

**US Commercial Credit Risk
Portfolio Management**

Asset Based Lending “ABL” 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
Exposure	1,520	1,593	1,593	1,599	1,593	1,611	--	--
Outstandings	888	895	895	877	863	862	957	● -96
Delinquency	0	0	0	0	0	0	--	--
<i>Ratio</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	--	--
Nonaccrual	5	21	7	4.9	4.6	4.8	6.2	● -1.5
<i>Ratio</i>	0.58%	2.35%	0.77%	0.56%	0.54%	0.55%	0.65%	● -0.10%
Criticized Outstandings	35	57	44		42	39	--	--
<i>Ratio</i>	3.91%	6.36%	4.92%	4.79%	4.85%	4.48%	--	--
Classified	22	38	12	12	28	26	--	--
<i>Ratio</i>	2.44%	4.21%	1.34%	1.35%	3.26%	3.06%	--	--
NPL	5	21	7	4.9	4.6	4.8	6.2	● -1.5
<i>Ratio</i>	0.58%	2.35%	0.77%	0.56%	0.54%	0.55%	0.65%	● -0.10%
Net Charge-Offs YTD	0	0	-3	0.0	-0.3	-0.26	0.66	● -0.93
<i>YTD Annualized Ratio</i>	0.00%	-0.01%	-0.29%	0.00%	-0.18%	-0.12%	0.28%	● -0.40%
VMG (local) YTD	0	16	-1	-2.0	-2.5	-2.4	--	--
<i>Risk Premium</i>	-0.90%	0.89%	-0.10%	-0.33%	-0.39%	-0.38%	--	--
Provision YTD	0.3	0.8	0.6	0.1	1.0	-0.7	0.8	● -1.48
<i>Cost of Credit</i>	-0.81%	-0.40%	0.07%	0.07%	0.18%	-0.05%	0.11%	● -0.16%
ALLL	6.7	6.0	8.5	8.5	9.4	7.5	8.3	● -0.8
<i>Ratio</i>	0.76%	0.67%	0.95%	0.97%	1.09%	0.87%	0.87%	● 0.00%
<i>ALLL/Nonaccrual</i>	131.37%	28.72%	123.12%	174.76%	203.33%	158.18%	133.70%	● 24.48%
Mora	5	22	7	4.9	4.6	4.9	--	--

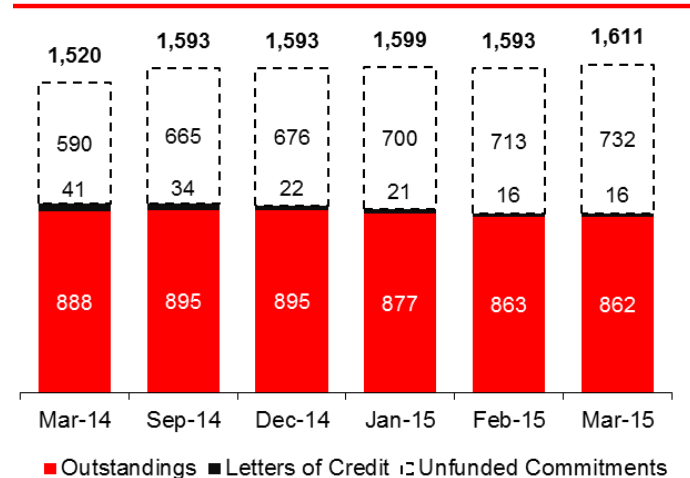
Note: Budget data as of 3/18/15.

ABL: Credit Exposure Overview

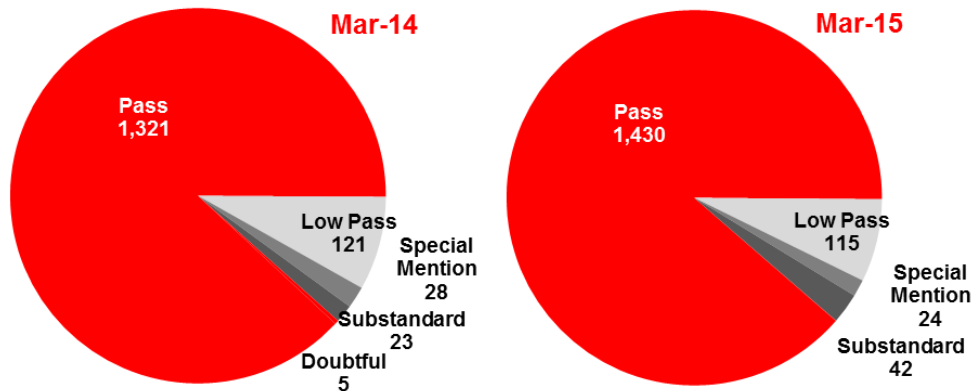
(\$ in Millions)

- The size of the portfolio is stable; however, Outstandings continue to decline by \$1MM in March while Exposure increased by \$18MM.
- Portfolio growth is driven by ABL-South which originated two new facilities in March: (1) a 364-day \$50MM RLOC with Jefferies Finance (ORR 5.6, No FEVE) and (2) a 3-year \$15MM RLOC with Solomon Edwards (ORR 4.4, FEVE Monitor*), which increased the Low Pass portfolio to \$115MM.
- OHM International (\$16MM, ORR 4.8, FEVE Monitor) was the only portfolio exit.
- The rating distribution remains stable, with 96% of the portfolio rated Pass and Low Pass.

