# U.S. Credit Cards & Regional Bank Issuance Are Still Strong

First Annapolis
Consulting | M&A Advisory Services

## U.S. Consumer Credit Card P&L Estimates

- Revenue (including fees), expense, and profitability remain favorable for credit cards in comparison with overall bank average ROAs of 1%.
- Meanwhile, rewards costs have increased, which has led to continued reductions in non-interest revenue.
- The following metrics have been tracking consistently higher for the mass market & near prime segment:
  - Net interest margin
  - Risk-adjusted yield
  - Pre-tax margin

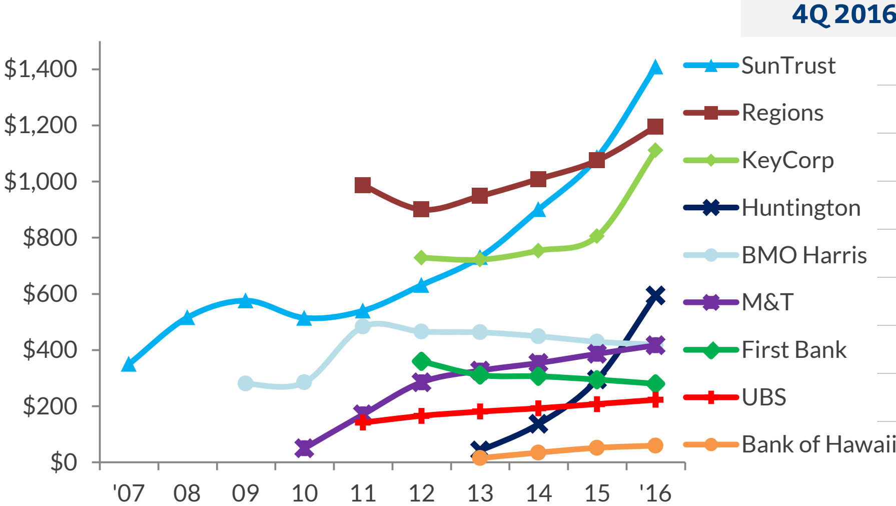
| | Mass Market & Near Prime | | | Mass Affluent & Affluent | | |
|---|---|---|---|---|---|---|
| | 2010 | 2014 | 2016 | 2010 | 2014 | 2016 |
| Net Interest Margin | 11.9% | 12.8% | 12.9% | 9.2% | 7.5% | 7.5% |
| Non-interest Revenue | 4.1% | 3.3% | 2.2% | 3.6% | 3.7% | 2.9% |
| Net Charge-offs | -7.0% | -3.1% | -3.7% | -7.8% | -1.9% | -2.0% |
| Non-interest Expense | -6.1% | -6.6% | -6.2% | -4.9% | -5.3% | -5.1% |
| Pre-tax Margin | 5.0% | 5.9% | 4.1% | 3.2% | 4.0% | 3.2% |

## U.S. Regional Bank Re-Entrants

- Most major regional banks are continuing to invest in credit cards:

### Regional Re-Entrant Consumer Credit Card Loans

(in $ millions)




| | 4Q 2016 NCO |
|---|---|
| SunTrust | 2.33% |
| Regions | 3.63% |
| KeyCorp | 3.77% |
| Huntington | 4.94% |
| BMO Harris | 3.70% |
| M&T | 3.24% |
| First Bank | 3.95% |
| UBS | 0.16% |
| Bank of Hawaii | 3.94% |

## Implications for Issuers

- Competition for profitable cardholders is intense and unlikely to moderate.
- Competition will likely be most pronounced in:
  - Aligning brand assets (e.g., own brand, co-brand partners)
  - "Fintech" functionality - ease of application (availability, automation, timeliness of response)
  - Upfront acquisition incentives
  - Ongoing rewards earn and redemption rates
  - Convenience / ease of use of rewards program

**Note 1:** In 2016, average after-tax return on assets for U.S. banks. with $10 billion or more in assets was 1%. **Note 2:** For many banks, non-interest revenue is net of rewards expense. **Note 3:** Pre-tax margin is prior to extraordinary items. **Note 4:** "Mass market & near prime" includes 1st Financial Bank USA, Capital One Bank (USA), National Association, Comenity Bank, an affiliate of ADS, Comenity Capital Bank, also an affiliate of ADS, Merrick Bank Corporation, and Synchrony Bank, which are all institutions whose credit card loans plus securitized receivables exceed 50 percent of total assets plus securitized receivables. **Note 5:** "Mass affluent & affluent" includes American Express Centurion Bank, Barclays Bank Delaware, Chase Bank USA, National Association, Discover Bank, TCM Bank, National Association, Wells Fargo Financial National Bank, and World's Foremost Bank, an affiliate of Cabela's, which are all institutions whose credit cards exceed 50 percent of assets. **Note 6:** For 2016, KeyCorp includes First Niagara. **Note 7:** For 2016, Huntington includes FirstMerit. **Note 8:** NCO means annual net charge-off rate on U.S. consumer credit card balances.

**Source:** FDIC call report data accessed via SNL and First Annapolis Consulting market observations and analysis.

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