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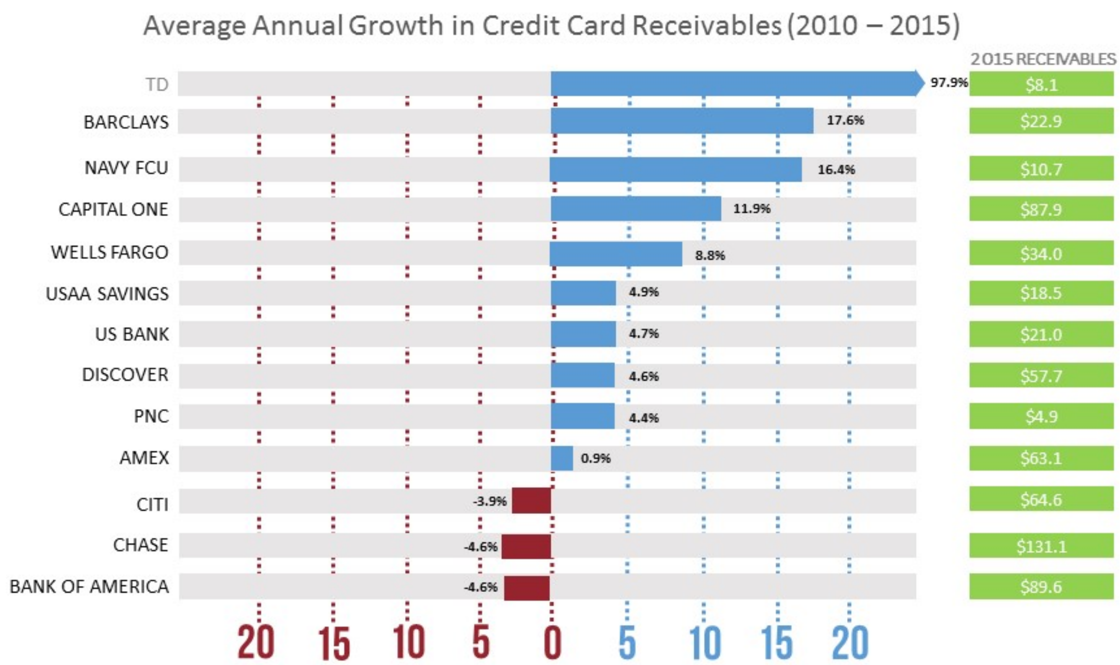
MARKET COMMENTARY: 5-YEAR GROWTH AT TOP CREDIT CARD ISSUERS

Performance reflects differing strategic priorities for credit card issuers – while some "paused" given challenging economic conditions, others saw opportunity in the downturn.

5-YEAR GROWTH AT TOP CREDIT CARD ISSUERS



Source: SNL Financial, Federal Reserve Bank, The Nilson Report, company reports
Note: (1) Top 12 Visa / MasterCard credit card issuers as ranked by The Nilson Report for 2015 (2) Synchrony excluded due to lack of comparative year over year data (3) Card balances for TD Bank USA NA (4) Card balances for Citi branded cards, North America

Industry Overview

Revolving credit balances have improved steadily growing from $839.4B in 2010 to $937.9B in 2015 – an average annualized growth rate of 2.3%. Growth accelerated in 2015 with balances increasing 5.2% and the positive trend is holding with YTD May 2016 balances at $953.3B.

National Issuers

- Major national issuers, Chase, Bank of America and Citibank rationalized their portfolios with a focus on asset quality, sharper attention to priority segments, and active account management.
- Chase is concentrating on prestige products, mass affluent / affluent segments, premium T&E cards, and high spend / high interchange cardholders. Balances have started to grow in the 2014 – 2015 period, albeit modestly.
- Citi has adopted similar positioning to Chase with high end and prestige products, mass affluent / affluent segment targeting, T&E cards, and richer rewards. The recent Costco co-brand deal indicates that Citi will be a tough bidder for future high potential partnership programs. Balances have declined every year since 2010.

