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1 than you think?
2 A Yes.
3 Q Okay. So the danger is all the advisors in Enron,
4 or whatever the example is?
5 A Yes.
6 Q Okay. And so did you actually play that role? Did
7 you go through and look at all the reports and make sure that
8 there weren't overlaps in the individual security positions?
9 A I did not.
10 Q Okay. Do you know who did?
11 A I would think in tier II Laura and the analyst
12 monitored that.
13 MR. KING: How about tier III?
14 THE WITNESS: I don't know.
15 BY MR. KELTNER:
16 Q So item 19, quickly, there's a reference to "any
17 plans for real estate investments in the portfolio." And
18 there's a response back, "Currently we do not hold real
19 estate due to liquidity constraints." So I assume that's
20 what Laura Holt Pendergest told you, that there was no real
21 estate exposure?
22 A Yes.
23 Q Okay. There's a reference to data liquidity
24 constraints. Can you explain that to me?
25 A I believe my question was land. I mean hard assets

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5 A And they certainly wouldn't told, you know, we've
6 got a third of our portfolio locked up in real estate or
7 anything like that.
8 Q Just real quickly, item 20 refers to SSM. It says,
9 "Is SSM Investment a private placement or a capital
10 investment in a venture capital firm?" what's SSM?
11 A I don't know. It was something I saw, initially,
12 an investment. And I'm asking what it is, and it looks like
13 it was probably a venture capital firm or something, private
14 placement.
15 Q Okay. Were you told anything about money that was
16 invested outside of these 24 global investment advisors? In
17 other words, you know, were there any U.S. based firms that
18 were used in SSM be one?
19 A It might, yes. I don't recollect. I know if any
20 very little invested with U.S. firms, but I never knew the
21 answer for certain if it was zero, five percent or ten
22 percent.
23 Q Okay. Did you ever hear anything about a
24 Memphis-based hedge fund or anything like that?
25 A No. No. It's possible SSM is in Memphis.

1 Q Does the name Jim Holt mean anything to you or
2 James Holt?
3 A No.
4 Q Skipping forward to item 22 on the next page of
5 Exhibit 7, entitled, "Explain credits and their potential
6 role in the overall portfolio," then the response is: "Tier
7 III or separate tier altogether, looking for additional ways

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1 would be difficult to sell mark to market and what not. So
2 it's not typically a liquid asset.
3 Q Okay. So was part of the story when you talked to
4 investors we've got this investment portfolio. It's very
5 liquid, you know. If people want their money out, we can get
6 it quickly?
7 A Yes.
8 Q So liquidity. Was that kind of a key piece of the
9 sales pitch?
10 A Yes, liquidity, and we should say -- I'm probably
11 going to say this a lot to day -- but it was never the sales
12 pitch to talk about the investments. It was a necessary part
13 of the process, because everyone asked.
14 Q Right.
15 A But it was not part of our pitch. And certainly
16 when Juan Rodriguez is sitting in the presentation, you know,
17 it would be like all constantly remember this is a CD. So no
18 matter what this portfolio does it's still a CD that pays.
19 But in talking about the portfolio, liquidity was important.
20 I don't think from the concern of how am I going to get my
21 deposit back, but if something major happens in the world and
22 we have to liquidate this entire portfolio, most of the
23 securities can be sold in days.
24 Q Okay. And that was what the investors were told is
25 look. If there's a giant terrorist attack, or whatever the

1 cataclysmic event is, we can liquidate most of our positions
2 within a matter of days.
3 A Yes.
4 Q Okay.

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8 to diversify it, less than 20 percent of entire portfolio.
9 These are basically large commercial loans from companies,
10 governments, et cetera. SIBL made by these loans as well
11 will hire underwriters and risk analysts specialists." When
12 we talked about tier III a little bit, what are these
13 credits?
14 A I have no idea. Whatever the answers refer to it's
15 20 percent of the entire portfolio, but I really don't know.
16 Q Okay. So I mean 20 percent sounds like a
17 significant exposure. Correct?
18 A Yes.
19 Q Okay. So you until today have no recollection of
20 what these credits are?
21 A You know what? I actually do recollect. I think
22 it was something Jim Davis had talked about possibly doing;
23 and, I think this is probably this document. It's just notes
24 and fragments of ideas, but yes there was. And I don't know
25 if they actually ever did it, but it would be essentially

1 buying secondary debt in the market.
2 Q But aside from that, the monthly reports you got,
3 the weekly reports, you never saw any reference to credits or
4 anything like that?
5 A Never.
6 MR. KING: How did you know to ask this question?
7 THE WITNESS: It must have come up in a
8 conversation with Jim Davis talking about that; and, I
9 believe, I probably asked Laura: "So is this something we
10 might do, invest in these credit commercial loans?"
11 BY MR. KELTNER:
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12 Q Continuing on, item 26 says: "what is the plan and
13 time horizon for hiring staff in Antigua?" And it talks
14 about eventually we'll hire support staff, credit
15 professionals, analysts, and then in parens "(unless SFG
16 Memphis continue rotations, etc.) If Memphis ceases
17 rotations, then probably should hire a few analysts like
18 generalists." So what's the discussion there? Explain it to
19 me.

20 A I believe to build out an investment staff
21 permanent in Antigua at the bank.

22 Q Okay. What was the reasoning for that?

23 A Probably what you eliminate or reduce the reliance
24 on the Memphis analyst group, which I think was the start of
25 the genesis of the SIO and building all the investments

1 pieces, back to when you asked me about Jim Davis approaching
2 me. That was the one piece that's kind of been missing from
3 the bank. So when clients are down there, prospects are down
4 there. So where's your investment people? Oh, they're in
5 Memphis.

6 Q Okay, so was the issue that they could do their
7 jobs better from Antigua or was the issue the image for
8 clients?

9 A I would say both.

10 Q Okay. If they're getting statements from Europe
11 and all across the world, and they're doing an analysis
12 presumably related to assets that have nothing to do with
13 Antigua, does it matter where they are?

14 A I don't think so. I mean, unless, I don't think it

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19 allowed to talk to the investors? would that be
20 Collingsworth?

