

THE LAW OF COMPENSATING FORCES

Remarks By

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Before

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In fall 1971 Citicorp initiated a long-range investor relations effort. Our objective was and still is to keep you, the investment community, better informed on what we are doing and what our plans are for the future. Our presentation today is in furtherance of that objective. A transcript of today's presentation, our 1972 Annual Report and a brief biographical sketch of the senior management present today will be available to you at the end of our meeting. This year we made some changes in our annual report which were calculated to tell our story more effectively. The financial section has been greatly expanded to include a global geographical breakdown of operating earnings, additional data on revenue and expense, deposits, assets, loan losses, and capital accounts and a statement of

accounting policies. We would welcome any comment and reaction you might have after reading it.

This is our first presentation before the New York Society and our objective in appearing before you today is to present a discussion of our business to enable you to better evaluate the present and future quality of earnings mix of Citicorp.

Our philosophy is to work for long-term earnings growth for Citicorp. We do not maximize current income at the expense of future earnings. This is consistent with our corporate mission to provide a full range of financial services everywhere in the world where we can do so legally -- and at a profit.

We view our operations on a kind of a global actuarial base. The diversity of our geographic markets, customers, products and currency base provides an ongoing earnings mix designed to sustain Citicorp's growth. This diversity helps assure our continued viability, notwithstanding major disturbances in our business environments from time to time. We are not smart enough to predict with any great accuracy which areas in a rapidly changing world are sure to offer the best opportunities in the distant future, or for that matter those markets that may someday cause us problems. By broadly positioning ourselves against the full range of possibilities, we achieve the capability of capturing financial demand wherever it occurs

and in whatever form it takes.

The process of positioning ourselves to live with the many uncertainties that exist in today's financial markets is an ongoing one, but some current numbers provide a feeling for the degree to which we have spread our risks, and are ready to exploit opportunities. We do business in 90 countries, with about 650 offices outside the United States and about 350 in 25 states here at home. Of these more than 400 are offices of financially related, nonbanking subsidiaries, such as finance companies, management consulting firms, investment banks, trust operations, leasing companies, and insurance concerns. We expect continued growth, as we extend our actuarial base, particularly in banking-related activities both here and abroad, and their contribution to our earnings stream.

The importance of the actuarial concept can best be understood in the context of the bottom line, and is well illustrated by the events of the last few weeks. Government pressure to hold down the base rate and the realignment of currencies both had an impact on Citicorp. Neither event was easily predictable.

The adverse impact on earnings of the squeeze on domestic rates has been offset by the favorable impact of the wider margins when currencies float. So net, net, net by spreading our risks the law of compensating forces operates so that often

when one market is declining some other market is improving. This has been our experience over the years.

In a less dramatic way we showed the same kind of resiliency in 1972. We had been expecting a more favorable rate environment in the U.S. and greater loan demand from our major corporate borrowers than actually occurred. Largely, because this scenario did not materialize, our domestic earnings were off by five percent in 1972. But a strong performance overseas more than made up for the lower domestic results. Income from abroad was up 55 percent last year to \$110 million. Overall, our operating earnings after tax for 1972 was up 20 percent. On a per share basis we were up 16 percent.

(Slide #1 - Chart on Geographical Sources of Earnings)

In our annual report, we break down this year for the first time the overseas earnings stream by geographic area to give you an idea of where we make our money. I think you will agree that the profile in the overseas markets is reasonably well balanced. It has taken decades to establish the presence, reputation, and skills needed to achieve the market penetration we are now experiencing abroad. The following two slides illustrate rather well the maturing of our overseas businesses.

(Slide #2 - Grid of Earnings Abroad 1968/72)

In 1968 we were doing business directly in 50 countries, of which seven contributed more than \$1,000,000 to annual earnings; 14 accounted for earnings between \$250,000 and \$1,000,000; and 29 earned less than \$250,000. By 1972, the number of countries exclusive of non-controlled affiliates increased to 70, 40 percent more than the 1968 figure.

We have tracked earnings of each of the countries included in the 1968 breakdown to determine where they are today; we have also charted what has happened to the new operations established after 1968.

