

From: David Stern <[REDACTED]>

To: Jeffrey Epstein <jeevacation@gmail.com>

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Might be useful background on JPM in China:

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Transcript: Interview with Peter Lighte, Chairman, JP Morgan Chase Bank (China), on November 21, 2008

The Asian Banker (TAB): Before I ask about the situation globally and in China, can you touch on some of the points you discussed with us last year after your local incorporation and kicking things off here—about your business model and some of the approaches you were looking to take.

JP Morgan Chase Bank (Ligte): We're sticking to our plan. As my uncle used to say, 'keep your eye on the donut and not on the hole.' I think we're really living by that message from last year.

TAB: Can you describe the evolution and development of the bank over the last year, since the incorporation in China.

Ligte: The knock on effects of regulatory imperatives are fascinating. For example...the regulator doesn't want to hear about lines of businesses. The regulator wants to hear about J.P. Morgan. So, that has really assisted us in looking at ourselves in a better way.

We're much better governed now, partially benefiting from regulatory oversight. So, we look more across the businesses now. We sit around the table together and actually aim to do the right thing for the franchise in China.

Although the locally incorporated bank (LIB) is not a huge institution, it inadvertently is the flagship of J.P. Morgan in China because it's a regulated entity, attracting attention way out of proportion to its size; and we're very mindful of that.

It has also given the bank outside of China a focal point to look within China in a less random, more organized, more rational way. So, JP Morgan--the bank, is a visible entity, containing businesses which are chugging along well in concert and trying to get thing right in China for our clients.

We've been able to give new focus to the businesses that we have here.

The treasury and securities services businesses have grown exponentially. Of course it's the market, which has been great; but, it has also been getting different kinds of attention from the global franchise because people are paying attention to us in a different way.

For example, we're trying to do more for middle market companies in the United States who need help here. We're addressing their needs. We're also very keen on locating deposits because we must live and die by deposits as a locally incorporated bank. The more deposits we get, the better we can do for our clients in terms of addressing their needs.

I've become this deposit Hoover (vacuum cleaner), quite shamelessly asking for deposits now because they are

our life's blood; and by asking for deposits, you initiate different kinds of relationships with clients, requiring more creative discussions.

As I mentioned last year, we would make a big push into the corporate space because it's an area that's underpenetrated by J.P. Morgan in China.

You know, we have incredibly deep and very old and valued relationships with financial institutions.

We don't want to neglect that client base, for sure; but, we want to redress the imbalance in terms of how we do our business here. So, we really have been going after corporate names—more and better coverage of multinationals, and local corporations, for sure. So, I think that's been a really important initiative for us.

TAB: Last year you mentioned you would use the investment bank in China to help drive corporate business.

Lighte: It's really a twist. Anyone in the firm who wants help with the FIs can come right to us. No need to scratch our heads. We are able to cut right to the chase. It's 'who do you want to see, when do you want to go, what do you want?' We'd like someday to be in that position with a broad range of corporates throughout China; and owing to the IB's terrific corporate relationships, it has been the IB which has been the stalking horse for operating services instead of the reverse, which is fascinating. My colleagues in the IB have been most helpful in this department.

TAB: Has that kind of arrangement met your expectations? In practice, from a year ago when you introduced that strategy or business model, and then a year on, is it in line with what you expected?

Lighte: What we have discovered is that the abiding wisdom--that if you mythologize a small list of clients and get all of their business, you've done--is flawed. Rather, what we must do is to cover them deeply, but to acquire more, as well.

So, what we've actually been doing is vetting many corporate names in advance of a big push. Homework first! So, we've engaged credit and risk to do a screening of a universe of names with which we hope to do business with in the future.

We're really trying to get our ducks in order because we're pursuing a commercial banking agenda. We have to winkle out people who have been under wraps all these years--commercial bankers, colleagues with credit experience; and interestingly, in bad times, everyone wants to talk to risk managers and credit people.

How the world has changed! They have become the rock stars of the fiscal crisis; and we're recognizing their value in terms of what needs to be done in China when it comes to the responsible acquisition of more clients. We're being very careful, very rational about how we're going about this. We want to get it right.

It's better coverage of existing names, acquisition of new clients brought to us by the right people in the bank, and exploring really interesting and sensible prospects.

TAB: You also spoke previously about boosting sales capabilities in China. How have you been pursuing this?

Lighte: It's not rocket science. We hired more sales people flogging fine products; and we've had terrific big time double digit growth results this year. I'm really proud of our folks for delivering such fine results.