- Bank of America divested the agent bank and legacy MBNA partnership business and simplified its product line with a view to building deeper core customer relationships. Receivables have contracted steadily through 2010 – 2015 and were off 2.5% in 2015.

- Capital One has continued to expand through strategic acquisitions (HSBC cards) and also organically through consistent brand and new account marketing. There has been considerable growth in the 2014 - 2015 period with balances growing 6.1% and 13.2% respectively as Capital One leverages pent up demand in the near prime and middle market segments.

- Amex's core credit card business has been generally flat. In fact, receivables contracted over 10% in 2011 and the company has been steadily re-building its portfolio since then growing about 3% - 4% per annum. Additionally, as a company, American Express has faced some recent well publicized difficulties; loss of the Jet Blue card, network transfer of the Fidelity card to Visa, and the loss of the Costco relationship.

- Discover has been a solid and consistent performer growing assets from $46B in 2010 to about $58B in 2015 averaging an annual growth rate of 4.6% which is remarkable given portfolio size and challenging market conditions. Discover's disciplined product focus, excellence in customer management, along with its 'cash back' value proposition have proved to be a winning combination.

- Wells turned in strong organic growth adding about $12B in receivables over the last 5 years primarily through a combination of product value and cross-sell. Given Wells' expansive customer base and under leveraged credit card opportunity relative to peers, the business is expected to remain a priority investment focus for the bank.

- US Bank took a pragmatically conservative stance during 2011 – 2012, but has been steadily expanding the business from 2013 onwards with momentum accelerating in 2015 when the bank grew receivables by 13.5%. Growth has come through a combination of bank branded and partnership cards (Fidelity Visa big win Jan. 2016) and the agent bank business which has generally proved resilient.

- Barclays has driven a strategic and successful focus towards partnership and co-brand programs absorbing several ex Bank of America and other programs that have come to market (including a deal for the American Airlines card.) Performance has been solid with high double-digit growth year-over-year. As a monoline, Barclays is expected to maintain a strong emphasis on partnership marketing. (New agreement with American Airlines allowing Barclays to market AA cards in airports and in flight – July 2016)

Regional Banks

- TD has been the 'super star' taking advantage of two portfolio acquisitions (Target and Nordstrom) that helped catapult it from a small $800MM card program to a $8B top tier scale player. Moving forward, TD has massive potential and opportunity to build meaningful market share given its bank footprint, size, and US / Canada card business heft. TD's recent agent bank deal with Ally signifies interest in the agent bank sector, which is positive.

- PNC has remained generally conservative and defensive, although average annual growth of 4.4% has outpaced the market driven largely by a pick-up in activity in 2014 – 2015. Given PNC's size and retail clout, the credit card business represents an important and profitable, yet under leveraged opportunity.

Specialty Lenders

- USAA as a specialty FI with a large, captive, and loyal customer base has parlayed its strengths well adding about $4B in receivables during 2010 – 2015 through a set of targeted value propositions, service excellence, and an increasingly progressive digital and innovation agenda. In late 2015, USAA announced its intention to switch its card portfolio to Visa from MasterCard.

Credit Unions

- While credit unions in general have proved to be a bright spot in credit card lending over the past few years, Navy Federal Credit Union has expanded its portfolio dramatically going from $5B in receivables in 2010 to $10B+ in 2015 at an annual average growth rate of 16.4%. Given this expansion has been organic, Navy Federal Credit Union's performance underscores the upside and effectiveness of card marketing to a loyal and captive 'member' base.

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ABOUT

CCG Catalyst is a leading management consulting firm connecting bank strategy to innovation, transformation, and disruption. We advise our clients on the direction of banking, development of the strategy, and managing the disruption related to the execution of the tactics. CCG Catalyst leverages decades of deep industry experience to provide practical business strategies and organization, analytics, and technology consulting for our clients.

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CCG Catalyst is headquartered in Phoenix, AZ, with consulting offices across the U.S.