Harry Williams recalled his surprise that morning of April 6, 1998. He had heard the announcement of the merger of Citicorp and Travelers, Inc. on the radio while driving to work — the largest merger in history of the financial services industry. Citicorp shareholders would be offered 2.5 shares of Travelers for each share of Citicorp stock. The merger had a value of $140 billion, compared to Citicorp’s $135 billion market capitalization at the close of trading on the previous Friday.

Harry had a significant investment in Citicorp stock. He bought 10,000 shares in 1991 at a price of $11 1/2. That was just after the bank’s darkest hour, with major credit losses in the real estate, highly leveraged corporate and cross-border lending businesses coming close to wiping out the bank’s capital. Harry had always admired Citicorp, particularly its powerful position in a number of major financial activities, its aggressive and innovative business culture, and its strong presence in foreign markets where growth was likely to be impressive and where competition remained moderate by U.S. standards. So once the Federal Reserve moved some watchdogs into the bank’s executive offices at 399 Park Avenue and it became clear that the regulators regarded Citibank as “too big to fail,” Harry felt that confidence would eventually be restored and that shareholders were unlikely to get wiped-out in the bank’s battle to return to financial health. True, $115,000-plus was a lot of money to invest, but he thought it was an excellent bet, especially in the context of U.S. and global financial services industry restructuring which he thought was inevitable. Harry had been right. Citicorp closed at $142 7/8 on the previous Friday, April 3rd — a possible gain on his investment of almost $1.3 million before tax.

The merger announcement had been a surprise to Harry, but only in the sense that all such announcements containing price-sensitive information were surprises. The identity of possible partners in major bank mergers had been subject to plenty or rumors: Chase Manhattan and Merrill Lynch, Deutsche Bank or Hong Kong & Shanghai and J.P. Morgan, ABN-AMRO and Commerzbank, Deutsche Bank and Crédit Suisse, and so on, with the 1997 announced merger between Swiss Bank Corporation and Union Bank of Switzerland to form UBS AG in 1997 having created what at that point was the world’s largest bank. So when the business news came on his car radio and the commentator proclaimed that the merger had “stunned” the financial world, Harry didn’t fully agree. “I may not be stunned,” he thought, “but I’m certainly surprised.”

“What should I do after the market opens in a couple of hours? Sell my Citicorp

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1 Case written by Professor Ingo Walter, Stern School of Business, New York University, for classroom use only. July 5, 1998.
shares and look for something else? Hold? Buy more Citicorp or Travelers? This is probably a trading opportunity. But an opportunity to do what? It all depends on how the market will value the new Citigroup compared to other firms in the financial services sector and the market as a whole. I probably want to maintain the weight of financial services in my portfolio, but I wonder whether my stake in the new Citigroup is really the best bet for the next five or ten years. If I do anything now, though, I’ll have to act fast.” Harry had thought some more about his options until he arrived at the office that April morning, and then downloaded and printed the merger announcement from the Internet while listening to some radio commentary on the deal. Then he decided what to do.

Now, a month later, Harry was thinking whether he had done the right thing. In the meantime, the papers and news magazines had been full of commentary on the Citigroup deal. Many were “puff pieces.” But some were well thought-out analyses demonstrating a good understanding of the industry’s dynamics. And there was no shortage of opinions among the “talking heads” on CNN, the BBC, Bloomberg News and various network news shows.

In the weeks that followed the announcement, Harry had clipped some of the reports and asked his broker at A.G. Edwards & Sons to send him any research reports that might be of interest. Reports from BT Alex Brown Research, Lehman Brothers, Bernstein Research and Morgan Stanley Dean Witter were among the first to arrive. All had “buy” recommendations on Citicorp and Travelers stock.

There had also been some other developments in the industry, notably the announced merger of BankAmerica and Nationsbank to create the first truly U.S. nationwide banking institution since the remaining geographic restrictions on banks were lifted in 1996. That deal was followed quickly by First Chicago NBD Corp. and BancOne to establish a major regional banking presence in the U.S. Midwest. And in Europe a Belgian-Dutch financial conglomerate, Fortis, beat ABN-AMRO in a battle to acquire Generale Bank in Belgium, following the acquisition of Banque Bruxelles Lambert by its Dutch rival ING Groep.

More mega-deals seemed to be in the offing, although Harry wondered whether this was such a good thing for shareholders. After all, it seemed to be a case of “back to the future,” toward a financial system of the sort that existed before 1933 in the United States. Anyway, “universal banking” in one form or another was really nothing new, prevailing almost everywhere in the world except in the United States and Japan. Rarely had universal banks been marked by extraordinarily high, sustained returns to shareholders, and there had been plenty of financial disasters and taxpayer bailouts of banks over the years. “Come to think of it,” Harry mused, “this has probably not been one of the best-managed industries over the years.”

Case Questions

1. What do you think Harry did? What were his alternatives?
2. Was Harry bullish or bearish on the transaction?

3. What is unusual about this deal?

4. What is the probability that there will in fact be positive net economic value out of the combination? Where will it come from?

5. How long will it take for the enhanced values to be realized?

6. What are the risks that the transaction will fail to be closed?
New York, NY, April 6, 1998 -- Citicorp (NYSE:CCI) and Travelers Group (NYSE:TRV) today announced an agreement to merge,

forming the global leader in financial services. The combination will bring together two organizations with core commitments to

serving consumers, corporations, institutions and governments globally, through a diverse array of sales and service channels. The

merged company's principal thrusts will be traditional banking, consumer finance, credit cards, investment banking, securities

brokerage and asset management, and property casualty and life insurance.

The combined company, which will be named Citigroup Inc. and use the trademark Travelers red umbrella as its logo, will serve

over 100 million customers in 100 countries around the world. On a proforma basis, the company would have had assets at year-

d-end 1997 of almost $700 billion, net revenues of nearly $50 billion, operating income of approximately $7.5 billion and equity of

more than $44 billion. Its market capitalization would rank it number one among the world's financial services companies.

Following the merger, each company's shareholders will own 50% of the combined enterprise. The agreement calls for Citicorp

shareholders to exchange each of their shares for 2.5 shares of Citigroup in a tax-free exchange. Travelers shareholders will retain

their existing shares, which will automatically become shares of the new company. Citicorp preferred stock will be automatically

converted into preferred stock of the new company with the same terms and conditions. The combination is expected to be

accounted for on a pooling of interests basis.

