

**US Commercial Credit Risk  
Portfolio Management**

# **Energy Finance Monthly Update**

**March, 2015**

# March 2015 YTD Snapshot

(\$ in Millions)

Metric (\$MM)	Mar-14	Sep-14	Dec-14	Jan-15	Feb-15	Mar-15	MAR '15 Budget	MAR'15 vs. Budget
<b>Exposure</b>	1,289	1,440	1,637	1,561	1,628	<b>1,514</b>	--	--
<b>Outstandings</b>	522	515	689	729	791	<b>721</b>	<b>597</b>	● 124
<b>Delinquency</b>	0.0	0.0	0.0	0.0	15.1	<b>0.0</b>	--	--
<i>Ratio</i>	0.00%	0.00%	0.00%	0.00%	1.91%	0.00%	--	--
<b>Nonaccrual</b>	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>	<b>0.6</b>	● -0.6
<i>Ratio</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.11%	● -0.11%
<b>Criticized Outstandings</b>	0.0	0.0	0.0	5.7	6.2	<b>6.2</b>	--	--
<i>Ratio</i>	0.00%	0.00%	0.00%	0.78%	0.79%	0.87%	--	--
<b>Classified</b>	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>	--	--
<i>Ratio</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	--	--
<b>NPL</b>	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>	--	--
<i>Ratio</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	--	--
<b>Net Charge-Offs YTD</b>	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>	<b>0.1</b>	● -0.1
<i>YTD Annualized Ratio</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.09%	● -0.09%
<b>VMG (local) YTD</b>	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>	--	--
<i>Risk Premium</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	--	--
<b>Provision YTD</b>	-0.3	-0.7	-0.3	-0.3	-0.1	<b>-0.5</b>	<b>0.2</b>	● -0.7
<i>Cost of Credit</i>	-0.60%	-0.16%	-0.05%	-0.11%	-0.06%	-0.08%	0.04%	● -0.12%
<b>ALLL</b>	2.4	2.2	2.7	2.9	3.1	<b>2.8</b>	<b>3.1</b>	● -0.3
<i>Ratio</i>	0.46%	0.42%	0.39%	0.39%	0.39%	0.39%	0.53%	● -0.13%
<i>ALLL/Nonaccrual</i>	n/a	n/a	n/a	n/a	n/a	n/a	--	--
<b>Mora</b>	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>	--	--

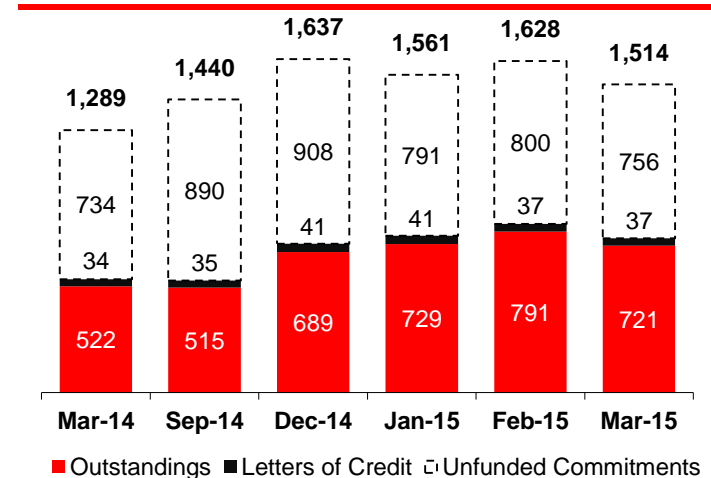
Note: Budget data as of 3/18/15.