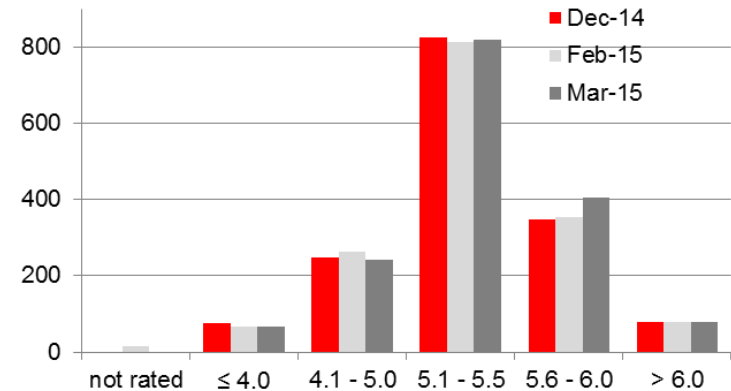
Exposure



Exposure by Regulatory Rating



Exposure by Obligor Rating

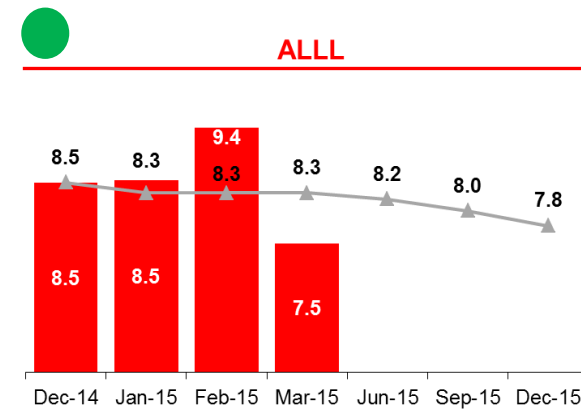
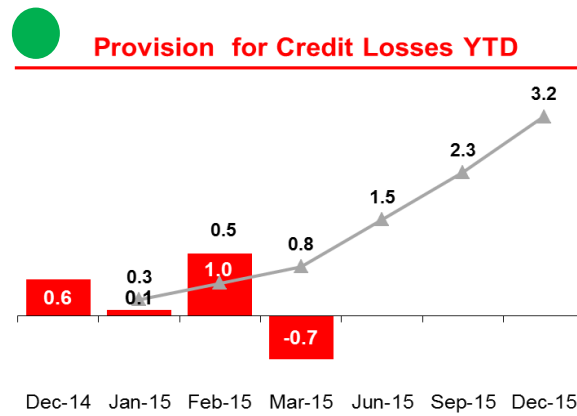
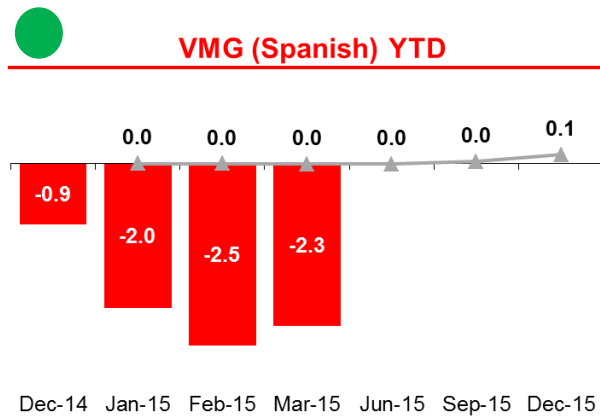
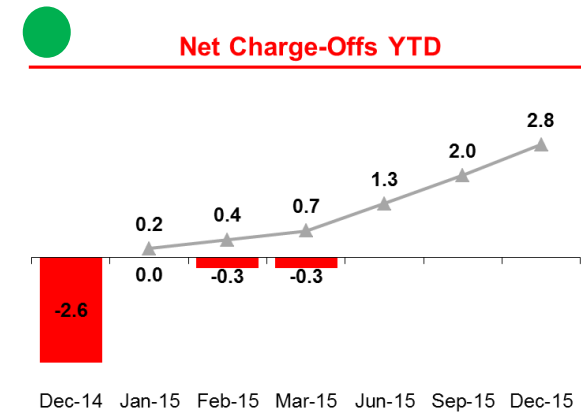
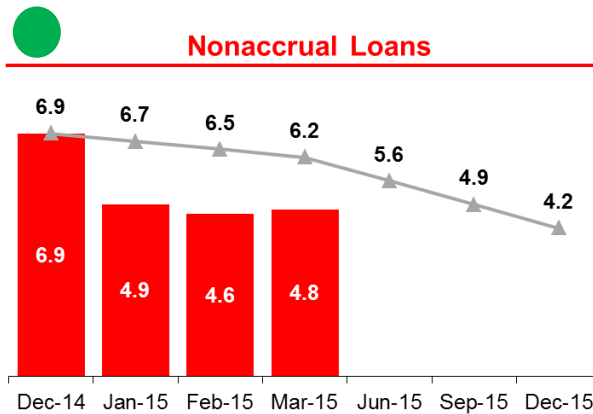
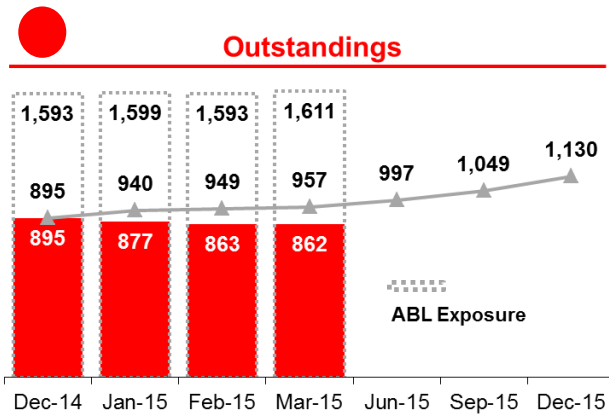


