

Real Estate Banking

2016 Strategic Plan

Boston – June 2013

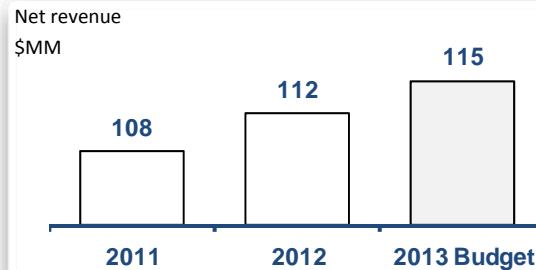
Executive Summary

Real Estate is a Core Business Unit for Corporate Banking producing 46% of Corporate Banking revenues in 2012

- 1 Real Estate division is a stable and risk adverse business with BAU growth of 0.5% projected
- 2 With additional investment **\$30MM of additional revenues (\$26.5MM excluding costs)** can be achieved over the **3 year period**
- 3 There are additional “game changing” opportunities that exist, however these have not been sized for the strategic planning exercise.

Real Estate Banking Division

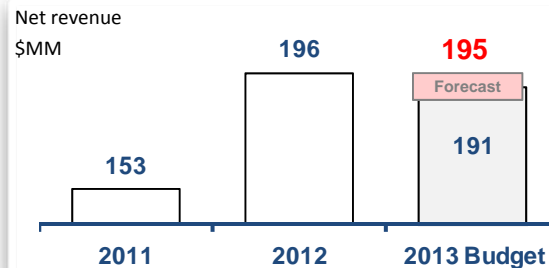
CRE Unit



CRE 2012 Highlights

- Booked \$1.6MM of new commitments
- Expanded NY direct lending platform
- Generated significant revenue via workout activities (reduced to \$372MM from \$638MM)
- Successfully backfilled high level of payoffs
- Grew deposit balances by \$160MM

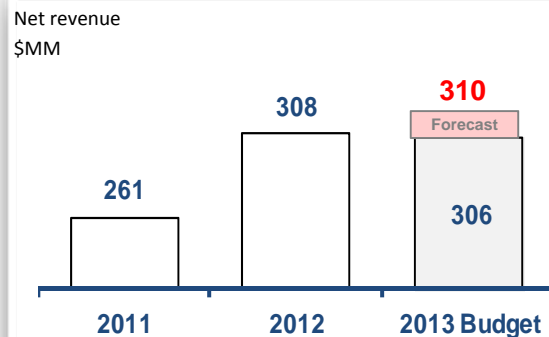
SREC/Multifamily Unit



SREC/Multifamily 2012 Highlights

- Implemented performance based contract with Meridian
- Contained crisis after Sr. management was lift out
- Rebuilt pipeline and originated \$1.8Bi in loans
- Countered soft start with \$274MM portfolio acquisition
- Significant increase in fee based revenue mainly from larger than usual prepaes and the true up of provisions

TOTAL Corporate RE Banking Division



Keys to secure Commercial RE revenue stream

- Multifamily – origination dependent on broker channel (Meridian performance based contract)
- CRE – defend NE position, grow in NY and DC top tier markets, increase syndications revenue
- Other - supplement shortfalls in the pipeline and limit Meridian's dependence through acquisition of portfolios and development of fee-based businesses

