



Business Description:

JPMorgan Chase & Co. (JPMorgan) is one of the most prominent global financial services firms with worldwide assets of US \$2.5 trillion. Its principal bank subsidiaries are JPMorgan Chase Bank, National Association, with US branches in 23 states, Chase Bank USA, and a national banking association that is the credit card-issuing bank. Its non-bank investment banking subsidiary in the US is J.P. Morgan Securities LLC and its operating subsidiary in the UK is J.P. Morgan Securities PLC.

Overview and Investment Thesis:

- JPMorgan is a leading global financial services firm with assets of US \$2.5 trillion, including US \$1.3 trillion of deposits and US \$0.8 trillion of loans and over 240,000 employees in more than 100 countries. It is recognized by regulators as a Global Systemically Important Bank and is a constituent of the Dow Jones Industrial Average.
- JPMorgan identified building a “fortress” balance sheet with “fortress” controls. To do this, it has strengthened compliance, deployed new anti-money laundering systems, reviewed its foreign correspondent banking, enhanced controls in connection with payday lender practices, introduced mortgage servicing improvements, and implemented a review of its risk models. Implementing these fortress controls has enabled JPMorgan to avoid significantly changing its universal / conglomerate strategy like most of its competitors. This has allowed JPMorgan to retain synergies which it believes delivers best of class service to clients.

Corporate and Investment Bank

- In contrast to ‘pure-play’ investment banks, it is an amalgamation of securities businesses with a traditional large corporate bank.
- Ranked #1 in Global Investment Banking Fees for 2014 with 8.1% market share.
- Serves approximately 7,200 clients in more than 100 countries. This is unparalleled in global finance.
- Targets Return on Equity (through the cycle) of 13% +/- (19% in 2012, 15% in 2013 and 13% in 2014).

Consumer & Business Banking

- Offers deposit and investment products and services to consumers, and lending, deposit, and cash management and payment solutions to small businesses.
- Net income was US \$3.4 billion up 17% from 2013.
- Deposits were up 8% to nearly half a trillion dollars by the end of 2014.
- Consumer & Community Banking was #1 in deposit growth for the third consecutive year and Consumer & Business Banking was #1 in customer satisfaction among the major U.S. banks for the third consecutive year as well.
- Targets Return on Equity (through the cycle) of 20% +/- (25% in 2012, 23% in 2013, and 18% in 2014).

Card, Merchant Services & Auto

- Net Income was US \$4.1 billion, a decrease of 17% from 2013.
- The total number of transactions processed in 2014 was 38.1 billion, an increase from 35.6 billion in 2013.
- Target Return on Equity (through the cycle) of 20% +/- (25% in 2012, 23% in 2013, and 18% in 2014)

Commercial Banking

- Delivers extensive service and expertise to US and multinational clients including corporations, municipalities, financial institutions and charities with revenue from US \$20 million to US \$2 billion. It also provides financing to real estate investors and owners.
- US \$2.6 billion in net income on US \$6.9 billion in revenue in 2014.
- Target Return on Equity (through the cycle) of 18% +/- (28% in 2012, 19% in 2013 and 18% in 2014).

Asset Management

- Combines the institutional and retail money-management businesses with its private bank.
- World’s largest global private bank and largest global money market fund manager.
- Ranked the Top European Buyside Firm by Thomson Reuters Etext in 2014 and ranked the #1 Large Fund of Hedge Funds Manager of the Year in 2014 by Institutional Investor.
- Client assets of US \$2.4 trillion. Majority are in actively managed portfolios.
- 84% of the 10-year long-term mutual fund assets under management place in the top two performance quartiles and 228 of the mutual funds are 4- or 5-star rated.
- Targets Return on Equity (through the cycle) of 25% +/- (24% in 2012, 23% in 2013, and 25% in 2014).

Mortgage Banking

- Includes mortgage origination and servicing activities as well as portfolios composed of residential mortgages and home equity lines.
- Targets Return on Equity (through the cycle) of 20% +/- (25% in 2012, 23% in 2013, and 18% in 2014).

