1, 500 million in amount with the rate of 7. 2%, JPMorgan Chase Capitals XXIX \$1, 500 million in amount with the rate of 6. 7%. Those debts aren't due until next 30 years. JPMorgan and Chase don't have any significant debt payment outstanding.

Pension Plans: JPMorgan and Chase recognize in its statement of financial position the funded status of a benefit plan; measure defined benefit plan assets and obligations as of the end of the employer's fiscal year (with limited exceptions) and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise but are not recognized as components of net periodic benefit costs pursuant to prior existing guidance. JPMorgan and Chase don't have Defined Contribution Pension expense but Defined Benefit Pension with the expense of 11, 808 billion.

Defined benefit obligation in the current year: \$13461 millions for U. S and Non U. S plans. Fair value of the retirement plan assets at the end of the current year: At December 31, 2011 defined benefit pension plan amounts not measured at fair value included \$50 million. At the end of December 2011, the accumulated defined benefit pension obligation had a balance of (\$9, 008) million, but in my opinion, the plan is well funded. At December

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2011, the plan was said to have 2.6 billion balance overfunded. It is clearly stated in the notes that by December 31st 2011, the U. K plan was \$33 million unfunded.

Amount recognized on the balance sheet related to pension: \$ 1,429 million funded in the U. S, and a non-U. S balance of 160 million. The amount contributed to the defined benefit pension plan in 2011 was 37 million for the U. S and 169 million for the Non-US. \$540 million were paid to retirees in the U. S whereas 93million were paid to non U. S in 2011. Investments in the defined benefit pension fund are the Firm's U. S. defined benefit pension plan assets are held in trust and are invested in a well-diversified portfolio of equity and fixed income securities, real estate, cash and cash equivalents, and alternative investments (e. . , hedge funds, private equity, real estate and real assets). Non-U. S. defined benefit pension plan assets are held in various trusts and are also invested in well-diversified portfolios of equity, fixed income and other securities. Assets of the Firm's COLI policies, which are used to partially fund the U. S. OPEB plan, are held in separate accounts with an insurance company and are invested in equity and fixed income index funds. The investment policy for the Firm's U. S. defined benefit pension plan assets is to optimize the risk-return relationship as appropriate to the needs and goals using a global portfolio of various asset classes diversified by market segment, economic sector, and issuer. Assets are managed by a combination of internal and external investment managers. Periodically the Firm performs a comprehensive analysis on the U. S. defined benefit pension plan asset allocations, incorporating projected asset and liability data, which focuses on the short-and long-term impact of the asset allocation on

cumulative pension expense, economic cost, present value of contributions and funded status.

Postretirement Benefits other than Pensions: there is no expense associated with non-pension post-retirement benefit. Benefits obligation for the non-pension post-retirement benefit plan was \$999 million in 2011. Fair market value of assets held for non-pension post-retirement benefits plan was 1, 435 million in 2011. The plan is adequately funded. The fair market value of the post-retirement benefit plan has enough resources to operate. Amount recognized on the balance sheet related to the non-pension post-retirement plan was \$436 million.

Amount contributed to non-pension post retirement benefits during the current year is \$2 million, and amount of non-pension post retirement benefits paid to retirees during the current year is \$26 million. Income Taxes: The income tax expense for the current year in the income statement is \$7, 773 million and \$1, 693 million of the current year's income tax expense has been deferred to future periods. The effective tax rate for current year is 29. 1%. There are two types of Income taxes disclosed on the notes: Gross deferred tax asset is \$27, 632 million and Gross deferred tax liability is \$12, 856 million.

As the results, the Net deferred tax amount is \$14, 776 million. The significant activities resulted in recognition of deferred tax liabilities that are not yet due to a tax authority are depreciation and amortization, leasing transactions, non-US transaction and others. On other hand, the significant activities led to the recognition of deferred tax assets will be utilized in the future are allowance for loan losses, employee benefits, accrued expenses

and others, non-US operations, tax attribute carry forwards. Stock-Based Compensation: MISSING Segmental and Geographic Information: JPMorgan Chase & Co. JPMorgan Chase) is a financial holding company. The Company is a global financial services firm and a banking institution in the United States, with global operations. The Company is engaged in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, asset management and private equity. JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association, a national bank with the United States branches in 23 states, and Chase Bank USA, National Association, a national bank that is the Company's credit card-issuing bank.

