TRANSCRIPT

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John Gerspach, Citigroup Chief Financial Officer

PRESENTATION

ERIKA NAJARIAN: Good morning, everybody. I'm Erika Najarian, head of the banks research team here at Bank of America, and welcome to day two of our Banking and Financial Services Conference.

Up next is the presentation you all were telling me you were widely anticipating and we're pleased to have Citigroup with us this morning. We have Co-President and CEO of the Institutional Clients Group, James Forese. Consisting of its banking and markets and securities services businesses, Citi's ICG business is among the premier franchises in the industry. And according to the latest coalition data, Citigroup is tied for number one market share globally in FICC markets.

Jamie first joined the firm out of Princeton as part of the securities trading group at Salomon Brothers in 1985, and since then, he's held various management positions throughout the Markets division and was promoted to his current role in January 2013. Also with us today is CFO, John Gerspach. And with that, I'll hand it over to Jamie.

JAMIE FORESE: Thank you Erika and thank all of you for joining us this morning.

There are a number of things that I'd like to share today about our institutional franchise and I want to start with the overarching goal that we've set for our business. And that is, very simply, to earn an attractive rate of return by offering a targeted set of clients a full array of products around the globe in an integrated, cost-effective and responsible manner.

Our strategy starts with our target clients: the world's largest multinational corporations, financial institutions, public sector entities and investors who truly value our global capabilities. Our goal is to deepen these existing relationships, serving our clients with more products in more markets as they grow and transact around the world. And importantly, we want to do so in a cost-effective and responsible manner. That is how we believe we can create attractive, sustainable rates of return for our shareholders.

Today, I will cover a few topics including an overview of our institutional franchise, how we are growing and diversifying our business, our productivity initiatives and finally, our current returns and what is likely to drive these for us and the industry going forward.

Starting with an overview, over the last 12 months, ICG was a significant contributor to Citicorp results, generating over $33 billion in revenues, nearly $10 billion in net income, for a return on assets of 93 basis points and a 15% return on allocated tangible common equity. We operate the largest proprietary closed-loop payment network in the world with direct connectivity to the banking systems in 101 countries and territories around the world. We have trading desks in 80 countries and clearing and custody capability in approximately 60; and we facilitate around $3 trillion of transaction flows on a daily basis.

Our business today reflects an ongoing transformation that began several years ago. In 2010, in the wake of the financial crisis, we began to reshape our franchise for the evolving landscape. We made key hires in select businesses, including investment banking, where we believed we could build competitive advantage. We made important investments in our technology infrastructure and we also adapted to shifting regulatory demands by exiting non-Volcker compliant activities and scaling back businesses that were disproportionately affected by Basel III rules.

We then moved to integrate the franchise, better aligning our organization to serve our target clients in an efficient manner. We started by sharpening our client focus, rationalizing our client base to focus on a targeted set of multinational corporations and investors. We eliminated layers of management and fully integrated Operations and Technology into the business, empowering our leaders to serve clients more effectively across the business line. These actions enabled us to grow our wallet share with our target clients, diversifying our revenue base while coming to market more effectively.

Today our focus is on execution. We must continue to deepen our relationships with our target clients, continuing to grow wallet share with a focus on overall client profitability and returns. We continue to streamline and better integrate our businesses and we will continue to adapt to the demands of the evolving regulatory environment.

Citi's global network is a core strength and one that is becoming all but impossible for our peers to replicate in today's economic and regulatory environment. In many ways, where we do business today is a function of how our clients' geographic presence and banking needs have evolved over the past several decades.

We entered many of the markets on this slide by leading or following our developed market clients into faster growing regions of the world, and today, a large part of our business is serving their local subsidiaries with cash management, foreign exchange and other day-to-day operating needs. But a growing part of our business is serving large multinationals who are domiciled in the emerging markets, helping these rising global competitors as they expand beyond their local markets. Facilitating these large and growing international flows is a unique opportunity for Citi.

