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June 2014

First Annapolis Releases FY 2013 Debit Benchmarking Results

In 2013, leading debit issuers saw, on average, 22.7 debit transactions per active card per month, 71% of which were routed via one of the signature branded networks. With an average ticket of $38.55 per month, average monthly spend per active debit card was approximately $873. For individual issuers... More

Walmart

renewed its consumer and small business credit card agreements with

GE Capital Retail Finance

December 2013

The undersigned served as exclusive advisor to Wal-Mart Stores, Inc.

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Sam's Club

renewed its consumer and small business credit card agreements with

GE Capital Retail Finance

March 2014

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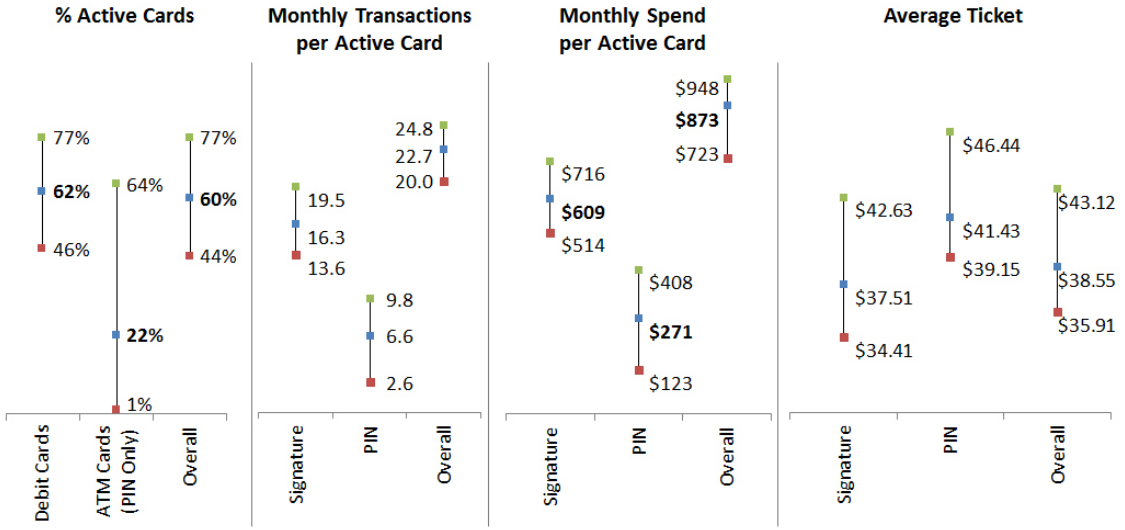
First Annapolis Releases FY 2013 Debit Benchmarking Results

By Melissa Fox and
Jake MacMichael

In 2013, leading debit issuers saw, on average, 22.7 debit transactions per active card per month, 71% of which were routed via one of the signature branded networks. With an average ticket of $38.55 per month, average monthly spend per active debit card was approximately $873. For individual issuers, average monthly transactions per active card ranged from 20.0 to 24.8, with monthly per-card spend ranging from $723 to $948.

These results are based on data provided by 12 U.S. issuers representing 110MM debit cards in 2013 (approximately 36% of cards issued). First Annapolis's Deposit Access & Payments Strategy practice tracks these metrics on a quarterly basis as part of its Debit Issuer Benchmarking Study.

Figure 1: Debit Issuer Benchmarking Study 2013 Full-Year Results



Source: First Annapolis Consulting, Debit Issuer Benchmarking Study, FY 2013.

For more information about the study, or to become a participant, please contact Melissa Fox, Manager, melissa.fox@firstannapolis.com or Jake MacMichael, Analyst, jake.macmichael@firstannapolis.com. They are members of our Deposit Access Practice, specializing in Debit and Prepaid.

Navigating the U.S. Consumer Credit Card P&L

By Frank Martien

First Annapolis has compiled U.S. consumer credit card industry income statements for 2010[1] through 2013 by using the FDIC's criteria for "Credit Card Banks" through SNL queries on call report data.[2] Sixteen financial institutions qualified as "Credit Card Banks" in 2013 with a combined $432 billion in consumer credit card loans[3] – about 62% of the $691 billion in credit card loans on the balance sheets of all FDIC-insured depository institutions.

As shown in Figure 1, the credit card industry has managed to improve profitability during a time of declining interest yields and increasing non-interest expense. For example:

- Declines in interest expense have directly offset lower interest yields;
- Interchange & fees have increased due to higher spend activity; and,
- Net charge-offs have declined remarkably, amplified by the tailwind of loan loss reserve recapturing.

On a combined basis, better industry performance and higher risk-adjusted yields have helped promote a resurgence of marketing, which has included a partial rebound in direct mail along with investments in more sophisticated and targeted means of originating accounts through digital channels.