# Energy Finance: Credit Exposure Overview

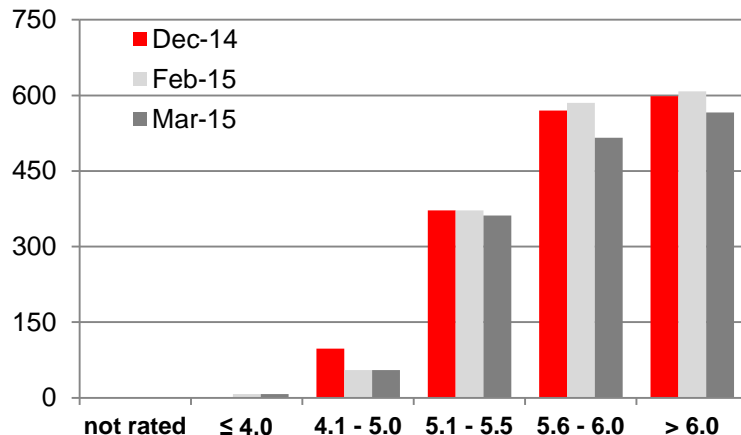
(\$ in Millions)

- The Oil & Gas portfolio has grown from an 18 client (\$872 MM) relationship in 2013 to 44 names (\$1.5 Bn) in March 2015.
- It registers high concentration levels with average exposure of \$35,9 MM per client and the TOP 20 clients representing 79,6% of total exposure
- The portfolio peaked in Dec 2014 after the November BB redetermination, when oil prices had begun to show a downward trend
- The oil price reached its lower level (below \$50) between Jan15 and Mar15 with low impact on the Portfolio during that period (BB redetermination is not due until Apr15).
- Outstandings remain relatively stable since the RBL companies are not accessing yet the capital markets due to unfavorable prices
- Total exposure and outstandings are expected to start reducing during the 2Q15 after the April BB redetermination and with the RBL companies adjusting their BB and start to accessing the capital markets

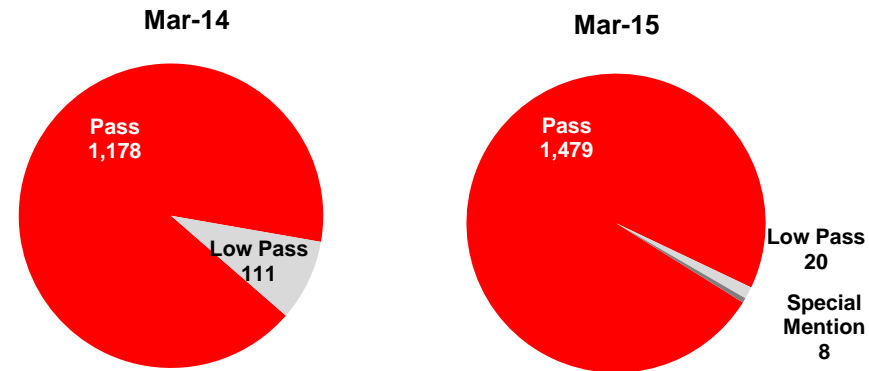
## Exposure



## Exposure by Obligor Rating



## Exposure by Regulatory Rating



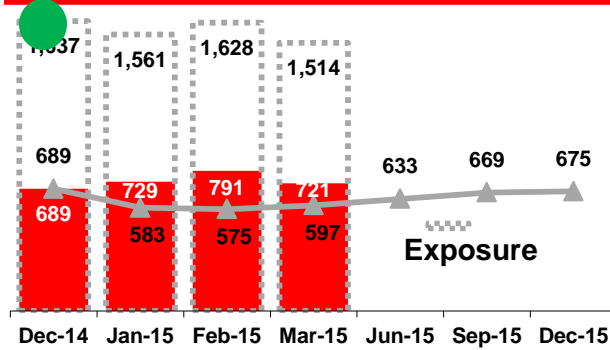
- Sources: The Exposure Chart on the top right is based on the 3/31/15 Credit Metrics report. The Exposure by ORR and Regulatory Rating is derived from Monitoring's FEVE report as of 3/31/15.

# Energy Finance: Performance vs. Budget

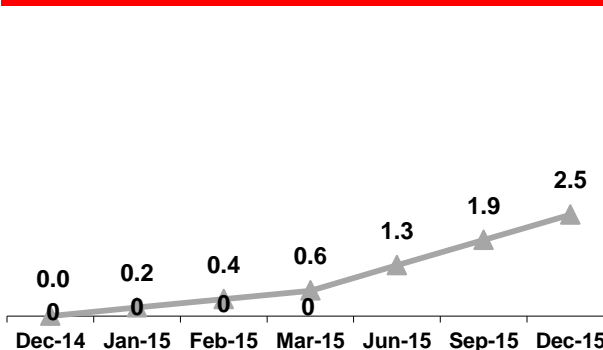
(\$ in Millions)

- All metrics are within budget with outstandings performing better than budget resulting from a slower than expected reduction in utilization form RBL companies.