Agenda

Market Environment & Competitive Landscape

Business Unit Background

Business Plan 2014-2016

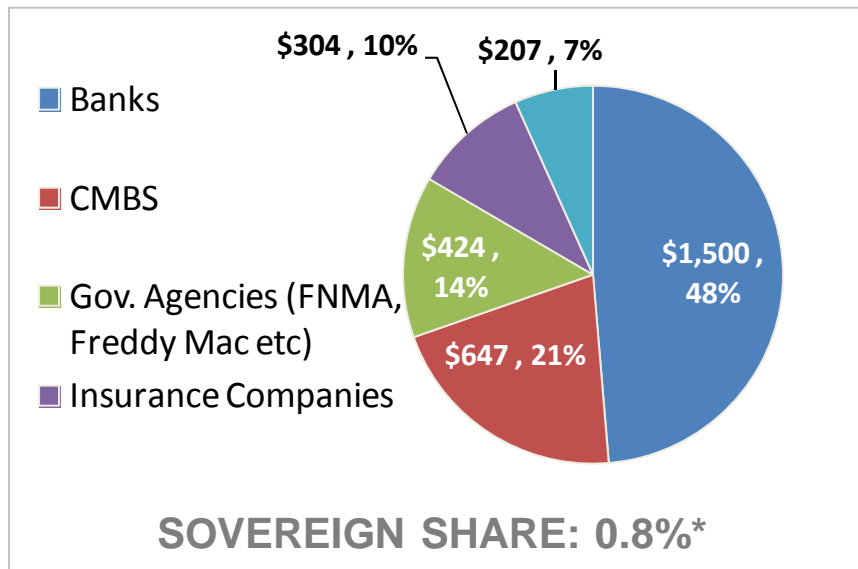
Key Conclusions

Appendix

US Commercial Real Estate Fundamentals Continue to Improve

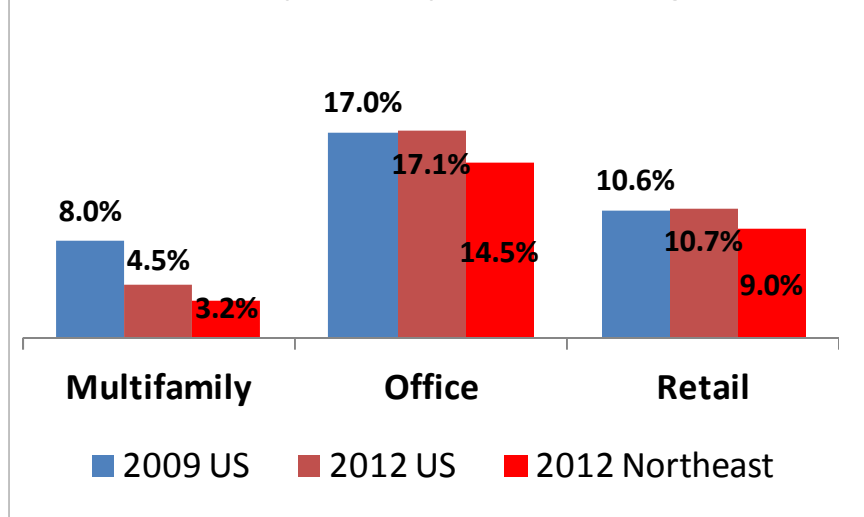
- Market \$3.1Trillion and growing
- Market is liquid
- Commercial Real Estate (CRE) in 4th year of recovery
- Sovereign CRE concentrated in Northeast US
- Northeast markets outperforming US average

\$3.1Tr US CRE Debt Market



Vacancy Rates

SOV Footprint Outperforms US Avg.



Selective growth opportunity exists for SOV within Commercial Real Estate

* \$25.1Bn total SOV Commercial RE exposure considered (this includes the \$7.9Bn of multifamily assets sold and serviced to FNMA)

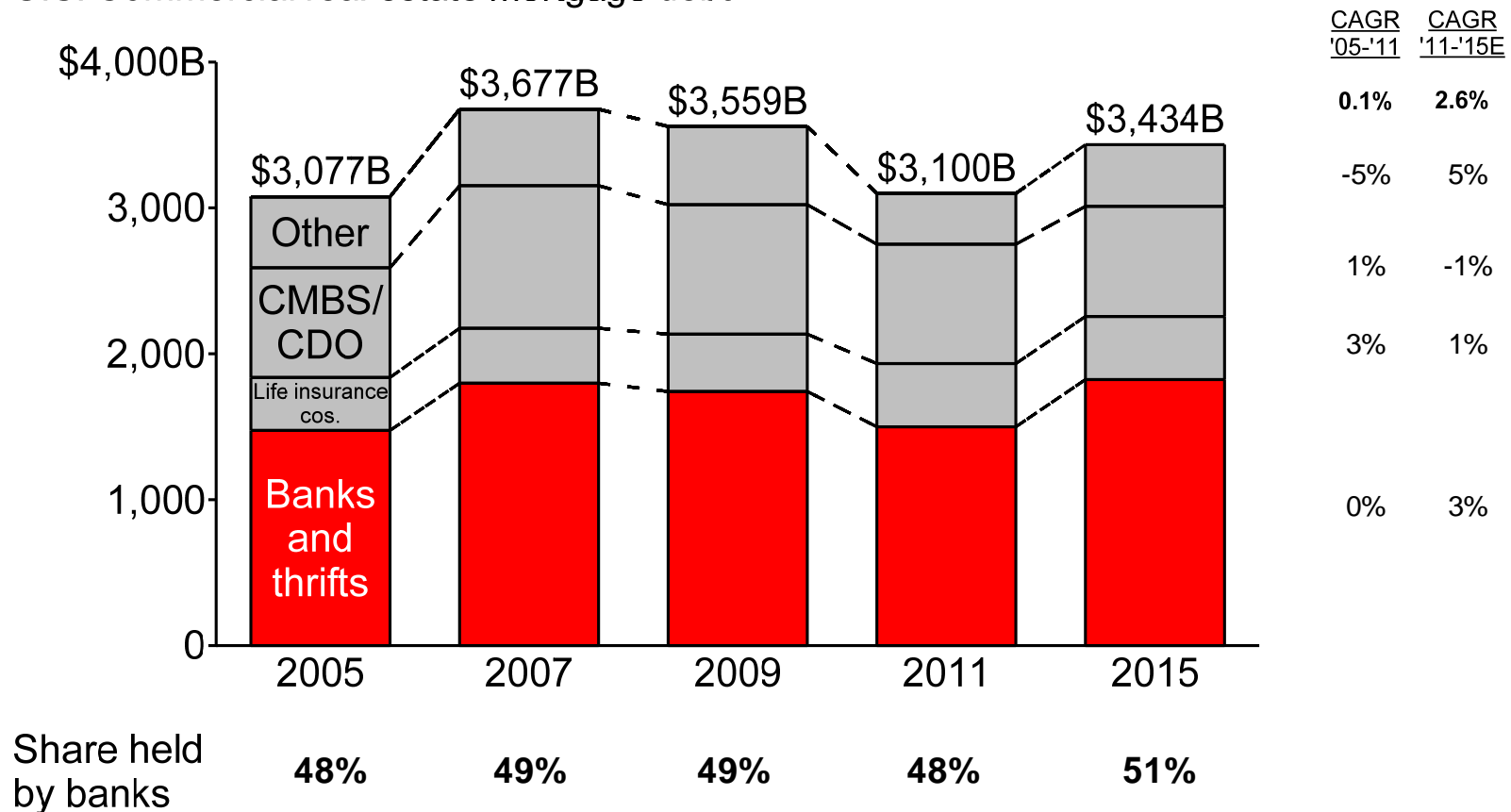
Source: FDIC for market data, SOV Appraisal Group for Vacancy data



