BARCLAYS

TOP PICK JPMorgan Chase & Co.

2Q20 10-Q Review: RPL Higher, Outlook Unchanged

Outlook: It expects full-year 2020 net interest income to be ~$56bn (market dependent), while expenses for the full-year 2020 are expected to be ~$65bn.

Loan accommodations: At 2Q20, it had $17bn of wholesale loans under deferral, almost all short-term, and included $8.8bn it proactively offered to performing auto dealer clients where the deferral period ended on June 30, and the majority returned to their original loan terms. On the consumer side, although borrowers are not required to make payments while under deferral, 50% made at least one payment between March and June. At 2Q20, it had $28.3bn of consumer loans under deferral including $20.5bn of resi R/E, $3.4bn auto, and $4.4bn credit card. At 2Q20, JPM had $28bn of PPP loans.

Card Rewards: In 2Q20, JPM reclassified certain spend-based credit card reward costs from marketing expense to be a reduction of card income.

Legal: Legal RPLs was up to $1.7bn at 2Q20, up $0.4bn from 1Q20. It booked legal expense of $118mn in 2Q20, compared to $69mn in 2Q19.

Rates: Its sensitivity to rates is primarily from assets repricing at a faster pace than deposits. Based on current and implied market rates, scenarios reflecting lower rates could result in negative interest rates. Unrealized AFS gains were $9.5bn, up from $5.8bn at 1Q20.

Asset quality: Criticized loans were $39.4bn at 2Q20 (+$17.7bn from 1Q20), including $4.3bn of NPLs ($2.7bn at 1Q20). Energy exposure was $43.0bn (+$0.2bn) with 49% (52% at 1Q20) IG. Its U.K. exposure was $58.7bn at 2Q20, up from $52.6bn in 1Q20.

VaR: In 2Q20, JPM observed 2 VaR band break and posted gains on 38 of the 65 trading days in the quarter. Its average VaR was $130mn (+$71mn from 1Q20), reflecting the substantial increase in volatility as a result of the COVID-19 pandemic, most significantly in the fixed income and commodities risk types.

JPM: Quarterly and Annual EPS (USD)

	2019	2020			2021			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2020	2021
Q1	2.65A	0.78A	0.78A	0.78A	N/A	N/A	1.94E	-71%	N/A
Q2	2.82A	1.38A	1.38A	1.38A	N/A	N/A	2.07E	-51%	N/A
Q3	2.68A	2.16E	2.16E	1.84E	N/A	N/A	2.28E	-19%	N/A
Q4	2.57A	2.03E	2.03E	1.77E	N/A	N/A	2.43E	-21%	N/A
Year	10.72A	6.35E	6.35E	5.74E	8.85E	8.85E	8.80E	-41%	39%
P/E	9.0		15.1			10.9			

Source: Barclays Research.
Consensus numbers are from Bloomberg received on 03-Aug-2020; 12:50 GMT

Equity Research
Financial Services | U.S. Large-Cap Banks
4 August 2020

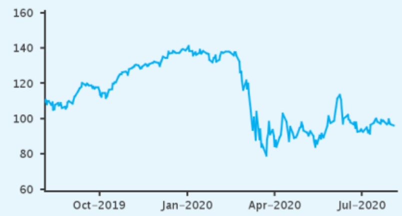
Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 144.00 Unchanged

Price (03-Aug-2020)	USD 96.10
Potential Upside/Downside	+49.8%
Tickers	JPM

Market Cap (USD mn)	292875
Shares Outstanding (mn)	3047.60
Free Float (%)	97.32
52 Wk Avg Daily Volume (mn)	17.3
Dividend Yield (%)	3.75
Return on Equity TTM (%)	9.94
Current BVPS (USD)	76.91

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 141.10-76.91



Source: IDC; Link to Barclays Live for interactive charting

U.S. Large-Cap Banks
Jason M. Goldberg, CFA
+1 212 526 8580
jason.goldberg@barclays.com
BCI, US

Brian Morton, CFA
+1 212 526 2163
brian.morton@barclays.com
BCI, US

Matthew Kesselhaut
+1 212 526 0181
matthew.kesselhaut@barclays.com
BCI, US

Eugene Koysman
+1 212 526 0971
Eugene.Koysman@barclays.com
BCI, US

U.S. Large-Cap Banks — **Industry View: POSITIVE**

JPMorgan Chase & Co. (JPM)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2019A	2020E	2021E	2022E	CAGR
Net interest income	57,245.0	55,935.8	54,354.6	56,560.8	-0.4%
Operating expenses	65,316	65,478	67,094	68,986	1.8%
Pre-provision earnings	52,587	52,967	49,186	51,615	-0.6%
Loan loss provisions	5,585	24,971	12,552	11,437	27.0%
Pre-tax income	47,610	28,255	36,634	40,178	-5.5%
Net income	36,431	21,350	28,575	31,338	-4.9%
Balance sheet ($bn)					**Average**
Total assets	2,687	3,156	3,203	3,299	3,086
Risk-weighted assets	1,516	1,754	1,780	1,833	1,721
Non-performing loans ($mn)	4,080	9,713	23,124	25,436	15,588
Allowance for loan losses	13	34	30	28	26
Loans	959.8	1,005.1	1,049.3	1,095.5	1,027.4
Deposits	1,562	1,970	1,970	1,970	1,868
Tier 1 capital	214	220	227	233	224
Tier 1 common capital	188	194	201	206	197
Shareholders' equity	234	242	248	254	244
Tangible common equity	188	196	202	207	198
Loan/deposit ratio (%)	52.4	54.3	56.7	59.2	55.6
Valuation and leverage metrics					**Average**
P/E (reported) (x)	9.0	15.1	10.9	9.6	11.2
P/BV (tangible) (x)	1.6	1.5	1.4	1.4	1.5
Dividend yield (%)	3.5	3.7	3.7	3.9	3.7
P/PPE (x)	5.9	5.6	5.9	5.5	5.7
Tier 1 (%)	14.15	12.56	12.78	12.70	13.05
Tier 1 Common (%)	12.39	11.04	11.28	11.25	11.49
Tang assets/tang equity (x)	14.0	15.9	15.6	15.7	15.3
Margin and return data					**Average**
Return on RWAs (%)	2.4	1.2	1.6	1.7	1.7
ROA (%)	1.3	0.7	0.9	1.0	1.0
ROE (tangible common) (%)	18.4	10.3	13.5	14.5	14.2
Fee income/revenue (%)	51.0	52.4	52.9	52.7	52.3
Net interest margin (%)	2.5	2.1	2.0	2.0	2.1
Cost/income (%)	55.4	55.3	57.7	57.2	56.4
Credit quality ratios					**Average**
Loan loss provs/loans (%)	0.6	2.5	1.2	1.1	1.3
NCO ratio (%)	0.6	0.7	1.6	1.3	1.0
Coverage ratio (%)	321.6	351.1	129.6	109.2	227.9
NPL ratio (%)	0.4	1.0	2.2	2.3	1.5
Reserves/loans (%)	1.4	3.4	2.9	2.5	2.5
Per share data ($)					**Average**
EPS (reported)	10.72	6.35	8.85	10.00	8.98
DPS	3.40	3.60	3.60	3.70	3.58
BVPS (tangible)	61.0	63.5	66.8	70.3	65.4
Payout ratio (%)	38.0	37.2	37.5	37.5	37.5
Diluted shares (mn)	3,230.9	3,085.9	3,029.3	2,959.3	3,076.4

