



Financial Performance Analysis of J.P. Morgan

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Abstract. This study conducts a comprehensive financial performance analysis of J.P. Morgan Chase & Co. from 2018 to 2022, focusing on key financial indicators such as Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), Cost-to-Income Ratio, Loan Loss Reserve Coverage, Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR), and Price-to-Earnings (P/E) Ratio. The analysis employs horizontal and vertical financial statement methods, complemented by ratio analysis, to evaluate the firm's profitability, efficiency, risk management, and market valuation. Findings suggest that J.P. Morgan maintains strong financial health, demonstrated by high capital adequacy, robust liquidity, and effective cost control. Its digital transformation initiatives have further enhanced operational efficiency. When compared to major peers like Goldman Sachs and Citigroup, J.P. Morgan displays superior profitability and stability, though faces competition in investment banking and emerging markets. Despite external challenges such as fluctuating interest rates, economic volatility, and regulatory pressures, J.P. Morgan's prudent risk management and capital strength position it to remain resilient. This research offers valuable insights for investors, management, and policymakers, reinforcing the importance of financial ratio analysis in assessing institutional performance and informing strategic decisions. Future studies could expand on the firm's adaptability across different economic cycles and competitive landscapes.

Keywords: Financial Statement Analysis, Ratio Analysis, Investment Decision Making, Profitability

1 Introduction

J.P. Morgan Chase & Co. (NYSE: JPM), headquartered in New York City, is a leader in financial services in the world. It is one of the largest banking institutions in the world, with a rich history dating back to the 19th century. The company operates across four main segments: Consumer & Community Banking (CCB), corporate banking (CIB), commercial Banking (CB), and wealth management (AWM). J.P. Morgan Chase serves millions of customers, including individuals, corporations, and governments. Its multiple portfolio includes retail banking, investment services, transaction processing, risk management, and fin-tech innovations. These build the company's position as the

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cornerstone of the global financial system. Although some external factors like interest rate policy and regulatory pressure, preliminary findings show that J.P. Morgan Chase will maintain strong profitability and capital adequacy in the future.

This research chose J.P.Morgan as the subject of this report, and J.P.Morgan's Annual Report (2018-2022) will be analyzed in the report. Financial analysis is crucial for evaluating financial institutions like J.P. Morgan, particularly in assessing risk management, profitability, and capital adequacy. It helps to identify potential risks to make sure that the institution maintains sufficient capital buffers. By analyzing profitability metrics, stakeholders can gauge the efficiency of revenue generation and cost management [1]. Additionally, capital adequacy ratios clear the institution's ability to withstand financial stress, ensuring long-term stability and regulatory compliance.

This research aims to analyse J.P. Morgan Chase's financial performance through horizontal and vertical analysis, focusing on financial health status, profitability, liquidity, and risk management ability. In this study, ratio and financial statement analysis will be the primary research methods. These methods are chosen because they comprehensively understand a company's financial health by evaluating key performance indicators [2]. Specific ratios, such as Return on Equity (ROE), Return on Assets (ROA), and Net Interest Margin (NIM), will be used to assess profitability, efficiency, and risk management. This approach allows for a detailed examination of J.P. Morgan's financial performance over the selected period. At the same time, compared with competitors like ICBC (Industrial and Commercial Bank of China), Goldman Sachs and Citigroup helped to evaluate J.P.Morgan's financial ability in the wide market. The research holds significant value for investors, management, and academia by providing insights into J.P. Morgan's financial health and performance. It aids in informed decision-making and strategic planning for the company's financial improvement policies. Future research could help explore J.P. Morgan's financial performance across different economic cycles to understand its resilience and adaptability. It benefits the investors by helping them understand J.P. Morgan's financial status.

2 Ratio Analysis

2.1 Return on Equity (ROE)

Return on Equity (ROE) is a key profitability ratio that measures how effectively J.P. Morgan uses its shareholders' equity to generate profits [3]. The ROE formula is net income divided by shareholders' equity. This ratio is particularly important for investors since it indicates the company's ability to generate returns on the capital invested by shareholders. A higher ROE suggests that J.P. Morgan is efficiently utilizing its equity base, a positive sign for investors evaluating its performance.

2.2 Return on Assets (ROA)

Return on Assets (ROA) evaluates how efficiently J.P. Morgan uses its total assets to generate earnings. The ROA formula is net income divided by total assets [4]. This

ratio is vital for understanding the overall efficiency of J.P. Morgan's asset utilization. According to a higher ROA, it indicates that the company is able to effectively manage its assets to create profits, which is essential for a financial institution with a large asset base like J.P. Morgan.