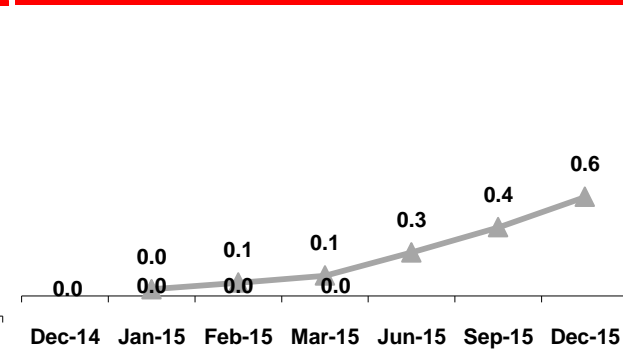
## Outstandings



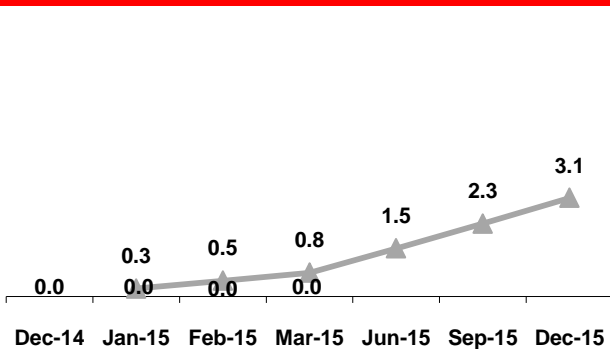
## Nonaccrual Loans



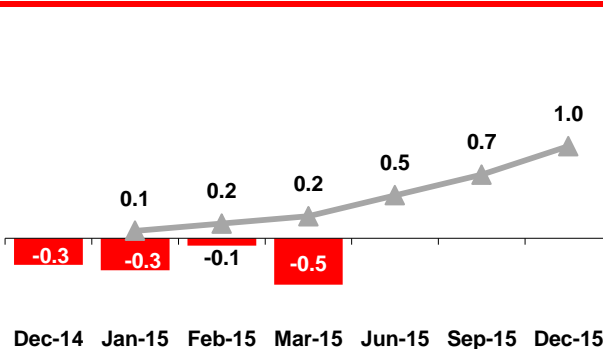
## Net Charge-Offs YTD



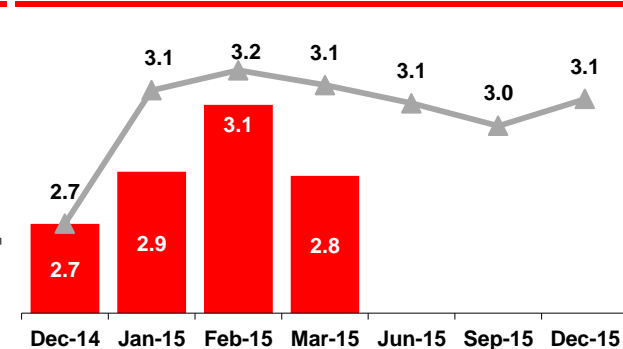
## VMG (Spanish) YTD



## Provision for Credit Losses YTD



## ALLL



Actual (YTD) — Budget (YTD)

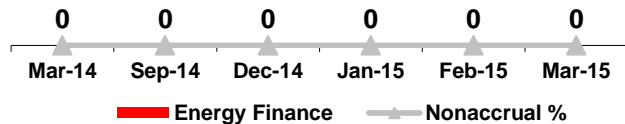
# Energy Finance: Credit Quality Metrics (1 of 2)

(\$ in Millions)

- No nonaccrual and classified loans reported.
- Criticized loans corresponds to 1 special mention loan (Venoco Inc) that is expected to be fully repaid by 6/30/2015.
- The delinquency reported in February is related to Smart Sand Inc that is a syndicated loan and was due to a participation posting error. The client was not delinquent.

