



Credit Card Profitability Under Pressure

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Industry Profitability

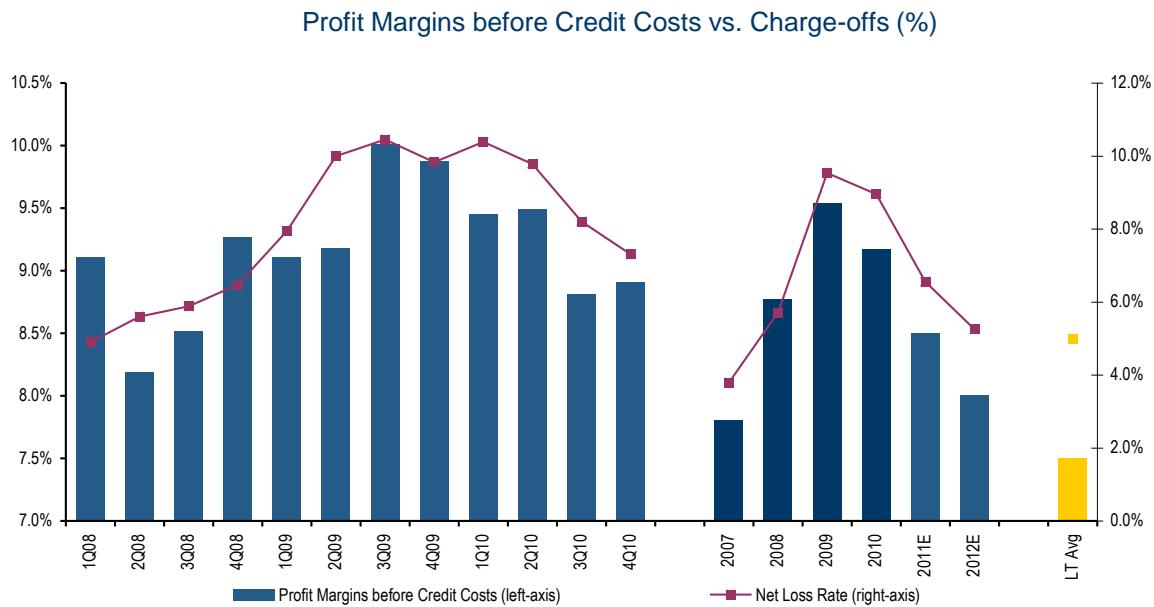
- Repricing efforts late-2009 boosted margins, partially offsetting rising credit costs
- Credit quality concerns abating; provisions below “normal”
- Significant excess reserves although diminishing

Profitability (% of Avg Loans)	Full Yr.	2009				Full Yr.	2010				Full Yr.
	2008	1Q	2Q	3Q	4Q	2009	1Q	2Q	3Q	4Q	2010
Net Revenues	13.6%	13.5%	13.7%	14.7%	14.9%	14.2%	14.5%	15.0%	14.6%	15.2%	14.8%
Expenses	4.8%	4.4%	4.5%	4.7%	5.0%	4.6%	5.0%	5.5%	5.8%	6.3%	5.6%
Preprovision Income	8.8%	9.1%	9.2%	10.0%	9.9%	9.5%	9.5%	9.5%	8.8%	8.9%	9.2%
Loan Loss Provision	7.5%	11.8%	11.6%	11.1%	10.4%	11.2%	7.8%	6.4%	5.3%	3.2%	5.8%
Pretax Income	1.2%	-2.7%	-2.4%	-1.1%	-0.5%	-1.7%	1.6%	3.1%	3.5%	5.7%	3.4%

Note 1: Includes card segment results for AXP, BAC, COF, DFS, and JPM. Source: Company data, Credit Suisse estimates

