

Facsimile



Corporate Planning

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Date: February 13, 1998

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No. of Pages (including cover): 3

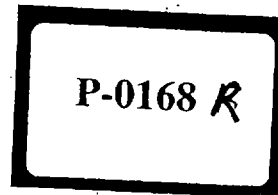
Please find the latest version of the attached document.

Regards,

Bob Khanna



Sami,
please note no changes
to attached document.



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Memorandum

CITIBANK N.A.

002/001

Date: 13 February, 1998*To:* John S Reed*From:* Bob Khanna, Sami Siddiqui*Re:* Project Explorer

The objectives of our negotiations with Visa and Explorer are clear: to significantly alter the strategic frame within which we operate through achieving brand independence, greater network control, improved flexibility to offer both customer and merchant products and programs and improved financials. While there are an endless number of possible structures and permutations, we believe that we are faced with four basic alternatives:

1. Visa Restructuring

Initial discussions with Visa and other major association members, indicate a high probability that we can achieve significant changes to the existing structure and rules that enhance our ability to achieve our objectives, specifically:

- a. board and committee voting power based on contribution
- b. elimination of "line of business" restrictions at board discretion (2-10-e)
- c. facilitation of member break out strategies (to launch own brand/private label cards etc) through releasing BIN's to members
- d. member option to position mark on back of card
- e. board discretion on advertising spend with member opt out alternative
- f. removal of member incentives
- g. limitation of product development to information exchange services
- h. return of scale benefits to members

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We believe that the substantive elements of these changes can be presented and actioned at the next board meeting in June.

While significantly enhancing our current position with limited risk and cost, these changes alone do not achieve our objectives. (1) At this stage, there is no support for brand independence through evolving Visa into a neutral acceptance mark. There is however general agreement that members should be free to pursue independent branding strategies (see c and d above) and that Visa would remain neutral to member brands while maintaining a competitive stance to non-member brands. While opting out of funding Visa advertising will significantly reduce Visa brand spending and divert investment to strengthening the Citibank brand, it is unlikely that brand independence can be achieved given the strength and momentum of the existing Visa brand, without substantial on-going investment (est. \$XXmm pa.). (2) While we will achieve greater

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influence given changes to the voting structure, our ability to control the network remains limited.

(3) We have not enhanced our ability to offer unique customer and merchant products and programs.

The major impact on non-member competitors will be dependent on how rule 2-10-c (which limits members from issuing on competing networks) is implemented. Full abolition would allow members freedom to issue both inside and outside the network and could strengthen both American Express and Discover's ability to attract partners.

2. De Novo

There is no doubt that building on the existing Diners Club business with both international (JCB) and US partners, would provide the greatest degree of control, brand independence and ability to offer customer and merchant products and programs. There is equally no doubt that this alternative would require massive investment both in building a network and investment in the brand significantly weakening the corporations financial position in the medium term. It would also require the greatest amount of time and management skill to implement

3. Full conversion to Explorer over 12 months

option, it provides us with an opportunity to dramatically change the competitive frame. We achieve brand independence with a neutral acceptance mark, a major stake in controlling the network with a like-minded and successful partner, complete flexibility to offer both customer and merchant products and programs, and potentially improved financials. However, a number of issues make this alternative difficult to implement in the medium term, and potentially very risky for Citibank:

- a. Discussions in the past (American Express) indicate that it is unlikely
- b. While the existing network has only a 10% shortfall against Visa in US sales volume, initial analysis suggests up to a shortfall in "relevant" merchant coverage (i.e. excludes merchants with little or no turnover). This has serious implications in terms of customer perceived utility (and therefore attrition) and the investment required to achieve acceptable coverage.

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- c. Preliminary research indicates of customers would use an Explorer card less than Visa (complete attrition, and reducing activity).

Clearly our ability to commit to transfer volume to Explorer is limited given and the high risk of attrition. The attrition risk can be mitigated if:

4. Visa Restructuring and Stage I implementation of Explorer

It is our opinion that the problems raised above make a Visa restructuring and a limited implementation of Explorer, . The restructuring of Visa (described above) is the platform. Once established, we merge the Diners Club and Explorer networks to truly globalize our existing network. Where feasible we cross-sell the existing customer base into the new network using attractive reward programs, while continuing to issue under the restructured associations. We will achieve a high degree of brand independence, albeit in a multiple-brand environment (which can be used to augment our segmentation strategy). One (or more) in the revamped Visa structure (mark on the card back, reduced Visa advertising spend, increased Citibank brand spend, ability to launch private label cards etc), and others in a truly global proprietary network. The merged Explorer/Diners Club network offers network control (with a partner) and the flexibility to offer targeted customer and merchant products and programs. At a low cost, we can practically achieve many of our strategic ambitions in a timely manner and remain well positioned for of Explorer in the future, if desired.

While access to the Diners Club network will provide international acceptance to Explorer (and revenue though to the Diners network) it will also allow Explorer to achieve their international issuing ambitions.

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