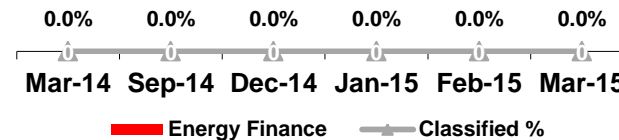
## Nonaccrual Loans

No Nonaccrual were reported.

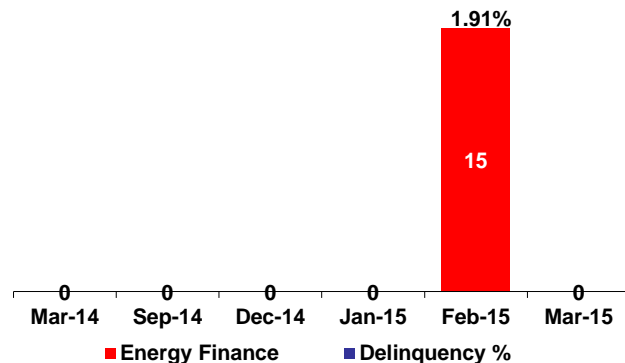


## Classified Loans - outstandings

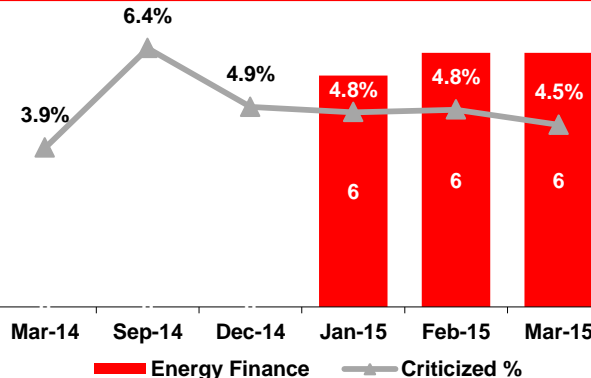
No Classified Loans were reported.



## Delinquency



## Criticized Loans - outstandings



Outstandings of \$6 MM  
on \$7.7 MM of Exposure  
= Special Mention  
+ Substandard  
+ Doubtful  
+ Loss

Source: SBNA Solvency - Budget data as of 3/18/15.

Note: **Classified** = Substandard + Doubtful + Loss.

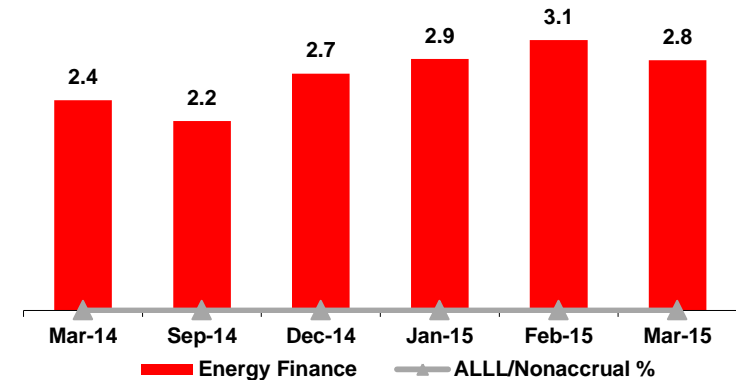
**Criticized** = Classified + Special Mention

# Energy Finance: Credit Quality Metrics (2 of 2)

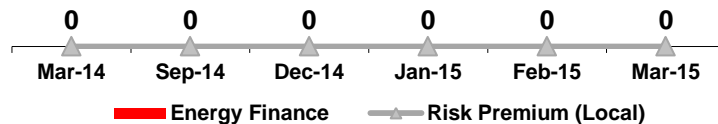
(\$ in Millions)

- Overall good performance through the entire portfolio with no entries in NPL in 1Q15.
- No new entries in NPL expected for April

