US Commercial Credit Risk
Portfolio Management

Middle Market

Quarterly Update

Q1 2015

U.S. Head of Credit & Market Risk

Santander

Q1 2015 Portfolio Snapshot

($ in Millions)

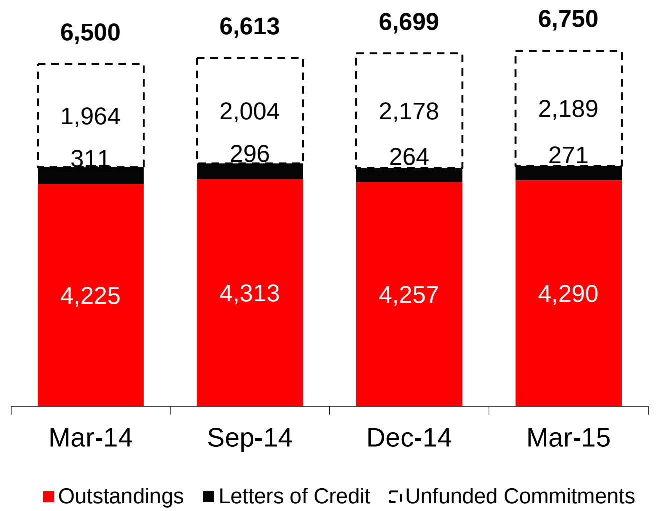
PORTFOLIO METRIC	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q1'15 Budget	Q1'15 Actual vs. Budget
Exposure	$ 6,500	$ 6,430	$ 6,613	$ 6,699	$ 6,750	--	--
Outstanding	$ 4,225	$ 4,160	$ 4,313	$ 4,257	$ 4,290	$ 4,399	$ (109)
Utilizations	$ 4,540	$ 4,450	$ 4,610	$ 4,520	$ 4,560	--	--
Delinquency 30+ DPD	$ 14.8	$ 4.2	$ 2.7	$ 10.5	$ 4.6	--	--
Delinquency 30+ DPD Ratio	*0.35%*	*0.10%*	*0.06%*	*0.25%*	*0.11%*	--	--
Classified Outstandings	$ 255.1	$ 190.1	$ 262.0	$ 295.8	$ 290.6	--	--
Classified Outstandings Ratio	*6.04%*	*4.58%*	*6.08%*	*6.95%*	*6.77%*	--	--
Classified Utilizations	$ 363.3	$ 293.9	$ 363.8	$ 361.7	$ 333.9	--	--
Classified Utilizations Ratio	*8.01%*	*6.60%*	*7.89%*	*8.00%*	*7.32%*	--	--
Nonaccrual	$ 104.7	$ 80.2	$ 65.1	$ 65.0	$ 72.9	$ 66.5	$ 6.4
Nonaccrual Ratio	*2.48%*	*1.93%*	*1.51%*	*1.53%*	*1.70%*	*1.51%*	*0.19%*
Net Charge Off	$ (0.1)	$ 11.6	$ 0.4	$ 1.5	$ 7.6	$ 4.9	$ 2.7
YTD Annualized NCO Ratio	*(0.01%)*	*0.55%*	*0.38%*	*0.32%*	*0.71%*	*0.45%*	0.26%
VMG (Local)	$ 19.8	$ (12.9)	$ (14.7)	$ 1.3	$ 15.5	--	--
WARR	5.24	5.28	5.29	5.28	5.28	--	--
Risk Premium (Local) (R12M)	0.50%	0.50%	0.07%	(0.15%)	(0.25%)	--	--

Middle Market: Credit Exposure Overview

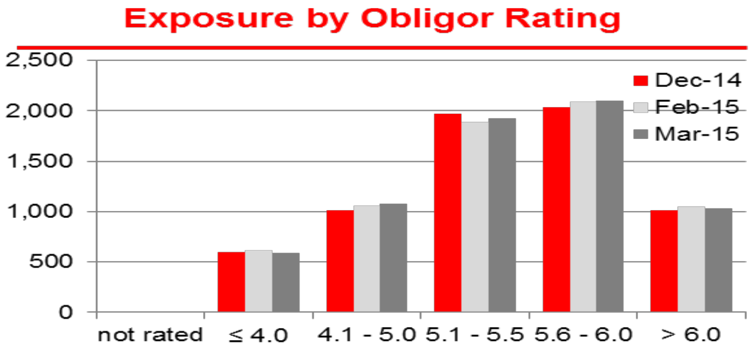
- The size of the Middle Market (MM) portfolio at 1QE 2015 was **$6.75B, 8.06%** of the total SBNA Binding Exposure. This amount was **up** from $6.5B a year ago and $6.7B at YE 2014.
- MM originated **41 New Transactions** totaling $164MM in Binding Exposure during the 1Q15. Within the 3 footprint regions (New England, Mid-Atlantic, NY/NJ), exposure growth rates ranged from -3.1% (NJ) to +2.4% (NYC). Boston remained the largest single market with $1.29Bn or 19.2% of the total MM Binding Exposure.
- **Classified Exposure** of $372MM represented 5.5% of the MM Segment's Binding Exposure at 1QE'15, a **slight improvement** from 5.8% in the prior quarter. As a % of SBNA's Total Classified Exposure of $1.45Bn at 1QE'15, MM accounted for 25.6% (25.1% in 4Q14).
- In terms of Criticized Exposure, the MM portfolio shows a relatively weaker risk profile compared to other segments of the Bank. MM ended the 1Q15 with 8.75% of **Criticized Exposure** vs. GBM's 0.65%, Commercial Banking's 4.79% and SBNA's 2.77%.
- The MM **Exposure by Obligor Rating** was generally **stable (QoQ)**, without any significant increase recorded in non-Pass categories. There was, however, a more noticeable increase in Low Pass (4.1-5.0) which exceeded $1.0B (14.8%) in Mar-15.
- Subsequent Event: **North Star Group Services ($32.6MM)** was transferred to Work-Out on Apr-2-15 due to a **Downgrade to SAN 1.5/**Substandard from 4.0/OAEM.

