

# Financial Analysis of JPMorgan Chase in Harvard Analytical Framework

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**Abstract.** Nowadays, economic fluctuations have presented considerable obstacles for the investment banking field. With the development of AI and new industries, investment banking faces much more challenges. The research object of this paper is JPMorgan Chase, one of the world's largest financial services institutions, as an example and used data in 2020, 2021 and 2022. The financial analysis of the company was conducted using the Harvard analytical framework from four perspectives: strategy analysis, accounting analysis, financial analysis, and prospective analysis. By constructing models at the strategic level and researching key indicators at the accounting and financial levels. It showed that the company's solvency was stable during the three years, but its profitability ability increased in 2021 but decreased in 2022. Besides, compared with its competitors, chase still has an advantage in capital utilization. In general, JPMorgan Chase demonstrates strong financial health and operational efficiency, the company still have very good prospects for development.

**Keywords:** JPMorgan Chase, Harvard Analytical Framework, Financial Analysis.

## 1. Introduction

In today's increasingly complex and competitive financial environment, it is particularly important to conduct a comprehensive and in-depth analysis of financial institutions. As one of the world's largest financial services institutions, JPMorgan Chase's business spans the world, involving commercial banking, investment banking, asset management and other fields. In order to more effectively evaluate JPMorgan Chase's operating performance, market position and future development potential, this study will use the Harvard framework to conduct a systematic analysis.

JP Morgan Chase is a global financial institution that operates in various lines of business. JP Morgan Chase serves a diverse client base, including corporations, investors, financial institutions, merchants, government entities, and individuals. The company's products and services encompass banking, investment banking, market-making, lending, payments, asset management, and wealth management [1].

Research on the investment banking industry faces several gaps. First of all, the research focusses too much on developed markets, which make it hard to keep pace with rapid technological advancements like fintech. Second, the existing research lacks a detailed exploration of the subtle impact arising from ongoing regulatory reforms. Additionally, behavioral factors and the increasing importance of sustainability and ESG in investment strategies are underexplored.

In this paper we adopt the Harvard analytical framework and selects JPMorgan Chase as an example. We first introduce the theoretical foundation of this framework, then progresses in the order of strategy, financial, accounting and prospective analysis to evaluate the company's operational performance. Finally, based on the analysis results, we offer suggestions on corporate financial management and investment recommendation for this enterprise.

## 2. Harvard Analytical Framework

In 2004, scholars from Harvard University, including K. G. Palepu, P. M. Healy, and V. L. Bernard, developed a comprehensive framework for financial scrutiny, known as the Harvard Analytical

Framework. This methodology encompasses four pivotal areas: the analysis of strategy, accounting analysis, financial analysis, and prospective analysis.

### **2.1. Strategy Analysis**

Strategy analysis is a critical evaluation of the competitive landscape and internal capabilities. Its objective is to uncover operational hazards and identify drivers of profitability through the lens of the PEST and SWOT frameworks, along with Porter's Five Forces, offering a blend of qualitative insights into conventional financial data analysis.

### **2.2. Accounting Analysis**

The groundwork of financial analysis is laid by accounting analysis, a quantitative endeavor. This step involves a thorough inspection of financial statements and data to assess the authenticity and reliability of corporate financial information. Its primary aim is to validate the completeness and precision of financial records.

### **2.3. Financial Analysis**

The financial analysis phase of the Harvard Framework advances upon the insights gained from strategic and accounting analysis. It involves a comparative analysis of a company's financial health against its industry peers over successive years, utilizing a selection of critical financial metrics. This phase aims to appraise the firm's financial performance, focusing on its solvency, profitability, operational efficiency, and growth potential.

### **2.4. Prospective Analysis**

Prospective analysis integrates findings from the previous analyses to pinpoint existing challenges and forecast the company's future trajectory and growth possibilities from both a qualitative and quantitative perspective. This evaluation aids corporate strategists in refining their strategic initiatives and supports investors in making investment decisions.

## **3. Financial Analysis of JPMorgan Chase Based on Harvard Analytical Framework**

### **3.1. Strategy Analysis**

Analyzing JPMorgan Chase & Co. (Chase) using Porter's Five Forces Model provides insights into the competitive environment and strategic considerations within the banking and financial services industry. Here's an analysis based on the general characteristics of the industry and Chase's position within it.

#### **3.1.1 Threat of New Entrants**

The banking sector in the United States faces a moderate to high barrier to entry due to stringent regulatory requirements, the need for substantial capital, and the importance of establishing trust with customers. For Chase, as a well-established player with a strong brand and extensive customer base, the threat from new entrants is relatively low [2]. However, fintech companies and non-traditional financial services providers using technology to offer banking services pose a growing threat by targeting specific, profitable segments of Chase's business model.