Serving as Co-Chairmen and Co-Chief Executive Officers of Citigroup will be John S. Reed and Sanford I. Weill, currently

Chairmen and Chief Executive Officers of Citicorp and Travelers Group, respectively. They will serve as Co-Chairmen of a 24-

person Board of Directors that will also include eleven outside Directors from the current Boards of each company.

Mr. Reed and Mr. Weill said in a statement: "Citicorp and Travelers Group bring together some of the best people in the financial

services business, creating a resource for customers like no other -- a diversified global consumer financial services company, a

premier global bank, a leading global asset management company, a preeminent global investment banking and trading firm, and a

broad-based insurance capability. Our ability to serve consumers, corporations, institutions, and government agencies, domestic

and foreign, will be without parallel. This is a combination whose time has come."

Mr. Reed commented, "With this merger, we instantaneously broaden our services to our customers around the world --

consumers, corporations and investors who value our ability to help them globally. The breadth of our reach and depth of our

market presence have long distinguished Citibank competitively, and now we have the opportunity to serve customers, especially in

the United States, with convenient, efficient access to all the expertise and the full range of value-added products and services they

need -- a capability unmatched by anyone, anywhere."

Mr. Weill added, "Because the world economy changes at an unprecedented pace today, and regions, markets, continents and

businesses are more and more interdependent, consumers, corporations, institutions and governments around the globe

increasingly need a financially strong and reliable source for financial advisory services and products. Serving the needs of this

demanding and diverse universe requires a company with unprecedented characteristics: an extraordinary global infrastructure,

formidable capital resources, unquestionable stability, and the broadest spectrum of first quality, cost effective and efficiently

distributed financial products and services. Together, we will be that company."

The combination will be effected through a merger of Citicorp into Travelers Group, which will apply to the Board of Governors of

the Federal Reserve System to become a bank holding company. Under present rules, all existing businesses can be retained and

operated by the combined company for a two-year period, which may be extended for three additional one-year periods by the

Federal Reserve Board. At the end of that period, the combined company will evaluate its alternatives in order to comply with

whatever laws then apply to bank holding companies. Citicorp and Travelers Group expect that current laws restricting bank

holding companies from participating in insurance underwriting activities will change in the foreseeable future to make the U.S.

more openly competitive in global markets.

"We are committed to maintaining the unique mix of businesses this merger creates," stated Mr. Reed and Mr. Weill. "U.S.

financial services companies must be able to offer customers the same array of products and services that their international

competitors are now free to provide if we are to maintain our nation's leadership position around the world. This is particularly

critical given the rapid pace of consolidation by global competitors."

"We believe the ability to efficiently access a comprehensive range of quality products is of increasing importance to consumers,

particularly in countries where there is an emerging and sizable middle class, as well as to corporate customers who want their

financial needs met professionally and comprehensively on a local basis," they added.

Mr. Reed and Mr. Weill also said that the companies expect to generate substantial incremental earnings from the significant cross-
selling opportunities that will be created as well as cost savings that will be realized.

The transaction is subject to a number of regulatory approvals, including the Federal Reserve Board, several state insurance commissions and various other bodies, as well as approvals by shareholders of both companies. It is expected to close sometime in the third quarter of 1998.

FACTSHEET
CITICORP

Citibank and other Citicorp subsidiaries serve more consumer and corporate customers around the world than any other bank. From its beginnings in New York City in 1812, the company now has more than 3,000 offices in nearly a hundred countries and territories. Its Global Consumer Business provides financial services through some 60 million bankcard accounts around the world and more than a thousand Citibank branches located in over 40 countries. Though its unmatched network of offices, Citibank also serves the funding and transaction service needs of global corporations as well as those of local growth companies in emerging markets.

The common stock of Citicorp -- Citibank's parent company -- is listed on the New York Stock Exchange (symbol: CCI) and exchanges in other major financial centers. Its shares are owned by some 30,000 stockholders.

Citibankers around the world, who number more than 90,000, are committed to exceptional performance for customers and investors. Their diverse talents, skills, experience and backgrounds constitute the fundamental resource that sets Citibank apart from other global enterprises and enables it to provide valued financial products and services to its customers.

TRAVELERS GROUP

Travelers Group (NYSE:TRV) is a diversified, integrated financial services company engaged in investment services, asset management, life insurance services, property casualty insurance services and consumer lending. Its principal operating subsidiaries include: Salomon Smith Barney, Salomon Smith Barney Asset Management, Travelers Life & Annuity, Primerica Financial Services, Travelers Property Casualty Corp. (NYSE:TAP) and Commercial Credit.

Travelers Group originated in October 1986 with the public offering of Commercial Credit in a spin-off from its then owner, Control Data Corporation. In 1988, it acquired Primerica Corporation, adopting its name and adding capabilities in securities brokerage and life insurance. Primerica acquired 27% of The Travelers Corporation in 1992 and the remainder in December 1993, adding property casualty insurance and incremental life insurance businesses to its mix. The company then adopted the Travelers name. Also in 1993, it acquired the retail and asset management businesses of Shearson Lehman Brothers for $1.2 billion and combined them with Smith Barney. In 1996, Travelers Group combined its property casualty insurance arm with Aetna's property casualty business for $4 billion and issued shares to the public while retaining 83.4% ownership. Most recently, in November 1997, Travelers Group acquired Salomon Inc. for $9 billion and merged it with Smith Barney to form Salomon Smith Barney, one of the world's major global investment banking and securities brokerage firms.

Headquartered in New York City, Travelers Group is traded on the New York Stock Exchange (symbol: TRV).
**Key Facts 1997 Pro Forma Basis**

<table>
<thead>
<tr>
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<th>Citicorp</th>
<th>Travelers Group</th>
<th>Pro Forma</th>
</tr>
</thead>
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<tr>
<td>Net revenues (in millions)</td>
<td>$21,616</td>
<td>$27,079</td>
<td>$48,695</td>
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<tr>
<td>Operating earnings</td>
<td>$4,147</td>
<td>$3,359</td>
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<tr>
<td>Basic operating earnings per share</td>
<td>$8.75</td>
<td>$2.92</td>
<td>$3.22</td>
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<tr>
<td>Diluted operating earnings per share</td>
<td>$8.51</td>
<td>$2.76</td>
<td>$3.08</td>
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<tr>
<td>Assets (in millions)</td>
<td>$310,897</td>
<td>$386,555</td>
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<td>Stockholders equity1</td>
<td>$21,946</td>
<td>$22,173</td>
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<td>Return on equity2</td>
<td>20.8%</td>
<td>18.5%</td>
<td>19.7%</td>
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<tr>
<td>Book value per share2</td>
<td>$41.32</td>
<td>$15.97</td>
<td>$16.25</td>
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<tr>
<td>Dividends paid per share</td>
<td>$2.10</td>
<td>$0.40</td>
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<td>Market price per share3</td>
<td>$142.88</td>
<td>$61.69</td>
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<td>Market capitalization3</td>
<td>$64,859</td>
<td>$70,639</td>
<td>$135,498</td>
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<td>Employees</td>
<td>93,700</td>
<td>68,000</td>
<td>161,700</td>
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</table>

1Includes parent TRUPs and convertible preferred securities  
2Before FAS 115.  
3At 4/3/98.