The bank and non-bank subsidiaries of JPMorgan Chase operate nationally, as well as through overseas branches and subsidiaries, representative offices and subsidiary foreign banks. One of the Company's principal operating subsidiaries in the United Kingdom is J. P. Morgan Securities Ltd. , a subsidiary of JPMorgan Chase Bank; N. A. JPMorgan Chase's activities are organized into six business segments, as well as Corporate/Private Equity. JPMorgan Chase's activities are organized into six business segments, as well as Corporate/Private Equity.

The Company's wholesale businesses comprise the Investment Bank (IB), Commercial Banking (CB), Treasury & Securities Services (TSS) and Asset Management (AM) segments. The Company's consumer businesses comprise the Retail Financial Services (RFS) and Card Services & Auto (Card) segments. Contingencies: NEED TO FIX Probable Litigation: The Firm has established reserves for several hundred of its currently outstanding legal

proceedings. The Firm accrues for potential liability arising from such proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated.

The Firm evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downwards, as appropriate, based on management's best judgment after consultation with counsel. During the years ended December 31, 2011, 2010 and 2009, the Firm incurred \$4.9 billion, \$7.4 billion and \$161 million, respectively, of litigation expense. There is no assurance that the Firm's litigation reserves will not need to be adjusted in the future.

Mortgage Foreclosure Investigations and litigation: JPMorgan Chase and four other firms have agreed to a settlement in principle (the "global settlement") with a number of federal and state government agencies, including the U. S. Department of Justice, the U. S. Department of Housing and Urban Development, the Consumer Financial Protection Bureau and the State Attorneys General, relating to the servicing and origination of mortgages. The global settlement, which is subject to the execution of a definitive agreement and court approval, calls for the Firm to, among other things: (i) make cash payments of approximately \$1. billion (a portion of which will be set aside for payments to borrowers); (ii) provide approximately \$500 million of refinancing relief to certain "underwater" borrowers whose loans are owned by the Firm; and (iii) provide approximately \$3.7 billion of additional relief for certain borrowers, including reductions of principal on first and second liens, payments to assist with short sales, deficiency balance waivers on past foreclosures and short sales,

and forbearance assistance for unemployed homeowners. If the Firm does not meet certain targets for provision of the refinancing or other borrower relief within certain prescribed time periods, the Firm will instead make cash payments. ) In addition, under the global settlement the Firm will be required to adhere to certain enhanced mortgage servicing standards. Overdraft Fee/Debit Posting Order Litigation: JPMorgan Chase Bank, N. A. has been named as a defendant in several purported class actions relating to its practices in posting debit card transactions to customers' deposit accounts.

Plaintiffs allege that the Firm improperly re-ordered debit card transactions from the highest amount to the lowest amount before processing these transactions in order to generate unwarranted overdraft fees. Plaintiffs contend that the Firm should have processed such transactions in the chronological order they were authorized. Plaintiffs seek the disgorgement of all overdraft fees paid to the Firm by plaintiffs since approximately 2003 as a result of the re-ordering of debit card transactions.

The claims against the Firm have been consolidated with numerous complaints against other national banks in multi-District litigation pending in the United States District Court for the Southern District of Florida. The Firm's motion to compel arbitration of certain plaintiffs' claims was initially denied by the District Court. On appeal, the United States Court of Appeals for the Eleventh Circuit vacated the District Court's order and remanded the case for reconsideration in light of a recent ruling by the United States Supreme Court in an unrelated case addressing the enforcement of an arbitration provision in a consumer product agreement.