- Sources: The Exposure Chart on the top right is based on the 3/31/15 Credit Metrics report. The Exposure by ORR and Regulatory Rating is derived from Monitoring's FEVE report as of 3/31/15.
- Solomon Edwards was incorrectly assigned a "No FEVE" rating and 0.0 ORR as of 3/31/15 MMT. US COML PM corrected this manually.

ABL: Performance vs. Budget

(\$ in Millions)

- ABL continues to underperform its budget for funded outstandings (-10%), due to the combination of decreasing usage under the existing credit lines as well as a lack of new originations.
- The decline in ALLL and Provisions to below their respective budgets is the result of the \$1.6 million release of provisions for Mar Lees, a seafood company in Workout that is self-liquidating its assets to repay the outstandings under its revolver. No losses are expected with a projected release of the still remaining \$1.4MM reserve in the next 3-6 months.



— Actual (YTD) — Budget (YTD)

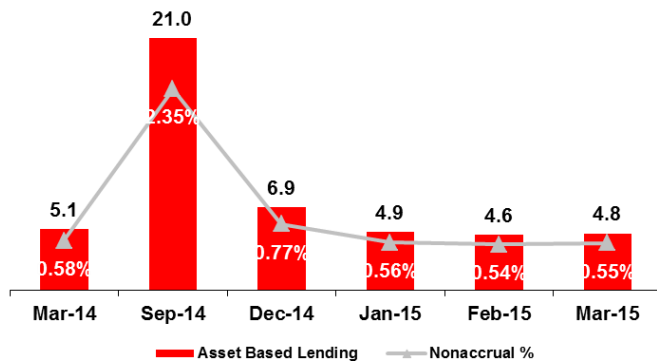
Source: SBNA Solvency - Budget data as of 3/18/15, Provision data by facility as of 2/28/15 and 3/31/15.

ABL: Credit Quality Metrics (1 of 2)

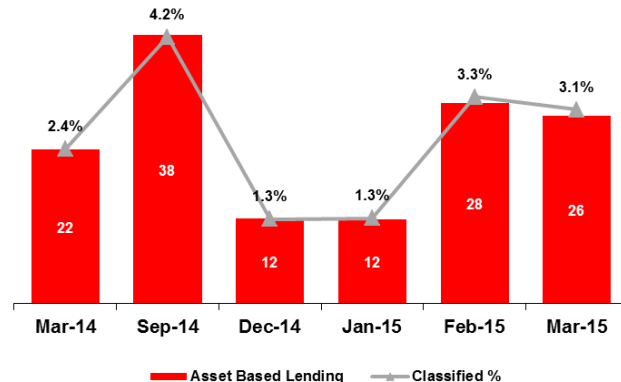
(\$ in Millions)

- There has been little change in Classified and Criticized balances which declined slightly in March as a result of lower usage under the existing facilities.
- The small \$0.2MM increase in Nonaccruals was caused by a usage increase in the Mar Lees Revolver; there were no additions to the Nonaccrual book.

Nonaccrual Loans



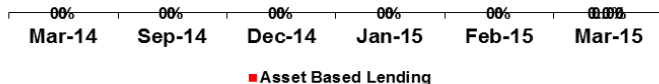
Classified Loans - outstandings



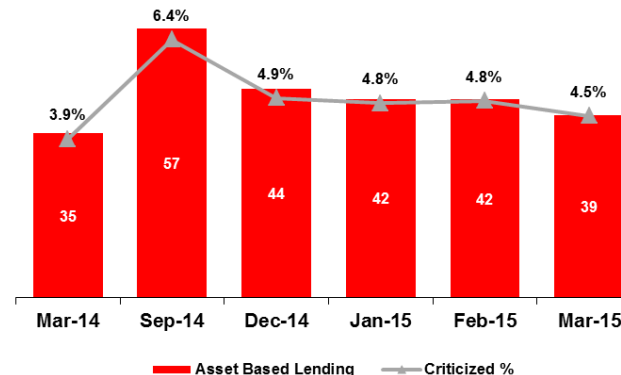
Outstandings of \$26MM on \$43M of Exposure

Delinquency

No delinquencies were reported.