I sure wish that our performance was down to my magic and brilliance; rather, it was down to the home truths of diligent and better coverage and a better way of doing business—much more rational, much more disciplined, with more people hitting the ground.

And plus, a sort of foil for all of this going forward, will be the branch expansion. That's really critical to the future of the LIB (locally incorporated bank) and to the J. P. Morgan China franchise, as well.

TAB: How many branches do you have now and what is the branch expansion strategy at the moment?

Lighte: For now, we still have three branches in Shanghai, Beijing, and Tianjin. We have six more in the pipeline, with a new one completely built out and another well underway. Since we don't yet have final regulatory approvals in place, I simply can't be more forthcoming.

TAB: I've been speaking with some of the foreign bank retail managers in China and they of course have been talking about their branch strategy. One of the things they mentioned was that they felt that regulators were slowing down approvals for branch expansion.

Lighte: But our agenda differ profoundly. We are not entering the retail Space outside of the U.S. for now.

TAB: Right, so I'm wondering for J.P. Morgan, which is not doing retail, so therefore there is no correlation?

Lighte: Retail is a completely different animal; thus, our different experience with the regulators who have been both welcoming, reasonable and helpful to us.

TAB: What's your view on the business landscape in China, especially for US banks in light of the events of the last couple of months.

Lighte: I think there's been a flight to quality, for example. It's been easier to market to clients because of the difficulties other banks are having; but, I've also learned that business of bankers is cycles, but no banker ever believes he's in one. But, I have enough experience to know that arrogance can turn right around and bite us right in the neck.

So, I am loathe to be haughty these days because it can happen to anybody, I really mean that. That being said, I am quietly proud of how J.P. Morgan is going about our business.

We are fortunate in enjoying some good publicity, these days; and I cannot help but feel that it's much better for other people to say good things about us than for us to say it about ourselves.

I remember when I was a kid, an aunt of mine used to talk about her daughter all the time; and I once asked my mother, "why don't you talk alot about me?" She replied with a smile, "I prefer to let other people do that." It's exactly the same thing.

If you go to the recent CCTV interview with Jamie Dimon, when the anchor or journalist commented that Jamie was the most influential banker on Wall Street, he said simply that , "No, actually, this is an exaggeration. I'm just one of 200,000 employees at J.P. Morgan. I'm just doing my best." Not a bad role model, I'd say.

Hubris is always perilous--all the more if you think you're flying high.

TAB: So, what's the ripple affect for your bank in China? Is it business as usual, is it just sticking with your plans or...

Lighte: Our plans continue, tougher times, aside; but our times are somewhat eased. When Jamie Dimon and his team were recently here, we were prepared with deep freeze scenarios. What a relief to be told to just get on and build out those branches! That speaks volumes about our commitment to China.

There are certain things that are important right now to him and to Heidi Miller who heads up Treasury and Security Services and is the China advocate at the top of the house. They are both committed to building out China, full stop. There's no equivocation.

TAB: Will China be getting more attention because what's going on in the US and globally?

Lighte: Absolutely. Just couple the facts that the biggest treasury holders in the world are the Chinese and the Chinese growth story will continue to be one of growth, China is centre stage. How the relationship gets adjusted between the two countries amidst the drama of the global economy remains to be seen; but, China is all the more significant to the United States during these stressful times.

But, for sure, the fates of China and America are intimately related. There's no two ways about it. And I think the president-elect is mindful of this. Frankly, his domestic agenda cannot be hived off from the global situation.

TAB: What would you be looking for then from that perspective and what kind of impact might it have on your business here in China, for the bank?

Lighte: Our trade business has been roaring so we worry about protectionism; but, despite a domestic political agenda in the United States which might make noises about protectionism, I sure hope that free trade somehow prevails. It's very important for the world. It would be very short-sighted to pull down the shutters now just when they must be kept wide open.

TAB: How are you responding then to some of this ripple effect? Export demand is going down and there is stalled business in various areas. What does that mean in practice for the bank? What do you have to do in response?

Lighte: Trade continues, but one just sees changes in patterns of behaviour; but, there are many kinds of businesses to be done. One of the great gifts of being a universal bank is that we're not a one-trick pony. Just think about it. Goldmans and Morgan Stanley are now banks. So, they theoretically want to become what we already are. So, we can happily come out of the closet now about being a universal bank. It's a great thing.

TAB: What do you think the global implications and implications here in China are for these US investment banks becoming commercial banks? What is the result of that?

Lighte: I would suggest that they are very smart people and they're going to try and cope in this environment to become the kind of bank they want to become that will enable them to do their businesses.