**Global Leader in Financial Services**

- Leading global bank (lending, origination and securitization)  
- Global trading powerhouse (equities, fixed income and f/x)  
- Leading global asset manager  
- Broad-based insurance capability  
- Substantial new cross-selling opportunities  

**Consumer Product Lines**

- Checking  
- Credit cards  
- Loans/mortgages  
- Long term care insurance  
- Life insurance  
- Home insurance  
- Auto insurance  
- Mutual funds  
- Annuities  
- Wrap fee  
- Securities brokerage

**Distribution Channels**

- Bank branches  
- Consumer loan branches  
- Private Bank  
- Securities brokers  
- PFS representatives  
- Insurance agents and brokers  
- Retirement planners  
- Direct marketers  
- Wholesalers

**Pro Forma Combined Market Position (among Fortune 500)**

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<tr>
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<th>Rank</th>
<th>Rank</th>
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<tr>
<td>Market capitalization</td>
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<tr>
<td>Gross Sales</td>
<td>9</td>
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</table>

**Terms of Transaction**

- over $140 billion transaction  
- merger of equals  
- accounted for as pooling of interests  
- tax free exchange: 2.50 TRV shares per CCI share  
- immediately accretive to EPS  
- decreases leverage and improves capitalization ratios  
- CCI's and TRV's shareholders each own 50% of combined company  
- John S. Reed and Sanford I. Weill to be Co-Chairmen and Co CEOs  
- expected closing 2nd half of '98  

*At 4/3/98  **Before restructuring charges
Citigroup Revenues ($Billions)

&

Citigroup Net income ($ Millions)

ADD Charts
Citigroup Revenues ($ Billions) (1997)

- Corporate Banking (C) $8.27 (17.6%)
- Credit Cards (C) $6.90 (14.7%)
- Consumer Banking (C&T) $7.72 (16.4%)
- Private Banking (C) $1.13 (2.4%)
- Investment Banking & Brokerage (T) $10.98 (23.3%)
- Life Insurance (T) $4.43 (9.4%)
- Other $1.07 (2%)
- Property & Casualty Insurance (T) $6.56 (13.9%)

[Total Revenues: $47.06 Billion]

Source: Company

Citigroup Net Income ($ Millions) (1997)

- Corporate Banking (C) $2,177 (32.5%)
- Credit Cards (C) $696 (10.4%)
- Consumer Banking (C&T) $657 (9.8%)
- Private Banking (C) $283 (4.2%)
- Life Insurance (T) $850 (12.7%)
- Property & Casualty Insurance (T) $957 (14.3%)

[Total Net Income $6.7 Billion]
Along with most others, we were stunned by the Travelers/Citicorp transaction, as it breaks the merger mold in many respects. First, it represents the combination of two strong partners, each with a credible, sustainable market position. Most financial services mergers involve one party's being somewhat hobbled or strategically boxed-in. Secondly, the transaction is not driven by cost synergies, but by revenue synergies. Most transactions involving banking companies contain a significant degree of cost savings to drive the transactions economics. Thirdly, the transaction is notable as each business unit of Citigroup is a very viable, well-positioned entity in its own right. There do not appear to be cross-subsidies; therefore, each business unit is enabled to maximize its growth. Lastly, the co-CEO management structure is unique, and will be viewed with skepticism offset only by the high regard the market has for each of the CEOs. Overall, Citigroup is expected to generate EPS growth of 15% over the next several years. This performance should outpace that of the banking industry; it should be in line with that of most multiline financial services companies, but should be viewed as less volatile than that of most bank or nonbank financial service companies.

**Contribution Analysis**

Business line reporting for Travelers is by operating unit; for Citicorp, it's by product and between developed and emerging markets. In the accompanying exhibit, we have outlined the revenue and net income contribution by each business unit. The largest contributor to both revenues and net income is Salomon Smith Barney, but this is only 21.8% of revenues and 21.0% of net income. Though still sizable, it was 45.3% of Travelers' 1997 net income. This smaller exposure to market-sensitive earnings is important. Adding Citicorp's 1997 trading revenues (of $2,395 million) to the Salomon Smith Barney net revenues of $10,977 million reflects total market-sensitive revenues of $13,372 million, or 26.5% of total pro forma 1997 revenues for Citigroup.

Other major contributors to earnings include Citicorp's emerging markets business in the Global Corporate Bank at 20.6% of pro forma 1997 net income. Also, the property & casualty and life insurance units at Travelers, and the credit card and Global Corporate developed markets businesses at Citicorp have comparable contributions.

**After- Tax Margins**

Both Citicorp and Travelers posted improvements in core after-tax margins during 1997. Citicorp posted an after-tax margin of 17.8% along with a core return on equity of 20.9% (see Exhibit II). For Travelers, its after-tax margin was 13.3% and its core return on equity was 18.5%. At Citicorp, the margin improvement largely reflected the Global Corporate Bank (and unallocated corporate items). Citicorp's consumer business has been struggling, largely due to stubbornly high losses in the card business and slow receivables growth. Also, the consumer business has borne the brunt of currency translation losses, representing 65% of the total effect of currency translation on EPS during 1997. We believe the card business could show improving profitability during 1998 as card losses stabilize, if not go down, and revenue growth begins to perk up due to increased marketing efforts. At Travelers, the margin growth reflected the insurance businesses—life and property & casualty. We believe the consumer finance business, as well as investment services, has had profitability weighed down by the effects of recent acquisitions/mergers. We would expect to see improved performance during 1998.