Price (03-Aug-2020)	USD 96.10
Price Target	**USD 144.00**

Why Overweight? We are attracted to JPM's competitive position and believe it has addressed a great deal of its litigation concerns. We see the greatest sources of potential earnings upside being driven by higher loan growth and capital markets.

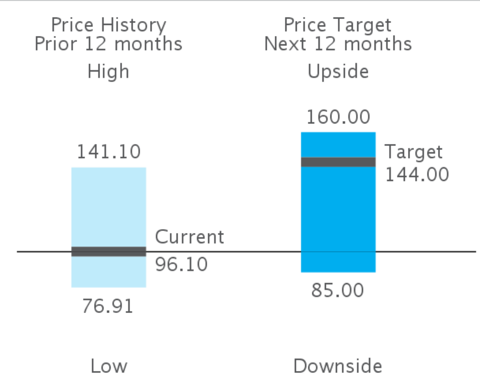
Upside case — **USD 160.00**

A more positive view on the stock would be warranted from accelerating loan growth, higher capital markets activity and a more optimistic view on the global economy. In that case, 2021 EPS could go to $9.40 which would warrant a $160 upside case on 17x.

Downside case — **USD 85.00**

A more severe COVID-19 driven recession could put pressure on capital markets, as well as adversely impacting its asset quality metrics. In such a scenario, 12x a lower $7.10 2021E EPS should provide support at $85.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

New and Forward-looking Statements

- **COVID-19:** In response to the COVID-19 pandemic, JPM invoked resiliency plans in 1Q20 to allow its businesses to remain operational, utilizing disaster recovery sites and implementing alternative work arrangements globally, including work from home. It also implemented strategies and procedures designed to help it respond to increased market volatility, client demand for credit and liquidity, distress in certain industries/sectors and the ongoing impacts to consumers and businesses. **In 2Q20, JPM continued its focus on responding to the COVID-19 pandemic, including developing plans to return employees to the office**. It continues to actively monitor the dynamic health and safety situations at local and regional levels, and plans remain flexible to adapt as these situations evolve.

- JPM has continued to support its clients and customers during the challenging conditions caused by the COVID-19 pandemic, including by providing liquidity. Since March, it has extended more than $350bn of new and renewed credit to its clients and customers, of which $300bn was in the wholesale businesses. It is participating in a number of U.S government facilities and programs including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the Small Business Administration Paycheck Protection Program (PPP). **At 2Q20, JPM had $28bn of loans under the PPP**. In the consumer portfolio, through 2Q20, JPM has provided customer assistance to over 2mn accounts, including refunding over $83mn in fees and granting payment deferrals on over $79bn of loans and leases, of which $42bn was for third-party mortgage loans serviced. As of 2Q20 JPM had $28bn of retained loans that were still under payment deferral. In the wholesale portfolio, through 2Q20, JPM has provided client assistance to 12k clients, primarily risk-rated clients in CCB. The majority of the client assistance was payment deferrals on $23bn of loans. As of 2Q20, there were $17bn of retained loans that were still under payment deferral.

- **Outlook:** JPM's current outlook for the remainder of 2020 should be viewed against the backdrop of the global and U.S. economies, the COVID-19 pandemic, financial markets activity, the geopolitical environment, the competitive environment, client and customer activity levels, and regulatory and legislative developments in the U.S. and other countries where JPM does business. Each of these factors will affect the performance of JPM and its LOBs.

  - **NII** – It expects full-year 2020 net interest income, on a managed basis, to be ~$56bn, market dependent.

  - **Expenses** – JPM expects adjusted expense for the full-year 2020 to be ~$65bn.

- **Credit Quality:** Continued weakness in the macroeconomic environment driven by the impacts of the COVID-19 pandemic, resulted in an additional increase in the allowance for credit losses. The continuation or worsening of the effects of the COVID-19 pandemic on the macroeconomic environment and the extent to which customer assistance and government stimulus efforts are effective could result in further impacts to credit quality metrics, including delinquencies, nonaccrual loans and charge-offs.

- **Repurchases:** On March 15, 2020, in response to the COVID-19 pandemic, JPM temporarily suspended share repurchases through 2Q20, and as such, there were no shares repurchased pursuant to the common equity repurchase program during 2Q20. In June 2020, the Fed directed all large bank holding companies, including JPM, to discontinue net share repurchases, at least through the end of 3Q20.

- **Consumer Assistance:** In March 2020, JPM began providing assistance to customers in response to the COVID-19 pandemic, predominantly in the form of payment deferrals.

