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Global Network Services
-- North America --

Strawman Proposal to UNO
(for discussion purposes only)

< Highly Confidential >

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REDACTED

McCurdy 22

P-0104

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Introduction and Meeting Objectives



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Within days of DOJ's lawsuit against V/MC, Uno expressed strong interest in becoming the first U.S. bank issuer on the Amex Network.

GNS-NA has prepared this "*strawman proposal*" to facilitate senior-level discussion regarding our desired approach to Uno.

Meeting Objectives

- Review and discuss the following "*strawman proposal*" developed by GNS-NA
- Receive senior management input/direction regarding the main elements of our proposed approach to Uno:
 - Negotiating Approach and Timing
 - Proprietary and Non-Proprietary products/services offerings and Pricing Strategy
 - Performance targets
 - Deal team roles and responsibilities

Business Objectives & Key Assumptions



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Business Objectives

- Aggressively launch the GNS business in the U.S. by signing a major, influential bank as our first issuing partner
- Maximize Uno's investment in building the Amex business to rapidly grow GNS-U.S.
- Increase pressure on the Associations to settle with DOJ quickly
- Serve other Blue Box strategic objectives where possible


Key Assumptions

- An agreement with Uno will lead other banks to begin negotiations with us
 - Other banks will not want to be left-out
- DOJ lawsuit will achieve an Amex favorable consent decree or verdict by YE 1999
 - Uno will be free to issue cards on Amex Network beginning in the year 2000
- Uno is prepared to invest substantial monetary/human resources to be "*first-in*" and build its Amex Network business

Negotiating Approach



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- Negotiate from strength -- make it clear to Uno that Amex has several alternative partners vying for the chance to be “*first-in*”
- Press Uno to reach agreement on term sheet, contract and complete implementation as soon as possible
 - Be prepared for immediate launch when bylaw restrictions are eliminated
 - Make it in Uno’s best interests to see bylaws eliminated sooner rather than later in order to maximize their “first-in” advantage
 - Maintain positive momentum in wake of DOJ announcement
- Proposed deal with Uno will:
 - Enhance the Amex brand by attracting new customers that deliver superior value to SEs
 - 
 - Encourage other US banks to join Amex Network, and V/MC to eliminate bylaws
- Proposed deal with Uno will not:
 - Offer exclusivity or include any provisions that could be construed as anti-competitive

Uno Profile



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- **Uno is the 2nd largest bank issuer of credit cards in the U.S. -- combining the card issuing businesses of Bank One, First USA and First Chicago.**
 - Combined YE 1997 Results:
 - CIF: 53.1MM (*43.5MM Visa, 8.8MM MC*)
 - Spend Volume: \$88.9B
 - Outstandings: \$56.6B
 - * Uno added 840K net new cards from 1996-97
 - Bank One and FirstUSA (combined) added 2.5MM net new CIF
 - First Chicago lost 1.7MM net CIF
 - Uno now owns the attractive United Airlines "Mileage Plus" portfolio (*via First Chicago*)
 - A large (1.4MM CIF), very high spending (\$20K/CIF), transaction oriented portfolio
- **Uno intends to expand rapidly internationally -- especially U.K & Canada**
 - Uno will drop mail for a major V/MC launch in the U.K. in next several weeks.
 - Uno has announced its entry into Canada with Visa as its lead brand
 - Uno/Amex are already engaged in active discussions regarding a network deal in the U.K.

* see appendix for detailed breakdown for each of Uno's subsidiaries

Uno Profile (Continued)



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- Uno's unique attributes create special opportunities and risks that must be managed carefully to ensure maximum incremental benefits for the Blue Box.
 - Low price leader (*e.g. no-annual fee and low/fixed interest rates*)
 - Leader in affinity card marketing and internet card acquisition
 - Very aggressive direct marketer (*#1 mailer in the US with 29% of all offers*)
 - Willingness to strongly support the "next hot product" by recently shifting approximately 95% of acquisition funding to new platinum category
 - Innovator of new categories (*e.g. Titanium*)
 - Influential member of the VISA Board -- with VISA USA's next president (Mr. Boardman) coming from Uno
 - Potential "*first-in*" market timing could establish important standards/precedents

- Uno was the #1 ranked GNS-NA bank prospect based on combined "attractiveness" and "willingness".

Recommended Offerings Approach



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To maximize the incremental benefits of a proposed Network arrangement with Uno, GNS-NA proposes a three-pronged approach:

- Issuing Non-Proprietary (NPL) Revolving Cards
- Distributing Proprietary License (PL) Charge Cards
- Converting Entire Portfolios or Specific Portfolio Segments

Issuing Agreement: Non-Proprietary (NPL) Cards




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Signing banks to become issuers of their own credit cards, to their own customers, on the Amex Network forms the foundation of the GNS-NA strategy. We propose, therefore, that Uno become an issuer of the following:

NPL Revolving Card Products

- **Premium and/or Super Premium Personal Cards**
- **Small Business Cards**
 - Appeal to high-spending customers
 - Enables Uno to bring significant new product innovation to these categories
 - Standard NPL licensing terms
 - Within parameters of current/planned GNS infrastructure capability
 - Uno has previously stated a desire to better serve this customer segment and expressed interest in working with Amex to do so

Pricing to Uno

- 
- **Additional incentive on spending to drive card usage**

Issuing Support

- **Amex can provide full range of value-added product/service support through the Partner Solution Center**

Distribution Agreement: Amex Proprietary Charge Cards



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Given Uno's large base of DDA banking customers and efficient card distribution system, we believe there is a large opportunity for Uno to become a major bank distributor of Amex proprietary Personal Charge Cards (Green, Gold, Platinum).