We offer our corporate and investor clients an integrated product suite from recurring transactional support to more episodic services like debt and equity capital raising and M&A advisory. Our global payments network is the backbone of our franchise from which we provide adjacent products such as trade finance, foreign exchange and interest rate and commodities hedging. These operating relationships provide the foundation for additional underwriting and advisory businesses and they also contribute to our significant scale and expertise in secondary markets.

In fixed Income, we benefit from a large and historically stable corporate business in local markets rates and currencies, and in equities, we are leveraging our historical strength in corporate equity derivatives to make greater inroads with our target investor clients. We view our relationships on an integrated basis with balance sheet intensive products like lending or reverse repo supporting our overall client profitability and returns. We also serve ultra-high net worth individuals through the ICG as their sophisticated banking, lending and investing needs are most similar to those of our institutional clients.

We've spent a lot of effort over the past few years on target client selection, reducing our total number of clients by nearly half. Citi's target client is a sophisticated multinational corporation, public sector entity, financial institution or global investor with a significant wallet for wholesale financial products and services.

We have identified approximately 10,000 clients that we are well-positioned to serve that meet this definition. And we are tailoring our coverage model to focus on these clients, ensuring that they get priority access to our people, our ideas and our capital. In 2013, these target clients generated 92% of our client revenues and accounted for 96% of our corporate credit exposure. There is very good alignment there.

Our business is diversified by geography, product and client type. In the developed markets, our business is fairly balanced between markets and banking, including TTS, with a higher concentration of client revenues coming from investors, as you might expect.

And in the emerging markets, you can see that nearly two-thirds of our client revenues are generated with corporate clients. These corporate revenues tend to be more stable and recurring in nature. Treasury and Trade Solutions generates a large share of our revenues and over a third of our EM business and these operating relationships drive a significant amount of local banking and foreign exchange activity. The EM business is also highly efficient, accounting for just over 40% of our revenues but more than half of our pre-tax profit in ICG.

The recent operating environment has been challenging, as you all know, but against this backdrop, we have significantly reshaped our franchise. In 2012, we generated over 40% of our revenues in fixed income, and overall markets and securities services activity represented over half of our business. Over the past two years, we have driven targeted growth in less asset and capital-intensive areas, including investment banking, equities and the Private Bank, while continuing to grow volumes in treasury and trade services.

As a result, our business today is more diversified with a better balance between banking and markets. We've gained share with our target clients across many products and regions and we've maintained significant scale in fixed income, positioning us to continue to consolidate volumes as some of our peers retrench. At the same time we've removed roughly $1 billion from our annual cost base since 2011 even as we've faced a higher regulatory and compliance burden.

Now I'd like to talk a little bit about how we've been growing our franchise. First, as I mentioned, we're focusing on deepening our relationships with existing clients, growing with them as they operate around the world. We're better aligning our organization and reducing complexity to deliver the firm to these clients more efficiently. We're consciously diversifying our business mix by growing lower capital intensity businesses to complement our leading fixed income franchise. And importantly, we're serving our clients from a position of strength, being well above our current capital and liquidity requirements. We will continue to optimize our business as the regulatory rules evolve, but fundamentally, we believe we're well-positioned to continue supporting our target clients.

Let me share some more detail on our businesses. Treasury and Trade Solutions is one of our largest businesses and the backbone of our franchise. TTS connects our clients to the banking systems in 101 countries and territories around the world. It is also a tremendous source of high quality deposits, and although these deposits are under-earning in this low rate environment, we've been able to hold revenues stable.

In cash management, we have absorbed most of the spread headwinds with growth in volumes and fees. Deposits have continued to grow, and while spreads have declined in recent years, we are starting to see the deposit spread bottom out as you can see on the lower left.

In trade finance, however, spreads have continued to contract this year. While we remain a leading provider of trade finance, we have shifted our strategy to sell more of our originations, allowing us to still serve our clients while contracting our balance sheet somewhat and preserving our returns. We believe the investments we've made in new client mandates and higher volumes position us well to benefit from an increase in short-term interest rates and improved spreads.

Turning to investment banking, as I described earlier, beginning in 2010 we made significant investments to transform our business. We cannot just lead with our balance sheet. Our goal is to be a trusted advisor to the world's largest and most global firms and we know this requires long-term investments in the right people and the right client relationships. We are beginning to see those investments take hold. Investment banking revenues are up 9% annually since 2011 with strong growth in M&A and equity underwriting complementing our historical position of strength in debt underwriting. We have gained wallet share in all three major products with an overall industry share of over 5% year-to-date and a target client wallet share exceeding 9%. And of course, we are benefiting from very strong market volumes this year.

Our Private Bank has also been a consistent source of growth, up 6% annually since 2011. Our business targets ultra-high net worth individuals around the world, with at least $25 million of household net worth and at least $5 million of investable assets. It's at the very high end of the private banking target market. These clients require a similar level of expertise as our corporate and investor clients, ranging from traditional banking to tailored investment strategies and advisory services.

We deliver the full capabilities of our institutional franchise to our Private Bank clients and this integrated approach has driven steady growth in business volume and assets under management. Over the past three years, we have seen revenue growth across all Private Bank products, and we continue to hire selectively to build out this franchise.

We have also grown our equities business. While our progress has not been in a straight line, our revenues are up 8% annually since 2011, driven by momentum in equity derivatives and prime finance. These revenues have doubled in these two products since 2011, offsetting industrywide pressure on cash equities, and I believe we can even do better. At the same time, we have been focused on improving our efficiency in equities, streamlining the organization from front to back, while being mindful of the impact on our clients. As a result, we have grown revenues while reducing our expenses and headcount, nearly doubling the revenues per senior head – senior employee – over the past few years.

Of course, our largest single business is fixed income. Over the past four years, industry fixed income revenues are down roughly 30%, driven by regulatory changes and a challenging macroeconomic environment. But we have been able to cushion this impact by consolidating wallet share, up 180 basis points since 2011 to an estimated 9.9% share of the market.

We believe our scale and unique franchise are serving us well as smaller peers have retrenched. A significant portion of our activity stems from leveraging our corporate operating relationships in banking, and therefore, our fixed income franchise boasts a much greater proportion of corporate client revenue. These corporate revenues have been more stable over time and are also highly dependable as we are managing these clients' operating accounts across more countries and regions than any peer can offer.

On average, corporate end-users generated nearly a third of fixed income client revenues, with the remainder balanced across traditional asset managers, hedge funds and financial institutions. Our regional revenue distribution reflects our global footprint with no single region accounting for more than about a third of fixed income revenues.

On the left side of this – left side of this slide, we show a breakdown of our fixed income revenues by product based on averages over the past three years. Rates and currencies comprise just over half of our revenues with the remainder spread across credit, securitized products, municipals and a growing contribution from commodities. While the size of our business in spread products and G10 rates and currencies is roughly in line with our peers in the market, we are unique in the size and breadth of our local markets rates and currencies franchise.

Our local markets business is the most significant example of fixed income activity stemming largely from corporate operating relationships. These revenues have shown a stable baseline of roughly $4 billion annually over the years even through significant global events.

As you can see on the right, we were able to capitalize on the significant investor flows brought about by QE in 2012 and early 2013. But over the past year and a half these revenues have stabilized again in the range of about $1 billion per quarter.

Now rest assured, our strategic priorities are not only about revenue growth, our goal is also to continue to improve the efficiency of our franchise. We have demonstrated expense discipline by reducing our annual expenses in ICG by $1 billion since 2011 even as we've absorbed higher regulatory and compliance costs as well as higher legal and repositioning charges.

Both our efficiency ratio at 59% and our comp ratio at 28% compare favorably to peers, though there is still work to be done for ICG to achieve our 2015 target efficiency ratio of 53% to 57%. The reduction in expenses has not just come from culling staff and cutting comp, but as I just discussed, from streamlining and better allocating our resources to our clients.

We've simplified our organization, removing the management layers in Securities and Banking and Transaction Services to operate in a more integrated manner. We've rationalized our coverage efforts, we've reduced capacity in certain areas and we're focused on improving our back and middle office efficiency as well.

As a result, we have reduced our core expense base by more than $1 billion since 2011. We have spent nearly $700 million on repositioning initiatives over the last two years which have yielded approximately $1 billion of annual savings. Efficiency savings above and beyond those tied directly to repositioning have yielded an additional $500 million in net efficiencies. However, these savings have been partially offset by roughly $400 million of incremental regulatory and compliance costs mostly related to risk management, AML, enhanced capital planning and technology investments. As we've said before, we expect these regulatory and compliance cost pressures to continue.

Let me now review our returns and outlook for the industry. Over the past 12 months, ICG generated a return on assets of 93 basis points relative to Citigroup at roughly 73 basis points and a group-wide target of 90 bps to 110 bps by 2015.

Our return on tangible common equity was nearly 15%. We generated an attractive rate of return on allocated tangible common equity even as some of our businesses faced strong cyclical headwinds and we incurred higher than normal repositioning charges.

There continues to be a lot of debate on whether the drivers for returns in our industry are cyclical versus secular and what the long-term returns profile looks like for the industry. Ours is an industry that always seems to be in transition and never more so than today with macroeconomic uncertainty, shifts in monetary policy and new capital and regulatory requirements all hitting us at once. But responding to change is nothing new in this industry, and as I have seen several times in my nearly 30-year career, the industry structure will adjust and adapt and will comply with the new regulatory environment. And through the cycle, this is an industry that should be able to earn a mid-teens ROE with a low double-digit cost of equity.

As I look at the world today, I see many potential tailwinds, both cyclical and secular. As we've seen in prior cycles, markets today are going through a transition period as the world responds to the prospect of a shifting rate curve and uneven global growth. We also saw extraordinarily low volatility across asset classes for periods of this year. We do not see this as a structural issue, and in fact, we have started to see volatility revert back to higher levels in some areas, which was positive for our results in the third quarter.

Beyond these cyclical factors, there are potential secular tailwinds as well. While capital and compliance requirements have increased on our business, this also increases the barriers to entry for others without the right scale and infrastructure to operate on a global basis.

And the longer-term drivers of activity remain intact as well, from the continued migration of corporate bank lending to capital markets, to the ongoing growth and maturity of global securities markets. We believe many secular headwinds have already been absorbed from higher capital requirements to the limits on proprietary activity under Volcker. Of course uncertainties remain, including the macroeconomic environment and the prospect of additional capital surcharges that could put pressure on industry returns. But we believe the main headwinds we are facing today are more cyclical in nature.

While I covered many topics here today, I want to leave you with a few key thoughts. First, our institutional franchise is unique in its global reach and diversification, which we believe positions us well to serve our target clients. Our focus is on continuing to deepen our existing relationships with these clients as they grow and transact around the world. And we are streamlining our business to deliver the firm in a cost-effective manner.

While we continue to optimize to the evolving regulatory environment, we believe we can deliver attractive, sustainable returns to our shareholders over time.

And with that, I thank you, and John and I will be very happy to address your questions. Thank you.

QUESTION AND ANSWER

ERIKA NAJARIAN: Thank you, Jamie. So maybe before we open up for Q&A, we thought we'd ask a polling question here. This is more for the stock rather than just for your business, Jamie, so we'll start. Same question, John, as you saw last year.

JOHN GERSPACH: Yes.

ERIKA NAJARIAN: Despite progress in winding down the income drag from Holdings, Citi continues to trade below tangible book. What do you think is the ultimate catalyst for the stock to rerate: one, receiving non-objection to its 2015 CCAR request to return capital; two, more aggressively streamlining its footprint or further business or country exits; three, more aggressive reduction of legal and repositioning charges; or four, more aggressive operating cost cutting within Citicorp?

Seven seconds left on the clock.

JAMIE FORESE: They give you a lot of time.

ERIKA NAJARIAN: Survey says…

JOHN GERSPACH: Not a big surprise.

ERIKA NAJARIAN: Not a big surprise. For those of you...

JOHN GERSPACH: Not a big surprise.

ERIKA NAJARIAN: For those of you on the webcast, 67% say that receiving a non-objection to 2015 CCAR request to return capital you think is a primary catalyst.

So maybe before we ask some questions, Jamie, on your business – and I actually thought that slide on cyclical versus secular headwinds was quite excellent – we've heard feedback from banks during this conference that the Fed is giving more detailed instructions into – for banks with regard to expectations for qualitative for this CCAR round, and to the extent you can comment on that, I was wondering if you could shed some light perhaps on this process, how this processes is going so far?

JOHN GERSPACH: I think the process is going well, and I do agree that the Fed is giving more guidelines – I'm not going to say instructions. But clearly the guidelines are much more apparent, even to the extent that when we've gotten the CCAR scenarios and the CCAR letter this year, there was actually a fairly good summary, I think for the first time, of what the Fed is actually looking at as far as making the qualitative assessments. That was the first time leading into the test that we actually understood what the Fed is looking for.

And during the course of certainly the past six months we've had a lot of good dialogue, not just with the Fed in Washington or the Fed in New York, but importantly, with the leaders of the horizontal teams. And the Fed breaks down the CCAR review into about seven or eight horizontal teams, and it's really those team leaders that you're dealing with that are really setting the standards then as far as assessing where you rate with your individual processes. So this has been very helpful.

ERIKA NAJARIAN: Okay. Jamie, maybe going back to your presentation, when you look at all of the different secular headwinds that you cited for your business, it seems like Citi is relatively well-positioned in that obviously there is not a way to replicate a money center global franchise at this point. Additionally, if you look at where you are on CET1, where you are on SLR and the benefit of your deposit franchise to NSFR, it seems like you are, even if you don't want to lead with your balance sheet, you are well-positioned to continue to be in the balance sheet-intensive businesses. I guess as you think about more – how the landscape will shake out because of regulation over the next three years, do you think that we still are in the early innings of business exits or footprint exits for some of your global peers, and how does Citi position in this new post regulatory world?

JAMIE FORESE: Well I do think we are well-positioned. The industry has been adjusting to new regulatory rules and higher capital requirements for some number of years and we actually feel that both we and, maybe to slightly lesser degree, the global industry, have made more than most of the adjustments so far. There are still adjustments that have to be made but we're in the later innings of the adjustments to the secular pressures. The American banks as a group are probably further ahead than the European banks – they're still under some capital pressures right now – but we've had a look at these rules roughly speaking now for some time, and if we haven't been making adjustments we would have been asleep. So, we feel pretty good about that.

I think that the business exits are going to continue but probably slow, the pace will probably slow. I think we've seen most of the firms that are going to take action on shrinking their fixed income franchises already do that or begin that – that process is well underway at a number of banks – and I think most banks now, at least their next response will be to try to improve the operating performance of businesses rather than exit them. I think they are close enough to profitability to try to make them work rather than to simply exit.

I think one of the challenges that we have across the industry is that the fixed costs of doing business in a large global bank have gone up. We've talked about the increase in regulatory and compliance costs for the large banks around the world. We've got to try – the fewer businesses you are in, the more that burden falls – that expense burden falls to a smaller set of businesses, so if you can sustain scale you are better off. Of course, if you can sustain is a key phrase there, but that, I think, is what people are going to try to do here as best they can.

ERIKA NAJARIAN: There are certain products that are clearly less profitable on a stand-alone basis, excuse me, like repo. While repo has ever been that profitable as a stand-alone product anyway, any thoughts of whether or not, you know – how the industry is thinking about potentially re-pricing certain products or is it more like, to your point on the presentation, more aggressive in taking market share – sorry, wallet share?

JAMIE FORESE: I think there will be a combination of reactions. What's happened a little bit to products like – when we say repo has not been an attractive business, lending – secured lending – has been a good return on risk capital. It's not a particularly good return on crude measures of capital, so with the increase in the supplementary leverage ratio for the bank, that has put pressure on businesses that are poor returns on raw leverage but good returns on a risk-adjusted basis. So that has put the focus on things like secured lending or providing revolving credit and the like.

I think the industry adjustments to that will likely be two-fold. One is there will be some movement to try to increase prices, to try to charge more – if we're going to lend on that basis and the capital required to support those activities has gone up, we will try as an industry to try to put pricing increases into those products. I think that will be one methodically evolving part of the business, but I think the other will be a decline in the industry capacity of that. I think you will see a shrinkage of secured financing available to clients.

And a third reaction will be to better target that to clients that you think are important to develop a better relationship since you can help drive other parts of their wallet. So I think there will be a pricing adjustment. Probably it will be gradual, it won't solve the entire problem. There will be capacity, further capacity coming out because some of it has already been happening, and I do think you're going to see with the remaining capacity more focused on certain client segments for each bank.

ERIKA NAJARIAN: Great. That might be a good time to open it up for questions. Steve?

SPEAKER 1: Hi Jamie. Thanks for the – I like the breakdown of the FICC by product. We haven't seen that in a while, I don't think.

The question I have is, the local rates and currencies, which has obviously always been a big part of Citi's FICC business, it looks like – I am just trying to get a better understanding of going forward. If the Fed and the U.K. raise rates and we're exiting QE, we're probably going to go into a rate-tightening cycle. Historically, that's led to a stronger dollar, maybe flows out of EM back into DM. How do you think that's going to affect those revenues over the next year or two? Have we reached bottom, do you think? I mean you said there about $1 billion a quarter, but the timeframe on which you showed was fairly limited. I am just trying to get a sense on how you think that will affect your FICC revenue outlook in 2015 and 2016 since that is a big part of your business.

JAMIE FORESE: Hi, when we try to model our FICC revenues - which is as much of a challenge for us as I think it probably is for you - we don't see a tremendous correlation between the level of rates and our revenues. What it's more correlated to is volumes and volatility, and not the kind of disjointed volatility we saw back on October 15, but just day-to-day volatility, things moving throughout the course of the day, where we see one investor thinking that the rate is too high and another investor thinking that the rate is too low and we can match that, that difference of opinion, into our secondary trading.

So as long as there is active trading in markets, and it's not all one way, flows are all one way, we think we'll continue to have strong revenues in the EM franchise . Our worry would be not that – is not that there is an adjustment to higher rates both in the U.S., the U.K. and potentially throughout emerging markets. Our worry would be that there is just no activity whatsoever, that you make a sudden jump to a new level and there is no trading activity along the way.

SPEAKER 1: Just one follow-up, you are not SLR – it's a little bit to the question that was asked earlier – you are not SLR-constrained as much as some other banks, so can you, since you said you are trying to grow prime brokerage anyways, are you willing to accept like a much lower return on crude capital metrics on repo in order to get more business and do you think that strategy will work?

JAMIE FORESE: Only to a limited degree. We're not capital-constrained at the bank level. But we do evaluate all of our businesses in terms of the capital that they are consuming. But we also want to take advantage, we want to let our shareholders take advantage of the fact that we have a portfolio of businesses, some of which use a lot of capital on the SLR basis, some of which don't, some of which use a lot capital on a RWA basis, some of which don't. And the diversity across the portfolio should be something that we can help deliver better returns for. But we still look at the returns in every business, so we're not going to grow our balance sheet in prime finance or reverse repo boundlessly because we have capacity under the SLR.

