



CTST The Americas 2008

Canadian Payment Trends

Chris Mindorff
Associate Vice President
Chip Card & Banking Operations
May 14, 2008

Today's Discussion

Purpose:

- Provide an overview of payments within the Canadian Market.

Agenda

- Background on Canadian Tire
- Overview of the Canadian Payments Landscape
- Current Payment Trends
- Emerging Trends Within Canada



One of Canada's most-shopped general merchandise retailers with consolidated retail sales of \$10.1B in 2007.

A very strong brand, synonymous with 'Canadian Nationalism'

- Founded in 1922
- Over 3MM customers per week, over 64% of Canadians shop at least monthly
- 91% of Canadians live within 15 minutes of a store

Canadian Tire operates more than 1,160 retail outlets, gas bars and car washes in an inter-related network of businesses engaged in retail, financial services and petroleum.

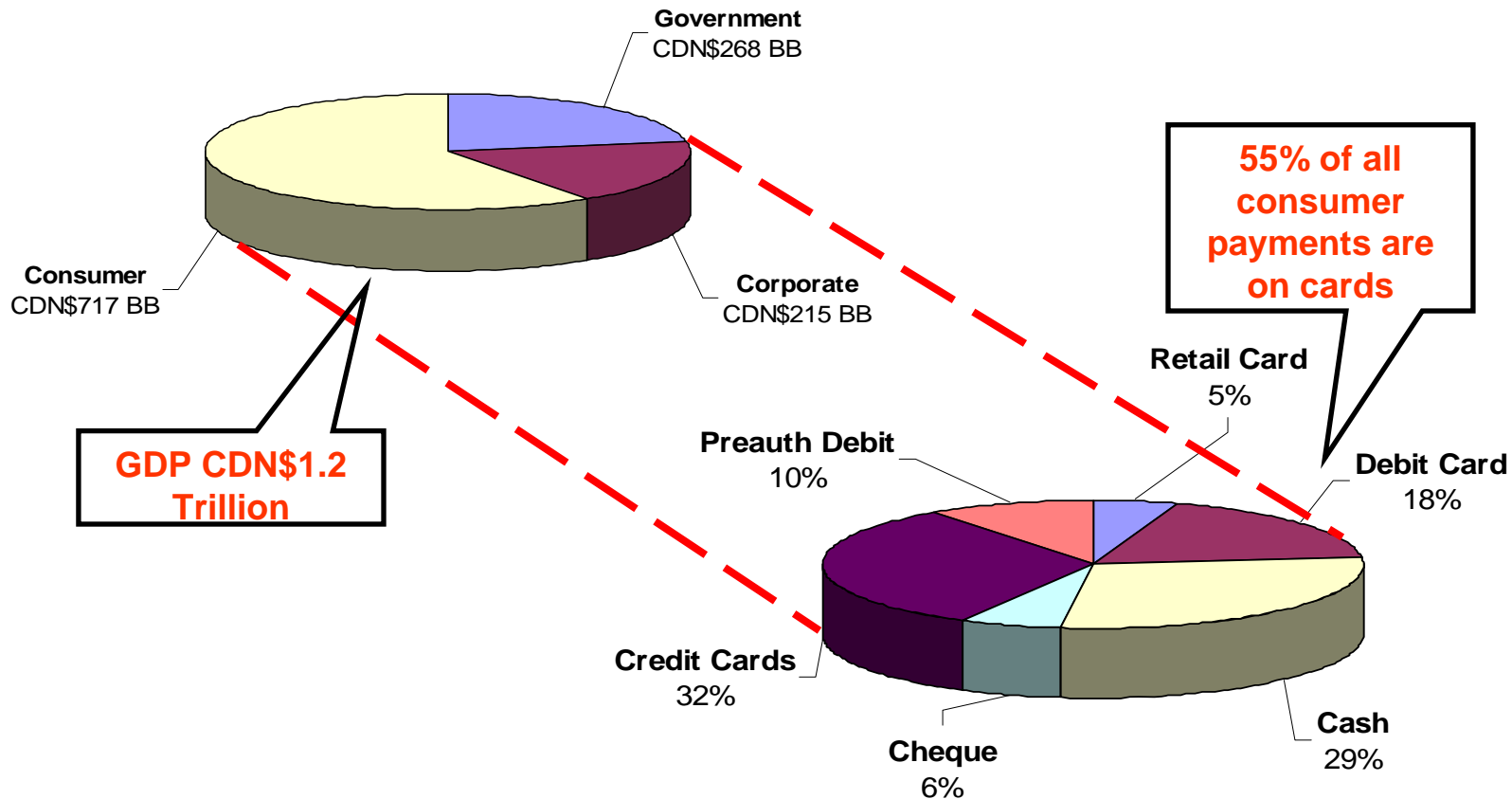
Canadian Tire is one of the few remaining fully integrated retailers, leveraging its wholly owned subsidiary, Canadian Tire Financial for acquirer services and credit card issuance.

