VERIBANC, Inc.
Beyond 'CAMELS'
P.O. Box 608
Greenville, Rhode Island 02828
800-837-4226   www.veribanc.com
service@veribanc.com

A Briefing on: JPMORGAN CHASE BANK NA (FDIC#: 628)
COLUMBUS, OH

INTRODUCTION

($ in Thousands)

JPMORGAN CHASE BANK NA is a nationally chartered Commercial Bank which as of 06/30/2014 reported total assets of approximately $2,002,047,000, a $644,134,000 loan portfolio, a $1,368,272,000 deposit base, and equity capital of $179,820,000 which amounted to 8.98% of total assets. Annualized quarterly income of $19,468,000 was the result of the institution achieving a quarterly income of $4,867,000. This represented a 0.97% annualized return on total assets.

ASSESSMENT(S)

VERIBANC employs a proprietary 'CAMELS' methodology to assess the institution's current financial condition and operating results. We presently assign a GREEN/* Composite Rating, our fourth highest rating, indicative of satisfactory performance for JPMORGAN CHASE BANK NA. Set forth within the "Financial Analysis" section of this report are discussions of key factors affecting the institution's Composite Rating.

JPMORGAN CHASE BANK NA is owned by JPMORGAN CHASE & CO., a holding company with assets of $2,138,305,904. By means of our process for aggregating subsidiary bank information, we have assigned a rating of GREEN/* to JPMORGAN CHASE & CO.. We have further analyzed the holding company's performance and based upon that analysis we have concerns regarding the following:

- Net Interest Margin: 2.12%

FINANCIAL ANALYSIS

Capitalization

Within the financial services sector adequate capitalization is critical to safety and soundness. One key measure of capital adequacy is the ratio of the institution's equity-to-total assets. At VERIBANC, we have long held that an equity-to-assets ratio of 5.0%, or greater, is one sign that capital strength is sufficient to support normal bank operations. A percentage below that level could signify the need for additional capital. However, an Equity/Assets ratio below 10% along with asset quality or profitability weaknesses might also require a capital infusion. (See the following sections for further information). As of 06/30/2014, the institution reported equity-to-assets of 8.98%. For analytical purposes, we segregate the bank universe into asset-size peer groups. On that basis JPMORGAN CHASE BANK NA exhibits an equity-to-assets ratio beneath the peer average of 12.15%.

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Capitalization - continued

Tangible capital, which excludes intangibles such as goodwill, adds a quality component to our assessment of capital adequacy. The institution's 7.31% tangible capital percentage suggests below peer tangible capitalization. Regulators have established minimum capital requirements for commercial banks. Total Risk-Based Capital of at least 10% denotes one of the FDIC's requirements for that Agency's "Well Capitalized" designation. JPMORGAN CHASE BANK NA now reveals a Total Risk-Based Capital Ratio of 13.58%. That percentage is significantly greater than the aforementioned benchmark.

Our discussion of capital adequacy requires a comment related to trend. During the past year the institution's equity-to-assets ratio exhibited an increase of 15.48%, which represented a much better than average improvement.

Asset Quality

An important determinant of asset quality is a commercial bank's ratio of nonperforming assets (loans ninety, or more, days delinquent, loans in nonaccrual status, and renegotiated or restructured loans less government guarantees)-to-Equity plus Loan Loss Reserves. The banking industry's average for this computation is 12 percent. We believe that a ratio in excess of 75% could lead to significant financial deterioration, as well as near term difficulty. This condition could prompt regulatory intervention as a proactive means to protect the resources of the FDIC. Currently, JPMORGAN CHASE BANK NA reveals a Nonperforming Assets-to-Equity plus Loss Reserves ratio of 12.48%. Further, the institution's loan loss coverage ratio remained comparable to the peer average of 139.76%. Taking into account both factors, we would recommend no specific action with regard to nonperforming assets.

Portfolio concentration is another asset quality consideration, and we have noted a diversified loan portfolio in the following areas:

- Commercial Real Estate, Construction, plus Multifamily Loans
- Agricultural Loans
- Loans to Individuals
- Commercial & Industrial Loans

1-4 Family Mortgages aggregated to $203,262,000 which represented 10.15% of assets.

Asset Quality - continued

A sharply higher than normal loan yield can be a sign of speculative lending procedures. JPMORGAN CHASE BANK NA does not exhibit that condition. Likewise, high asset growth, which we would define as a 25% year-over-year increase, is deemed a safety and soundness risk factor. This institution only incurred a 2.79% level of year-over-year asset growth.

Management

Public regulatory Enforcement Actions provide insight into Management's operational deficiencies. Unsound banking practices could include: poor underwriting controls, failure to properly model for loan or investment portfolio losses, lack of capital adequacy, acceptance of brokered deposits, limited oversight by the bank's Board of Directors, and whether any banking laws, rules, regulations, or fiduciary duty have been breached.

Resulting sanctions can include: the removal of any or all members of the executive team, the removal of one or more members of the Board of Directors, small fines, or fine tuning of risk management practices.

On 09/18/13, JPMORGAN CHASE BANK NA received a Consent Order (also known as a Cease and Desist Order) regulatory enforcement action from The Office of the Comptroller of the Currency. This is the most egregious sanction. This sanction is issued for one of the following reasons: inadequate allocated loan loss reserve model, criticized assets and/or asset growth, Bank Secrecy Act, or lack of oversight by the Board of Directors.

Earnings

Assessments related to the operating components of profitability give rise to insights into true earnings comparisons to an institution's past results, industry benchmarks, and the performance of peers as well as regional competitors. Analysis of operating factors can also lead to determinations of sustainability, which will impact market valuations and dividend policies. Accordingly, on an annualized, quarterly basis JPMORGAN CHASE BANK NA exhibited a below average Net Interest Margin of 1.77%, a solid component of operating noninterest income, and normal overhead.

For the quarter, JPMORGAN CHASE BANK NA booked net income of $4,867,000 which represented an average return on equity. Compared with the same quarter of the previous year, the institution had net income shrinkage of 1.70%.

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Liquidity

Key Liquidity factors include: holdings of cash and liquid securities, reliance upon large liabilities and use of brokered deposits. On the asset side, cash and equivalents amounted to $403,468,000 or 20.15% percent of assets. This ratio is a strong percentage as compared to the peer. Jumbo Certificates of Deposit, Insured Brokered Deposits, and Borrowed Funds aggregated to 15.07% of total assets.

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