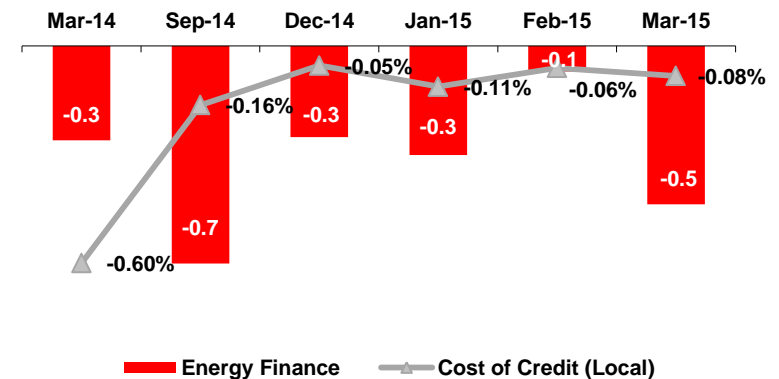
## Allowance & Coverage



## VMG & Risk Premium



## Provision & Cost of Credit



Source: SBNA Solvency - Budget data as of 3/18/15.

VMG = Change in Mora (Nonaccrual including letters of credit) plus Net Charge-Offs

Cost of Credit = Rolling 12 months Provision / Average 12 months Utilizations

Risk Premium = Rolling 12 months VMG / Average 12 months Utilizations

# Energy Finance: FEVE Trends

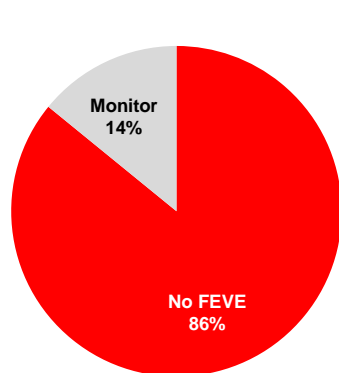
(\$ in Millions)

- Good Portfolio quality with 96% of the Binding Exposure classified as NO FEVE.
- The Portfolio is being closely monitored since 11/2014 due to the fall of the oil prices with 4 reviews made to date.
- As a result the group exited 3 relationships with a reduction of 101 MM since Dec14 and another 7,7 MM are expected to reduce through Jun15
- No FEVE upgrades or downgrades in March

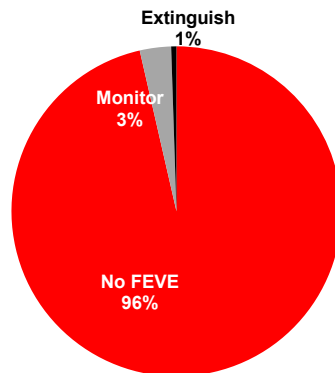
## FEVE Status in Mar-15

Master One Obligor	Binding Exposure	Outstandings	Comment
<b>FEVE Extinguish</b>			
VENOCO INC	\$8	\$8	Expected to be fully repaid by 6/30
	\$8	\$8	
<b>FEVE Monitor</b>			
ATLAS RESOURCES	\$26	\$26	Exposure decreased from \$31.6 MM in Dec14 to current 26,4MM
ENERGY XXI GULF	\$20	\$20	Exposure decreased from \$59.5 MM in Dec14 to current 19,8MM
	\$46	\$46	

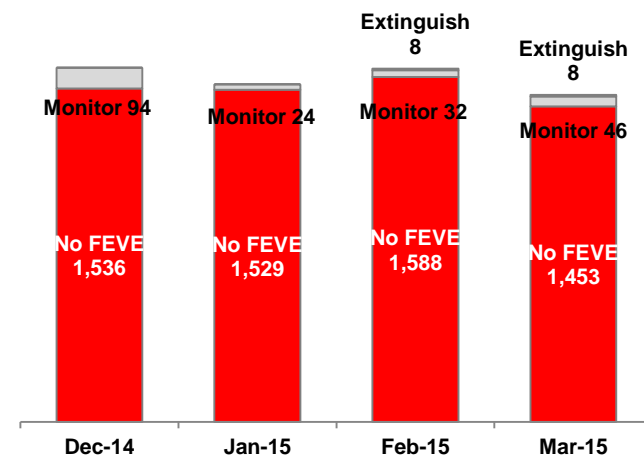
## FEVE Distribution 3/31/14



## FEVE Distribution 3/31/15



## FEVE Portfolio Distribution



Source: FEVE Monitoring Report as of 3/31/15.