#### **3.1.2 Bargaining Power of Suppliers**

In the context of a financial institution like Chase, suppliers can include providers of capital such as depositors and investors, technology vendors, and other service providers [3]. The bargaining power of these suppliers varies. For instance, depositors have lower bargaining power due to the low interest rates typically offered on savings accounts. However, technology vendors critical to digital banking services might wield more power, especially if their solutions offer a competitive edge.

### 3.1.3 Bargaining Power of Buyers

Customers of banking services have high bargaining power due to the multitude of choices available, ranging from traditional banks to credit unions and online fintech solutions. This means they can easily switch to whoever gives them the best deal, lowest fees or best services [4]. Chase mitigates this by offering a broad range of products, loyalty programs, and integrating technology to improve customer experience and retention.

### 3.1.4 Threat of Substitute Products or Services

The threat of substitutes for Chase is high. Beyond traditional banking competitors, fintech startups, and online platforms offer alternative financial services, including peer-to-peer lending, online-only savings accounts with higher interest rates, and digital wallets. Chase competes by investing in technology and innovation, such as mobile banking apps and online financial services, to match or exceed the offerings of these substitutes.

### 3.1.5 Rivalry Among Existing Competitors

The rivalry in the banking and financial services industry is intense, with major players like Bank of America, Citigroup, and Wells Fargo competing on various fronts including interest rates, customer service, product offerings, and technological innovation [5, 6]. Chase engages in this competitive landscape by leveraging its scale, diversifying its financial products, and focusing on digital innovation to attract and retain customers.

In summary, while Chase faces significant competitive pressures across all five forces, its established market presence, focus on technological innovation, and broad range of financial products and services position it well to navigate these challenges. However, the ongoing threat from technology-driven substitutes and the need to continuously innovate to meet customer expectations are critical strategic considerations for Chase in maintaining its competitive edge.

## 3.2. Financial Analysis

### 3.2.1 Profitability analysis

It is easy to find the data from 2020 to 2022 shows that JPMorgan Chase experienced a notable increase in profitability in 2021, as evidenced by both ROE and ROA (see table 1). This could be attributed to a variety of strategic initiatives, operational efficiencies, or market conditions favoring the bank's business model. The slight decline in both metrics in 2022 could be due to external factors such as the increase of the interest rate and the rise of fintech companies and non-traditional financial institutions affecting the bank's operations and market performance. Despite the fluctuations, the bank still shows strong profitability and efficient use of assets and equity overall. After a obvious increase, the return on assets of JPMorgan Chase decrease in 2022 and return on asset also dropped from 16.43% in 2021 to 12.89% in 2022. The main reason for this drop is the decrease in Net income, which decreased from \$48.3 billion in 2021 to \$37.6 billion in 2022. Besides, the decrease in Net income may owing to the large decrease in its investment banking fees, which decrease from 13.2 billion in 2021 to 6.68 billion in 2022.

**Table 1.** ROE and ROA in 2020, 2021 and 2022

	2020	2021	2022
ROE	10.43%	16.43%	12.89%
ROA	0.86%	1.29%	1.03%

Table 2 shows that JPMorgan Chase 's NIM, ROA, and ROIC are slightly larger than Wells Fargo and Bank of America's, while its ROE is much larger. This divergence highlights JP Morgan's significant advantage in corporate management, reinvestment capabilities, and the generation of increased value.

In summary, according to all four metrics, JPMorgan Chase is outperforming both Wells Fargo and Bank of America. It has the highest profitability per unit of capital, indicating it's utilizing its

resources more efficiently to generate profits. This aligns with the earlier observation about its EPS and shows a strong financial management and performance for JP Morgan Chase.

**Table 2.** Profitability Ratios in 2022

Company Name	Net Interest Margin	Return on Assets	Return on Equity	Return on Invested Capital
JPMorgan Chase	2.83%	1.03%	12.89%	4.99%
Wells Fargo	2.63%	0.93%	6.71%	3.17%
Bank of America	2.06%	0.80%	9.60%	3.86%

### 3.2.2 Solvency Analysis

Table 3 compared Debt asset ratio for Chase in 2020, 2021 and 2022, Debt solvency reflects the extent to which an enterprise guarantees debt repayment and is divided into short-term solvency and long-term solvency. This article uses three ratios, Tier 1 capital ratio, Supplementary leverage ratio, and Debt asset ratio, to analyze the solvency of retail banks.

Judging from the table, JPMorgan's solvency is relatively stable. According to the financial statement, the total liabilities for 2022 are 3,373,411 million, while the total assets amount to 3,665,743 million. Therefore, the debt-to-asset ratio is calculated to be 92.0%. Similarly, the debt-to-asset ratio for 2021 was 92.1%. Overall, the debt-to-asset ratio has consistently remained at a relatively high level, indicating weaker debt-paying ability and higher risk.