Industry Growth Drivers/Trends:

- “In a free market economy, companies grow over time because they are winning customers.” (James Dimon, CEO, JPMorgan)
- A 2015 Banking Outlook Report published by Deloitte sites 7 key factors affecting the industry including balance sheet efficiency, mergers and acquisitions, growth, payments transformation, compliance and risk management, data management, and cyber-security.
- Balance sheet capital levels are the strongest they have ever been in recent history as risky assets have been divested by most banks and many banks have ample deposits from clients.
- Mergers and acquisitions are on the rise in the US \$100 million to US \$500 million deal size range. This segment has grown by 20% since the first half of 2014.
- Commercial and industrial loan growth, multifamily real estate and auto loans have grown 30% – 40% since 2011, signaling substantial potential in these segments.
- The introduction of Apple Pay mobile payments solution should spur investment and further innovation in the contactless mobile payments arena well into the future.
- New regulatory actions such as the heightened risk governance expectations and the enhanced prudential supervision rule will require firms to develop and improve risk management capabilities and culture.
- Improving data and analytics will be a focus for the industry. A recent survey completed by the Risk Management Association and Automated Financial Systems, Inc. on data quality said only 40% of the 37 firms surveyed felt that its data quality was above average or excellent.
- Cyber-security is the top priority for institutions of all sizes given the number and severity of cyber attacks that have occurred throughout 2014.
- The investment banking market has been purged of weaker participants. Such concentration is akin to an oligopoly (with structural benefits to the largest) but it is likely to yield partially to boutique ‘pure play’ investment banks which will not be required to be so strongly capitalized.
- In addition, in our opinion, global markets are expected to become more integrated and cross-border investment should continue to grow as will the savings culture, particularly in the US.
- Demographic and secular trends should increase demands for wealth management services. Trends include growth in the size of financial markets, aging populations and intergenerational wealth transfer, outsourcing of pension assets and increased cross-border investing.



- Developing economies are embarking on one of the biggest building booms in history fueled by rapid urbanization. Global wholesale banking is a very large growth opportunity for JPMorgan.

Key Products:

- **One of the world's largest corporate lenders.** One of a handful of global 'bulge bracket' investment banks determined to retain 'relevant' market shares in all products.
- **Consumer & Community Banking:** i). Has relationships with approximately 50% of US households, ii). Rated #1 in customer satisfaction among the largest US banks for the third year in a row, and iii). Rated #1 US credit card issuer based on loans outstanding.
- **Corporate and Investment Bank:** i). Greater than 80% of Fortune 500 companies do business with JPMorgan, ii). It is rated in the top 3 in 15 product categories out of 16, iii). It is #1 in US and Emerging Markets and East Asian Investment Banking fees, iv). It is one of the top 3 custodians worldwide with assets under custody of US \$20.5 trillion, and v). Is the #1 US dollar clearinghouse in 2014 with a commanding market share of 19.2%.
- **Commercial Banking:** i). Its average loans grew by a solid 13% cumulative average growth rate from 2006 to 2014, and ii). It has a commanding industry lead in its credit performance where it has tallied 8 consecutive quarters of net recoveries.
- **Asset Management:** i). 84% of its 10 year long-term mutual funds assets under management ranked in the top 2 quartiles in 2014, ii). It has had 23 consecutive quarters of positive assets under management flows into the business, iii). It has doubled its global wealth management assets since 2006 and iv). Since 2006 its revenue growth has been greater than 70% and long-term assets under management growth has been greater than 80%.

Competitive Advantages:

- Significant global and US market shares in key financial services provides significant earnings.
- Power and huge economies of scale.
- 'Fortress' balance sheet: solvency and efficiency ratings among the best in the US.
- Increasingly complementary, stable portfolio of businesses that operate more strongly together than apart with significant collaboration between investment banking and commercial banking. Commercial Banking now generates 35% of the US investment banking business, which shows significant synergies across the groups. Also, retail branch network benefits the rest of the firm.
- Talented pool of individuals honed into a competitive and seasoned executive team with strong proven leadership credentials. The average employee has 20 years of work experience and JPMorgan employees pride themselves on acting with integrity.
- Global branding: appears to be a long term winner as it continues to build its businesses while others shrink.
- Difficult to replicate the franchises and the intelligence embedded in the group's expertise, systems and experienced staff.
- A typical client uses nine of the firm's products and services; which shows a strong ability to cross sell across its businesses. This will only allow the company to further strengthen and grow its client relationships. A typical client with a long-term relationship with the firm uses upwards of 20 products and services making these clients the most valuable. An ability to foster these relationships is a strong competitive advantage.