Predominantly all accounts that requested payment assistance were less than 30 days past due at the time of enrollment. **Although borrowers are not required to make payments while still under payment deferral, on 50% of accounts with payment assistance offered, borrowers have made at least one payment between March 2020 and June 30, 2020. At 2Q20, it had $28.3bn of consumer loans under payment deferral including $20.5bn of residential real estate, $3.4bn of auto and $4.4bn of credit card.**

- **Wholesale Assistance:** In March 2020, JPM began providing assistance to clients in response to the COVID-19 pandemic, predominantly in the form of payment deferrals and covenant modifications. **As of 2Q20, JPM had $17bn of retained loans still under payment deferral, almost all short-term, and included $8.8bn in Automotive that it proactively offered to performing auto dealer clients where the deferral period ended on June 30, 2020, and the majority of the clients returned to their original loan terms**. JPM continues to monitor the credit risk associated with loans subject to deferrals throughout the deferral period and on an ongoing basis after the borrowers are required to resume making regularly scheduled payments.

- **CECL:** JPM initially elected to phase-in the January 1, 2020 (“day 1”) CECL adoption impact to retained earnings of $2.7bn to CET1 capital, at 25% per year in each of 2020 to 2023. As part of their response to the impact of the COVID-19 pandemic, on March 31, 2020, the federal banking agencies issued an interim final rule that provided the option to temporarily delay the effects of CECL on regulatory capital for two years, followed by a three-year transition period (“CECL capital transition provisions”). The interim final rule provides a uniform approach for estimating the effects of CECL compared to the legacy incurred loss model during the first two years of the transition period (the “day 2” transition amount), whereby JPM may exclude from CET1 capital 25% of the change in the allowance for credit losses (excluding allowances on PCD loans). The cumulative day 2 transition amount as at December 31, 2021 that is not recognized in CET1 capital as well as the $2.7bn day 1 impact, will be phased into CET1 capital at 25% per year beginning January 1, 2022. **JPM has elected to apply the CECL capital transition provisions, and accordingly, for the period ended 2Q20, the capital measures of exclude $6.5bn, which is the $2.7bn day 1 impact to retained earnings and 25% of the $15.7bn increase in the allowance for credit losses** (excluding allowances on PCD loans).

- **Economic Assumptions:** At 2Q20, its central case assumptions included a 10.9% unemployment rate at 4Q20, declining to 9.0% by 2Q21 and 7.7% by 4Q21. It assumed a 6.2% cumulative decline in GDP by 4Q20 relative to 4Q19, improving to a 4.0% decline by 2Q21 and 3.0% by 4Q21. **In 2Q20, JPM placed significant weighting on its adverse scenarios, which incorporate more punitive macroeconomic factors than the central case assumptions above, resulting in weighted average U.S. unemployment rates remaining in double digits through 1H21**. For example, compared its central scenario described, JPM’s relative adverse scenario assumes a significantly elevated U.S. unemployment rate through 1H21, averaging 3.6% higher over the eight-quarter forecast, with a peak difference of nearly 7% in 4Q20; lower U.S. real GDP with a slower recovery, remaining nearly 4% lower at the end of the eight-quarter forecast, with a peak difference of nearly 5.5% in 1Q21; and an 11% further deterioration in the national HPI with a trough in 1Q22.

- **Money Market Mutual Fund Liquidity Facility:** On March 18, 2020, the Federal Reserve established a facility, authorized through 3Q20, to enhance the liquidity and functioning of money markets. On July 28, 2020, the Federal Reserve announced that it was extending the MMLF through December 31, 2020. Under the MMLF, the FRBB makes nonrecourse advances to participating financial institutions to purchase certain types of assets from eligible money market mutual fund clients. These assets, which are reflected in other assets on the Firm's Consolidated balance sheets, are pledged to the FRBB as collateral. On March 23, 2020, the federal banking agencies issued an interim final rule to neutralize the effects of purchasing assets through the program on risk-based and leverage-based capital ratios. **As of 2Q20 JPM excluded assets purchased from money market mutual fund clients pursuant to nonrecourse advances provided under the MMLF in the amount of $3.8bn from its RWA and $7.8bn from adjusted average assets and total leverage exposure**

- **SCB:** On March 4, 2020, the Federal Reserve issued the final rule introducing a stress capital buffer ("SCB") framework for the Basel III Standardized approach that is designed to more closely integrate the results of the quantitative assessment in CCAR with the ongoing minimum capital requirements for BHCs under the U.S. Basel III rules. The final rule replaces the static 2.5% CET1 capital conservation buffer in the Standardized approach with a dynamic institution-specific SCB. The final rule does not apply to the Advanced approach capital requirements. The SCB requirement for BHCs will be effective on October 1 of each year and is expected to remain in effect until September 30 of the following year. On June 29, 2020, JPM announced that it had completed the 2020 CCAR stress test process. **Its indicative SCB requirement is 3.3% and the Federal Reserve will provide JPM with its final SCB requirement by August 31, 2020.** The SCB requirement will become effective on October 1, 2020 and will remain in effect until September 30, 2021. **The SCB will be integrated into JPM's ongoing Standardized risk-based capital requirements, increasing the minimum CET1 capital ratio to 11.3% (up from 10.5%).**

- **CCAR 2020:** On June 29, 2020, JPM announced that it had completed the 2020 Comprehensive Capital Analysis and Review ("CCAR") stress test process. Its indicative Stress Capital Buffer ("SCB") requirement is 3.3% and the Federal Reserve Board will provide JPM with its final SCB requirement by August 31, 2020. JPM's Board of Directors currently intends to maintain the quarterly common stock dividend of $0.90 per share for 3Q20. Additionally, in June 2020, the Federal Reserve directed all large bank holding companies, including JPM, to discontinue net share repurchases, at least through the end of 3Q20.

- **Brexit:** JPM continues to execute on its Firmwide Brexit Implementation program and remains focused on the following key areas to ensure continuation of service to its EU clients: regulatory and legal entity readiness; client readiness; and business and operational readiness. JPM's Brexit-related planning in 2H20 will focus on the possibility that the U.K. will complete its departure from the EU without having agreed the terms of their future relationship, which is commonly referred to as "hard Brexit," as the July 1, 2020 deadline for the U.K. to request an extension of the transition period has passed. This will require completion of the relocation of certain front office roles from the U.K. to EU locations, and finalization of the migration of EU clients and certain positions to EU entities by the end of 2020. The COVID-19 pandemic has added incremental risk to its Brexit Implementation program due to the potential impact on its ability to execute changes such as relocation of employees given travel restrictions, or the ability of clients to be operationally ready to the extent that they have diverted resources during 2020 to address the effects of the pandemic.