21 A They could talk. Anyone that was there would talk,
22 and I think 9 out of 10 questions would probably be about,
23 oh, you cover Asia? You know, what do you think of China's
24 government or something?

25 MR. KELTNER: So more superficial.

1 MR. KING: Did the analysts ever tell any of these
2 potential investors that they didn't know where their tier
3 III money was?

4 THE WITNESS: Not that I know of.

5 BY MR. KELTNER:

6 Q Okay, item 28: "who monitors the parameters set on
7 individual positions and overall asset allocation. Is this
8 done across all tiers?" And the response back is SIO and
9 board of directors. The SIO, that's you, right?

10 A Yeah.

11 Q And I think we've established you didn't do that?

12 A No. I think this more maybe held the position I
13 was initially trained or my thought. But no; I did not.

14 Q Okay. And this reference to doing it across all
15 tiers, I mean I think we talked earlier when clients asked
16 you about how the money was invested, you didn't distinguish
17 between tiers, right?

18 A Correct.

19 Q Okay. So if they asked you a question about what
20 controls are in place or what did you do, the answer was
21 general and applied across the entire portfolio?

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15 matters from a regulatory standpoint. I think it looks good
16 and it's more cohesive.

17 Q So it looks good to clients?

18 A Yes.

19 Q Okay. When you had a particular big investor
20 scheduled to rotate through to come in for their visit to the
21 bank, was there an effort made to be certain that there was
22 an analyst team on-site, you know, when those investors came
23 through?

24 A Yes. All investors, potential investors.

25 Q Okay; and I think I know the answer, but why would

1 you want to have an analyst team on-site when the investors
2 came through?

3 A I think to bolster that image and to answer
4 questions to them, the analysts would tend to be more
5 generalist in their areas, and they would never sit in on the
6 presentation, but they would be a part of the tour of the
7 bank. They would go into their room and they might, you
8 know, I would have already introduced them. Mark
9 Collingsworth's here. He covers U.S. Equity. So they might
10 ask questions to hear what the analyst has to say.

11 Q And typically how long would the interaction
12 between the analyst team and potential client be?

13 A Mostly brief, like rotate through the room, kind of
14 a meet, handshake and leave.

15 Q Okay. So I take it there were no in-depth
16 questions from the investors to the analyst team?

17 A No.

18 Q Okay. And, if there were any interactions, who was
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22 A Yes.

23 Q Okay. And I think Michael has established, you
24 know, there was no distinction made between the tiers in
25 terms of what you did or didn't do?

1 A Right. We'll see if that stops additional
2 questions on that.

3 BY MR. CRAINE:

4 Q Just real quickly, flipping the page to item 30, it
5 says: "where do you see the role of an SFG analyst involving
6 over the next few years as it relates to their advisor
7 relationships?" There's a response. "They're becoming more
8 and more involved with the advisor relationship." It goes on
9 from there. Were their discussions about what the analysts
10 did in expanding their role?

11 A The question was, you know, at the time, I believe
12 the analysts for the most part were receiving statements from
13 their banking advisor, putting them into their spreadsheets,
14 giving them to Fred, put the whole thing together, needing
15 very little phone dialogue. What I was getting to, you know,
16 are they going to be more involved with investment decisions.
17 And it looks like the answer here was, you know, eventually
18 they would go over to Europe and meet them. And maybe some
19 of them have, you know.

20 Q Candidly, we've heard from an analyst or two that
21 it was essentially a data entry position?

22 A Yes.

23 Q Does that seem accurate to you? I mean, they
24 essentially received statements? They keyed them into a
25 spreadsheet and then they sent them to another analyst to

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1 aggregate?
 2 A Yes.
 3 Q That was their primary role?
 4 A Yes.
 5 Q Okay, and you know, more candidly, as we understand
 6 it, most of these guys and girls/women, are in their late
 7 20s, early 30s?
 8 A That sounds right.
 9 Q Typically their first jobs out of college in a lot
 10 of cases?
 11 A Yes.
 12 Q Okay. So not necessarily seasoned financial
 13 professionals?
 14 A Yes.
 15 Q Okay. And would they have even really known or had
 16 the basis to challenge or question any investment decisions
 17 made by these experienced financial advisors overseas?
 18 A I think, yes. I think they were given, maybe they
 19 understand targets of an advisor. The advisor certainly had
 20 discretion over how they managed. My understanding of the
 21 analyst role is to just make sure that they're kind of within
 22 those constraints, so maybe some obvious red flags, you know,
 23 like they blew out of a portfolio completely that they just
 24 had one week that would go up the flagpole to Ken Weedon or
 25 probably Laura. But, no. Not to the inertia of why are you

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5 role in recommending or denying such manager.
 6 Q So it was in any way your job to go out and look
 7 for prospective advisors?
 8 A It was not in my job description.
 9 Q And did you do that, or?
 10 A I did a lot with my previous role with the
 11 investment advisory group, searching managers, so I believe
 12 maybe the reason why I was included on some of these trips to
 13 visit with potential money managers, but I was never part of
 14 the final decision?
 15 Q Okay. Let's talk a little bit about something
 16 that's mentioned in item 38 on the next page of Exhibit 7.
 17 It says, "Is risk minimized if advisors reached targets prior
 18 to year-end." Can you talk to me a little bit about this
 19 idea of targeted returns?
 20 A It was my understanding that an advisor would have
 21 a particular target for the year, and you bet based on market
 22 and economic environment, and the question seems to be
 23 leading to if an advisor knocks out 20 percent in the first
 24 six months, do they go to all cash, essentially removing that
 25 money off the table, instead of risking potential volatility

1 later on in the year.
 2 Q So how does that work though, if you hit your
 3 target return at 20 percent, but then you don't earn any
 4 money for the rest of the year. Does that then drive the
 5 return down on an annualized basis, or how does that work?
 6 A You know, it would depend on how much that advisor
 7 has. The target returns of the bank were always calendar

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1 buying these commodities and this doesn't seem like a smart
 2 investment.
 3 Q Okay. And they certainly weren't monitoring
 4 day-to-day trade activity?
 5 A Probably weekly, not day-to-day.
 6 Q Without getting into detail, there's a reference
 7 here to a Gavelli, G-a-v-e-l-l-i managing tier I cash? Who
 8 is that?
 9 A Gavelli is a money manager out of -- he 's just
 10 North of New York, Mario Gavelli. You thought you all had
 11 your run of Mario, but I think there were discussions that he
 12 would be another one of those added cash managers to that
 13 tier I. I don't know if that ever came to fruition.
 14 BY MR. KELTNER:
 15 Q Okay. Just throughout the Q and As, there are some
 16 questions that refer to hiring and firing of advisors. Were
 17 there any occasions where an advisor was terminated that you
 18 know of?
 19 A There was one that was terminated prior to my
 20 arrival, I think, because there was a big turnover in
 21 personnel. Remember, the advisor, 'x' company, there's
 22 usually bankers that Stanford would deal with. I think that
 23 some had left the firm and they just felt it was best to just
 24 sever that relationship, but not while I was there that I
 25 knew of.