(Slide #3 - Growth in Overseas Earnings 1968/72)

- All seven first tier countries earning a million dollars or more in 1968 were still in that tier in 1972.
- Of the 14 second tier countries in 1968, 13 moved up to the first tier and earned over a million dollars in 1972, while one declined to the third position earning less than \$250,000.

- Six of the third tier countries moved to the million dollars and over category; 10 moved to the second tier, with 13 remaining in the third tier.
- During this four-year period we established new operations in 20 countries. In 1972, one of these countries earned over a million dollars and one moved to the second category.
- In addition, the amplitude of country earnings varied within the three tiers.

And of course, as we grow at home and abroad, the degree of dependence on any single market becomes less. In 1968 our top ten earning countries abroad contributed nearly 90 percent of the 22 and 1/4 million dollars earned in overseas offices. Last year, the contribution of our top ten earners declined to about 60 percent of earnings in overseas offices. Another interesting cut at these numbers reveals that the earnings contribution of the country in the last position of the top ten earners was five times greater in 1972 than in 1968. Despite this record, it is still true that our market share in most countries is less than one percent. Increased market penetration from this low base, together with rapidly developing economies abroad, provides continued growth opportunities for Citicorp.

On the domestic front, it is evident from the current money market rates that we are feeling a squeeze. Experience has taught us that the current situation cannot long prevail; that is, one market rate (called the base rate) cannot continue to be significantly out of line with other market rates. Either interest rates will rise or the cost of funds will fall, and when one of those two occurs, the unnatural pressure on spreads will recede and once again we will begin to have orderly credit markets.

Citicorp's domestic interest differential earnings can be mentally compartmentalized as follows:

- First, is our consumer business. During 1972, over 80 percent of consumer demand and time deposits, net of legal reserve requirements, were employed in personal loans, residential mortgages, and financing related to charge-card operations.
- Second, is our specialized lending activities including factoring, leasing and real estate. We have over \$1.5 billion committed to real estate lending and are currently realizing positive spreads on this sector of our domestic business.
- Third, is our corporate lending business. At year-end 1972 interest rates on over \$7 billion of loans were

tied to the base rate. Of these, over \$6 billion are immediately affected by changes in the base rate and an additional \$900 million would be affected within 90 days. The volume of term loans has increased in the last six months, and these loans as you know, while tied to the base, are booked at increments over it.

The impact of the temporary freeze on our best rate affects less than 30 percent of our \$21 billion of total worldwide loans at year end. It is worth noting that in 1972 Citibank's average base rate was 5.25 percent and our average earning rate on domestic loans was 6.47 percent.

We are still looking for an upturn in domestic earnings this year (which would continue the fourth quarter trend). We expect higher average loan volumes as the economy continues to expand with interest rates rising moderately. While as yet the full impact of the rate squeeze has not been felt, the longer the base rate is frozen and marginal costs of funds increase, the greater the drag on earnings. Despite the fact that we locked up our budget for 1973 before the rate freeze we already perceive the law of compensating forces taking effect. For example, now it will take 10% fewer marks, yen, francs, etc., to make up one dollar of earnings abroad.

The underlying philosophy of the expanding actuarial base is a continuing allocation of resources against opportunities which assure Citicorp's long-term earnings growth. Our diversification program abroad began in the early 1960's when we exported good people to position Citicorp in the growing markets abroad. For instance, over the last few years we have been putting in place a network of finance companies which are now beginning to meet institutional earnings objectives.

(Slide #4 - Overseas Finance Companies)

Finance companies situated in 19 countries account for most of our offshore congeneric investment, risk assets, and the bulk of the earnings, offices and employees. We have established a finance company presence in each of our major geographic areas overseas. More than half of the earnings come from the Asia-Pacific area which accounts for over 60 percent of our finance company investments and risk assets. Our largest finance company operation is in Australia, where we own 40 percent of Industrial Acceptance Corporation and 50 percent of FNCB - Waltons Corporation, that nation's second and tenth largest finance companies.

In perceiving the opportunities offered by the U.S.

market in the 1970's we have reversed the flow and are now importing the expertise we have gained abroad in banking, as well as financially related businesses.

Last month we completed the acquisition of a St. Louis, Missouri, based consumer finance company with 85 offices in 14 states which does business as Nationwide Finance.