- **IBOR transition:** On March 12, 2020, the FASB issued an accounting standards update providing optional expedients and exceptions for applying generally accepted accounting principles to contracts and hedge relationships affected by benchmark reform. This update provides for various elective options, referred to as "practical expedients," that are intended to simplify the operational impact of applying U.S. GAAP to certain transactions. **JPM expects to apply certain of the practical expedients relating to the IBOR transition in 2H20.** JPM continues to monitor the transition relief being considered by the International Accounting Standards Board ("IASB") and U.S. Treasury Department regarding accounting and tax implications of reference rate reform. JPM also continues to develop and implement plans to appropriately mitigate the risks associated with IBOR discontinuation.

- **Legal RPL:** Its estimate of reasonably possible losses in excess of already established reserves ranges up to $1.7bn at 2Q20, up $0.4bn from 1Q20.

- **Country exposures:** Its exposure to the UK totaled $58.7bn at 2Q20 ($52.6bn at 1Q20). Other countries of size include Japan ($41.0bn at 2Q20 vs. $47.2bn at 1Q20), France ($26.8bn at 2Q20 vs. $22.4bn at 1Q20), China ($21.2bn at 2Q20 vs. $24.3bn at 1Q20), Australia ($19.7bn at 2Q20 vs. $20.7bn at 1Q20) and Switzerland ($14.5bn at 1Q20 vs. $19.1bn at 1Q20). The bank also had $80.8bn in exposure to Germany at 2Q20, vs $76.0bn at 1Q20.

- **Pension**: There are no expected contributions to the U.S. defined benefit pension plan for 2020.

- **Criticized assets:** The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, was $39.4bn at 2Q20, up from $21.7bn at 1Q20 and included $35.1bn ($19.0bn at 1Q20) criticized performing loans and $4.3bn ($2.7bn at 1Q20) criticized non-performing loans. The increase was largely driven by downgrades in Consumer & Retail and Oil & Gas primarily due to impacts from the COVID-19 pandemic.

- **Energy:** Exposure to the oil and gas industries was $43.0bn at 2Q20 ($42.8bn at 1Q20). As of 2Q20, 49% (52% at 1Q20) of the exposure was investment grade.

- **Unfunded commitments:** JPM provides lending-related financial instruments (e.g., commitments and guarantees) to address the financing needs of its customers and clients. **At 2Q20, total lending-related commitments of $1,124bn ($1,081bn at 1Q20) included $45bn ($42bn at 1Q20) consumer ex. cards, $719bn ($681bn at 1Q20) consumer credit cards, and $405bn ($358bn at 1Q20) wholesale commitments.**

- **Reclassifications:** In 2Q20, JPM reclassified certain spend-based credit card reward costs from marketing expense to be a reduction of card income, with no effect on net income. Prior-period amounts have been revised to conform with the current presentation.

- **Wholesale Payments:** In 1Q20, JPM began reporting a Wholesale Payments business unit within CIB following a realignment of its wholesale payments businesses. The Wholesale Payments business comprises: Merchant Services, which was realigned from CCB to CIB and Treasury Services and Trade Finance in CIB. Trade Finance was previously reported in Lending in CIB.

Regulatory developments

- **LCR:** The LCR rule requires JPM to maintain an amount of unencumbered HQLA that is sufficient to meet its estimated total net cash outflows over a prospective 30 calendar-day period of significant stress. **For 2Q20, JPM's average LCR was 117%, compared with an average of 114% for 1Q20.** JPM's average LCR increased during 2Q20, compared with 1Q20, primarily due to long-term debt issuances and a benefit from the return of funding to the parent company from JPMorgan Chase Bank NA as a result of the bank's strategy liquidity position. **JPM's average LCR may fluctuate from period to period, due to changes in its HQLA and estimated net cash outflows as a result of ongoing business activity.**

Capital & Liquidity

- **Capital ratios**: JPM's fully phased-in CET1 under the Basel III Advanced Approach was 13.2% at 2Q20 (12.3% at 1Q20), standardized approaches CET1 was 12.4% (11.5% at 1Q20). JPM's BHC supplementary leverage ratio (SLR) was 6.8% at 2Q20 (6.0% at 1Q20) and JPMorgan Chase Bank N.A.'s SLR was 7.9% (6.6% at 1Q20).

- As 2Q20, the SLR reflects the temporary exclusions of U.S. Treasury securities and deposits at Federal Reserve Banks, as required by the Federal Reserve's interim final rule issued on April 1, 2020. JPM's SLR excluding the temporary relief was 5.7%.

- **TLAC**: The Federal Reserve's TLAC rule requires the top-tier U.S. GSIB holding companies, including JPM, to maintain minimum levels of external TLAC and eligible LTD. At 2Q20, it had $407.1bn ($387.4bn at 1Q20) of total eligible TLAC and long term debt and its TLAC ratio was 26.4% (24.2% at 1Q20) above the minimum requirement of 23%.

- Additionally, effective March 26, 2020, the Federal Reserve, in response to the COVID-19 pandemic, reduced reserve requirements to zero percent, which increased JPMorgan Chase Bank, N.A.'s HQLA by $25bn.

- **Broker subs:** JPM's principal U.S. broker-dealer subsidiary is J.P. Morgan Securities. At 2Q20, JPMorgan Securities' net capital was $27.7bn ($17.3bn at 1Q20), exceeding the minimum requirement of $5.5bn ($5.9bn at 1Q20).