Preprovision Margin Pressures to Increase

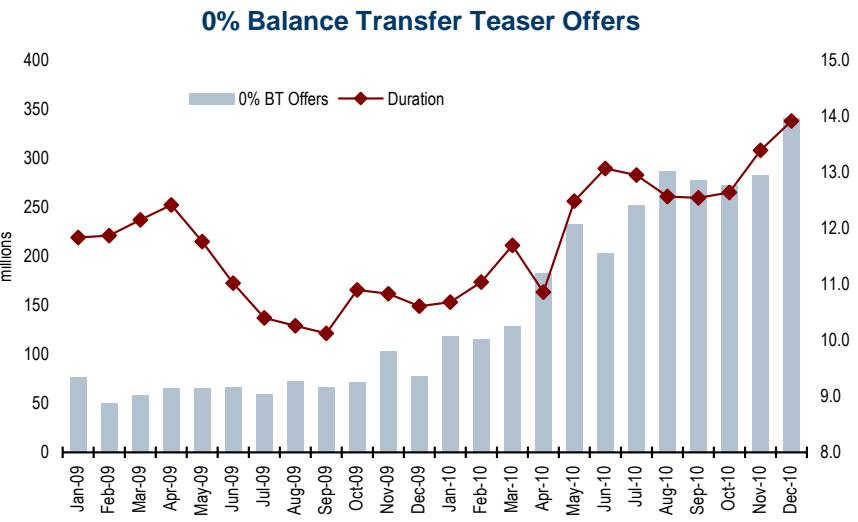
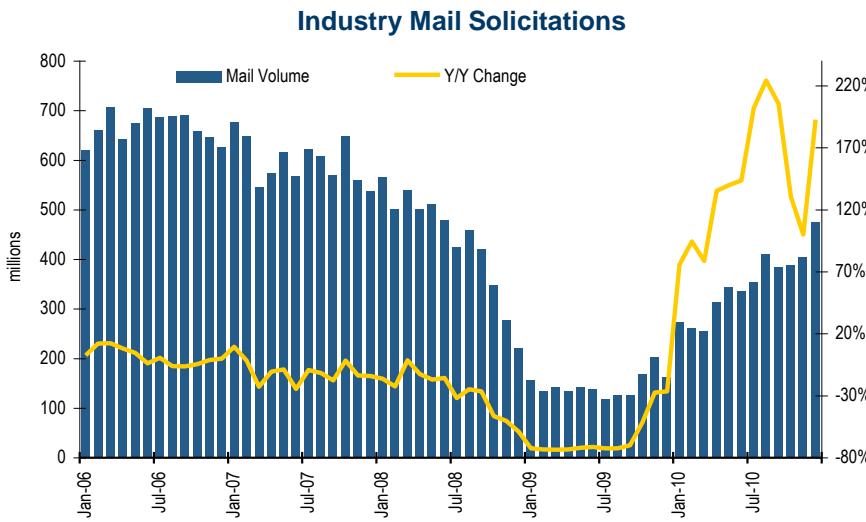
- CARD Act restrictions
- Rising marketing spend given rising industry competition
- Muted loan growth



Note 1: Includes card segment results for AXP, BAC, COF, DFS, and JPM. Source: Company data, Credit Suisse estimates

Competition for New Accounts

- Acquisition mail volume important measure of the competitive landscape
- Volume is accelerating; although remains below peak levels
- 0% balance transfers ramping up – 7x more than early 2009
- Cardholder response rates remain low