1 Q What about hiring of new advisors? Did you play
 2 any role in that process?
 3 A Again, I met with some money managers, Gavelli is
 4 one, from a due diligence standpoint, but I did not play a
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8 year returns. So, obviously, understanding their expenses
 9 and liabilities coming due, they might target a return of 123
 10 percent. If you're already there in September, why risk the
 11 last quarter? In practice, I don't know if that actually
 12 happened. You know, I didn't notice anyone going to complete
 13 cash at any time during the year from my vantage point.
 14 Q Okay. But was that part of the explanation? You
 15 know, if we have these target returns and when we hit them we
 16 stop. We pull some of our money back out?
 17 A As a potential, not a given; but it's one thing
 18 that they would evaluate throughout the years.
 19 Q Okay. And when they got the account statements you
 20 never actually saw that happening?
 21 A I did not.
 22 (SEC Exhibit No. 8 was marked for
 23 identification.)
 24 Q Just real quickly, since we're talking about
 25 returns, I'm going to hand you a document that I'm marking as

1 Exhibit 8. It's entitled, "Stanford International Bank's
 2 ten-year investment portfolio performance." Have you seen
 3 Exhibit 8 before?
 4 A Yes.
 5 Q Okay. What is it?
 6 A It's presumably a PowerPoint presentation
 7 advertising the bank asset portfolio returns from year ending
 8 1994 to year ending 2004, the investment return; and, I'll
 9 represent to you that it came from the CD of stuff that you
 10 produced to us.
 11 Q How would you have gotten it?
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12 A It was an internal document. I don't know how. I
13 think it came from Laura's group at some point. This is not
14 something that would be hopefully shown to clients. I would
15 have had it for my own internal reference because the
16 questions always came up.

17 Q When you say hopefully it wouldn't be shown to
18 clients, what do you mean?

19 A Well, I was putting my compliance cap on or even my
20 role at the bank. Again, it's not about what the bank
21 portfolio has done is irrelevant to the CDs as far as the
22 clients can be certain, because this can be construed as
23 selling an investment.

24 Q Explain that to me.

25 A The more you tout, if you will, the returns of the

1 bank and how great they are, I think you're inevitably
2 leading the clients to like, those are great returns. Those
3 are consistent. But their actual return is going to be their
4 yield on their CD. They're not getting this.

5 -Q Right. Okay; and so again you were told whenever
6 clients asked questions to steer them away from things like
7 this, like Exhibit A, to steer them away from the investment
8 portfolio and try to keep them focused on the CD itself?

9 A Right. But if they drilled down and asked detailed
10 questions, you would answer as we talked about earlier. Yes.

11 Q Since we're talking about these target returns and
12 what not, one thing I wanted to ask you about that we've
13 always been a little curious about, if we look at 1995 and
14 1996 you see that the billion-dollar plus portfolio returned

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19 A I think so. I think I've seen it.

20 Q Have you?

21 A I'm going to look.

22 Q I just assumed that might stand out to an investor
23 to be that precise in your return numbers from year to year,
24 and we were just trying to figure out if an investor asked
25 and if there was an explanation for how that happened?

1 A I never would show this to an investor.

2 BY MR. KING:

3 Q How was this document used internally?

4 A I'm not sure. I don't know if advisors were doing
5 presentations with it.

6 Q Presentations to who?

7 A Clients maybe, or prospects.

8 Q When you say advisors, you mean advisors at
9 Stanford Group Company?

10 A Yes, financial advisors; and, I say that it has
11 disclaimers on it. I just wanted those returns. I mean, I
12 would answer a client's question, you know, the portfolio is
13 done at roughly 12 percent annualized.

14 Q If this weren't being provided to clients, would
15 there have been any reason to have a disclaimer at the
16 bottom?

17 A No.

18 BY MR. KELTNER:

19 Q Okay. Items 39 and 40 relate to the FSRC, the
20 Antiguan banking regulator. The first one asks how is equity
21 treated in the overall allocation when it comes to

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15 exactly the same percentage amount, 15.71 percent. I guess,
16 first, how hard is that to do on a \$2 billion portfolio?
17 And, two, was there a party explanation for how that
18 happened?

19 A I never heard one. It's a coincidence. It's not
20 hard to do. I mean, it's hard to do. It's not hard to
21 achieve 15 plus percent, especially in '95 and '96. But if
22 you're asking to get the same return each year, it is a
23 little unusual.

24 Q On 25 different investment advisors?

25 A Yes.

1 Q Okay. How is that even possible down to the
2 decimal point?

3 A It's a coincidence; and I've never asked or heard
4 an explanation.

5 Q A coincidence? I mean a highly unlikely
6 coincidence?

7 A I can't really say. That's quite possible.

8 Q Okay. I mean to get down to the hundredth decimal
9 point, wouldn't you have had to return to pretty much
10 precisely the same cash flows from one year to the next?

11 A I would think, and I've seen returns. I've seen
12 mutual funds do it. Each destination is different. One
13 might do it like this and the other one do it like this, but
14 it's conceivable. You could end up with the same return at
15 the end of the year, but not like this.

16 Q Just out of curiosity, have you seen the same
17 mutual fund, returned the same return to the hundredth
18 decimal point in back-to-back years?

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22 diversified funds, and it references an FSRC report in the
23 answer. It says, "Funds are itemized out of individual
24 securities, equity funds, fixed-income funds and alternative
25 funds." What's that FSRC report in reference to?