- J.P. Morgan Securities plc is a wholly-owned subsidiary of JPMorgan Chase Bank, N.A. and has authority to engage in banking, investment banking and broker-dealer activities. J.P. Morgan Securities plc is jointly regulated by the U.K. Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). The Bank of England requires, on a transitional basis, that U.K. banks, including U.K. regulated subsidiaries of overseas groups, maintain a minimum requirement for own funds and eligible liabilities ("MREL"). **As of 2Q20, J.P. Morgan Securities plc was compliant with the requirements of the MREL rule (same at 1Q20).** At 2Q20, J.P. Morgan Securities plc had estimated total capital of $55.2bn ($53.7bn at 1Q20), its estimated CET1 capital ratio was 17.6% (16.6% at 1Q20) and its estimated Total capital ratio was 22.5% (21.3% at 1Q20). Both capital ratios exceeded the minimum standards of 4.5% and 8.0%, respectively.

- **HQLA and other liquidity sources:** As of 2Q20, HQLA (high-quality liquid assets) was estimated to be $556bn ($426bn cash, $225bn securities), compared with $548bn at 1Q20. As of 2Q20, in addition to HQLA reported above, JPM has $606bn ($432bn at 1Q20) of unencumbered marketable securities, such as equity securities and fixed income debt securities, available to raise liquidity. This includes HQLA-eligible securities forming part of the excess liquidity at JPMorgan Chase Bank, N.A. that is not transferable to non-bank affiliates. Furthermore, JPM maintains borrowing capacity at various Federal Home Loan Banks ("FHLBs"), the Federal Reserve Bank discount window and various other central banks as a result of collateral pledged by JPM to such banks. Although available, JPM does not view the borrowing capacity at the Federal Reserve Bank discount window and the various other central banks as a primary source of liquidity. **As of 2Q20, JPM's remaining borrowing capacity at various FHLBs and the Federal Reserve Bank discount window was $281bn ($317bn at 1Q20).** This remaining borrowing capacity excludes the benefit of securities included above in HQLA or other unencumbered securities currently held at the Federal Reserve Bank discount window.

Interest Rate & Market Risk

- **Per its simulation model, an immediate 100bp increase in interest rates, would increase JPM's 12-month pre-tax net interest income $3.7bn (+$2.8bn at 1Q20).** JPM's sensitivity to rates is primarily a result of assets repricing at a faster rate than deposits. **JPM did not provide an estimate for a 100bp decrease in rates compared to a $2.0bn decline in pre-tax income at 4Q19.** Based upon current and implied market rates as of 2Q20, scenarios reflecting lower rates could result in negative interest rates. The U.S. has never experienced an interest rate environment where the Federal Reserve has a negative interest rate policy. In a negative rate environment, the modeling assumptions used for certain assets and liabilities require additional management judgment. Additionally, another U.S. dollar interest rate scenario used by JPM — involving a steeper yield curve with long-term rates rising by 100bps and short-term rates staying at current levels — results in a 12-month pre-tax net interest income benefit of $1.7bn ($1.5bn at 1Q20). The result of the comparable non-U.S. dollar analysis is not material to JPM.

- Net unrealized AFS securities gains were $9.5bn ($5.8bn gain at 1Q20) at 2Q20. Net unrealized HTM securities gains were $3.2bn ($2.3bn gain at 4Q19) at 2Q20.

- **During 1Q20, JPM transferred $26.1bn of U.S. GSE and government agency MBS from AFS to HTM for capital management purposes.** These securities were transferred at fair value in a non-cash transaction. AOCI included pretax unrealized gains of $1.0bn on the securities at the date of transfer.

- JPM's total VaR measure using a 95% confidence level averaged $130mn in 2Q20 ($59mn in 1Q20) ranging from $106mn to $163mn ($27-$164mn in 1Q20). JPM's average Total VaR diversification benefit was $13mn or 9% of the sum in 2Q20 ($12mn or 17% of the sum in 1Q20).

- Average total VaR increased $71mn in 2Q20, as compared with the prior quarter. This increase was driven by the substantial increase in volatility in the one-year historical look-back period as a result of the COVID-19 pandemic. The most significant impacts were reflected in the fixed income and commodities risk types.

- Effective January 1, 2020, JPM refined the scope of VaR to exclude positions related to the risk management of interest rate exposure from changes in its own credit spread on fair value option elected liabilities, and included these positions in other sensitivity-based measures. This change was made to more appropriately align the risk from changes in JPM's own credit spread on fair value option elected liabilities in a single market risk measure. In the absence of this refinement, the average Total VaR for 2Q20 would have been lower by $8mn.

- **In 2Q20, JPM observed 2 VaR band break and posted gains on 38 of the 65 trading days in the quarter.**

- Derivative receivables, net of cash collateral and giving effect to legally enforceable master netting agreements, was $74.846bn at 2Q20 ($81.6bn at 1Q20). Its mix was 49% (45% at 1Q20) interest rates, 17% (23% at 1Q20) FX, 20% (16% at 1Q20) equity, 12% (14% at 1Q20) commodity and 2% (1% at 1Q20) credit derivatives. Liquid securities and other cash collateral held against derivative receivables totaled $21.5bn compared to $26.2bn at 1Q20 (primarily U.S. government and agency securities and other G7 government bonds), putting total net exposure at $53.3bn ($55.5bn at 1Q20).

- The weighted-average prepayment speed assumption to determine the $3.1bn fair value of its MSRs at 2Q20 was a CPR of 19.08% (19.12% at 1Q20). A 10% adverse change would reduce its MSR by $207mn ($206mn at 1Q20). It assumed a weighted-average option adjusted spread of 9.10% (8.95% at 1Q20). The impact of a 100bp adverse change would decrease it by $100mn ($103mn at 1Q20).

Balance Sheet

- **Residential mortgage:** At 2Q20, JPM's residential mortgage portfolio included $23.2bn ($22.8bn at 1Q20), of interest-only loans. These loans have an interest-only payment period generally followed by an adjustable-rate or fixed-rate fully amortizing payment period to maturity and are typically originated as higher-balance loans to higher-income borrowers, predominantly in AWM. Performance of this portfolio for 2Q20 was in line with the performance of the broader residential mortgage portfolio for the same period (same at 1Q20).

- Effective January 1, 2020, JPM adopted the CECL accounting guidance. The adoption resulted in a change in the accounting for PCI loans, which are considered purchased credit deteriorated ("PCD") loans under CECL.