ERIKA NAJARIAN: We've got a question in front.

SPEAKER 2: You've done a good job on the cost-saving side over the last few years, obviously some of that's comp ratio, some of that's FTEs, but with the higher regulatory expenses now and with where you are with FTEs and comps, where do you get the extra efficiencies from in the next couple of years specifically. I mean where do you think those opportunities are because, it sort of looks hard?

JAMIE FORESE: Yeah well it's definitely going to get harder. The more – whenever you embark on an exercise to create more efficiencies, the easiest decisions are at the beginning of that process and as you go through it, it just gets harder and harder and harder, but we still have opportunities. Every – and as you come in and look at the way we do business, there's always ways to make it faster, better, cheaper. I think we have some opportunities really to better systematize some of our processing, some of our operations abilities. By moving O&T into the business has given us a sharper focus on the front-to-back efficiencies of the business instead of thinking about them in segments: the front office tries to run as efficiently as possible, the middle office as efficiently as possible and the back office – quite often, the back office can be made more efficient with a change in the front office processing, so if we can understand the process from front-to-back, make a change at the front which has no bearing on the lives of anyone in the front office, but a slight change here will make something much, much easier to someone in the back office and make that more efficient. That's where I think we'll find some of our next series of improvements.

And we'll continue to look at other things as well. We'll continue to look at headcount reductions. There is things that – as our business mix changes too, there are things that were generating good returns two years ago that aren't generating those returns there, and so there's an opportunity again there for us to reposition resources out of that one area so that we can then redeploy some or all of them into other areas.

ERIKA NAJARIAN: Further questions from the audience?

Jamie, you mentioned IB, equities and Private Bank obviously where you'd like them to be bigger. Where are you in your investment cycle with regard to electronic in equities?

JAMIE FORESE: The investment in technology in equities, in foreign exchange and the other fixed income segments is continuous. I don't think you could ever say that we're done with it or that we are three quarters of the way through it, because every year we see a whole new series of investments that we have to make to stay current, continue to serve clients, to get more efficient and the like.

But I think we feel relatively good about the competitive nature of our equity execution technologies today and we feel that we have enough resources to keep them competitive in the marketplace. But it never really ends. It's not like we could say we are done with it and now next year we won't have to spend any more on it. We are continuously spending on our technology to enhance those systems themselves, those applications as well as to better automate existing operational processes.

ERIKA NAJARIAN: Great. Any more questions from the audience? Right here.

SPEAKER 3: Just a quick question on trade finance, your decision to sell an increasing portion of those loans. What's driving that – is it the capital charge on those particular loans? Are you seeing increasing risk in that line of business?

JAMIE FORESE: That's really returns, it's just very simple. There's so much liquidity now out throughout the banking system that the demand for short-dated high-quality assets like trade assets has increased tremendously. So, holding those assets on the balance sheet has just simply meant that the return that we are earning on – the ROA on high-quality assets has fallen. So, that's just put pressure on our returns, so we are looking at the portfolios – we originate the trade assets – we're looking to see if we can't sell profitably those trade assets to other banks, earn a small margin by – for the original origination activity that we did, sell the assets, we are left with no asset and a small profit margin.

So we're willing to sacrifice total revenue to be more efficient with the use of the balance sheet, that's really what's driving it. As the dynamics in that market may change we may do just the opposite and opt to keep more of the loans on the balance sheet if we thought they were generating attractive yields.

ERIKA NAJARIAN: Any more from the audience before we go into our breakout? So, if you are interested in joining the breakout session, please follow me and management. It's a little bit far off, so, but that being said, thank you.

JAMIE FORESE: All right thank you, Erika.

ERIKA NAJARIAN: Thank you for the presentation.