1 A The FSRC is their annual report that the bank
2 submits to the FSRC.

3 Q Have you seen that report?

4 A Yes.

5 Q And so it gives this itemized kind of detailed
6 breakout of the asset classes mentioned here, individual
7 securities and equity funds. So it's a fairly detailed
8 report?

9 A Yes.

10 Q So it actually has the actual positions that these
11 overseas advisors hold?

12 A I recollect, no, just the broad allocation.

13 Q Okay, so it doesn't give like a security by
14 security, you know, Exxon or whatever?

15 A I don't recollect it doing that.

16 Q Okay, you know, we'll go through it a little later.
17 Some of those reports were on the CD that you produced to us,
18 or at least it appears that that's what they are. How did
19 those come to you?

20 A They were given to me e-mail, probably from Laura.

21 Q Okay, so I guess that would be part of the year-end
22 audit?

23 A Quarterly, actually.

24 Q Okay. So item 40 talks about -- it says -- how
25 indefinitely I need to go with regulators. It says the

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1 questionnaire will arrive in December from the FSRC and talks
2 about some procedures and questions that may come up.
3 Practically speaking, what was your interaction with the FSRC
4 folks when they came in?
5 A I met with them twice. They did an annual review,
6 so there's a quarterly report but there was an annual review;
7 and like this says, it was roughly in January, February. And
8 I sat in on a couple of those. I guess it would have been
9 2006, 2007.
10 Q Okay, so the year-end audits for '05 and '06 were
11 inspections, whatever they're called.
12 A Yes.
13 Q So tell me about that. What did the regulators
14 want to talk to you about?
15 A The first meeting, I believe, I really kind of did
16 my spiel on, you know, kind of the presentation: why I'm
17 there, what my role is; but nothing beyond that. And then
18 the second meeting the second year I don't remember saying
19 much at all.
20 Q Okay, you know, you referenced the reports being
21 fairly high level still, not drilling down to individual
22 positions. So let's say for an individual advisor, you know,
23 pick one, Coutts, whoever it is. Once the FSRC are seeing on
24 that, are they just seeing like, this is our position. This
25 is how much money we have with this advisor.

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5 securities." "Stop," I assume that's stop loss?
6 A Yes.
7 Q Okay. "Stop loss limits 8 to 10 percent on
8 equities. Bonds have a no-loss discipline; generally, not
9 bought at a premium and held to maturity. The managers,
10 diversified funds, have to perform within their own relative
11 performance ranges. 40 to 50 percent portfolio is invested
12 in diversified funds." Is this a question that came up with
13 investors? You know, what happens if I need to get my money
14 out if something horrible happens?
15 A Yes.
16 Q Stop losses and then again back to the liquidity
17 point. Explain the stop losses to me.
18 A A stop loss is you put basically on a long only
19 position to have it sold out automatically if it hits a
20 certain level.
21 Q Okay, did you see those stop loss provisions in
22 place yourself, or do you have any first-hand knowledge of
23 that?
24 A I did not see him. I don't have first-hand
25 knowledge.

1 Q Okay. So who would you have gotten that from, the
2 information?
3 A Laura Pendergest.
4 Q That they exist?
5 A Yes, Laura, right.
6 Q And this idea about bonds being bought with a
7 no-loss discipline, I mean, what's that mean?

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1 A I believe they are seeing that report, the I
2 believe you have in your position. That's what they get.
3 That is their quarterly report.
4 Q Yeah, you being the senior investment advisor or
5 officer, was there anybody else from kind of the investment
6 chain of command that was present for those interviews or
7 meetings?
8 A No.
9 Q Okay, so Laura is not there. Jim's not there.
10 Correct?
11 A Correct.
12 Q So did the FSRC ask you any more detailed,
13 appointed questions about, you know, where the money is, what
14 are the actual underlying investments?
15 A They did not.
16 Q Were there any discussions with the FSRC about the
17 tiers, tier I, tier II, tier III?
18 A There were none.
19 Q Okay. Flipping the page to item 41 and 42 in
20 Exhibit 7 there are two questions. 41: "what happens if the
21 portfolio misses target returns, and has this ever happened?"
22 So that question, I take it, was the typical response similar
23 to what's here in Exhibit 7, "We never fail to hit our
24 returns." Is that the answer that was given to clients?
25 A Yes.

1 Q So this discussion in item 42 that starts,
2 "Assuming the worst, what risk measures are in place in case
3 of a complete, global, financial meltdown, i.e. mass
4 terrorist attack. So stops are in place for individual
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8 A It means you buy the bonds and you hold it 'til
9 maturity, realizing your coupons along the way and barring
10 default along the way, you get your money back at maturity.
11 So despite the value of the actual face amount of the bond,
12 which can be volatile, you have un realized losses, but not
13 realized losses.
14 Q And a minute ago you referenced, and then there's
15 the liquidity issue or something like that. Looking at the
16 final paragraph of 42 where it says, "As long as there's a
17 market to do business in, the portfolio will be traded. If
18 worse comes to worse, could liquidate 50 percent of the
19 portfolio in T plus two, another 25 percent T plus 5, and the
20 remaining 25 percent in 60 to 90 days." So just so I
21 understand that, you can liquidate 50 percent of the
22 portfolio in two days?
23 A Yes.
24 Q Okay. And 25 percent in five days?
25 A Yes.

1 Q And the balance of the portfolio can be liquidated
2 within 60 to 90 days?
3 A Correct.
4 Q Okay. And did you get that information from Laura?
5 A Yes.
6 Q And again that was part of a response to clients.
7 The clients were concerned about liquidity issues?
8 A Yes.
9 Q Okay, and so in other words there were no liquidity
10 issues to be concerned about, because we can get out of 75
11 percent of the portfolio in five days?

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12 A Correct.
 13 Q And the remaining 25 percent in 60 to 90?
 14 A Right, and this is definitely my writing in the
 15 notes, assuming that you can get assets to the markets.
 16 Q Assuming the markets aren't shut down?
 17 A Right.
 18 Q What's in that bucket that takes 60 to 90 days to
 19 sell?
 20 A That would be those alternative type investments.
 21 Q Hedge funds where you might have a lock-up period
 22 where you have to give notification and then wait.
 23 A Right.
 24 Q But certainly that's not an office building in
 25 Houston?