CRE Market Growth Projection

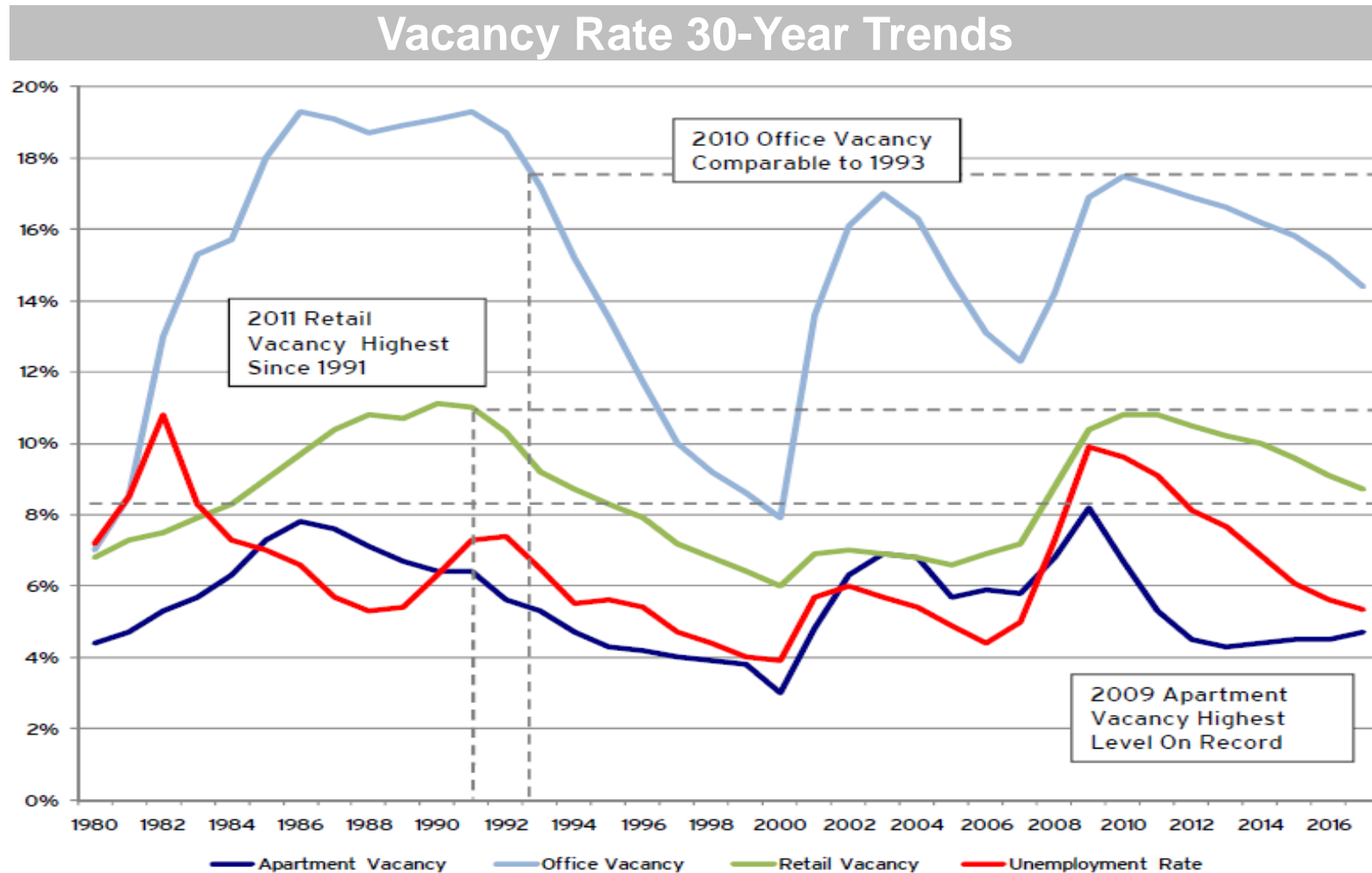
US CRE debt projected to grow 2.6% CAGR over the next 3 years