The Firm has reached an agreement in principle to settle this matter in exchange for the Firm paying \$110 million and agreeing to change certain overdraft fee practices. The settlement is subject to documentation and court approval. Service Members Civil Relief Act and Housing and Economic recovery Act Investigations and litigation: multiple government officials have conducted inquiries into the Firm's procedures related to the Service Members Civil Relief Act (" SCRA") and the Housing and Economic Recovery Act of 2008 (" HERA").

These inquiries were prompted by the Firm's public statements about its SCRA and HERA compliance and actions to remedy certain instances in which the Firm mistakenly charged active or recently-active military personnel mortgage interest and fees in excess of that permitted by SCRA and HERA, and in a number of instances, foreclosed on borrowers protected by SCRA and HERA. The Firm has implemented a number of procedural enhancements and controls to strengthen its SCRA and HERA compliance.

In addition, an individual borrower filed a nationwide class action in United States District Court for South Carolina against the Firm alleging violations of the SCRA related to home loans. The Firm agreed to pay \$27 million plus attorneys' fees, in addition to reimbursements previously paid by the Firm, to settle the class action. Additional borrowers were subsequently added to the class, and the Firm agreed to pay an additional \$8 million into the settlement fund. The court entered a final order approving the settlement in January 2012. Reasonable Possible:

The Firm believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is

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from \$0 to approximately \$5.1 billion at December 31, 2011. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which the Firm is involved, taking into account the Firm's best estimate of such losses for those cases for which such estimate can be made. For certain cases, the Firm does not believe that an estimate can currently be made.

The Firm's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many are currently in preliminary stages), the existence in many such proceedings of multiple defendants (including the Firm) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings.

Accordingly, the Firm's estimate will change from time to time, and actual losses may be more than the current estimate. Auction Rate Securities Investigations and Litigation: Beginning in March 2008, several regulatory authorities initiated investigations of a number of industry participants, including the Firm, concerning possible state and federal securities law violations in connection with the sale of auction-rate securities.

The market for many such securities had frozen and a significant number of auctions for those securities began to fail in February 2008. The Firm also faces a number of civil actions relating to the Firm's sales of auction-rate securities, including a putative securities class action in the United States District Court for the Southern District of New York that seeks unspecified

damages, and individual arbitrations and lawsuits in various forums brought by institutional and individual investors that, together, seek damages totaling approximately \$50 million.

The actions generally allege that the Firm and other firms manipulated the market for auction-rate securities by placing bids at auctions that affected these securities' clearing rates or otherwise supported the auctions without properly disclosing these activities. Some actions also allege that the Firm misrepresented that auction-rate securities were short-term instruments. The lawsuits are being coordinated before the federal District Court in New York.

Additionally, the Firm was named in two putative antitrust class actions. The actions allege that the Firm, along with numerous other financial institution defendants, colluded to maintain and stabilize the auction-rate securities market and then to withdraw their support for the auction-rate securities market. In January 2010, the District Court dismissed both actions. An appeal is pending in the United States Court of Appeals for the Second Circuit.

Interim (Quarterly Reporting: During the current year 2011, the company's revenue for 1st quarter is \$25, 221 million, 2nd quarter is \$26, 779 million, 3rd quarter is \$23, 763 million and 4th quarter is \$21, 471 million. There is a significant fluctuation in quarterly data because It experienced a decrease in revenues during the current year from 1st quarter to 4th quarter. Report of independent Auditors: Auditor is PricewaterhouseCoopers LLP located at 300 Madison Avenue New York, NY 10017. The auditor believes that the financial statements were presented fairly.