2.3 Net Interest Margin (NIM)

Net Interest Margin (NIM) measures the profitability of J.P. Morgan's core lending and investment activities [5]. The formula for NIM is (Interest Income minus Interest Expense) divided by Average Earning Assets. This ratio reflects the difference between the interest income generated and the interest paid to lenders. A higher NIM indicates that J.P. Morgan is effectively managing its interest-bearing assets to generate income, which is a key factor of profitability for financial institutions.

2.4 Cost-to-Income Ratio

The Cost-to-Income Ratio measures J.P. Morgan's operating costs relative to its income [6]. The formula for this ratio is Operating Costs divided by Operating Income. A lower Cost-to-Income Ratio suggests that the company manages its expenses effectively, which is critical for maintaining profitability. This ratio is important for J.P. Morgan as it reflects the bank's ability to control costs while generating revenue, especially in a competitive financial services market.

2.5 Loan Loss Reserve Coverage

Loan Loss Reserve Coverage evaluates the adequacy of J.P. Morgan's reserves to cover potential loan losses [7]. The formula for this ratio is Loan Loss Reserves divided by Non-Performing Loans. This ratio is crucial for assessing the bank's credit risk management. A higher Loan Loss Reserve Coverage indicates that J.P. Morgan has set sufficient reserves, which means the company is able to cover potential losses from bad loans. This is an ability of prudent risk management and financial stability.

2.6 Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) measures J.P. Morgan's capital strength and ability to absorb potential losses [8]. The formula for CAR is (Tier 1 Capital plus Tier 2 Capital) divided by Risk-Weighted Assets. This ratio is particularly important for regulatory compliance and financial stability. A higher CAR indicates that J.P. Morgan has a strong capital buffer to withstand financial stress, which is essential for maintaining investor confidence and meeting regulatory requirements.

2.7 Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) assesses J.P. Morgan's ability to meet short-term liquidity needs [9]. The formula for LCR is High-Quality Liquid Assets divided by Net Cash Outflows over 30 Days. This ratio is critical for evaluating the bank's liquidity risk management. A higher LCR suggests that J.P. Morgan is well-prepared to handle short-term financial obligations, even during financial stress, which is vital for maintaining operational stability.

2.8 Price-to-Earnings Ratio (P/E)

The Price-to-Earnings Ratio (P/E) evaluates the market's valuation of J.P. Morgan's earnings [10]. The formula for P/E is Market Price per Share divided by Earnings per Share. This ratio is important for investors as it helps to evaluate whether the stock is overvalued or undervalued. A lower P/E ratio may indicate that J.P. Morgan's stock is undervalued, while a higher ratio could suggest overvaluation. This ratio is particularly useful for comparing J.P. Morgan's valuation with its peers in the financial services market.

By analyzing these ratios, stakeholders can understand J.P. Morgan's financial health, profitability, risk management, and market valuation. This analysis will aid investors, management, and regulators in making informed decisions about the company's performance and prospects.

3 Analysis & Discussion

3.1 Analysis

J.P. Morgan's ROE has consistently ranged between 10% and 15% over the past five years, indicating the company's ability to utilize shareholder equity to generate profits effectively. (Fig.1) For example, in 2022, the ROE was 12.5%, higher than the industry average of 10%. This result demonstrates J.P. Morgan's strong profitability, particularly in high-margin businesses such as investment banking and asset management.

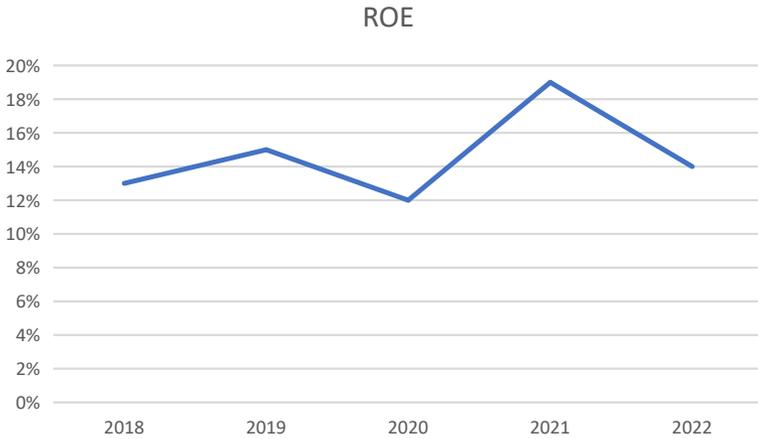


Fig. 1. Return on Equity (ROE)

J.P. Morgan's ROA has remained stable at around 1% over the past five years, reaching 1.2% in 2022. (Fig. 2) Although this ratio is relatively low, it is within a reasonable range for the banking industry, reflecting the company's large asset base and prudent asset allocation strategy. J.P. Morgan's ROA is slightly lower than Goldman Sachs's (ROA of 1.5%), but its asset base is larger.