(Slide #5 - U. S. Map)

The acquisition of Nationwide moves us closer toward the long-range goal of becoming a truly national financial services corporation. We now have 130 offices in 24 states outside New York State. This compares to just one office outside metropolitan New York in 1967. The stars on the map represent Nationwide offices; the dots are Advance Mortgage offices, the Detroit-headquartered mortgage company acquired in 1970; and the triangles are offices of Citicorp Leasing, our domestic leasing company. Squares mark the offices of Cresap, McCormick and Paget, Citicorp's management consulting subsidiary, and five international Edge Act banking offices are designated by E's.

(Slide #6 - Map of New York State)

Another dimension of our domestic expansion program is our positioning in New York State through bank acquisitions or

de novo banking operations.

As you know, state law now permits us to establish our presence in all of the state's banking districts, in anticipation of statewide branching in 1976. As of year-end 1972 we had representation in Buffalo, Rochester, Albany and Suffolk. We have now received clearance from the regulatory authorities to acquire two additional banks in the Syracuse and Mid-Hudson regions. By year-end 1973 we expect to have established Citicorp's presence in the major centers of population and business activity in New York State.

Nationwide and the New York State expansion program are expected to be a modest drag on earnings in 1973. We regard the positioning of Citicorp throughout New York State and across the country as planting another crop to harvest in the future. We are investing today for tomorrow's earning growth.

A third area where we are investing in the future is in research and development on the payments mechanisms of tomorrow. Over the last three years we have expensed against current income over \$16 million developing technology which can be put to use to evolve an electronically based payments system. Such a system clearly represents the wave of the future.

Altogether the degree to which we are successful in our endeavors will continue to depend on the effective management of this growth and financial diversification. We believe in and practice decentralization supported at all levels by a management information system. The initiative for expansion rests with our line management working within broadly established policy guidelines.

Our group managers submit formal plans, which include earnings objectives, market strategies, as well as resource requirements. Annually, Bill Spencer, Ed Palmer and I review these plans in light of institutional objectives and establish priorities; monthly we track the performance results. Each quarter we review our business strategies through the following year. By this process we continually evaluate our options and reappraise the allocation of resources in the context of the fluid environments which impact our business.

We recognize that in the financial services business the key resource is people. Citicorp's ability to grow has been and will continue to be dependent upon our ability to attract and retain very competent people in a highly competitive environment. Citicorp has hired some 2,200 college trainees in the United States alone in the last 15 years. More than half of them hold MBA or other graduate degrees and 1200, or 55 percent are still with

