



# Repositioning for the Future

Presentation by  
Ken Thompson  
President and Chief Executive Officer

June 26, 2000



# Cautionary Statement

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A number of statements we will be making in our presentation and in the accompanying slides will be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements of the Corporation’s plans, goals, objectives, expectations, projections, targets, estimates and intentions. These forward-looking statements involve significant risks and uncertainties and are subject to change based on various factors (many of which are beyond the Corporation’s control).

Factors that could cause the Corporation’s actual results to differ materially from such forward-looking statements are set forth in the Corporation’s most recent Annual Report on Form 10-K, Current Reports on Form 8-K including its Current Report on Form 8-K, dated June 26, 2000, and Quarterly Reports on Form 10-Q.

In addition to the foregoing, a significant portion of the financial information presented has not been prepared based on GAAP and is derived from internal management reporting sources.

# Overview

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- 2Q 2000 earnings
- Restructuring program
- Vision and strategy
- New approach toward managing for growth



# 2Q 2000 Earnings

## Factors Affecting 2Q 2000 Earnings

### External

- Interest Rates
- Capital Markets
- Loan Losses

### Internal

- The Money Store
- Auto Finance

## 2Q 2000 Estimated EPS

**\$0.72 - \$0.74**

### Total EPS

- \$0.63 - \$0.65
- Core Businesses
  - Capital Management
  - General Bank
  - Capital Markets
- \$0.09
- Balance Sheet Strategies

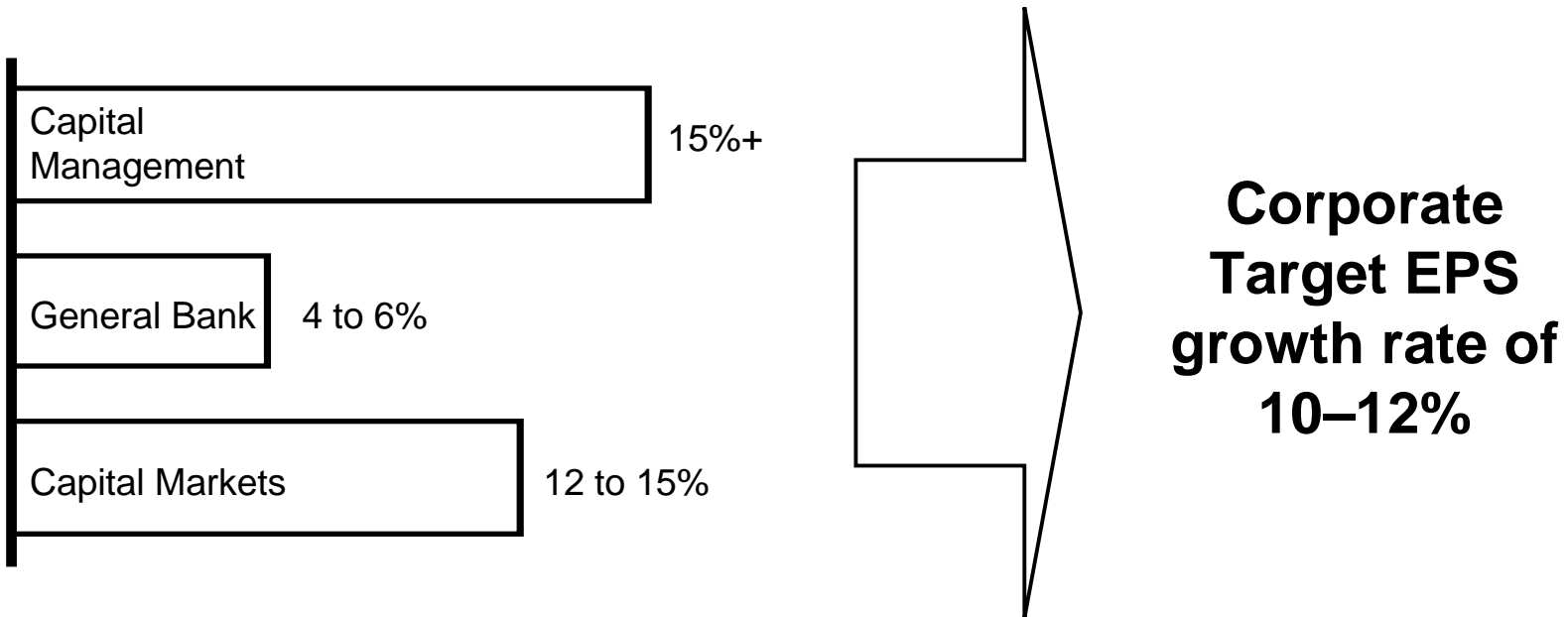
# Core Businesses Targeted to Generate Attractive Growth