U.S. Commercial real estate mortgage debt



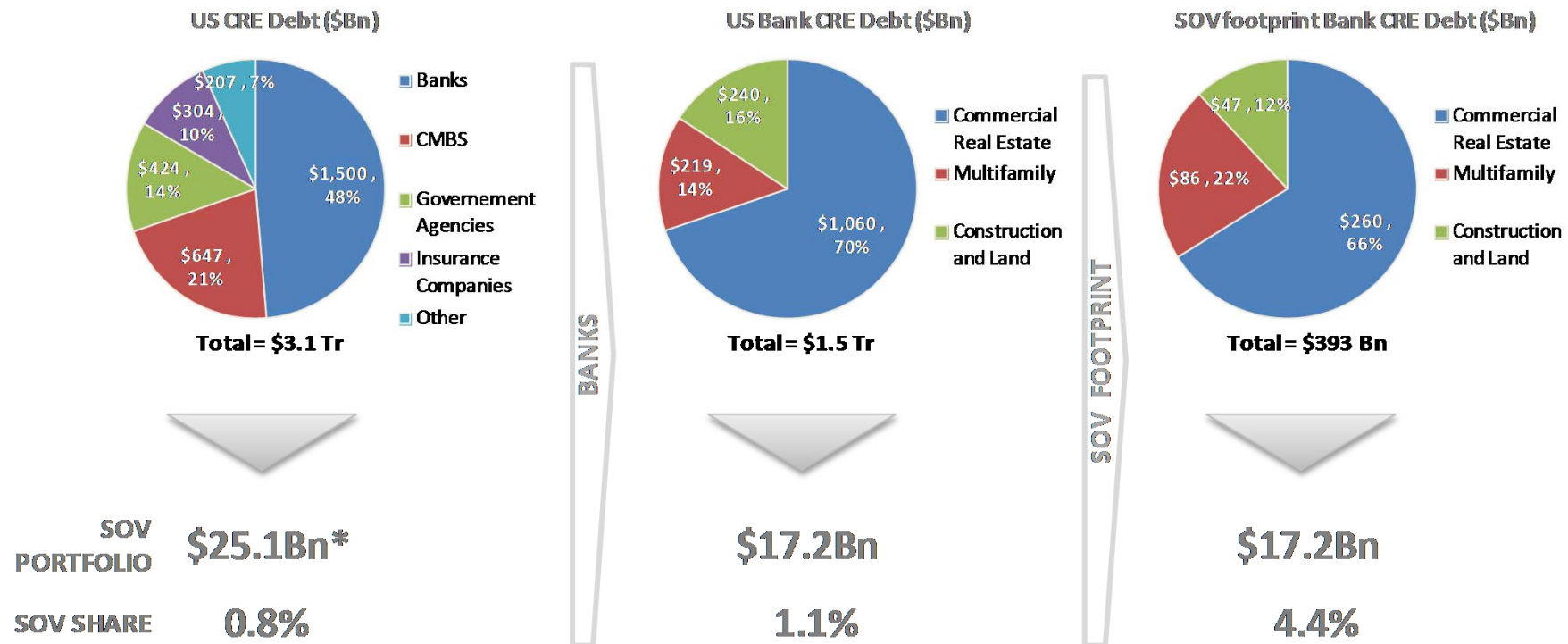
Note: Other includes government, agencies, finance companies, REITs, Nonfarm non-corporate business, household sector, private pension funds, other insurance companies, and nonfinancial corporate business
 Source: FDIC, Bain Analysis

Vacancy Rates are normalizing



SOV Market Share in Commercial Real Estate (CRE)

A \$3.1 Tr debt market, in footprint SOV represents 4.4% of banks debt



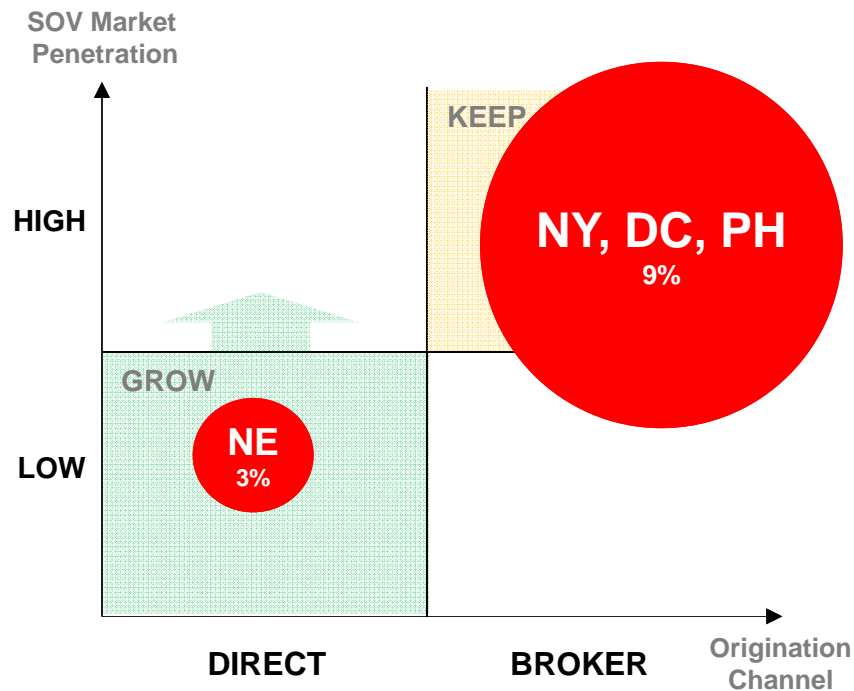
* \$17.2Bn RE portfolio owned and \$7.9Bn serviced mainly to Fannie Mae totals \$25.1Bn Type A Exposure as of December 31st 2012