Criticized Loans - outstandings



Outstandings of \$39MM on \$66M of Exposure

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

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

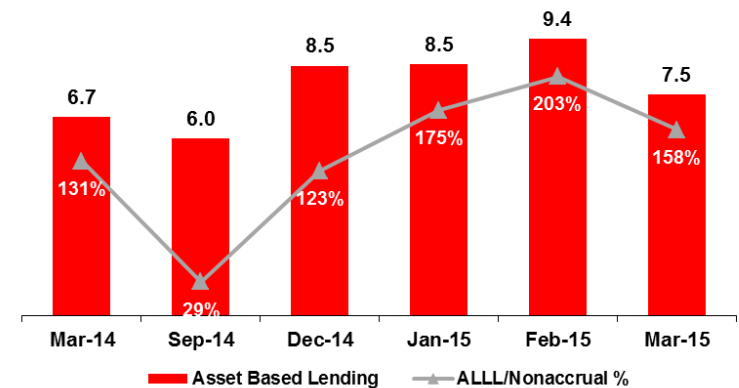
Criticized = Classified + Special Mention

ABL: Credit Quality Metrics (2 of 2)

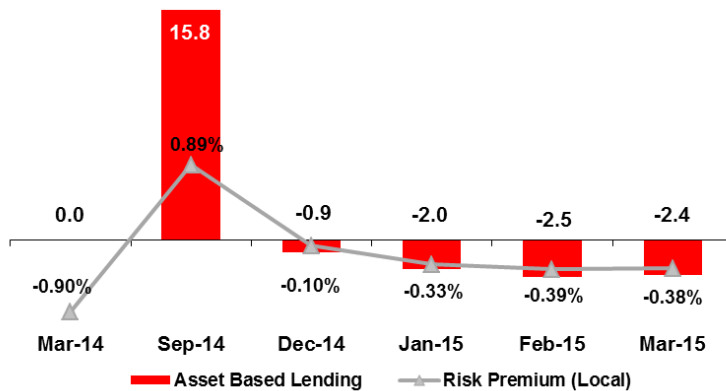
(\$ in Millions)

- Universal Wilde was transferred to Workout on 3/9/15, but remains on accrual status. No additional entries to NPL are currently expected for 2Q15.
- No exits from NPL during March or projected for 2Q15, according to Workout.
- As previously noted, the \$1.9MM decrease in ALLL and \$1.7MM decline in provisions were primarily due to the Mar Lees provision release, leading to a new coverage to 158% of existing Non-Accruals.

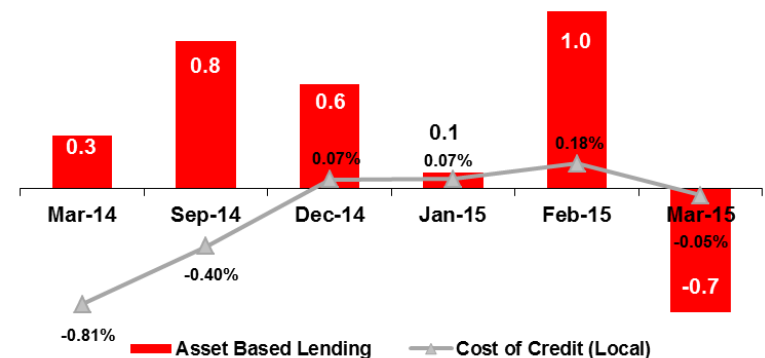
Allowance & Coverage



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

ABL: FEVE Trends

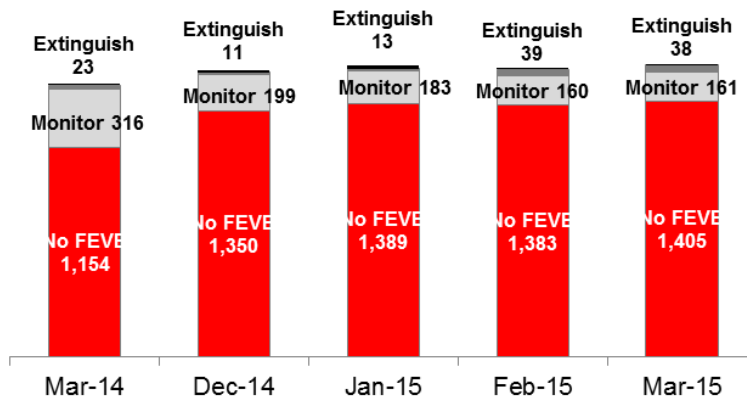
(\$ in Millions)

- Portfolio Quality continues to improve with 88% of Binding Exposure rated NO FEVE, slightly up from 86% at YE 2014.
- The 3/30/15 Watchlist meeting did not result in any (not yet processed) FEVE status changes.
- The Portfolio did not have any names rated "Secure" or "Reduce" as of 3/31/15.

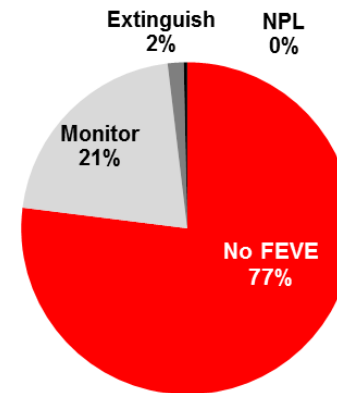
FEVE Status Changes in Mar-15

Master One Obligor	Feb'15 FEVE	Mar'15 FEVE	Binding Exposure	Comment
UPGRADES				
None.				
DOWNGRADES				
None.				