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## Net Income

“Normalized” 3-5 year growth rate targets from core businesses



# **Comprehensive Strategic Review**

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## **Lines of business closely examined over six months**

- Restructuring program involves dispositions of various businesses and assets
- One-time net restructuring and other charges of an estimated \$2.8 billion after tax, of which an estimated \$1.8 billion after tax is non-cash\*
- Divestitures estimated to “free-up” almost \$1 billion in net capital deployed toward growth investments or share repurchases
- Company will have a sharper focus and a stronger growth platform

*\* Net of an estimated \$1 billion in gains from sale of non-core businesses.*

# Strict Evaluation Criteria Governed Decision-Making

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## Evaluation Criteria

1. Core vs. non-core businesses
2. Scale vs. non-scale
3. Net income growth potential
4. Risk-adjusted return on capital
5. Impact on credit and market risk
6. Improvement of product economics and product choice

# Focus on Core Advantages Led to Resource Reallocation

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## **Business Restructured**

The Money Store

## **Strategy**

- Discontinue retail subprime origination
- Retain servicing of loans and securitized assets
- Servicing operation becomes First Union's home equity loan service center

Mortgage

- Sell mortgage servicing portfolio and platform
- Market third party product for servicing release premium

Credit Card

- Sell loans and operations
- Market third party product for referral fee

Non-Strategic Branches

- Sell branches in areas where we lack critical mass and growth potential

Other Non-Core Business Lines

- Streamline and downsize businesses where we lack scale and growth potential (some processing businesses, public finance, etc.)

Loan Portfolio

- Sell nonperforming and poorly performing loans

Securities

- Sell various securities

# Estimated After Tax Restructuring and Other Charges



\$ Millions

	Non-cash charges	Reserves established	Cash charges	Cash gains	Total
The Money Store	\$(1,777)	\$ (620)	\$ (189)	\$	\$(2,586)
First Union Mortgage Corporation			(86)		(86)
Credit card			(98)		(98)
Sale of securities			(412)		(412)
Improve risk profile		(362)			(362)
Sale of businesses				987	987
Other			(198)		(198)
<b>Total</b>	<b>\$(1,777)</b>	<b>\$ (982)</b>	<b>\$ (983)</b>	<b>\$ 987</b>	<b>\$(2,755)*</b>

\* Includes net restructuring charges of \$2,061 and other charges of \$694. Management's current estimates.

# Improved Risk Profile

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- Quality of net income Improved
- Growth rate for net income Improved
- Credit risk Improved
- Liquidity risk Improved
- Interest rate risk Improved
- Operational risk Improved
- Capital ratios
  - Holding company Well capitalized
  - Bank Well capitalized

# Improved Credit Quality

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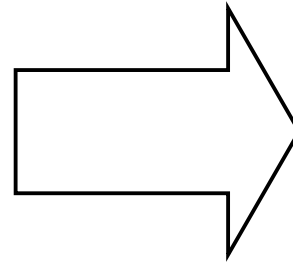
- Lowered risk in loan portfolio
  - Money Store production halted, increased reserves for existing portfolio
  - Health care NPAs and additional poorly performing loans divested
  - Credit cards sold
  - Reserves supplemented by additional provision of \$260 million
- Improved coverage ratios