To analyze observed size impacts, these banks were also split into the eight

Figure 1: Composite Income Statement for "Credit Card Banks" 2010-2013

	2010	2011	2012	2013	Observations / Comments
Interest revenue	12.7%	12.6%	12.0%	12.2%	Declines in default APRs, subprime, and revolve rates
Interest expense	-1.4%	-1.2%	-1.0%	-0.9%	Industry concern that funding costs will start to increase
Net interest margin	**11.3%**	**11.4%**	**11.0%**	**11.3%**	
Interchange & fees	3.1%	4.0%	5.4%	5.9%	Increased transaction activity & focus on affluent
Net charge-offs	-10.0%	-5.4%	-3.7%	-3.3%	Dramatic decrease in credit risk
(increase) / decrease in LLR	3.2%	3.0%	0.8%	0.6%	Continued post-recession reductions in loan loss reserving
Risk adjusted yield	**7.6%**	**13.0%**	**13.5%**	**14.6%**	
Marketing expense	-0.7%	-1.4%	-1.3%	-1.5%	Increasing back to normalized levels
Other non-interest expense	-4.2%	-5.1%	-6.1%	-6.3%	Increases due to higher transaction load and rewards costs
Pre-tax income	**2.8%**	**6.6%**	**6.1%**	**6.8%**	
Taxes	-0.9%	-2.3%	-2.2%	-2.4%	
After-tax income	**1.8%**	**4.2%**	**3.9%**	**4.4%**	Resumption of pre-recessionary returns

Source: First Annapolis Consulting analysis of "Credit Card Banks" as defined in FDIC Quarterly Banking Profiles as banks and savings institutions for which managed credit card loans exceed 50% of total assets.

with total assets under $10 billion versus the eight with assets over $10 billion. Of note, one finds for 2013 the under $10 billion segment exhibited higher interest expense (1.23% of average loans for <$10 billion versus 0.85% for >$10 billion); higher other non-interest expense (8.40% of average loans versus 6.17%); and, higher equity capital to assets (15.70% versus 14.95%).

Notwithstanding regulatory pressure and the possibility for interchange regulation, we anticipate a fairly stable environment for credit card key performance indicators over the next few years. Keys to success for most financial institutions will include focus on prospect pools connected by a bank or brand partner relationship and, in an effort to improve relevance and effectiveness, adoption / implementation of digital marketing and servicing strategies as they become increasingly mainstream.

[1] Prior to 2010, analyzing the credit card performance of major issuing banks based on call report data was complex in light of significant off-balance sheet securitization activity; however, accounting changes in 2010 brought many securitized assets back on balance sheets. Source: "Skin-in-the-Game: Risk Retention Lessons from Credit Card Securitization," Adam J. Levitin, The George Washington Law Review, 29 April 2013.

[2] The FDIC releases a Quarterly Banking Profile report depicting key performance indicators for FDIC-insured depository institutions overall along with segments of financial institutions based on several criteria. One such segment, "Credit Card Banks" is defined as banks and savings institutions for which managed credit card loans comprise at least 50% of assets.

[3] 2013 "Credit Card Banks" include: 1st Financial Bank USA; American Express Bank, FSB; American Express Centurion Bank; Barclays Bank Delaware; Capital One Bank (USA), National Association; Chase Bank USA, National Association; Comenity Bank (affiliated with Alliance Data); Comenity Capital Bank (affiliated with Alliance Data); Discover Bank; FIA Card Services, National Association (affiliated with Bank of America); GE Capital Retail Bank; Merrick Bank Corporation (affiliated with CardWorks); Nordstrom FSB; TCM Bank, National Association; Wells Fargo Financial National Bank; and World's Foremost Bank (affiliated with Cabela's).

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Exploring Consumer Views in the U.S. Towards Credit Cards

By Frank Martien

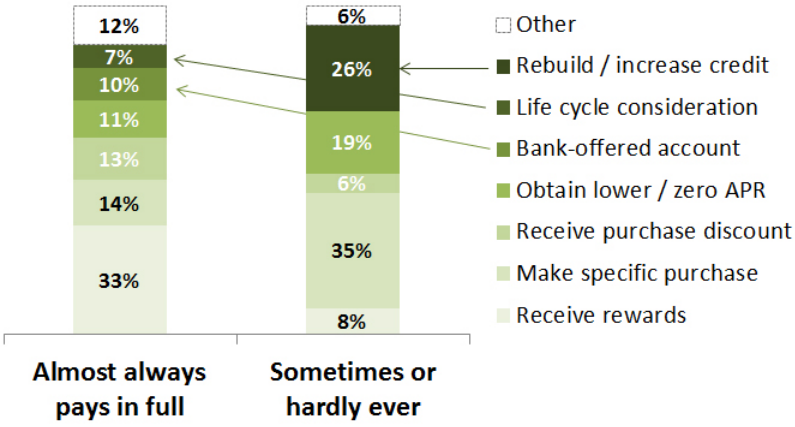
In December 2013, the Federal Reserve released a bulletin entitled "Consumer Experiences with Credit Cards." Within this bulletin, the authors present a balanced and insightful view of how issuers and cardholders have been impacted by and have adjusted to the recent Great Recession and post-recession periods, including significant changes in regulations over this timeframe. A thorough review of this 36-page bulletin is beyond the scope of this article; however, several salient points are of particular interest for banks looking to launch or expand consumer credit card programs.