1 A Not that I know of.
 2 Q Okay. So you're under the assumption that there's
 3 not a big real estate portfolio out there that you would have
 4 to liquidate?
 5 A I was told there was none.
 6 Q And you were told that by Laura?
 7 A Yes.
 8 Q Did Jim Davis ever tell you that?
 9 A No. I don't recollect.
 10 Q Okay, item 45, switching to the next page, there's
 11 a question about how often the board of advisors meets,
 12 members and bios. It says they "do not have a set meeting,
 13 but more or less advise the investment committee on a
 14 quarterly basis. Each member is an expert in their own area
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19 Q Who is this board of advisors.
 20 A It's an external board of kind of a columnist.
 21 Luis Giusti is an example.
 22 Q Can you spell that name?
 23 A Yes, Luis, L-u-i-s; Giusti, I believe is
 24 G-i-u-s-t-i. He is the former CEO of some big oil company,
 25 so he was kind of the energy commodity specialist. Sir

1 Courtney Blackman, who was also on the board of directors,
 2 who was a fed governor of Barbados. So in a presentation
 3 format, you know, we worked with a dozen or so of these
 4 advisors that kind of helped shape the investment policy, the
 5 recommendations, I would reference, stick some of Stanford's
 6 affiliated companies such as the Washington Research Group,
 7 the Memphis Group, kind of just this collective, intellectual
 8 mind trust.
 9 Q Okay. Did you ever interact with the members of
 10 the board of advisors?
 11 A I've met some of them, let's see, in presentation
 12 formats in different events. I certainly read the research
 13 and had a few calls back and forth with the Washington
 14 Research Group and definitely the Memphis Group, that kind of
 15 interaction.
 16 Q Okay, but as far as these outside advisors, you
 17 mentioned the individuals. Were they meetings when they came
 18 in and talked about investment strategies, anything like
 19 that?
 20 A They were hired. I know a few of them spoke at our
 21 quarterly events, broker events. So yes, I met some along
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15 and offers advice intended to shape the overall strategy of
 16 portfolio and weightings within policy parameters." First, I
 17 think you talked about the investment committee earlier. And
 18 did you say that was Mr. Davis, Mr. Stanford and Allen
 19 Stanford's father?
 20 A You know, I don't think it was ever memorialized.
 21 It was certainly Allen Stanford, Jim Davis, Laura Pendergast
 22 was maybe joined somewhere in there, joined the investment
 23 committee. And at one time she told me O.Y. Goswick, who is
 24 on the board, was on this investment committee, but really
 25 from here it was Jim and Allen, and that's kind of the

1 understanding.
 2 Q Did you ever meet O.Y. Goswick?
 3 A I did not.
 4 Q Ever hear him on a conference call?
 5 A No.
 6 Q Did you ever see any indication that he was
 7 involved in managing the money?
 8 A No.
 9 Q Okay. What about Stanford's father. I think I've
 10 seen his name on a few lists as maybe being on the investment
 11 committee.
 12 A Well, perhaps. He's on the board of directors, and
 13 I've met him, but I have not seen him interact with the
 14 portfolio or anything.
 15 Q Okay, so in terms of first-hand knowledge, you've
 16 seen no indication that he was involved in managing the money
 17 personally?
 18 A Correct. Page 62

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22 the way. Some of the European advisors individually named
 23 might be considered on the board of advisors.
 24 Q But in terms of an actual investment advisory
 25 committee meeting where they came in and sat down and talked
 1 strategy?
 2 A No, that never saw that or participated.
 3 Q So, as I understand it, most of your interaction
 4 with them was when these individuals would come in and speak
 5 at some firm event or client event, something like that?
 6 A Yes.
 7 Q Who's Amyric, or Aymeric?
 8 A Aymeric is Aymeric Martinioa. I'm sorry. What was
 9 the question?
 10 Q I think it says "Aymeric will provide member lists
 11 and bios," at 45.
 12 A He was Jim Davis's executive assistant or assistant
 13 during this time period, 2005, 2006, 2007.
 14 Q Oh, Amyric, I'm sorry. Yeah.
 15 A Martinioa, M-a-r-t-i-n-i-o-a.
 16 Q Is there more you want to do on the spelling?
 17 A I'm done.
 18 MR. KELTNER: Michael, did you have anything else?
 19 MR. KING: Why don't we take a quick break?
 20 MR. KELTNER: Let's go off the record.
 21 (A brief recess was taken.)
 22 MR. KELTNER: We'll go back on the record at 11:45.
 23 I just want to go ahead and tick through a few of these other
 24 Q and A documents. So I'm going to mark as Exhibit 9 a
 25 document entitled, "Treasury meeting 12/9/05," and hand that
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1 to you.
2 (SEC Exhibit No. 9 was marked for
3 identification.)
4 MR. KELTNER: I know you've had a brief opportunity
5 to review it before we got started. Do you have a copy
6 Patrick?
7 THE WITNESS: Yes, I do.
8 BY MR. KELTNER:
9 Q So what's this document?
10 A This is from notes on December 9, 2005, of a
11 meeting I had with Patricia Maldonado who is the manager of
12 the treasury department of Stanford Financial Group.
13 Q Okay, and so does this meeting, did it take place
14 in Houston or Memphis?
15 A Houston.
16 Q Okay, so was anybody else there with you and
17 Patricia?
18 A It was just her and I.
19 Q Okay. So again, are these notes that you're just
20 taking live, presumably on your laptop? Would it have been
21 your practice to take written notes and then go back and type
22 them up, or would you typically type them?
23 A These were written and then typed up.
24 Q Why do you know that with respect to this? was it
25 something that stands out?