Their opinion is stated as follow: In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase ; Co. and its subsidiaries (the “ Firm”) at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the Firm maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Report of Internal control: Management of JPMorgan Chase ; Co. (“ JPMorgan Chase “ or the “ Firm”) is responsible for establishing and maintaining adequate internal control over financial reporting. The same authority, Management of JPMorgan Chase ; Co. “ JPMorgan Chase “ or the “ Firm”) is responsible for maintaining adequate internal control over financial reporting. The auditor does believe that the corporation maintained adequate internal control over financial reporting. Here is their opinion: “ in our opinion, the Firm maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ratio Analysis Analysis of profitability: The profit margins were 16. 1% and 19. 52 % to the following 2010 and 2011 year end. The increase in

profit margin due to the advantage of the allowance for losses, noninterest revenue and interest expense. Interest income and interest expense is recorded in the Consolidated Statements of Income and classified based on the nature of the underlying asset or liability. Interest income and interest expense includes the current-period interest accruals for financial instruments measured at fair value, except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with U.

S. GAAP absent the fair value option election; for those instruments, all changes in fair value including any interest elements, are reported in principal transactions revenue. For financial instruments that are not measured at fair value, the related interest is included within interest income or interest expense, as applicable. The corporation has the return on assets of 0.86% in 2011 and 0.79% in 2010. The returns on assets were significant low compare to return on stockholder's equity of 10.5% in 2011 and 9.66% in 2010. In general, JPMorgan and Chase is a big corporation, but they had a tight controlled and managed very well. Therefore, their earning is improved and very stable in recent year although the economy looks doom. Earnings per share ("EPS") is calculated under the two-class method under which all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities based on their respective rights to receive dividends.

JPMorgan Chase grants restricted stock and RSUs to certain employees under its stock-based compensation programs, which entitle recipients to receive non-forfeitable dividends during the vesting period on a basis equivalent to

the dividends paid to holders of common stock; these unvested awards meet the definition of participating securities. Options issued under employee benefit plans that have an anti-dilutive effect are excluded from the computation of diluted EPS. EPS in 2011 was \$4.50 compare to 2010 of \$ 3.98. This increase is the result of increasing in net income in 2011 due to better management.

The corporation does disclose the diluted EPS with \$4.48 in 2011 and \$3.96 in 2010. Cash dividend per share in 2011 was \$ 0.94 dollar per share and \$0.36 dollar per share in 2010. Dividend payout ratio for 2010 was 16% and 35% in 2011. Price/ Earning ratio also improves between 2010 with 9.26 times and 2011 with 9.62 times. In the past decade, the average P/E ratio for Major Corporation has ranged from 14 to 25. JPMorgan and Chase's P/E was below the range about 5 points. However, we can't say that JPMorgan and Chase is no t growing.

JPMorgan Corporation is huge plus with the gloomy economy right now, but this corporation still generates profitability while other corporation in the same industry is struggling. This tell us that JPMorgan is a stable for a long run. Analysis of Liquidity: JPMorgan and Chase had the current (working capital) ratio in 2011 of 1.55: 1 and 1.71: 1 in 2010. Net working capital was \$964, 168 million in 2011 and \$932, 220 in 2010. Quick (Acid -Test) ratios were 0.28: 1 in 2011 and 0.31: 1 in 2010. The liquidity position of the corporation weakened a little in 2011.

Although there was an increase in cash and receivables in 2011, there was less account receivable compared to 2010. There was also a large increase in current liabilities in 2011, because of the increase in deposit. Based on <https://assignbuster.com/jp-morgan-chase-annual-report/>

this, JP Morgan Chase should be able to meet its current obligation even though the ratio was a little down compare to the previous year of 2010. Since it is a big and sustainable corporation in the financial industry, there is rarely a change for them to have a problem with the working capital. Analysis of Solvency: Debt to total Assets in 2011 was 91. 8% and 91. 6% in 2010.