In Figure 1, consumers' reasons for opening a credit card were examined. These reasons varied remarkably for consumers reporting they "almost always" pay their credit card balance in full versus those who do not. Not surprisingly, for the former segment, rewards was the most prevalent reason for opening a new credit card account versus making a specific purchase or rebuilding / increasing credit as primary reasons for the latter segment. Data were as of 2012; and one could speculate consumer reasons for opening new credit card accounts in 2014 may be comparable.

As for time series data, the percentage of consumers with general purpose credit cards reporting multiple cards in wallet has increased substantially since 2000 as shown in Figure 2. Perhaps wider availability in credit card product options, including rewards options, has led some consumers to open multiple accounts or to segment spend to designated accounts based on merchant type, purchase type, or transaction size. Certainly, Durbin-related revisions impacting debit cards have also encouraged many banks to more actively promote credit cards as a means of mitigating reductions in overall payment card revenues.

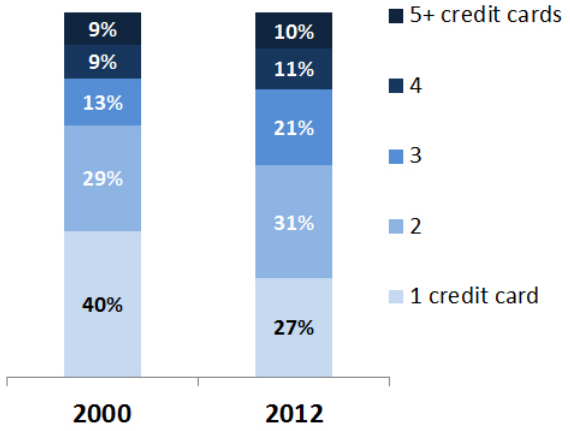
From the bulletin data, one can also see that reported transactor behaviors have increased from 2000 to 2012. In particular, the percentage of consumers reporting they "almost always" pay their credit card balance in full each month has increased from 50% to 62% underscoring the simultaneous increased availability of and awareness for rewards-based cards.

Figure 1: Reason for Opening Account in Last 12 Months



Source: "Consumer Experiences with Credit Cards," Federal Reserve Bulletin, December 2013 quoting 2012 Thomson Reuters/University of Michigan Surveys of Consumers.

Figure 2: Number of General Purpose Credit Cards

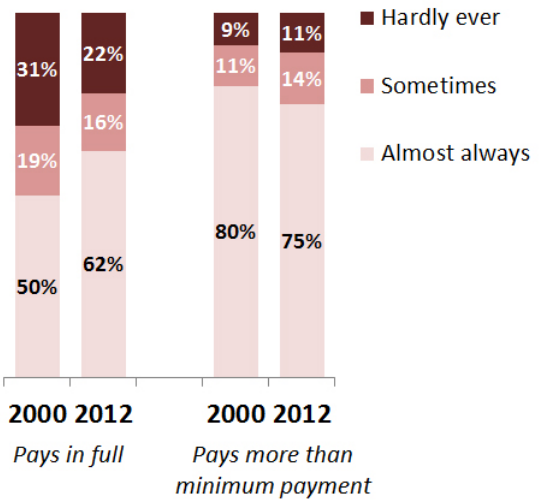


Source: "Consumer Experiences with Credit Cards," Federal Reserve Bulletin, December 2013 quoting Thomson Reuters/University of Michigan Surveys of Consumers.

In summary, this bulletin helps to provide empirical support for numerous opinions and anecdotal observations regarding how credit card issuers and consumers have reacted to major events, such as tightening in credit card regulation and increased disclosures in the midst and aftermath of a major recession. The bulletin implies significant flexibility and adaptability on behalf of both issuers and consumers to highlight the resiliency and continued relevance of credit cards in today's economy.

For more information, please contact Frank Martien, Partner, specializing in Commercial Payments, frank.martien@firstannapolis.com.

Figure 3: Credit Card Payment Behaviors



Source: "Consumer Experiences with Credit Cards," Federal Reserve Bulletin, December 2013 quoting Thomson Reuters/University of Michigan Surveys of Consumers.

