

May 2011



JP Morgan Chase (JPM) Credit Summary Report

Ratings

JP Morgan Chase
Long Term
Short Term
Outlook

S&P

A+
A-1

Moody's

Aa3
P-1
Negative

Fitch

AA-
F-1+

Trend Rating: SV2

Headquartered in New York, JPMorgan Chase and Co. (JPM) is a leading global financial services institution and one of the largest U.S. banks with assets of \$2.1tr, loans of \$693b and equity of \$176b as of December 31, 2010. With 5,268 branches as of year-end, the bank ranks 2nd in terms of U.S. deposits of \$633.1b, holding a number one position in New York, Michigan, Indiana, Texas and Illinois. JPM has a solid, diversified banking franchise and enjoys leading positions in investment banking, mortgages, credit cards and syndicated lending. The bank manages under six main business lines including investment banking (IB: 38% of 2010 income), retail financial services (RFS: 15%), card services (CS: 12%), commercial banking (CB: 12%), treasury and securities services (TSS: 6%) and asset management (AM: 10%), with corporate accounting for the remaining 7%.

With its May 2008 acquisition of Bear Stearns, the bank has become a dominant investment bank and securities underwriter. With over 5,000 sales and trading professionals, JPM retained the number one rank in 2010 in global investment banking fees for the second consecutive year. IB has continued to gain market share fueling earnings growth as demonstrated by a CAGR of 12% (2005-2010) for pretax pre-provision profit. Over the course of the last few years, approximately 30% of IB revenue has come from derivatives with interest rates the largest segment at 40%, followed by equities (20%), credit (20%), currencies (10%) and commodities (10%). Despite subdued client activity, trading revenue was stronger than most peers. In 2010, performance metrics for the IB segment were solid with net income of \$6.6 billion on revenue of \$26 billion, with a ROE of 17%.

The retail financial services unit, which includes retail banking, mortgage banking, auto and real estate portfolios, has continued to experience strong underlying performance. For 2010, RFS earned \$2.5b on revenue of \$31.8b. While core businesses performed well, the bank continued to face elevated credit costs and repurchase losses. Mortgage repurchases as they relate to the GSEs remain manageable for JPM as losses for 2011 are estimated at \$1.2b (the same for 2010) with year-end reserves of \$3b; however, the picture for private label exposures is less clear due to the limited experience with such investors. As of 4Q10, high LTV home equity loans accounted for 20% of total home equity loans, or 38% including purchased credit-impaired (PCI) loans. However, even if there were to be a full write-off of the high LTV exposures, regulatory capital ratios would remain above thresholds. Regulatory reform will remain a headwind, particularly in regard to the Durbin Amendment (effective July 2011), which will cut debit card interchange fees earned by banks by more than 70%. However, various mitigating actions, such as the bank's recent announcement that it will stop offering debit card rewards for almost all customers, should limit the extent of such losses (approximately \$1.3b annually).

In addition, JPM enjoyed a lead standing in the U.S. credit card industry with total outstandings at year-end totaling \$124 billion (excluding WaMu). The bank implemented various business model changes in response to the CARD Act (passed in 2009), which have mostly compensated for lost revenue. In 2010, the bank had a manageable \$750mm after-tax impact related to the CARD Act. While the financial crisis bestowed certain challenges on CS, it continued to gain market share through new products and features such as Chase Freedom, which targets savvy rewards-oriented clients and Chase Blueprint, which

helps clients take charge of their finances. At the same time the bank reduced exposures to higher risk, more indebted customers, closed inactive accounts (eliminating \$50 billion of unused credit lines) and reduced credit lines for new accounts. Credit loss trends continued to show improvement and the bank expects a through-the-cycle loss rate of roughly 4.5% by mid 2012. Net income was \$2.1 billion versus a net loss of \$1.2 billion in 2009 with the improvement driven by lower provisions and reserve releases, partially offset by lower revenue.

JPM's commercial banking business has grown significantly thanks to the WaMu acquisition. The portfolio is highly diverse and granular, and utilization rates have stabilized somewhat in 2010 after a steady decline in 2009. This segment continued to generate steady profitable growth and high efficiency with net income of \$2.1b (\$1.3b in 2009), revenue of \$6b (\$5.7b), an ROE of 26% (16%) and a cost to income ratio of 36% (38%). CB sees growth opportunities in out-of-footprint markets, international markets, an improving CRE cycle and IB revenue generated from cross-selling.

The more global franchises also continued to perform well. The treasury and securities services business remains a central business within JPM, and a major global provider of custody, clearing and other securities services. TSS also provides stable earnings with excellent margins and high returns on capital. During 2010, there was solid growth in both worldwide securities services (AUC grew 8% to \$16.1tr), and treasury services (deposits grew 5% to \$169.2b). However, TSS's income was down \$100mm to \$1.1b as securities lending revenue fell 30% and expenses climbed on investment in global expansion. With \$1.3tr in assets under management and \$1.8tr in assets under supervision and almost \$9b in revenue in 2010, JPM's asset management business is one of the leading global money managers and private banks. AM experienced strong growth across all client segments and continued to attract new assets thanks to solid performance. Net income increased 20% to \$1.7b, the highest in three years, with an above peer average ROE of 26% and pretax margin of 31%.