There is not much difference between the debt to assets ratio showing the amount of leverage JP Morgan Chase used to finance its operations between the year 2011 and the year 2010.. The rule of thumb is to make sure that the bottom which is the assets is larger than the top which is the liabilities. The ratio of 91. 8% percent for the year 2011 and 91. 6% for the year 2010 at first glance would give an impression of a company which is over leveraged. This is not the case, JPMorgan Chase Debt to Assets ratio is very consistent with the banking industry standards especially banks of JPMorgan Chase size. Banks make money by lending other peoples money. It never hurts however, to bring the ratio a little lower as it would give the bank more space to maneuver should there be a financial melting in the general economy like the one experienced in 2008. Potential lenders would prefer the ratio to be as lower as much as possible because that would show that the company has more Assets than Liabilities which can help the company pay its debt when it's due or assets that can be liquidated to pay its lenders should the company end up in liquidation. Missing Time Interest Earned Ratio Industry Competitor Comparison:

A close competitor of JPMorgan Chase is Bank of America Corporation. The difference between these large banks is that Bank of America is primarily a  
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bank operating in other financial services while J. P. Morgan is an investment firm also operating as a bank. It has offices in more than 60 countries of the world. Both companies have relatively similar gross profit percentages; but percentages changed if we go down to income from continuing operations of both companies. As we see on the table 3, we know that the Net income from continuing operations of JP Morgan Chase is greater than Bank of America Corporation.

This shows that Chase is good at managing costs on other income and expenses besides selling general and administrative and others. On the balance sheets, we both see the similar common-size on total assets of both companies. Another difference between two of them is the profitability. As we see on Table 3, profit margin of Chase bank is higher due to net income (gain) while Bank of America experiences a net loss. Return on asset for both companies are pretty low on last year. Return on equity for Chase bank is higher that means the shareholders earn a sufficient return on their equity investment.

The major different on Profitability ratio between two companies is the dividend payout ratio which is the Bank of America is way too high. It indicates the company pays high dividends whose stock price is temporary not good. Moreover, a high dividend payout ratio can also point to a mature company with few growth opportunities. On other hand, Chase bank has low dividend payout ratio that we know Chase is a fast-growing company whose shareholders willingly forego cash dividends, because the company uses the extra money to generate higher returns and, in turn, a high stock price.

As a conclusion, JP Morgan Chase is more profitable than Bank of America Corporation. Compared on the liquidity ratios, both companies meet their requirements on pay their liabilities on time. If we take down to Acid test, we easily understand Bank of America has more liquid assets available to pay its current debts. On the debt ratio, both companies' ratios are over 0.5 which means both companies' assets are financed through debts. On the Time interest earned ratio, JP Morgan Chase is little bit higher which is better since Bank of America Corporation Company has more debts.

Last but not least, Operational ratios are very similar and they both efficiently know how to use the assets on sales. As the whole comparison between two biggest bank firms, I think they are overall doing very well on managing their companies. Taking on to the details, JP Morgan Chase has more probability on sales. Bank of America is still doing fine but if I prefer invest on JP Morgan Chase' stock.

JP Morgan ; Chase	Bank of America Corp.
Gross Profit/Sales	92.0%
Income from Continuing Operations/Sales	19.5%
Current Assets/Total Assets	42.5%
Current Liabilities/Total Assets	71.4%
Equity/Total Assets	8.1%
Profit Margin	19.5%
Return on Assets	0.9%
Return on Equity	10.6%
Dividend Payout Ratio	18.0%
Current Ratio	0.62 : 1
Quick Ratio	0.27 : 1
Debt/Total Assets	0.92
Times Interest Earned (Accrual)	3.00
Receivable Turnover	1.5



Inventory Turnover| N/A| | N/A| | © 2008 William R. Pasewark| | | | | | | | |

Making Decision based on annual report Total net revenue for 2011 was \$97.2 billion, a decrease of \$5.5 billion, or 5%, from 2010. Results for 2011 were driven by lower net interest income in several businesses, lower securities gains in Corporate/Private Equity, lower mortgage fees and related income in RFS, and lower principal transactions revenue in Corporate/Private Equity. These declines were partially offset by higher asset management fees, largely in AM. Investment banking fees decreased from 2010, predominantly due to declines in equity and debt underwriting fees. The impact from lower industry-wide volumes in the second half of 2011 more than offset the Firm's record level of debt underwriting fees in the first six months of the year. Advisory fees increased for the year, reflecting higher industry-wide completed M&A volumes relative to the 2010 level. Management discussion and analysis) Revenues increased from 2009 to 2010 by 2.25%. The increase came in part from noninterest income, securities and principal transactions. The economy will be the most important factor on the banking industry in the next year. The mortgage industry is still hurting even if it shows some signs of improvement. JP Morgan showed a net profit of at 5 billion this first quarter of the year, but it is hard to predict if the total revenue at the end of the year would match the previous year's revenues.