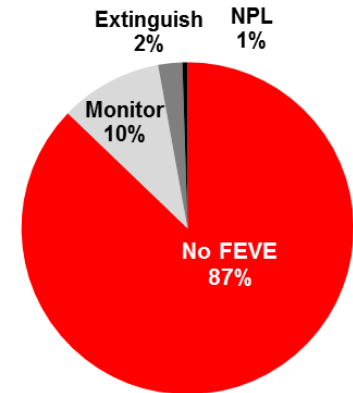
Historical FEVE Distribution



FEVE Distribution 3/31/14



FEVE Distribution 3/31/15



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

Note: The only observed FEVE downgrade, F-1 Logistics, may be allocated incorrectly (wrong cost center) as the loan was reviewed during the BB/MM Watchlist review. A correction will be initiated by US COML PM.

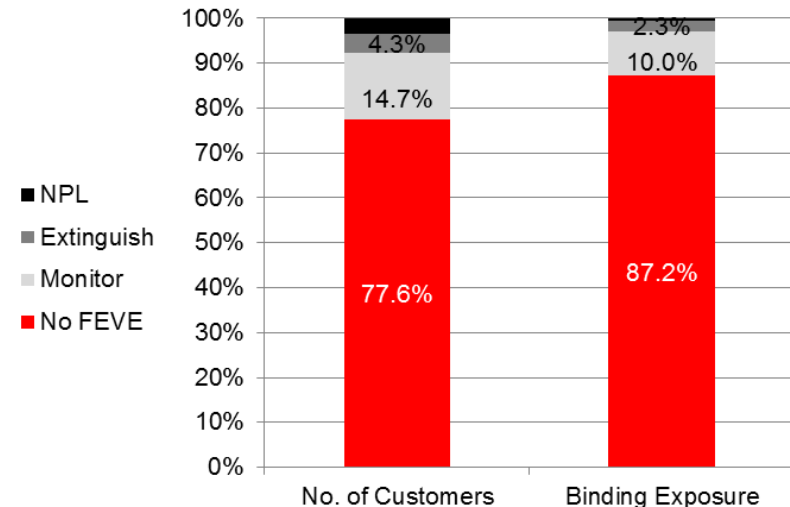
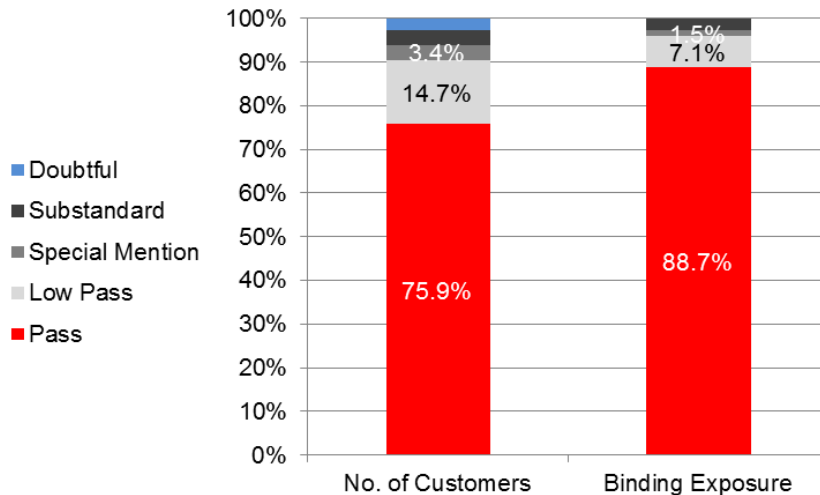
Exposure by Number of Customers

(\$ in Millions)

Both the FEVE and Regulatory rating distribution indicate that the larger ABL customers, on average, have a better credit quality than the smaller ones.

Regulatory Rating	No. of Customers		Binding Exposure	
Pass	88	75.9%	\$1,430	88.7%
Low Pass	17	14.7%	\$115	7.1%
Special Mention	4	3.4%	\$24	1.5%
Substandard	4	3.4%	\$42	2.6%
Doubtful	3	2.6%	\$0	0.0%
	116		\$1,611	

FEVE Rating	No. of Customers		Binding Exposure	
No FEVE	90	77.6%	\$1,405	87.2%
Monitor	17	14.7%	\$161	10.0%
Extinguish	5	4.3%	\$38	2.3%
NPL	4	3.4%	\$8	0.5%
	116		\$1,611	



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

ORR vs. FEVE rating

(\$ in Millions)

Overall, ratings appear to be fairly distributed with a few exceptions.

- The distribution of FEVE grades is concentrated in No FEVE and Monitor, with no use of “Reduce” and “Secure”.
- Looking at the exceptions, it appears that most of the mismatches can be attributed to administrative issues (CCLM not updated).