Their innovation is not only done on behalf of their clients. I think their innovation is also very much designed to ensure a very bright future for themselves.

TAB: For JP Morgan and your bank here in China, what kind of impact might that have?

Lighte: Since we're already a universal bank, I think we'll certainly still look upon them as competitors in the investment banking space. But, who knows? They might suddenly do an M&A deal that will give them a branch network. They're very innovative--that's their business. When it comes to China, they might not only give advice, but take their own.

TAB: After Lehman Brothers, how is your business been affected by fears of other counter-parties?

Lighte: I think the effects of Lehman's have been somewhat irrational. When we take a look at the current volatility in the market, it cannot be readily explained. Things seemed to have changed after Lehman's in terms of the fear factor and irrationality factors.

TAB: So, does your bank and your FI clients are asking a lot more questions now?

Lighte: I'll give you an interesting example of what we recently did. Just last week we got the head of risk and credit for Asia come up to make the rounds with us to all the banks. We wanted him front and centre with the banks not only to answer their questions about J.P. Morgan, but to also to make him available as a thought leader in the space of risk management. Our local banking partners here in China are terribly interested in knowing just

how we go about doing things; and that's what we want to tell them.

What we're doing now is coming up with a very disciplined approach to visits from New York and the region on an on-going and regular basis; and funnily enough, we'd like to see the conversations elevated above J.P. Morgan to the level of the industry, thereby informing the dialogue beyond the parochial.

For example, when Jamie Dimon was recently here, he met with regulators and clients at the top of the houses. He wants that approach to be echoed throughout our organization. So, we each look after different levels of these relationships in a fashion that best suits the bank. By the way, he's very keen on regulators and governance. Jamie is profoundly committed to risk management--an worthwhile combination--thank goodness.

TAB: In light of the love for the regulators at J.P. Morgan, how are you coordinating...after Lehman Brothers, after the last couple of months, how is JP Morgan coordinating differently with the regulators and what are they telling you?

Lighte: Our approach is not necessarily problem driven. If we have on-going dialogues with the regulators, surprises are minimized. In China, despite the rigor of the regulators, it's very important that you have relationships with them. It doesn't necessarily make message any easier. It's no walk in the park. Rather, it's just easier to tell your story and easier to get an answer.

TAB: What are they asking you and also what are they telling you? Would you expect or are they discussing any major new regulatory or supervisory changes?

Lighte: The LIBs are pretty closely regulated anyway, so new and onerous regulations are not expected. By the way, I think the messages always seem heavier if you're not in regular touch with the regulators.

We know what the drill is, so we always strive to be compliant and we always strive to tell them our plans. Just the exercise of building out the branches has brought us into deep and constant contact with them on a regular basis. We see them a lot. I think it's all to the good.

TAB: In terms of product composition and product composition strategy, would you foresee any shifts in light of the current situation for JP Morgan and here in China specifically?

Lighte: No, because when you're in a situation like this, it's back to basics. Nobody really is keen to talk about terribly complex structures at this time. It's funny, nobody wants to be an inarticulate genius at this moment; it's perilous, in a funny kind of way. People really want to do the kind of banking now that they can understand because I think there's a fear now of not being able to explain things. I only hope that the good times in the future don't wipe out the desire to understand.

We're trying to make it very easy for our clients to understand and explain to others what they're doing. I have a simplistic notion of what caused this crisis and it's also a very basic matter. I don't think it was smart people who caused it, who came up with structured transactions that nobody understood or that there was deception abroad. I think it was that the most basic underwriting standards went out the window.

It's sort of an interesting thing. I'm of an age that my parents lived through the depression. Although we had a good life and everything was fine, somehow it got into our heads that you don't buy things you can't afford.

When you have people who are borrowing money that they know they can never pay back offered to them by those who don't even require basic documentation--and then manage to get not only a 100% mortgage, but also a 25% equity loan, what should we expect? What then happens is that the bad debts are re-packaged; but, if sound investments had been syndicated, there would have been no crisis. Home truths had been ignored.

TAB: On the product or business side, do you see any new opportunities that could be pursued?

Lighte: I think that the opportunities that are being pursued have to do with the flight to quality now. I think once again, people are terribly interested in our risk profile. How do we do our business. Sure, they read the newspapers, but they also really want to know why are you different from the banks that have gotten into more trouble.

So, we explain it to them. We explain our obsession with risk management and credit. All of these onerous procedures that drove us mad for years now make us superstars. So, if we stick to our knitting in a very basic way, we will prevail and clients will come to us for our products and our process.