Based on purchase volumes, Canadian Tire Financial is Canada's second largest MasterCard™ Issuer.

As an enterprise, Canadian Tire's position on payment industry trends is quite unique relative to other merchants in that over 30% of its EBT is driven by its Financial Services division.

The Canadian Payment Landscape

- In 2006, Consumer payments represented over \$717B or 58% of total GDP.
- Canadians have demonstrated a preference for cards over cash and cheque.

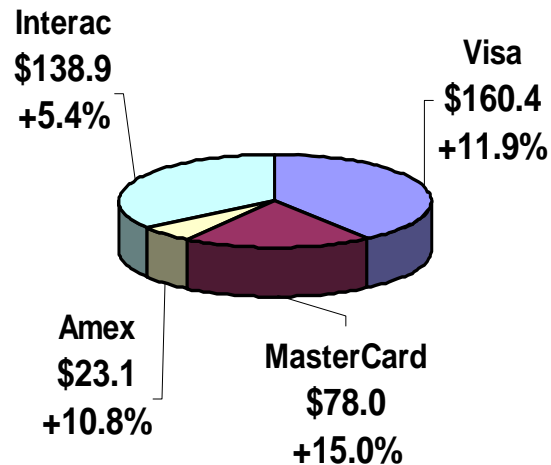


The Canadian Payment Landscape

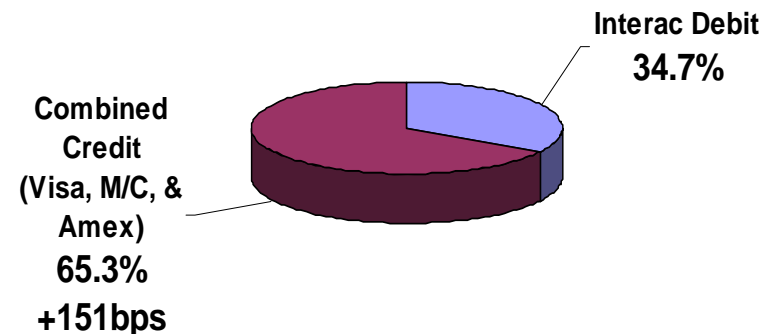
Amex®/Visa™/MasterCard™/Interac™ card-based payments in Canada reached \$400B in 2007, up a solid 10.0% vs. 2006¹.

Over the same period credit card growth remained very strong up +12.7% to \$261.5B, while debit growth was a more moderate 5.4%. The maturation of Canada's debit market is reflected in its declining share of total payments at 34.7% in 2007, down 152bps vs. 2006¹.

Card Purchase Volume by Card Brand ('07 vs. '06)
(U.S. Billions)



Share of Payments ('07 vs. '06)
(U.S. Billions)



TM Trademarks of Visa International; Visa Canada is a licensed user.

^{®/TM} MasterCard, the MasterCard Brand Mark are registered trademarks of MasterCard International Incorporated.

TM Trade- Mark of Interac Inc., used under license

^{®/TM} Used by Amex Bank of Canada under license from American Express. Incorporated.

Source: 1. Nilson Report, February 2008, excludes cash advances

The Canadian Payment Landscape

Canada is a very consolidated market with the five largest Issuers accounting for over 62% of the \$50.5B in receivables¹, and four major acquirers controlling over 80% of card processing volume.

Canada is non-dual market (Banks are only *Visa*[™] or *MasterCard*[™], not both) where all major credit issuers also issue a separate 'Interac' branded pin-based debit card.

In the '90's the consolidated nature of the market led to the development of the largest domestic debit solution in the world.

In the 2008 - 2010 timeframe the consolidated nature of the market will also drive quick adoption and growth of chip-based payments.