Synchrony Financial: A Quick Look at the S-1 Filing

By Aaron Mercurio and Jeff Avery

In May of 2013, GE CEO Jeff Immelt stated his intent to reduce the size of GE's finance businesses, setting a goal to reduce assets by half their pre-crisis amount. After divesting select assets within business units, GE announced in November 2013 that it intended to spin off its North American retail finance business through a public offering. GE filed an S-1 Prospectus for the new entity, to be named Synchrony Financial, on March 13, 2014, and plans to offer 20% of the company to the public in its IPO, tentatively scheduled for mid-to-late 2014. GE plans to divest its remaining 80% stake by 2015 via a tax-free distribution of GE common stock. Synchrony will be led by the CEO of GE's North American Retail Finance unit, Margaret Keane.

As part of our continued coverage of the IPO, we have created a few simple graphics to provide a sense of Synchrony's financial performance from the S-1.

- Synchrony will be comprised of three business segments, outlined in Figure 1.
- Going forward, the company will report "Platform Revenue" on a segment basis, as shown in Figure 2.
- The business has delivered strong financial performance over the past three years, posting metrics that are similar to its closest competitor, Citi Retail Services, as seen in Figure 3, recognizing there may be differences in accounting treatments of publicly released figures.

Figure 1: Synchrony Business Segments[1]

Segment	Product Set	Loans O/S ($B)	Active Accts.	Partners / Locations
Retail Card	PLCC and Dual Card products, some small biz.	$39.8	50.8	▪ 24 partners ▪ 34K locations
Payment Solutions	PLCC & installment loans, nearly all promotional financing	$10.9	6.8	▪ 61K partners ▪ 118K locations
CareCredit	Elective health promotional financing	$6.5	4.4	▪ 149K partners ▪ 177K locations

[1] Loan receivables and active accounts show period-end data as of Dec. 31, 2013 from S-1 prospectus.

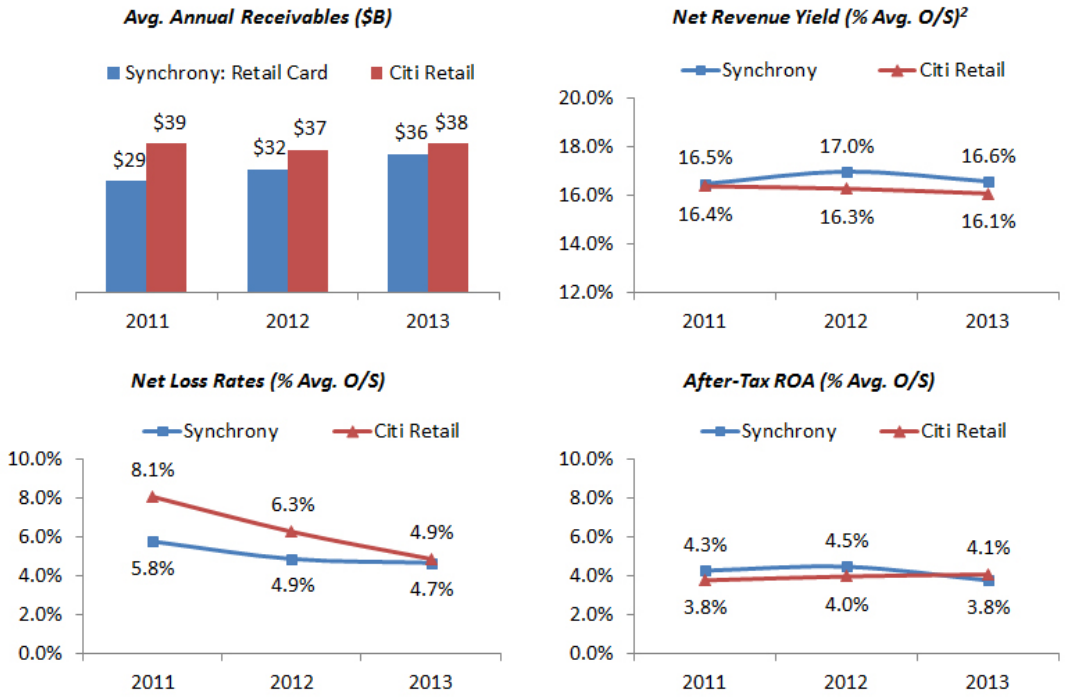
Source: Synchrony Financial Form S-1.

Figure 2: Platform Revenue by Segment (2013)

	Retail Card		Payment Solutions		CareCredit		Synchrony	
	$MM	% O/S	$MM	% O/S	$MM	% O/S	$MM	% O/S
Interest and Fees	$8,317	23.3%	$1,506	14.4%	$1,472	23.7%	$11,295	21.6%
Other Income	407	1.1	36	0.3	45	0.7	488	0.9
Retailer Payments	(2,320)	(6.5)	(36)	(0.3)	(6)	(0.1)	(2,362)	(4.5)
Platform Revenue	$6,404	17.9%	$1,506	14.4%	$1,511	24.3%	$9,421	18.0%

Source: Synchrony Financial Form S-1.

Figure 3: Summary Financial Metrics: Synchrony vs. Citi Retail Services (2011 – 2013)[1]



[1] Synchrony metrics are for entire consumer finance business (Retail Card, Payment Solutions and CareCredit) unless noted otherwise. Citi metrics are for Citi Retail Services segment, based on data reported within the quarterly Financial Supplement and in Citi's 10-K filings.

[2] Net Revenue Yield: Interest and Non-Interest Income, Less Cost of Funds, Less Partner Payments, as a percentage of Average Receivables.

Source: Synchrony S-1 Prospectus, company investor relations and press releases, The Wall Street Journal.

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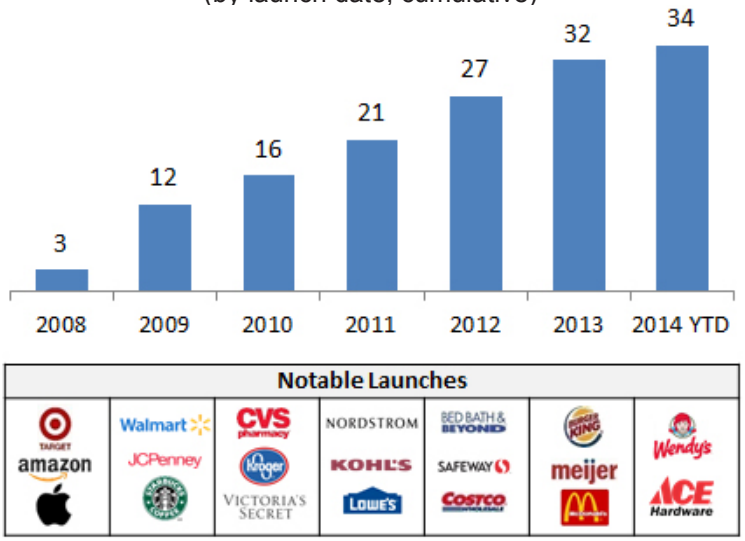
Retail Mobile Apps are Prevalent, But Slow to Adopt Payment Functionality

By Ryan Douglas and Jeff Avery

In recent years, major retailers have embraced the use of "smart" technology in storefronts. From using tablets at the checkout counter to mobile credit applications, retailers are developing creative ways to utilize technology to drive customer engagement. With over 75% of Americans age 12 to 43 now using a smartphone,[1] mobile applications have emerged as a valuable and, in some cases, necessary customer touch point. The first retailers launched mobile apps in 2008 and, since then, they have become prevalent among top retailers. As seen in Figure 1, 34 of the current top 50 retailers have a mobile application, and the penetration rate has been steadily climbing.

Given the widely publicized emergence of mobile commerce technology in recent years, the integration of payments functionality within retail mobile apps seems logical. However, despite the rising popularity of mobile apps among top retailers, most still do not offer the ability to pay at the point of sale. First Annapolis researched the 34 retail mobile apps currently available and found that only 32% offer some way for customers to use the application to pay for goods. We categorized three different ways users can pay through the mobile apps: using gift cards, paying with rewards points, and utilizing mobile wallet technology (i.e., storing credit / reloadable prepaid card information on the device).

Figure 1: Top 50 Retailers[1] with Mobile Apps
(by launch date, cumulative)



[1] Stores 100 Retail Rankings.

Source: Company press releases, iTunes.com, appannie.com, First Annapolis Consulting primary research.

Figure 2 shows that some retailers such as Starbucks and Burger King offer customers all three payment options, while others such as Best Buy only offer a single option. This list of retailers also encompasses six different retail sectors, but the most represented are quick service restaurants ("QSR") and department stores.

The lag of mobile payment features in retail apps is not too surprising given the slow consumer adoption of mobile wallets and other mobile payment platforms. However, with the use of mobile banking erupting in the U.S., it is only a matter of time before consumers are comfortable using their phones as a form of payment. It is also likely that a number of retailers' point-of-sale systems do not yet support this functionality. For retailers, the mobile app is a high-quality customer touch point, and as users become more comfortable with mobile payment technology, we expect that more retailers will make investments and their mobile apps will incorporate payment functionality.

Figure 2: Mobile Apps with Payment Functionality
(11 unique retailers)

Source: Company press releases, First Annapolis Consulting primary research.

A Quick Look at QSR

- QSR has a particularly high penetration rate, with five out of six top 50 retailers having mobile apps (Subway has not released an app, but they are testing one)
- Starbucks: since integrating the My Starbucks Card loyalty program into their mobile app in 2011, Starbucks has been the far-and-away success story for mobile payments
  - 10+ MM mobile global active mobile app users, 5 MM transactions per week
  - Mobile app transactions making up 14% of total North American transactions
  - Tech companies and retailers have approached them about white labeling the platform
- Dunkin' Donuts: (#61 out of top 100) launched its own mobile loyalty platform, DD Perks, in January 2014 and integrated it into its mobile application
  - 750k members in three months; lofty target of 2.5MM members by the end of 2014
- Burger King and Wendy's: re-launched their apps in spring of 2014 with mobile payment features that issue a four and six-digit code to customers (avoiding a need to scan the phone from a drive-through window)
- Subway: has been testing its mobile ordering app in California since 2012
  - Announced it also is developing a mobile payments feature with Paydiant that would use QR codes, avoiding need to replace POS systems
- Chipotle: disclosed in Feb. 2014 that it plans to invest $10 MM in Starbucks-like POS readers for store-wide mobile payments

Innovative Features / Technology

- Apple: launched iBeacon, a Bluetooth technology that delivers tailored messages, such as product information, to in-store customers based on their precise location, in all of its 254 U.S. stores
  - Apple is also rumored to be developing a closed-loop payments system that would rival existing mobile wallets; could leverage its iTunes account user base, estimated at 600MM accounts[2]
- Amazon: built upon its success with a new image recognition technology, a feature it calls "Flow," recently launched within its main iOS app
  - Flow allows a user to point the phone's camera at an item while shopping (at competing retail stores), and the app will identify the item, prompting the user to purchase the item thorough their Amazon account
- Walmart: has a pilot for its new Scan & Go mobile app where customers can scan barcodes and add items to their carts, then a store associate simply scans their mobile app to check out at the register

[1] Frank N. Magid Associates, 2012 Mobile Study.

[2] Estimate from Celent, via Mobile Payments Today.

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U.S. Merchants Remain Slow to Surcharge

By Paul Sammer and Jeff Avery

Following changes to Visa and MasterCard's merchant guidelines in January 2013, there was much speculation concerning when, if ever, merchants would introduce surcharges. In the U.S., airlines have often been cited as likely first candidates to charge the new fees, given the industry's widely adopted fee-based model of asking customers to pay for checked baggage, meals, and seat assignments. But, with the exception of regional carrier Allegiant Airlines, which describes its surcharge as a discount for debit use, no major airline in the United States has, to date, introduced new fees, although some U.S. airlines do surcharge for flights that are booked from select countries overseas. The absence of surcharging is especially notable given that most of the merchants that had actively sought the ability to institute the practice have refrained from doing so. Nevertheless, merchants should continue to monitor developments in the event that surcharging becomes a more attractive opportunity than it has appeared recently.

Merchants may be hesitant to adopt credit card surcharges for several reasons. The introduction of a surcharge could result in consumer backlash and consequential lost sales, undermining the rationale for imposing the fees. Furthermore, implementation would be complicated by the existence of certain state prohibitions on the practice. Acceptance technology currently in place may require more robust capabilities to facilitate surcharging in a seamless manner, as many POS systems do not have this functionality. Moreover, certain processors have indicated, as did First Data in a 2013 Client Alert, that they have decided thus far not to support surcharging capabilities.

Despite these considerations, surcharging has the potential to offset acceptance costs (albeit with risk), and the introduction of surcharging in other countries offers some insights. In Australia, reforms allowing surcharges were instituted in 2003, but by 2005 surcharging had caught on with only a few of the largest retailers. What followed, however, was a gradual rise in the number of merchants engaged in the practice, so that by 2010 nearly half of the largest merchants in Australia were charging customers to use a credit card. Airlines have been, by far, the companies most at ease with the practice. Australian airline Qantas, the country's largest, instituted domestic and international surcharges in 2006. In the UK, surcharging by airlines began when low-cost carriers Ryanair and EasyJet introduced fees in 2008 and 2009, and British Airways and Lufthansa followed with their own surcharges in 2011. A key difference between countries abroad and the U.S. is that surcharges above acceptance cost have been possible overseas since inception, whereas in the U.S. restrictions have been put in place that limit surcharging only to cost recovery.

As card payment fees and booking fees came to be accepted in Australia and the UK, merchants began using these fees not merely to offset acceptance costs but also as a source of revenue. Ryanair, taking an aggressive posture, introduced an additional £6 credit card fee in excess of its existing 2.0% surcharge after the UK's Office of Fair Trading suggested in 2011 that debit card fees should be banned and credit card fees should be capped. Qantas raised fees in 2008 and 2010, increasing its surcharge for international flights from A$18 to A$30 over this period.