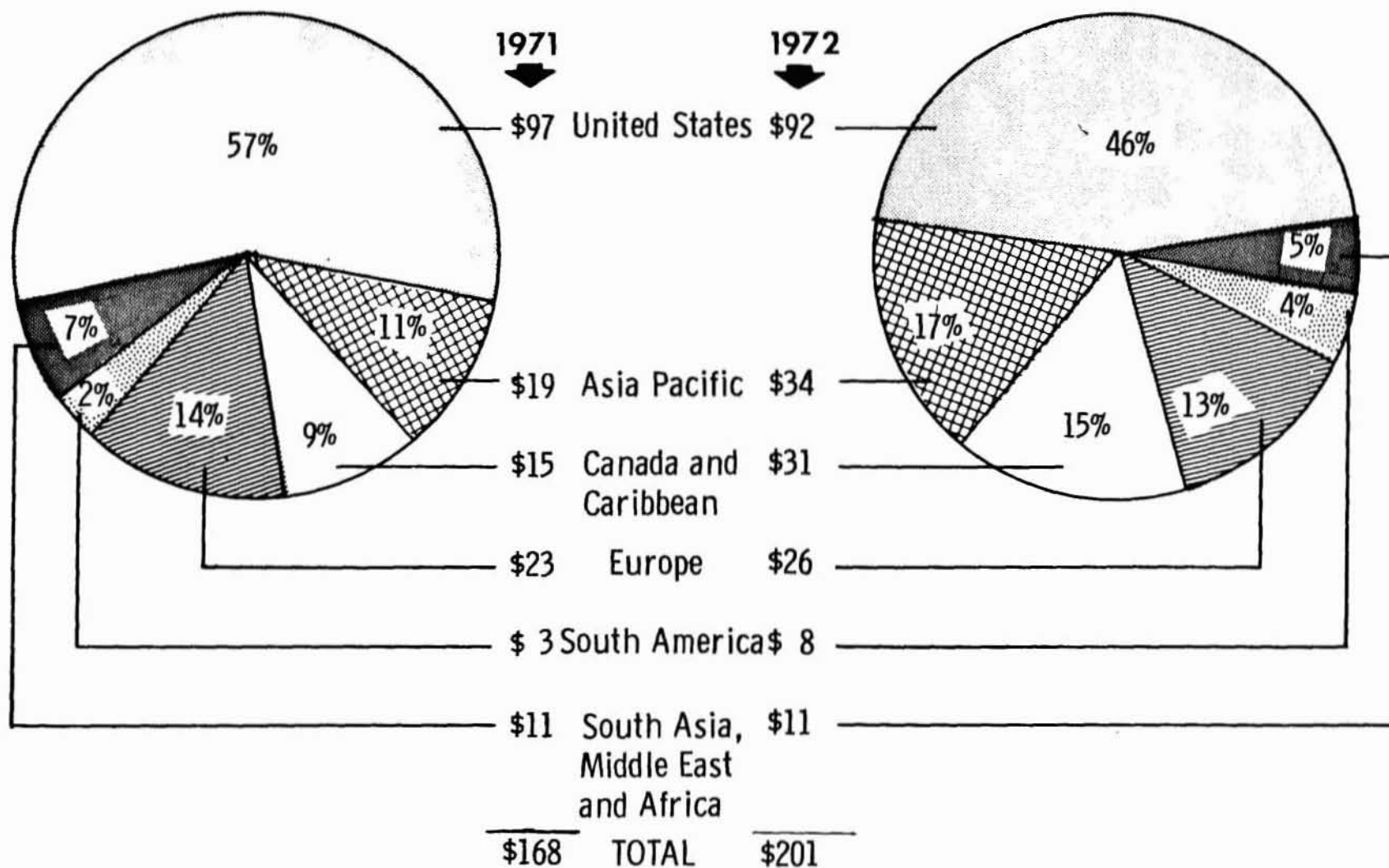
us. The intense demands of our business and the breadth of our geographical base offer our men and women a high velocity of experience in managerial challenge and profit responsibility. They supply Citicorp with an exceptional pool of entrepreneurial talent and the energy needed to sustain our momentum of growth and innovation.

Analysts have told us that Citicorp differs from other growth companies in that there is hardly anything we do that is proprietary. That viewpoint takes, I think, an overly mechanistic view of the business world. Knowhow and experience cannot be patented, but are nevertheless important in maintaining business success and leadership. We believe that Citicorp, composed as it is of talented and highly motivated people, is an organization which is, in its own way, proprietary. It has personnel, the systems and the knowhow to continue to grow the earnings stream to meet corporate targets.

The quality of our earnings mix, based as it is on the widest possible market spread, is our best insurance that our earning stream will continue to grow.

GEOGRAPHICAL SOURCES OF OPERATING EARNINGS

(In Millions of Dollars and Percents)