TAB: There was some rumour about a possible retail partnership between J.P. Morgan and China Everbright Bank.

Lighte: There is always a lot in the ether. After all, we did Bear Stearns and Washington Mutual. There are always discussions underway on many fronts; and I think it should be that way.

TAB: You mentioned Jamie Dimon's recent visit. I'm wondering, for the bank here in China, how is it coordinating with the Asia Pacific office in Hong Kong and with the headquarters in New York? How is that occurring? Has it changed much at all?

Lighte: This particular event was occasioned by J.P. Morgan's annual International Council meeting held in Shanghai. Its members include Tony Blair, Henry Kissinger, George Schultz, Lee Kuan Yew, Gao Xi-qing and many other prominent people from government and industry alike. After the session, the Bank's operating Committee was then scheduled to meet in Hong Kong. Frankly, there were bets on. In light of the crisis, would they all come? For all of those people to be out of New York at such a time....The pessimists lost their wagers. Not only did Jamie come, but so did the Operating Committee! What a true and public demonstration of J.P. Morgan's commitment to China! As if the top of the house can come during such times, I certainly can count on them in the future.

TAB: What do you think of the Bank of America investment or stake increase in China Construction Bank? Of course you just had the bailout and now a bank like Bank of America that is a recipient of those funds would be going out and making a long-term strategic overseas investment. Would you expect to see more bailed out banks doing the same thing?

Lighte: If the money was put into trusted and responsible hands, why would there be anxiety about how it is spent. After all, it is in the best interests of us all for the solid banks to flourish.

TAB: When you have federal funds at odds or potentially at odds with corporate strategy and corporate decision-making...when you have to look beyond what's going on in the stock market today...when you have to have really a more long-term vision for your business, wouldn't that make it more difficult when it becomes politicized?

Lighte: I'm a big internationalist myself--and I really mean that. I reckon the more tightly entwined the world becomes, the better the world will be.

TAB: Would that set a precedent then. Would you expect more...

Lighte: The great opportunities in the world are not always found in one place; so, you have to have a good look around and China is an obvious place in which to be profoundly interested. But, execution is another matter. It's not only the American government or public opinion that can deter our aspirations. After all, Chinese regulatory confines can thwart aspirations, as well. Despite globalization, national interests must also be considered. It's a real ballet.

TAB: In terms of opportunities, what do you see out there? What would be interesting to you?

Lighte: In the world or in China?

TAB: Globally, but really more specifically in China or in Asia.

Lighte: The Washington Mutual transaction really addressed a huge issue for J.P. Morgan--the retail network in America. Florida and California are now spoken for. I was actually hoping that a big domestic deal would get done so international could get centre stage-- and I'm hoping it does.

TAB: If you're talking about acquisitions, what would be helpful for your business in China or perhaps globally. You have the acquisition of WAMU in the US for retail. What would be useful in China?

Lighte: We're always looking. Our interest in the securities space is no secret and we continue to look at it. One thing that Jamie Dimon has taught us is that it's really wonderful not to do a bad deal. In aid of getting it right, he's susceptible neither to pressure. nor false wisdom; and he certainly finds the pack mentality resistible. He just wants to do the right deal.

TAB: Do you think a J.P. Morgan-Citibank merger would make sense?

Lighte: It's funny because when I met Chuck Prince last week, he said, 'send my regards to all my friends at J.P. Morgan'--to which I responded, 'there sure are alot of them.'

TAB: In terms of Chinese banks investing overseas or in the United States, in particular...if there's a slowdown now in lending between institutions within China and concerns about risk...in terms of Chinese institutions looking at options outside of China, what is the likelihood of that coming into play in your view?

Lighte: There is much more conservatism now. I think the cowboys are out of business for a while, I really do. I think people are being very careful now. They have to be. Initially, there was a sort of feeding frenzy. No-one is feeling like a kid in a candy store these. A sweet tooth might land you in big trouble!

TAB: It must be tempting though.

Lighte: There are personalities always involved in such discussions; and if there are cultural issues confronting companies in the very same market, one can only imagine the hurdles which would need to be addressed when it came to China and another country. The head office argument would be most amusing in this context.

TAB: What next then for J.P. Morgan and for you here in China?

Lighte: I want these branches built out and I want us to launch a very elegant invasion of the corporate space in China. I think it would be very satisfying and it would really do a lot for the franchise of our bank. If we could have a corporate practice as robust as the FI practice, I would be very happy.

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Asia Gateway Ltd.
Michelin House

81 Fulham Road
London SW3 6RD
UK

Tel:

Fax:

