First Chicago Corporation
The First National Bank of Chicago

Annual Report 1972

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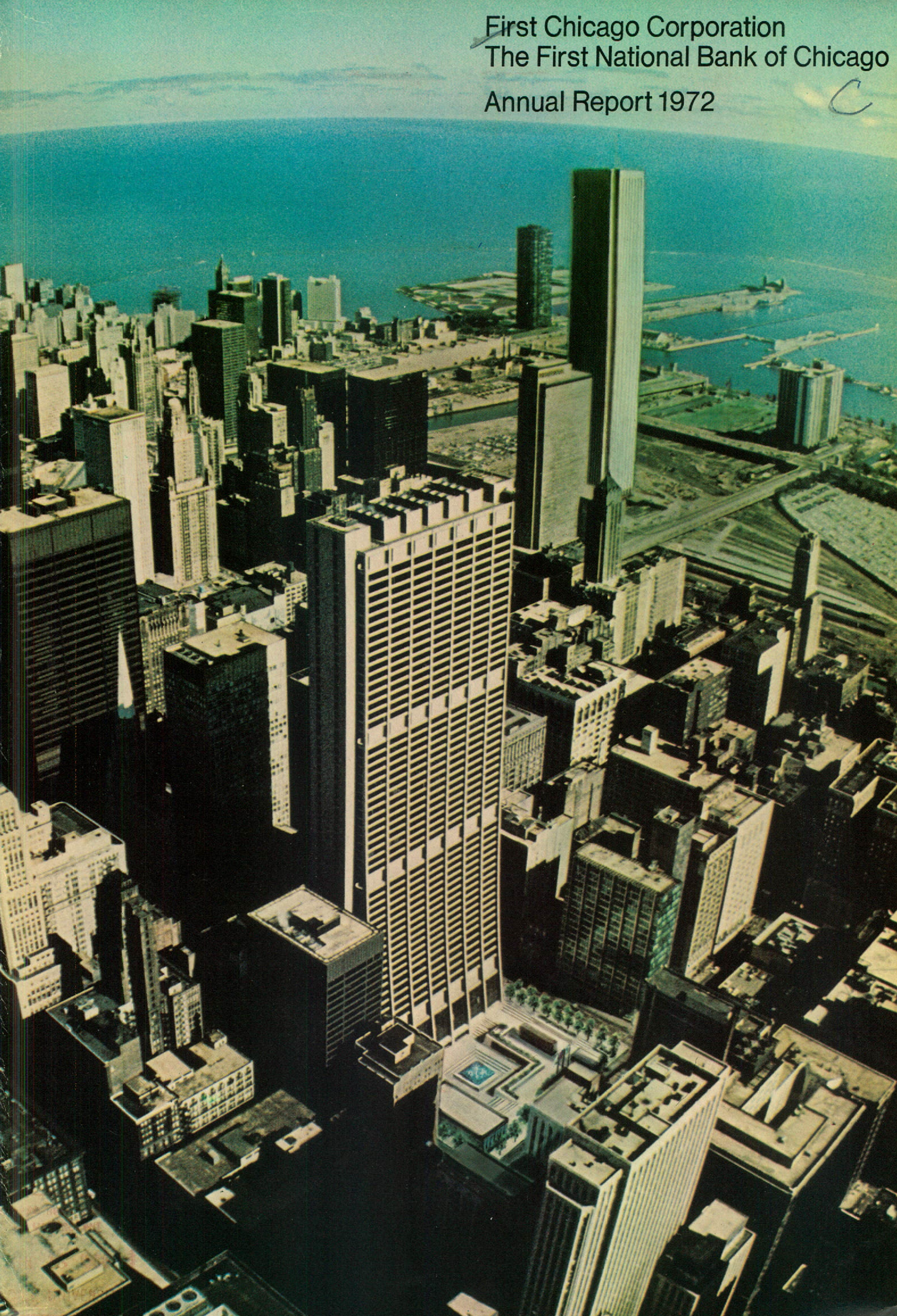

Cover: First National Plaza
Bringing more than an acre
of park-like open space to
the center of Chicago.

Highlights of 1972

Our corporate goal is profit for our owners, and we completed this year with record profit and growth.

First Chicago Corporation and Subsidiaries Comparative Summary

For the Year	1972	1971	Percent Change
Operating income	$ 578,801,000	$ 509,278,000	+13.7
Operating expense	477,472,000	414,581,000	+15.2
Income before security gains or losses	78,275,000	66,107,000	+18.4
Per share	**$4.02**	**$3.42**	**+17.5**
Net security gains or (losses)	(5,592,000)	2,826,000	
Net income	72,683,000	68,933,000	+ 5.4
Per share	$3.73	$3.57	+ 4.5
Average number of common and common equivalent shares outstanding	19,480,856	19,327,777	
At the Year End			
Total assets	$11,415,079,000	$9,196,624,000	+24.1
Total loans	7,081,087,000	5,457,233,000	+29.8
Total deposits	8,806,938,000	7,188,447,000	+22.5
Employees (including foreign installations)	6,029	5,987	+ 0.7
Shareholders	13,538	12,571	+ 7.7

However, since our goal is to maximize profits over a period of time, we must not sacrifice the future to the present. To prepare for a future of increased success, in 1972 we —

- Grouped our domestic loan divisions to improve our marketing effectiveness while retaining senior credit judgment
- Opened six new banking installations in five foreign countries
- Completed and implemented, at considerable cost, a new computer-based portfolio composition system to give our trust operations a competitive edge
- Established investment management services overseas
- Sold municipal bonds below cost in order to reinvest proceeds plus tax savings in higher yielding bonds
- Initiated One-Stop personal banking service and First/24 automated, round-the-clock banking
- Expanded our leasing and real estate activities; opened leasing offices in New York City, Toronto and London
- Acquainted security analysts with your company on an international scale (Chicago, New York, London and Tokyo)
- Accentuated our continuing cost control efforts, including reducing the number of personnel in our people-intensive operating activities.

Briefly, that is our story. But to understand better what we are doing — *please read on.*

Dividends

Declared	Payable	Record Date	Cents Per Share
11/12/71	1/1/72	12/10/71	37½
1/14/72	4/1/72	3/10/72	39
4/14/72	7/1/72	6/ 9/72	39
7/14/72	10/1/72	9/ 8/72	39
11/10/72	1/1/73	12/11/72	40½
1/12/73	4/1/73	3/ 9/73	40½

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To Our Stockholders:

Nineteen seventy-two was a successful year for First Chicago Corporation and its principal subsidiary, The First National Bank of Chicago. The most tangible evidence of that success is the increase in per share earnings (before security transactions) of 17.5 percent, from $3.42 to $4.02. This increase in earnings produced a 12.4 percent rate of return on average capital accounts.

The members of the staff of First Chicago Corporation, the bank and its affiliated companies, are proud of their accomplishments and hope to continue to serve the interests of the shareholders — of which they (directly and through our profit sharing and pension funds) constitute a significant part.

February 8, 1973

Gaylord Freeman

Gaylord Freeman, Chairman

Edward F. Blettner

Edward F. Blettner, Vice Chairman

John E. Drick

John E. Drick, President

Gaylord Freeman Edward F. Blettner John E. Drick

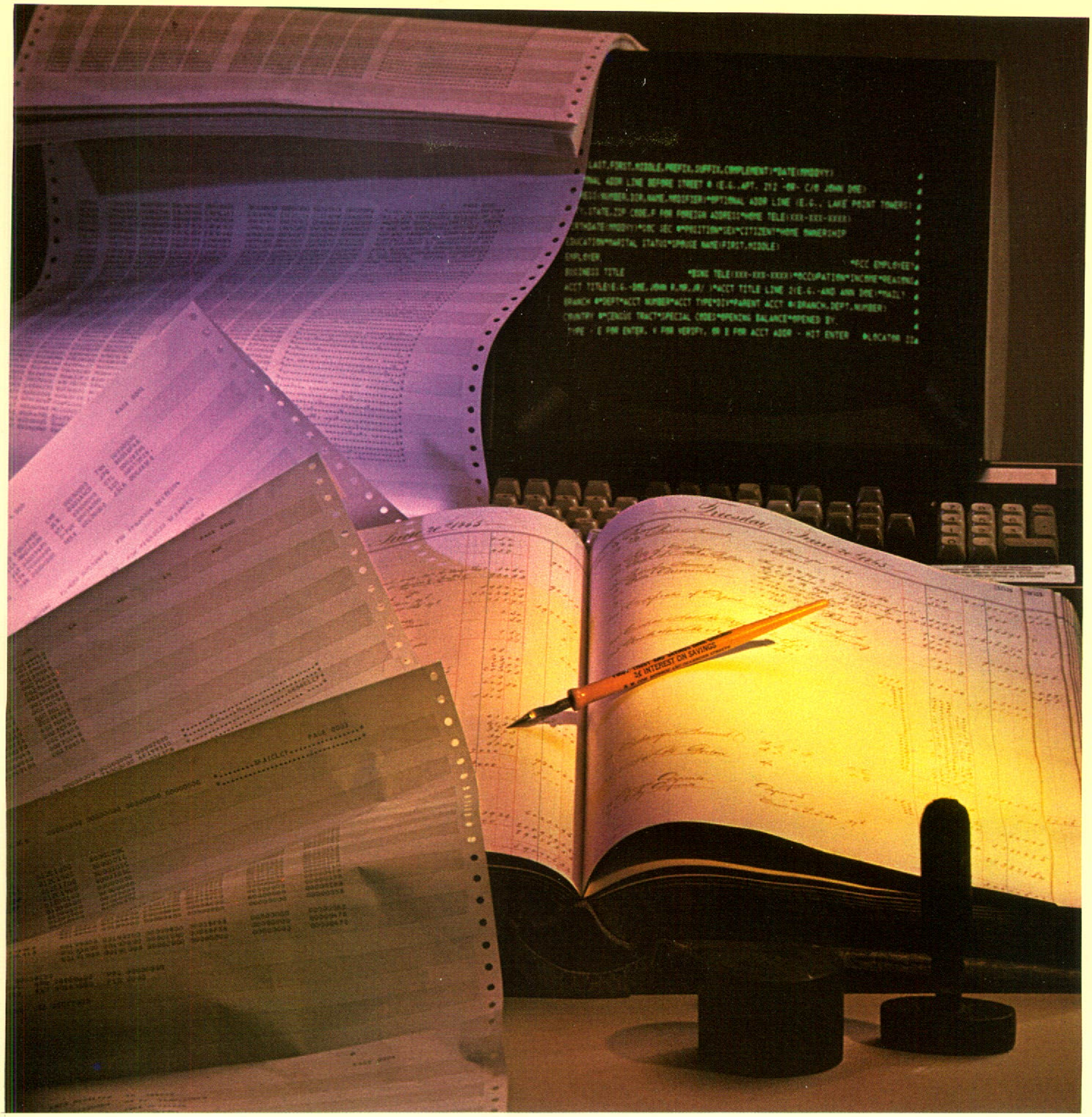
Our Annual Report for 1972

Our annual report used to serve two primary purposes: first, it presented the information about our earnings and condition and second, it prepared stockholders for an early annual meeting.

Our report no longer serves the timely purposes it once did. The substitution of highly-advanced electronic data processing equipment has failed to offset the far greater complexity of a world-wide branch system. We now need to consolidate over 30 wholly owned subsidiaries, plus other interests less than wholly owned. We do not now have our figures until the middle of January, at which time they are released to the press. By the time the auditor's report is received and incorporated, and the printing and distribution of this multi-colored booklet completed, some 60 days have elapsed. Thus, the public has our figures a month before receiving the annual report, and by the date of the annual meeting we have completed the first quarter of the following year.

Inasmuch as the original purposes of the annual report are no longer served, we have used it as a sort of sales piece addressed more to customers than to stockholders.

We have not yet solved the timeliness problem. But, believing that our report should be directed to our company's owners, and intending that it might be a somewhat more straightforward and useful form of communication, we will this year try to tell you a bit more about the company which, in the aggregate, you own.



An 1865 ledger from the bank's archives provides striking contrast to present-day computer terminals and print-out paper, but now our business is also more complex, with world-wide subsidiaries to audit and consolidate in our annual report.

A. Our Assets and Liabilities

The statement of our assets and liabilities in fiscal terms is set out in new detail in the statistical material at the end of this report. But obviously we have other, less tangible, assets and liabilities not subject to such precise quantification.

1. Our greatest asset is our name.

We have inherited a reputation built up over the past century. The bank has been useful, discreet and sound.

In a recent study by Louis Harris and Associates, almost 90 percent of a sample of large corporations viewed meeting loan needs in tight money periods as a very important factor in choosing a bank. That poll also reported that our bank had an excellent reputation of taking care of our customers during such periods of tight money.

A recent study by The Opinion Research Corporation concluded that, based on this reputation and what lies behind it, our bank had more primary relationships with Midwest companies than any other bank in the country. Nationwide, we ranked fourth; only three banks had a larger share of primary relationships.

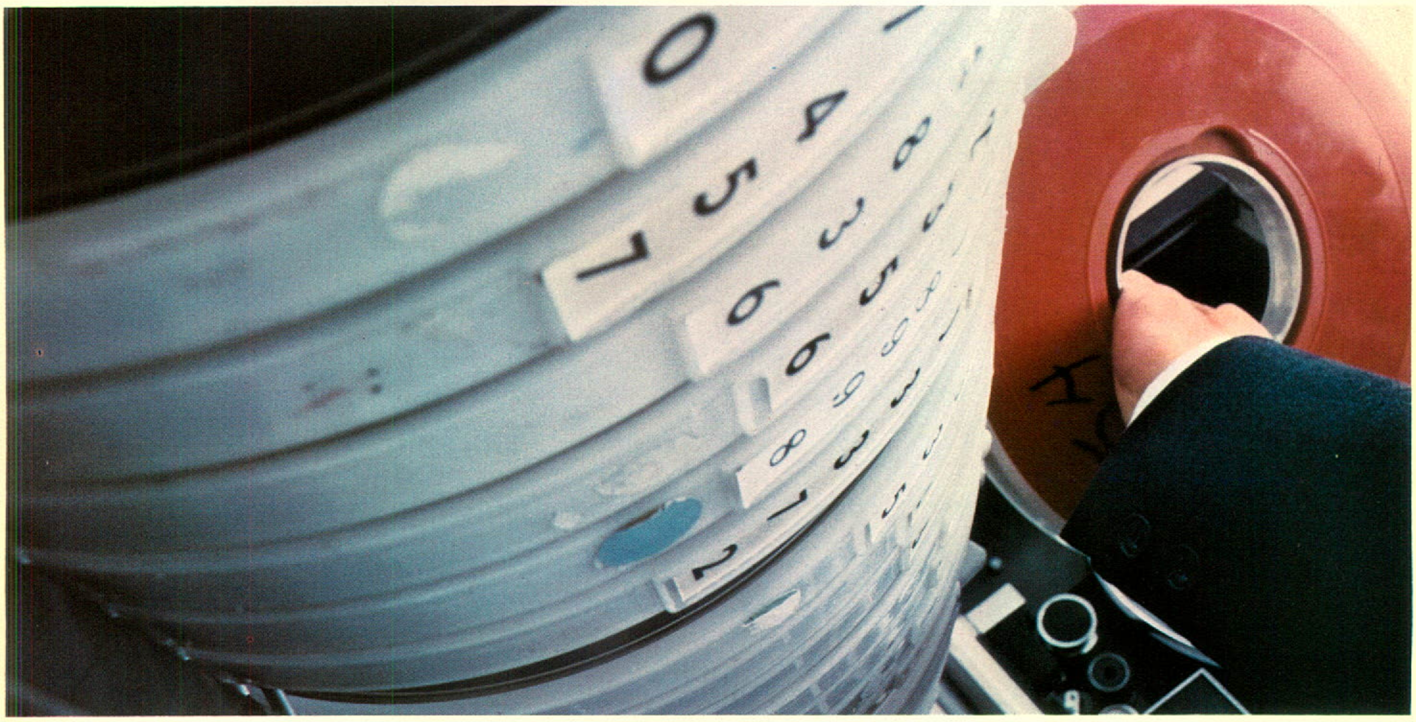
Banking relationships and the market perception of how a bank operates are built up over many years. We are fortunate that our earlier leaders have been widely respected throughout the nation. Our prior chairmen, James B. Forgan, Edward Eagle Brown and Homer J. Livingston, have left a permanent imprint on American banking.

Our reputation is a precious legacy.

2. Our second greatest asset is a permanent body of skilled employees.

Banking is a relatively stable activity, generally not subject to sudden downward surges. In the case of First Chicago Corporation, our expansion has led to increasing opportunities for our people. Consequently we offer a very high degree of job security. Thirty-nine percent of our officers have been with the bank for over 10 years. That they feel an adequate challenge and reward in their jobs may be evidenced by the fact that of the 69 vice presidents we had 10 years ago, only four have left before retirement age. Of 55 assistant vice presidents we had ten years ago, only two have left before retirement age. Like all firms, we have a significant turnover of young employees searching for their proper niche. Our overall turnover in 1972 was 21 percent, slightly less than in 1971. But over 29 percent of the bank's full-time domestic male employees and 11.5 percent of its female employees have been with the bank for over ten years.

Since 1899, we have offered a pension program which has been periodically revised to provide very attractive and above-competitive pensions. In addition, we have a profit sharing program which every year, since its inception in 1953, has provided



First Scholars meet with management development counselors (upper photo) for orientation on the program which provides outstanding liberal arts graduates with broad experience inside the organization plus all expenses for studies toward an MBA degree.

A permanent body of skilled employees is a great asset, symbolized (lower photo) by the hand that feeds computers reels of tape and sets up critical information programs.

extra deferred compensation equivalent to 13 percent of an eligible employee's salary. Moreover, we provide substantial hospital insurance and life insurance coverage (and free lunches), all of which involve increasing expense. We have been involved in job enrichment during the past two years and are expanding our efforts in that direction. We want to be more than fair to our employees, for they are trained, experienced, and give the bank their complete loyalty.

It is a source of personal satisfaction to many of our employees that the role of the organization is one of great service to the community. We take pride in the fact that our loans provide jobs and homes. Our loans make it possible for able, conscientious individuals to start or expand a small business and, in turn, provide goods and services to the public. Our trust activities provide security to employees and to families. Our bond investments provide education, health and community facilities and contribute to national security. Such useful service may be a part of the reward to our employees as well as a means of providing profits for the owners of the corporation — and as a constructive contribution to the maintenance of the private enterprise system.

More important even than tenure is an asset too intangible to measure but a very precious one — the widespread belief of our people that we are on the move. This is a conviction that we have sufficient capital, managerial talent, imagination and courage to expand into additional areas of profitable service. The progress of the past few years nurtures this conviction. This progress is itself reflected in the expectation of even more significant accomplishments. From the employees' point of view, this can be a stimulating challenge. From the owners' point of view, it is the potential for an even more successful future.

3. Our third greatest asset is our capital strength. Although our bank rates tenth in deposits among U.S. banks, we are seventh in stockholder equity, which, for First Chicago Corporation, totaled $650 million at year end.

We have the most capital in relation to deposits or in relation to total liabilities of any of the top ten banking companies. Conversely, we have less total assets in relation to capital than any of the other of the ten largest banks. We can produce the present level of return on our capital only because of our lesser costs (largely due to lack of multiple domestic branches), with a consequent higher proportion of gross income carried down to net. Of the top ten banks, we rated third in this respect.

4. Our physical plant is our fourth most important asset.
Our 60-story headquarters building, One First National Plaza, is not merely the tallest bank building in the world, it is certainly one of the most handsome. Our more recently completed 32-story building across Clark Street, Two First National Plaza, provides 125,000 square feet of additional bank space and some 217,000 square feet rented to tenants. Our plaza, scheduled for completion later this spring, will include additional bank working areas, tenant space, ample parking facilities and a magnificent 500-seat meeting room where we intend to hold our stockholders' meeting on April 13.

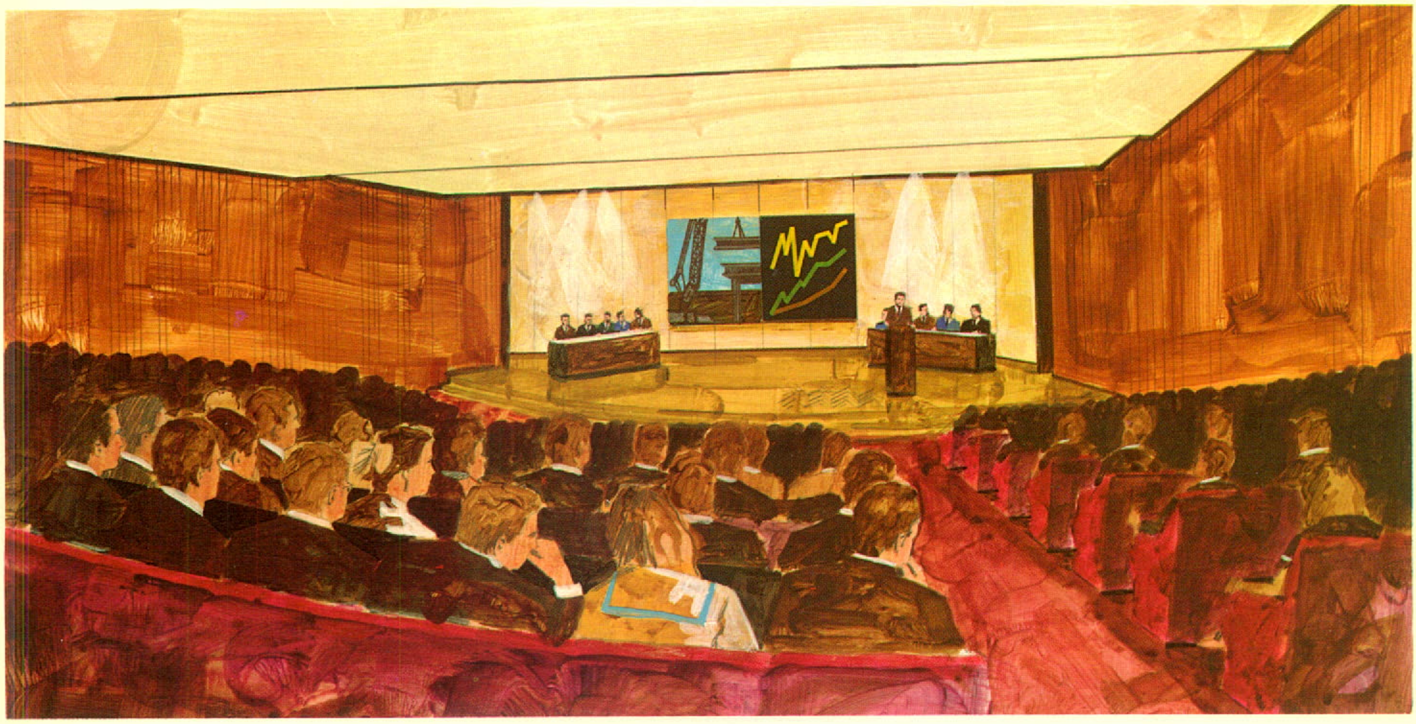
By that date our headquarters plant will be as complete and efficient as that of any bank in the world. Our quarters abroad reflect the same sort of physical attractiveness and suitability.

5. A significant liability which may become an asset is the banking law of Illinois.
Chicago offers an excellent headquarters location for a large international bank. This is a great industrial center. It is in the very heartland of our agricultural production. It is the hub of transportation by rail, air and water. It is an important point of commerce, national and international, and it is a more pleasant place to live than more highly congested cities. It lacks the concentration of financial houses that New York and London enjoy, but it is becoming more significant in this respect as New York and California banks establish loan offices here and both Japanese and European banks open "affiliate" banks and representative offices. In addition to its central location, there is a vigor in Chicago that makes it an excellent headquarters city.

But there has also been one significant handicap— our local anti-branch banking law.

The Illinois statutory prohibition against domestic branches has enabled us to avoid the cost of duplicate facilities and redundant personnel. But it has also prevented the growth in our deposits at rates comparable to those of banks permitted to have domestic branches.

We have long sought the right to have some modest branching opportunities. Recently, for the first time the Illinois Bankers Association has been willing to give this matter serious study. A broadly based committee recommended limited branching opportunities. This was supported by association officers but defeated in a January convention. The fact that the association gave the issue its first objective examination indicates a growing recognition that some change may be desirable. We believe that it is quite possible that some revision may be made in the Illinois proscription within the next few years. The restrictions which are certain to be incorporated in any easing of the state's present prohibition, together with the application of federal antitrust restraints, may impose inequitable burdens on our bank. Yet, even as we deplore these limitations, we recognize that they will reduce the risk of escalating purchase prices and operating costs which would be inescapable if unlimited branching were to be



The Plaza development provides additional bank working space, such as an extensive area for the bookkeeping unit (upper photo).

An artist's sketch (lower panel) shows the new 500-seat meeting room, First Chicago Center, which will be opened with our annual meeting of stockholders April 13. The Center already has been rented by numerous companies for annual meetings and by other organizations for various programs.

permitted. Any liberalization which results in more banking offices and increased competition for both deposits and loans will be in the public interest and would offer us some new opportunities.

Our inability to have domestic branches for the gathering of deposits means that, to a greater extent than most of the other large banks, we must make heavy use of pools of short-term capital available from other sources. We obtain funds from other banks in the form of federal funds, from commercial paper issued through First Chicago Corporation, and from the solicitation of larger corporate interest-paying deposits in the form of certificates of deposit (CD's). We obtain longer-term funds through the sale of notes. During most periods we can obtain short-term funds through the purchase of federal funds or the issuance of CD's at a lower net cost than we could through the operation of a branching system, with its expensive duplication of personnel and facilities. The longer-term funds are generally somewhat more expensive than deposits.

Reliance on short-term purchased funds means that we are constantly engaged in rolling them over. Thus, the obtaining of such short-term funds — at the lowest possible cost — is a matter of primary importance and requires complex skills.

Related to this management of our liabilities is the recognition that, as we continue to expand our activities and our earning assets, we must be more selective as between alternative forms of earning opportunities, relating the value of the assets to the burden of the liabilities assumed in funding them.

To assure maximum profitability from the dual aspects of this activity, we have recently reconstituted several functions into an asset and liability management committee and are hopeful that this committee will not only enable us to obtain funds at the lowest possible cost, but will also exert discrimination in the selection of alternative types of assets.

Despite our success in obtaining funds at lower cost than our multiple-branch competitors, we would like to have the opportunity to have a limited number of branches and believe that the present Illinois prohibition of domestic branches is a handicap.

We concluded several years ago to divide the corporation into eight profit centers (of which two are expense operations) to set yearly profit goals for each and to attempt to make our executives think like stockholders.

As an essential part of the mechanics of such a program, we give each department credit for funds provided, and charge each department for funds used, at the "transfer rate." We base this rate each month on the cost of the existing pool of purchased funds. During 1972 the transfer rate started at 4.91 percent in January, declined to 4.63 percent in February, then rose gradually to 5.66 percent in December. It is continuing to rise, and the "spread" between that cost to us and the rates which we charge has been narrowing.

To encourage our principal officers to think as stockholders we have invested most of our profit sharing funds in our own stock, have granted options to over 100 of our officers, and included a lesser number in an executive bonus program which, to provide a minimum bonus, requires an improvement in our after-tax per share earnings (before security gains or losses) of at least 5½ percent over our best prior year. Also, we have used at least five of our senior officers in each presentation to security analysts. During 1972 we held such sessions in Chicago, New York, London (where we listed our stock) and Tokyo. We plan to make additional presentations in the United States this year.

With that review of our assets and liabilities and our overall program, let us look at the profit centers, including First Chicago Corporation itself.

More than 100 security analysts and professional investors from Great Britain and the Continent were guests at a First Chicago seminar in London October 12, as the corporation's stock began trading under an official quotation on The Stock Exchange of London. Chairman Gaylord Freeman (at podium in upper photo) and other senior officers (at table, from left, Messrs. Thomas, Abboud, Baxter, Wilmouth and Schmidt) made presentations.

Wide-ranging discussions mark executive development seminars (left photo) at Livingston House, First Chicago's retreat house leased in 1971 from Lake Forest College. M. Colyer Crum, associate dean for executive education and external affairs at Harvard Business School, led eight seminars in 1972.

Profit center reports (lower right) are part of monthly review of actual performance against plan. Planning has proved to be a most useful discipline and tool.

B. Our Profit Centers

1. The Commercial Banking Department

Chauncey E. Schmidt, Executive Vice President

This past year was one of extraordinary success for our commercial banking department. Based on profit center accounting, the profit of this department rose 26 percent from 1971 to 1972.

The profit increase was based on both a significant increase in the volume of outstanding loans and, for much of the year, an improved spread between our cost of funds and our loan yields.

Commercial Banking Department
Average Loans Outstanding (in millions)

	1972	1971
January	$3,542	$3,217
February	3,548	3,233
March	3,709	3,249
April	3,816	3,271
May	3,869	3,352
June	4,035	3,459
July	4,181	3,473
August	4,313	3,536
September	4,465	3,568
October	4,532	3,635
November	4,638	3,563
December	4,779	3,622
Year average	4,121	3,433

This increase in the daily average of commercial banking department loans of 20 percent is more than double our average annual increase for the preceding five years and more than 1.4 times the maximum increase in any one of those prior years.

From year-end 1971 to year-end 1972, our domestic loans rose 41.3 percent, compared with an average increase of 29.6 percent for other leading Chicago banks, and 15.8 percent for leading New York banks, as reported by the Federal Reserve Bank of Chicago.

Equally satisfying was the diversity of our growth. Each of our 13 industrially specialized lending divisions increased its loans in 1972 and 11 of the 13 hit all-time highs. As an international money center bank organized on industry lines within the United States, we avoid the swings of regional economies and our industry risk is well diversified, with less than 12½ percent of our total loans in any one lending division.

Of special importance to us are our commercial and industrial customers — a core of loyal customers whose success makes our continued growth possible. Our loans to these firms rose 31.4 percent during the year. That gain is greater than the average of other Chicago banks (17 percent) and of the major New York banks (0.3 percent), as reported by the Federal Reserve Bank of Chicago.

Accompanying these increases in volume came a modest improvement in the spread between the cost of our purchased funds and the yields we earned.

The spread, which along with loan volume constitutes the basic determinant of our income, increased slightly from an average of 0.78 percent in 1971 to 0.82 percent in 1972.

Relative Yields and Costs

	1972 Rates (%)			1971 Rates (%)		
	Transfer	Loan	Spread	Transfer	Loan	Spread
January	4.91	5.78	0.87	5.94	6.93	0.99
February	4.63	5.53	.90	5.30	6.51	1.21
March	4.71	5.48	.77	5.05	6.23	1.18
April	4.86	5.64	.78	5.06	6.02	.96
May	4.94	5.66	.72	5.47	6.08	.61
June	4.92	5.71	.79	5.35	6.11	.76
July	5.00	5.92	.92	5.66	6.35	.69
August	5.15	5.97	.82	5.84	6.47	.63
September	5.25	6.17	.92	5.94	6.49	.55
October	5.40	6.35	.95	5.82	6.45	.63
November	5.51	6.41	.90	5.65	6.25	.60
December	5.66	6.45	.79	5.21	6.08	.87
Year	5.13	5.95	0.82	5.55	6.33	0.78

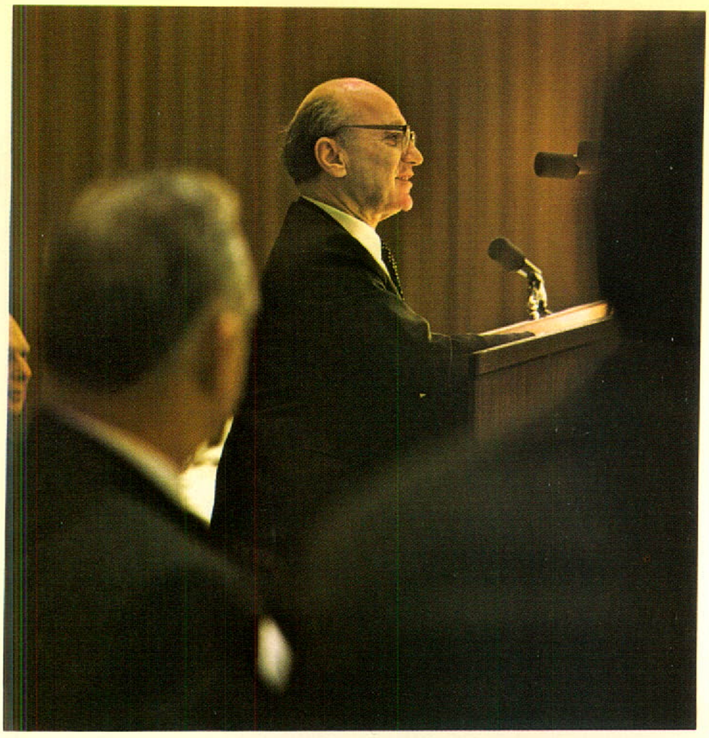
Unfortunately, since the year end the spreads have narrowed dramatically. Moreover, these numbers do not reflect the fact that with very little growth in demand deposits, we had to purchase a larger share of our funds, which means that, overall, the spread between money costs and loan rates diminished.

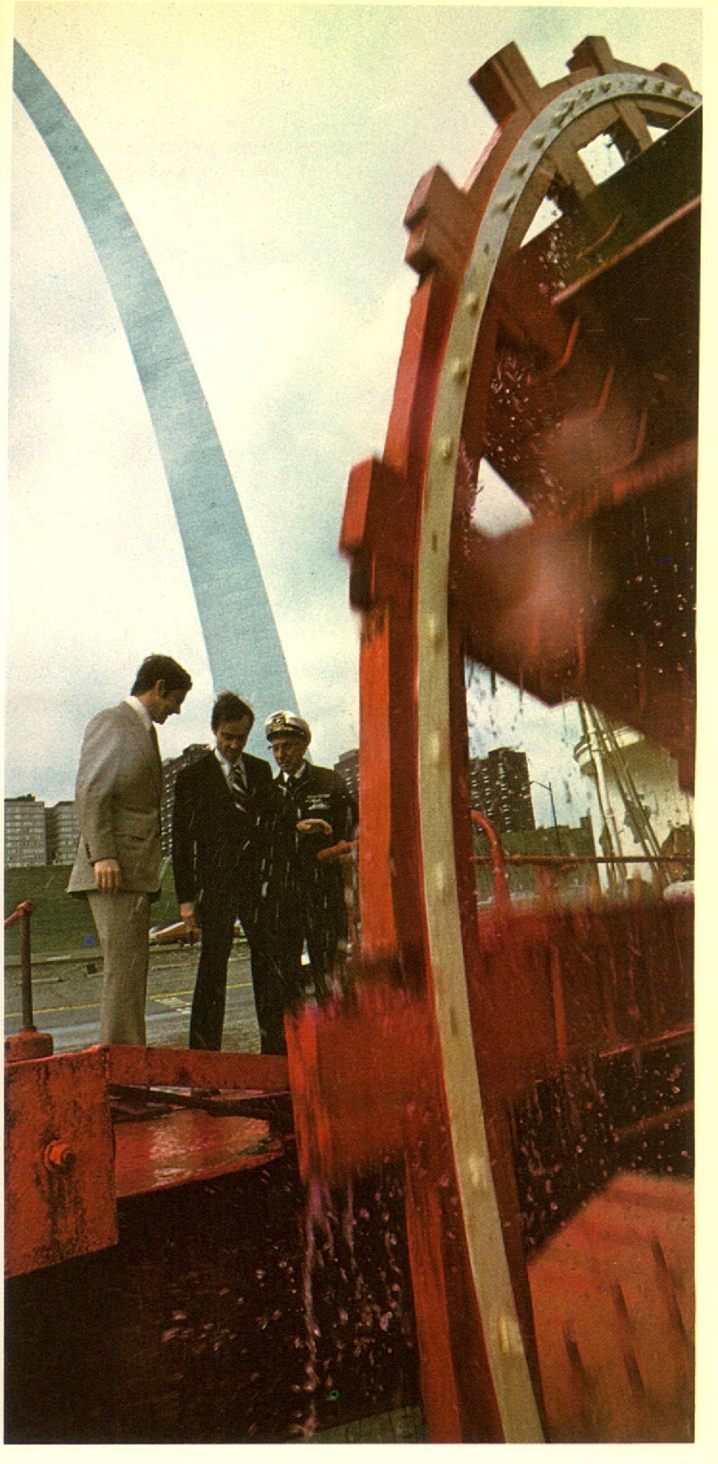
Our growth in loans reflects an improved marketing strategy and more aggressive solicitation. A critical part of this strategy was the consolidation of our many industrial divisions into a few lending groups, each headed by a senior vice president. Within each group are divisions with similar industrial markets. The group heads provide maturity and credit experience, while the division officers provide an aggressive marketing effort.

In a reorganization within the commercial banking department, a new metropolitan group was formed to serve companies in the eight-county greater Chicago area.

Another newly-formed group, our marketing and planning group, is responsible for the identification of target markets and for the development of plans to exploit those markets. This group, organized in 1972, has already proven quite successful.

We are confident of our ability to obtain significant increases in our loan volume.





Some 1,200 bankers and guests from U.S. and foreign banks attended the bank's 26th annual conference of bank correspondents, a two-day seminar led by our officers and other speakers. Dr. Milton Freidman (upper left) of the University of Chicago, addressed the closing luncheon.

A new metropolitan group was formed to serve companies in the eight-county Chicago area, under the leadership of John E. Corrigan, senior vice president (lower left).

The corporate finance division helped arrange financing of a new "Delta Queen" excursion sternwheeler, which will cruise the Mississippi and other rivers in the wake of its famous namesake (right), being looked over with her captain by the division's Lawrence E. Simmons and Vice President John Hinchman, near St. Louis' Gateway Arch.

Not every loan is repaid as initially agreed. Some are extended, some partially paid, some never paid. Such loan losses are an inescapable and normal cost of doing an aggressive banking business.

During 1972 we wrote off all loans which we felt were not recoverable. The net writeoffs amounted to \$13.8 million, compared with \$24.1 million for 1971, most of which was in the commercial banking department. On the other hand, the "provision for loan losses" as reflected in our earnings statement increased from \$16.8 million to \$19.2 million. This apparent paradox results from the averaging formula which the Comptroller of the Currency requires us to use in our accounting and which is computed by applying the average loss ratio (since 1969) to the year's average balance of outstanding loans. Our rapid loan growth in 1972 largely accounts for the increase in the amount of the provision, at a time when actual writeoffs were declining. We do not object to reporting the higher expense, since we should be adding to our reserves as our loans increase.

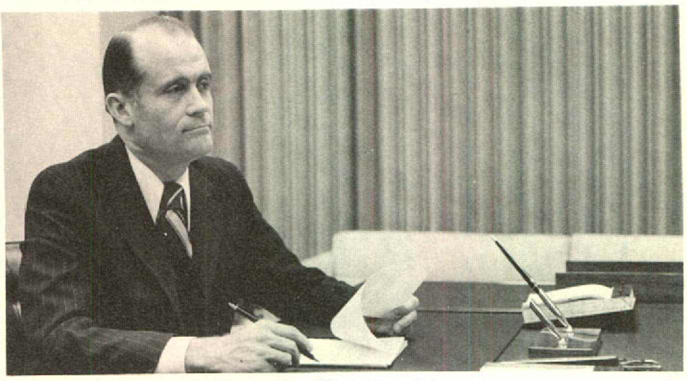
At the year end our reserve for bad debts was in excess of \$123 million.

Despite our marketing efforts at every level, we have not had the growth in demand deposits which we would like. From 1967 through 1972, our total demand deposits have increased at an average annual rate of less than two percent. For 1973, we are putting special emphasis on defining markets from which we can attract demand deposits, specifically the middle-sized companies. Although our cash management consulting services turn formerly free balances into hardworking balances, those balances remain in our bank rather than moving elsewhere. But the lack of retail branches and our policy of offering to our customers the choice of increased fees in lieu of compensating balances have combined to make it more difficult to obtain additional cash balances.

We are disappointed not to have greater access to deposits. Nevertheless, the substitute short-term funds which we obtain are generally less expensive to us than are additional deposits to most of our multi-branch competitors.

The result of all these factors was excellent profit in 1972. For 1973, based on our marketing strategies, we anticipate another further increase in earnings from this department, assuming that the government permits increases in rates charged to parallel increases in rates paid.

2. The International Banking Department



Robert K. Wilmouth, Executive Vice President

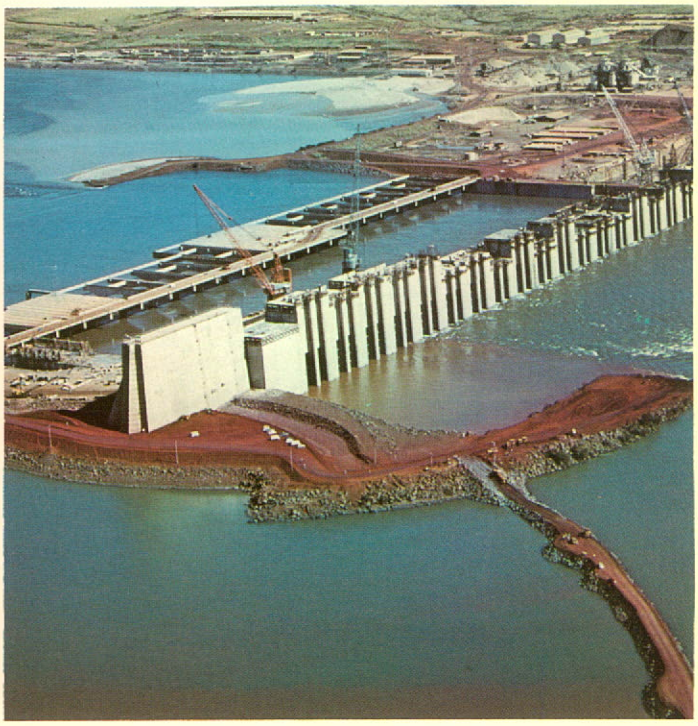
Although we did not have a single foreign branch eight years ago, our international group now consists of 15 branches, eight offices of wholly-owned subsidiaries, and seven representative offices. The locations of the offices are shown on pages 34 and 35. Also within the responsibility of the department are investments in three partially-owned, associated banks: first, International Commercial Bank Limited, a medium-term lending bank in which we are active with Credit Lyonnais, Banco di Roma, Commerzbank A.G., Irving Trust Company and the Hongkong and Shanghai Banking Corporation; second, N. V. Slavenburg's Bank, a commercial bank in the Netherlands which has a network of 65 branches throughout the country; and third, in 1972 the Commercial Bank of Wales in Cardiff, which will assist us in developing expertise in retail financing in the United Kingdom.

During 1972 we closed two small unprofitable African offices of a subsidiary and we opened six new installations in five foreign countries: representative offices in Nairobi and Jakarta; a full service branch in Rome; two additional branches in Kingston, Jamaica; and in Tokyo we converted our representative office to a full service branch. Thus, from minimal international activity in 1965, we have developed an international network which in 1972 accounted for 28 percent of our gross income and 11 percent of our net.

These earnings reflect considerable energy, some courage and some rather fortuitous circumstances. Although worldwide business conditions and the Federal Reserve regulations under which we must operate encouraged us to move abroad when we did, it was fortunate timing more than good planning that our international expansion coincided both with an acceleration in U. S. corporate investment abroad and with the Voluntary Foreign Credit Restraint limitations on U. S. corporate spending abroad. These two conditions established a ready-made market for dollar loans overseas for which we had the opportunity to compete.

Those unusually fortuitous circumstances of the sixties are fast disappearing for several reasons:

First: Feelings of economic nationalism, or simply



The bank's London-based merchant banking subsidiary, First Chicago Limited, arranged term loans totaling $32 million to Beogradska Banka, to help expand Yugoslavia's industry, including steel production (left).

The bank's new Rome branch (upper right) was formally opened in October, giving First Chicago two full service branches in Italy, with the first opened two years before in Milan.

Working with the bank's Sao Paulo office, First Chicago Limited arranged a $40 million financing for an hydroelectric project near Sao Paulo (lower right).

a desire for a degree of insulation from international monetary turmoil, have resulted in central banks and governments directly and indirectly limiting the growth of U. S. and other foreign banks. Such limiting measures range from outright prohibition of our establishing facilities in their countries or regulations which raise our costs so high that we are priced out of the market, to guidelines as to what we can and cannot do;

Second: Expanding domestic markets at home combined with intensified competition abroad, especially in the Common Market, may reduce the rate of expansion of U. S. investment abroad;

Third: U. S. banks have taught our competitors much about innovative banking, with the result that indigenous banks abroad — especially in Japan and England — are becoming much more aggressive in their own business expansion.

Despite these developing handicaps, we intend to keep up the pace of our expansion by opening three new branches, one subsidiary office, five representative offices, two wholly-owned finance companies, and at least one partially-owned financial institution in 1973, assuming we can obtain the necessary governmental approvals. As the branches opened in earlier years mature, we should be able to carry down more profit from gross to net, and we intend to do so.

To increase our profitability in the face of the changing conditions, we are directing our efforts into the establishment of an international cash management program for our corporate customers, as well as into increasing the emphasis on our very profitable merchant banking activities.

Over the past several years the net profits of our international banking department have increased from a very modest level, resulting in extraordinary growth rates. We cannot expect to maintain a comparable rate, but we do anticipate a continued growth in income from the international banking department.

3. The Trust Department


James P. Baxter, Senior Vice President

As a consequence of intense competition for "prestige business," most trust departments are not very profitable. However, for many years we were something of an exception. Nineteen seventy-two was the 25th consecutive year in which we had a revenue increase. However, it represented only a five percent increase over 1971, which was not adequate to offset higher costs of operation. Consequently, pre-tax operating earnings of our trust department declined slightly.

The peak in earnings for the department was reached in 1968. The lower results in the subsequent four years have been due in great part to:

A. The cost of developing two new computer-based information systems.

B. The absence of a consistent upward movement in stock price levels, thus inhibiting revenue increases from our asset management accounts, the fees for which are based on asset value.

C. The increase in occupancy expense associated with the move into our new building.

Fortunately, the negative influence of these factors is expected to abate — and our regular net income should improve nicely in 1973.

Supplementing that improvement, the department has recently introduced a new tool, the portfolio composition system, and is currently engaged in new enterprises in Chicago and London which should have a favorable impact on revenue.

The portfolio composition system (PCS) is an on-line computer system which provides the trust department with a new investment decision-making environment. Investment managers using graphic display terminals can access the latest account information and investment research projections in order to analyze and restructure their portfolios to meet the individual needs of each customer.

Being in the forefront of technology is not without its costs. Since 1969, when the project began, the development of PCS has cost us over $2 million. The system, now in its first stage of operation, is an extraordinary tool. We have been disappointed with its slow response time, but we believe that this problem will be alleviated with the addition of more powerful hardware scheduled for this spring.

Trust investment committee officers (upper photo) review a report on a consumer products industry.

The department's new portfolio composition system enables investment managers to access the latest account information and research data on graphic display terminals (lower left), to quickly analyze and restructure individual portfolios to meet the needs of each customer.

A check for $112,775,000 net proceeds on a public offering of Fort Dearborn Income Securities, Inc., a closed-end diversified management investment company, was delivered at the bank on January 3, 1973, as the trust department undertook management of the fund. H. Richard Wilking, vice president heading the trust asset management section (shown on left in photo at lower right) holds the check with Frederick T. Kelsey of Salomon Brothers, joint managers of the underwriting group with duPont Glore Forgan, Inc. and A. G. Becker & Co.

With the system start-up trauma behind us, and the resolution of the response time issue at hand, we plan to expand PCS with innovative capabilities to maintain our competitive advantage in the industry.

To keep pace with PCS and our broadening scope of services, our trust accounting system is undergoing a major modernization program, with a number of segments scheduled for implementation in late 1973. By year end we had spent $2.75 million on this project, but the new system should help us overcome operational problems which handicapped us in the past.

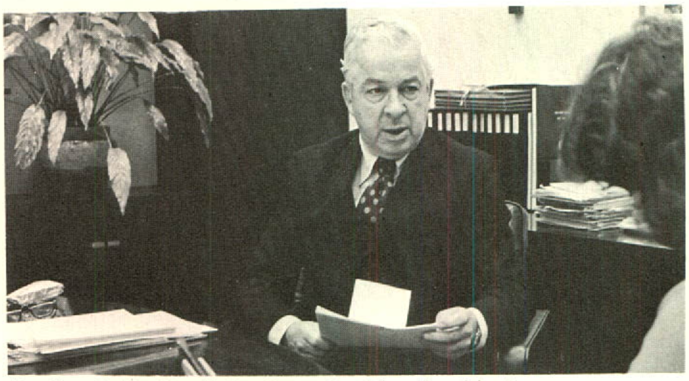
Together these two new systems should significantly enhance our investment performance and operating efficiency.

On January 3, 1973, Fort Dearborn Income Securities, Inc., a closed-end, fixed income fund, realized $112,775,000 of net proceeds from the sale of 6½ million shares of its stock. Fort Dearborn has entered into an agreement with our trust department giving us the investment management of this fund for an annual fee of approximately $550,000.

Late in 1972, the department organized a new section to seek out and launch new business enterprises related to trust activities. It was announced that the first of these new enterprises would involve the establishment of a facility in London to provide investment management services. During the last quarter of 1972, a marketing effort was initiated, concentrating on the development of customer relationships with institutional investors located in the United Kingdom and on the European continent.

Income from these new services will be supplemented by increased fees for some of our present services, in part due to the increased market value of securities administered by our asset management section (which market value is the basis for fees) and partly in response to an approval by the Wage and Price Board on August 31, 1972, authorizing a 6.4 percent increase in our fees.

4. The Bond Department



Bentley G. McCloud, Jr., Executive Vice President

The bond department is responsible for four major activities.

A. It manages the investment portfolio which, at year end, amounted to $1.4 billion, consisting primarily of $403 million U. S. government obligations and $880 million of municipal obligations.

B. It serves as one of the 23 primary dealers in U. S. government securities.

C. It underwrites, sells and maintains a secondary market in municipal bonds.

D. Its money desk provides up-to-the-minute information on available rates to our customers (whether they wish to buy or sell) on a variety of short-term instruments. It also serves as agent for our asset and liability management committee in obtaining federal funds, CD's, and purchased money for the corporation's own needs.

With short-term money rates well above the return on short-term government securities, such securities are not in themselves an attractive investment. They do offer a degree of liquidity in that they are always saleable or can be used as collateral at the Federal Reserve — but so can other assets at a minor penalty rate. Thus, government securities have not been particularly desirable investments and, along with most of the other banks, we have reduced our holdings. In 1972 our portfolio of U. S. government securities averaged $272 million, a 33 percent decrease from the prior year.

Holdings of U.S. Government Securities (in millions)

	Year End	Average Balance
1963	$551	$639
1964	589	549
1965	465	498
1966	409	431
1967	402	427
1968	432	436
1969	312	380
1970	368	306
1971	314	408
1972	403	272

Municipal securities, on the other hand, have

To enhance communications between traders and institutional salesmen, a new bond trading room installed in 1972 brings together all trading functions in one area occupying about one-third of the bank's sixth floor.

returned much higher rates on a taxable equivalent basis, and we have increased our holdings of such securities.

Holdings of Municipal Securities (in millions)

	Year End	Average Balance
1963	$419	$371
1964	459	432
1965	515	507
1966	496	505
1967	501	487
1968	521	490
1969	582	547
1970	666	623
1971	797	762
1972	880	887

Our municipal portfolio is strongly oriented toward high quality bonds. Half of our municipal holdings are "AA" or better, and over 87 percent of our bonds are rated "A" or better.

In several of the past years our strategy in managing our investment portfolio of municipal obligations has been to sell those bonds which have declined in value and to reinvest the proceeds — plus the tax savings generated from the loss — into other bonds of comparable quality but of better yield. To this end we sold $82 million par value of municipals during 1972 and took a "loss" of $10.8 million, but the net result of such sales and reinvestment was an increase in the amount and quality of our holdings. This practice has had the effect of improving our average taxable equivalent yield.

Yield on Municipal Investment Account (Taxable Equivalent)

1967	1968	1969	1970	1971	1972
6.11%	7.25%	8.25%	8.93%	8.80%	9.47%

The yields shown reflect the accretion of discount as well as the amortization of premium.

At year end the municipal bond portfolio had an average maturity of ten years and eight months.

Although our investment in municipals has grown substantially since 1963, our principal function remains the lending of funds to businesses and individuals. Hence, as loan demand picks up, we tend to reduce our investment in securities in order to be in a position where we can provide credit needed by our customers. Thus, we cut back our original planned investment in municipals by $56 million late in 1972, and expect to let a substantial additional amount run off in 1973.

As we invest only in securities of top quality, our bonds are virtually certain of payment at maturity but, of course, the market fluctuates from day to day. The improvement in the municipal investment account is reflected in the year-end relationship of market to cost. Although the trend of bond prices through 1972 was not steadily favorable, our year-end surplus (of market value over book value) was the highest in years.

Market Value in Relation to Book at Year End

	Below Book Value	Above Book Value
1968	−$35.0 million	
1969	− 99.5 million	
1970		+$ 3.0 million
1971		+ 41.5 million
1972		+ 42.8 million

To engage in bond trading, whether governments or muncipals, a dealer needs a substantial inventory. Of course, one can sell short, but at our lowest point in 1972 (aside from our investment account, which we treat quite separately), we had an inventory of $3.9 million in municipals and $25.8 million in U. S. obligations. In a period of rising interest rates and, hence, declining bond prices, the value of that inventory inevitably declines. Only through very nimble trading and the use of short sales can the profits on trades exceed the decline in the market value of the inventory.

Bond trading results for 1972 were down substantially from the record levels of the previous two years, and the bond department is the only profit center which anticipates a decline in earnings in 1973. While our investment portfolio will be managed to benefit from a higher level of interest rates, the diversion of funds previously invested in securities — to enable us to lend more to commercial bank customers — will result in a decline in earnings from this source. If interest rates continue to rise through most of 1973, bond prices can be expected to decline. Thus, as the transfer rate also increases, we cannot expect any increase in bond department profits, and in fact we expect some reduction.

Montage of municipal issues symbolizes the new underwritings in which the bond department participated in 1972. The department also sells and maintains a secondary market in municipal securities.

5. The Personal Banking Department

Neil McKay, Senior Vice President and Cashier

Our organization began accepting savings deposits in 1903 through its then affiliate, the First Trust and Savings Bank. Thus, this year marks our 70th anniversary in that activity. We have offered safe deposit services since 1881, a women's banking division since 1882, home mortgage loans since 1920, consumer credit loans since 1952, a low-cost Bluebook checking service since 1960, and credit cards since 1966. Yet only in the past five years have we attempted to pull these disparate activities together into one coordinated department and subjected them to overall planning and development.

This has been a slow process, but 1972 provided the first signs of real progress and 1973 should prove to be a most successful year.

The primary need was for purpose, planning, leadership, and a conviction that in an historically "wholesale" bank the "retail" activities were to become significant. That has been achieved.

Over the past few years we have experienced a slight loss of share of market in our savings deposits, in which we have a significant lead over all other Chicago banks. The trend has been slowed and we believe will be stopped in 1973.

Our women's banking division, which had not been adequately housed in our new buildings, was relocated in newly remodelled quarters late in 1972 and is now one of our loveliest — as it should be.

Although our One-Stop Banking Center does a larger volume of direct lending than any of our local bank competitors, there are obvious problems in increasing the aggregate amount of these loans from our one location in downtown Chicago. We hope that this spring, with the opening of our fine new Consumer Finance Center on the plaza, and with a stronger marketing effort in both direct and indirect loans, we will be able to come closer to absorbing our expense burden for this activity.

Our philosophy on personal checking accounts has not changed over the years. We recognize that checking accounts are a valuable service to the customer. It is our belief that this service should be profitable and that our compensation, either in fee income or free balances, should offset expenses and return us a fair margin of profit. We continue to offer two types of checking accounts, giving the customer the option as to which one is best for him: Bluebook or a minimum balance account.

Bluebook accounts are our no-minimum balance accounts, with a flat per check charge and small monthly fee. With this product we are the leader in our market. A decrease in the overall market for minimum balance accounts for 1972 has prompted us to begin developing a better product in that area.

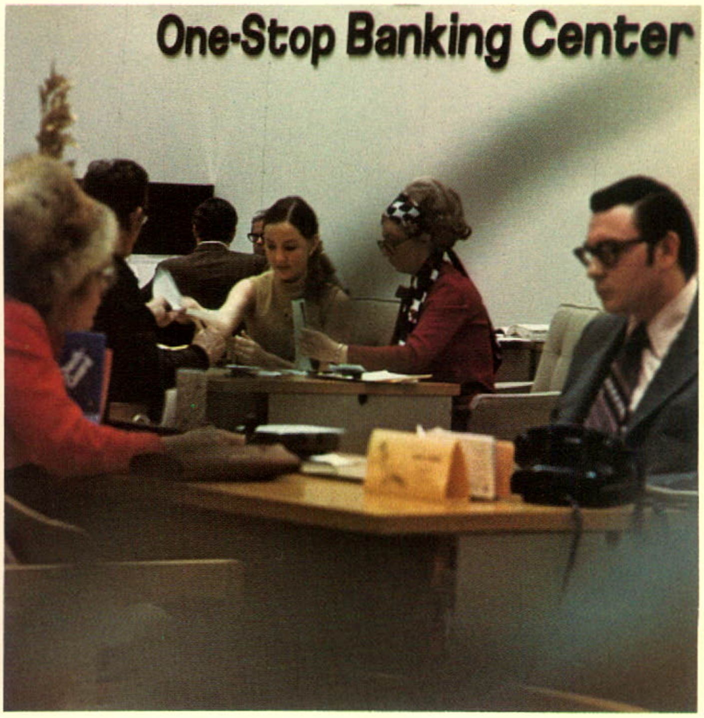
Our safe deposit vaults are the finest in terms of size, safety and services. However, these high standards entail expenses which make it difficult to show a profit in this activity. This year we will step up our marketing effort, but we may have to continue to offer this service at a moderate loss.

Our initial experience with credit cards was disappointing, but we are attempting to develop a more mature, sophisticated and profitable business. In 1972, the credit card operation was in the black before the charge for funds, but in the red after that appropriate charge. It is budgeted to produce a genuine profit in 1973. If this is realized, it will be a source of great satisfaction to the management.

During 1972 we initiated a One-Stop banking service. Today's downtown bank customer is a busy person to whom time is critical. Our One-Stop service is designed to help him bank in a more convenient and less time-consuming fashion by combining as many banking functions as practical to be serviced by one bank representative. We believe the One-Stop banking concept is the answer.

Towards the end of 1972, we introduced a new banking service, First/24, an automated banking machine that performs almost every routine teller function, including dispensing cash. By means of his own personal First/24 card, our customer can now bank with us 24 hours a day, 365 days a year. In addition to being a product that fills the growing consumer desire for convenience, it is our first entry into the emerging retail electronic funds transfer system and point of sale terminals. We intend also to use First/24 as part of our research effort to keep our bank and its customers abreast of the changing retail environment.

Overall earnings of the personal banking department are greatly affected by short-term money rates. The $1.7 billion of savings-type deposits which the department sells to "the pool" at the transfer rate is by far the largest source of income to this department. Because the transfer rate was relatively low in 1972, income from this source did not offset the department's costs. In 1973 it is expected to result in a significant profit — in fact, the most dramatic profit improvement in any department and involving the most dollars of improvement.



The women's banking division, which dates from 1882 and was the only service center not adequately housed in our new bank buildings, was relocated in fine new quarters (upper photo) and is now one of the loveliest — as it should be.

A new round-the-clock personal banking service, First/24 (lower left), was introduced near the year end with the installation of two automatic teller machines in the Dearborn Street lobby.

One-Stop banking service, initiated in 1972, pulls together many personal banking functions in one location for customer convenience. A portion of the new One-Stop banking center is shown in the photo (lower right).

6. The Administrative Department

Rudolph E. Palluck, Senior Vice President

The administrative department is responsible for personnel, operations, advertising, information management services and building facilities.

A bank is a service organization. Our employees' experience, ability and courtesy is what we sell. It is for this reason that we have pointed out above that, next to our reputation, our people are our greatest asset. Like virtually all large employers, we have been faced with the results of a changing society. People at all levels of ability expect more in the way of pay and security. To meet this expectation imposes an increasing burden on people-intensive businesses like banking. Thus, there is an inescapable pressure to continuously increase wages and benefits. For quality service, we are pleased to be able to respond — but this puts pressure on us to keep the number of our employees at a minimum.

At the year end our total organization worldwide included 6,029 full-time employees as against 5,987 at the end of the prior year. The increase is primarily due to our expansion abroad and additional activity undertaken by new non-banking subsidiaries of First Chicago Corporation. As to the bank itself, at year end it had 5,779 employees — less than the 5,790 at the 1971 year end, and only 49 more than at the end of 1970.

In 1973 we anticipate a modest increase in the number of our employees, while the administrative department remains at about the same level.

Although our deposits suffer from a lack of domestic branches, the prohibition of such branches has enabled us to avoid an expensive duplication of personnel and facilities, an important element in our more moderate costs. Among large banks, we have the lowest number of employees per million dollars of assets; in fact, we have less than half the number (in relation to assets) of some of the large branch banking systems.

Operations, consisting of check processing, loan servicing, securities handling and other general services, occupies the attention of approximateiy 1,500 of our full-time employees. The layout, scheduling, performance and supervision of this work is quite comparable to that of a good-sized manufacturing company; yet, important as this function is within the bank, it attracts little attention outside. In the past 11½ years we have purchased over $11 million of EDP equipment and spent substantial additional amounts for rental equipment to speed this work and to automate those aspects which offer the least challenge or greatest drudgery to our employees.

Another important activity is our information management services division. Although each of our senior officers has spent at least a few days in computer schools, this operation remains *terra incognita,* making objective appraisal more difficult than in most other aspects of our activities. Like others, we have used the first and second generations of computers to do clerical work, then the third generation to provide helpful information. We are now proceeding into the fourth generation, with which we expect to provide improved information services for all levels of operations and management.

Our employees in this division grew to 484 in the fall of 1969. Since then, the number has been reduced to 345 at the end of 1972.

This has been an expensive activity, costing approximately $13 million this past year. Despite considerable improvement in efficiency, it will remain expensive as we continue to depend on high quality personnel and equipment to perform an increasing number of new applications and services. During 1972, we implemented 12 major new applications and a like number of minor systems, including such complete operations as the portfolio composition system and our commercial loan system. We have an equal number of new systems in various stages of development.

To improve response time and throughput on certain of these applications, as well as to handle new work and more volume, we have an IBM 370/165 computer system on order for delivery in March.

Expense control in this division has been considerably improved. However, with increased applications and the need for new and more powerful equipment, we cannot long postpone a renewed increase in overall costs. On the other hand, efficiency is expected to continue to improve.

During the year we decentralized accountability for advertising, making each department head directly responsible for both the budget and content of his department's advertising. We believe that this, together with increased expenditures, will improve our visibility in 1973.

Our wholly owned subsidiary, First Chicago Building Corporation, which reports through the Administrative Department, owns, unencumbered:

1) our 60-story headquarters building (One First National Plaza)
2) our 32-story companion office building (Two First National Plaza)
3) our plaza facilities.

Upon completion of the plaza facilities this spring,

Accountability for advertising was decentralized in 1972, making each department head responsible for both the content and budget of his department's advertising. In left photo David Brooks, vice president, personal banking (left) and C. Frederick Charlton, vice president, advertising, check layout of First/24 promotional material.

Workmen lower one of three 120-foot flagpoles into place (right) as plaza construction progresses. The poles reach 104 feet above street level, the tallest from ground level in the city.

the three elements will total some 2.2 million square feet of rentable space, including that occupied by the bank itself. This will represent an investment of some $219 million. In retrospect we are delighted with the design, construction and systems in this complex. We may not have charged our tenants sufficiently high rental originally. Nevertheless our 1972 occupancy cost of $13,841,000 is not out of line with other large banks, even those without domestic branches. With our new headquarters, we believe we have as handsome and efficient a financial services complex as any in the world.

7. The Executive Department

A. Robert Abboud, Executive Vice President

Like the administrative department, this is an expense rather than a profit center, encompassing law, control, audit, business and economic research, public affairs and public relations. These are primarily professional functions, reporting directly to the chairman. They are affiliated in one department for logistics and control.

Our law division includes 22 lawyers who represent our corporation, the bank and subsidiaries in virtually all of our proliferating legal relationships except long trials, for which we use outside counsel.

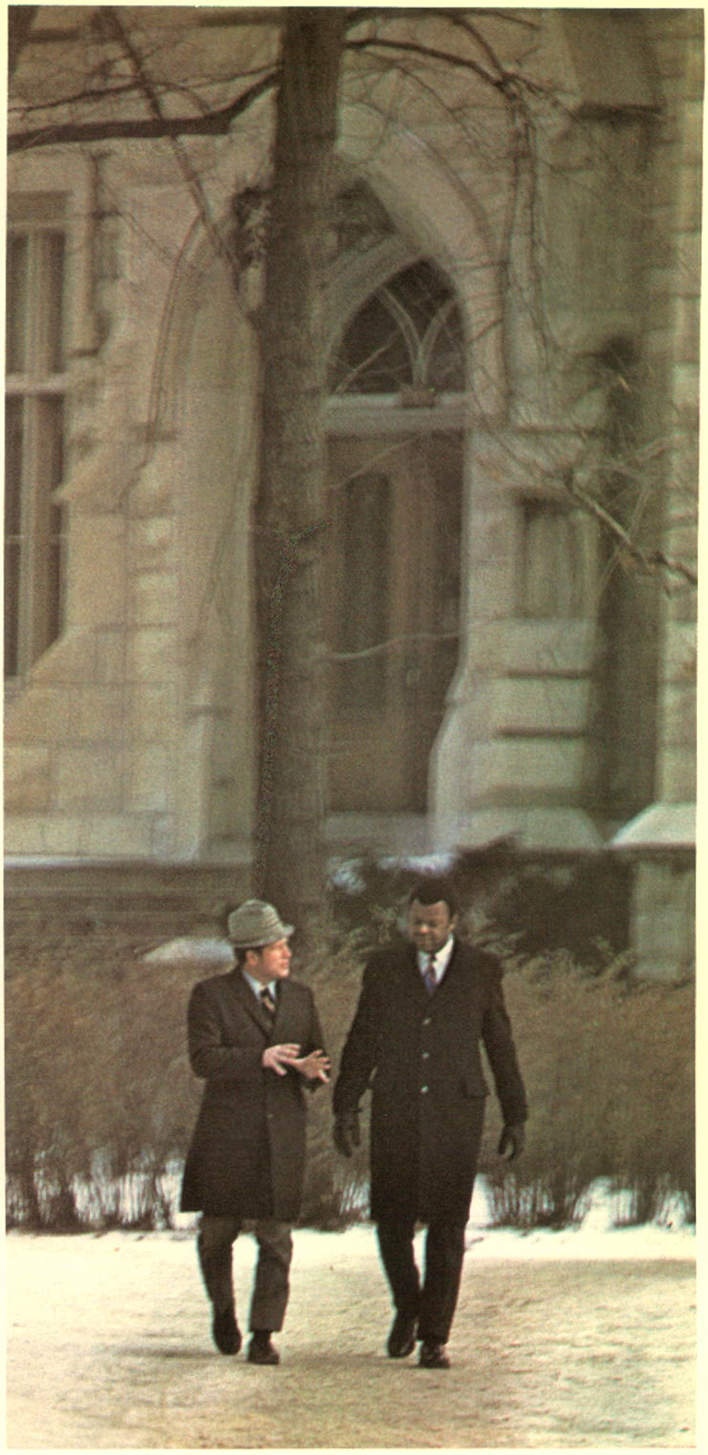
As a part of our reorganization of a few years ago, we employed a new comptroller who has since expanded his staff with 30 other personnel from outside. We now do a first-rate job of profit planning, cost analysis and work measurement. We expect to have completed in 1973 the major part of a standard cost system incorporating many of the features long in use by progressive industrial companies.

In this report, we are providing five new financial insights which should prove useful to stockholders and investors:

1. The statement of condition on page 42 now shows separately "Federal funds sold," "Securities purchased under agreements to resell," "Federal funds purchased," and "Securities sold under agreements to repurchase" — items previously combined.

2. The statement of earnings on page 43 now details the various components of the bond trading account, to show how much we earned in interest income on our inventory of securities, and how much from trading profits, which are typically more volatile.

3. We have calculated the 1972 earnings per share on the average total of both common and "common equivalent" shares outstanding, thus taking into account the potential dilutive effect of stock options granted. This treatment, which reduced our stated earnings per share by about 4 cents, is often called "primary earnings." Though we have not reached a level of potential dilution that would require this treatment, we felt it would provide a more meaningful measure. We did not restate prior years' earnings on this basis.



The internal auditing staff was expanded to 78 in 1972, as this division assumed responsibility for auditing branches (London, upper left) and subsidiaries.

The business and economic research division provides economic insight for First Chicago and its customers by assembling, interrelating, interpreting and reporting economic data on the U.S. and many foreign countries. John M. Davis, a vice president and economist in the division, reviews material with Staff Officer and Research Analyst Carol M. Anderson (lower left).

In right photo, Lucius P. Gregg, Jr., (right) president of First Chicago University Finance Corporation and a vice president of the personal banking department, outlines services of the new subsidiary during a campus stroll with William Ihlanfeldt, dean of admissions and financial aid at Northwestern University. University Finance was formed in 1972 to make funds available in sufficient amounts for major institutions to award loans to all qualified students seeking loans under the federal guaranteed loan program.

4. In the statistical section on page 56, we have added a fully consolidated *average* balance sheet, to provide a deeper perspective on the average levels during the year in addition to the year-end "snapshot" of the December 31 balances.

5. On page 51, we have also included a new comparative statement showing our interest differential—the "spread" between our cost of funds and our revenues on the funds invested. This also shows the interest earned on tax-exempt municipal securities as though they were fully taxable, and thus comparable to other sources of earnings in the statement.

We hope this additional financial information will be useful, and by the same token, we will be pleased to send you a copy of our annual report to the Securities and Exchange Commission when it is filed near the end of March. If you would like one, just call area code 312, 732-3901, and ask for our 1972 Form 10-K, or write the control division at the address shown on the back cover of this report.

Our internal auditing staff has expanded to 78 as it has assumed responsibility for the audit of our foreign branches and subsidiaries.

Our public relations staff of seven works to further communication within the organization, and with all those with whom we seek understanding. Aided by outside counsel, this small division has enhanced and expanded our corporate communications since its formation in 1969, without significantly increasing public relations expense.

In 1968 the public affairs division was created with the ambitious assignment of improving conditions in Chicago in such areas as race relations, education, low income housing and employment.

We have made some real progress in that direction through participation in many projects that range from the rehabilitation of a single West Side 12-flat for a group of welfare mothers, to the proposed plan to revitalize the central business district to be undertaken under the auspices of the Central Area Committee.

8. First Chicago Corporation and its Other Subsidiaries

Richard L. Thomas, Executive Vice President

Profits from the holding company and its non-bank subsidiaries increased not only in volume but also in share of total corporate profits, from 1.1 percent in 1971 to 4.4 percent in 1972. These figures include the effect of our acquisition of I. J. Markin & Co. in February, 1972. Including the gain from a venture capital holding, the contribution was 8.2 percent. This gain added 15 cents per share to 1972 earnings.

Our orientation has been to emphasize "wholesale" businesses where we believe it is more profitable to hire a few key officers to employ large amounts of funds rather than to pay a high multiple of earnings for a going company. This management philosophy is evidenced by the leasing, real estate and venture capital operations which we have initiated.

First Chicago Leasing Corporation was formed in 1971 to lease large items of capital equipment. It is growing rapidly, and by the end of 1972 had invested $83 million in over 40 different transactions. Additional commitments of $68 million will be funded in 1973 and subsequent years. The value of assets under lease and commitment is $263 million, the difference representing funds provided by other investors in leveraged transactions. FCLC is generating attractive profits and the outlook is good for further growth.

The main challenge for 1973 will be to further expand and refine FCLC's marketing capabilities and to develop new programs for leasing smaller equipment. To provide broader market coverage, a New York office was opened late last year, and new subsidiaries have been formed in Canada and England. Our foreign leasing activities are now operational, but we anticipate only a modest profit from them in 1973.

In the commercial mortgage banking field we have two entries, First Chicago Realty Services Corporation and I. J. Markin & Co. Formed in 1971, First Chicago Realty was intended to be the advisor company for a real estate investment trust. As we built up our staff and accumulated an attractive portfolio of real estate loans and investments, however, we concluded that it would be more profitable to keep these assets for our own account for the time being and thus deferred the sponsorship of a trust. Earnings of both subsidiaries thus far are substantially ahead of our original projections.

First Chicago Realty and Markin have become significant mortgage banking firms operating on a national basis. At year end, they had loans outstanding of $135 million and commitments totaling $295 million, representing loans in 23 states. Many of these loans contain provisions for incentive compensation, which may add to future profits.

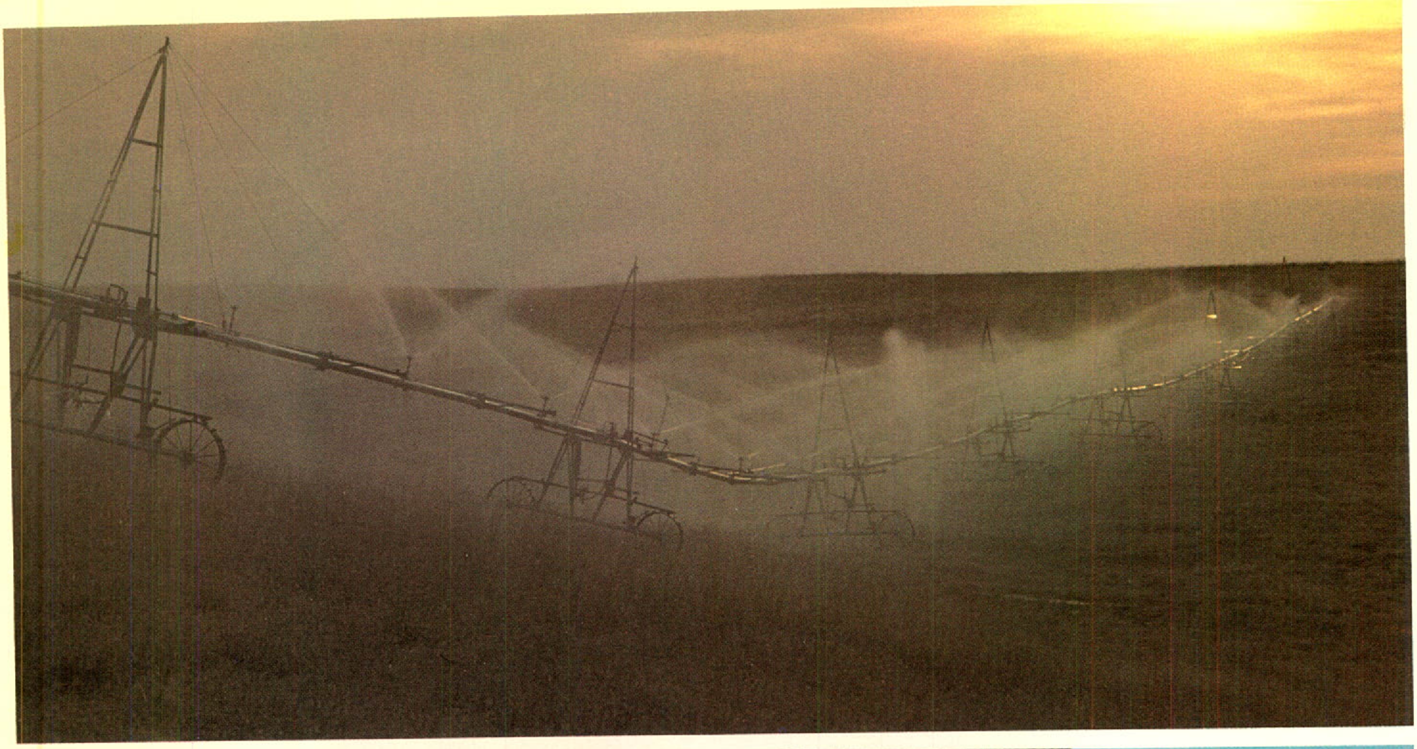
The results to date from our purchase of Real Estate Research Corporation in 1970 have proved only moderately profitable. However, the company has contributed numerous ancillary benefits and gives us a base for fuller realization of our potential in real estate activities. The backlog of assignments is now at an all-time high, and we anticipate a satisfactory year in 1973.

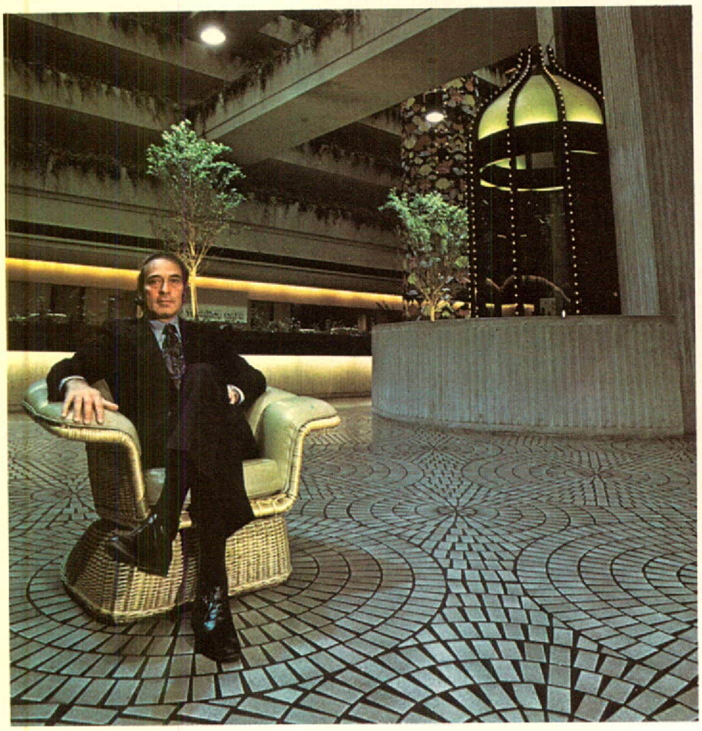
First Capital Corporation, our Small Business Investment Company which was formed in 1962, was transferred to First Chicago Corporation in 1971, and has significantly expanded its volume of business. A number of earlier investments are maturing nicely, and new investments are being made at an increasing rate. We also formed First Chicago Investment Corporation in late 1971 to supplement the activities of First Capital by providing second-stage, equity-oriented financing for more seasoned companies, and several transactions have been completed. The nature of the venture capital business is such that results can be measured only over a long period of time, and there will be years when results will be adversely affected by market conditions. FCIC operated at a loss in 1972, but First Capital made a meaningful profit contribution. We expect that these two firms will generate a growing number of profitable transactions in the years ahead.

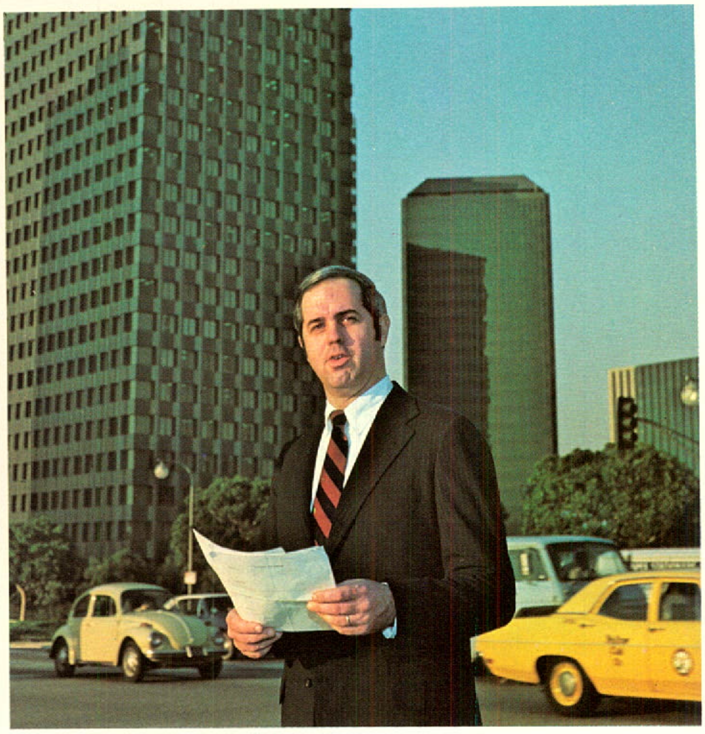
Although we are concerned about the narrow sphere of permissible non-banking activities that resulted from the 1970 amendments to the *Bank Holding Company Act*, there are some positive aspects of this legislation. Perhaps most important of these is that financially related subsidiaries clearly may now open operational offices throughout the U.S. This new opportunity to broaden the geographic scope of our activities was not previously available to us as a national bank, and several of the new non-banking subsidiaries plan to open offices in other cities in the near future. The amendments also have stimulated many bank holding companies to explore opportunities that might have been legally available to the subsidiary banks, but which had not been previously pursued.

Like others, we have been more active, but with a determination not to sacrifice current per share earnings for the hope of later increases. Consequently, we have passed up several good acquisition possibilities, in the U.S. and abroad. We seek other acquisition opportunities, but we will be highly discriminating. We feel that the prospects for our basic businesses are sufficiently bright that we should not accept dilution unless we are completely confident of overcoming it within a very short time.

In 1973, we will continue to consider acquisitions, particularly in the area of retail financial services, as well as the *de novo* formation of new subsidiaries.





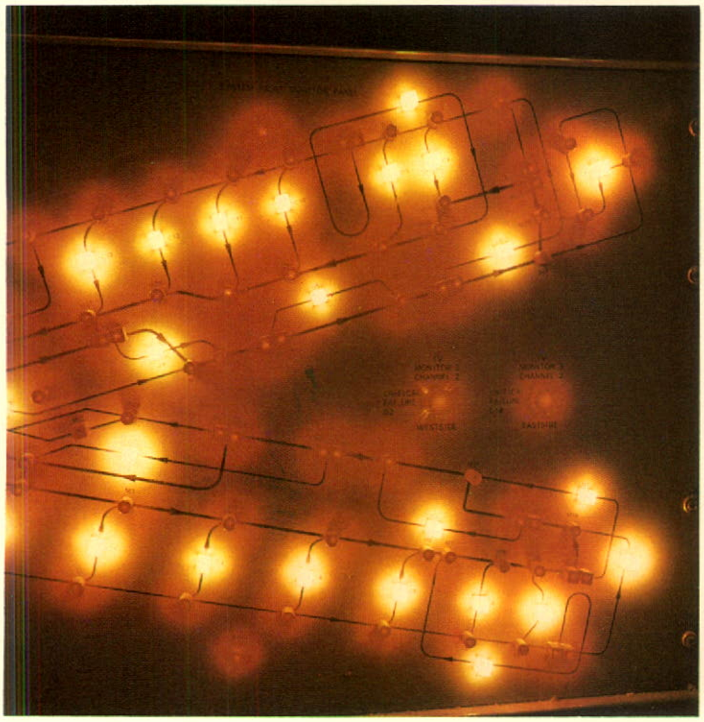


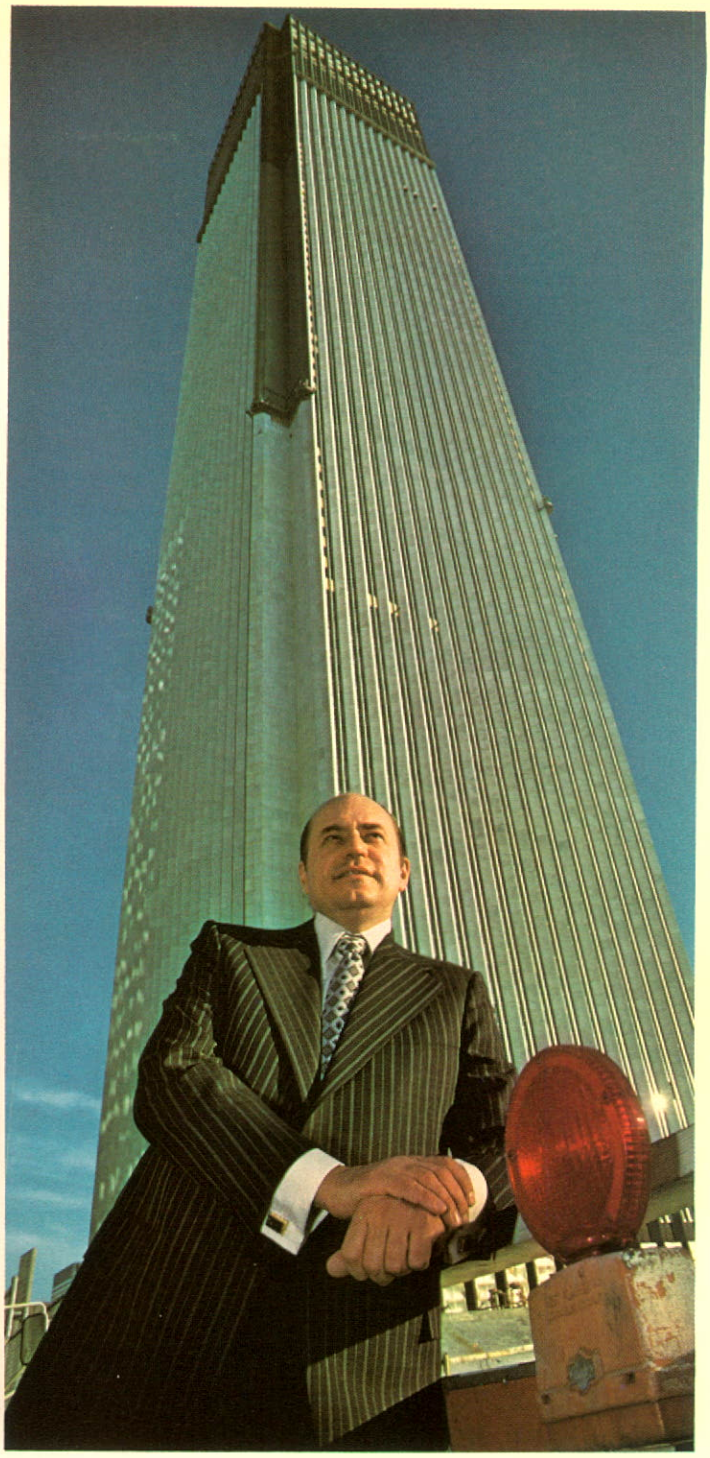
Six holding company activities are pictured on these pages.

Irrigation equipment nurtures grazing land (upper photo) of Premier Corporation, a Michigan-based integrated beef producer which arranged a $3.2 million financing from First Chicago Investment Corporation to help complete a major acquisition.

Irving J. Markin, president of I. J. Markin & Co., is shown (lower left) in the lobby of the Hyatt Regency O'Hare, a new 10-story, 732-room luxury motor hotel on which he arranged a $27 million first mortgage loan. The hotel is operated by the Hyatt Corporation near Chicago's O'Hare International, the world's busiest airport.

James S. Dailey (lower right), president of First Chicago Realty Services Corporation, stands before two office buildings in the Century City development on Los Angeles' Avenue of the Stars. The holding company subsidiary was involved in their financing.





First Chicago Leasing Corporation's President Peter K. Nevitt is shown (upper left) with an Eastern Airlines L-1011 "Tristar," one of two which the subsidiary leased to Eastern in 1972. First Chicago Leasing is active also in leasing ships, computers and other equipment.

Schematic grid electronically monitors baggage handling system installed for Pan American at New York's Kennedy Airport by Docutel, Inc. of Dallas, a customer of First Capital Corporation.

Nicholas C. Jannotta (right), senior vice president of Real Estate Research Corporation, stands before the new Standard Oil Building in Chicago, for which he headed RERC's rental market analysis.

C. Recapitulation

In conclusion, your corporation's principal asset is The First National Bank of Chicago. It enjoys a fine reputation, has a loyal staff and adequate capital, outstanding headquarters and a commitment to greater success.

During the past year the non-banking activities of First Chicago Corporation contributed significantly to earnings for the first time. We look forward to its continued growth, in financial services offered and profit contributed.

A number of changes in the environment face us in 1973. Nevertheless, the corporate profit plan for 1973 anticipates a greater increase in earnings than the rate embodied in the 1972 plan. Fortunately, in 1972 we surpassed our plan. There is no assurance that we will meet or exceed the 1973 plan. We have the tools and an intense determination, but to a large extent the banking business is influenced by the state of the economy and the direction of the society.

D. Prospects for 1973

As we enter 1973 with every prospect of a near boom economy and with some lessening of wage and price controls, we anticipate a significant increase in loan demand which should translate into increased profits — as long as interest rates charged are free to move in parallel with interest rates paid. That opportunity is not assured, but your management believes that the corporation and its subsidiaries, including the bank, have the momentum to do better in 1973 than in the year just past.

Our greatest concern is with the risk of renewed inflation. Perhaps bankers are more disturbed by the evils of inflation than are some others. The temptation to accept a little inflation is almost overwhelming, for the short-term results seem so pleasant to all of us in the organized groups of our society. Political leaders see advantages from high employment and rising benefits. Labor leaders can claim credit for higher wages. Businessmen can point to increased sales and profits. No one feels obliged to point out that these apparent gains are substantially offset by higher living costs or that large numbers of citizens living on relatively fixed incomes are seriously injured.

Yet inflation discourages the thrift upon which the private enterprise system is dependent. It generates unsustainable expectations and it is inequitable.

To prevent such further inflation, the government is mounting a three-pronged effort —

(i) The Administration is attempting to limit government expeditures for fiscal 1973 to $250 billion;

(ii) The Federal Reserve System is attempting to slow the rate of growth of the money supply; and

(iii) The government is continuing to discourage excessive wage and price increases through a "voluntary" program.

We applaud each of these efforts but at the same time must recognize that there is a degree of conflict between tight money on one hand and the political pressures incident to the policy of wage and price restraint on the other. The direct reduction in the rate of increase in the money supply will lead to an increase in interest rates.

In an unusually frank statement for a central banker, the president of the Federal Reserve Bank of New York said on January 22, 1973:

"If boom conditions develop, higher interest rates would have useful effects in themselves in providing a dampening influence on excessive spending."

On February 7, Arthur Burns, who occupies the dual roles of chairman of the Board of Governors of the Federal Reserve System and chairman of the Committee on Interest and Dividends, testified before the Senate Banking Committee that it would be "dangerous to try to prevent increases in interest rates that are freely determined in highly competitive markets." To do so, he said, would "run the serious risk of excessive monetary expansion and an escalating pace of inflation." However, he continued, his committee would "do everything in its power to prevent premature increases in institutional lending rates or increases that are inordinately large relative to changes in market rates."

If this means, in this period of a threatened renewal of inflation, that the banks should be willing to accept burdens comparable to those of manufacturing concerns and other service companies, then we agree, and we will implement our pricing policies accordingly.

Our rates reflect the intense competition of both domestic and international markets as is evidenced by our prime rate which, on August 13, 1971 (the date of the freeze on wages and prices) was 6 percent, declined to 4¾ percent in January, 1972, and rose gradually to 6 percent in December, 1972.

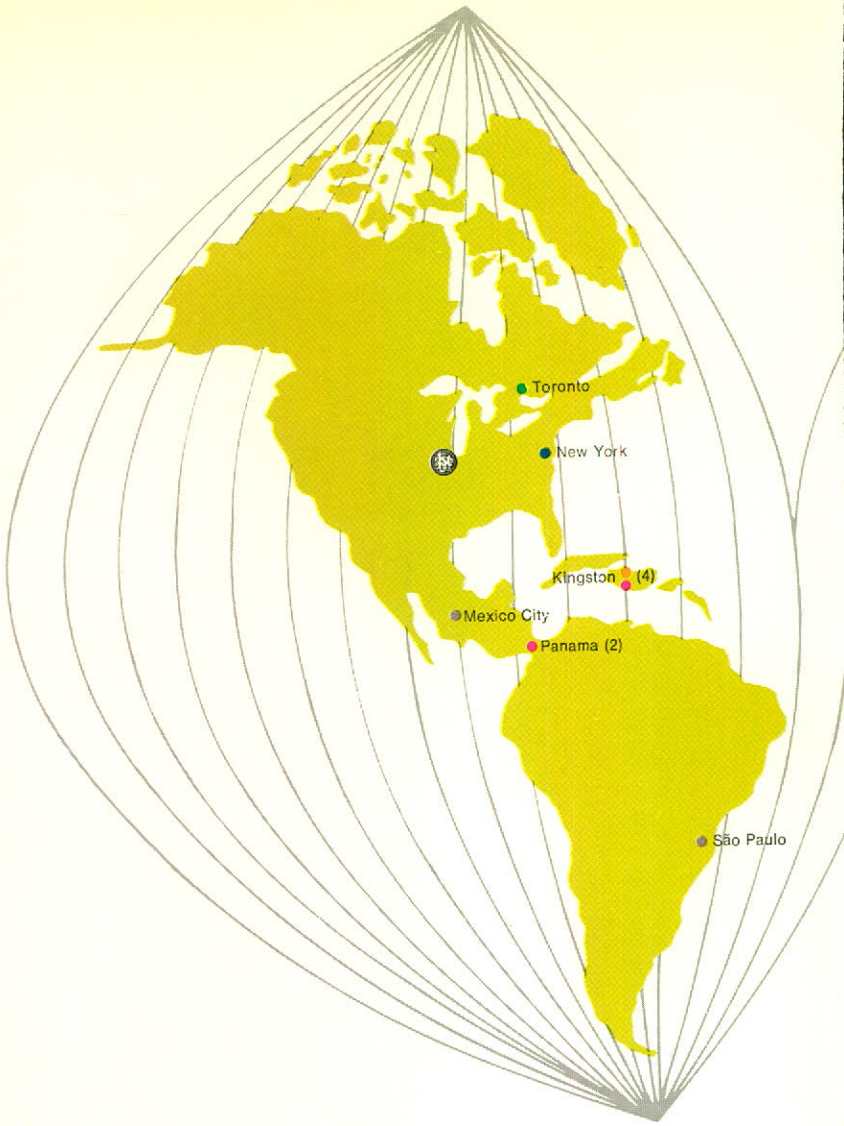
However, our costs of purchased money, having declined to a low point in early 1972, have now risen to levels above those at the time of the freeze:

	90-Day CD'S	Federal Funds	15-29-Day Commercial Paper
August 13, 1971	6.000%	5.625%	5.625%
February 8, 1972	3.500	3.125	3.000
February 8, 1973	6.250	6.250	5.875
Increase:			
August 13, 1971 to February 8, 1973	0.250	.625	.250
February 8, 1972 to February 8, 1973	2.750	3.125	2.875

With this increase in the cost in funds (and the unavoidable increases in our operating costs), we are (at the date of this report) under pressure to increase our rates substantially. In order to cooperate fully with the Administration during this difficult period, however, we will continue to exert the degree of restraint and moderation that we believe is consistent with our longer range obligations to the country as well as those to our customers and our shareholders.

The annual meeting of the International Monetary Fund and World Bank in Washington presented an imposing scene of the hundreds of representatives assembled, with the flags of all the member nations massed in colorful array. A reception given by First Chicago at the Corcoran Gallery brought many comments on its choice of locale, amid the gallery's great works of art.

Worldwide Facilities



Banking Offices

Headquarters
The First National Bank of Chicago,
One First National Plaza, Chicago, Illinois 60670

North America

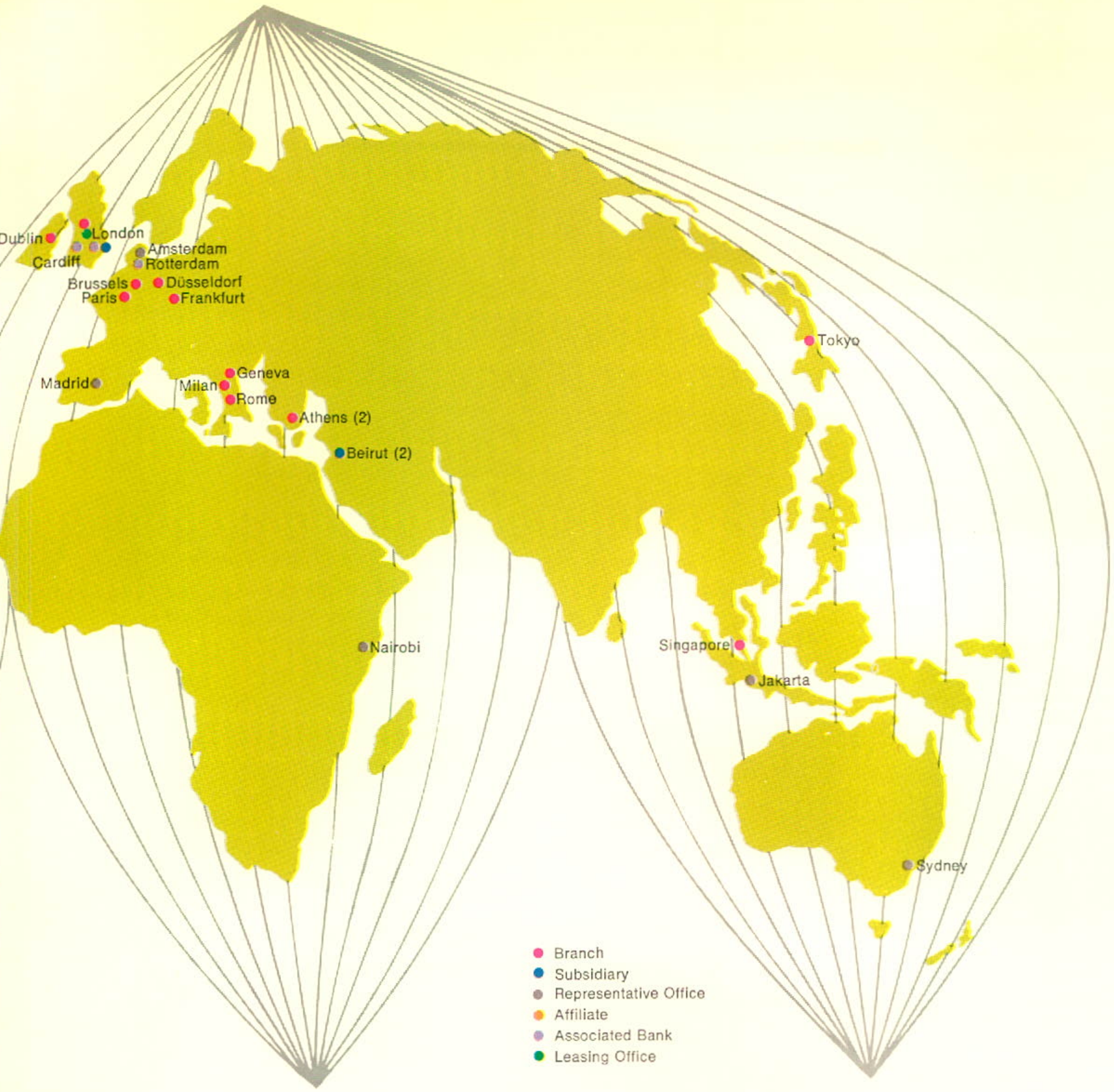
Chicago
First Chicago International Finance Corporation,
One First National Plaza, Chicago, Illinois 60670
New York
First Chicago International Banking Corporation,
1290 Avenue of the Americas,
New York, New York 10019

Latin America

Brazil
The First National Bank of Chicago
Representative Office,
Rua Antonio de Godoi, 27-10°, C.P. 5287,
01000 São Paulo, Brazil
Jamaica
The First National Bank of Chicago (Jamaica) Ltd.
32½ Duke Street, P.O. Box 219, Kingston, Jamaica
Branches located at:
29 Constant Spring Road and 95 Maxfield Street,
Kingston, Jamaica
The First National Bank of Chicago Kingston Branch
and First Chicago Merchant Bank (Jamaica) Ltd.
32½ Duke Street, P.O. Box 219, Kingston, Jamaica
Mexico
The First National Bank of Chicago
Representative Office,
Paseo de la Reforma 379, 3° Piso,
Mexico 5, D.F. Mexico
Panama
The First National Bank of Chicago Panama Branch,
Via España con Venezuela, P.O. Box 8051,
Panama 7, Republic of Panama
The First National Bank of Chicago Sub Branch,
Via España con Brasil,
Panama 7, Republic of Panama

Europe, Middle East and Africa

Belgium
The First National Bank of Chicago Brussels Branch,
40 Avenue des Arts, Brussels 1040, Belgium
France
The First National Bank of Chicago Paris Branch,
12, Avenue Hoche, Paris 8e, France
Germany
The First National Bank of Chicago Frankfurt Branch,
6 Frankfurt/Main 1, Neue Mainzer Strasse 31,
Postfach 2325, Germany
The First National Bank of Chicago Düsseldorf Branch,
4 Düsseldorf 1, Heinrich-Heine-Allee 33,
Postfach 3007, Germany
Greece
The First National Bank of Chicago Athens Branch,
13 Panepistimiou, P.O. Box 431, Athens 133, Greece
The First National Bank of Chicago Sub Branch,
107 Imittou Street, Athens, Greece
Ireland
The First National Bank of Chicago Dublin Branch,
31 Dame Street, P.O. Box 493, Dublin 2, Ireland
Italy
The First National Bank of Chicago Milan Branch,
Via Broletto 13, 20121 Milan, Italy
The First National Bank of Chicago Rome Branch,
Via Ferdinando di Savoia 8, 00196 Rome, Italy



Kenya
The First National Bank of Chicago
Representative Office,
International Life House, Queensway,
P.O. Box 47842, Nairobi, Kenya

Lebanon
The First National Bank of Chicago (Lebanon) S.A.L.,
59 Riad Solh Street, P.O. Box 1629,
Beirut, Lebanon
The First National Bank of Chicago (Lebanon) S.A.L.,
Hamra Branch, Al Issai Building, Hamra Street,
Beirut, Lebanon

Netherlands
The First National Bank of Chicago
Representative Office,
Leidsegracht 8, Amsterdam-C, The Netherlands
N.V. Slavenburg's Bank, Coolsingel 63,
Rotterdam, The Netherlands (associated bank)

Spain
The First National Bank of Chicago
Representative Office,
Edificio Cuspide, Castellana 18, Madrid, Spain

Switzerland
The First National Bank of Chicago Geneva Branch,
6 Place de Eaux-Vives, P.O. Box 102,
1211 Geneva 6, Switzerland

United Kingdom
The First National Bank of Chicago London Branch,
One Royal Exchange Buildings, Cornhill,
London, E.C. 3P 3DR, England
First Chicago Limited,
P. and O. Building, Leadenhall Street,
London, E.C. 3V 4QU, England
Commercial Bank of Wales Limited
114-116 St. Mary Street,
Cardiff CF1 1XJ, United Kingdom (associated bank)
International Commercial Bank Limited,
9-10 Angel Court,
London, E.C. 2R 7HP, England (associated bank)

Asia, Pacific

Australia
The First National Bank of Chicago
Representative Office,
3410 Australia Square Building,
Sydney 2000 NSW, Australia

Indonesia
The First National Bank of Chicago
Representative Office,
Banteng Offices, Djalan Lapangan Banteng Selatan,
Jakarta, Indonesia

Japan
The First National Bank of Chicago Tokyo Branch,
409 Fuji Building, Marunouchi 3-2-3, Chiyoda-ku,
C.P.O. Box 738, Tokyo 100, Japan

Singapore
The First National Bank of Chicago Singapore Branch,
49 Robinson Road,
Singapore 1, Republic of Singapore

Leasing Offices

First Chicago Leasing Corporation
First Chicago Leasing International, Inc.
One First National Plaza, Chicago, Illinois 60670
First Chicago Leasing of Canada Ltd.
P.O. Box 209, Commerce Court Postal Station,
Toronto, Ontario, Canada
First Chicago Leasing (U.K.) Ltd.
One Royal Exchange Buildings, Cornhill,
London, EC3P 3DR, England

International Investment Services

Trust Department, The First National Bank of Chicago,
One First National Plaza, Chicago, Illinois 60670

E. Our People

Edward F. Blettner, Vice Chairman

Edward F. Blettner, vice chairman of the board of directors, and long a mainstay in First Chicago's management, will retire at the annual meeting April 13 after 42 years with the bank, since 1966 as a director. Though he will continue to serve as an honorary director, his wise counsel and judgment will be missed in the day-to-day management of the corporation's affairs, where his many lasting contributions will be long remembered.

James B. Forgan and Walter M. Heymann completed their five years of service as honorary directors and retired from the board in 1972. Our former president, Herbert V. Prochnow will retire as an honorary director this April. We will miss these men, as each has contributed greatly to the bank's success over the years.

Of the 191 officers elected or promoted during 1972, 182 were from within the organization, 69 of whom were advanced and 113 newly elected as officers, including 9 women, increasing the number of women officers to 21.

Twenty-seven officers retired during 1972 under provisions of the bank's pension plan, including:

Vice President and Associate General Counsel Arthur E. Cordell. Vice Presidents: Guy A Crum, Lowell J. Frasor, Milton J. Hardacre, Maynard K. Hillstrom, Edwin C. Jeske, Alfred E. Langenbach, R. Willard Nagle. Assistant Vice Presidents: Albert M. Bensen, H. Robert Gridley, William J. Lennon, Roy Lund, Harvey H. Nichols, Donald O. Noren, Cornelius O'Keefe, William F. Schindler, Edwyn Stender, Frederick C. Tanner. Operations Officers: Frank A. Bate, James A. Stevenson. Real Estate Officer Donald Dick. Loan Officer Frank Sorg. Personnel Officer Arnold E. Holly. Investment Officer George J. Sedlacek. Assistant Comptroller Harold G. Lane. Trust Officers: Herbert Fraser, William Schmus.

Fifty-one valued staff members also retired under provisions of the pension plan, completing many years of conscientious service: Lester Anderson, Aksel Barka, Chester Bjerkness, Jr., Neil M. Buller, Michael J. Burke, Melvin Calcott, Esther E. Carlson, Forrest G. Collins, Daniel Coyne, III, Harold C. Davis, Percy B. Davis, Vincent J. Doyle, Dorothy Drummond, John Fisher, William Gallagher, Herbert C. Glover, Martha A. Gomolka, Alice C. Granquist, Orville B. Griffin, Clifford G. Grisso, George E. Grothe, George A. Ingersoll, Jerry Koter, John H. Krichbaum, Oscar Kriz, Josephine G. Kujawa, Henry J. Kveton, Irving C. Lopez, Edward McConville, Edward Mikolasek, Harold J. Miller, John J. Miller, Golden R. Mullins, Theodore S. Nelson, James S. Peironnet, William Piper, Eugene Ramsden, Gerrit Reitsma. Berwyn C. Reynolds, Sterling J. Rogers, Kenneth F. Schawel, Jacob Schick, Robert M. Schlender, Alfred B. Schmidt, Jr., Robert H. Simon, Margaret Spillar, Norman G. Stockdale, Jr., Erwin F. Stolper, Mary C. Thomas, Patrick J. Walsh, John R. Zukauskas.

Eight members of the bank's staff died during the year: Roslyn R. Cohen, August J. Cortopassi, Irving H. Davis, Harry E. Dohman, Louis A. Franco, Rex A. Morgan, Mary G. Palmissano, Arthur C. Ramirez.

Also noted with regret were the deaths of seven retired officers: Frank G. Herman, Thomas G. Johnson, William M. Jorgensen, Joseph J. Kaberna, William E. Lussenhop, Thomas Smith McCarty, Elmer A. Tittle and 23 other retired staff members: A. Kenneth O. Cochrane, Daniel J. Coyne, III, Walter S. Douglas, Margaret Muller Hoffman, Arnold B. F. Juhlin, Louise A. Kiefer, Rae A. Mackie, Jane I. Malmberg, Mary S. Mann, Bessie McCool, John C. McManus, Raymond N. Meyers, Harry M. Mills, Helen McD. Mitchell, Emma M. Neuman, Roy W. Peterson, Michael Prendergast, George E. A. Reinert, Fred J. Schenk, Walter Spies, Logan Stark, William R. Tapson, Jr., Agnes Ellen Wagstaff and Carl P. Wirth.

Their passing reminds us that great organizations are built over time, that the progress of each passing year reflects the contributions of all the men and women who have gone before.

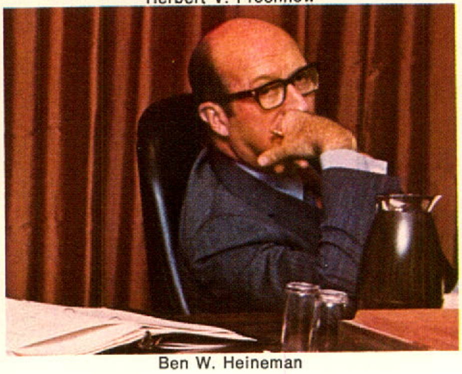
Board of Directors

John E. Drick Gaylord Freeman Edward F. Blettner

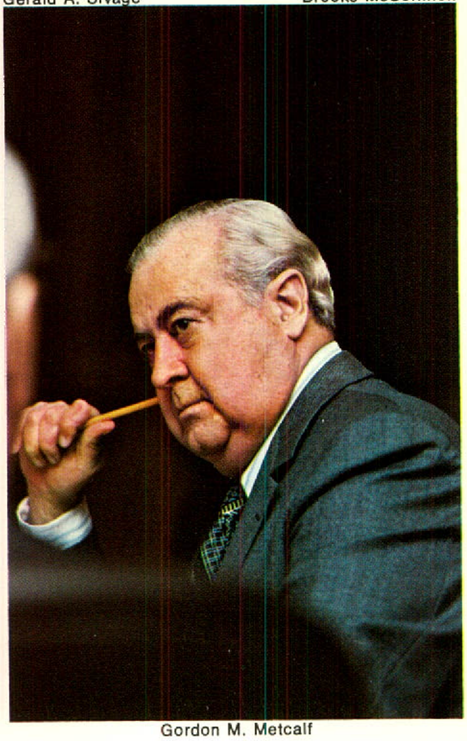
Gerald A. Sivage Brooks McCormick

William Wood Prince John E. Swearingen

Herbert V. Prochnow



Ben W. Heineman

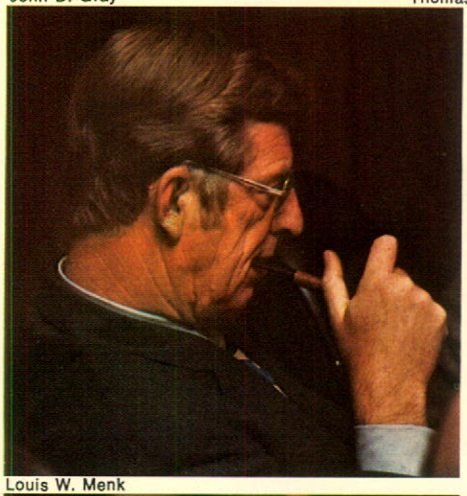


Gordon M. Metcalf

Directors pictured on this page (clockwise from upper left corner) are: President John E. Drick, Chairman Gaylord Freeman, Vice Chairman Edward F. Blettner, Gerald A. Sivage, president, Marshall Field & Company; Brooks McCormick, president, International Harvester Company; Gordon M. Metcalf, chairman of the board, Sears, Roebuck and Co. (Mr. Metcalf retired from this position on February 1, 1973, to become chairman of the board of trustees of The Savings and Profit Sharing Fund of Sears employees); Ben. W. Heineman, president, Northwest Industries, Inc.; John E. Swearingen, chairman of the board, Standard Oil Company (Indiana); William Wood Prince, president, F. H. Prince & Co., Inc.; and in center Herbert V. Prochnow, former president, honorary director.

John D. Gray   Thomas G. Ayers   Robert P. Gwinn

Lee L. Morgan



Louis W. Menk

Gaylord Donnelley

Edward E. Carlson

Robert D. Stuart, Jr.

Frederick G. Jaicks   Marshall Field   William B. Graham

Directors pictured on this page are (from left, top row); John D. Gray, chairman and chief executive officer, Hart Shaffner & Marx; Thomas G. Ayers, president, Commonwealth Edison Company (who becomes chairman and chief executive officer April 1, 1973); Robert P. Gwinn, chairman of the board, Sunbeam Corporation; Lee L. Morgan, president, Caterpillar Tractor Co.; (middle row) Louis W. Menk, chairman of the board, Burlington Northern, Inc.; Gaylord Donnelley, chairman of the board, R. R. Donnelley & Sons Company; Edward E. Carlson, president and chief executive officer, UAL, Inc.; (bottom row) Robert D. Stuart, Jr., president, The Quaker Oats Company; Frederick G. Jaicks, chairman, Inland Steel Company; Marshall Field, chairman, Field Enterprises, Inc.; William B. Graham, chairman and chief executive officer, Baxter Laboratories, Inc.

Financial Section

Index

Consolidated Statement of Condition
First Chicago Corporation and Subsidiaries

	December 31 1972	December 31 1971
	(In Thousands)	
Assets		
Cash and due from banks — non-interest bearing	$ 999,918	$ 964,090
Due from banks — interest bearing	948,106	719,978
Securities (Note 2)		
United States treasury securities	402,832	313,883
Obligations of states and political subdivisions	880,028	796,941
Other securities	112,807	162,260
Trading account securities	107,839	254,337
Federal funds sold	49,800	63,100
Securities purchased under agreements to resell	145,419	82,000
Loans	7,081,087	5,457,233
Direct lease equipment	79,888	43,504
Premises and equipment (Note 3)	207,189	198,172
Accrued income receivable	90,573	68,172
Customers' acceptance liability	222,211	44,383
Other assets	87,382	28,571
Total assets	$11,415,079	$9,196,624
Liabilities		
Deposits — head office		
Demand deposits	$ 2,647,043	$2,486,963
Time deposits		
Savings passbook deposits	$ 901,270	$ 864,065
Other savings-type deposits	805,920	682,734
Other time deposits	2,110,983	1,165,694
Total time deposits	$ 3,818,173	$2,712,493
Total deposits — head office	$ 6,465,216	$5,199,456
Deposits — overseas branches and consolidated subsidiaries	2,341,722	1,988,991
Total deposits	$ 8,806,938	$7,188,447
Federal funds purchased	763,000	508,000
Securities sold under agreements to repurchase	157,587	254,150
Funds borrowed	215,629	168,338
Notes payable (6¼% due 1978)	99,870	99,847
Notes payable (6¾% due 1980)	99,266	—0—
Acceptances outstanding	233,734	44,591
Unearned discount	6,146	7,319
Other liabilities	259,217	217,297
Total liabilities	$10,641,387	$8,487,989
Reserve for bad debts (Note 7)	$ 123,462	$ 97,656
Capital Accounts		
Preferred stock — without par value, authorized 1,000,000 shares, none issued	$ —0—	$ —0—
Common stock — $10 par value (Note 6)	200,768	200,768

	1972	1971
No. of shares authorized	27,000,000	27,000,000
No. of shares issued	20,076,820	20,076,820
No. of shares outstanding	19,385,121	19,090,570

	1972	1971
Surplus	409,466	256,348
Undivided profits	61,444	78,489
Reserve for contingencies	—0—	105,970
Total	$ 671,678	$ 641,575
Less: Treasury stock at cost, 691,699 shares in 1972 and 986,250 shares in 1971	21,448	30,596
Total capital	$ 650,230	$ 610,979
Total liabilities, reserve for bad debts, and capital	$11,415,079	$9,196,624

The accompanying notes to the financial statements are an integral part of this statement.

Consolidated Statement of Earnings
First Chicago Corporation and Subsidiaries

	For the Year 1972	1971
Operating Income	(In Thousands)	
Interest and fees on loans	**$380,716**	$332,969
Interest on bank balances	**45,643**	37,602
Interest on Federal funds sold	**2,882**	1,850
Interest and dividends on securities (Note 2)		
United States treasury securities	**14,457**	22,369
Obligations of states and political subdivisions	**45,361**	36,180
Other securities	**7,092**	6,778
Income on securities purchased under agreements to resell	**7,872**	911
Trading account		
Profits	**789**	6,984
Interest on trading account securities		
Obligations of states and political subdivisions	**1,048**	1,011
Other	**4,817**	7,818
Trust department revenue	**22,792**	21,623
Service charges on deposit accounts	**2,695**	2,101
Other service charges and commissions	**13,084**	9,761
Other operating income (Note 1)	**29,553**	21,321
Total	**$578,801**	$509,278
Operating Expenses		
Salaries	**$ 59,238**	$ 54,569
Profit-sharing (Note 4)	**3,310**	2,902
Other employee benefits (Note 4)	**6,575**	5,670
Interest on deposits	**262,120**	237,779
Interest on Federal funds purchased	**38,648**	25,257
Interest on borrowed money	**14,074**	12,263
Expense of securities sold under agreements to repurchase	**10,305**	7,006
Occupancy expense of bank premises, net (Note 3)	**13,841**	13,529
Equipment rentals, depreciation and maintenance	**7,634**	7,023
Provision for loan losses (Note 7)	**19,162**	16,766
Other operating expense	**42,565**	31,817
Total	**$477,472**	$414,581
INCOME BEFORE INCOME TAXES AND SECURITY GAINS OR LOSSES	**$101,329**	$ 94,697
Applicable income taxes (Note 1)	**23,054**	28,590
INCOME BEFORE SECURITY GAINS OR LOSSES	**$ 78,275**	$ 66,107
Net security gains or (losses) after reduction in taxes of $5,037,000 in 1972 and after taxes of $2,737,000 in 1971 (Note 1)	**(5,592)**	2,826
NET INCOME	**$ 72,683**	$ 68,933
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 5)		
INCOME BEFORE SECURITY GAINS OR LOSSES	**$4.02**	$3.42
NET INCOME	**$3.73**	$3.57
Average number of common and common equivalent shares outstanding	**19,480,856**	19,327,777

The accompanying notes to the financial statements are an integral part of this statement.

Consolidated Statement of Capital Accounts
For The Years Ended December 31, 1972 and 1971
First Chicago Corporation and Subsidiaries

(In Thousands)

	Common Stock	Surplus	Undivided Profits	Reserve for Contingencies	Treasury Stock at Cost	Total
Balance, December 31, 1970	**$200,768**	**$246,348**	**$ 50,053**	**$105,825**	**$ (16,444)**	**$586,550**
Net income for 1971	—	—	68,933	—	—	68,933
Cash dividends declared, $1.35 per share	—	—	(26,043)	—	—	(26,043)
Transferred to reserve for bad debts, net of tax benefit of $3,542,000 (Note 7)	—	—	(3,838)	—	—	(3,838)
Transferred to surplus	—	10,000	(10,000)	—	—	—
Transferred to reserve for contingencies	—	—	(145)	145	—	—
Treasury stock purchases (499,634 shares)	—	—	—	—	(16,564)	(16,564)
Sale of stock under stock option plan (77,454 shares) (Note 6)	—	—	(471)	—	2,412	1,941
Balance, December 31, 1971	**$200,768**	**$256,348**	**$ 78,489**	**$105,970**	**$ (30,596)**	**$610,979**
Net income for 1972	—	—	72,683	—	—	72,683
Cash dividends declared, $1.575 per share	—	—	(30,432)	—	—	(30,432)
Transferred to reserve for bad debts, net of tax benefit of $8,670,000 (Note 7)	—	—	(11,767)	—	—	(11,767)
Transferred to surplus	—	153,118	(153,118)	—	—	—
Transferred from reserve for contingencies	—	—	105,970	(105,970)	—	—
Treasury stock issued for acquisition of I. J. Markin & Co. (93,025 shares) (Note 1)	—	562	—	—	2,885	3,447
Sale of stock under stock option plan (201,526 shares) (Note 6)	—	(562)	(381)	—	6,263	5,320
Balance, December 31, 1972	**$200,768**	**$409,466**	**$ 61,444**	**$ —0—**	**$ (21,448)**	**$650,230**

 The accompanying notes to the financial statements are an integral part of this statement.

Consolidated Statement of Changes in Financial Position
First Chicago Corporation and Subsidiaries

	Year Ended December 31 1972	1971
	(In Thousands)	
Sources of Financial Resources		
Provided from operations		
Net income	**$ 72,683**	$ 68,933
Depreciation of premises and equipment, provision for loan losses, and deferred income taxes	**44,908**	37,709
Total from operations	**$ 117,591**	$ 106,642
Increase—(decrease) in		
Deposits	**1,618,491**	899,858
Federal funds purchased	**255,000**	33,000
Securities sold under agreements to repurchase	**(96,563)**	34,972
Borrowings	**47,291**	13,055
Proceeds of long-term notes payable	**99,266**	99,847
Other	**—**	285,411
Total	**$2,041,076**	$1,472,785
Application of Financial Resources		
Increase — (decrease) in		
Loans	**$1,623,854**	$ 929,920
Investment securities	**122,583**	165,697
Trading account securities	**(149,498)**	48,136
Federal funds sold	**(13,300)**	61,500
Securities purchased under agreements to resell	**63,419**	(17,825)
Additions to premises and equipment	**17,332**	12,063
Cash dividends declared	**30,432**	26,043
Treasury stock transactions, net	**(9,148)**	14,152
Increase in cash and due from banks, total	**263,956**	233,099
Other	**91,446**	—
Total	**$2,041,076**	$1,472,785

The accompanying notes to the financial statements are an integral part of this statement.

Consolidated Statement of Condition
The First National Bank of Chicago and Subsidiaries

	December 31 1972	December 31 1971
	(In Thousands)	
Assets		
Cash and due from banks — non-interest bearing	$ 999,738	$ 963,967
Due from banks — interest bearing	915,108	694,916
Securities (Note 2)		
United States treasury securities	399,500	298,344
Obligations of states and political subdivisions	880,028	796,941
Other securities	86,281	149,897
Trading account securities	107,839	254,337
Federal funds sold	49,800	63,100
Securities purchased under agreements to resell	145,419	82,000
Loans	6,905,933	5,333,475
Direct lease equipment	29,082	34,119
Bank premises and equipment (Note 3)	206,922	197,966
Accrued income receivable	89,105	66,946
Customers' acceptance liability	222,211	44,383
Other assets	24,164	17,941
Total assets	$11,061,130	$8,998,332
Liabilities		
Deposits — head office		
Demand deposits	$ 2,656,661	$2,494,463
Time deposits		
Savings passbook deposits	$ 901,270	$ 864,065
Other savings-type deposits	805,920	682,734
Other time deposits	2,111,183	1,165,694
Total time deposits	$ 3,818,373	$2,712,493
Total deposits — head office	$ 6,475,034	$5,206,956
Deposits — overseas branches and consolidated subsidiaries	2,341,722	1,988,991
Total deposits	$ 8,816,756	$7,195,947
Federal funds purchased	763,000	508,000
Securities sold under agreements to repurchase	172,587	254,150
Funds borrowed	79,064	87,917
Acceptances outstanding	233,734	44,591
Unearned discount	6,146	7,107
Other liabilities	247,500	207,587
Total liabilities	$10,318,787	$8,305,299
Reserve for bad debts (Note 7)	$ 122,080	$ 97,023
Capital Accounts		
Common stock — $20 par value, 10,042,910 shares authorized, issued, and outstanding	$ 200,858	$ 200,858
Surplus	409,142	256,023
Undivided profits	10,263	33,159
Reserve for contingencies	—0—	105,970
Total capital	$ 620,263	$ 596,010
Total liabilities, reserve for bad debts, and capital	$11,061,130	$8,998,332

 The accompanying notes to the financial statements are an integral part of this statement.

Note 1 — Summary of Significant Accounting Policies
The financial statements of First Chicago Corporation (the company) and of The First National Bank of Chicago (the bank) and their subsidiary companies have been prepared in conformity with generally accepted accounting principles. A description of those accounting policies of particular significance follows:

(a) Consolidation
The consolidated financial statements of the company include the accounts of all subsidiary companies including the bank. The consolidated statement of condition of the bank includes the accounts of all its subsidiaries. Investments in associated (less than 50% owned) foreign banks are carried on the equity basis. All significant intercompany accounts and transactions are eliminated in consolidation.

Overseas branch amounts are included in the consolidated financial statements on a line-by-line basis. In 1972, amounts were included for the overseas branches as of December 31 while in 1971 the amounts were as of December 23. The effect of this timing change on the 1972 financial statements was not significant.

The accounts of the overseas branches and subsidiaries are maintained in the appropriate local currencies and are translated into U.S. dollars generally at rates prevailing as of the statement date. The net gain or loss resulting from translation is recognized in the results of operations in the current year.

During 1972, the company acquired I. J. Markin & Co. in exchange for 93,025 shares of treasury common stock. Additional shares (approximately 9,000) may subsequently be issued under an earn-out provision. This acquisition was accounted for as a purchase and the excess of cost over underlying book value at the date of acquisition (amounting to $1,895,000) is being amortized over 40 years.

(b) Securities
Securities are held for investment purposes and for trading purposes.

Investment securities are stated at cost adjusted for amortization of premium and accretion of discount. Net gains or losses on the sale of these securities are shown as a separate item immediately before "net income" on the consolidated statement of earnings.

Venture capital securities are stated at the lower of cost or market. Both earnings and gain or loss on disposition are included in current operating income. Among such gains realized by the company in 1972 was a profit, after taxes, of $2,968,000 on a single venture capital investment.

Trading account securities are stated at the lower of cost or market with all interest, valuation adjustments and gains or losses on sales being included in current operating income.

(c) Premises and Equipment
These assets are stated at cost less accumulated depreciation and amortization, which is computed essentially on the straight-line method over the estimated useful lives of the assets. Gains or losses on dispositions are reflected in current income. Maintenance and repairs are charged to operating expense as incurred.

(d) Reserve for Bad Debts
This reserve is maintained at a level considered adequate to provide for possible future loan losses.

Additions to the reserve by the bank are based on the maximum provisions allowed for income tax purposes, with the charge for the amounts so provided being accounted for in a manner consistent with the regulations of the U.S. Comptroller of the Currency. The provision for loan losses charged to operating expense is based on a ratio of average net charge-offs to average outstanding loans on a five-year forward moving basis, commencing in 1969, applied to average loans outstanding during the year. The amount of loan loss provision deductible for Federal income tax purposes in excess of the amount charged to operating expense, is charged to undivided profits, net of tax benefits.

(e) Development Costs
In-house research and development costs of computer software systems are expensed as incurred.

(f) Trust Department Income
Income from trust and agency services is recorded only as cash payments are actually received. This procedure is consistent with industry practice since accounting on the accrual basis for this type income is not considered practical. The accrual results would not be materially different from those resulting from the present basis.

(g) Foreign Exchange
Items comprising the foreign exchange trading position of the bank are valued each month at the then prevailing rate of exchange and the profits or losses related to such computation are included in other operating income.

(h) Income Taxes
Certain income and expense items, principally depreciation, amortization of discount on securities, provisions for loan losses and income from equipment lease financing, are accounted for in different time periods for financial reporting purposes than for federal income tax purposes. Appropriate provisions are made in the consolidated financial statements for deferred taxes in recognition of these timing differences.

Investment tax credits relating to leasing transactions are accounted for on a deferral method. Such tax credits arising from other activities are used to reduce the current tax provision.

The consolidated statement of earnings includes provisions for deferred income taxes (including net deferred investment tax credits) of approximately $19 million in 1972 and $6.5 million in 1971. The accumulated deferred income taxes and deferred investment tax credits included in the consolidated statement of condition were approximately $52 million at December 31, 1972 and $33 million at December 31, 1971.

Note 2 — Securities

The book value and market value of securities included in the consolidated financial statements as of the balance sheet dates included:

	December 31, 1972	
	Book Value	Market Value
Investment securities		
U.S. treasury securities	$ 402,832	$ 401,639
Obligations of states and political subdivisions	880,028	908,723
Other securities (including Federal Reserve Bank stock)	112,807	128,073*
Trading account securities	107,839	107,852
	$1,503,506	$1,546,287

	December 31, 1971	
	Book Value	Market Value
Investment securities		
U.S. treasury securities	$ 313,883	$ 315,077
Obligations of states and political subdivisions	796,941	818,053
Other securities (including Federal Reserve Bank stock)	162,260	181,314*
Trading account securities	254,337	254,479
	$1,527,421	$1,568,923

* Estimated for certain securities for which market quotations were not available.

The maturities of certain securities are as set forth below:

	United States Treasury Securities		Obligations of States and Political Subdivisions	
	December 31		December 31	
	1972	1971	**1972**	1971
Maturities:				
0-1 Year	**$247,322**	$229,130	**$ 64,732**	$ 93,624
1-5 Years	**155,327**	30,462	**140,964**	144,847
5-10 Years	**30**	54,138	**201,307**	211,316
10 + Years	**153**	153	**473,025**	347,154
	$402,832	$313,883	**$880,028**	$796,941
Average	**1yr. 1mo.**	1yr. 5mo.	**10yr. 8mo.**	9yr. 1mo.

Assets, primarily securities, included in the consolidated statement of condition at $1,056,715,000 on December 31, 1972 and at $1,086,575,000 on December 31, 1971 were pledged to secure United States government and other public deposits, trust deposits and for other purposes as required or permitted by law.

Bond discount accretion amounts included in interest and dividends on securities were $3,753,000 in 1972 and $3,108,000 in 1971.

Note 3 — Premises and Equipment

Premises and equipment included in the consolidated financial statements are stated at cost, less accumulated depreciation and amortization of $36,639,000 at December 31, 1972 and $28,964,000 at December 31, 1971. Amounts provided for depreciation and amortization and charged to operating expense were $8,315,000 in 1972 and $9,200,000 in 1971.

Net occupancy expense has been reduced by $9,021,000 in 1972 and by $7,506,000 in 1971, representing rental income from premises leased to others.

Note 4 — Employee Benefit Plans

Substantially all employees are participants in the non-contributory pension plan. The pension fund has no unfunded past service liability and since normal costs for 1972 and 1971 have been covered by earnings of fund assets and amortization of actuarial gains, there was no contribution to the fund and no charge to operating expense in either 1972 or 1971. It is estimated that the earnings of the fund assets and the amortization of actuarial gains and losses will cover all normal costs of the plan in the foreseeable future.

At December 31, 1972, over 2,000 employees were participating in the primary bank profit sharing plan. All contributions to the trust as well as cash election payments due under the plan are made by the employers.

In 1972, a provision of $900,000 was charged to salary expense for payments made under the "Officers Incentive Compensation Plan" to 48 individual officers. The incentive plan formula is based on earnings per share increases over a base year. In 1971, there was no similar charge to operating expense since under the incentive plan formula no incentive compensation had been earned.

Note 5 — Earnings per Share

Earnings per share amounts for 1971 were computed based on the average number of common shares outstanding. However, earnings per share amounts for 1972 were computed based on the average number of common and common equivalent shares outstanding. The common equivalent shares (the only items which have a potentially dilutive effect on the company's earnings per share amounts) consist primarily of outstanding stock options. The aggregate potentially dilutive effect of common share equivalents on earnings per share was less than three percent in both 1972 and 1971.

Note 6 — Stock Option Plan

Under the company's qualified stock option plan, options are granted to salaried key employees to purchase shares of its common stock at prices not less than market value at the date granted. Options are not exercisable until one year after date of grant and, except for certain provisions relating to termination of employment, become exercisable in increments over five years. At January 1, 1971, options were outstanding for 541,930 shares and during the subsequent two-year period options for an additional 290,750 shares were granted, options for 20,000 shares expired and options for 278,980 shares were exercised. At December 31, 1972, 646,200 shares were reserved under the stock option plan, including 112,500 shares available for future option grants. The company makes no charge against income with respect to the granting or exercise of options.

Transactions during the two years ended December 31, 1972 were:

	Shares	
	Available For Grant	Options Outstanding
Balance January 1, 1971	383,250	541,930
During 1971		
Granted	(179,250)	179,250
Exercised	—	(77,454)
Expired (Cancelled)	8,000	(8,000)
Balance December 31, 1971	212,000	635,726
During 1972		
Granted	(111,500)	111,500
Exercised	—	(201,526)
Expired (Cancelled)	12,000	(12,000)
Balance December 31, 1972	112,500	533,700

At December 31, 1972 options were outstanding, as follows:

Shares	Year Granted	Option Price Per Share
46,630	1968	$24.94
71,000	1969	32.19
104,470	1970	27.88
35,550	1970	29.31
101,500	1971	32.13
21,800	1971	32.88
41,250	1971	35.63
7,500	1972	40.50
5,000	1972	44.00
99,000	1972	58.13
533,700		

Of the total options outstanding at December 31, 1972, options for 173,262 shares were exercisable at option prices ranging from $24.94 to $35.63.

Note 7 — Reserve for Bad Debts

The changes in the reserve for bad debts during the years ended December 31, 1972 and 1971 were as follows:

	1972	1971
	(In Thousands)	
Balance, beginning of year	**$ 97,656**	$ 97,612
Recoveries of charged-off loans	**1,188**	1,321
Provision charged to operating expense	**19,162**	16,766
Transferred from undivided profits	**20,437**	7,380
Loans charged-off	**(14,981)**	(25,423)
Balance, at the end of year	**$123,462**	$ 97,656

The balance in this account as of December 31, 1972, less the amounts transferred to this reserve from undivided profits in 1969 and subsequent years ($46,185,000, including $21,677,000 of related deferred income taxes), represents the valuation portion of the reserve ($77,277,000), which is available to absorb future loan charge-offs. At December 31, 1972, as in previous years, all known loan losses have been charged-off.

Note 8 — Subsequent Financing

On January 24, 1973, First Chicago Overseas Finance N.V., a wholly-owned subsidiary of the company, sold a $50,000,000 issue of 7 percent notes, due Jan. 15, 1980, which are guaranteed by the company.

Note 9 — Contingent Liabilities

The bank has been named as a defendant in five class action suits arising out of normal banking activities. In the opinion of its legal counsel, the bank has meritorious defenses in these matters. The company is also a defendant in other litigation and has received certain tax deficiency assessments. In the opinion of management the ultimate resolution of these matters will not have a material effect on the company's financial position or results of operations.

Auditors' Report

To the Stockholders and the Board of Directors
of First Chicago Corporation:

We have examined the consolidated statement of condition of First Chicago Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1972 and 1971, the related consolidated statements of earnings, capital accounts and changes in financial position for the years then ended and the consolidated statement of condition of The First National Bank of Chicago and subsidiaries as of December 31, 1972 and 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of First Chicago Corporation and subsidiaries as of December 31, 1972 and 1971 and their results of operations and changes in financial position for the years then ended, and the financial position of The First National Bank of Chicago and subsidiaries as of December 31, 1972 and 1971, all in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
January 26, 1973

Interest Differential (in thousands)
First Chicago Corporation and Subsidiaries

	Three Months Ended December 31		For the Year	
	1972	1971	**1972**	1971
Revenue From Funds				
Interest and fees on loans	**$ 111,958**	$ 90,292	**$ 380,716**	$ 332,969
Interest on bank balances	**14,513**	10,214	**45,643**	37,602
Interest on Federal funds sold	**655**	891	**2,882**	1,850
Interest and dividends on securities				
United States treasury securities	**3,948**	5,149	**14,457**	22,369
Obligations of states and political subdivisions	**11,415**	9,473	**45,361**	36,180
Other securities	**1,861**	1,578	**7,092**	6,778
Total revenue (before overhead)	**$ 144,350**	$ 117,597	**$ 496,151**	$ 437,748
Tax equivalent adjustment	**11,012**	8,999	**42,997**	33,962
Adjusted total revenue	**$ 155,362**	$ 126,596	**$ 539,148**	$ 471,710
Cost of Funds				
Interest on deposits	**$ 79,878**	$ 67,024	**$ 262,120**	$ 237,779
Interest on Federal funds purchased	**9,356**	6,180	**38,648**	25,257
Interest on borrowed money	**4,933**	3,789	**14,074**	12,263
Total cost (before overhead)	**$ 94,167**	$ 76,993	**$ 314,842**	$ 275,299
Effective interest differential	**$ 61,195**	$ 49,603	**$ 224,306**	$ 196,411

About this Statement
This new comparative statement details our revenue from funds invested and our cost of funds in interest paid, to show our interest differential — the overall "spread" which represents our major source of earnings, much as "gross margin" would for a manufacturing concern.

To make the revenue from tax-exempt obligations of states and political subdivisions comparable to revenue from other sources, the table includes a tax equivalent adjustment, bringing in the tax benefit to gross up this revenue as though it were fully taxable.

The effective interest differential between the adjusted total revenue and the gross cost of funds (before allocation of direct and indirect overhead cost) may provide a useful insight when the comparative spreads are expressed as percentages:

Fourth Quarter		For the Year	
1972	1971	**1972**	1971
39.4%	39.2%	**41.6%**	41.6%

On the surface, it appears that our overall percentage of spread was the same in 1972 as in 1971 for the year as a whole, and even improved slightly in the fourth quarter of 1972 compared with the fourth quarter the year before. But this was not the case for the single most important part of our business — domestic commercial loans.

Two significant factors served to maintain the overall spread percentage, while the percentage of spread on our domestic credits actually declined. First, we increased the profitability of our international operations in 1972. Second, we significantly increased both the size of our municipal securities portfolio (from an average of $762 million in 1971 to an average of $887 million in 1972) and the taxable equivalent yield on these securities (from 8.80 percent in 1971 to 9.47 percent in 1972), with a resulting significant increase in the proportion of revenue from this source.

Without the increase in international spreads, the percentage of interest differential on overall *domestic* operations would have shown a *decline* of 1.0 percentage points for the year as a whole, and a decline of 2.1 percentage points for the fourth quarter. Without the further lift in domestic revenues from state and municipal securities, the decline in margins on domestic credits would be even more apparent.

Thus it should be pointed out that margins in the single most important part of our business — the overall percentage of spread between our cost of funds and revenues on domestic loans — actually declined in 1972.

Ten Year Comparative Summary of Statistics[1]
First Chicago Corporation and Subsidiaries

(All amounts except per share in thousands)

	1972	1971	1970	1969
Consolidated Earnings, Dividends, and Capital Accounts				
Operating income	$ 578,801	$ 509,278	$ 495,973	$ 401,407
Operating expenses	477,472	414,581	403,340	315,702
Income before taxes and security gains or losses	$ 101,329	$ 94,697	$ 92,633	$ 85,705
Applicable income taxes	23,054	28,590	30,461	29,417
Income before security gains or losses	$ 78,275	$ 66,107	$ 62,172	$ 56,288
Net security gains (losses) after applicable taxes	(5,592)	2,826	(8,053)	(1,667)
Net income before extraordinary items	$ 72,683	$ 68,933	$ 54,119	$ 54,621
Net extraordinary items, after applicable taxes	—0—	—0—	(2,272)	1,723
Net income	$ 72,683	$ 68,933	$ 51,847	$ 56,344
Cash dividends declared	$ 30,432	$ 26,043	$ 22,823	$ 21,069
Total capital accounts	650,230	610,979	586,550	577,893
Per share				
Income before security gains or losses	$ 4.02	$ 3.42	$ 3.13	$ 2.81
Net income	3.73	3.57	2.61	2.81
Cash dividends declared	1.575	1.35	1.15	1.05
Consolidated Reserve For Bad Debts				
Balance, beginning of year	$ 97,656	$ 97,612	$ 97,192	$ 86,662
Recoveries	1,188	1,321	1,934	934
Transfers from earnings	19,162	16,766	10,839	2,558
Transfers from undivided profits	20,437	7,380	7,854	10,514
Losses	(14,981)	(25,423)	(20,248)	(3,476)
Increase due to acquisition of subsidiary	—	—	41	—
Balance, end of year	$ 123,462	$ 97,656	$ 97,612	$ 97,192
Loans and Deposits — Composition				
Loans — Head Office [2]				
Commercial loans	$3,361,978	$2,558,171	$2,653,076	$2,424,147
Loans secured by real estate	308,712	307,365	255,152	265,328
Loans to financial institutions	952,656	708,926	422,525	386,179
Consumer installment loans	106,732	108,060	111,853	104,269
All other loans	819,161	634,483	395,912	420,145
Total	$5,549,239	$4,317,005	$3,838,518	$3,600,068
Loans — Overseas Branches and Consolidated Subsidiaries	1,531,848	1,140,228	688,795	636,321
Total loans	$7,081,087	$5,457,233	$4,527,313	$4,236,389
Deposits — Head Office				
Demand deposits				
Individuals, partnerships and corporations	$1,948,166	$1,853,655	$1,861,747	$1,864,955
Foreign governments, official institutions, etc.	4,699	3,993	3,704	3,307
United States government	241,762	130,642	97,385	59,728
States and political subdivisions	86,303	96,560	90,660	99,410
Banks	326,917	357,800	379,592	426,645
Certified and officers' checks	39,196	44,313	41,213	40,124
Total demand deposits	$2,647,043	$2,486,963	$2,474,301	$2,494,169
Time deposits				
Savings passbook deposits	$ 901,270	$ 864,065	$ 777,538	$ 774,533
Other savings-type deposits	805,920	682,734	596,329	574,414
Individuals, partnerships and corporations	1,428,937	678,500	523,888	151,293
Foreign governments, official institutions, etc.	343,429	206,541	83,772	139,375
States and political subdivisions	143,052	170,213	120,277	65,696
Other	195,565	110,440	11,460	1,556
Total time deposits	$3,818,173	$2,712,493	$2,113,264	$1,706,867
Deposits — Overseas Branches and Consolidated Subsidiaries	$2,341,722	$1,988,991	$1,701,024	$1,446,236
Total deposits	$8,806,938	$7,188,447	$6,288,589	$5,647,272

[1] All data restated for mergers, acquisitions and stock changes to present all years on a comparable basis. Data for years prior to formation of First Chicago Corporation in 1969 are for the bank and its subsidiaries.

1968	1967	1966	1965	1964	1963[3]
$ 313,031	$ 257,273	$ 227,412	$ 183,758	$ 162,664	$ 150,287
229,061	188,533	154,739	123,902	98,234	97,848
$ 83,970	$ 68,740	$ 72,673	$ 59,856	$ 64,430	$ 52,439
32,692	23,223	26,043	21,055	25,254	22,196
$ 51,278	$ 45,517	$ 46,630	$ 38,801	$ 39,176	$ 30,243
(7,018)	122	(7,210)	(307)	(814)	(32)
$ 44,260	$ 45,639	$ 39,420	$ 38,494	$ 38,362	$ 30,211
(414)	352	(756)	997	1,643	1,287
$ 43,846	$ 45,991	$ 38,664	$ 39,491	$ 40,005	$ 31,498
$ 20,000	$ 17,500	$ 17,500	$ 16,188	$ 14,000	$ 12,000
545,864	526,117	501,946	482,795	460,100	437,678
$ 2.56	$ 2.28	$ 2.33	$ 1.94	$ 1.96	$ 1.51
2.19	2.30	1.93	1.97	2.00	1.57
1.00	0.875	0.875	0.81	0.70	0.60
$ 77,977	$ 69,669	$ 65,799	$ 64,650	$ 65,533	$ 63,140
2,769	341	731	246	7,316	34
6,413	5,321	1,398	3,774	(6,512)	3,922
8,685	8,308	3,870	1,150	(883)	2,395
(9,182)	(5,662)	(2,129)	(4,021)	(804)	(3,958)
—	—	—	—	—	—
$ 86,662	$ 77,977	$ 69,669	$ 65,799	$ 64,650	$ 65,533
$2,279,134	$2,151,466	$1,884,041	$1,727,548	$1,441,452	$1,309,145
227,161	200,934	186,481	171,417	124,571	142,298
405,049	348,773	417,676	450,276	290,863	267,128
88,937	86,988	80,903	84,215	88,814	84,035
434,168	357,961	325,025	325,230	320,733	306,629
$3,434,449	$3,146,122	$2,894,126	$2,758,686	$2,266,433	$2,109,235
293,517	182,156	75,128	45,149	4,803	2,915
$3,727,966	$3,328,278	$2,969,254	$2,803,835	$2,271,236	$2,112,150
$1,909,156	$1,725,998	$1,661,531	$1,572,651	$1,420,796	$1,330,134
3,769	5,688	4,111	3,597	4,881	2,199
117,146	94,922	115,988	99,681	136,359	123,799
97,464	132,511	121,981	114,815	106,454	98,585
383,447	382,390	364,685	352,023	357,469	326,387
25,786	24,304	27,213	21,699	25,711	34,466
$2,536,768	$2,365,813	$2,295,509	$2,164,466	$2,051,670	$1,915,570
$ 882,815	$ 980,531	$1,009,573	$1,116,074	$ 990,703	$ 908,902
510,927	337,566	115,565	—0—	—0—	—0—
640,079	552,527	429,705	481,327	469,997	327,964
86,900	83,400	71,800	51,400	52,800	41,000
201,031	149,134	61,550	25,029	38,250	37,250
2,397	2,587	10,092	10,728	9,178	5,224
$2,324,149	$2,105,745	$1,698,285	$1,684,558	$1,560,928	$1,320,340
$ 894,284	$ 649,078	$ 464,759	$ 216,172	$ 4,586	$ 2,895
$5,755,201	$5,120,636	$4,458,553	$4,065,196	$3,617,184	$3,238,805

[2] Including loans held by First Chicago Corporation purchased from head office.
[3] Bank figures are as of December 20 call report date.

Comparative Statistical Data
Average Balances and Average Rates
First Chicago Corporation and Subsidiaries

	1972	1971	1970	1969
Distribution of Principal Assets (as a % of total assets)				
Cash and due from banks — non-interest bearing [1]	**8.8%**	10.5%	10.8%	19.6%
Due from banks — interest bearing [2]	**8.3**	7.8	7.2	N/A
Investment securities				
United States governments	**3.5**	3.4	4.6	4.4
States and political subdivisions	**7.7**	8.7	8.3	8.1
Loans	**62.0**	59.3	56.2	59.2
All other assets	**9.7**	10.3	12.9	8.7
	100.0%	100.0%	100.0%	100.0%
Capital Ratios				
Total assets times capital	**17.6**	15.1	13.7	12.4
Total loans times capital	**10.9**	8.9	7.7	7.3
Total deposits times capital	**13.5**	11.8	10.7	9.8
Average Daily Balances (In millions) bank only, including overseas branches, not consolidated				
Assets				
Total gross loans #	**$ 5,848**	$ 4,742	$ 4,006	$ 3,814
Investment securities				
United States governments [3]	**272**	408	306	380
States and political subdivisions	**887**	762	623	547
Other bonds	**70**	93	43	51
Trading account securities [3]	**80**	57	47	54
Total securities	**1,309**	1,320	1,019	1,032
Total loans and securities	**7,157**	6,062	5,025	4,846
Deposits				
Demand deposits	**2,311**	2,243	2,151	2,145
Savings passbook deposits	**891**	838	755	813
Other savings-type deposits	**750**	635	567	561
Other time deposits	**3,340**	2,744	1,841	1,655
Total deposits	**7,292**	6,460	5,314	5,174
#Does not include bank loans sold to First Chicago Corp. averaging	**22**	114	344	53
Average Rates Earned (Fully taxable equivalent basis) bank only, excluding overseas branches, not consolidated				
Total loans (excluding Federal Reserve funds sold)	**6.07%**	6.39%	7.77%	7.41%
Investment securities				
United States governments	**5.06**	5.19	5.49	5.09
States and political subdivisions	**9.47**	8.80	8.93	8.25
Other bonds	**7.81**	7.76	6.78	5.40
Total investment securities	**8.40**	7.78	7.78	6.92
Total loans and investment securities	**6.54**	6.69	7.77	7.30
Average Rates Paid — bank only, excluding overseas branches, not consolidated				
Savings passbook deposits	**4.52%**	4.52%	4.52%	4.00%
Total savings passbook and savings-type deposits	**4.92**	4.87	4.85	4.46
Foreign time deposits	**4.90**	5.44	9.39	9.67
Negotiable certificates of deposit	**5.29**	5.71	8.01	6.50
Total interest bearing time deposits	**5.07**	5.21	6.20	5.81
Federal funds purchased	**4.41**	4.68	6.83	8.37
Other borrowings	**4.52**	5.74	7.25	8.97
Total time deposits and borrowings	**4.92**	5.12	6.30	6.12

(1) Includes due from banks — interest bearing for 1969 and prior years.
(2) Separate data not available for 1969 and prior years.
(3) Includes securities purchased under agreements to resell and is net of securities sold under agreements to repurchase.

1968	1967	1966	1965	1964	1963
19.7%	20.5%	20.5%	17.5%	16.9%	17.4%
N/A	N/A	N/A	N/A	N/A	N/A
6.5	6.6	7.8	9.5	13.8	13.7
7.9	8.3	9.5	10.5	10.7	10.4
56.2	55.1	56.8	57.0	53.2	53.0
9.7	9.5	5.4	5.5	5.4	5.5
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
12.2	11.5	10.4	10.2	9.3	9.2
6.8	6.3	5.9	5.8	4.9	4.9
10.5	9.7	8.9	8.4	7.9	7.9
$ 3,333	$ 2,975	$ 2,751	$ 2,369	$ 2,041	$ 1,897
436	427	431	498	549	639
490	487	505	507	432	371
45	34	20	27	51	13
72	70	62	100	102	117
1,043	1,018	1,018	1,132	1,134	1,140
4,376	3,993	3,769	3,501	3,175	3,037
2,060	1,996	1,947	1,899	1,852	1,891
925	965	1,045	1,060	943	865
415	277	64	—	—	—
1,465	1,176	893	629	458	360
4,865	4,414	3,949	3,588	3,253	3,116
—	—	—	—	—	—
6.29%	5.83%	5.60%	5.02%	5.00%	4.96%
5.02	4.81	4.58	4.02	3.77	3.51
7.25	6.11	5.81	5.49	5.40	5.30
5.36	5.11	5.07	4.45	3.98	3.48
6.18	5.50	5.24	4.76	4.46	4.16
6.26	5.75	5.51	4.94	4.82	4.68
3.96%	3.94%	3.94%	3.99%	3.97%	3.97%
4.32	4.17	3.98	3.99	3.97	3.97
6.51	6.11	6.31	4.16	3.85	3.65
5.86	5.18	5.24	4.30	3.93	3.45
5.00	4.64	4.48	4.08	3.95	3.83
5.79	4.22	5.25	4.10	3.53	3.27
5.10	—	4.60	4.44	3.96	—
5.04	4.62	4.55	4.10	3.93	3.80

Consolidated Average Statement of Condition
First Chicago Corporation and Subsidiaries

	For the Year 1972	1971
	(In Thousands)	
Assets		
Cash and due from banks — non-interest bearing	$ 713,141	$1,005,201
Due from banks— interest bearing	919,561	582,941
Securities		
United States treasury securities	286,973	414,151
Obligations of states and political subdivisions	886,974	761,910
Other securities	120,684	123,695
Trading account securities	147,156	194,154
Federal funds sold	64,597	37,413
Securities purchased under agreements to resell	185,404	17,701
Loans	6,032,401	4,924,576
Direct lease equipment	58,357	41,774
Premises and equipment	200,990	197,301
Accrued income receivable	65,031	55,282
Customers' acceptance liability	180,159	36,245
Other assets	50,233	85,488
Total assets	$9,911,661	$8,477,832
Liabilities		
Deposits — head office		
Demand deposits	$2,248,912	$2,164,734
Time deposits		
Savings passbook deposits	891,349	837,503
Other savings-type deposits	747,244	634,441
Other time deposits	1,393,661	996,152
Total time deposits	$3,032,254	$2,468,096
Total deposits — head office	$5,281,166	$4,632,830
Deposits — overseas branches and consolidated subsidiaries	2,059,824	1,975,891
Total deposits	$7,340,990	$6,608,721
Federal funds purchased	876,204	540,335
Securities sold under agreements to repurchase	241,383	154,753
Funds borrowed	161,197	155,835
Notes payable (6¼% due 1978)	99,860	83,198
Notes payable (6¾% due 1980)	16,544	—0—
Acceptances outstanding	184,650	37,823
Unearned discount	7,244	10,340
Other liabilities	242,812	184,370
Total liabilities	$9,170,884	$7,775,375
Reserve for bad debts	$ 105,151	$ 99,453
Capital Accounts		
Preferred stock	$ —0—	$ —0—
Common Stock	200,768	200,768
Surplus	347,778	249,681
Undivided profits	93,820	69,878
Reserve for contingencies	17,662	105,926
Total	$ 660,028	$ 626.253
Less: Treasury stock	(24,402)	(23,249)
Total capital	$ 635,626	$ 603,004
Total liabilities, reserve for bad debts and capital	$9,911,661	$8,477,832

Board of Directors

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President, Commonwealth Edison Company †

Edward F. Blettner
Vice Chairman of the Board

Edward E. Carlson
President and Chief Executive Officer, UAL, Inc.

Gaylord Donnelley
Chairman of the Board, R. R. Donnelley & Sons Company

John E. Drick
President

Marshall Field
Chairman, Field Enterprises, Inc.

Gaylord Freeman
Chairman of the Board

William B. Graham
Chairman and Chief Executive Officer, Baxter Laboratories, Inc.

John D. Gray
Chairman and Chief Executive Officer, Hart Schaffner & Marx

Robert P. Gwinn
Chairman of the Board, Sunbeam Corporation

†Effective April 1, 1973, Mr. Ayers becomes President, Chairman and Chief Executive Officer.

Ben W. Heineman
President, Northwest Industries, Inc.

Frederick G. Jaicks
Chairman, Inland Steel Company

Brooks McCormick
President, International Harvester Company

Louis W. Menk
Chairman of the Board, Burlington Northern, Inc.

Gordon M. Metcalf
Chairman of the Board, Sears, Roebuck and Co.*

Lee L. Morgan
President, Caterpillar Tractor Co.

William Wood Prince
President, F. H. Prince & Co., Inc.

Gerald A. Sivage
President, Marshall Field & Company

Robert D. Stuart, Jr.
President, The Quaker Oats Company

John E. Swearingen
Chairman of the Board, Standard Oil Company (Indiana)

*Effective Feb. 1, 1973, Mr. Metcalf retired and became Chairman of the Board of Trustees of the Savings and Profit Sharing Fund of Sears Employees.

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Former President

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Executive Vice President

Chauncey E. Schmidt
Executive Vice President

Richard L. Thomas
Executive Vice President

Robert K. Wilmouth
Executive Vice President

James Phinney Baxter
Senior Vice President

Neil McKay
Senior Vice President and Cashier

Rudolph E. Palluck
Senior Vice President

Clarke C. Stayman
Senior Vice President

First Chicago Corporation
The First National Bank of Chicago

Official Organization
February 1973

First Chicago Corporation / The First National Bank of Chicago

One First National Plaza, Chicago, Illinois 60670, Phone: (312) 732-4000

Board of Directors

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Commonwealth Edison Company†

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Vice Chairman of the Board

Edward E. Carlson
President and Chief Executive Officer
UAL, Inc.

Gaylord Donnelley
Chairman of the Board
R. R. Donnelley & Sons Company

John E. Drick
President

Marshall Field
Chairman
Field Enterprises, Inc.

Gaylord Freeman
Chairman of the Board

William B. Graham
Chairman and Chief Executive Officer
Baxter Laboratories, Inc.

John D. Gray
Chairman and Chief Executive Officer
Hart Schaffner & Marx

Robert P. Gwinn
Chairman of the Board
Sunbeam Corporation

Ben W. Heineman
President
Northwest Industries, Inc.

†Effective April 1, 1973, Mr. Ayers becomes President, Chairman and Chief Executive Officer.

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Chairman
Inland Steel Company

Brooks McCormick
President
International Harvester Company

Louis W. Menk
Chairman of the Board
Burlington Northern, Inc.

Gordon M. Metcalf
Chairman of the Board
*Sears Roebuck and Co.**

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Caterpillar Tractor Co.

William Wood Prince
President
F. H. Prince & Co., Inc.

Gerald A. Sivage
President
Marshall Field & Company

Robert D. Stuart, Jr.
President
The Quaker Oats Company

John E. Swearingen
Chairman of the Board
Standard Oil Company (Indiana)

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Former President

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Robert K. Wilmouth
Executive Vice President

James Phinney Baxter
Senior Vice President

Neil McKay
Senior Vice President and Cashier

Rudolph E. Palluck
Senior Vice President

Clarke C. Stayman
Senior Vice President

Asset and Liability Management Committee

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Executive Vice President, Chairman of the Committee

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Executive Vice President

Chauncey E. Schmidt
Executive Vice President

Richard L. Thomas
Executive Vice President

Robert K. Wilmouth
Executive Vice President

James Phinney Baxter
Senior Vice President

Neil McKay
Senior Vice President

William J. Korsvik
Vice President and Chief Economist

Charles H. Montgomery
Vice President and Comptroller

Commercial Banking Department

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Executive Vice President

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Jerome R. Doherty, *Loan Officer*

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C. Hugh Albers, *Assistant Vice President*
Clarence E. Cross, Jr., *Loan Officer*

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R. Bruce Murray, *Loan Officer*
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Gabriel Ditore, *Vice President*
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Peter W. King, *Assistant Vice President*
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Paul F. Donovan, *Loan Officer*

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Charles K. Perkins, *Staff Officer*

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Ronald T. Tabert, *Loan Officer*
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Financial Advisory

John S. Hinchman, *Vice President*

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Philip A. LaRiviere, *Corporate Finance Officer*
Austin S. Lett, Jr., *Corporate Finance Officer*

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Chester F. Wilczak, *Staff Officer*

Traveling Auditors

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William A. Nyman, *Staff Officer*

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Burt J. Miller, *Loan Officer*

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Executive Vice President

World Wide Headquarters

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William J. Watson, *Assistant Vice President*

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Michael P. Manning, *Assistant Manager*

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Joseph V. Benoit, *Assistant Manager*
Judith M. Hughes, *Assistant Manager*
Richard W. Widick, *Assistant Manager*

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Domestic Marketing and Liaison
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Henry T. Hanigan, *Assistant Vice President*
Emile P. Coulon, *Assistant Vice President*
Edmund J. Bak, *Assistant Manager*
W. Don Burrows, *Assistant Manager*
Robert A. Cocks, *Assistant Manager*
Richard B. Collins, *Assistant Manager*
Kevin E. Genereau, *Assistant Manager*
Wolfgang E. Jaschob, *Assistant Manager*
Lynn E. Kuckuck, *Assistant Manager*
James P. Murray, *Assistant Manager*
Napoleon Nobay, *Assistant Manager*

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Richard J. Gilgan, *Assistant Vice President and Deputy General Manager*
Gerald F. Mackin, *Assistant Manager*
Jean-Francois Schmitt, *Assistant Manager*
Terence P. M. Young, *Assistant Manager*

First Chicago International Finance Corporation/ *Chicago*

Latin America/ *Chicago*

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Hans W. Wolpers, *Assistant Manager*

Latin American Liaison/ *Chicago*
Judith A. Griffin, *Assistant Manager*
Virginia J. Willard, *Assistant Manager*

Kingston Affiliate/ *The First National Bank of Chicago (Jamaica) Limited, 32½ Duke Street, P. O. Box 219, Kingston, Jamaica*
Affiliate Branches/ 29 Constant Spring Road, 95 Maxfield Street, Kingston, Jamaica
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Francois C. Van Reepinghen, *Assistant Manager*
Guy Cuvilly, *Assistant Manager*

Mexico City Office/ *The First National Bank of Chicago, Paseo de la Reforma 379-3° Piso, Mexico 5, D.F. Mexico*
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Bowen E. Schumacher, Jr., *Assistant Manager*
Stephen Thomas, *Assistant Manager*
Jorge Padilla, *Assistant Manager*
Luis de la Fuente, *Assistant Manager*
Eduardo Saravia, *Assistant Manager*

Panama Branch/ *The First National Bank of Chicago, Via Espana con Venezuela, P.O. Box 8051, Panama 7, Republic of Panama*
Panama Sub Branch/ *The First National Bank of Chicago, Via Espana con Brasil, Panama 7, Republic of Panama*
Thomas J. Sheehy, *Vice President and General Manager*
Rousseau R. Villeneuve, *Assistant Manager*

Sao Paulo Office/ *The First National Bank of Chicago, Rua Antonio de Godoi, 27-10°, C. P. 5287, 01000 Sao Paulo, Brazil*
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James M. Botts, *Assistant Manager*
Francis G. Cherry, *Assistant Manager*

Europe, Middle East and Africa/ *The First National Bank of Chicago, P. and O. Building, Leadenhall Street, London E.C. 3V 4QU, England*

William J. McDonough, *Vice President*
H. Christian Boemers, *Vice President*
Ian B. Irving, *Assistant Vice President*
William J. Watson, *Assistant Vice President/ Chicago*

Amsterdam Office/ *The First National Bank of Chicago, Leidsegracht 8, Amsterdam-C, The Netherlands*
Jan D. Altink, *Assistant Vice President and Representative*

Athens Branch/ *The First National Bank of Chicago, 13 Panepistimiou, P.O. Box 431, Athens, 133 Greece*
Athens Sub Branch/ *The First National Bank of Chicago, 107 Imittou Street, Athens, Greece*
D. John Stavropoulos, *Vice President and General Manager*
Leigh G. Beube, *Assistant Vice President*
Fotis Theodore, *Assistant Manager*

Beirut Subsidiary/ *The First National Bank of Chicago (Lebanon) S.A.L., 59 Riad Solh Street, P.O. Box 1629, Beirut, Lebanon*

Ziad H. Idilby, *Chairman and General Manager*
J. Antoine Zananiri, *Vice President and Assistant General Manager*
Alan F. Delp, *Assistant Manager*

Hamra Branch/ *The First National Bank of Chicago (Lebanon) S.A.L., Al Issal Building, Hamra Street, Beirut, Lebanon*

George Z. Khoury, *Assistant Manager*
James W. Pierpont, *Assistant Manager*
Riyad N. Hassan, *Assistant Manager*

Brussels Branch/ *The First National Bank of Chicago, 40 Avenue des Arts, Brussels 1040, Belgium*

J. Rand Sparling, *Assistant Vice President and General Manager*
Joseph C. Lane, *Assistant Vice President*
Andre L. Scaillet, *Assistant Manager*

Dublin Branch/ *The First National Bank of Chicago, 31 Dame Street, P.O. Box 493, Dublin 2, Ireland*

Robert R. Yohanan, *Assistant Vice President and General Manager*
Patrick C. FitzPatrick, *Assistant Manager*

Germany/ *Frankfurt*

John A. Anderlik, *Vice President and General Manager*

Frankfurt Branch/ *The First National Bank of Chicago, 6 Frankfurt/Main 1, Neue Mainzer Strasse 31, Postfach 2325, Germany*

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Dieter F. J. Juli, *Assistant Vice President*
Heinz-Jurgen Engelbert, *Assistant Vice President*
Karl W. Seeman, *Assistant Manager*
Gunter F. Wegener, *Assistant Manager*
Hubert K. Kosmann, *Assistant Manager*
Ulrich Voepel, *Assistant Manager*

Dusseldorf Branch/ *The First National Bank of Chicago, 4 Dusseldorf, 1, Heinrich-Heine-Allee 33, Postfach 3007, Germany*

Horst Senff, *Assistant Vice President and Manager*
Wolfgang Huhne, *Assistant Manager*

Geneva Branch/ *The First National Bank of Chicago, 6 Place des Eaux-Vives, Case Postale 102, 1211 Geneva 6, Switzerland*

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Paul C. Forbrich, *Assistant Manager*
Jon Fell, *Assistant Manager*

Italy/ *Rome*

James A. Cassin, *Vice President and General Manager*

Milan Branch/ *The First National Bank of Chicago, Via Broletto 13, 20121, Milan, Italy*

Julian M. Teodori, *Vice President and Manager*
James D. O'Hare, *Assistant Manager*
John Schofield, *Assistant Manager*

Rome Branch/ *The First National Bank of Chicago, Via Ferdinando di Savoia 8, 00196, Rome, Italy*

James A. Cassin, *Vice President and Manager*
Carmine Corbisiero, *Assistant Manager*
Luigi Ruggeri, *Assistant Manager*

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Gordon J. Sapstead, *Vice President and Deputy General Manager*
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Frederic E. Lee, *Assistant Vice President*
Ronald A. Simmons, *Assistant Vice President*
C. Michael Wigan, *Assistant Vice President*
Martin J. White, *Assistant Vice President*
Wolfgang E. Wehrle, *Assistant Vice President*
Michel F. Cavallon, III, *Assistant Manager*
Peter E. Stiff, *Assistant Manager*
William R. Lyman, *Assistant Manager*
Keith Tancock, *Assistant Manager*
Donald J. McKinlay, *Assistant Manager*
Bror J. H. Schauman, *Assistant Manager*

London Merchant Bank Subsidiary/ *First Chicago Limited, P. and O. Building, Leadenhall Street, London E.C. 3V 4QU, England*

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