	Pass	Low Pass	Sp. Mention	Substandard	Doubtful	TOTAL	
No FEVE	\$1,399	\$6	\$0	\$0	\$0	\$1,405	87%
Monitor	\$31	\$109	\$21	\$0	\$0	\$161	10%
Extinguish	\$0	\$0	\$3	\$35	\$0	\$38	2%
NPL	\$0	\$0	\$0	\$8	\$0	\$8	1%
TOTAL	\$1,430	\$115	\$24	\$42	\$0	\$1,611	100%
	89%	7%	1%	3%	0%	100%	

- Potential rating mismatches:

FEVE	ORR	Reg. Rating	Exposure \$M	Customers
No FEVE	4.1	Low Pass	\$ 3,232,839	\$ 1
	4.5	Low Pass	\$ 2,789,287	\$ 4

Obligor Name	Exposure \$M	FEVE	ORR	Reg. ORR	Reason
One Norfolk Avenue Realty	\$3,233	No FEVE	4.1	Low Pass	CP forgot to change FEVE
Galant Inc.	\$53	No FEVE	4.5	Low Pass	not an ABL customer
KTL Investment LLC	\$673	No FEVE	4.5	Low Pass	strong guarantors
Nubar Realty Trust	\$1,557	No FEVE	4.5	Low Pass	4.6 proposed, could be higher
Total Confections LLC	\$506	No FEVE	4.5	Low Pass	CREM Orphan, not updated since 2012 - NILO says 5.1?

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

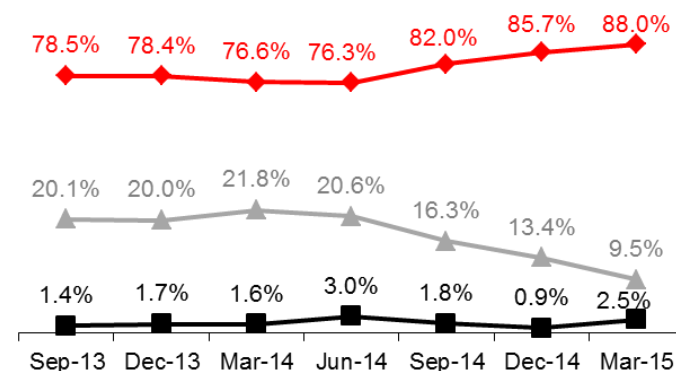
ABL: FEVE History

(\$ in Millions)

	Asset Based Lending						
	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
No FEVE	\$1,085	\$1,112	\$1,093	\$1,221	\$1,143	\$1,275	\$1,345
In FEVE	\$297	\$307	\$334	\$378	\$251	\$212	\$183
Monitor	\$278	\$283	\$311	\$330	\$227	\$199	\$146
FEVE Grave	\$19	\$24	\$23	\$48	\$25	\$13	\$38
Reduce	\$5	\$10	-	-	-	\$3	-
Extinguish	\$14	\$14	\$23	\$48	\$25	\$11	\$38
Grand Total	\$1,382	\$1,419	\$1,427	\$1,599	\$1,395	\$1,488	\$1,529

ABL's FEVE Quality continues to **improve**, a reflection of the improving business environment and tougher underwriting standards, while the portfolio size continues to grow, mostly in Lender Finance. The jump in **FEVE Grave** in March 2015 was caused by the recent **transfer** of Universal Wilde to **Workout**.

	Asset Based Lending						
	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
No FEVE	78.5%	78.4%	76.6%	76.3%	82.0%	85.7%	88.0%
In FEVE	21.5%	21.6%	23.4%	23.7%	18.0%	14.3%	12.0%
Monitor	20.1%	20.0%	21.8%	20.6%	16.3%	13.4%	9.5%
FEVE Grave	1.4%	1.7%	1.6%	3.0%	1.8%	0.9%	2.5%
Reduce	0.4%	0.7%	0.0%	0.0%	0.0%	0.2%	0.0%
Extinguish	1.0%	1.0%	1.6%	3.0%	1.8%	0.7%	2.5%
Grand Total	100%	100%	100%	100%	100%	100%	100%



Source: FEVE Monitoring Reports. All by Binding Exposure in SMM.

P&L Performance

Highlights

- The portfolio is estimated to generate 9% more revenue, derived from higher deposit balances and loan outstandings; PBT is expected to remain stable as expenses are projected to increase following changes in the cost allocation methodology.
- YTD Gross Interest Income is negatively affected by lower usage and decreasing spreads but partially offset by higher fee income.
- YTD Pre-tax ROA exceeds its budget due to the lower than expected interest expense and flat operating expenses.
- Credit quality is stable with low NPLs and provisions (see footnote).

2015 Budget

	2014	2015	Variance
Net Interest Income	21.2	22.1	1.0
Fees / Other Income / ROF	7.2	7.9	0.7
Revenues	28.4	30.0	1.7
Operating Expenses	(11.9)	(14.3)	(2.4)
Provisions	(2.9)	(1.9)	1.0
PBT	13.5	13.9	0.3
Taxes	(4.8)	(4.9)	(0.1)
Net Income	8.8	9.0	0.3
Pre-Tax ROA	1.52%	1.38%	-0.14%

Key Credit Risk Indicators

	Actual	Budget	Variance
Gross Chargeoffs	0.0	0.8	-0.8
Recoveries	-0.3	-0.2	-0.1
Net ChargeOffs	-0.3	0.7	-1.0
Total Provision	0.9	0.8	0.1
ALLL	13.9	8.3	5.6
Exposure	1,611	n/a	
Unpaid Principal Balance	862	957	-95
Provisions/Assets	0.1%	0.1%	
ALLL/Assets	1.6%	0.9%	0.7%
Delinquency	0.0	n/a	
NPL	4.8	6.2	-1.4