<b>Ratios</b>	<b>1Q00</b>	<b>Estimated 2Q00</b>
Allowance/Loans	<b>1.30%</b>	<b>1.33%</b>
Allowance/NPAs	<b>139%</b>	<b>201%</b>
NPAs/Loans	<b>0.93%</b>	<b>0.66%</b>

*2Q00 includes the impact of the restructuring program.*

# Restructuring Frees Up Capital

Additional shares  
available for repurchase  
if all “freed up” capital  
were used for share  
repurchase



30–35 million  
shares

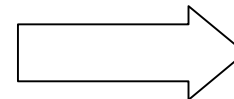
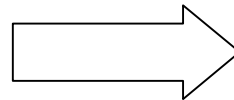
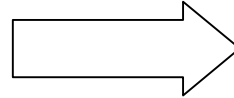
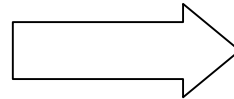
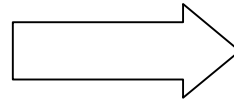
# Looking Ahead: A New Focus

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## Old First Union

- Rapid growth through acquisition
- Product orientation
- Emphasis on self-manufactured products
- Reliance on balance sheet strategies
- Investments focused on achieving scale

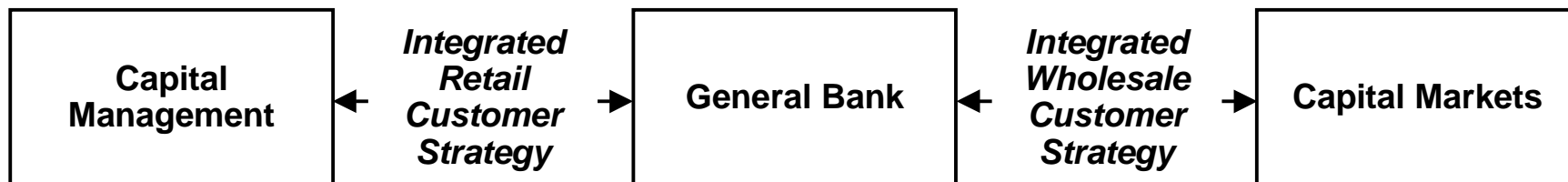
## Restructuring and New Focus



## New First Union

- Expand share of customer wallet
- Grow market share across franchise
- Focus on customer relationships in distinct segments
- Sell more third party products
- Focus on “core” businesses to generate higher earnings growth
- Disciplined and focused investment in growth businesses
- Strict measures for deploying capital

# Competitive Advantages Provide Platform for Growth



- 6th largest national broker-dealer with 7,000 registered reps\*
- 20th largest mutual fund complex with 42 four- and five-star funds
- 4th largest personal trust provider

- No. 1 deposit share on East Coast
- 15 million customers in attractive markets
- Integrated, multi-channel distribution network

- Middle-market, growth company orientation
- Strong relationships with 2,700 corporate clients
- Strong and rapidly growing principal investing group (\$3.3 billion committed)
- Broad product line (No. 2 middle market M&A; No. 1 middle market derivatives; No. 5 leveraged loan syndications)

\*Pending First Albany acquisition.

# Targeted Customer Segments Offer Huge Growth Opportunity



## Significant Opportunity

### Footprint

- 36–38% of all high net worth and affluent households
- 28% of small businesses

### Current Penetration

- Relationships with 18–25% of target segments
- 6–8% share of footprint deposits; 5–7% share of investable assets

## Target Segments

**High Net Worth**  
Income-producing assets >\$1MM

**Affluent**  
Income-producing assets >\$250,000

**Emerging Affluent**  
Income-producing assets >\$75,000

**Small Business**  
Small Business Owners

## Strategic Thrusts

- Served by Private Capital Management Group
- National trust/estate planning services
- Additional trust/estate planning experts

- Attractive credit and investment products
- Market leading online banking/brokerage
- Referrals to Capital Management Group

- Packaged financial solutions
- Cross-selling at all customer touch points

- Aggregate personal and business banking and investments
- 400 Business Financing Centers
- Additional Relationship Managers