# P&L Performance as of 3/31/2015

## Highlights

- Excluding the one time extraordinary revenue of \$2,6 MM generated in 2014 the portfolio is estimated to generate 16% more revenue, derived from higher loan outstandings, deposit balances and fees; PBT for YE 2015 is expected to grow around 9%.
- Expenses are similarly expected to increase due to additional headcount and changes in the cost allocation methodology
- Performance through 1Q15 was better than budget due to a mix of higher interest income, supported in higher utilizations of the RLOCs, and lower cost of funds. PBT for the period was 63% higher than budget.

## 2015 Budget

	2014	2015	Variance
Net Interest Income	9	10.4	1.4
Fees / Other Income / ROF	6.7	4.8	-1.9
Revenues	15.7	15.2	-0.5
Operating Expenses	-6.3	-6.9	-0.6
Provisions	0	-0.9	-0.9
PBT	9.4	7.4	-2
Taxes	-3.3	-2.6	0.7
Net Income	6.1	4.8	-1.3
Pre-Tax ROA	1.74%	1.17%	-0.57%

## Key Credit Risk Indicators

	Actual	Budget	Variance
Gross Chargeoffs	0.0	0.2	-0.2
Recoveries	0.0	0.1	-0.1
Net ChargeOffs	0.0	0.13	-0.13
Reserve build / (release)	0.0		
Total Provision	0.3	0.2	0.1
ALLL	5.2	3.1	2.1
Exposure	1,514	n/a	
Unpaid Principal Balance	721	597	124
Provisions/Assets	0.0%	0.0%	0.0%
ALLL/Assets	0.7%	0.5%	0.2%
Delinquency	0.0	n/a	
NPL	0.0	0.6	-0.6

## 2015 YTD vs. Budget

	Actuals	Budget	Variance
Gross Interest Income	4.6	3.9	0.7
Interest Expense	-1.3	-1.5	0.2
Net Interest Income	3.3	2.4	0.9
Fees / Other Income / ROF	0.9	1.1	-0.2
Revenues	4.2	3.5	0.7
Operating Expenses	-1.5	-1.6	0.1
Provisions	0.1	-0.1	0.2
PBT	2.8	1.7	1.1
Taxes	1	-0.6	1.6
Net Income	1.8	1.1	0.7
Pre-Tax ROA	1.45%	1.16%	0.29%

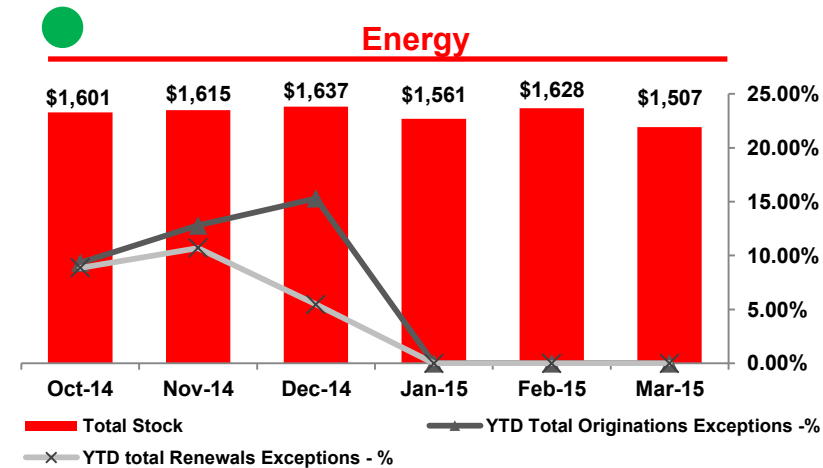
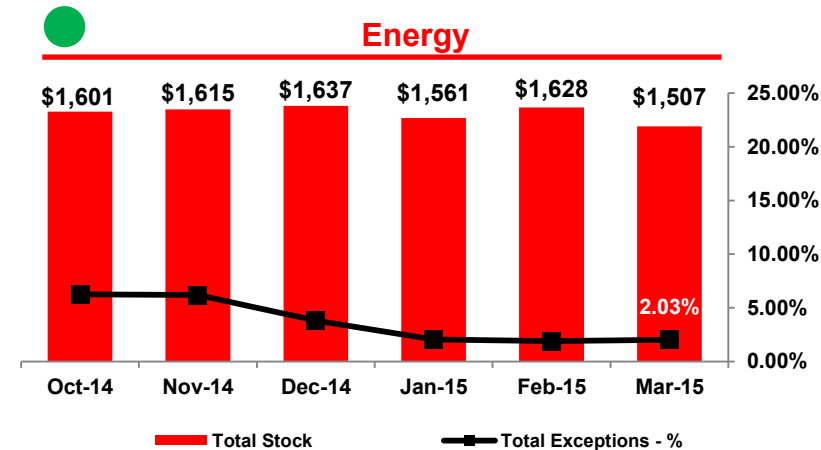
**Source:** 2014 Actual results were provided by Finance. 2015 Budget data were taken from the most recent Energy Finance SCP.