2015 YTD vs. Budget

	Actuals	Budget	Variance
Gross Interest Income	6.4	8.0	(1.6)
Interest Expense	(1.6)	(2.9)	1.3
Net Interest Income	4.8	5.1	(0.3)
Fees / Other Income / ROF	2.1	1.8	0.3
Revenues	7.0	7.0	-
Operating Expenses	(3.3)	(3.2)	(0.1)
Provisions	1.8	(0.3)	2.1
PBT	5.5	3.5	2.0
Taxes	(1.9)	(1.2)	(0.7)
Net Income	3.6	2.3	1.3
Pre-Tax ROA	2.43%	1.50%	0.93%

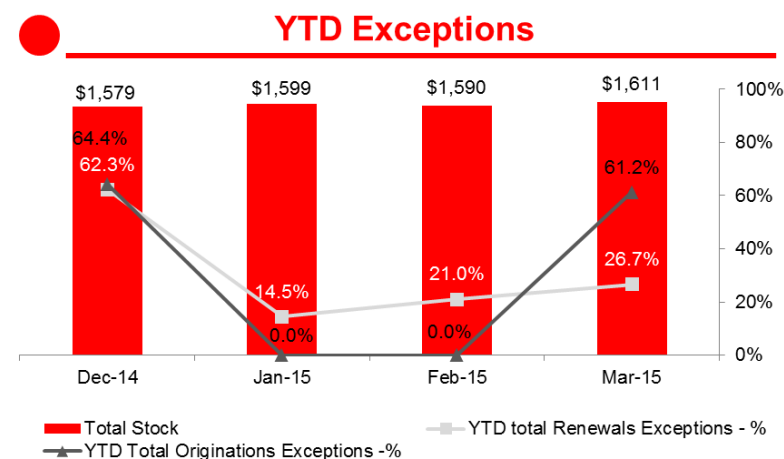
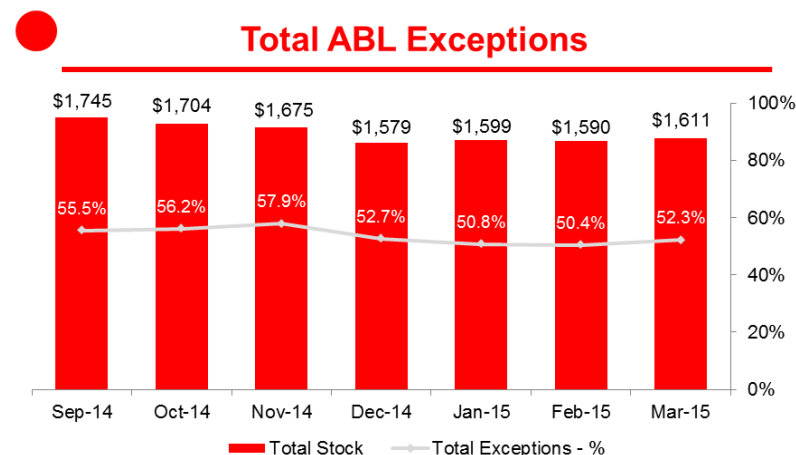
Source: Data was provided by Finance. Note that the provision numbers do not match the results from the 3/31/15 Credit Metrics, which reported YTD provisions of (\$0.7MM) vs. \$1.8MM reported by Finance. The Budget was provided by Solvency.

ABL: Exception Management

(\$ in Millions)

- ABL accounts for a relatively large amount of exceptions (10.0% of SBNA's Exceptions Binding Exposure) based on the size of the overall portfolio (2.7% of overall Binding Exposure).
- Of the 52.3% of exceptions reported on an exposure level as of 3/31/15, approximately 97% are related to Underwriting Guideline exceptions.
- Underwriting Guidelines exceptions were mostly related to field exam and advance rate guidelines, and affected 52 customers; i.e. 45% of ABL's total customer base, and 62 facilities.
- The 3% of Credit Policy exceptions is related to Pharmachem (\$24.9MM), due to a FDICIA exception (LTV exceeds limit).

3/31/2015	BANK	ABL	% of Portfolio
Total Facilities	35,761	840	2.3%
Total Portfolio \$MM	\$59,060	\$1,611	2.7%
Total Exceptions Facilities	1,281	62	4.8%
Total Exceptions Exposure \$MM	\$8,387	\$842	10.0%
Policy Exceptions	11	1	9.1%
Policy Exceptions \$MM	\$48	\$25	52.0%
UW Guideline Exceptions	1,270	61	4.8%
UW Guideline Exceptions \$MM	\$8,341	\$817	9.8%



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

Open Regulatory – Internal Audit and Loan Review Issues

- There are currently no open MRAs or Internal Audit Recommendations specific to ABL.
- Of the 18 MRAs/RPAs within SBNA, 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	-	-
Total: 2	-	-	-	2	-	-

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
Grand Total	23	4	10

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
Grand Total	16	2	8
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
Grand Total:	10	2	8

Source: Internal Audit

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

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

MRA /RPA	DESCRIPTION / CONCLUSION	STATUS	TARGET DATE
MRA: Credit Administration	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
MRA: Quality of MIS and Level of Portfolio Analytics:	Develop comprehensive portfolio analytics.	In process.	6/30/15