Competitors:

- **Global integrated providers:** HSBC Holdings PLC, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Citigroup Inc., and UBS AG.
- **US retail banks:** Bank of America Corp, Wells Fargo & Co., KeyCorp, Compass Bank, US Bancorp, M&T Bank Corp, Fifth Third Bancorp and PNC Financial Services Group.
- **Investment banks:** Morgan Stanley, Goldman Sachs Group, Inc., Bank of America Corp, Barclays PLC, Deutsche Bank AG and Credit Suisse Group AG.
- **Global private banks:** UBS AG, Credit Suisse Group AG, Deutsche Bank AG and Northern Trust Corporation.
- **Global custody banks:** State Street Corporation, Bank of New York Mellon Corporation and Northern Trust Corporation.
- **Institutional asset managers:** Fidelity Investments Money Management Inc., Alliance Capital Corporation and Legg Mason Inc.

Customers:

- US-centric but global, customer base.
- No single customer contributes significant amount to total revenue.
- Diversity of clients across many different business segments allows the firm to cross sell different services at different points of contact with clients.

Barriers to Entry:

- Governance and regulatory compliance costs: both Basel III Standardized and Basel III Advanced, IT and capital.
- Extensive branch network and global investment banking underwriting capability – prohibitively expensive to replicate.

Officers and Directors:

- Leadership team: Chairman and CEO, Jamie Dimon; CFO, Marianne Lake; Corporate and Investment Bank CEO, Daniel E. Pinto; Commercial Banking CEO, Douglas B. Petno; Consumer and Community Banking CEO, Gordon A. Smith; Asset Management CEO, Mary Callahan Erdoes; Chief Risk Officer, Ashley Bacon; Chief Operating Officer, Matthew E. Zames.

Corporate Governance:

- 11 member board – of which 10 are non-executive and independent.
- Directors are from a diverse range of backgrounds (i.e. aerospace, health and pharmaceuticals, home furnishing, entertainment, communication, law, real estate, energy, research and financial services).
- Chairman of the Board's Audit Committee (Laban P. Jackson Jr.), Chairman of the Board's Compensation and Management Development Committee (Lee R. Raymond), Chairman of the Board's Corporate Governance and Nominating Committee (William C. Weldon), Chairman of the Board's Public Responsibility Committee (Crandall C. Bowles) and Chairman of the Board's Risk Policy Committee (James S. Crown) are non-executive and independent.

Ownership:

- As of August 19, 2015, the top 5 owners of JPMorgan are Vanguard Group Inc. 5.7%, State Street Corp 4.2%, Fidelity Management & Research 3.4%, Capital Group Companies Inc. 3.3% and Blackrock Institutional Trust 2.7%.



Capital Allocation/Uses:

- Portfolio of retail and wholesale businesses managed for long-term maximization of total shareholder returns.
- Tier 1 Common Equity Capital Ratio is 11.1% which has helped to enable repurchase of US \$6.2 billion of shares in the last 4 quarters, reducing shares outstanding by 2.7%.
- Dividends are increasing by 10% to \$0.44 per quarter in 2015 and another large US \$6.4 billion (about 2.6% of outstanding shares) share repurchase has been authorized.

- Q2 2015 reported net income of US \$6.3 billion (US \$12.2 billion year -to-date), Tier 1 Capital Ratio is strengthened to 12.8% and the Total Capital Ratio is 14.3%.
- Capital allocation by business segment from highest to lowest allocation is Corporate (US \$76 billion), Corporate & Investment Bank (US \$62 billion), Consumer & Community Banking (US \$51 billion), Commercial Banking (US \$14 billion) and Asset Management (US \$9 billion).
- The target payout ratio for the common stock's dividend is 30% with 2014's payout ratio being 29%, 33% in 2013, and 23% in 2012.