Overseas consumers, frustrated by such tactics, have responded by making their opinions known to advocacy groups and directly to regulators, which increasingly are reigning in the practice. After Australian regulators began to push for lower fees in 2012, Qantas made sharp reductions to its debit card acceptance fees. The company nevertheless maintained its $A30 credit surcharge for international flights and reduced its credit surcharge for domestic flights by 10%, stating that it has never made more from surcharges than its cost of acceptance. The UK in particular has clamped down on elevated surcharges, requiring as of April 2014 that card fees must approximate actual acceptance costs. The European Parliament may vote in late 2014 on similar regulations that would cap surcharges across the continent.

Any surcharges introduced in the U.S. are unlikely to approach levels reached abroad. Specific pricing mechanisms that limit merchants' surcharging to approximate costs of card acceptance have been put in place as part of recent interchange litigation and have been codified in networks' operating rules. Whether U.S. companies proceed to surcharge or not, their decisions should be deliberate and well-informed, given the trade-offs associated with imposing such fees and their impact on the customer experience.

For more information, please contact Paul Sammer, Consultant, paul.sammer@firstannapolis.com or Jeff Avery, Senior Analyst, jeff.avery@firstannapolis.com. Both specialize in Credit Card Issuing.

Fleet Cards and EMV Migration

By David Abraham

The use cases for EMV are rapidly evolving. Numerous credit card issuers, from large national banks to local credit unions have begun offering chip cards. Debit appears to be close behind as industry players coalesce around common standards to support multiple networks on a single chip (known as a common application identifier or "AID"). Many commercial card issuers are in market with EMV products. However, within the commercial segment, few EMV options for fleet and "over the road" card products currently exist.

Because fleet cards have fundamentally different uses than other payment card types, there may be reasons to delay deploying chip cards within the segment. One of the primary drivers could be that the liability shift set by MasterCard and Visa for automatic fuel dispensers is October 2017, considerably later than the rest of the market. Moreover, fleet cards offer program administrators a high degree of control over card usage. Many are part of a closed-loop fleet network such as Comdata, EFS, Fuelman, Voyager, or WEX, which limits where cards can be swiped. Those that are part of the MasterCard or Visa network are often MCC-limited and can only be used at gas stations and, to more limited extents, repair shops and convenience stores. Such restrictive use can act as an initial layer of security for this unique card type.

Beyond location restrictions, fleet cards often require the cardholder to enter additional information into the fuel dispenser's keypad, such as a driver or vehicle number. Depending on the fleet manager's desired level of security, a driver can be prompted for a PIN as well. To ensure even greater control on spend, some fleet products offer the capability for an odometer reading to be entered at the gas dispenser. In some cases, the odometer reading may be required to fall into an appropriate range in order for the transaction to be authorized. Taken together, the characteristics of fleet cards make them a suboptimal target for card-present fraud.

Notwithstanding the reasons above, instances may emerge where fleet providers want to offer EMV solutions. EMV can reduce instances of counterfeit card fraud because of the increased difficulty in copying the information contained on the chip. In addition, EMV may make sense for issuers that need to accommodate U.S. clients moving freight inside Canada where the liability shift for Visa and MasterCard occurred in December 2012. Furthermore, Canada's national debit network, Interac, has mandated that fuel terminals accepting its debit scheme must accommodate EMV by December 2015. While it is not clear that magnetic stripe cards issued in the U.S. would be declined in all cases, potential interoperability issues exists.

Figure 1: Illustrative Fleet Card Control Layers

Layer	Description
Card Use	• MCC restriction (gas stations, convenience stores, repair shops) • Can only be used within closed loop network (such as Fuelman, Voyager, WEX)
Card Identification	• Vehicle, Driver, or other ID must be provided to initiate sale • Additional PIN may be required
Odometer Reading	• Driver enters odometer reading • Entry must be sequential to last reading (when capability is available)

Source: First Annapolis Consulting market research.

Fleet cards remain a unique segment when considering the U.S. migration towards EMV. Because of their specific use cases, many fleet cards already contain several layers of authentication requirements. While it may be early to offer a compelling business case for EMV issuance for fleet card portfolios, several factors are emerging to consider when evaluating the merits of migrating.