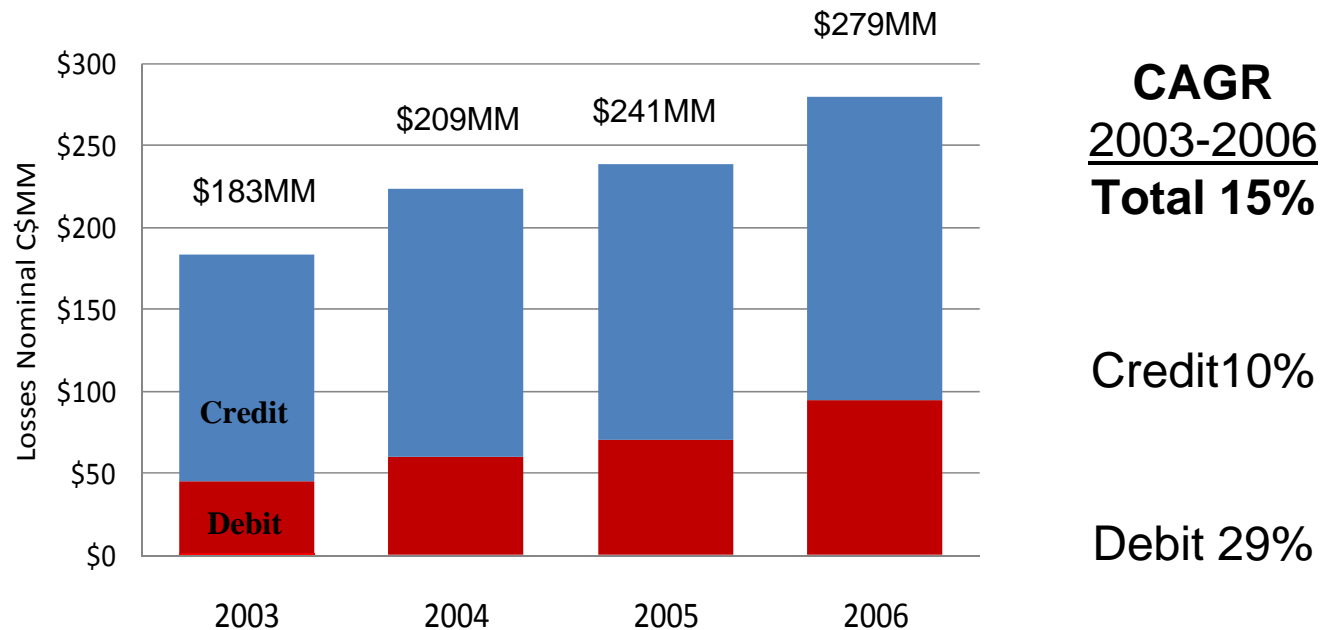
The consolidated nature of the Canadian payment landscape will continue to place Canada on the forefront of new payment innovations over the coming years!

Recent Trends: Increasing Fraud

Increased media attention on growing fraud losses is fueling consumer concerns regarding the security of card-based payments in Canada.

In 2006, counterfeit fraud losses reached \$279MM with credit cards losses accounting for almost \$190MM, up an average of 10% since 2003, and debit losses (Interac™) reaching over \$90MM, up +29% over the same period.

The major banks and payment brands have responded with a unified commitment to migrating to a more secure chip-based payment environment. Visa™ Canada estimates migration is expected to be 88% complete by 2011.



Recent Trends: Contactless Payments

The maturity of traditional credit card payments in the U.S. has led the major payment associations to explore contactless credit as a major growth opportunity for their brands.

While credit growth in Canada remains quite strong at 12.7% in 2007, contactless provides additional growth opportunities for all stakeholders.

Contactless is still in its infancy, representing only 1% of U.S. retail sales¹ in 2006. On a positive note, volumes are still building in the U.S., and they are expected to reach 15% of total retail sales by 2011¹.