Financial Statement Summary:

<i>\$USMM, years ended Dec 31</i>	2015-H	2014	2013	2012
Income Statement				
Net Interest Income	21,361	43,634	43,319	44,910
Noninterest Revenue	26,517	50,571	53,287	52,121
Provisions for Credit Losses	1,894	3,139	225	3,385
Non-Interest Expenses	29,383	61,274	70,467	64,729
Taxes	4,397	8,030	7,991	7,633
Net Income	12,204	21,762	17,923	21,284
EPS	3.02	5.34	4.39	5.22
Diluted EPS	2.99	5.29	4.35	5.20
Dividend per Share	0.80	1.58	1.44	1.20
Balance Sheet				
Common Equity	216,287	212,002	200,020	195,011
Book Value per Share	58.49	57.07	53.25	51.27
Tangible Book Value per Share	46.13	44.69	40.81	38.75

Key Ratios and Figures:

Y/E December 31	2015-H	2014	2013	2012
Tier 1 Common Equity Ratio	11.1%	10.2%	10.7%	11.0%
Tier 1 Capital Ratio	12.8%	11.6%	11.9%	12.6%
Total Capital Ratio	14.3%	13.1%	14.4%	15.3%
Overhead Ratio	61.0%	65.0%	73.0%	67.0%
Return on Equity	18.0%	13.0%	9.0%	11.0%
S&P Long-Term Local Rating of Debt	A	A	A	A

Key Ratios and Figures:

Y/E December 31	2014	2013	2012	2011
Allowance for Loan Losses to Total Retained Loans	1.90%	2.25%	3.02%	3.84%
Net Charge-Off Rate	0.65%	0.81%	1.26%	1.78%

Business Segments (Years ended December 31):

Business Sectors Mix	2015-H	2014	2013	2012
Consumer and Business Banking	14.0%	16.0%	16.0%	15.0%
Mortgage Banking	7.0%	8.0%	18.0%	16.0%
Card, Merchant Services and Auto	18.0%	19.0%	27.0%	19.0%
Corporate and Investment Bank	40.0%	32.0%	50.0%	41.0%
Commercial Banking	9.0%	12.0%	15.0%	13.0%
Asset Management	8.0%	10.0%	12.0%	8.0%
Corporate	4.0%	3.0%	-38.0%	-12.0%



Geographic Segments (Years ended December 31):				
Geographic Mix	2014	2013	2012	2011
USA	76.0%	64.0%	86.0%	65.0%
Europe / Middle East & Africa	18.0%	27.0%	7.0%	26.0%
Asia & Pacific	5.0%	7.0%	5.0%	7.0%
Latin America & Caribbean	1.0%	2.0%	2.0%	2.0%

Credit Exposure (Years ended December 31):				
Credit Exposure Mix	2014	2013	2012	2011
Wholesale-related Loans	49.0%	48.0%	47.0%	44.0%
Student and Other	1.0%	1.0%	1.0%	1.0%
Home Equity	4.0%	4.0%	5.0%	6.0%
Prime and Adjustable Rate Mortgages	6.0%	6.0%	5.0%	6.0%
Subprime Mortgages	1.0%	1.0%	1.0%	1.0%
Auto Loans & Leases	3.0%	3.0%	3.0%	3.0%
Credit Card	35.0%	36.0%	37.0%	38.0%
Business Banking	1.0%	1.0%	1.0%	1.0%

Interest Earning Assets:				
Interest Earning Asset Mix	Quarter 2 2015	Quarter 1 2015	Quarter 4 2014	Quarter 3 2014
Treasury	0.66%	0.74%	0.75%	0.71%
Deposits with banks	0.29%	0.29%	0.31%	0.33%
Trading Assets	3.37%	3.39%	3.35%	3.49%
Securities	2.77%	2.82%	2.77%	2.73%
Loans	4.21%	4.28%	4.32%	4.33%
Other assets	1.74%	1.59%	1.61%	1.63%



Sourced from Thomson Reuters and Company Reports

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