PL Product Offerings (Distribution)

- **Amex Personal Charge Cards (Green, Gold, Platinum)**
 - Uno to act as distribution agent only
 - Amex remains card issuer and controls all aspects related to brand/product positioning and pricing
 - Uno able to link Amex issued charge card to bank customers' DDA account
 - Bank can innovate/differentiate its Amex Charge Card by adding an automatic payment provision at 30 days from customers' DDA and/or by attaching a line-of-credit to provide overdraft/revolve functionality
 - Uno has already stated an interest in becoming a distribution agent for PL cards

Pricing to Uno

- A dollar amount per card acquired to encourage acquisition
- A percentage of spend to encourage ongoing spending/utilization
- Aggregate payments can be no more than current Amex cost to acquire charge cards so as to maintain minimum ROE targets of 18-20%.
- Would Amex be willing to accept a lower hurdle rate to acquire more, high-spending charge cards which support the SE value story?

Portfolio Conversion Agreement



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Converting entire portfolios or specific portfolio segments that can be better and more profitably served on the Amex Network represents a major opportunity for GNS-NA to quickly capture significant CIF, spending and transactions.

Convert Entire Portfolios

- **First Chicago's United Airlines "Mileage Plus" portfolio**
 - Estimated to contain 1.4MM AIF
 - Estimated average spending/AIF of \$15K - 20K
 - High transaction portfolio

Convert Specific Portfolio Segments

- Convenience users/transactors
- Frequent travelers/heavy T&E spend
- Other high-spending premium segments

Pricing to Uno

- Estimated payment to Uno of \$X/AIF to offset conversion expenses and attrition
- Offer Uno a premium issuer's rate of 10-15bps on converted portfolio

Performance Targets



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We will establish aggressive business growth targets and require that Uno invest substantial financial/human resources to grow the Amex business.

- **New Card Acquisition** (*per year 1-5*)
 - Investment: \$100MM + targeted at “upper half” of market
 - Performance Target: 1.0 - 1.5 MM AIF

- **Card Usage/Spending** (*year 3 vintage target*)
 - Performance Target: \$2,500 - \$3,000 average spend/AIF

- **Portfolio Conversion**
 - Investment: \$7MM - \$14MM (*estimate*)
 - Performance Target: 1.4MM CIF and \$2.8B spending upon conversion

**** Above targets are for discussion purposes only and subject to further analysis*

Additional Opportunities/Issues



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Opportunities

- **Improve card relevance in geographical areas where needed most to support SE value story**
 - Uno's strong presence in mid-west and south could help drive additional card ownership/useage in this area -- helping to bolster SE value story
- **Seek additional airline cobrand opportunities**
 - Provide special incentives for Uno to structure cobranded relationship with additional airlines (e.g. Northwest Airlines) to drive relevance and SE coverage in mid-west-U.S.
- **Expedite resolution of FDC certification as third party processor**
 - First USA uses FDC as its processor and proposed deal would likely convince FDC to make necessary infrastructure investments needed for certification and hook-up to Amex
- **Maintain access to Uno's ATM network**
 - Any deal with Uno would ensure continued access for all Amex cardmembers to Uno's ATMs

Issues

- **Uno has expressed interest in using Proprietary card imagery (e.g. Centurion, world-service background, etc) on Non-Proprietary cards**
 - Allowing use of proprietary imagery on NPL cards could denigrate the brand and cause¹² confusion in minds of consumers

Uno Deal Team Roles and Responsibilities



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<u>Name</u>	<u>Title</u>	<u>Proposed Roles</u>
H. Golub	Chairman & CEO	<ul style="list-style-type: none"> <i>Advisory Team</i> -- Final deal approval authority and official liaison with Uno's CEO, J. McCoy
K. Chenault	President & COO	<ul style="list-style-type: none"> <i>Advisory Team</i> -- OCE escalation contact for resolving issues cutting across Blue Box units/staff functions
J. Linen	Vice Chairman	<ul style="list-style-type: none"> <i>Advisory Team</i> -- Advise on appropriate approach to Uno and maintain positive overall relationship
J. Cracchiolo	President TRS Intl.	<ul style="list-style-type: none"> <i>Advisory Team</i> -- Review and approval authority as business owner of GNS
J. Li	President of GNS	<ul style="list-style-type: none"> <i>Advisory Team</i> -- Review and approval authority to ensure goal/objectives alignment as Head of GNS
D. House	President of ESG U.S.	<ul style="list-style-type: none"> <i>Core Team</i> -- Executive owner with primary deal responsibility and liaison with Uno's senior deal contact
S. McCurdy	VP & Head of GNS-NA	<ul style="list-style-type: none"> <i>Core Team</i> -- Deal strategy, negotiation and oversight with review/approval as Head of GNS-NA
R. Pelliciotti	VP Sales & RM GNS-NA	<ul style="list-style-type: none"> <i>Core Team</i> -- Sales/negotiation responsibility with day-to-day deal management/contact with Uno's project team
A. Segal	Managing Counsel-GCO	<ul style="list-style-type: none"> <i>Support Team</i> -- Primary legal counsel
W. Twomey	CFO of GNS	<ul style="list-style-type: none"> <i>Support Team</i> -- Primary pricing and financial analysis responsibility