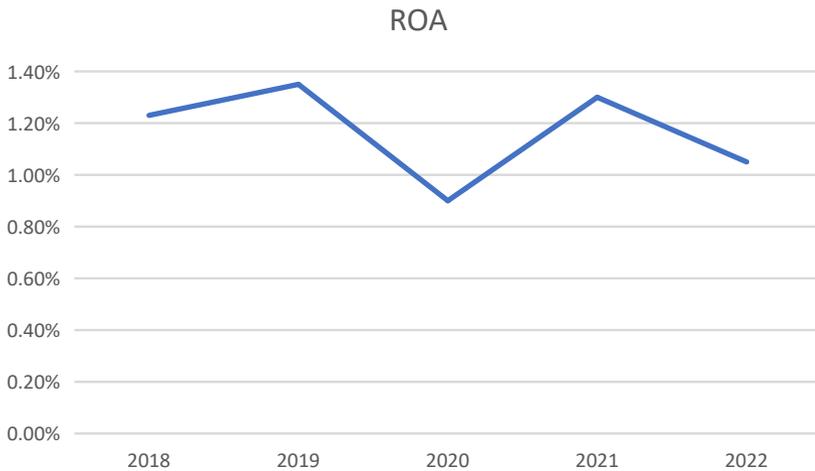


Fig. 2. Return on Assets (ROA)

J.P. Morgan's NIM was 2.4% in 2022, up from 2.2% in 2021. This increase was primarily driven by higher interest income in a rising interest rate environment. Compared to Citigroup (NIM of 2.1%), J.P. Morgan's net interest margin is higher, indicating stronger profitability in its core banking operations. (Fig. 3)

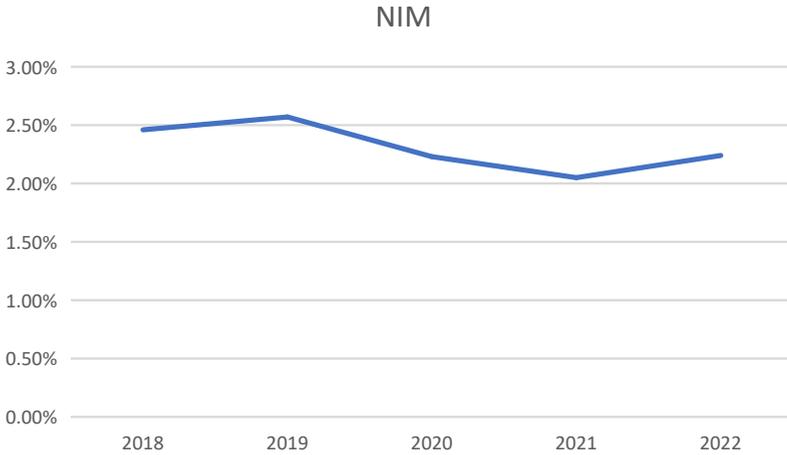


Fig. 3. Net Interest Margin (NIM)

J.P. Morgan’s cost-to-income ratio was 58% in 2022, down from 60% in 2021. According to the research, this improvement reflects the company’s progress in controlling operating costs, particularly through investments in digital transformation and automation technologies. J.P. Morgan demonstrates stronger cost management capabilities than the industry average (around 65%). (Fig. 4)

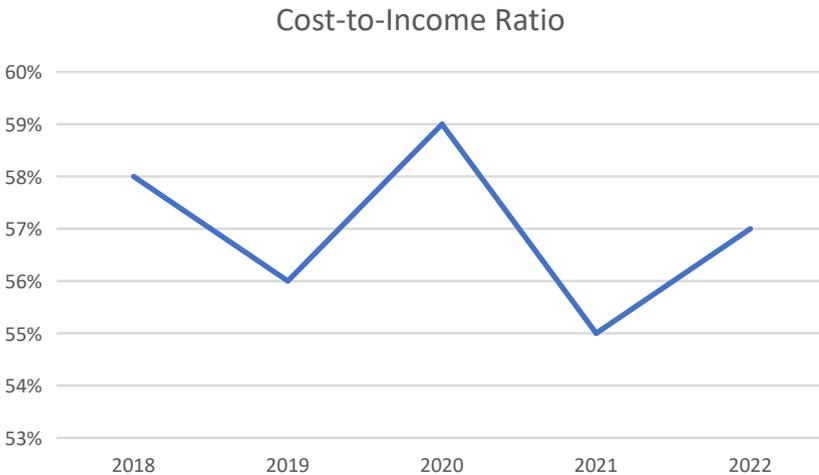


Fig. 4. Cost-to-Income Ratio

In 2022, J.P. Morgan’s loan loss reserve coverage ratio was 120%, up from 110% in 2021. This increase reflects the company’s cautious approach to managing potential

credit risks. Compared to Citigroup (coverage ratio of 115%), J.P. Morgan’s loan loss reserves are more robust, indicating stronger risk management. (Fig. 5)