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5 depending on it's too much, too little, whether it's going to
6 be redeployed into investments in tier II or III, it would go
7 back to cash. Tier I is I recollect Patricia is a very
8 dynamic piece, so depending on what kind of expenditures or
9 CDs are coming in or do go out, is how much they kind of keep
10 them there.
11 Q Okay. We'll go through this in a little more
12 detail on that, that when you were in your SIO role, were
13 there any significant liquidations of investment positions or
14 significant going to cash transactions?
15 A Not that I knew of.
16 Q Remember when you left?
17 A July of 2007.
18 Q The second paragraph or I guess third paragraph
19 starts, "There is a service agreement in place between the
20 SIBL and SFG treasury. In addition to shareholder reserves
21 treasury is responsible for overseeing and allocating
22 management fees received from SIBL."
23 A The service agreement is tipped to run the cash
24 from the bank, so I guess for a fee they would get. They're
25 affiliated companies but separate companies, so SIBL would

1 pay Stanford Financial Group for their services to manage the
2 cash.
3 Q Okay, yeah. I think I see on the financial
4 statements annually a management fee being paid from the bank
5 for a whole host of services?
6 A Yes.
7 Q Okay. Those management fees that SIBL paid, where

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1 A I remember.
2 Q why did you go back and type them out?
3 A Well, it's just--
4 Q Your note-taking?
5 A Yes, you see, writing up I guess to commit it to
6 memory, just to review them and have them. This meeting of
7 course was part of my training as SIO, so I guess to have a
8 more codified. These are for me.
9 Q Did you put it in a binder or did you just keep the
10 electronic files?
11 A Electronic.
12 Q What was the purpose of your meeting with Patricia?
13 A To discuss her role, which is manager of tier I
14 cash, and just how that process flows, what it entails.
15 Q So was this just so you were going to play a role
16 with respect to tier I cash, or is this just so you would
17 have an answer when asked, the purpose of the meeting?
18 A More or less just to have an answer or just to
19 understand the process of having spent the bulk of the trade
20 up until then with Memphis, just to get a feel for, you know,
21 how at least this portion of the portfolio is managed.
22 Q Okay, so what cash is it that runs through
23 Patricia's group?
24 A It was my understanding that all the cash of the
25 portfolio was held in tier I cash.

1 Q Okay, so tier III sells an asset. Does that cash,
2 you think, end up in tier I cash?
3 A I think there is. Yeah, tier II and III would
4 inevitably accumulate cash during the course of business
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8 did they go? Do you know who ended up without the money?
9 A Depending on who they paid, I'm not sure if that
10 includes the manager fees. It's been a while since I've
11 looked at the annual report, but you have the management fees
12 or the banks, and advisors that are running the money, and
13 then you have fees for legal, treasury. Memphis I'm sure for
14 the research has paid a fee, so there's probably fees going
15 out to all these affiliated companies to service the bank.
16 Q what do you know about the structure of those
17 entities in terms of who owns them?
18 A Allen Stanford is the single shareholder.
19 Q And is that pretty much true across all the
20 entities?
21 A Yes.
22 Q Is that the consistent story when people are asked?
23 I mean is that something you know firsthand or just been
24 told?
25 A I would say been told.

1 Q But that's generally what, when people ask who owns
2 Stanford, the answer is Robert Allen Stanford.
3 A Yes.
4 Q Okay. And to your knowledge does Jim Davis have an
5 interesting?
6 A I don't think so. I don't know.
7 Q Okay. The following paragraph, Exhibit 9, starts
8 out: "Cash sits at three correspondent banks: TD, Toronto
9 Dominion, HSBC and National Republic." Obviously, TD is in
10 Canada. Do you know where the HSBC and National Republic
11 branches are?

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12 A I recollected that it's the London branch.
13 Q Okay. Is National Republic a London-based bank or
14 do they just have an office there?
15 A I thought that was U.S.
16 Q Yeah.
17 A Or is. I'm sure they've been bought out.
18 Q Okay. Just more generally and in this treasury
19 meeting, what were you told about who controlled the cash? I
20 mean did Patricia have discretion to issue wire transfers?
21 Who's managing it?
22 A She's managing it. I can't remember. She might
23 have had some discretion, but she reports to Jim Davis. He's
24 the chief financial officer, so he had ultimate discretion.
25 Q Okay. I guess there's a reference a few lines down

1 to executing transactions. It says getting approval on
2 transactions over one million from Mr. Davis?

3 A Yeah.
4 Q So it's consistent with what you remember Patricia
5 you Mr. Davis signed-off on the significant letters?
6 A Yes.

7 MR. KELTNER: I think that's all I have on that
8 one. I'm just going to go through them in chronological
9 order. I'm handing you a document I'm marking as Exhibit 10.
10 (SEC Exhibit No. 10 was marked for
11 identification.)

12 MR. KELTNER: It's entitled, "Client SIBL
13 questions." I'll give you a brief chance to look through
14 this document here.

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19 probably want to be conscious of answering it from my
20 knowledge base.
21 Q Okay. So you think Exhibit 10, maybe, you got the
22 list of questions from Laura, and when you sat down with
23 Laura and she gave you the party line or the answers?
24 A Yes.
25 Q I'm going to try to skip over some of the questions

1 that are duplicative and the answers seem to be duplicative
2 of prior exhibits. But skipping forward to item 6 of Exhibit
3 10, this question, how does the bank pay such high rates, I
4 think we talked about that a little bit. Was that a
5 recurring question that you got from investors?

6 A Yes.
7 Q Okay, and high rates rolled into what?
8 A They're presumably U.S. rates, but where the
9 clients come from; and it depended. I mean, there is not
10 necessarily the CD in some countries, but pace lower rates or
11 typically a U.S. client or a U.S. rate or a London-European
12 rate, why are the CDs higher?

13 Q Just generally. I mean, I know it changed a little
14 bit over time, but what was the spread between SIBs, CDs,
15 and, you know, a U.S. bank?

16 A To LIBOR or U.S. CDs with equal maturities,
17 probably about 300 basis points.
18 Q So in five years you might see 600 basis points at
19 Stanford, and 300 at a U.S. bank?

20 A Yes.
21 Q So, you know, you can read through the items on 6,

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(The witness examined the document.)

17 BY MR. KELTNER:
18 Q Can you tell me what Exhibit 10 is?
19 A These are a compilation of questions that would be
20 deemed as typical client questions that would come to the
21 bank.
22 Q Okay. I have to go back and check, but I think
23 this document dates to probably a time after your training
24 was complete. But to your recollection was this done while
25 you were still in Memphis?
26 A I would think while I was still in Memphis or

1 around that process.
2 Q Okay.
3 A But I could be wrong.
4 Q So were these actual client questions, or were
5 these illustrative client questions?