It would appear that both Citicorp and Travelers are capable of generating improved profitability. This business momentum is unlikely to be materially impacted by the formation of Citigroup, as the businesses will not be integrated in the near term.
Transaction Synergies

Both companies did a great job of keeping merger rumors from circulating. This objective was reached at a cost of not informing most business line managers. Without these people in the loop, senior management could only speculate as to what synergies were attainable. Over the next several months, we would expect the two companies to pull this information together and give investors a better feel as to business line management structure, the expected sources of revenue and expense synergies.

Despite an absence of detail, management indicated that this combination would increase profitability by $1 billion. The diversity of the product lines and distribution channels means a nearly inexhaustible number of sources for revenue synergies. From a broad context, we believe the most significant will be cross-selling the U.S. customer base. Citicorp has 36 million U.S. customers and Travelers has 20 million. The average product among the Citicorp and Travelers arsenal generates $547 million in revenues. Assuming the average product has a 20% after-tax margin (netting to earnings of $109 million), it would mean 9.1 million cross-sells (or 16.3%) of the combined U.S. customer base would generate $1 billion in earnings synergies. A look at the product matrix would indicate that the highest revenue products would be cross-selling the affluent customer base. Travelers has a good track record in cross-selling, which is why we believe the initial success will come from the delivery of Citicorp products into Travelers. The exception is likely to be Citicorp's private banking operation, which could benefit from both the insurance products and, potentially, the investment products from Travelers. (We doubt that Citicorp's private bank will rush to turn its client list over to Salomon Smith Barney, which is why the insurance products may be an easier first cross-sale.) We believe there are many product and customer combinations that will prove fruitful. However, there are many deals that pencil-out well on paper—the risk, naturally, is in the execution.

Execution Risk

In most mergers, investors must balance the level of hope and wishful thinking in management forecasts against the practical ability of management to execute. This transaction raises the identical issue, but to a much more modest level. The creation of Citigroup is not premised on massive cost-cutting, systems conversions, or rebranding. It is based principally on the expectation that a salesforce with incentive compensation (the Travelers troops) will latch on to new products naturally used by their clients. As discussed above, the revenue synergies set forth by management are not overly ambitious. The other mitigating factor is senior management. John Reed and Sandy Weill are credible. Though ego can not be dismissed as contributing to the combination, the logic of the combination—matching scale with distribution—remains compelling. As such, we should allow for the probability that reasonable business logic played a material role in the creation of this transaction.

The other aspect of execution risk is the ability to manage such a large, diverse and far-flung franchise. Both companies were pretty large, diverse and, with Citicorp in particular, far-flung to start with. The risk in conglomeration, we believe, is the "dumbing down" of performance, whereby the average profitability allows top-performing units to be either milked (to support or grow others) or neglected. Again, we point to management and the performance standards they have created for their respective companies.
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<thead>
<tr>
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<tbody>
<tr>
<td><strong>Return on Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Citigroup</td>
<td>17.9%</td>
<td>20.1%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Citicorp</td>
<td>20.8%</td>
<td>20.4%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Travelers</td>
<td>15.0%</td>
<td>19.0%</td>
<td>18.5%</td>
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<td><strong>After-Tax Margin Analysis:</strong></td>
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<tr>
<td>Citigroup</td>
<td>15.1%</td>
<td>14.7%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Citicorp*</td>
<td>17.7%</td>
<td>17.6%</td>
<td>17.8%</td>
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<tr>
<td>Global Consumer</td>
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<td>Citibanking</td>
<td>10.5%</td>
<td>12.5%</td>
<td>12.5%</td>
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<tr>
<td>Cards</td>
<td>19.5%</td>
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<tr>
<td>Emerging Markets</td>
<td>25.7%</td>
<td>25.7%</td>
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<td>Developed Markets</td>
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<td>Global Corporate</td>
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<tr>
<td>Global Relationship</td>
<td>17.3%</td>
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<td>Emerging Markets</td>
<td>38.9%</td>
<td>41.7%</td>
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<tr>
<td>Travelers**</td>
<td>12.4%</td>
<td>12.2%</td>
<td>13.3%</td>
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<tr>
<td>Salomon Smith Barney</td>
<td>12.8%</td>
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<td>Consumer Finance</td>
<td>18.2%</td>
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<td>Life Insurance--TLA</td>
<td>13.2%</td>
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<tr>
<td>Life Insurance--PFS</td>
<td>18.5%</td>
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<tr>
<td>Property &amp; Casualty</td>
<td>10.0%</td>
<td>4.4%</td>
<td>10.3%</td>
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</table>

Source: Company data; BT Alex. Brown Incorporated.
* Before effects of restructuring charge.
** Revenues net of SSB interest expense. Net income before $496 million after-tax charge.
Citigroup
Cross-Selling Analysis--Potential Revenue Per Customer Segment

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<tr>
<th>Customer Segment*</th>
<th>Student</th>
<th>Emg. Family</th>
<th>Established</th>
<th>Senior</th>
<th>Affluent</th>
<th>Average</th>
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</thead>
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<tr>
<td>Principal Travelers Products</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Investment</td>
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<td>$21</td>
<td>$120</td>
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<td>$264</td>
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<td>Principal Citicorp Products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking/Borrowing</td>
<td>$15</td>
<td>$81</td>
<td>$804</td>
<td>$301</td>
<td>$875</td>
<td>$415</td>
</tr>
<tr>
<td>Payment/Transactions</td>
<td>$101</td>
<td>$123</td>
<td>$132</td>
<td>$126</td>
<td>$175</td>
<td>$131</td>
</tr>
<tr>
<td></td>
<td>$116</td>
<td>$204</td>
<td>$936</td>
<td>$427</td>
<td>$1,050</td>
<td>$547</td>
</tr>
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</table>

Source: Company data; BT Alex. Brown Incorporated.
* Citibank's estimate of revenues generated by each customer segment by product type.