For merchants, contactless offers two key benefits, including:

1. **Increased merchant sales:** Avg. contactless values were more than twice the cash transactions they replace².
2. **Faster through-put at the P.O.S:** 10 seconds vs. 18 for cash²

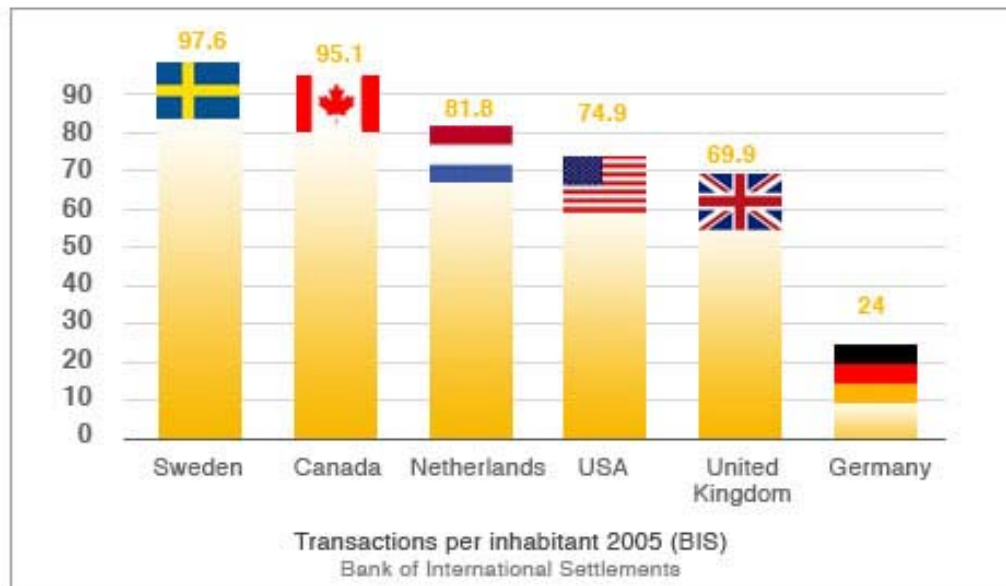
In addition to the above benefits merchant acceptance is expected to grow in Canada behind two primary payment association strategies:

1. Investments in acceptance at a few key merchants will drive response from their competitors.
2. Investment in acquirer programs to drive acceptance amongst smaller merchants.

Recent Trends: Debit Card Growth

Debit card growth globally has exploded with growth rates of 16-17%¹ annually on payment volumes exceeding \$6 trillion U.S. in 2006¹. As a result, the key payment associations are looking at all markets (including Canada) for further growth opportunities.

The launch of Interac™ direct payments at merchants in Canada in 1994 pre-dated the wide-scale emergence of debit globally and as such, merchant acceptance in Canada is broad and per capita usage of debit is amongst the highest in the world.



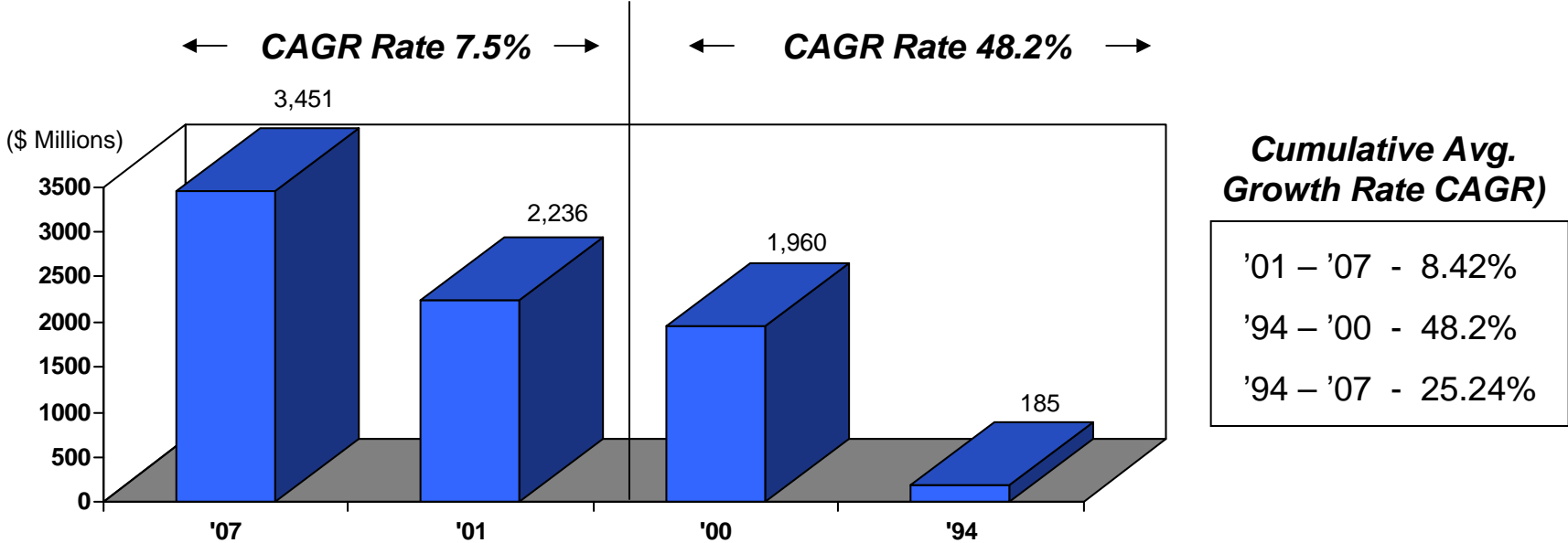
¹ Source; Bank For International Settlements, CPSS 2005