Exposure

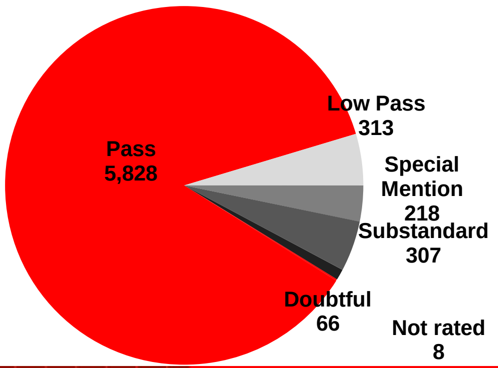
($ in Millions)



Exposure by Obligor Rating



Exposure by Regulatory Rating



Portfolio Composition by Regulatory/FEVE Rating

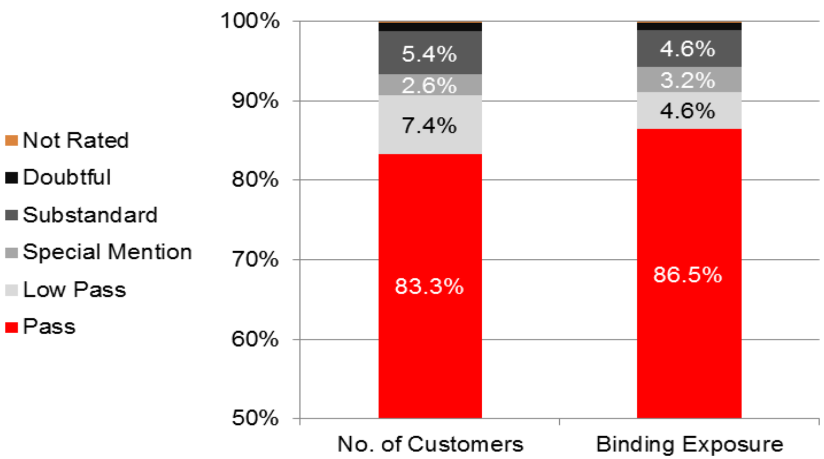
($ in Millions)

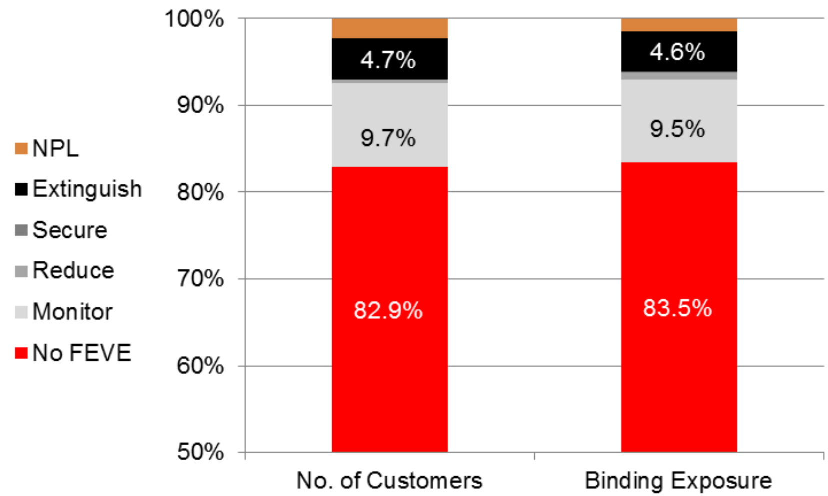
Middle Market - Number of Customers vs. Binding Exposure

Regulatory Rating	No. of Customers		Binding Exposure	
Pass	1,059	83.3%	$5,828	86.5%
Low Pass	94	7.4%	$313	4.6%
Special Mention	33	2.6%	$218	3.2%
Substandard	69	5.4%	$307	4.6%
Doubtful	15	1.2%	$66	1.0%
Not Rated	1	0.1%	$8	0.1%
	1,271	**100%**	**$6,739**	**100%**

FEVE Rating	No. of Customers		Binding Exposure	
No FEVE	1,054	82.9%	$5,625	83.5%
Monitor	123	9.7%	$638	9.5%
Reduce	4	0.3%	$60	0.9%
Secure	1	0.1%	$6	0.1%
Extinguish	60	4.7%	$313	4.6%
NPL	29	2.3%	$97	1.4%
	1,271	**100%**	**$6,739**	**100%**

The % of "Pass" Binding Exposure in MM (86.5%) is 320 percentage points higher than the % of "Pass" Customer Count (83.3%). This suggests that "Low Pass" and Criticized credits are relatively smaller in terms of USD amount of committed exposure. The fact that "No FEVE" Ratings represent 83.5% of Binding Exposure vs. 86.5% of "Pass" Ratings indicates that some "Low Pass" credit names are being flagged as "Monitor" and reviewed more frequently as appropriate. "Substandard" Ratings and FEVE-Extinguish credits are in sync, both at 4.6% of the MM Binding Exposure at 1QE'15.





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

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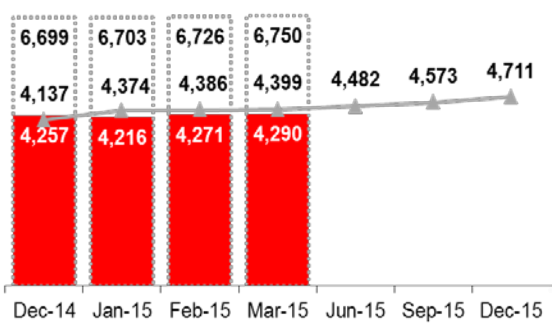
Middle Market: Performance vs. Budget

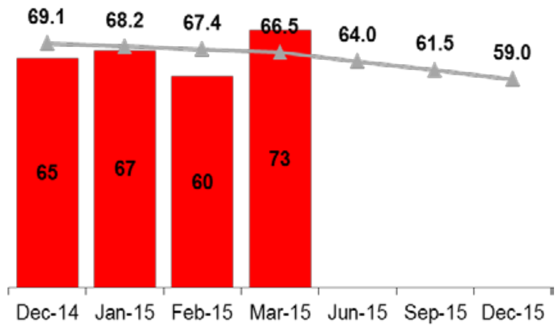
($ in Millions)

- MM was **slightly behind its Budget (-2.5%) for funded Outstandings** in the 1Q15, due to a slower than expected origination volume early in the year. The gap has narrowed, however, from -4.0% in January.
- **Actual vs. Budget performance** was **unfavorable** across key Credit Quality metrics. YTD Mar-15, **VMG increased significantly** reflecting adverse trends in Non-Accruals during the month of March as well as **greater than expected Net Charge-Offs** during the 1Q. ALLL was $78.8MM, $4.4MM higher than Budgeted due to **larger reserves** caused by discretionary NPLs (see slide 6 for details).

