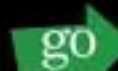




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JP Morgan sparks fresh outrage as bonuses soar

Remuneration up 18% as America's second-largest bank doubles profit to \$12bn

By James Moore, Deputy Business Editor

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JP Morgan said yesterday that its earnings "fell short" of their potential last year – but it still felt able to hand its investment bankers a 22 per cent increase in their bonuses.

Kicking off what could be a stormy reporting season, America's second-largest bank paid them \$9.3bn, compared with \$7.7bn in 2008. Total pay for its 222,315 employees came in at \$26.9bn – 18 per cent from \$22.7bn the year before – largely because of a sharp increase in bonuses paid throughout the bank. The announced sparked outrage among critics who described the figures as "obscene".

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JP Morgan reported profits of \$11.7bn for the year, more than double the \$5.6bn it made in 2008. In the fourth quarter, profits increased fivefold to \$3.28bn. The comparative period in 2008 was, however, at the height of the financial crisis.

The bank's chief executive, Jamie Dimon, said of the results: "Though these results showed improvement, we acknowledge that they fell short of both an adequate return on capital and the firm's earnings potential."

He did not address the issue of pay in his statement but, in what could be seen as a sideswipe at a growing and increasingly vocal band of critics, he said: "I am very proud of our more than 200,000 employees around the world, from our programmers to our receptionists to our bankers.

"Through their tremendous efforts, we have been able to protect our company and keep it healthy and vibrant, while doing our part to support the global financial system and helping the countries where we do business."

More of the bonuses will be paid in shares rather than cash, as has been the case in previous years. But Mr Dimon told analysts that equity-based pay would be only "a little higher". Pay as a proportion of income in the investment bank also fell to 33 per cent from 65 per cent, partly, Mr Dimon said, because of "UK tax" on bonuses.

Profits at the investment bank came in at \$1.9bn for the fourth quarter after a loss of \$2.4bn in the same period in 2008. For the whole year, they surged to \$6.9bn from a \$1.2bn loss.

Mr Dimon remained cautious about the future for the bank overall, with the economic outlook still uncertain. However, analysts at Morgan Stanley said it was a "better-than-expected quarter" for the bank.

Outside the financial community, however, there was an angry reaction to the enormous payout to JP Morgan's bankers. The TUC general secretary, Brendan Barber, said: "These obscene bonuses paid so soon after the world's taxpayers had to rescue the banking system show there is something fundamentally wrong with the relationship between banking and the rest of the economy. Banks are meant to support society but instead taxpayers' support guarantees that whatever happens to the economy, banks will continue to pay gigantic bonuses."

He called for a tax on transactions to be introduced to "reintegrate banks into society".

Bettina Bender, a partner and employment specialist at the law firm CM Murray, said the figures also showed the failure of efforts to curb bankers' bonuses through new taxes. "The government measures to limit bonus payments announced in the US and UK to date in the wake of the banking crisis appear to have had no real practical impact, as demonstrated by the bonus figures announced by JP Morgan today," Ms Bender added.

The left-of-centre think-tank Compass also rounded on the London Mayor Boris Johnson, who has claimed that 9,000 bankers could choose to leave the capital because of the Chancellor Alistair Darling's supertax on bonuses. Gavin Hayes, Compass's general secretary, called JP Morgan's bonuses "obscene" and described Mr Johnson's comments as "completely unfounded".

"The job of the Mayor is to stand up for the millions of Londoners angry at bankers' greed, not a rich elite located in the Square Mile," he said.

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Analysis

There is, at least, something to smile about in JP Morgan's results. Analysis of the numbers suggests that the supertax on bankers' bonuses will make a decent contribution to plugging the yawning black hole in Britain's public finances.

In fact, JP on its own will contribute more than half the £550m the Treasury initially estimated that the tax would fetch. Here's how it works. There are about 5,000 people employed in JP Morgan's investment bank in London. In total, the company employs 24,654 people who will share \$9.3bn. So the average pay across the investment bank is \$377,358 and the total pay pool in London comes to around \$1.9bn or £1.2bn.

How much of that is "variable compensation" that would incur the bonus tax? That's hard to say and JP Morgan is keeping mum. But a banker at a rival firm says it is not unreasonable to assume that 70 per cent of the 5,000 are support staff. Assuming they earn about £50,000 each with a small bonus on top, they would account for some £200m of the London pool, leaving £1bn for the bankers proper. Assuming an average basic salary of £150,000 for them, that takes up another £225m, leaving a bonus pool of £775m.

The Chancellor's supertax is 50 per cent above the first £25,000, so based on the assumptions we have to take off another £37.5m. That means there is a pool of £737.5m for Mr Darling to tax, netting him £369m just from JP Morgan.

This calculation makes some very big assumptions, of course, but it does seem fairly clear that the supertax is going to generate a tidy sum. Recent estimates have ranged between £3bn and £6bn across the City of London.

Another interesting figure in JP Morgan's report that attracted some interest yesterday was the steep fall in compensation in the fourth quarter – it came in at just \$569m against \$1.2bn the previous year, despite that being a dreadful three months.

The figure compares to \$2.8bn in JP's third quarter. Interesting, but we should be cautious about reading this as a change in behaviour. Bonus pools are often built up in the first three quarters of the year so fourth-quarter pay can look low.

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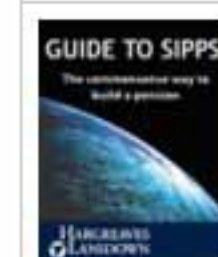


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