# Energy Finance: Exception Management

(\$ in Millions)

- The Energy Portfolio registers low levels of exceptions with no new exceptions registered during the 1Q2015.
- There were no Policy Exceptions.
- Underwriting Guidelines exceptions were related to advance rate guidelines and affected 2 customers



March-15	BANK	ENERGY	% Energy Portfolio	% of Bank Portfolio
Total Facilities #	35,761	51	-	0.1%
Total Portfolio	\$58,382	\$1,507	-	2.6%
Total Exceptions Facilities #	1,275	2	3.92%	0.2%
Total Exceptions Exposure	\$8,162	\$31	2.03%	0.4%
Policy Exceptions #	11	0	0%	0.0%
Policy Exceptions	\$48	\$0	0%	0.0%
UW Guidelines Exceptions #	1,270	2	100%	0.2%
UW Guidelines Exceptions	\$8,341	\$31	100%	0.4%

**Source:** CCMIS, Exposure means Binding Exposure. "BANK" refers to SBNA without Retail, Small Business Banking, and runoff portfolios.

# APPENDIX

- Top 20

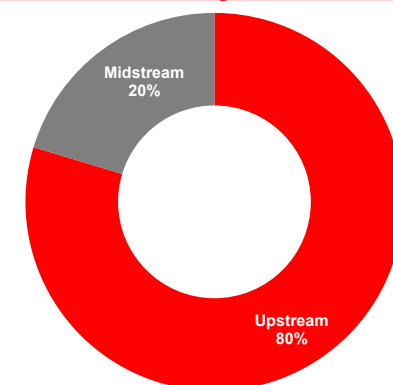
# Energy Finance: Top 20

(\$ in Millions)

- The Energy Finance Top 20 is concentrated in the upstream companies, accounting for 79,6% of Binding Exposure and 69% of utilizations.
- No rating changes were reported since 1/31/15. The WARR of 5.9 indicates a good Pass rating.
- There were 2 changes to the Top 20 counterparties during the 1Q15 with the entry of Exterran (new counterparty) and Tallgrass which has substituted Energy XXI.
- The Top 20 customers reflect 45% of the 44 Energy Finance customers, 72% of Binding Exposure and 1,8% of Total Bank exposure.

Rank	Master One Obligor	Industry	Mar-15 ORR	Feb-15 ORR	Mar-15 FEVE	Total Binding Exposure	Utilization
1	CONTINENTAL RESOURCES INC	Upstream	6.7	6.7	-	125.0	38%
2	WHITING OIL & GAS CORPORATION	Upstream	6.5	6.5	-	105.0	0%
3	DENBURY RESOURCES INC	Upstream	6.3	6.3	-	85.0	30%
4	SM ENERGY COMPANY	Upstream	6.1	6.1	-	80.0	28%
5	BREITBURN OPERATING LP	Upstream	5.9	5.9	-	77.5	89%
6	ENDEAVOR ENERGY RESOURCES LP	Upstream	5.8	5.8	-	76.2	77%
7	NET MEXICO PIPELINE PARTNERS LLC	Midstream	5.1	5.1	-	64.5	74%
8	ANTERO RESOURCES CORPORATION	Upstream	5.6	5.6	-	50.0	36%
9	CIMAREX ENERGY COMPANY	Upstream	6.3	6.3	-	50.0	0%
10	HILCORP ENERGY ILP	Upstream	6.2	6.2	-	40.0	53%
11	RANGE RESOURCES CORPORATION	Upstream	5.2	5.2	-	40.0	51%
12	SANDRIDGE ENERGY INC	Upstream	5.6	5.6	-	36.9	20%
13	NORTHERN OIL & GAS INC	Upstream	6.1	6.1	-	36.7	61%
14	EMERGE ENERGY SERVICES LP	Midstream	5.5	5.5	-	35.0	68%
15	EXTERRAN PARTNERS LP	Midstream	5	5	-	35.0	53%
16	MEMORIAL PRODUCTION OPERATING LLC	Upstream	5.6	5.6	-	33.4	44%
17	AMERICAN MIDSTREAM LLC	Midstream	5.3	5.3	-	30.0	82%
18	CRIMSON GULF LLC	Upstream	5.6	5.6	-	30.0	69%
19	TALLGRASS ENERGY PARTNERS LP	Midstream	5.5	5.5	-	30.0	81%
20	ATLAS RESOURCE PARTNERS LP	Midstream	5.2	5.2	Monitor	26.4	75%
<b>SUBTOTAL</b>			<b>5.9</b>			<b>1,086.5</b>	