™ Trade- Mark of Interac Inc., used under license

Recent Trends: Debit share declines

Interac™ transaction volumes are still growing, but the growth rate has slowed at 7.5% vs. 48.2% over the 1994-2000 period.

Interac Transaction Volumes²



Interac’s initial business model (to reduce cash/cheques) was instrumental in generating broad acceptance in Canada. However, Interac’s business model did not provide any additional revenue streams (such as interchange structures).

Without additional revenue streams (such as interchange) to support growth, its share of payments has been declining at 34.7% of payments in 2007, down 152bps vs. 2006.¹

In the face of impending interchange-based debit competition from Visa™/MasterCard™, Interac™ is now investigating its own interchange structure to defend and grow its existing payment volumes.

™ Trademarks of Visa International; Visa Canada is a licensed user.

©/TM MasterCard, the MasterCard Brand Mark are registered trademarks of MasterCard International Incorporated.

™ Trade-Mark of Interac Inc., used under license

Source: 1. Nilson Report, February 2008
2. Interac, Canada

Recent Trends: Debit Growth Outlook

The introduction of chip in Canada will likely drive some shorter term share growth in Canada as acquirers move to certify all three payment brands in one roll-out.

This increased acceptance will drive debit sales in new categories such as restaurants, but will not likely have any impact on debit sales volumes amongst existing retailers who already accept debit (such as Canadian Tire).

The introduction of association-branded debit (*Visa*[™]/*MasterCard*[™]) will drive tender shifts amongst debit brands but may not materially grow debit volumes overall given the maturity of the Canadian debit market.

To support their growth objectives the payment associations will likely invest in growing merchant adoption of their debit solutions through acquirer incentive programs and direct investment in key merchants.

Recent Trends: Emerging Payments

The consolidated nature of the Canadian payment landscape will continue to place Canada on the forefront of emerging payment solutions over the coming years

Two key innovations currently under review by Canadian Banks such as Canadian Tire include:

1. The introduction of new payment forms such as mobile payments.
2. The introduction of new consumer applications (such as loyalty, ID, transit, etc.) designed to enhance the value of existing on chip-based payment cards.

While many industry stakeholders are still investigating mobile payment opportunities, two major Canadian Banks have already joined the ranks of European issuers who are planning mobile payment pilots.

In terms of new consumer chip-based applications, the focus is expected to be on two key areas:

1. Increasing loyalty and primary card usage of existing payment cards (transit, convenience, loyalty, etc.)
2. Increasing revenue from existing cardholders beyond sales transactions (fee-based services, etc.)

Summary

The Canadian payment industry is undergoing a convergence of industry trends including the launch of chip card, contactless payments and the growth of association-branded debit.

This convergence represents a challenge for major industry stakeholders who must weigh the costs of incremental investment and ongoing higher payment processing costs relative to the potential benefits related to increased retail sales and improved customer satisfaction.