Citigroup
Earnings Model

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<tbody>
<tr>
<td>Total Revenues</td>
<td>36,587</td>
<td>43,701</td>
<td>47,794</td>
<td>53,778</td>
<td>59,160</td>
</tr>
<tr>
<td>% Change</td>
<td></td>
<td>19.4%</td>
<td>9.4%</td>
<td>12.5%</td>
<td>10.0%</td>
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<tr>
<td>Net Interest Income</td>
<td>13,618</td>
<td>15,299</td>
<td>16,185</td>
<td>18,146</td>
<td>19,215</td>
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<tr>
<td>Citicorp</td>
<td>9,951</td>
<td>10,940</td>
<td>11,414</td>
<td>12,946</td>
<td>13,715</td>
</tr>
<tr>
<td>% Change</td>
<td></td>
<td>9.9%</td>
<td>4.3%</td>
<td>13.4%</td>
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<tr>
<td>Travelers</td>
<td>3,667</td>
<td>4,359</td>
<td>4,771</td>
<td>5,200</td>
<td>5,500</td>
</tr>
<tr>
<td>% Change</td>
<td></td>
<td>18.9%</td>
<td>9.5%</td>
<td>9.0%</td>
<td>5.8%</td>
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Fee Revenue

Travelers

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<tr>
<td>Insurance Prem.</td>
<td>4,977</td>
<td>7,633</td>
<td>8,995</td>
<td>10,344</td>
<td>11,792</td>
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<td>Commissions and Fees</td>
<td>3,713</td>
<td>4,637</td>
<td>5,119</td>
<td>5,887</td>
<td>6,711</td>
</tr>
<tr>
<td>Other (non-trading)</td>
<td>3,412</td>
<td>3,831</td>
<td>4,777</td>
<td>5,494</td>
<td>6,263</td>
</tr>
<tr>
<td>Total Travelers Fees (ex-trading)</td>
<td>12,102</td>
<td>16,101</td>
<td>18,891</td>
<td>21,725</td>
<td>24,766</td>
</tr>
<tr>
<td>% Change</td>
<td>33.3%</td>
<td>17.3%</td>
<td>15.0%</td>
<td>14.0%</td>
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Citicorp

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<tr>
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</thead>
<tbody>
<tr>
<td>Fees, Comissions</td>
<td>5,165</td>
<td>5,469</td>
<td>5,817</td>
<td>6,657</td>
<td>7,456</td>
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<tr>
<td>Other (non-trading)/sec. Gains</td>
<td>1,818</td>
<td>2,094</td>
<td>2,002</td>
<td>2,253</td>
<td>2,523</td>
</tr>
<tr>
<td>Total Citicorp Fees (ex-trading/sec)</td>
<td>6,983</td>
<td>7,563</td>
<td>7,819</td>
<td>8,910</td>
<td>9,979</td>
</tr>
<tr>
<td>% Change</td>
<td>8.3%</td>
<td>3.4%</td>
<td>14.0%</td>
<td>12.0%</td>
<td></td>
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Trading/Sec. Gains

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<tr>
<td>Citicorp</td>
<td>1,744</td>
<td>1,711</td>
<td>2,395</td>
<td>2,307</td>
<td>2,450</td>
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<td>Travelers</td>
<td>2,140</td>
<td>3,027</td>
<td>2,504</td>
<td>2,690</td>
<td>2,750</td>
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<tr>
<td>Total Trading/Sec. Gains</td>
<td>3,884</td>
<td>4,738</td>
<td>4,899</td>
<td>4,997</td>
<td>5,200</td>
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Total Fee Revenues

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<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>% Change</td>
<td>23.7%</td>
<td>11.3%</td>
<td>12.7%</td>
<td>12.1%</td>
<td></td>
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Expenses

<table>
<thead>
<tr>
<th></th>
<th>Travelers</th>
<th></th>
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<tr>
<td></td>
<td></td>
<td>5,149</td>
<td>5,804</td>
<td>6,345</td>
<td>7,011</td>
</tr>
<tr>
<td>Noninsurance compensation</td>
<td>Policyholder benefits/claims</td>
<td>Other</td>
<td>Total Travelers Expenses</td>
<td>% Change</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,017</td>
<td>7,366</td>
<td>7,714</td>
<td>8,524</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,403</td>
<td>5,754</td>
<td>7,095</td>
<td>7,840</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14,569</td>
<td>18,924</td>
<td>21,154</td>
<td>23,375</td>
</tr>
<tr>
<td>% Change</td>
<td></td>
<td>29.9%</td>
<td>11.8%</td>
<td>10.5%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

|                  | Citicorp |            |            |            |            |
| Personnel        | 5,726    | 6,189      | 6,557      | 7,021      | 7,639      |
| Other            | 5,376    | 5,889      | 6,481      | 7,290      | 7,932      |
| Total Citicorp Expenses |           | 11,102     | 12,078     | 13,038     | 14,311     | 15,570     |
| % Change         |           | 8.8%       | 7.9%       | 9.8%       | 8.8%       |

| Total Expenses   | 25,671   | 31,002     | 34,192     | 37,686     | 41,166     |
| % Change         | 20.8%    | 10.3%      | 10.2%      | 9.2%       |

Net Nonrecurring  | 326      | (969)      | --         | --         |
Loan Loss Provision | 1,991    | 1,926      | 1,907      | 2,375      | 2,375      |
Pretax Operating Earnings | 8,925    | 10,773     | 11,695     | 13,716     | 15,616     |
Pretax Earnings | --       | 47         | 212        | 215        | 216        |
Minority Interest |          |           |            |            |            |
Effective Tax Rate | 35.5%    | 39.3%      | 37.6%      | 38.0%      | 38.0%      |
Other             | 150      | (334)      | --         | --         |

Net Income       | 5,755    | 6,736      | 6,695      | 8,719      | 9,900      |
Preferred-Dividends | 426      | 268        | 243        | 236        | 237        |
Net Available to Common | 5,329    | 6,468      | 6,452      | 8,483      | 9,663      |

**EPS**

<table>
<thead>
<tr>
<th></th>
<th>$2.18</th>
<th>$2.70</th>
<th>$2.74</th>
<th>$3.60</th>
<th>$4.10</th>
</tr>
</thead>
</table>
Average Diluted Shares | 2,449.4 | 2,395.60 | 2,358.40 | 2,355.00 | 2,356.00 |

Source: Company data; BT Alex. Brown Incorporated

**Analyst Commentary: Citicorp (Lehman Brothers)**

April 9, 1998
Recommendation: Buy

In a groundbreaking transaction, (Citicorp and Travelers Group announced a definitive agreement to merge, creating a global financial services giant....

In this merger of equals there is very little overlap. Careful integration of both companies’ operations is not critical for this transaction to be a success. Rather, the primary challenge will be how to cross-market and sell the diverse product mix to a customer base over the customer’s lifetime.