**Table 3.** Debt asset ratio in 2020 2021 and 2022

	2020	2021	2022
Tier 1 capital ratio	15.0	15.0	14.9
Supplementary leverage ratio	6.9	5.4	5.6
Debt asset ratio	91.7%	92.1%	92.0%

### 3.2.3 Competitor Analysis

The data in table 4 shows that JPMorgan's P/E ratio is lower than Wells Fargo's, but it is still higher than Bank of America's. It indicates that the market is giving JPMorgan a degree of approval for its future growth and profitability. JPMorgan Chase needs to continuously innovate and improve the quality of its services to maintain its market position [7].

**Table 4.** Market Value Ratios in 2022

Company Name	P/E
JPMorgan Chase	11.09
Wells Fargo	13.15
Bank of America	10.21

According to Table 5, The financial metrics of JPMorgan Chase, including its Debt Ratio and Asset Turnover Ratio was in line with that of Wells Fargo and Bank of America. This suggests that their operational leverage and asset utilization efficiency are similar. This demonstrates that JPMorgan Chase maximizes the use of its funds to engage in business activities and possesses a great capacity for turnover. It is important to recognize that, for a bank, a lower Asset Turnover Ratio can be beneficial as it often indicates a more conservative approach to asset management, which is aligned with prudent allocation of funds.

**Table 5.** Efficiency Ratios in 2022

Company Name	Debt Ratio	Asset Turnover Ratio	Net Profit Margin
JPMorganChase	91.7%	3%	29.28%
Wells Fargo	90.9%	4%	17.46%
Bank of America	90.3%	3%	28.99%

### 3.3. Assets and Investment Income

According to announcements issued by JPMorgan Chase over the past three years, the company's accounting policies have been consistently implemented. JPMorgan Chase maintained its quarterly common dividend of \$1.00 per share and continued to reinforce its fortress balance sheet. JPMorgan Chase grew market share in several of its businesses and continued to make significant investments in products, people and technology while exercising strict credit discipline [8]. These adjustments will not have a material impact on the financial statements. Assets are economic resources owned or controlled by a bank that can be measured in monetary terms and are expected to bring economic benefits to the bank. At the same time, JPMorgan Chase has invested a large amount of money in project investments. Therefore, analyzing the income of investment projects is crucial for companies to find new profit growth points and promote transformation and upgrading. In summary, this article selects two key accounting elements: assets and investment income for accounting analysis.

#### 3.3.1 JPMorgan Asset Analysis

As can be seen from Table 6, JPMorgan Chase's total assets and total liabilities increased from 2020 to 2021 but fell in 2022. The reason is the influence of higher energy and food prices, mounting inflation rates and volatile markets, and COVID-19's lingering impacts.

**Table 6.** JPMorgan Asset Analysis Table

	2020	2021	2022
Assets	3,384,757	3,743,567	3,665,743
Liabilities	3,105,403	3,449,440	3,373,411
Debt asset ratio	91.7%	92.1%	92.0%

#### 3.3.2 JPMorgan Investment Income Analysis

This analysis is designed to help investors, analysts and company management understand a company's investment performance, as well as revenue sources and fluctuations under varying market and economic conditions [9].

The investment income increased from 2020 to 2021 and fell in 2022. This trend is the same as above. The main reason is the impacts of COVID-19.

Based on the above analysis, JPMorgan Chase's accounting policy changes have not had a significant impact on the financial statements, nor will they interfere with corporate accounting analysis. Through the study of key accounting elements, this article found that the company's operating conditions are good, but it is greatly affected by external factors. The next step of financial analysis can be carried out to analyze the underlying reasons (see Table 7).

**Table 7.** JPMorgan Chase Investment Income Analysis Table

	2020	2021	2022
Gross investment banking revenue (\$B)	1.6	5.1	3.0
Bank Interest Income	64523	57864	92807

### 3.4. Prospective Analysis

The future of JPMorgan Chase will depend on how well it can handle a few key challenges and grab opportunities. These include adapting to changes in interest rates, making the most of economic growth, embracing new technologies, following evolving regulations, staying competitive against both traditional banks and fintech startups, and dealing with the uncertainties of global politics and economics [10]. The bank's success will largely hinge on its ability to innovate continuously, focus on customer needs, manage risks effectively, and execute strategic growth plans in the ever-changing world of financial services.

## 4. Conclusion

Based on the analysis, JPMorgan Chase demonstrates strong financial health, operational efficiency, and a competitive edge over its peers. The bank's ability to generate higher revenue, manage assets effectively, and maintain robust profitability ratios suggests a positive outlook. So from our point of view, the company's stock is worth buying, given its market position and financial stability. This is of great significance to our analysis of its investment value and provides a theoretical basis for practical application. However, this study also has some limitations. First, the data selection period is only 3 years, which may affect the generalizability of the research results. Secondly, the research method is relatively single and some potential variables may be ignored. Therefore, future research needs to validate these findings in a broader context and consider other possible influencing factors.

## Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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