6 A These would be a compilation of, I think, kind of a
7 top whatever here, 20 questions that Laura Pendergest had
8 received over the years in her role as CIO and to anticipate
9 these questions over and over or variations of that.

10 Q Okay. When we talked about one of the prior
11 exhibits, I think you said they were questions that you would
12 come up with during your training.

13 A Yes.
14 Q This Exhibit 10, are these questions that were
15 given to you by Laura or are these your own questions?

16 A The questions were given to me and the answers were
17 also given to me, but I don't know if it's in my writing.
18 I'm going to guess it was in my writing, because I would
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22 but generally what was the answer given to investors when
23 they asked?
24 A We've covered on some of this. It's a unique or at
25 least a distinctive banking model. It's first and foremost.

1 It's domiciled at a zero, low-tax jurisdiction, so there's no
2 corporate tax. There's no loans, so you don't have loan
3 reserves. You have the flexibility of an investment
4 portfolio that could capitalize on various opportunities in
5 global markets. The very low overhead of employees, I think
6 that ties into legal, H.R. A lot of the other functions are
7 paid out so you don't have to hire people at the bank. I
8 guess the board of directors sets their own rates so you're
9 not tied to a reserve or like a local bank that's required to
10 take money out or lend money out in the community.

11 Q What about the sentence here in item 6, where it
12 says: "We have a single shareholder, therefore we do not have
13 to pay shareholder dividends?"

14 A Privately held, right. You know, if they're a
15 private company, you don't have to pay dividends at the end
16 of the year. I think there's an extension to that in a
17 shareholder who has not taken very many, that I remember,
18 dividends at the end of the year and just reinvested into his
19 own bank.

20 Q I think I've heard an expression, Robert Allen
21 Stanford or Mr. Stanford has never taken a dime out of the
22 bank. Was that kind of a recurring theme or was that part of
23 the Stanford story?

24 A Yeah, I don't know if it's ever, but I understand
25 that he rarely took a dividend, a profit at the end of the
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1 year that he just reinvested his retained earnings.
 2 Q Okay. And that's speaking of the profits from the
 3 bank itself?
 4 A Yes.
 5 Q I guess that doesn't take into account management
 6 fees, referral fees, things that were paid to the
 7 broker-dealer?
 8 A Correct.
 9 Q Because I think I remember in '07 referral fees
 10 were about \$140 million and management fees were about \$150
 11 million. Does that sound ball park?
 12 A It was a big number. What's the percentage? That
 13 sounds feasible.
 14 Q Yeah, I mean, the referral fees on the CDs were
 15 three percent, right?
 16 A Okay. Oh, you know, I think it depends. To sell a
 17 CD you mean?
 18 Q Hm-hmm.
 19 A I think it varied from country to country. I
 20 believe it was three percent of the United States to the firm
 21 and to the broker.
 22 Q Three percent went to the Stanford Group Company
 23 broker-dealer?
 24 A Yes.
 25 Q Okay. And then there was also a management fee

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5 paragraph of item 7 on the following page that starts out
 6 "The investment discipline dates back over seven years with
 7 Stanford, and 20 years with the SIBL portfolio." What was
 8 your understanding about the pre-SIBL track record or the
 9 pre-SIBL experience? What's that in reference to, the 50
 10 years before the 20?
 11 A Well, the company I guess, was the grandfather of
 12 Lotus, started the company about seven years ago as an
 13 insurance company. So this to me is in reference to the
 14 success of the insurance company. It's my understanding that
 15 second generation and then the third generation kind of
 16 divested into more real estate investing. And ultimately
 17 Allen Stanford real estate investment in the Caribbean and
 18 Mexico led the bank as a place to park profits that he had
 19 made for his investors.
 20 Q What was the insurance company? I mean was it a
 21 nationwide like State Farm or was it like an agent?
 22 A I want to say, and I didn't know. There wasn't a
 23 lot of training on this but I just want to recollect it was a
 24 regional maybe property and casualty. It was kind of a
 25 local, Mahaia, Texas, spawned out of the depression insurance
 1 company.
 2 Q So you think an actual insurer as opposed to like
 3 an agency that sells insurance?
 4 A I was led to believe an insurance company, an
 5 insurer, yes.
 6 Q Is that kind of the sum total of the history you
 7 were given regarding the Stanford Family businesses?

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1 component that was a percentage, I think, of assets under
 2 management or something like that. I think we've kind of
 3 covered management fee service agreements, but also the
 4 management fee to those running the assets of the bank?
 5 A Right, yeah.
 6 Q So here I'm looking at a copy of the '07
 7 financials. I'm showing you referral fees of 149 million in
 8 2007 and management fees of 143 million. So that money would
 9 all go to one of the Stanford Financial Group companies,
 10 right?
 11 A Hm-hmm.
 12 Q Is that a yes?
 13 A Yes, sorry.
 14 Q That was for Terry's benefit.
 15 A Yes.
 16 Q And the sole shareholder of those entities is also
 17 Robert Allen Stanford. Correct?
 18 A Yes.
 19 Q Just real quick, there's a couple things in item 7.
 20 I mean it's a similar question: "How do you achieve your
 21 returns." The reference in the last paragraph on the page
 22 that starts, "SIBL utilizes 20 plus advisors primarily
 23 located in Europe and Canada. Many of these advisor
 24 relationships have been around since the inception of the
 25 SIBL portfolio." This language, I think you told us that