Taken together, these businesses enabled JPM to survive the financial crisis without extraordinary support from the government. Furthermore, earnings held up better than most peers due to strong underlying growth as well as solid underwriting and risk management practices. Net income in 2010 grew 49% y/o/y to \$17.4b on revenue of \$102.7b. However, this was mostly due to an improving credit environment, particularly for credit cards, which resulted in lower provisions and reserve releases. Revenue was down 4% constrained by low interest rates, sluggish loan growth, portfolio run-off and margin pressure. These factors, in conjunction with potential regulatory changes, could further pressure revenue growth in 2011; however, continued improvement in credit could serve as an offset. As noted, JPM sees an opportunity for growth in international markets, which accounted for just 22% of firm-wide revenue in 2010. Similarly, cross-selling across wholesale businesses presents a growth opportunity as underscored by 40% of TSS's revenue coming from CB clients and 24% of domestic IB fees generated from CB clients. Asset quality saw marked improvement from the previous year, although losses are still above historical levels. Nonperformers were down 73bps to 2.39% while charge-offs were down 197bps to 2.95%, relatively better than peers. Year-end reserves stood at \$32.3b amply covering 4.7% of loans

and 195% of nonperformers. Credit metrics have continued to improve in 1Q11 as credit cards experienced lower losses.

Funding and liquidity remained strong with deposits (\$930b) fully funding the loan book. The banking network and the securities servicing unit continue to be significant sources of deposits. Liquidity is further enhanced by a \$262b global liquidity reserve, which includes cash, highly-liquid securities and central bank and FHLB borrowing capacity. Parent company liquidity was ample with sufficient liquid assets available to meet maturing short-term obligations. Earnings retention and a reduction in risk-weighted assets contributed to improved capital levels in 2010. The Tier-1 ratio stood at an above peer average of 12.1% and the Tier-1 common ratio stood at 9.8%. The bank estimates that its Tier 1 common ratio under Basel III is 7% (the minimum requirement) although as a systemically important bank, JPM may be required to hold a further capital buffer to withstand periods of stress. Having received Fed approval in March 2011, the bank increased

its quarterly dividend to 25 cents a share from 5 cents a share and set plans to buy back \$8b in stock in 2011 as part of a \$15b stock-repurchase program.

JPM continues to fare better than its large banking peers. With its diverse business lines, the bank has remained profitable throughout the crisis and continues to grow earnings at a faster clip, albeit largely through asset quality improvement. That said, the bank is well-positioned to benefit in an environment of economic stability. JPM's excellent earnings-generating capacity, sound funding and liquidity position and strong capital levels prompted S&P to affirm its ratings and revise its outlook to stable from negative in February 2011. Fitch maintains a stable outlook while Moody's has maintained a negative since March 2009 based on expectations that increasing financial strains on consumers would result in higher credit costs. JPM's ratings currently have no uplift from implied government support at either Fitch or S&P but benefit from two-notches of uplift at Moody's.

Strengths:

- Robust U.S. banking franchise, which includes an enviable deposit base
- Strong financial profile with diversified earnings stream
- Leading market position in many businesses
- Solid funding, liquidity and capital
- High systemic importance

Weaknesses:

- Operating in an environment of regulatory uncertainty
- Mortgage-related headwinds relating to repurchase risk
- Sizeable exposure to consumer real estate loans
- Large investment banking business, which is volatile

Key Statistics – JP Morgan Chase

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
Loans	962,927	633,458	744,898	519,374	483,127	18.8%
Assets (\$b)	2,118	2,032	2,175	1,562	1,351	11.9%
Revenue	102,694	100,434	67,252	71,372	61,999	13.5%
Net Income	17,370	11,728	5,605	15,365	14,444	4.7%
Return on Equity	10%	6%	4%	13%	13%	9.2%
Return on Assets	0.85%	0.58%	0.31%	1.06%	1.10%	0.78%
Tier 1 Capital Ratio	12.1%	11.1%	10.9%	8.4%	8.7%	10.2%
Total Capital Ratio	15.5%	14.8%	14.8%	12.6%	12.3%	14.0%
Tier 1 Common	9.8%	8.8%	7.0%	7.0%	7.3%	8.0%

Sources: Company reports and SEC filings.

BNY Mellon Asset Management is one of the world's leading asset management organizations, encompassing BNY Mellon's affiliated investment management firms and global distribution companies. BNY Mellon is the corporate brand for The Bank of New York Mellon Corporation. BNY Mellon Cash Investment Strategies (CIS) is a division of The Dreyfus Corporation.

Information contained in this report has been obtained from sources which Dreyfus believes to be accurate and reliable, but Dreyfus does not warrant the accuracy of information contained herein. All opinions and estimates in this report constitute the best judgment of Dreyfus as of the date hereof, but are subject to change without notice. This information is for your use only and is not a solicitation or recommendation to buy or sell any financial instrument. Dreyfus is not rendering legal, accounting or investment management advice through this report; readers should contact their own professional advisors for such information.