SOV In Footprint share per asset type



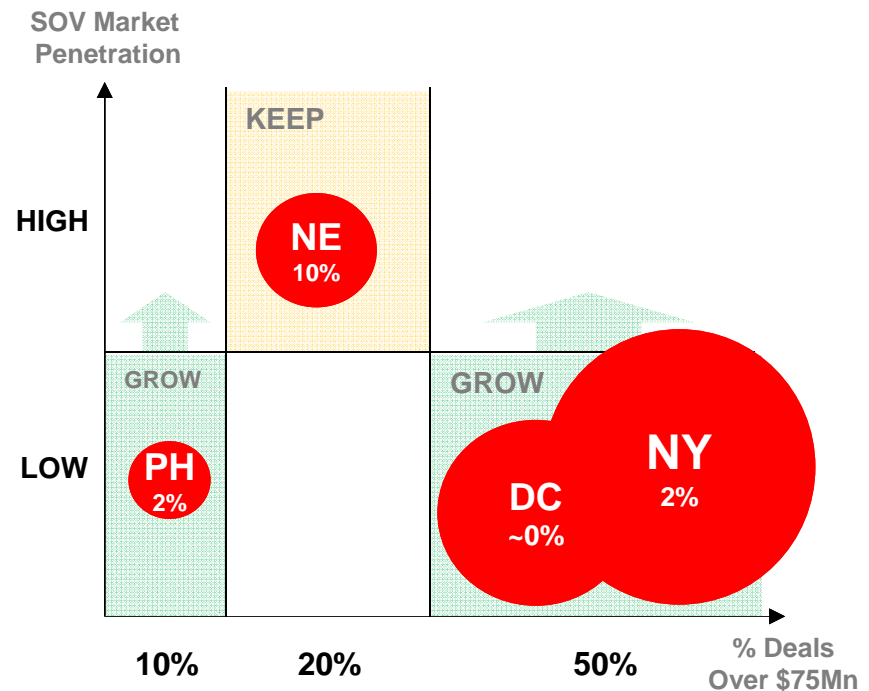
Bubble size represents market size

Multifamily (\$1MM+ segment)



- Strong position in NY Metro
- Opportunity to expand in NE through direct lending

CRE (\$20MM+ segment)



- Strong position in NE
- Opportunity to develop further presence in NY and DC

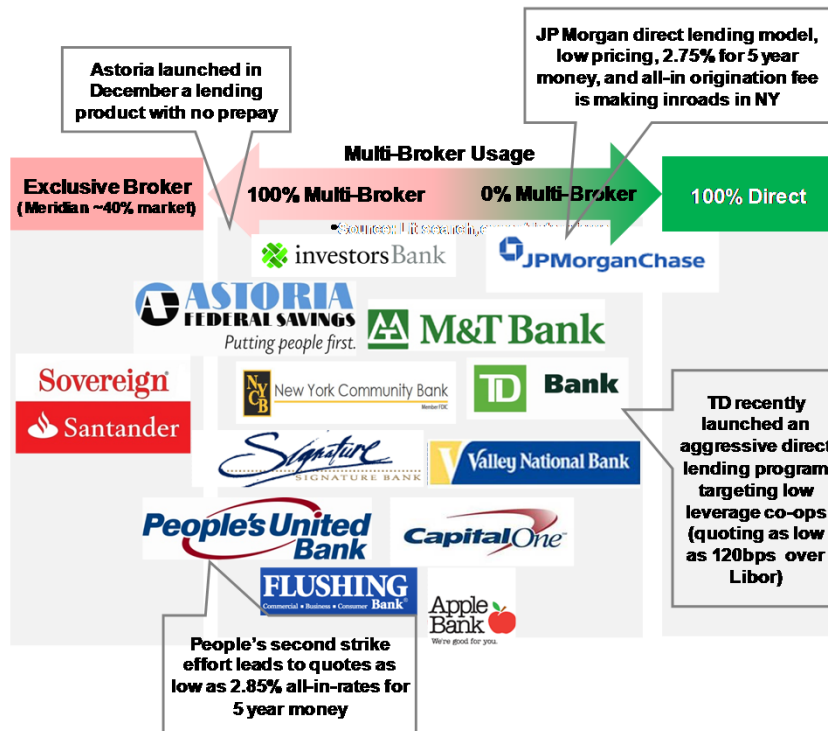
Opportunistic portfolio acquisitions and development of fee-based businesses to complement geographic expansion and enhance returns and the effective use of the balance sheet