# Capital Markets Will Focus Its Growth Efforts

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## Reallocate Resources

- Expenses will not grow as quickly
- Expense reductions to fund growth areas
- Reduce capital commitment

## Strategic Focus

- Leverage off Principal Investing and Private Equity Group coverage
- Focus on middle-market growth companies
- Industry-aligned corporate and investment banking teams

## Disciplined Investments

- Expand Principal Investing
- Further develop New Economy activities
- Introduce selective new products

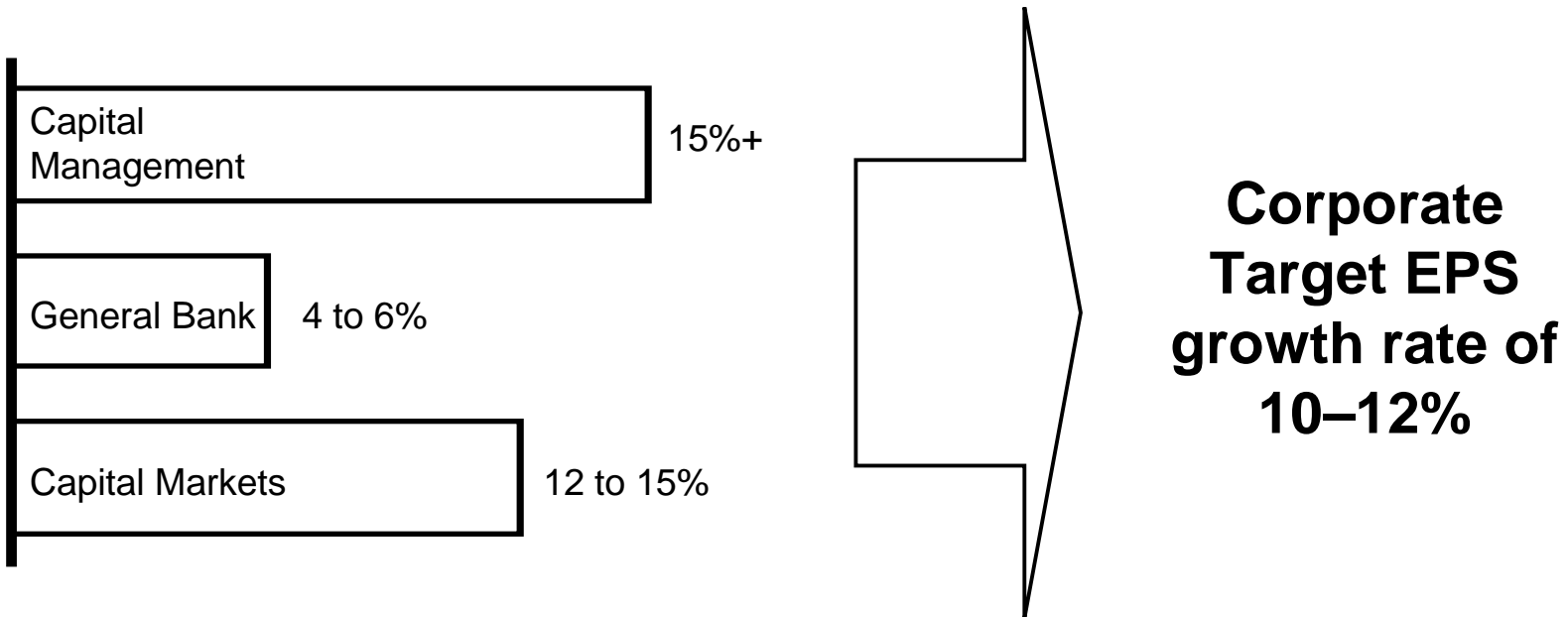
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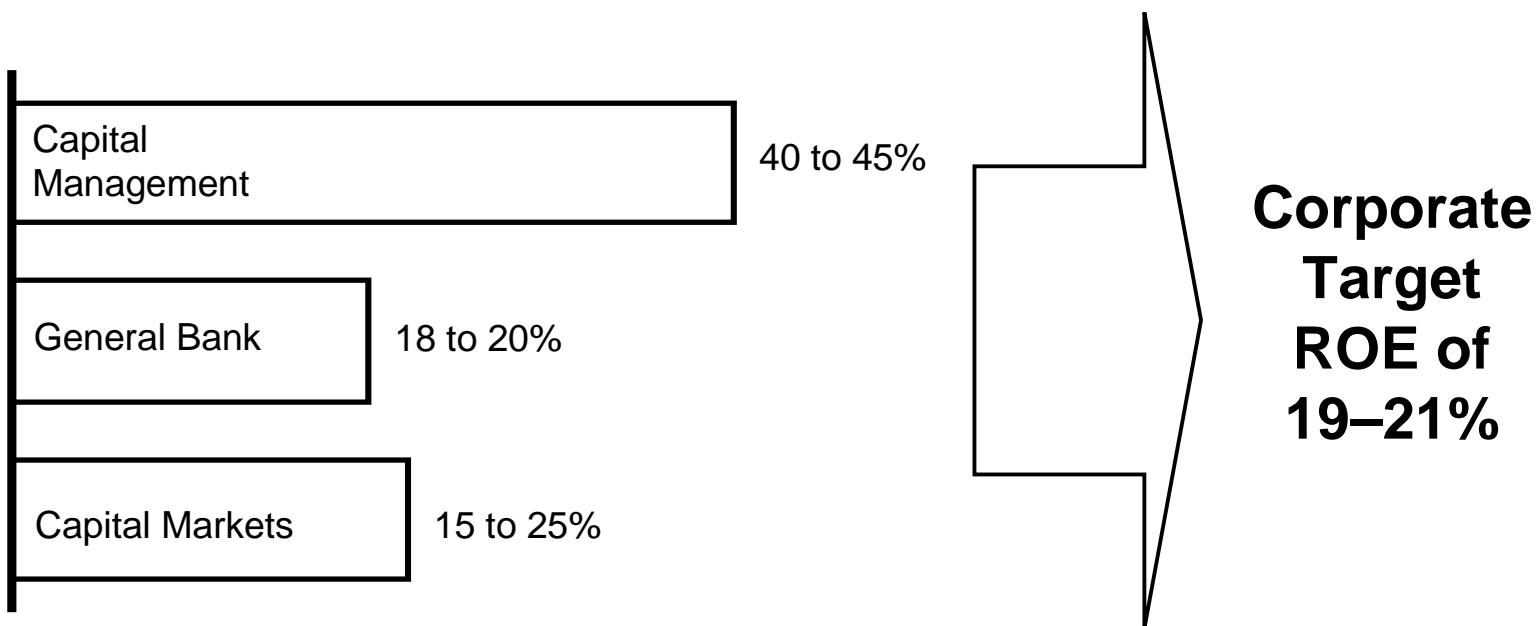
# Core Businesses Expected to Perform Well