In addition, this transaction is unique in that it is the first large scale combination between a banking company and an insurance company, which is currently not allowed under banking laws. To comply with the current law, Citicorp will be merged into Travelers Group, which will then apply to the Board of Governors of the Federal Reserve System to become a bank holding company. Under present rules, all existing businesses can be retained and operated by the combined company for a two-year period that may he extended for three additional one-year periods by the Federal Reserve Board. At the end of that period, the combined company will evaluate its alternatives in order to comply with whatever laws then apply to bank holding companies. Consequently, in theory, Citigroup will have up to five years to either comply with U.S. banking laws or, more likely, become a beneficiary of a potential change within the current laws restricting bank holding companies from participating in insurance underwriting activities. In our view, this transaction will accelerate these regulatory changes.
Questions are again arising as to whether Citicorp's management is reverting to past practice by concentrating solely on the long term opportunity to the exclusion of the necessity to generate material returns and earnings per share growth in the meantime. That was the Citicorp story of the 1980s - promise unfulfilled. We believe that investors are taking an overly pessimistic interpretation of the recent BFAA analyst meeting. In our view, the big picture view continues to demonstrate the company's ability to formulate strategies that are bold and conspicuous. The undercurrents, barely pencilled in, indicate some very definitive plans and changes that should move the bank from "here" to "there...."

**Analyst Commentary: Travelers (Morgan Stanley Dean Witter)**

April 13, 1998

Recommendation: Strong Buy

When Travelers stunned the financial world on April 6 with news it would merge with Citicorp, we immediately boosted our rating on Travelers to **Strong Buy** from Neutral. That sort of radical opinion change – and the sheer size of this deal – have sparked a myriad of investor questions. Here are our answers:

**Why the sudden – and major – opinion change?**

We had previously valued Travelers on a segment-by-segment basis and thought the stock fairly valued – particularly because we were concerned about how the market would value the old Salomon Brothers (which tended to report enormously volatile earnings before it merged into Travelers late last year). With the Citicorp deal, however, we decided to throw out the piece-by-piece approach on the belief that investors will, over time, value the new package as a whole. Specifically, we think that Citigroup, the new identity for Travelers/Citicorp, will be large enough and diversified enough – with myriad financial services businesses around the globe – to deliver steady, profitable results and ultimately earn a market multiple. The parallel, we think, is American International Group (AIG, $126, Outperform, target $144), the only major insurance stock that doesn't trade at a discount to the market multiple.

Why7 Probably because AIG typically delivers 15% earnings growth and 15% on equity year-after-year. On the belief that Citigroup will, over time, do the same (its pro forma ROE is actually closer to 20%), our Travelers price target is currently $85, which applies an estimated market multiple of 20.6 times to our new 1999 estimate of $4.15 per share.

**Are cost savings or revenue pickups driving this deal?**

Travelers CEO Sandy Weill is famous for wringing costs out of acquired companies, and we believe this merger will offer material expense savings, as well. After all, the two companies likely have decent-sized administrative overlaps – in financial reporting, public relations, etc. – and could find their cost of funds decline. We also suspect that Citicorp CEO John Reed wouldn't mind the Travelers people putting their red pencil to the bank's cost structure – one with which Citicorp management has seemingly wrestled for years. But in contrast to past deals, we believe that Sandy Weill's ambitions and priorities genuinely lie with the top line.

**Do you really believe all the hoopla about cross-selling?**

This merger is consistent with our belief that we are in the midst of a major shift from product-driven financial services companies – banks, securities firms, insurers – to customer-focused companies that offer a broad array of financial products to a targeted audience. Under this model, securities firms would deliver the gamut of complex financial products (stocks, bonds, second-to-die variable universal life insurance) to higher-income individuals. Meanwhile, banking organizations would transition from traditional banks – i.e., we take deposits, we make loans – to distribution centers of packaged financial products to the middle class. We truly think that consumers of financial services – certainly individuals – want more one-stop shopping the same way that many prefer the supermarket to making stops at the dairy, the butcher, the farm stand, the bakery, and the beverage mart. Citigroup, we believe, will be well positioned to benefit from this transition given its distribution and product manufacturing strengths.

**But isn't the financial supermarket a failed concept?**

Initial attempts at the financial supermarket were flawed, in our view. We never could, for example, see the connection between charge cards and investment banking at American Express.... By contrast, Travelers has already started to show its ability to cross-sell. Most notably, Primerica Financial Services' life insurance agents are generating increasing sales for other Travelers units, including mutual funds for Smith Barney, loans for Commercial Credit, and auto insurance for Travelers Property Casualty.... We also think that when Citigroup management talks about top-line opportunities, it means more than just selling insurance via bank branches and the like. A major emphasis will, in our view, be control of distribution and the leverage it brings. Citigroup might not be able to sell every financial product to every Travelers and Citicorp customer overnight. But we believe the future belongs to those with strong distribution.... Given the shelf space that Citigroup will control, this new company could find itself with incredible
muscle to push its lending, investment, and insurance products through others' distribution channels. That's “top-line enhancement,” too.

Aren't there major legal hurdles to this merger?

What's amazing about this deal to us is that Sandy Weill and John Reed just got Alan Greenspan to, in essence, agree to circumvent the congressional gridlock that had recently held up passage of H.R. 10, the financial services deregulation bill. Travelers and Citicorp are pretty well following the proposed rules under, which call for holding companies like Travelers to run their various businesses via separate operating subsidiaries. As chairman of the Federal Reserve Board, Mr. Greenspan apparently already has the power to grant exceptions to federal laws separating financial services and can let a holding company own lending, securities, and insurance underwriting operations for up to five years. Any chance Congress won't acquiesce within the next five years? Not much, in our view, since five or 10 similar mergers could well follow this deal, and we can't imagine Congress trying to unscramble the egg once it's thoroughly beaten.

Isn't Travelers really the dominant partner here?

Legally, Citicorp will merge into Travelers Group, which becomes a bank holding company under the proposed deal. And Sandy Weill is certainly an irrepressible spirit unlikely to hop into the back seat. But he has also been careful not to smash Citicorp's toes. The post-announcement meeting was held at Citicorp, with a Citicorp official moderating. The new company's top management will work from Citicorp's midtown Manhattan headquarters. And the name of the new parent is closer to Citicorp than Travelers—though Sandy Weill has never been hesitant to dump his name for that of a partner (Commercial Credit begot Primerica which begot Travelers).

Can co-chief executives really run this company?