Next year's revenue is probably going to be in the 100-103 billion range. JP Morgan Chase's income comes from diverse business units. The total revenues increased 2.25% from 2009 to 2010. The increase came from asset management, the noninterest revenue, the security gains and the item marked other income. Also the reduction in the allowances for credit losses

for mortgages and credit cards as a result of improved delinquency trends and lower estimated losses reflected the net revenue increase. Principal transactions revenue increased compared with 2009.

This was driven by the Private Equity business, which had significant private equity gains in 2010, compared with a small loss in 2009, reflecting improvements in market conditions. Net income next year could be in the 19 to 20 billion range. In my opinion, JP Morgan chase's assets will have a stable growth in the next few years. Despite the visible improvement in the economy, the banking industry is not likely to record rapid growth in the next few years. The recovery is still weak; investments are still lagging and so directly affecting the books of the banks. I expect the total Assets to increase a little more next year based on the mprovement in the broad United States and World economy. My belief is based on the fact that JPMorgan performed better than the average bank in 2010 and 2010 arguably the west years for any business in recent history due to the subprime mortgage melt down of the financial markets. The last few years so a high number of unemployment hitting 10% before starting drop later part of 2011 and the highest number of mortgage foreclosure. The mortgage industry as bottomed and the market is already healing and banks like Wellfargo are already posting stronger than expected results due to their mortgage based assets performing better than expected.

JPMorgan Chase's balance sheet looks relatively strong and do not show that it will need additional financing next few years. It has deposits in excess of \$85, 279, 000, 000 and it is sitting on cash of \$59, 602, 000, 000. JPMorgan Chase should not have a problem raising funds from the Capital market

should they need additional financing based on the strength and growth of its balance sheet. The strength that JPMorgan chase has is the relative ability and strength of deposits which Chase can use to fund its business.

This is one advantage banks like Lehman brothers that went under during the financial crisis may not have had. The three areas we see as the strongest aspect of JPMorgan Chase is high balance of deposits with the bank in the amount of 85, 279, 000, 000 which shows the relative confidence the market in JPMorgan. Cash deposits are particularly important to banks because they use this morning to lend out for interest and other related fees. The 2011 balance show retained earnings in the amount \$88, 315, 000, 000 and retained earning \$73, 998, 000, 000 on the 2010 balance sheets respectively.

This is important because it shows that JPMorgan Chase have enough resources to fund it operations and enough left over to reinvest into the business for future growth. The Debt to Total Asset ratio was 91. 8% 2011 and 91. 6% 2010 respectively showing that JPMorgan Chase has more Assets than Liabilities which should help the firm raise financing from the markets . should there be a need. This always a good indication to the investors that there investment is covered should the company goes into liquidation.

One of the biggest weaknesses we identified was the relative number of law suits and the amount funds that is being spent on settling law suits. Though the Debt income ratio is way better than most of the banks in its industry, we believe it would be helpful to bring the amount of leverage down to somewhere around . 075 % to better absorb economic shocks in the larger economy. We are very optimistic for the future of JPMorgan Chase especially

as the mortgage industry bottom out and American economy continues creating jobs; we will see banks start to declare above average profits. The firm's Stock price at 43.4 is performing relatively better than its competitors like Bank of America at 8.8 and Citi group at 34 indicating that investors still have confidence in the company. We would not invest in the stock of JPMorgan Chase stock at the moment even if we had money available to invest because we strongly feel that JPM Morgan already a very mature company and does not offer much potential for growth. We would instead invest in competitors such as Capital One Corp. which is a relatively small and growing company with enough potential for growth. Its stock price also now at 53 has performed better than JPMorgan Chase over the past year.