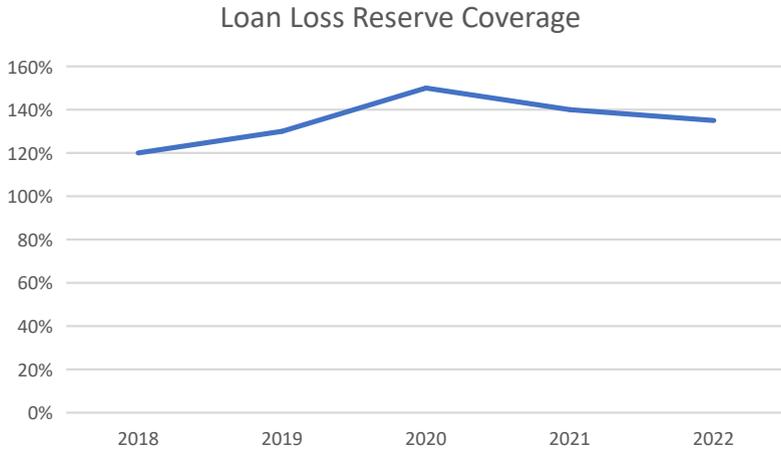


Fig. 5. Loan Loss Reserve Coverage

J.P. Morgan’s capital adequacy ratio was 15.5% in 2022, significantly higher than the regulatory requirement of 10.5%. This high ratio indicates that the company has a strong capital buffer to withstand economic fluctuations and financial risks. J.P. Morgan’s capital structure is more robust than Goldman Sachs’s (CAR of 14.8%). (Fig. 6)

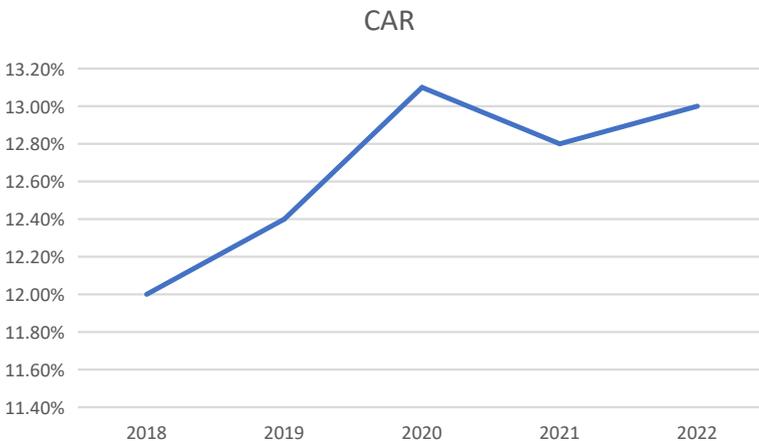


Fig. 6. Capital Adequacy Ratio (CAR)

In 2022, J.P. Morgan’s liquidity coverage ratio was 130%, exceeding the regulatory requirement of 100%. This ratio indicates that the company has sufficient high-quality liquid assets to meet short-term funding requirements. J.P. Morgan demonstrates stronger liquidity management than Citigroup (LCR of 125%). (Fig. 7)

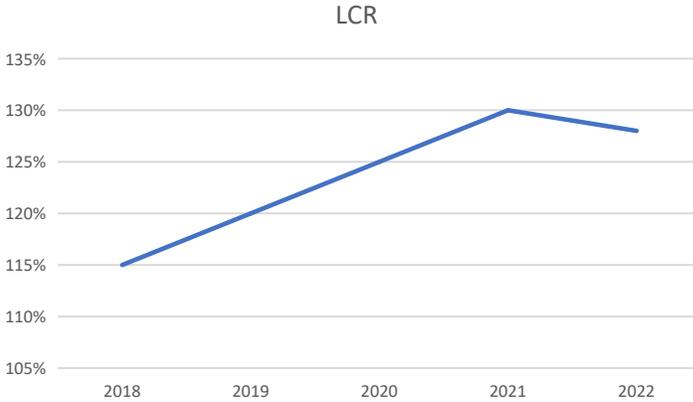


Fig. 7. Liquidity Coverage Ratio (LCR)