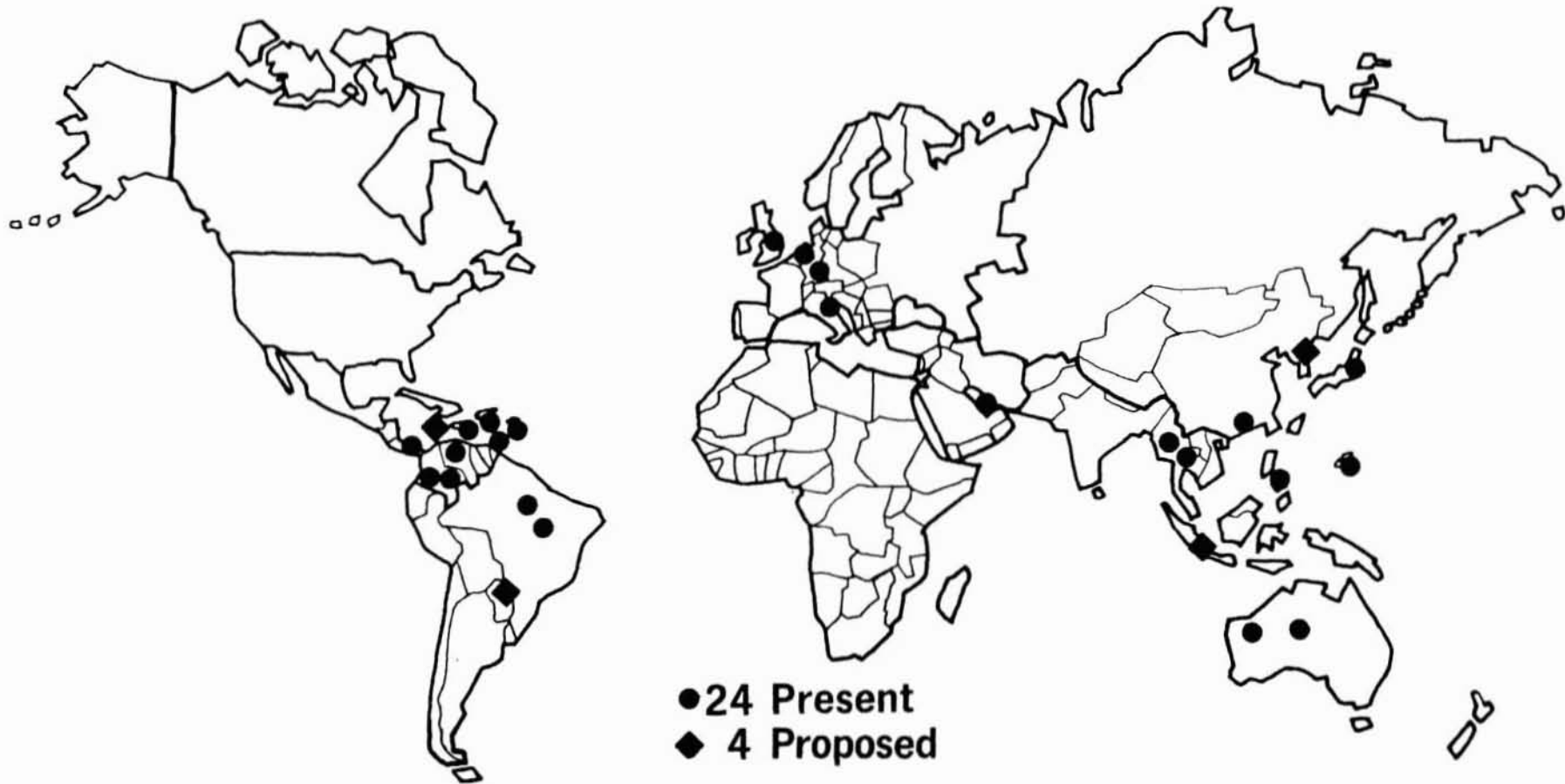
BREAKDOWN OF COUNTRIES BY CONTRIBUTION TO OVERSEAS EARNINGS - 1968-1972

NUMBER OF COUNTRIES WITH EARNINGS:	1968	1969	1970	1971	1972
TIER I MORE THAN \$1MM	7	11	10	20	27
TIER II \$250M to \$1MM	14	19	15	13	11
TIER III LESS THAN \$250M	29	27	37	34	32
TOTAL:	50	57	62	67	70

GROWTH IN OVERSEAS EARNINGS

1968	1972		
	TIER I	TIER II	TIER III
TIER I More than \$1MM	7 → 7		
TIER II \$250M to \$1MM	14 → 13	→ 1	
TIER III Less Than \$250M	29 → 6	→ 10	→ 13
TOTAL	50		
NEW COUNTRIES	20 → 1	→ 1	→ 18
1972 TOTAL COUNTRIES	70 → 27	→ 11	→ 32