PH: Philadelphia metro area
DC: Greater Washington
NY: Metro NY



Ecosystem

Multifamily (\$1MM+ segment)



- Continued inflow of new entrants in NY Metro drives spread compression and pressure on structure/proceeds
- Broker exclusive models being challenged by National players such as JP Morgan

CRE (\$20MM+ segment)



- CMBS NY challenges Banks position in term lending
- Competitive pressure in construction lending morphs borrower expectations in terms of pricing & execution on higher holds (smaller tickets, single bank transactions)

Agenda

Market Environment & Competitive

Business Unit Background

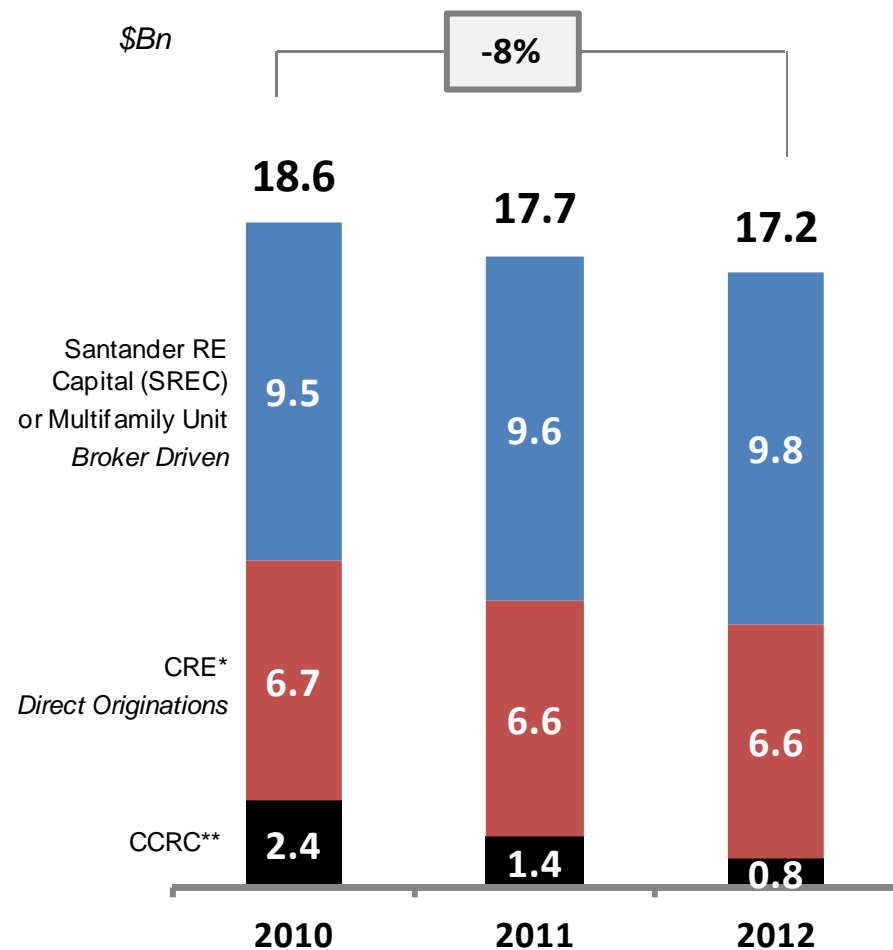
Business Plan 2014-2016

Key Conclusions

Appendix

SOV CRE Portfolio Transformed over the Last 3 Years

SOV owned Commercial RE Exposure



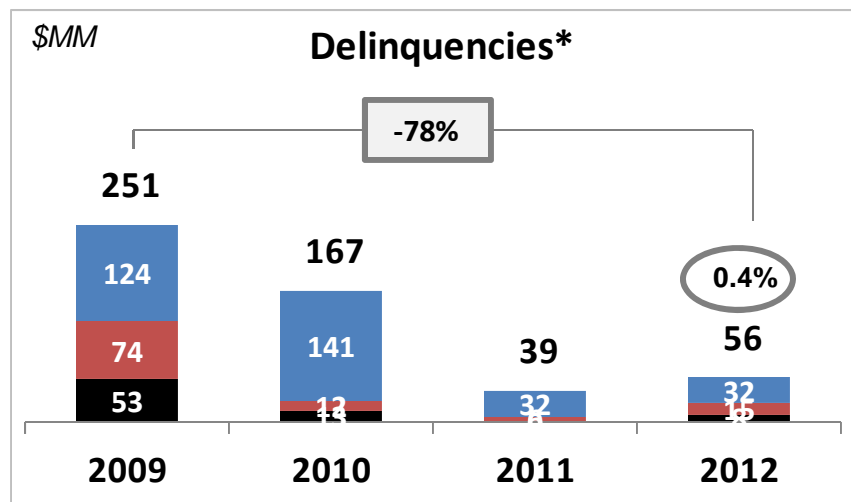
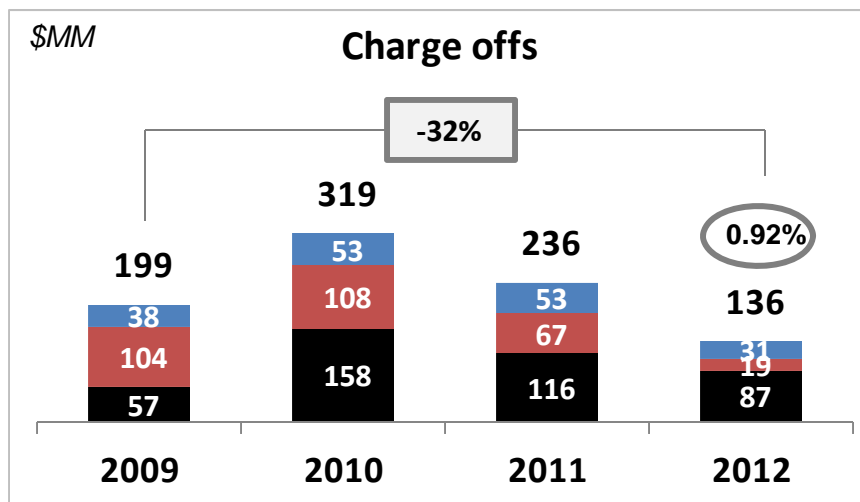
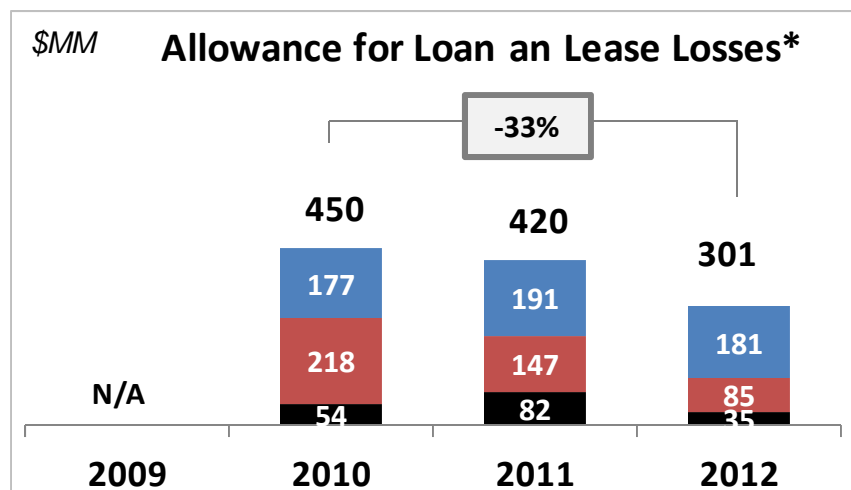
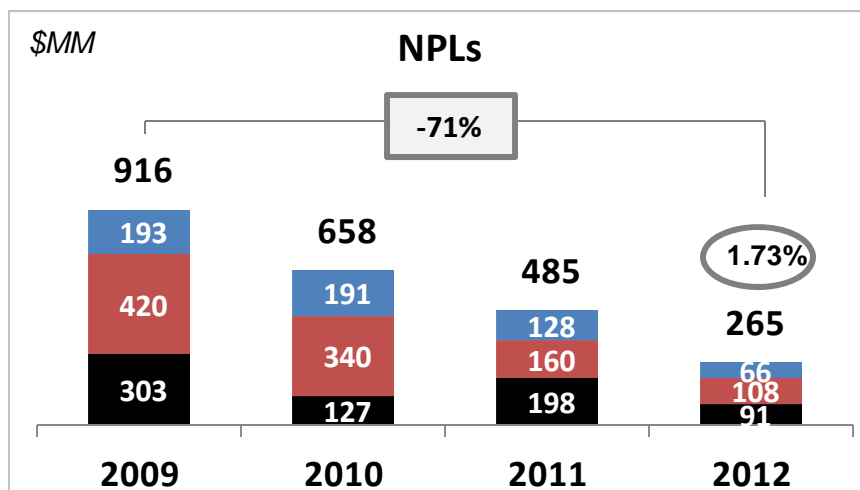
- Asset quality has improved
- Non-Core business exited
- Out of region exposure reduced
- Core business investments accretive
- Staff has been upgraded