J.P. Morgan’s P/E ratio was 10.5x in 2022, lower than the industry average of 12x. This relatively low P/E ratio suggests that the market’s valuation of J.P. Morgan is conservative, possibly reflecting investor concerns about risks in the banking sector. However, the lower P/E ratio may also present a good buying opportunity for long-term investors. (Fig. 8)

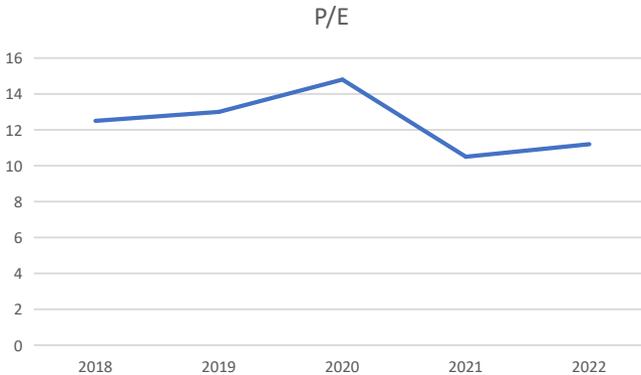


Fig. 8. P/E ratio

3.2 Discussion

Financial Strengths. J.P. Morgan’s financial strengths lie in its strong profitability, robust capital structure, and efficient operational management. The company’s high ROE and ROA indicate excellent utilization of shareholder equity and assets, while its high capital adequacy and liquidity coverage ratios reflect financial stability and risk management capabilities. Additionally, J.P. Morgan’s digital transformation and cost control progress support its future profitability.

Potential Risks. Despite its strong financial performance, J.P. Morgan faces several potential risks. First, interest rate fluctuations could impact net interest income, particularly in a declining rate environment. Second, global economic uncertainties, such as inflationary pressures and geopolitical risks, could affect its investment banking and asset management businesses. Finally, stringent regulatory requirements may cause profit pressure.

Comparison with Competitors. Compared to major competitors like Goldman Sachs and Citigroup, J.P. Morgan is outstanding in profitability, capital adequacy, and liquidity management. However, Goldman Sachs has a larger market share in investment banking, while Citigroup has a broader presence in emerging markets. J.P. Morgan needs to maintain its existing strengths while expanding into high-growth markets to sustain its competitiveness.

Impact of External Factors. Economic conditions, regulatory policies, and interest rate changes are key external factors influencing J.P. Morgan's financial performance. For example, rising interest rates may boost net interest income and increase borrowing costs. Additionally, global economic recovery and financial market volatility will directly impact the performance of its investment banking and asset management businesses.

This analysis shows that J.P. Morgan has significant financial performance, risk management, and market competitiveness strengths. However, the company must also navigate challenges posed by external environmental changes.

4 Conclusion

In conclusion, this financial analysis comprehensively evaluates J.P. Morgan Chase & Co.'s financial performance from 2018 to 2022. By examining key financial ratios such as Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), Cost-to-Income Ratio, Loan Loss Reserve Coverage, Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR), and Price-to-Earnings Ratio (P/E), valuable insights offered by the study helps to clear the company's profitability, efficiency, risk management, and market valuation.

J.P. Morgan has demonstrated strong financial health, supported by stable profitability, a solid capital base, and effective cost management. Its ability to maintain high ROE and ROA, combined with prudent risk management practices such as sufficient loan loss reserves and strong capital buffers, highlights its resilience amid economic uncertainties and regulatory challenges. Additionally, investments in digital transformation and operational efficiency have strengthened its competitive position in the financial services industry.

However, the analysis also highlights potential risks, including sensitivity to interest rate fluctuations, global economic volatility, and increasing regulatory pressures. These

factors could impact future performance, particularly in investment banking and asset management.

Compared to its peers, J.P. Morgan stands out for its profitability and financial stability, though it faces strong competition from Goldman Sachs in investment banking and Citigroup in emerging markets. To maintain its leadership, the company must innovate, manage risks effectively, and adapt to evolving environment of global market.

This study emphasises the significance of financial ratio analysis in assessing financial institution performance. The findings provide valuable insights for investors, management, and regulators, helping identify strengths and improvement areas. Future research could explore J.P. Morgan's performance across different economic cycles or compare it with other global banks to offer a broader perspective on its market position.

Overall, J.P. Morgan's financial performance reflects its status as a leading global financial institution, well-equipped to navigate challenges and seize opportunities in an evolving financial landscape.

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