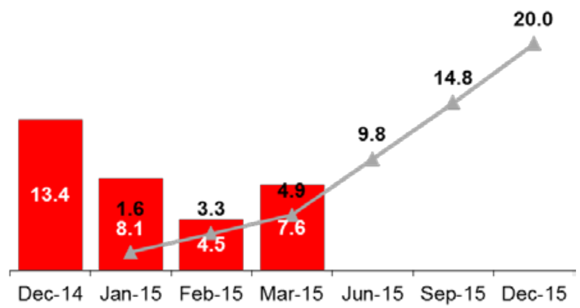
Outstandings



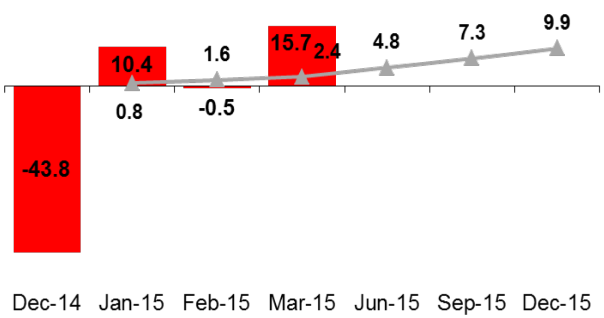
Nonaccrual Loans



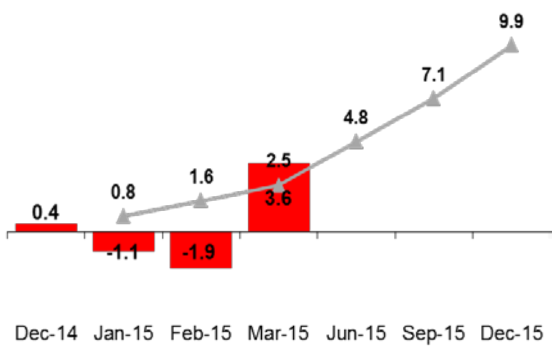
Net Charge-Offs YTD



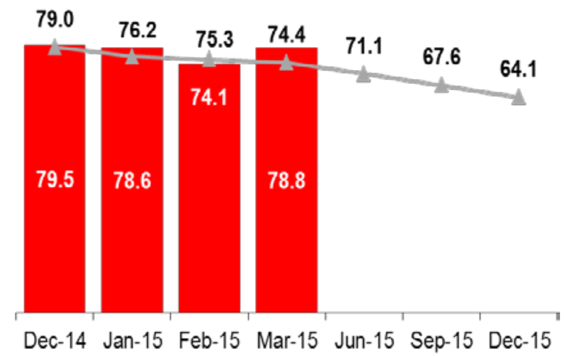
VMG (Spanish) YTD



Provision for Credit Losses YTD



ALLL



Actual (YTD) Budget (YTD)

Source: SBNA Solvency - Budget data as of 3/31/15.

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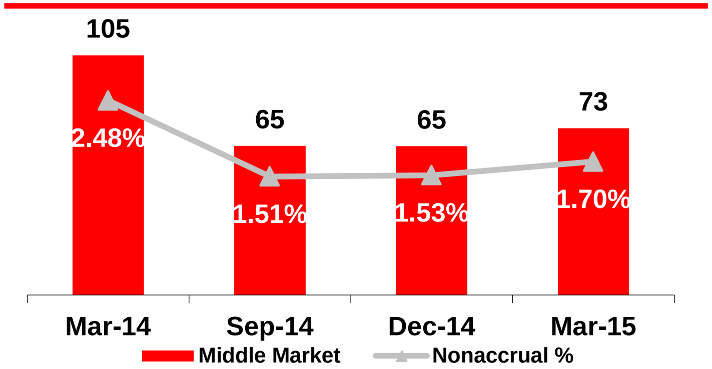
Middle Market: Credit Quality Metrics (1 of 2)

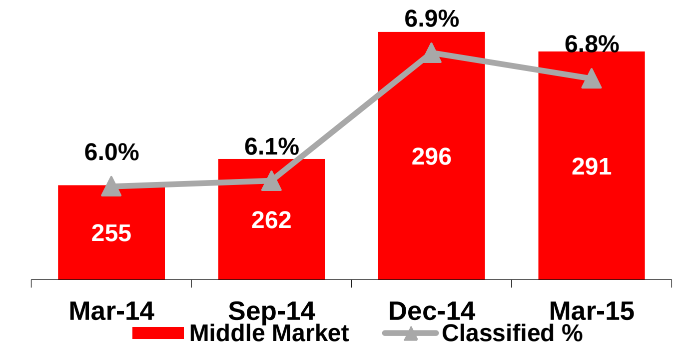
($ in Millions)

- While **Classified Outstandings** were **down slightly** at 6.77% in 1Q15 from 6.95% in the 4Q14, the overall **Criticized Loans** Outstandings remained **stable** at 10.5% of the portfolio.
- However, the **direction of Nonaccruals** on a sequential **QoQ** basis is now **deteriorating**. Non-Accrual Loans totaled 1.70% of the MM portfolio in 1Q15 compared to 1.53% in the 4Q14. Still, trends remain positive YoY, as Non-Accruals declined to $73MM from $105MM in the 1Q14.
- **Delinquency ratios** have **improved both YoY and sequentially** and ended the 1Q15 at $5MM or 0.11% only.

Nonaccrual Loans

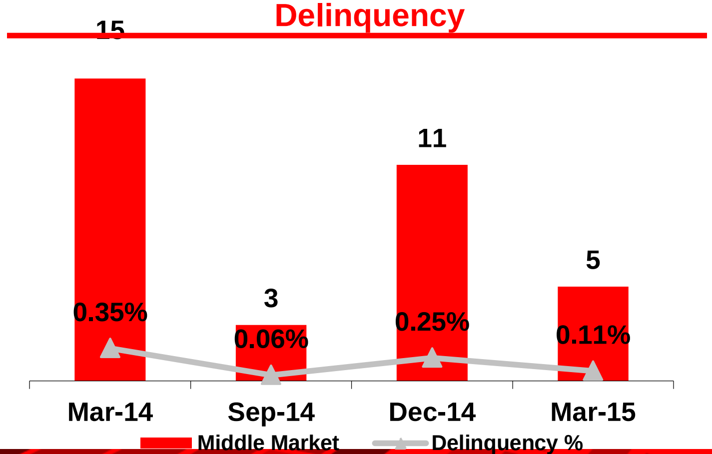


Classified Loans - outstandings

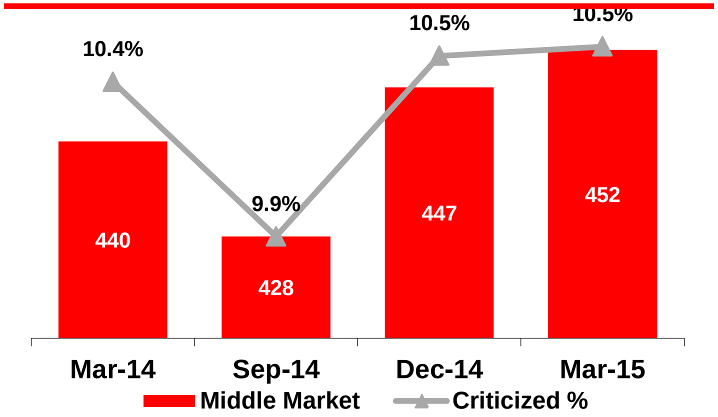


Classified Outstandings of $291MM on $372MM of Classified Exposure = Substandard + Doubtful + Loss

Delinquency



Criticized Loans - outstandings



Criticized Outstandings of $452MM on $590MM of Criticized Exposure = Special Mention + Substandard + Doubtful + Loss

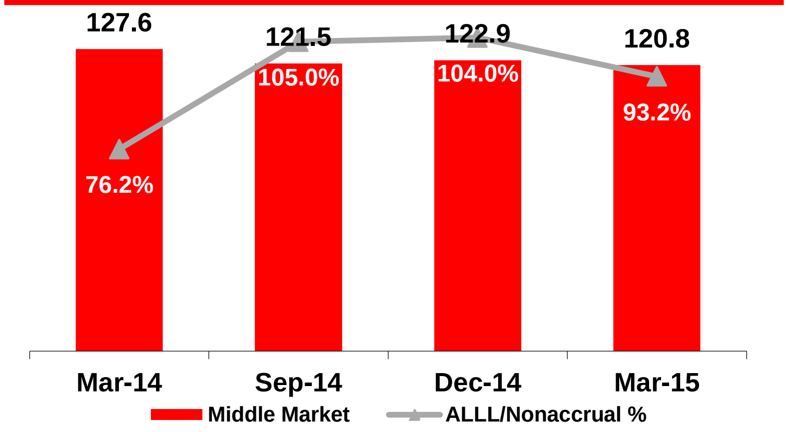
Source: SBNA Solvency - Budget data as of 3/31/15.

Middle Market: Credit Quality Metrics (2 of 2)

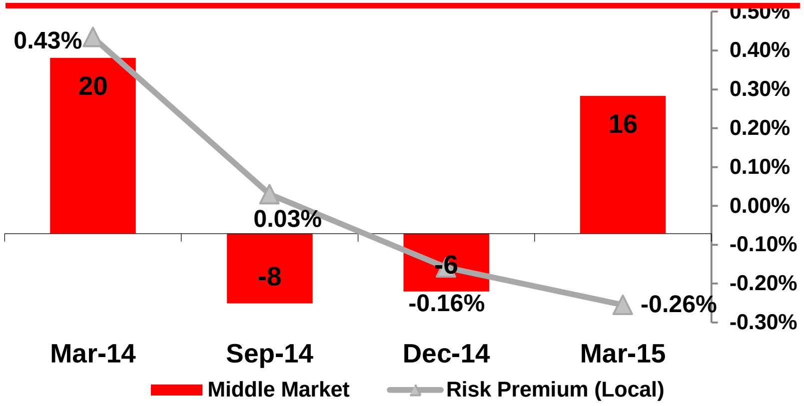
($ in Millions)

- NPL as a % of the MM Binding Exposure was 2.34% in the 1Q15, up from 2.19% in the 4Q14 but still well below the 3.31% recorded in the 1Q14. Net Charge Offs increased to $7.6MM from $1.45MM in the 4Q (-$82M in 1Q14), also impacting VMG trends adversely.
- ALLL/Nonaccrual coverage fell below 100% in the 1Q15 driven by the higher Nonaccruals; however, the ratio also remained stronger when compared to a year ago.
- There were three entries to NPL in Feb/Mar'15 -- all in Manufacturing: **Pancon** (Electronic Connectors) with Net Book Exposure (NBE) of $9.1MM (Reserve $1.95MM), **Schramm** (Mobile Land Drilling Rigs) with NBE of $5.6MM (Reserve $5.3MM), and **Everite Machine** (Electrochemical Grinding Technology) with NBE of $5.25MM.
- **JPC Holdings** ($9.8MM) and **Pancon** ($8.8MM) are projected NPL exits for the 2-3Q's. However, there are larger entries projected for this period: **NorthStar** ($31.4MM/ Jun), **Martex Fiber** ($16.8MM/Jul), and **Advanced Metal Group** ($10.85MM/Jun).

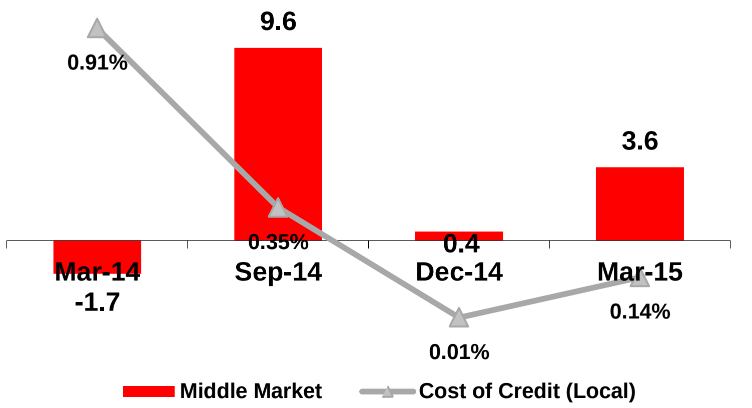
Allowance & Coverage



VMG & Risk Premium



Provision & Cost of Credit



Source: SBNA Solvency - Budget data as of 3/31/15.

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

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Middle Market: FEVE Trends

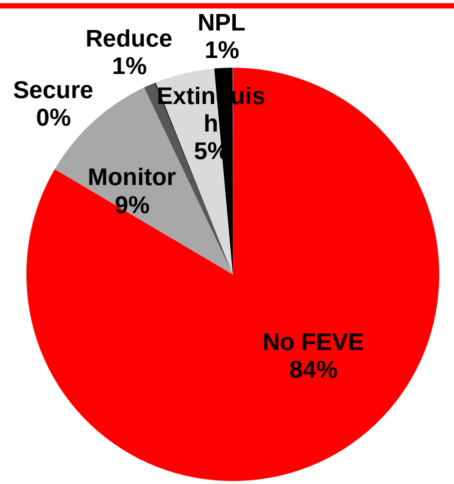
($ in Millions)

- Based on FEVE trends, **Portfolio Quality** remained **acceptable**, with **83.5%** of Binding Exposure rated **NO FEVE**, slightly down from 85.4% at YE 2014.
- However, as noted earlier, the Portfolio Performance is showing some early **signs of credit quality deterioration** based on Rating Migration (see table below), recent Transfers to Work-Out and Non-Accruals.
- As of 3/31/15, Middle Market had **217 Customers in FEVE**, which represented 17.1% of the total Customer Count of 1,271. There were 123 "Monitor", 60 "Extinguish", **29 "NPL"**, 4 "Reduce" and 1 "Secure", for a total **FEVE Binding Exposure** of **$1,114MM (16.5%)**. One of the 1Q15 "Reduce" names, NorthStar Group Services ($32.6MM), was transferred to Workout on 4/2/15 due to a downgrade from 4.0 to 1.5 and change to "Extinguish".
- From 3/12/15 to 4/15/15, four MM credit names migrated into FEVE, for a combined Binding Exposure of $20.4MM, whereas 2 names from NY/NJ moved to "Extinguish" from "Monitor" totaling $14.2MM.
- As shown in the chart at the bottom right, the "Monitor" exposure increased in Mar'15, to $638MM from $593MM in Feb'15 and $620MM in Dec'14. There was a handful of rating downgrades to Low Pass and Special Mention, primarily in the NY/NJ and Mid-Atlantic regions.

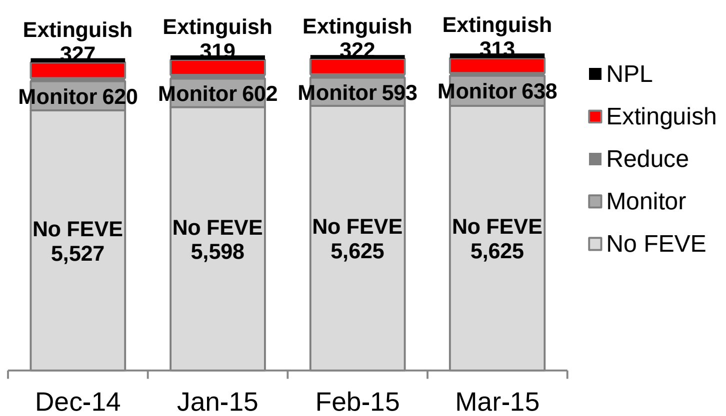
FEVE Status Changes in 1Q 2015

Credit Unit	Obligor Name	Binding Exposure	FEVE 3/12/15	FEVE 4/15/15	FEVE Date	ORR 3/31/15	ORR 4/15/15
Mid-Atlantic	INTERFACE SOLUTIONS INC	$7,267	No FEVE	Monitor	03/18/15	4.9	4.7
NY/NJ	LEGENDS OWO LLC	$1,556	No FEVE	Monitor	03/18/15	5	5
Mid-Atlantic	PA EHP LIMITED PARTNERSHIP	$1,521	No FEVE	Monitor	03/11/15	4.5	4.1
New England	RYMES ENERGY HOLDINGS LLC	$4,804	No FEVE	Monitor	12/24/14	5	5
Mid-Atlantic	THE MATWORKS COMPANY LLC	$10,033	No FEVE	Monitor	03/11/15	5	4

FEVE Distribution 3/31/15



FEVE Portfolio Distribution



P&L Performance

- The MM portfolio is budgeted to generate 8.7% more revenue YoY, to be derived from higher deposit balances and loan outstandings.
- YTD 3/15, however, **Net Revenue** was **95% of Budget** due to lower Net Interest Income and Fees. Revenue was negatively impacted by lower than expected Outstandings and compressed spreads. On a positive note, Funded Outstandings slightly increased MoM, in February and March.
- YoY, **PBT** is **ahead of Budget** at 171% reflecting a much more favorable Provision line.
- Actual pre-tax **ROA** of 2.27% was much **stronger than the prior year and budget levels** of 0.92% and 1.28%, respectively.

	Middle Market		
	12/15 Bdgt YTD	12/14 Act YTD	vs 2014A
	$ MM	$ MM	$ MM
Net Interest Income	120.4	110.2	10.2
Fees	25.6	24.2	1.5
Other Income	-	0.0	(0.0)
Gains on Sale	-	-	-
Net Revenue	**146.1**	**134.4**	**11.7**
Direct Expenses	(19.2)	(16.3)	(2.9)
Allocated Expenses	(54.9)	(49.9)	(5.0)
Total Expenses	(74.1)	(66.2)	(7.9)
PPNR	**72.0**	**68.1**	**3.8**
Provision	(9.2)	(17.9)	8.7
PBT	**62.8**	**50.3**	**12.5**
Taxes	(22.0)	(17.6)	(4.4)
PAT	**40.8**	**32.7**	**8.2**
Pre-tax ROA	**1.39%**	**1.19%**	**0.20%**

Key Credit Risk Indicators

* SEE NOTE

	Actual	Budget	Variance
Gross Chargeoffs	7.8	5.8	2.0
Recoveries	(0.2)	(0.9)	0.7
Net ChargeOffs	7.6	4.9	2.7
Total Provision	10.2	(1.9)	12.1
ALLL	78.8	74.4	4.4
Exposure	6,749.6	N/A	
Unpaid Principal Balance	4,290.4	4,398.8	(108.4)
Provisions/Loans	0.24%	(0.04%)	0.28%
ALLL/Loans	1.8%	1.7%	0.1%
Delinquency	4.6	N/A	
NPL	100.5	66.5	34.0

	Middle Market					
	03/15 Act YTD	03/14 Act YTD	YoY	03/15 Bdgt YTD	vs Budget	vs Budget
	$ MM	$ MM	%	$ MM	$ MM	%
Interest Income	37.8	40.4	-6%	43.9	(6.2)	86%
Interest Expense	(12.0)	(12.8)	-6%	(16.9)	4.9	141%
Net Interest Income	25.8	27.6	-6%	27.1	(1.3)	95%
Fees	5.8	6.0	-3%	6.3	(0.5)	92%
Other Income	0.0	0.0	n.a.	-	0.0	n.a.
Gains on Sale	-	-	n.a.	-	-	n.a.
Net Revenue	**31.6**	**33.5**	**-6%**	**33.4**	**(1.8)**	**95%**
Direct Expenses	(4.4)	(4.5)	-2%	(4.6)	0.2	105%
Allocated Expenses	(13.4)	(11.3)	18%	(12.8)	(0.5)	96%
Total Expenses	(17.8)	(15.8)	13%	(17.5)	(0.3)	98%
PPNR	**13.9**	**17.8**	**-22%**	**15.9**	**(2.1)**	**87%**
Provision	10.2	(8.1)	-226%	(1.9)	12.1	n.a.
PBT	**24.0**	**9.7**	**147%**	**14.1**	**10.0**	**171%**
Taxes	(8.4)	(3.1)	172%	(4.9)	(3.5)	58%
PAT	**15.6**	**6.6**	**135%**	**9.1**	**6.5**	**171%**
Pre-tax ROA	**2.27%**	**0.92%**		**1.28%**		**0.98%**