TOP 20 by Sector



Source: FEVE Monitoring report as of 3/31/15.

The number of customers was determined by Master One Obligor.



# Open Regulatory – Internal Audit and Loan Review Issues

- There are currently no open MRAs or Internal Audit Recommendations specific to Energy Finance.
- Of the 18 MRAs/RPAs, 3 are in progress.
- The 3 items in progress, 2 are related to SBNA - CRE and 1 to Puerto Rico.
- All Internal Audit recommendations were implemented
- Loan Review information is not available at this time

SBNA – in progress						
Target	Mar	Apr	May	Jun	Jul	Aug
Loan Review	-	-	-	-	-	-
Internal Audit	-	-	-	-	-	-
Regulatory	-	-	-	2	-	-
<b>Total: 2</b>	-	-	-	<b>2</b>	-	-

All Business Units	Open	In Progress	DtR
Regulatory Matters	13	3	10
<i>MRIA</i>	1	0	1
<i>MRA / MRBA</i>	12	3	9
Internal Audit Recommendations	10	1	n/a
Loan Review Recommendations	n/a	n/a	n/a
<b>Grand Total</b>	<b>23</b>	<b>4</b>	<b>10</b>

SBNA	Open	In Progress	DtR
Regulatory Matters	10	2	8
<i>MRIA</i>	0	0	0
<i>MRA / MRBA</i>	10	2	8
Internal Audit Recommendations	6	0	n/a
Loan Review Recommendations	n/a	n/a	n/a
<b>Grand Total</b>	<b>16</b>	<b>2</b>	<b>8</b>
Applicable to CRE	3	2	1
Applicable to BB + MM & C&I	2	0	2
Applicable to Dealer Floor Plan	1	0	1
Applicable to all Business Lines	3	0	3
Others	1	0	1
<b>Grand Total:</b>	<b>10</b>	<b>2</b>	<b>8</b>

Source: Internal Audit

DtR notes that the material to remediate the finding has been Delivered to Regulators.  
DtR and In Progress include all Open MRIsAs and MRAs from 2013 and 2014.

# Open Regulatory, Internal Audit, and Loan Review Issues - Tracking

MRA /RPA	DESCRIPTION / CONCLUSION	STATUS	TAREGT DATE
<b>MRA: Credit Administration</b>	Modify primary loan approval document to provide a comprehensive, succinct summary of the key risks, mitigants, transaction rationale, and risk rating justification	In process.	6/30/15
<b>MRA: Quality of MIS and Level of Portfolio Analytics:</b>	Develop comprehensive portfolio analytics.	In process.	6/30/15

# Next Steps

ISSUE	PROPOSED ACTION PLAN	RESOURCES	Target Date
<ul style="list-style-type: none"> <li>Average Portfolio rating of 5,8 as of March is too high considering the impact the fall of the oil prices in having in this sector</li> </ul>	Review ratings for the entire Portfolio (in progress during April)	<ul style="list-style-type: none"> <li>Oil &amp; Gas Risk Team</li> </ul>	4/15/15