Source: Mintel Comperemedia, Credit Suisse estimates

Expenses

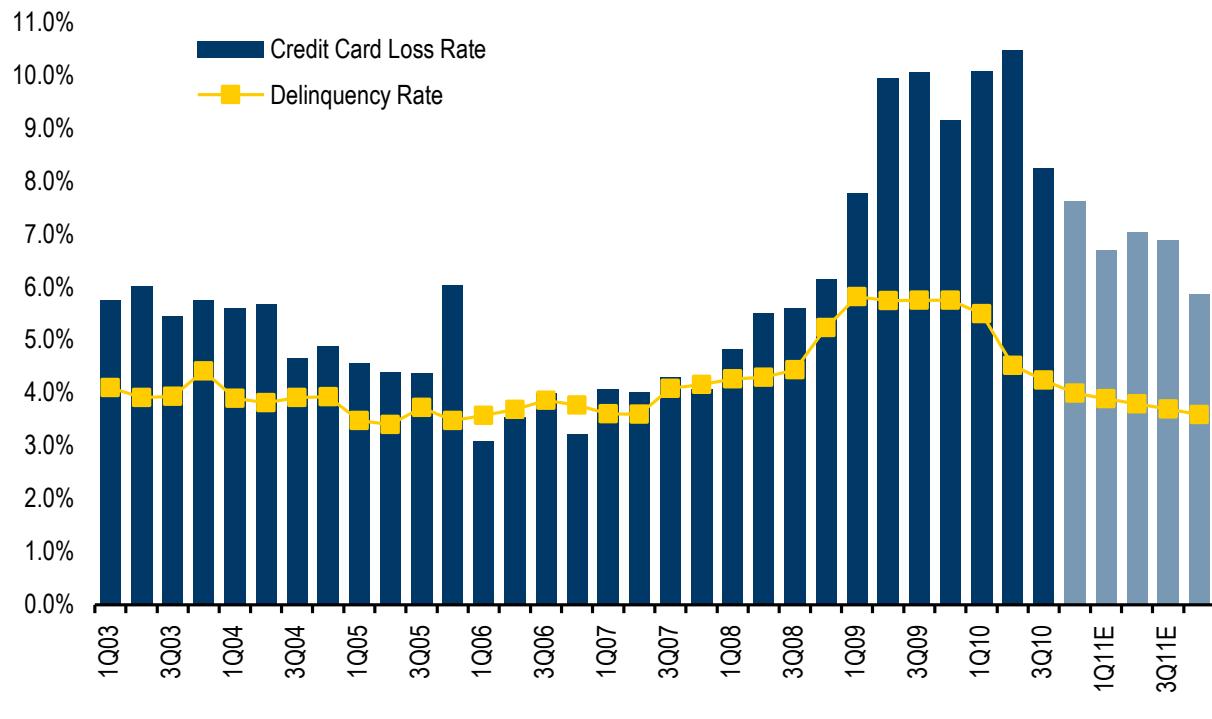
- Rising marketing spend
 - Mail solicitations to acquire new accounts totaled 4.2 billion in 2010, 140% higher than 2009
- Competition rising among card issuers, conspire to reduce returns and increase risk
- 2011 will be higher than 2008

	2007	2008	2009	2010	2011E
<i>Marketing Spend, % of Revenues</i>					
American Express Co.	9.3%	8.6%	7.9%	11.0%	11.3%
Capital One Financial Corp.	8.1%	6.7%	3.5%	6.0%	8.4%
Discover Financial Services	9.8%	8.5%	5.9%	6.9%	7.9%
Total	9.0%	8.0%	6.1%	8.9%	10.0%

Source: Company data, Credit Suisse estimates

Future Credit Costs – Higher or Lower than the Past?

- Burnout of old vintages
- Muted new loan growth
- Over time, competition will begin to erode standards



Source: FDIC, Federal Reserve, Credit Suisse estimates

Consumers Prioritize Credit Card Repayment

1 = most likely to pay, 10 = least likely to pay

	June 2008	December 2010
1	Mortgage	Credit card
2	Auto loan	Mortgage
3	Home equity loan	Auto loan
4	Credit card	Personal loan / Home equity loan
5	Home equity line of credit	-
6	Personal loan	Secondary credit card
7	Personal line of credit	Personal line of credit
8	Secondary credit card	Home equity line of credit
9	Private label credit card	Private label credit card
10	Student loan	Student loan

Source: Auriemma Consulting Group, Cardbeat Newsletter, Volume 16, Issue 12

Normalized Profitability Outlook

2012 Estimate

Preprovision profits	7.5-8.0%
"Normal" charge-offs	<u>5.0-5.5%</u>
= Pretax ROA	2.5%
Leverage	10-11x
ROE	16-18% (Historical Avg 20-25%)

- **Risks** -- Higher interest rates, higher marketing costs, higher credit costs
- **Opportunities** -- Better credit costs

Source: Credit Suisse estimates

Conclusions

- Likely returns trend to 16-18% on average versus 20-25% historically
- Risks to that forecast likely outweigh the opportunities
- Regulatory changes have compelled issuers to raise prices across the board

Companies Mentioned (Price as of 14 Feb 11)

American Express Co. (AXP, \$46.52, UNDERPERFORM, TP \$40.00)
 Bank of America Corp. (BAC, \$14.89, OUTPERFORM [V], TP \$20.00)
 Capital One Financial Corp. (COF, \$52.76, NEUTRAL [V], TP \$42.00)
 Citigroup Inc. (C, \$4.91, NEUTRAL [V], TP \$5.75)
 Discover Financial Services (DFS, \$21.80, NEUTRAL [V], TP \$20.00)
 JPMorgan Chase & Co. (JPM, \$46.54, OUTPERFORM, TP \$58.00)

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