1 it's kind of a consistent sales message that's given to the
 2 clients?
 3 A Yes.
 4 Q one other thing I wanted to touch on in the last
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8 A Yes.
 9 Q was that one of the selling points for Stanford
 10 bank? You know, we've got this seven-year history. We've
 11 been around forever. Was that the kind of thing that showed
 12 up in marketing materials? I think I've seen pictures of
 13 Lotus, things like that.
 14 A I think in the marketing material there's reference
 15 to seven years, three generations, family-owned, but not
 16 really at the bank. I personally didn't know, as I just
 17 exhibit a lot about the history of the firm. You know, prior
 18 to the bank, as it pertains to selling the bank.
 19 Q It's not much of a budget for cuts. Just real
 20 quickly, item 8 is entitled, "How safe are client's deposits
 21 and what guarantees exist for payment of interest." I know
 22 we've gone through some of this, so I don't want to belabor
 23 it, but the first sentence starts with, "From an investment
 24 standpoint, hopefully, is very conservative." Explain to me
 25 how it's conservative?
 1 A From a diversification standpoint, conservative in
 2 that you're spread-out amongst a lot of our asset classes or
 3 all asset classes. In addition, countries and currencies, so
 4 you're not exposed to large concentrations of risk in
 5 whatever market you're in or investment.
 6 Q But not necessarily in terms of it's all in
 7 government issued securities or fixed-income, it's not
 8 conservative from that standpoint?
 9 A Correct. Conservative from a diversification
 10 standpoint and to a discipline of staying within your
 11 parameters of that discipline, of that allocation, I should
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12 say.
 13 Q Okay. Again, I'll skip over some of the stuff
 14 we've covered, but in the paragraph below, there's a sentence
 15 that says, "The SIO cannot transfer money in and out of
 16 accounts and can only request transfers and wait for Mr.
 17 Davis's approval." Just to clarify, that role wasn't your
 18 role to manage the money to request transfers in and out.
 19 correct?
 20 A That would be I think in the perfect execution of
 21 that position or realistic execution of that position the SIO
 22 would essentially maybe take over Laura Pendergest's role,
 23 could see that we move money from one advisor to the next but
 24 would have to be approved.
 25 Q Okay, but when you were there that was more Laura's

1 job?

2 A Yes.

3 Q I real quickly want to touch on something you
 4 mentioned in the last sentence of item 8. There's a
 5 reference to excess FDIC insurance. what is that?

6 A I think it's a separate policy. No, actually, I
 7 think it's a policy with the actual funds held at
 8 corresponding banks in the U.S., because FDIC has access
 9 insurance. So whatever's held at this national republic,
 10 there's insurance to cover over the, whatever, the 100,000,
 11 400,000 FDIC limit is. Presumably, there's probably millions
 12 in this account.

13 Q Sure. I think before you told me you thought that
 14 money was in a branch in London?

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19 somehow get back to that safety of assets and the process,
 20 government oversight.
 21 Q They're not FDIC insured, but all this other stuff?
 22 A Right.
 23 Q Nine, just touching on it real quickly, says, "How
 24 liquid is the portfolio?" And the response back, "Extremely
 25 liquid. Up to 50 percent can be liquidated in two plus two;

1 20 percent in two plus three; and then the remaining within
 2 90 days." So again this is information that you got from
 3 Laura, correct?

4 A Correct.

5 Q So, again, juts rough math, 70 percent of the
 6 portfolio can be liquidated in three days or less?

7 A Excuse me, correct.

8 Q And that's what Laura told you?

9 A Hm-hmm.

10 Q And the remaining can be liquidated within 90 days,
 11 the balance of a portfolio?

12 A Yes.

13 Q Okay. And item 10 touches on something we talked
 14 about a little bit earlier. Will the bank publish individual
 15 portfolio positions? It says, unfortunately we're not
 16 allowed to disclose individual positions because of banking
 17 regulations. And that's generally, I think, consistent with
 18 what you told me before today?

19 A Yes.

20 Q Those banking regulations, are those Antiguan
 21 banking regulations or were you told anything about that?

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15 A HSBC.
 16 Q You think maybe the Republic Bank money was in the
 17 U.S.?
 18 A Yes, I believe that's a U.S. bank.
 19 Q Why would it be called excess FDIC insurance, when
 20 it sounds like most of the money is in Toronto, London?
 21 A I don't understand FDIC, but it would have to be
 22 insurance on whatever banks are used in the U.S. to call it
 23 excess FDIC insurance.
 24 Q Okay. Candidly, one of the reasons we ask is
 25 because, you know, we've heard stories with, perhaps,

1 supervisors, particularly folks selling outside the U.S., but
 2 also maybe within the U.S., as part of the sales pitch would
 3 strongly imply and/or say these things are insured. These
 4 CDs are insured, and throw around words like excess FDIC
 5 insurance. One, did you ever see anything like that or here
 6 anything like that in a pitch?

7 A I did not. And I rarely participated on the sale
 8 side, you know, in the U.S. It was mostly in Antigua, a few
 9 times, by conference call. So I have not witnesses, and I'm
 10 sure I would have stopped it if I was in that meeting.

11 Q Because clearly CDs are not insured?

12 A That's correct.

13 Q Okay. And in your interactions with clients, did
 14 anyone ever ask, hey are these things insured or is there
 15 anything like FDIC insurance?

16 A Yes.

17 Q And what would the response be?

18 A Typically, steer back to the investment process and
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22 A Antiguan banking regulations, yes, as a charter
 23 bank in Antigua, we were bound by law, I guess, for lack of a
 24 better word, to hold ourselves out to be that as a bank and
 25 not an investment vehicle.

1 Q Okay. Were you ever told that the law specifically
 2 said we can't tell you what's on our portfolio or was it an
 3 issue?

4 A Yeah, I do. I think it was how you hold yourself
 5 out. I don't recollect it being specific. My understanding
 6 of the training is the more you get into it. The more you
 7 keep talking about it and lifting up the hood, the more
 8 you're emphasizing the investment side.

9 Q Okay. So, again, the consistent theme of steering
 10 investors away from the investment side and back to the terms
 11 of the CD?

12 A Correct, yes.

13 Q The following paragraph says investment should only
 14 be discussed from an investment philosophy or macro
 15 perspective. The only product SIBL offers are certificates
 16 of deposit. Therefore, the investment portion of the
 17 portfolio is really moot. The important issue to the client
 18 should be terms of CDs, rates, financial strength of the
 19 bank, operational efficiency of the bank, regulatory
 20 environment, et cetera. And that seems to encapsulate kind
 21 of what you told me was the party line when people asked
 22 about the returns.

23 A Yes.

24 Q The next paragraph says "Regulatory language states
 25 do not hold yourself out to be a fund." Is that hedge funds?

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