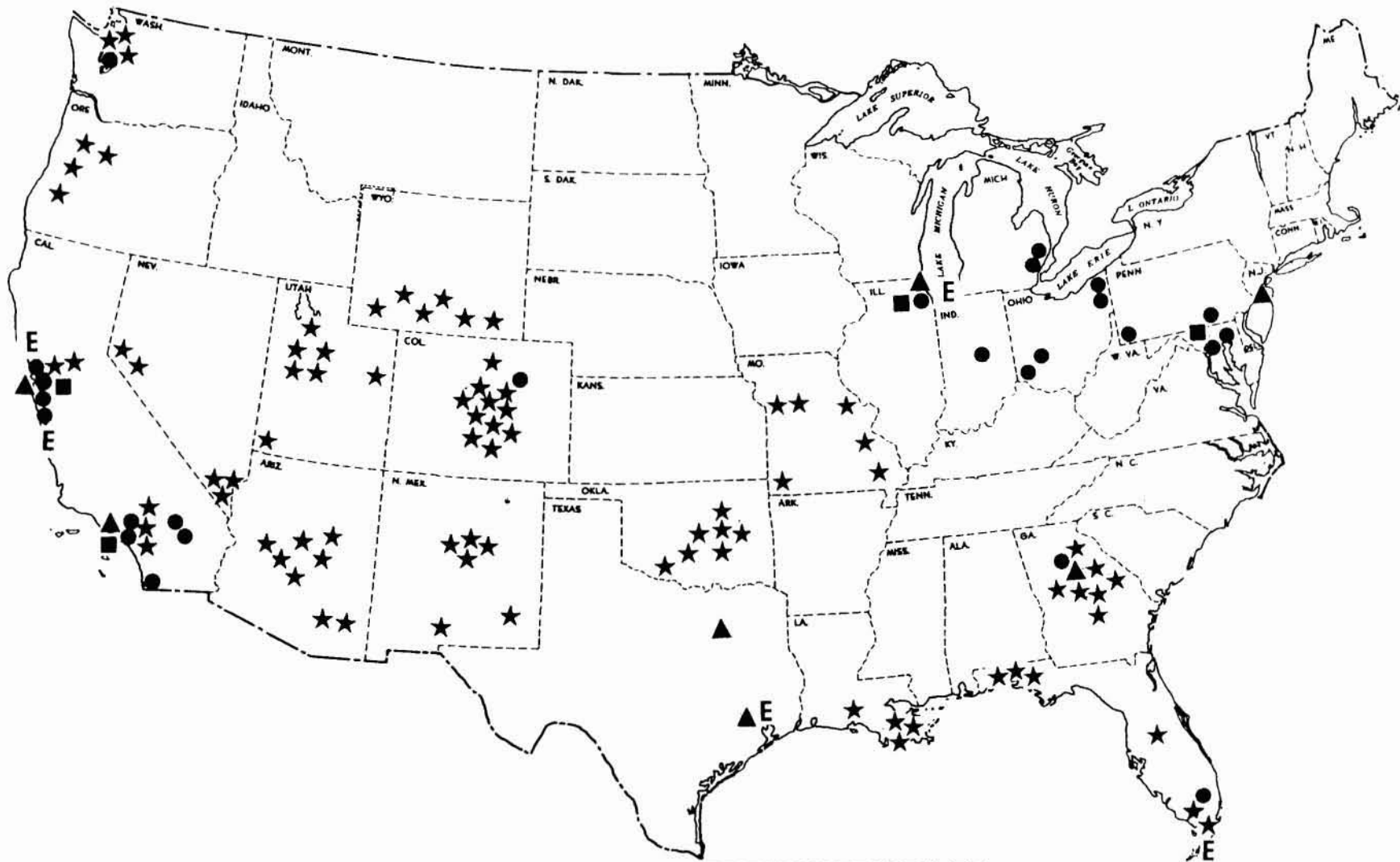
CITICORP NETWORK OF OVERSEAS FINANCE COMPANIES



FIVE YEAR HISTORY

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Countries	5	10	14	17	19
Companies	5	11	17	22	24
Risk Assets (\$MM)	140	205	201	1,024	1,760

CITICORP DOMESTIC SUBSIDIARIES



SUBSIDIARY OFFICES & REPRESENTATIVES

- Advance Mortgage - 25
- ▲ Citicorp Leasing - 7
- Cresap, McCormick & Paget - 4
- ★ Nationwide Finance - 85
- E Edge Act - 5