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Moms, Dads, and Grads: A Quick Look at 2014 Gift Card Offerings

By Allison Brenner

Mother's Day, Father's Day, and graduations create a trifecta of gift-giving opportunities every year. The National Retail Federation publishes projected spending surveys for each holiday; this year, the three occasions were expected to yield a combined $37 billion in spending on gifts. Gift cards are estimated to represent over $5 billion or approximately 14% of total gift spend. As such, retailers invest in a range of promotions and marketing tactics to highlight gift cards in May and June. Based on our field work, Mother's Day and Father's Day had several noteworthy promotions. Listed below are select gift card promotions of note that were visible during the May/June timeframe:

J. Jill: J. Jill offered a Mother's Day promotion with a charitable tie-in; a donation was made to the J. Jill Compassion Fund or a charity of choice when a gift card was purchased before Mother's Day

Kroger: In May, Kroger offered $5-$15 off select gift cards which could be gifted to Moms or Grads

Applebee's: Gift givers received a $10 digital bonus gift card with the purchase of $50 in Applebee's gift cards around Mother's Day

GiftFly: GiftFly launched a new website just before Mother's Day allowing users to send customized eGifts for over 1 million local businesses on Yelp; gift cards can be sent via Facebook, email or text and arrive immediately

Amazon: Amazon Moms (members of a subscription service) received a $5 promotional code when buying at least $45 in thank-you gift card packs. For Mother's Day, gift wrap on gift cards was offered for $1. For Father's Day, buyers received a $10 Android app store credit with the purchase of select gift cards (Starbucks, Whole Foods, Dominoes, Subway, Panera, AMC, and more)

Starbucks/Groupon: A $10 eGift card for $5 was offered the day before Father's Day via Groupon

Target: Target features a Grad Gift Finder on its main website; it filters products such as iTunes gift cards, bedding, etc. For Father's Day, Target advertised free gift cards with select electronics purchases and 25% off Beats music gift cards

Rite Aid: $5 in loyalty program rewards was offered with the purchases of $25 of Sears or Bass Pro Shops gift cards around Father's Day; $10 in rewards was offered with $50 worth of select restaurant gift cards and $5 for American Express gift cards

Source: Company websites, NRF, hip2save, wral.com.

For more information, please contact Allison Brenner, specializing in Credit Card Issuing, allison.brenner@firstannapolis.com.

Payments Industry Stock Price Tracker

By Collin Bauer

First Annapolis monitors monthly and annual movement in stock prices and market capitalization for companies across the payments value chain. Observations for June 2014 are reflected in Figure 1 below. Last month, the payments sectors that First Annapolis tracks experienced positive results in the aggregate, with only the network sector trailing the broader market's 2% increase in June.

Summary:

The issuing sector experienced gains of 3% in aggregate in June, slightly outperforming overall market trends (the market experienced a 2% gain). Nearly all issuers tracked experienced positive results in June, including significant gains from WEX (+9%), Capital One (+5%) and Discover (+5%). FleetCor and Discover have both experienced double-digit year-to-date gains of 12% and 11%, respectively. The issuing sector, as a whole, has recovered from early declines in the first half of the year and is now flat in 2014 on a YTD basis.

The processor / acquirer sector experienced overall gains of 3% in June, driven largely off positive results from Vantiv (+8%), Global Payments (+6%), and TSYS (+4%). All other companies tracked within the sector trailed the overall market in June. Companies in this sector have experienced mixed results for the year with Global Payments posting a YTD increase of 12% in 2014, and Heartland Payments, at the other end of the spectrum, having a decline of 17% thus far in 2014. While individual performance has varied significantly, the processor / acquirer sector as a whole has experienced gains of 2% in 2014.

After delivering a 5% increase in May, MasterCard and Visa posted declines of 4% and 2%, respectively, in June. The network sector as a whole has posted declines of 8% YTD in 2014.

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Figure 1: Monthly Stock Price Tracker

Companies	June 30, 2014	Month Δ	YTD Δ	Market Cap ($Billions)
Issuers				
JPMorgan Chase	$57.62	4%	-1%	$217.86
Bank of America	$15.37	2%	-1%	$162.78
Citi	$47.10	-1%	-10%	$143.81
American Express	$94.87	4%	5%	$101.17
U.S. Bank	$43.32	3%	7%	$79.14
Capital One	$82.60	5%	8%	$47.61
Discover	$61.98	5%	11%	$29.16
FleetCor	$131.80	4%	12%	$10.88
WEX	$104.97	9%	6%	$4.11
Weighted Average	-	*3%*	*0%*	-
Acquirers / Processors				
FIS	$54.74	2%	2%	$15.82
Fiserv	$60.32	0%	2%	$15.18
TSYS	$31.41	4%	-6%	$5.98
Global Payments	$72.85	6%	12%	$5.26
Vantiv	$33.62	8%	3%	$4.66
Heartland	$41.21	-1%	-17%	$1.48
Weighted Average	-	*3%*	*2%*	-
Networks				
Visa	$210.71	-2%	-5%	$133.98
MasterCard	$73.47	-4%	-12%	$87.23
Weighted Average	-	*-3%*	*-8%*	-
Market Index				
S&P 500	$1,960.23	2%	6%	-

Note: Weighted Averages are based on current market caps.
Source: Yahoo Finance, First Annapolis Consulting research and analysis.