Source: 2014 Actual results and Budget Data were provided by Finance .
*** Note: "Total Provision" in the Key Credit Risk Indicators (table on the left) was adjusted to match the Finance data presented in the table at the bottom right. This data does not reconcile with the data provided by Solvency (discussed earlier in this presentation) and warrants further investigation.**

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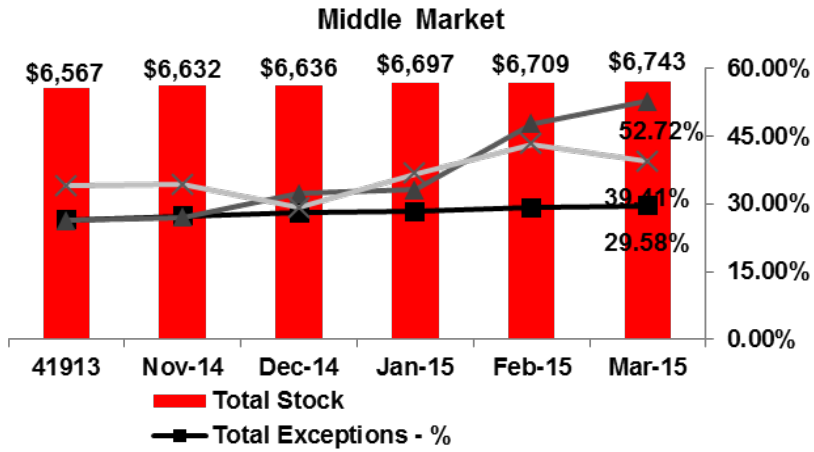
Middle Market: Exception Management

($ in Millions)

- YTD 3/31/15, of **41 New Originations** in MM, **Exceptions** were identified in **sixteen** or **39.02%** of the **Portfolio Count**.
- MM Transactions with Exceptions totaled approximately $86.5MM **or 52.72%** of the division's **Binding Exposure**.
- **All of the identified Exceptions refer to Underwriting Guidelines.** No Exceptions to the SBNA Core Credit Policy Manual were noted.
- Underwriting Guidelines Exceptions were mostly related to **UG06. Non-Compliance with Term, Maturity, Renewal and Amortization Guidelines.**



YTD New Originations - Credit Policy and Underwriting Guidelines Exceptions by Business Segments as of 3/31/2015

Portfolio Name	Portfolio #	Portfolio Binding Exposure Amount	Policy Exceptions by Portfolio #	Policy Exceptions by Portfolio Binding Exposure Amount	Exceptions to Portfolio % of Count	Exceptions to Portfolio % of Exposure
MRG	21	$ 2,056,831,223.58	2	$ 500,000,000.00	9.52%	24.31%
Large Corporate	18	$ 585,178,710.40	3	$ 107,796,861.38	16.67%	18.42%
Business Banking	134	$ 81,057,838.21	7	$ 4,940,561.95	5.22%	6.10%
Middle Market	41	$ 164,009,630.16	16	$ 86,464,318.76	39.02%	52.72%
CRE	14	$ 346,684,733.35	5	$ 141,569,909.00	35.71%	40.84%
SREC	54	$ 251,194,138.72	5	$ 28,800,000.00	9.26%	11.47%
Asset Based Lending	6	$ 81,672,083.34	1	$ 50,000,000.00	16.67%	61.22%
CEVF-Strategic	748	$ 125,900,410.44	4	$ 340,543.87	0.53%	0.27%
Chrysler Auto Finance	5	$ 13,129,401.59	1	$ 1,190,000.00	20.00%	9.06%
Small Business Banking	758	$ 58,624,609.88	2	$ 501,550.69	0.26%	0.86%
	1,846	3,846,791,199	46	921,603,746	2.49%	23.96%

YTD Renewals - Credit Policy and Underwriting Guidelines Exceptions by Business Segments as of 3/31/2015

Portfolio Name	Portfolio #	Portfolio Binding Exposure Amount	Policy Exceptions by Portfolio #	Policy Exceptions by Portfolio Binding Exposure Amount	Exceptions to Portfolio % of Count	Exceptions to Portfolio % of Exposure
MRG	37	$ 2,198,111,971.45	1	$ 4,308,484.37	2.70%	0.20%
Large Corporate	17	$ 750,716,982.98	-	$ -		
Business Banking	175	$ 142,536,405.96	16	$ 19,605,758.07	9.14%	13.75%
Middle Market	90	$ 447,814,989.95	27	$ 176,462,126.78	30.00%	39.41%
CRE	20	$ 240,382,204.54	2	$ 41,109,510.54	10.00%	17.10%
SREC	24	$ 17,934,999.84	-	$ -		
Asset Based Lending	21	$ 229,307,076.62	6	$ 61,150,033.28	28.57%	26.67%
Energy Finance	9	$ 317,020,800.14	-	$ -		
CEVF-Strategic	7	$ 90,550,387.93	-	$ -		
Chrysler Auto Finance	17	$ 171,581,978.62	-	$ -		
Footprint Dealer Floorplan	3	$ 5,264,067.54	-	$ -		
Small Business Banking	237	$ 30,066,586.45	1	$ 1,250,000.00	0.42%	4.16%
CCRC	6	$ 65,521,554.30	-	$ -		
International Trade Banking (Legacy)	5	$ 1,216,460.11	-	$ -		
Aviation	1	$ 203,612.91	-	$ -		
	669	4,708,230,079	53	303,885,913	7.92%	6.45%

Source: CCMIS

SBNA: OCC Examination Middle Market C&I (1 of 2)

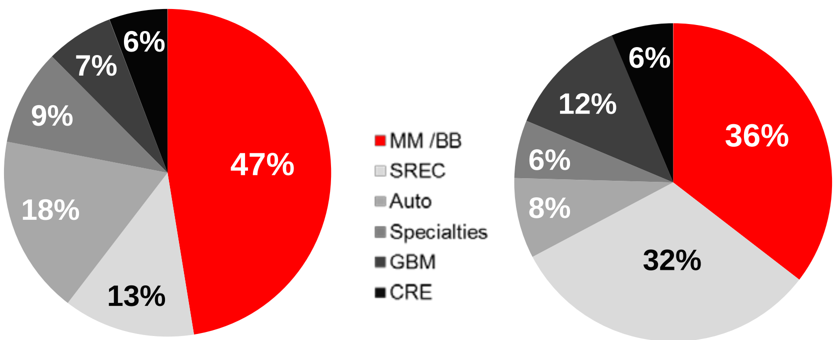
As a result of a 2014 OCC examination of the Middle Market C&I portfolio, an MRA was put in place raising **concerns** on the Risk Rating **accuracy** of credit relationships in the **Low Pass** and **Special Mention** categories. To address the issue, a **Quarterly Watch List Review** process was implemented in Mar-15, with a direct impact on Reserves.