Investors have trouble imagining two strong leaders like Sandy Weill and John Reed sharing the reins. The world is, after all, littered with co-CEO arrangements that failed, though there have been occasional successes at places like Goldman Sachs. In our view, this marriage stands at least an even chance of working. For one, these two men have a lot of personal wealth on the line. If this merger falters, the cost to them personally could be tens, even hundreds of millions of dollars. We also note that the two men are very different—Mr. Weill more intuitive, Mr. Reed more cerebral—and, in our experience, the best partners (in marriage or business) are often those who complement, not replicate each other. Interestingly, both men seem to see important benefits to the merger. Mr. Weill is obviously excited about the global distribution possibilities. Mr. Reed, meanwhile, seems quite intrigued by the can-do culture of Travelers. And no, we don't think Sandy Weill, age 65, has much interest in retiring. Somehow, we can't envision him relinquishing his hard-won seat at the pinnacle of the financial services mountain for the thrill of golf.

What's next for Travelers?

We find this question premature, though predictable. Wall Street, it seems, sometimes presumes a merger is fully accomplished before the heavy lifting even begins. True, the Citicorp merger will be tough to beat in terms of shock value. But we hardly think investors should take their money and move on. After all, Travelers' stock still has significant upside, in our view. The world is also mighty big, and while Citicorp already operates 3,200 offices in an impressive 100 countries, we suspect the new Citigroup will have plenty of geographic holes to fill. We also wouldn't be surprised if the new company wanted an even bigger presence in asset management given its recurring and predictable nature (together, the two companies will have about $300 billion under management—sizeable but not huge).

What are the broader implications of this merger?

We have two simple answers: One, no deal is too big anymore. And two, many more mega-deals will follow. We suspect the chief executive of every major financial services company huddled with advisors last week to dissect every possible alternative. The Travelers-Citicorp merger seems too big and too important for anyone of any ambition to ignore for long.

Analyst Commentary: (Bernstein Research)
April 17, 1998
Recommendation: Buy

Over the next couple of years, we are forecasting $600 million after-tax in earnings ($0.27 per share) for Citigroup based on
revenue increases. Investors rightly take the words “revenue synergies” and “cross-selling” with a large grain of salt, as promises of revenue increases (particularly on mergers) are generally unmet and market share gains by definition have their limits. In the days following the initial euphoria on the merger, the share prices of Travelers and Citicorp have been under some pressure, and the press on the revenue potentials has turned more negative.

But we would point out that Travelers has demonstrated success in cross-selling; we estimate it has added $0.10 to $0.15 per share of Travelers’ earnings ($0.05 to $0.08 per share pro forma). And although most financial service companies have a poor track record in “cross-selling,” the industry has a much better record in the more broadly defined leveraging of distribution

For example, a decade ago, retail brokers almost exclusively peddled stock to their customers. Today, the range of products is significantly broader and includes mutual funds, checking-account-type products, annuities, wraps, and insurance, among others. Whereas broker-dealers accounted for one-third of variable annuity sales in 1993, they now sell just under half of a larger pie. On the flip side, banks used to offer their customers the standard checking, savings and loan products; currently, more than 90% offer annuities, more than 75% offer life insurance, and more than 45% offer long-term care. And while banks have been something of a disappointment in mutual fund sales, they currently account for 17% of total sales in the U.S., or $150 billion last year.

In the U.S., while the track record for selling the range of financial service products through the range of distribution points is good, the sale of proprietary financial service products through the range of distribution points is less so. This is largely because of the continued regulatory and legal barriers; banks still cannot underwrite insurance as a rule, for example. This is also partly due to a resistance to selling the “house brand” through some distribution channels. Retail brokers at firms like Smith Barney tend to sell third-party mutual funds; there are a variety of reasons given for this propensity, such as the brokers working to keep the client relationship personal rather than institutional, the historical non-portability of financial products and the brokers’ desire to distance themselves from what have generally been underperforming funds. As a result, Salomon Smith Barney proprietary mutual fund sales are currently only about 20% of the division’s total mutual fund sales.

**Domestic revenue synergy is modest**

We have relatively modest expectations for cross-selling gains in the U.S. Over the next couple of years, for example, we look for the company to earn an additional $0.01 per share from the sale of annuities through Citibank’s branch network and another $0.01 per share through the private client channel. (Each $0.01 per share represents $22 million of after-tax earnings.) We estimate the company will need an incremental $5.5 billion in annuity reserves (on our Travelers’ stand-alone projection of $23 billion in annuities in 2000) to fuel this earnings growth. This would represent a less than a one point increase in domestic market share at that point.

Another several cents per share are forecast to come from the sale of long-term care and life insurance products through the Citibank system, both in the U.S. and abroad. Driving these numbers would be an additional $2 billion in combined life insurance and long-term care reserves; for the industry, domestic life insurance reserves are $250 billion.

We have a rosier outlook for the sale of Citicorp products to Travelers customers, in some part because the path has been paved by Travelers itself. For example, we are forecasting $0.03 per share in earnings from Salomon Smith Barney customers who take Citibank credit cards (to clarify, however, we were already looking for $0.02 in earnings from cross-selling Travelers’ own credit cards to these customers, so the increment is only $0.01). In order to reach the $0.03 per share, the combined company will have to add an estimated $3 billion in receivables, on Citicorp’s current $63 billion base. An additional $0.01 per share ($1 billion in receivables) is forecast from Travelers Life and Annuity customers; the avenue here that might make the most sense for the product to be offered through Travelers’ Copeland subsidiary to qualified annuity customers.

Retail banking services are forecast to have some success through Salomon Smith Barney. To get to our $0.02 per share addition to earnings from this channel, we estimate that Salomon Smith Barney would have to open 1.5 million new accounts; put another way, Travelers would have to convert 7% of its customers to Citibank customers over the next two years, or nearly 65,000 per month on average.

**International offers greater opportunity in the medium to long term**

It is outside of the U.S. -- and particularly in the international retail markets--that we are forecasting the greatest earnings synergies from the merger for Citigroup. The international markets represent a greater area of relative distribution strength for Citicorp than does the U.S. And whereas it is an anomaly for retail investors in the U.S. to have their financial service relationships consolidated, in Europe, for example, universal banks are the norm. Within Europe, Germany is most often viewed as the real financial services gem, with a GDP of $2.4 trillion and equity and fixed income markets that appear to be quite underdeveloped, at $1.2 trillion (50% of GDP) and $1.9 trillion (80% of GDP), respectively. This compares to 170% and 166% for the U.S. Post-euro, as the country comes to grips with the red-ink status of its public pensions (we estimate that the country’s social security system has a negative net present value of cash flows of $1.8 trillion), Germany is ripe for a shifting of the obligation to the private sector. This brings with it bullish ramifications for the development of the institutional and retail securities and asset management businesses.
Yet Germany is a country in which a number of the U.S. firms are making only half-hearted entry efforts. Their reasoning is that Germans prefer to do business with Germans and that they are unable to access retail distribution, as it is tied up by the strong domestic banks. Nevertheless, Citibank has made a great splash in the German retail markets, with more than 300 branches. It has built its own distribution and, along the way, has proven that the key is simply building a better mousetrap (defined here as a strong brand name, backed up by better service and stronger technology). The Citibank system is an enviable — and probably the pre-eminent — platform from which to catch the wave of the strong growth we are forecasting for the German markets.

