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J.P. Morgan Stays in Black, but Calls Results 'Very Disappointing'

By [KERRY E. GRACE](#)

J.P. Morgan Chase & Co. posted a 76% drop in fourth-quarter net income, despite \$2.6 billion in gains, as provisions for credit losses surged and the bank marked down another \$2.9 billion of leveraged loans.

Chairman and Chief Executive Jamie Dimon called the results "very disappointing" and said they were driven by a \$2.36 billion loss at its investment-banking operations, caused by the leveraged loans.

J.P. Morgan -- which vaulted into first place in nationwide deposits following its \$1.9 billion September acquisition of Washington Mutual -- reported net income of \$702 million, or seven cents a share, down from \$2.97 billion, or 86 cents a share, a year earlier. The latest results included \$1.1 billion in gains related to the purchase, along with \$853 million in hedging gains on its mortgage-servicing rights.

Excluding the WaMu gain, J.P. Morgan said it would have lost 28 cents a share.

Revenue slipped 0.8% to \$17.23 billion. Analysts surveyed by Thomson Reuters expected break-even earnings on revenue of \$18.83 billion.

J.P. Morgan's shares climbed 4.4% to \$27.05 just after the opening bell.

Provisions for credit losses more than tripled to \$7.31 billion, rising 26% from the third quarter.

Beyond the investment-banking woes, J.P. Morgan saw profits at its retail operations fall 15%. However, commercial banking profit jumped 67% to a record \$480 million, driven by a 36% rise in revenue due to benefits from the acquisition of WaMu.

The company's asset-management and corporate and private-equity segments posted lower earnings.

Mr. Dimon said last month that the company was prepared for a "tough" 2009,

but he said the company was putting the \$25 billion it received from the federal government's bailout program to work. He said credit-card, student and commercial loans increased last year.

J.P. Morgan has said it would amend and expand its mortgage program, with the company already preventing more than 300,000 foreclosures. The company said it plans to help another 300,000 families stay in their homes with mortgage modifications over the next two years. It had also said it wouldn't put any loans into foreclosure. The company said it inherited riskier pay-option adjustable-rate mortgages when it acquired Bear Stearns and WaMu earlier this year.

J.P. Morgan continued to expand during the quarter based on its strong balance sheet, buying the Canadian energy and global agricultural arms of UBS AG.

The company still has plenty to worry about in the U.S. Its investment bank is dealing with capital-markets turmoil and home-equity losses. And the combination with WaMu will take time, since integrating a thrift into a bank is more difficult than a bank-to-bank deal.

Looking forward, Mr. Dimon said, "If the economic environment deteriorates further, which is a distinct possibility, it is reasonable to expect additional negative impact on our market-related businesses, continued higher loan losses and increases to our credit reserves."

Chief Financial Officer Michael Cavanagh said he feels good about the underlying trends in retail banking, but the slumping economy will continue to hurt the company's loan portfolio.

Home equity loan losses could reach \$1 billion over the next quarters, from \$770 million in the fourth-quarter, prime mortgage losses could double, to \$400 million, and subprime mortgage losses could go up to \$425 million, from \$319 million in the fourth quarter.

Credit card losses reached 5.29% of such loans in the fourth quarter, in line with the company's previous guidance, but Cavanagh said JPMorgan Chase is now looking at a loss rate of "something more like 7%" in early 2009 "and progressing across the year through to something like 8%."

Mr. Dimon said "consumer is spending less' and loan demand overall "is dropping rather dramatically. However, Mr. Dimon said that the company's balance sheet remains "in very good shape," and he "feels good" about the dividend.

—Matthias Rieker contributed to this article

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