Low Pass – Special Mention

($ in Millions)

Low Pass: $1,446

Special Mention: $766



Obligor Group – Reserves

Action	No.	$MM
Obligor Groups	96	$865
Rating Changes	31 (32%)	$147 (17%)
Downgrades (Workout)	20 (6)	$121 ($35)

in $MM	Feb-15	Mar-15	Δ Feb-Mar	Apr-15	Δ Mar-Apr
Total Reserve	$2.2	$3.4	$1.2	$4.4	$1.1
Book Balance	$141	$136	-$5.1	$136	0
Reserve/Balance	**1.59%**	**2.50%**	0.91%	**3.25%**	0.75%

- While Middle Market (MM) and Business Banking (BB) account for a combined **16%** of Total **Binding Exposure** within SBNA*, they concentrate **47%** of SBNA's **Low Pass** exposure and **36%** of **Special Mention** Exposure.
- A total of **96 Obligor Groups** were reviewed within MM and BB, representing $865MM or 9% of the MM/BB combined Binding Exposure. Approximately **$147MM**, or **17%**, was affected by a Rating change (up or down).
- The rating actions **increased** MM and BB reserves by $1.2MM to $3,4 MM. **additional** reserves are **pending** because not all rating changes have been put through the rating system as of 3/31/15, leading to an estimated **additional** reserve of **at least** $1.0MM in April**.**
- Even though the impact in the amount of reserves **does not** seem high, the Watch List Review will **cover all** of the SBNA Lines of Business, with a **potential** for further **increases** based on the observed results for C&I.

Data Source: Monitoring Watchlist Committee Minutes as of 3/11/15. Solvency data as of 3/31/15.
* does not include Retail exposure or runoff portfolios.

•As of 2/28/2015 Monitoring FEVE Report;
•Low Pass defined as ORR 4.1-4.5. Special Mention defined as ORR 2.0-4.0.

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Regulatory, Internal Audit, and Loan Review Issues - Tracking

MRA /RPA	DESCRIPTION / CONCLUSION	STATUS	TARGET DATE
MRA: Wholesale Credit Risk Mgmt	**#1. Concentrations:** Enhance credit concentrations **management** **#2. Concentrations:** Improve **identification and measurement** of concentration risk	SHUSA is reviewing draft response letter.	**#1) 3/31/15** **#2) 4/30/15**
MRA: Middle Market C&I	**Portfolio Review of Low Pass and Special Mention Obligors:** Review a statistically significant sample of low pass and Special Mention credits from the Middle Market portfolio to confirm the accuracy of risk ratings	Draft response letters have been reviewed and comments have been submitted to SBNA.	**4/30/15**
RPA: Asset Recovery & Collections	**Phase 2: Implement a control** to ensure reference in each executing policy and procedure and their periodic update and approval per responsibilities laid out in the ARC Committee Charter.	IACR received from the Business Unit all the required information necessary to fulfill Phase 2 of the recommendation. (100%)	**3/31/15**
RPA: Transactions with Affiliates	**Make a final determination of the appropriate method to calculate credit exposure from derivative transactions** in accordance with Section 610, obtain the necessary validations/approvals (internal and regulatory, as applicable) and communicate accordingly to the various users (e.g., Compliance) of the information.	Consultation has been made with the Legal department and they have provided an opinion that approval of the OCC must be obtained. Documentation of the model methodology has been developed and validated. The model validation report was scheduled for approval on April 7, 2015. However, action is yet to be undertaken in order to obtain the approval of the OCC. (50%)	**3/31/15**
RPA: Global Credit Review	IACR recommended that a **documented procedure be established for all of the Non-Standardized Credit Approval Committees** (including the "lower level" Approval Committees) whereby previous Committee minutes are formally approved at a subsequent Committee meeting and that this approval is reflected in the Committee minutes.	Audited Unit provided documentation evidencing "lower level" Committee approval of previous Committee minutes, in accordance with the newly established procedure. Given all of the information provided, IACR contended that the provided documentation addresses all aspects of the Recommendation language. (100%)	**6/30/15**

Source: Internal Audit (IA and Reg Tracking report. Date: 4/24/15.

Next Steps

- Continue to **monitor the Middle Market portfolio performance relative to the approved budget and strategic commercial plan (SCP)***, which is now centered on:
  - <u>Going upmarket</u>, by raising the maximum sales of prospects to $2Bn from the previously targeted $500MM level
  - <u>Strengthening coverage teams</u> by placing new leadership in key markets and promoting healthy portfolio growth through credit discipline and new cross-selling initiatives (including client referrals and greater use of SAN's international network)
  - <u>Achieving competitive turnaround times</u> and <u>investing in product & sales capabilities</u>

- **Perform monthly updates of trending analysis with a focus on the direction of risk** based on key credit quality metrics provided by Solvency

- **Actively contribute to the resolution of open Internal Audit and Regulatory issues** through more intense coverage, coordination and integration efforts **at the SHUSA level**

- **Support ERM/Governance and Risk/Monitoring team initiatives** to: i) <u>Establish and update credit procedures</u>; ii) <u>Enhance process efficiencies</u> (through **participation in deal screen meetings**, approval committees and other key credit forums); and iii) <u>Improve quality of underwriting analysis, reporting and controls</u>, including **management of policy and guideline exceptions**

- **Initiate Industry Specific RAC discussions with Business and Risk** partners, as appropriate, and **participate in the new Risk Rating Methodology project**

*** Middle Market is a key growth area for SBNA with projected average loan and deposit growth of 6% and 3%, respectively, resulting in net revenue growth of 7% in 2015**

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APPENDIX

- Top 20
- Case Study

Middle Market: Top 20

($ in Millions)

- According to the 2015 Strategic Commercial Plan, **services, manufacturing, wholesale trade and retail** make up **66% of all facilities** within the MM portfolio and **76% of all prospects** representing an opportunity for future growth. In addition, the Top 20 list includes a few large, strongly rated exposures to **transportation** (No. 1 American RailcarLeasing/RR6.0) and **healthcare** (No. 4 and 6: South Shore/RR7.0 and Children's Hospital/RR7.6).

- The overall MM Portfolio's **WARR** at YE 2014 was **5.28**. The **Top 20 customers** with a **WARR of 5.69** accounted for approximately **15.6% the MM Binding Exposure** and **1.3% of the Total SBNA exposure**.