In Japan, Citicorp also looks to be one of the winners. While it has fewer retail branches in Japan (at 21), the company’s long-standing presence in the region and reputation for financial strength has made it a major beneficiary of retail investors’ and savers’ fears for the stability of domestic financial institutions. The company is reported to have had deposit growth of 50% in Japan over the past year. With the incremental phase-in of Japan’s Big Bang, forecasts are for Japanese savers to move increasingly into higher-yielding investments, and probably into foreign investments, which bodes well for well-respected foreign financial institutions in that country. Merrill Lynch, for example, will take an estimated 80 million loss in 1998 to establish a strong presence in the country. With Citicorp, Travelers has a good part of this ready-made.

We are projecting that the sale of securities and mutual funds to retail customers over the next couple of years, mostly in the international markets, will add $0.11 per share to Citigroup, of which $0.02 will come from mutual fund sales to each of Citibanking and private client customers, $0.01 from mutual fund sales to credit card customers, and $0.03 from the sale of retail securities to each of Citibanking and Citibank private client customers. The total is an incremental $240 million in earnings.

In order to reach these numbers, we estimate that Travelers will have to sell an additional $20 billion in mutual funds on the combined company’s current $300 billion in assets under management. This amount will represent less than 1% market share of the combined continental European and Japanese markets (up from our estimates that neither firm would have any noticeable position in these markets). We further estimate that Citigroup will have to sell its Citibanking and Private Client customers some $100 billion in securities to get to our $0.06 per share in incremental earnings from retail brokerage transactions; at current market volume levels, this will represent an additional market share of less than one point of world equity market volumes.

**Investment banking: Becoming a force**

We had been somewhat skeptical of Travelers’ attempt to turn Smith Barney, in its combination with Salomon Brothers, into a force in the emerging global bulge bracket. Our Travelers earnings estimates included nothing for the entity’s success in this endeavor beyond the promised cost cuts.

After the merger with Citicorp, the Salomon Smith Barney merger stands a greater chance of succeeding. CEOs who are embarking on a major capital-raising campaign or a major business consolidation almost have to talk to Salomon Smith Barney now in order to access the global reach, distribution might, and market knowledge of Citigroup. Just having to talk to the company, however, does not mean that Salomon Smith Barney will win the business, and we remain conservative in our outlook for earnings increases from this source; we look for $0.02 per share in additional earnings from Citicorp emerging market customers who become Salomon Smith Barney customers. This is the equivalent of $4.5 billion in additional equity underwritings at that point, which would have been a 1.5 point increase in global equity market share in 1997. In 1997, Salomon Smith Barney had a pro forma 9.5% domestic market share in equity underwriting and a negligible position in the international markets.

We have added nothing to our numbers for Citicorp corporate customers in the developed markets shifting their business to Salomon Smith Barney. We do, however, have $0.02 per share additional for corporate loans from Citigroup to existing Salomon Smith Barney customers, a product line that the investment banks have been using to take further advantage of their existing CFO and treasury relationships.

**Further potential is large**

There is a mind-boggling array of additional revenue opportunities for the combined Citigroup following the merger. In order to frame the potential upside on the deal, we would note that last year Citicorp earned an estimated $50 from each of its 80 million customers. Travelers earned $150 from each of its 20 million customers. Were the combined company to move the Citicorp customers up to $75 in net profitability, the earnings upside would be $0.90 per share for the company, for earnings accretion on our pro forma 1999 numbers of 21%.

**Risks**

The biggest risk for Citigroup is deal execution. If revenue synergies are not achieved, the deal would be about 7% accretive to Travelers shareholders instead of 17% and 9% dilutive for Citicorp holders instead of non-dilutive.

Capital markets revenue at Citigroup is projected to be about 25% of the new entity’s top line. Although overall volatility should be
reduced by diversification, a move of the trading businesses to break even could impact annual earnings by 30-35%. With a multiple decline, downside in the stock could be 40%.

Citicorp Press Release:
New York, May 6, 1998

The following message, from John S. Reed and Sanford I. Weill, is being delivered to employees of Citicorp and Travelers Group today:

Just four weeks ago we announced that Citicorp and Travelers Group would merge to create Citigroup, the new model for serving the financial needs of customers worldwide. Since then, we have become more convinced of the potential of the new company, as we have had a great deal of interaction between our two organizations and identified a multitude of opportunities ahead of us.

Much remains to be accomplished between now and the closing, which we continue to expect in the third quarter. Our first priority has been to agree on the management structure and processes that will be adopted. Our next priority has been to identify the senior management team for the new Citigroup. In making these decisions, we had several goals: to capitalize on the unique management strengths and talents of both organizations, to foster maximum cooperation between our people at every level of the organization, and to prevent any dislocations in service to customers. Most important, we are determined to sustain the momentum both companies bring to the merger - strong earnings growth and high returns on equity, coupled with solid balance sheets - while we capitalize on the incredible potential of our new, combined company....

In the interim between now and the completion of our merger, it is important that each business remain focused on achieving its financial and business objectives. It's also important that the necessary resources of both organizations be devoted to obtaining the various regulatory approvals needed for the merger, even though no change in laws is required. We are confident that we are on track to creating the best financial services company in the world. Citigroup's senior management team has a clear set of priorities, all based on delivering superior value to our customers, our shareholders, our employees, and our communities.

- To build the leading global consumer financial service business, offering the combined comprehensive banking, insurance and investment product lines of both companies to consumers throughout the world.

- To build a preeminent corporate and investor business, offering the full range of investment banking and commercial banking services throughout the world.

- To create the leading global private bank, serving the needs of high net worth individuals and families throughout the world.

- To develop a global leadership position in asset management.

- To continue the growth of Travelers Property Casualty Corp., which will be an 83% owned subsidiary.

Thank you all for your effort and enthusiasm. We look forward to an exciting future together at Citigroup.

John Reed
Sandy Weill