Next Steps

ISSUE	PROPOSED ACTION PLAN	RESOURCES	Target Date
<ul style="list-style-type: none"> Despite ABL exposure being stable, outstandings have been steadily decreasing. 	Perform portfolio analysis related to the usage of credit facilities within ABL. Determine the impact of low usage on portfolio's overall capital usage and RoRAC. Discuss potential strategies for improving portfolio outstandings while improving returns	<ul style="list-style-type: none"> Portfolio Management 	Jun-15
<ul style="list-style-type: none"> Rating reviews were not performed on a regular basis, as seen in the two most recent transfers to Workout (Universal Wilde and MarLees Seafood). 	Assess portfolio's review status (FEVE and Annual Reviews) ensuring that credits are always reviewed within 1-2 months of their respective review date. If necessary, initiate review process for overdue credits.	<ul style="list-style-type: none"> Monitoring Portfolio Management 	Jun-15
<ul style="list-style-type: none"> There are no industry-specific portfolio reviews outside of business-line specific Promontorios. This may cause the Bank to overlook certain industry-specific developments or volatilities. 	Discuss the need to establish a portfolio review process by industry when a credit is downgraded to Substandard or sent to Workout.	<ul style="list-style-type: none"> Monitoring Portfolio Management 	Jun-15
<ul style="list-style-type: none"> Credit Quality of New Originations 	Assess the portfolio's credit quality on new originations.	<ul style="list-style-type: none"> Portfolio Management 	Ongoing, but no earlier than May-15

APPENDIX

- Top 20

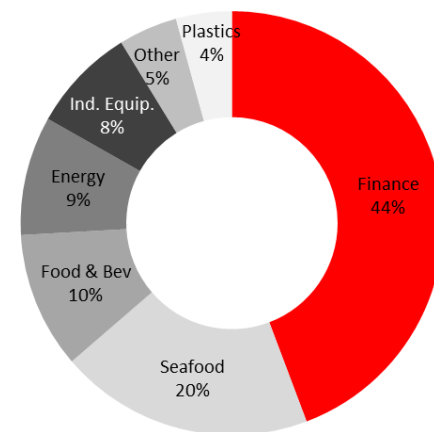
ABL: Top 20

(\$ in Millions)

- ABL's Top 20 is **concentrated in Finance and Seafood**, accounting for a combined 64% of Binding Exposure. The Top 20 customers reflect 19% of the 103 ABL customer groups, but account for **47% of ABL Binding Exposure**.
- Jefferies Finance is a new Top 20 obligor, increasing the share of Finance companies in the Top 20 from 38% in February to 44% in March.
- The only reported rating change affected TimePayment Corp., a microticket leasing company, which executed a Management Buyout and was subsequently downgraded from 6.0 to 5.7 due to changes in the balance sheet and ownership structure. The Top 20's **WARR of 5.6** implies an average good Pass rating.

Rank	Master One Obligor	Industry	MAR-15 ORR	FEB-15 ORR	MAR-15 FEVE	Binding Exposure	Usage
1	PBF HOLDING COMPANY LLC	Energy	5.7	5.7	No FEVE	68.8	12%
2	AMERICAN HOLDCO INC ET AL	Seafood	5.3	5.3	No FEVE	53.2	47%
3	Jefferies Finance LLC	Finance	5.6	n/a	No FEVE	50.0	0%
4	PROSPECT CAPITAL FUNDING LLC	Finance	6.4	6.4	No FEVE	50.0	42%
5	PHARMACHEM LABORATORIES INC	Food & Bev	5.7	5.7	No FEVE	43.9	44%
6	TIMEPAYMENT CORP	Finance	5.7	6.0	No FEVE	40.0	74%
7	10th LANE FINANCE CO LLC	Finance	5.5	5.5	No FEVE	35.0	39%
8	FURMAN FARMS INC	Food & Bev	5.1	5.1	No FEVE	35.0	62%
9	TPG SPECIALTY LENDING INC	Finance	5.8	5.8	No FEVE	35.0	32%
10	MONROE CAPITAL	Finance	5.3	5.3	No FEVE	35.0	58%
11	HORIZON GROUP USA INC	Other	5.2	5.2	No FEVE	34.1	60%
12	ARISTA INDUSTRIES INC	Seafood	5.4	5.4	No FEVE	32.5	90%
13	GLOBAL PLASTICS GROUP	Plastics	5.4	5.4	No FEVE	32.3	86%
14	STAVIS SEAFOODS INC	Seafood	5.3	5.3	No FEVE	31.4	97%
15	WIND TURBINE & ENERGY CABLES	Ind. Equipment	4.8	4.8	Monitor	30.9	53%
16	ARES CAPITAL CORPORATION	Finance	6.5	6.5	No FEVE	30.0	2%
17	BLUE SEA PRODUCTS LLC	Seafood	5.3	5.3	No FEVE	30.0	83%
18	FULL CIRCLE CAPITAL CORP	Finance	5.5	5.5	No FEVE	30.0	61%
19	OXFORD FINANCE FUNDING III LLC	Finance	5.2	5.2	No FEVE	30.0	10%
20	PAIGE ELECTRIC COMPANY LP	Ind. Equipment	5.9	5.9	No FEVE	30.0	75%
SUBTOTAL			5.6			757.0	

Top 20 by Sector



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

The number of customers was determined by Master One Obligor.