- **The residential real estate portfolio decreased from 1Q20** primarily reflecting loan paydowns and loan sales in Home Lending, largely offset by originations of prime mortgage loans that have been retained on the balance sheet. Net recoveries for 2Q20 were lower when compared with the same period in the prior year as the current quarter included losses associated with the purchased credit deteriorated portfolio as a result of the adoption of CECL.

- **HELOCs:** The carrying value of home equity lines of credit outstanding was $26.5bn at 2Q20. This amount included $9.9bn of HELOCs that have recast from interest-only to fully amortizing payments or have been modified and $8.7bn of interest-only balloon HELOCs, which primarily mature after 2030. JPM manages the risk of HELOCs during their revolving period by closing or reducing the undrawn line to the extent permitted by law when borrowers are exhibiting a material deterioration in their credit risk profile.

- At 2Q20, the total Treasury and CIO investment securities portfolio was $556.7bn ($397.9bn at 1Q20); the average credit rating of the securities comprising the Treasury and CIO investment securities portfolio was AA+ (AA+ at 1Q20) based upon external ratings where available and where not available, based primarily upon internal ratings that correspond to ratings as defined by S&P and Moody's.

Other

- **Corporate & Investment Bank compensation expense as a percentage of total net revenue was 24% in 2Q20** compared with 29% in 2Q19.

- **Firmwide headcount was 256,710 FTEs at 1Q20**, compared to **256,720** at 1Q20 and **254,983** at 2Q19.

- **During 2Q20, JPM transferred $12.5bn ($2.6bn in 2Q19) of securities to agency VIEs.** At 2Q20, JPM did not consolidate any agency re-securitization VIEs or any JPM-sponsored private-label resecuritization VIEs. It held $4.2bn ($3.2bn at 1Q20) of interests in nonconsolidated agency re-securitization entities.

Mortgage Repurchase Liability

- In connection with JPM's mortgage loan sale and securitization activities with GSEs, JPM has made representations and warranties that the loans sold meet certain requirements, and that may require JPM to repurchase the mortgage loans and/or indemnify the loan purchaser if such representations and warranties are breached by JPM.

- **The amount of a recognized mortgage repurchase liability on JPM's balance sheet was $85mn, up from $84mn at 1Q20.**

Accounting and reporting developments

Accounting standards adopted since January 1, 2020

- **Financial instruments - credit losses.** Issued June 2016. Establishes a single allowance framework for financial assets measured at amortized cost and certain off-balance sheet credit exposures. This framework requires that management's estimate of credit losses over the instrument's remaining expected life and considers expected future changes in macroeconomic conditions. Eliminates existing guidance for PCI loans, and requires recognition of the nonaccretable difference as an increase to the allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination, with a corresponding increase in the amortized cost of the related loans. Requires inclusion of expected recoveries, limited to the cumulative amount of prior write-offs, when estimating the allowance for credit losses for in scope financial assets (including collateral dependent assets). Amends existing impairment guidance for AFS securities to incorporate an allowance, which will allow for reversals of credit impairments in the event that the credit of an issuer improves. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. **Adopted January 1, 2020.**

- **Goodwill.** Issued January 2017. Requires recognition of an impairment loss when the estimated fair value of a reporting unit falls below its carrying value. Eliminates the requirement that an impairment loss be recognized only if the estimated implied fair value of the goodwill is below its carrying value. Adopted January 1, 2020. **No impact upon adoption as the guidance is to be applied prospectively.**

- **Reference Rate Reform.** Issued March 2020. Provides optional expedients and exceptions to current accounting guidance when financial instruments, hedging relationships, and other transactions are amended due to reference rate reform. Provides an election to account for certain contract amendments related to reference rate reform as modifications rather than extinguishments without the requirement to assess the significance of the amendments. Allows for changes in critical terms of a hedging relationship without automatic termination of that relationship. Provides various practical expedients and elections designed to allow hedge accounting to continue uninterrupted during the transition period. Provides a one-time election to transfer securities out of the held-to-maturity classification if certain criteria are met. Issued and effective March 12, 2020. **JPM expects to apply certain of the practical expedients related to contract modifications and hedge accounting relationships in 2H20 and does not expect a material impact to the consolidated financial statements.**

Litigation

- As of 2Q20, JPM and its subsidiaries and affiliates are defendants, putative defendants or respondents in numerous legal proceedings, including private, civil litigations and regulatory/government investigations.

- **JPM believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is from $0 to $1.7bn at**

2Q20 ($0-$1.3bn in 1Q20). Still, for certain cases, JPM does not believe that an estimate can currently be made, as of 2Q20.

- **Litigation expense:** JPM's legal expense was $118mn in 2Q20 and $69mn in 2Q19. There is no assurance that JPM's litigation reserves will not need to be adjusted in the future.

Amrapali

- India's Enforcement Directorate ("ED") is investigating JPMorgan India Private Limited in connection with investments made in 2010 and 2012 by two offshore funds formerly managed by JPM entities into residential housing projects developed by the Amrapali Group ("Amrapali"). In 2017, numerous creditors filed civil claims against Amrapali including petitions brought by home buyers relating to delays in delivering or failure to deliver residential units. The home buyers' petitions have been overseen by the Supreme Court of India since 2017 pursuant to its jurisdiction over public interest litigation. In July 2019, the Supreme Court of India issued an order making preliminary findings that Amrapali and other parties, including unspecified JPM entities and the offshore funds that had invested in the projects, violated certain currency control and money laundering provisions, and ordering the ED to conduct a further inquiry under India's Prevention of Money Laundering Act ("PMLA") and Foreign Exchange Management Act ("FEMA"). In May 2020, the Enforcement Directorate issued a provisional attachment order as part of the criminal PMLA proceedings freezing $25mn held by JPMorgan India Private Limited. In June 2020, the funds were transferred to an account held by the Supreme Court of India. A separate civil proceeding relating to alleged FEMA violations is ongoing. **JPM is responding to and cooperating with the investigation.**