		Sector	Rating	(Binding Exposure)	Outstanding
	TOTAL			1,046.5	578.5
1	AMERICAN RAILCARLEASING LLC	Middle Market	6.0	94.8	24.8
2	JAY CASHMAN INC	Middle Market	5.9	69.7	46.4
3	WERNER CO	Middle Market	5.7	64.6	34.8
4	SOUTH SHORE HOSPITAL INC	Middle Market	7.0	63.9	53.9
5	CARPENTER TECHNOLOGY	Middle Market	6.0	51.3	3.1
6	CHILDRENS HOSPITAL CORPORATION	Middle Market	7.6	50.3	50.3
7	ANALOGIC CORPORATION	Middle Market	6.3	50.0	-
8	PETROLEUM PRODUCTS CORP	Middle Market	7.1	50.0	-
9	STANDEX INTERNATIONAL	Middle Market	6.2	50.0	12.7
10	H.O. PENN MACHINERY COMPANY	Middle Market	5.9	50.0	34.9
11	DSI VIDEO SYSTEMS LLC	Middle Market	6.1	50.0	0.3
12	EJT MANAGEMENT INC ET AL	Middle Market	1.5	49.7	47.3
13	TUTOR PERINI CORPORATION	Middle Market	5.1	49.3	36.1
14	READING HOSPITAL AND	Middle Market	6.6	46.1	46.1
15	ROSENTHAL & ROSENTHAL INC	Middle Market	6.2	45.0	30.0
16	DEMOULAS SUPER MARKETS INC	Middle Market	5.2	45.0	39.6
17	BROTECH CORP	Middle Market	6.4	42.5	41.4
18	MORAN TOWING CORPORATION	Middle Market	5.6	41.8	27.3
19	ATHENAHEALTH INC	Middle Market	5.6	41.4	28.9
20	ENERSYS	Middle Market	6.7	41.3	20.9

CASE STUDY - NorthStar Group Services (fka LVI Services Inc.)

SITUATION OVERVIEW

- **BORROWER DESCRIPTION:** NorthStar Group Services, Inc. - newly merged entity comprised of LVI Services, Inc. and NCM Group Holdings, LLC. The merger event created a leading provider of specialty facility services including environmental remediation, deconstruction and demolition, nuclear decommissioning, response services, asset recovery, and other related services.

- **DEAL SUMMARY:** SAN has a $32MM Syndication Agent hold (13.6% share) in a $235MM five-year secured credit facility led by M&T (Administration Agent). The syndicated facility is comprised of a $60MM RLOC ($8.3MM SAN share) and $170MM T/L ($24MM SAN share). In addition, we have Leasing exposure of approx. $1.8MM to LVI Services Inc./LVI Demolition Services. The syndicated facilities will mature on 4/24/19 whereas the leasing will expire in 2017. Legal O/S as per 4/2/15 CRR is $31.4MM.

- **APPROVAL CHRONOLOGY: April 2014:** This **HLT** designated transaction was originally approved last April with a condition to sell down to $27.5MM from $31MM. **Sept. 2014** (1st Amendment): Approved waiver to prohibition of acquisitions to allow $5MM cash equity purchase of certain assets. **Oct. 2014** (2nd Amendment): Amendment in leverage covenant step down. Total and Senior Leverage covenants were scheduled to step down by 25bps to 4.75x and 3.75x, respectively, for the 9/30/14 testing. Management requested the step down to be delayed 9 months to 6/30/15. **April 2015** (Forbearance Agreement): The Central Workout Committee (CWC) approved a short term forbearance agreement and a reserve action on 4/20/2015. The short transaction (60 days) was negotiated by the Agent Bank (M&T) to provide the Borrower with ongoing liquidity. The various provisions of the deal (fee income, pricing increase, consultant engagement, mezzanine debt payment block, covenant changes) are considered to strengthen the Bank's position. Not classified as TDR.

- **RATING MIGRATION: Downgraded** from the initial 5.2 ORR in April 2014 to 4.4 in Sept. 2014 due to off plan performance for the first 6 months of 2014. Further DG to 4.0 (Special Mention) in Oct. 2014 reflecting need for leverage covenant relief and continued below plan performance. April 2, 2015: DG to 1.5 (Substandard) due to multiple credit issues (see next slide).

- **SNC RATING AND ACCRUAL STATUS:** "Pass" during 2014 SNC Review. 2015 Rating TBD. **Performing Asset.**

CASE STUDY - Key/Emerging Credit Risks

- WEAK/OFF PLAN PERFORMANCE
- COVENANT BREACH

- CF projection (prepared by borrower's financial advisor) showed negative cash flow over the 13 weeks ended 6/12/15 with minimal RLOC availability.
- As per CRR (4/2/15), YTD 11/30/14 GAAP EBITDA of $13.9MM vs. plan of $49.9MM. There was approx. $18MM of unbudgeted one-time add-backs to EBITDA as well as ~$20MM EBITDA miss due to below margin NCM projects.
- YTD 11/30/14 FCCR (GAAP EBITDA) was 0.32x (1.07x with one-time add-backs). Proforma 12/31/14 FCCR (without adjustments) is estimated at 0.5x.

- EQUITY SPONSORS DISSENTION
- LITIGATION RISK
- MANAGEMENT DUE DILIGENGE RED FLAGS

- As per CRR (4/2/15), majority equity partner of LVI has begun preparing a lawsuit alleging fraud by Evergreen Partners (NCM equity sponsor) and has until end of April to file the suit.
- The alleged fraud is in relation to missed due diligence on NCM prior to closing on the acquisition. NOTE: NorthStar is 97% owned by four funds: CHS Capital ($2.9B raised), Apollo Investments Corp. (AUM 3.2B), Falcon Investment Advisors (AUM $1.0Bn), and Evergreen Pacific Partners ($700MM).
- According to CRR, in 2011 NCM's former Nuprecorn business unit embarked on unsuccessful projects (primarily UN-NY and Byron Rogers) that resulted in a negative EBITDA of $10.3MM and net loss of $29MM for NCM. As per CRR, NCM leader "strayed from the company's historical discipline and in order to make for lost revenue, bid on difficult and out of market jobs". Mgmt stated that due to the delayed closing of the credit facility "they were not focused enough on their core operating business".

LATE AUDIT

FS QUALITY RISK

- The 2014 Audited F/S is past due. A reservation of rights letter was executed on 3/25/15.
- The 13-week CF projections that have been delivered show negative OCF and assumes that the mezzanine debt payments will continue to take place.
- Management has not provided guidance on whether the borrower will be in compliance at 12/31/14.