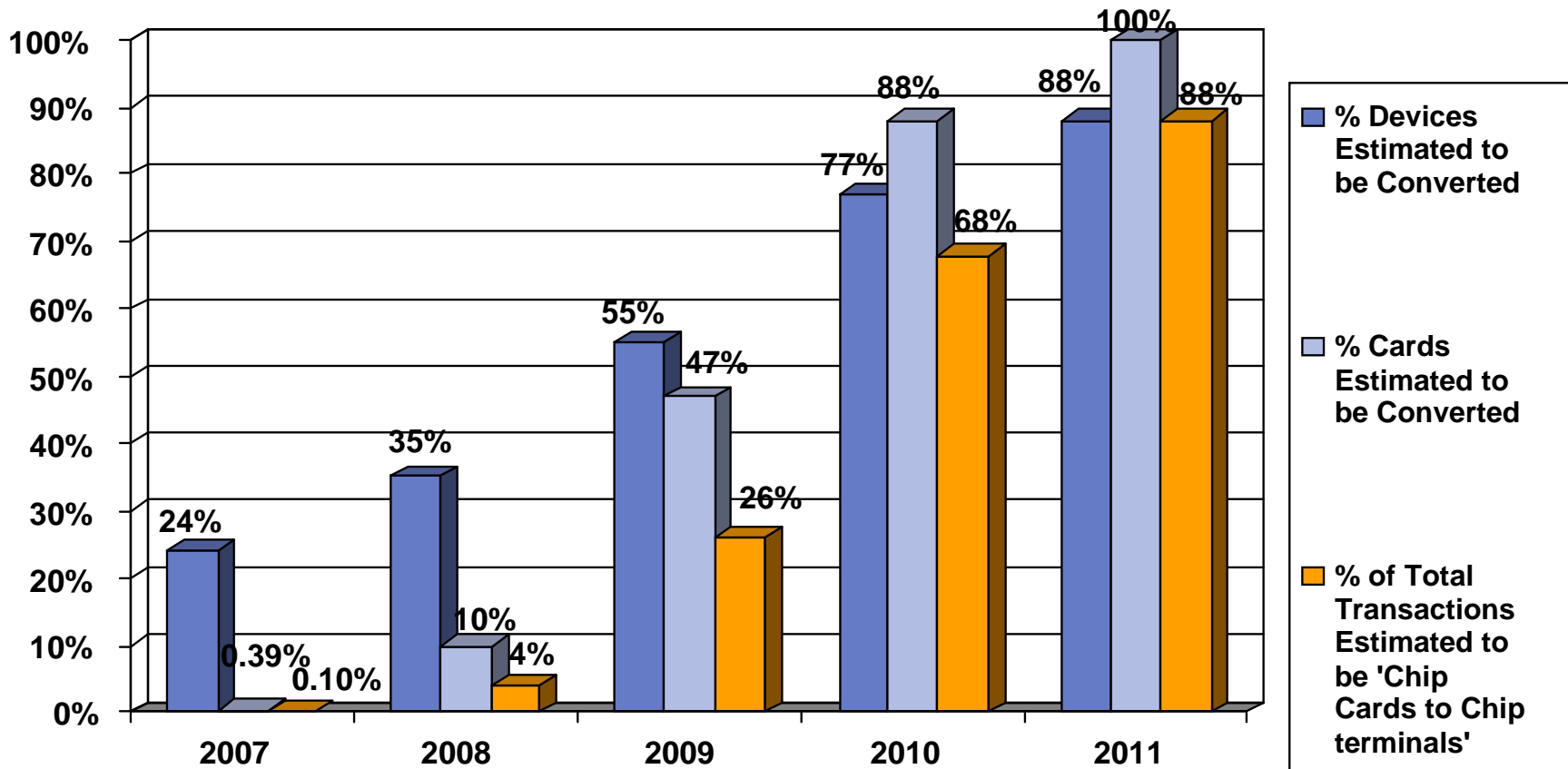
Canadian Tire, as a fully integrated merchant, payment processor, and issuer is uniquely positioned to leverage these payment trends to drive growth amongst its interrelated businesses.

Industry stakeholders in Canada support the migration to chip-based payments as a required investment to improve consumer confidence in the existing payment system. This consumer confidence is foundational to the future growth and stability of the Canadian payment industry.

The consolidated nature of the Canadian payment landscape will continue to place Canada on the forefront of new payment innovations over the coming years!

Appendices

The Pace of Chip Migration in Canada



* Aggregate estimates based on roll out numbers provided by Canadian Visa Issuers and Acquirers

Dates to consider:

1 October 2010 – Liability Shift

1 October 2011 – PIN at POS Required