Federal Republic of Nigeria Litigation

- JPM operated an escrow and depository account for the Federal Government of Nigeria ("FGN") and two major international oil companies. The account held $1.1bn in connection with a dispute among the clients over rights to an oil field. Following the settlement of the dispute, JPM paid out the monies in the account in 2011 and 2013 in accordance with directions received from its clients. In November 2017, the Federal Republic of Nigeria ("FRN") commenced a claim in the English High Court for $875mn in payments made out of the accounts. The FRN, claiming to be the same entity as the FGN, alleges that the payments were instructed as part of a complex fraud not involving JPM, but that JPM was or should have been on notice that the payments may be fraudulent. JPM applied for summary judgment and was unsuccessful. **The claim is ongoing and no trial date has been set.**

Foreign Exchange Investigations and Litigation

- JPM previously reported settlements with certain government authorities relating to its foreign exchange ("FX") sales and trading activities and controls related to those activities. Among those resolutions, in May 2015, JPM pleaded guilty to a single violation of federal antitrust law. In January 2017, JPM was sentenced, with judgment entered thereafter and a term of probation ending in January 2020. **The term of probation has concluded, with JPM remaining in good standing throughout the probation period.** The Department of Labor has granted JPM a five-year exemption of disqualification that allows JPM and its affiliates to continue to rely on the Qualified Professional Asset Manager exemption under the Employee Retirement Income Security Act ("ERISA") until January 2023. JPM will need to reapply in due course for a further exemption to cover the remainder of the ten-year disqualification period. A South Africa Competition Commission matter is the remaining FX-related governmental inquiry, and is currently pending before the South Africa Competition Tribunal.

- In August 2018, the United States District Court for the Southern District of New York granted final approval to JPM's settlement of a consolidated class action brought by U.S.-based plaintiffs, which principally alleged violations of federal antitrust laws based on an alleged conspiracy to manipulate foreign exchange rates and also sought damages on behalf of persons who transacted in FX futures and options on futures. Certain members of the settlement class filed requests to the Court to be excluded from the class, and certain of them filed a complaint against JPM and a number of other foreign exchange dealers in November 2018. A number of these actions remain pending. Further, putative class actions have been filed against JPM and a number of other foreign exchange dealers on behalf of certain consumers who purchased foreign currencies at allegedly inflated rates and purported indirect purchasers of FX instruments; these actions also remain pending in the District Court. **In January 2020, JPM and 11 other defendants agreed in principle to settle the class action filed by purported indirect purchasers for a total of $10mn.** That settlement remains subject to negotiation of final documentation and court approval. In addition, some FX-related individual and putative class actions based on similar alleged underlying conduct have been filed outside the U.S., including in the U.K., Israel and Australia.

Interchange Litigation

- Groups of merchants and retail associations have filed a series of class action complaints alleging that Visa and MasterCard, as well as certain banks, conspired to set the price of credit and debit card interchange fees, enacted respective rules in violation of antitrust laws. In 2012, the parties initially settled the cases for a cash payment, a temporary reduction of credit card interchange, and modifications to certain credit card network rules. In 2017, after the approval of that settlement was reversed on appeal, the case was remanded to the District Court for further proceedings consistent with the appellate decision.

- The original class action was divided into two separate actions, one seeking primarily monetary relief and the other seeking primarily injunctive relief. In September 2018, the parties to the class action seeking monetary relief finalized an agreement which amends and supersedes the prior settlement agreement. **Pursuant to this settlement, the defendants collectively contributed an additional $900mn to the $5.3bn previously held in escrow from the original settlement.** In December 2019, the amended agreement was approved by the District Court. Certain merchants filed notices of appeal of the District Court's approval order, and those appeals are pending. Based on the percentage of merchants that opted out of the amended class settlement, $700mn has been returned to the defendants from the settlement escrow in accordance with the settlement agreement. The class action seeking primarily injunctive relief continues separately. **In addition, certain merchants have filed individual actions raising similar allegations against Visa and Mastercard, as well as against JPM and other banks, and some of those actions remain pending.**

LIBOR and Other Benchmark Rate Investigations and Litigation

- JPM has responded to inquiries from various governmental agencies and entities around the world relating primarily to the British Bankers Association's London Interbank Offered Rate ("LIBOR") for various currencies and the European Banking Federation's Euro Interbank Offered Rate ("EURIBOR"). The Swiss Competition Commission's investigation relating to EURIBOR, to which JPM and other banks are subject, continues. In December 2016, the EC issued a decision against JPM and other banks finding an infringement of European antitrust rules relating to EURIBOR**. JPM has filed an appeal with the European General Court and that appeal is pending.**

- In addition, JPM has been named as a defendant along with other banks in a series of individual and putative class actions related to benchmarks, including U.S. dollar LIBOR during the period that it was administered by the BBA and, in a separate consolidated putative class action, during the period that it was administered by ICE Benchmark Administration. These actions have been filed, or consolidated for pre-trial purposes, in the United States District Court for the Southern District of New York. In these actions, plaintiffs make varying allegations that in various periods, starting in 2000 or later, defendants either individually or collectively manipulated various benchmark rates by submitting rates that were artificially low or high. Plaintiffs allege that they transacted in loans, derivatives or other financial instruments whose values are affected by changes in these rates and assert a variety of claims including antitrust claims seeking treble damages.

- In actions related to U.S. dollar LIBOR during the period that it was administered by the BBA, JPM has resolved certain of these actions and other is various stages of litigation. The District Court dismissed certain claims, including antitrust claims brought by some plaintiffs whom the District Court found did not have standing to assert such claims, and permitted certain claims to proceed, including antitrust, Commodity Exchange Act, Section 10(b) of the Securities Exchange Act and common law claims. The plaintiffs whose antitrust claims were dismissed for lack of standing have filed an appeal. The District Court granted class certification of antitrust claims related to bonds and interest rate swaps sold directly by the defendants and denied class certification motions filed by other plaintiffs. In the consolidated putative class action related to the time period that U.S. dollar LIBOR was administered by ICE Benchmark Administration, the District Court granted defendants' motion to dismiss plaintiffs' complaint, and the plaintiffs have appealed. **JPM's settlements of putative class actions related to Swiss franc LIBOR, the Singapore Interbank Offered Rate, the Singapore Swap Offer Rate and the Australian Bank Bill Swap Reference Rate, and certain of the putative class actions related to U.S. dollar LIBOR remain subject to court approval.** In the class actions related to SIBOR and Swiss franc LIBOR, the District Court concluded that the Court lacked subject matter jurisdiction, and plaintiffs' appeals of those decisions are pending.