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## Return on Equity

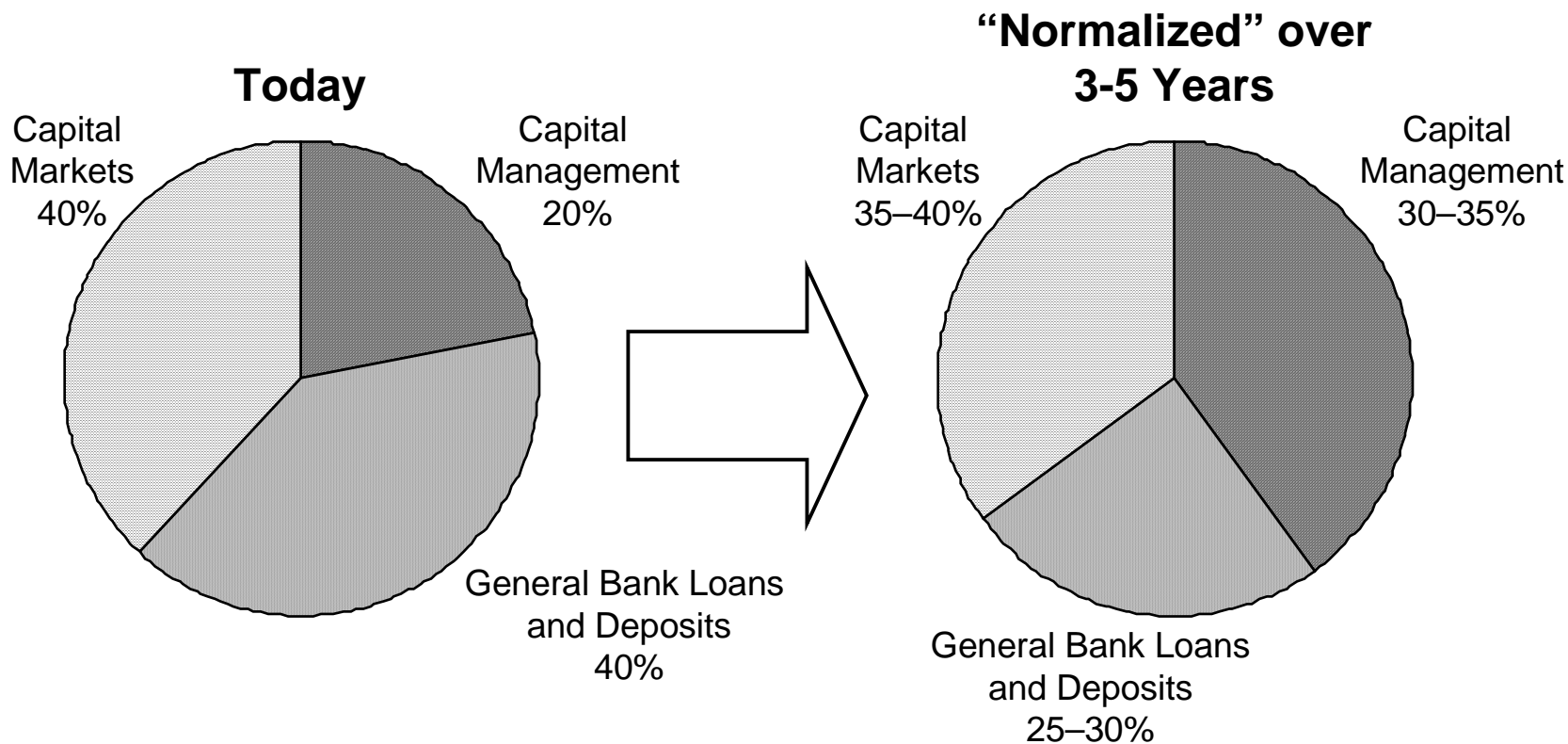
“Normalized” 3-5 year targets  
from core businesses



# Business Mix Will Shift Considerably



Estimated share of net income from core businesses\*



\* Excludes earnings from balance sheet strategies.

# A New and Talented Leadership Team

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	<u>Role</u>	<u>Appointed</u>
Ken Thompson	President and CEO	2000
Bob Atwood <i>(Retiring - search underway)</i>	Chief Financial Officer	1991
Rob Nimmo	Chief Risk Officer	2000
Mark Treanor	General Counsel	1999
Tom Wurtz	Treasurer	1999
Don McMullen	Head, Capital Management Group	1995
Ben Jenkins	Head, General Banking Group	1999
Barnes Hauptfuhrer	Co-head, Capital Markets Group	2000
Steve Cummings	Co-head, Capital Markets Group	2000
David Carroll	Head, eCommerce	1999

# **Enhanced Financial Discipline**

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- RAROC and EVA metrics for investment decisions
- More focused and disciplined approach to acquisitions
- Explicit charge for use of balance sheet
- Re-engineered internal reporting system
- Key managers will be held accountable

# The New First Union

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- Strong franchise with a powerful distribution network and an attractive customer base
- Scale achieved in critical growth areas, especially lucrative Capital Management business
- Restructuring plan and strategy designed to create
  - Higher earnings growth
  - Better quality earnings
  - Better use of capital
  - Improved risk profile
  - Improved credit quality