Metals Investigations and Litigation

- Various authorities, including the Department of Justice's Criminal Division, are conducting investigations relating to trading practices in the precious metals markets and related conduct. JPM is responding to related requests concerning similar trading-practices issues in markets for other financial instruments, such as U.S. Treasuries. It continues to cooperate with these investigations and is currently engaged in discussions with various regulators about resolving their respective investigations. There is no assurance that such discussions will result in settlements. Several putative class action complaints have been filed in the United States District Court for the Southern District of New York against JPM and certain former employees, alleging a precious metals futures and options price manipulation scheme in violation of the Commodity Exchange Act. Some of the complaints also allege unjust enrichment and deceptive acts or practices under the General Business Law of the State of New York. The Court consolidated these putative class actions in February 2019, and the consolidated action is stayed through May 2021. **In addition, several putative class actions have been filed in the United States District Courts for the Northern District of Illinois and Southern District of New York against JPM, alleging manipulation of U.S. Treasuries futures and options, and bringing claims under the Commodity Exchange Act. Some of the complaints also allege unjust enrichment. A motion is pending before the United States Judicial Panel on Multidistrict Litigation to transfer and consolidate or coordinate the actions.** JPM is also a defendant in a consolidated action filed in the United States

District Court for the Southern District of New York alleging monopolization of silver futures in violation of the Sherman Act.

Wendel

- Since 2012, the French criminal authorities have been investigating a series of transactions entered into by senior managers of Wendel Investissement ("Wendel") during the period from 2004 through 2007 to restructure their shareholdings in Wendel. JPMorgan Chase Bank, N.A., Paris branch provided financing for the transactions to a number of managers of Wendel in 2007. JPM has cooperated with the investigation. The investigating judges issued an ordonnance de renvoi in November 2016, referring JPMorgan Chase Bank, N.A. to the French tribunal correctionnel for alleged complicity in tax fraud. In January 2018, the Paris Court of Appeal issued a decision cancelling the mise en examen of JPMorgan Chase Bank, N.A. In September 2018, the Court of Cassation, France's highest court, ruled that a mise en examen is a prerequisite for an ordonnance de renvoi and **in January 2020 ordered the annulment of the ordonnance de renvoi referring JPMorgan Chase Bank, N.A. to the French tribunal correctionnel.** In addition, a number of the managers have commenced civil proceedings against JPMorgan Chase Bank, N.A. The claims are separate, involve different allegations and are at various stages of proceedings.

ANALYST(S) CERTIFICATION(S):

I, Jason M. Goldberg, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

JPMorgan Chase & Co. (JPM, 03-Aug-2020, USD 96.10), Overweight/Positive, A/CD/CE/D/E/GE/I/J/K/L/M/N/S

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Bank of America (BAC)	Capital One Financial (COF)	Citigroup Inc. (C)
Citizens Financial Group Inc. (CFG)	Comerica Inc. (CMA)	Fifth Third Bancorp (FITB)
First Republic Bank (FRC)	Goldman Sachs Group Inc. (GS)	Huntington Bancshares (HBAN)
JPMorgan Chase & Co. (JPM)	KeyCorp (KEY)	M&T Bank (MTB)
Morgan Stanley (MS)	Northern Trust (NTRS)	PNC Financial Services Gp (PNC)
Regions Financial (RF)	Silvergate Capital Corp. (SI)	State Street (STT)
SVB Financial Group (SIVB)	The Bank of New York Mellon Corp. (BK)	Truist Financial Corp. (TFC)

IMPORTANT DISCLOSURES CONTINUED

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IMPORTANT DISCLOSURES CONTINUED

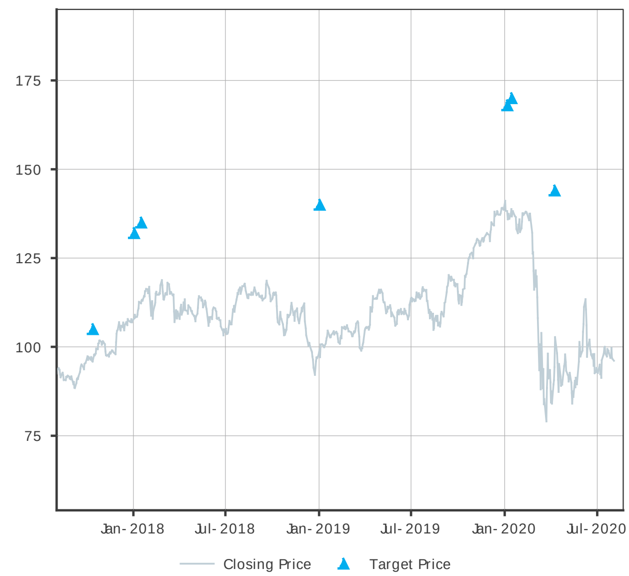
JPMorgan Chase & Co. (JPM / JPM)

USD 96.10 (03-Aug-2020)

Stock Rating: **OVERWEIGHT**

Industry View: **POSITIVE**

Rating and Price Target Chart - USD (as of 03-Aug-2020)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
08-Apr-2020	94.30		144.00
14-Jan-2020	138.80		170.00
06-Jan-2020	138.23		168.00
02-Jan-2019	99.31		140.00
16-Jan-2018	112.27		135.00
02-Jan-2018	107.95		132.00
13-Oct-2017	95.86		105.00

On 04-Aug-2017, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 100.00.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our price target is $144 and is based on 16x our 2021 EPS estimate of $8.85.

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U.S. Large-Cap Banks (Cont'd)

Inna Blyakher
+1 212 526 3904
inna.blyakher@barclays.com
BCI, US