* Includes all CRE exposure outside SREC and CCRC

** CCRC: Continuing Care Retirement Community

Key Risk Metrics Continue to Improve and are Normalizing

■ SREC/Multifamily ■ CRE ■ CCRC % 2012 ratio



* CCRC, CRE and SREC units only (representing 89% of SOV Comm. RE portfolio, \$15.3/\$17.2)

CRE Portfolio Managed within Limits

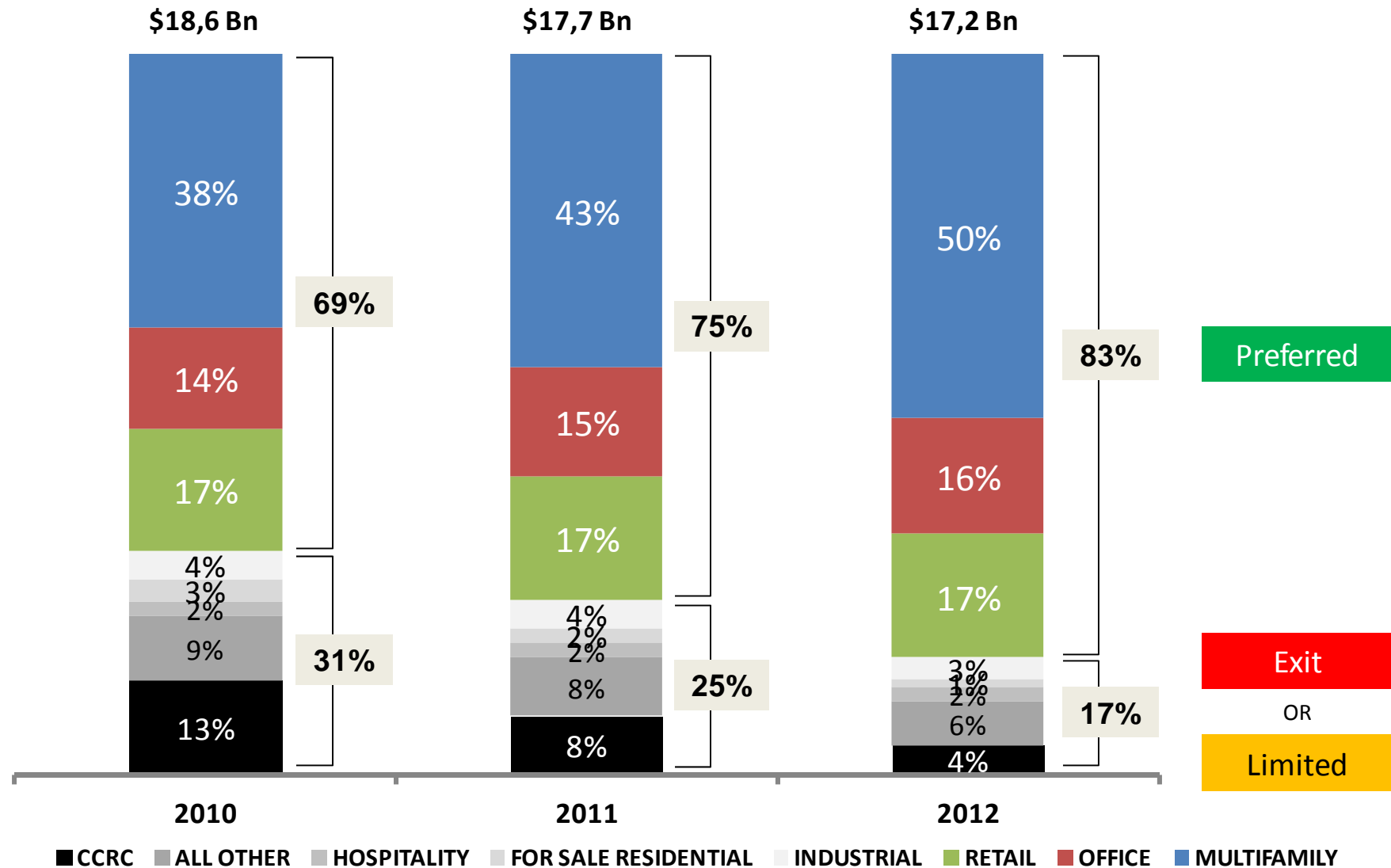
\$MM					Current Product Appetite
Property Type	2010	2011	2012	Limit*	
MULTIFAMILY (incl. Co-Op)	7,075	7,676	8,579	9,850	Preferred
RETAIL	3,094	3,079	2,842	3,300	Preferred
OFFICE	2,674	2,690	2,740	3,300	Preferred
INDUSTRIAL	702	634	591	950	Limited
FOR SALE RESIDENTIAL	565	383	245	500	Exit
HOSPITALITY	351	322	362	500	Limited
CCRC	2,432	1,408	764	950	Exit
ALL OTHER	1,684	1,474	1,062	2,100	Limited
TOTAL RE Portfolio	18,577	17,666	17,185	18,750	
CONSTRUCTION LOANS	1,265	1,297	1,672	2,350	Preferred

* 2013 limits established as Tier I capital + allowance for credit loss:

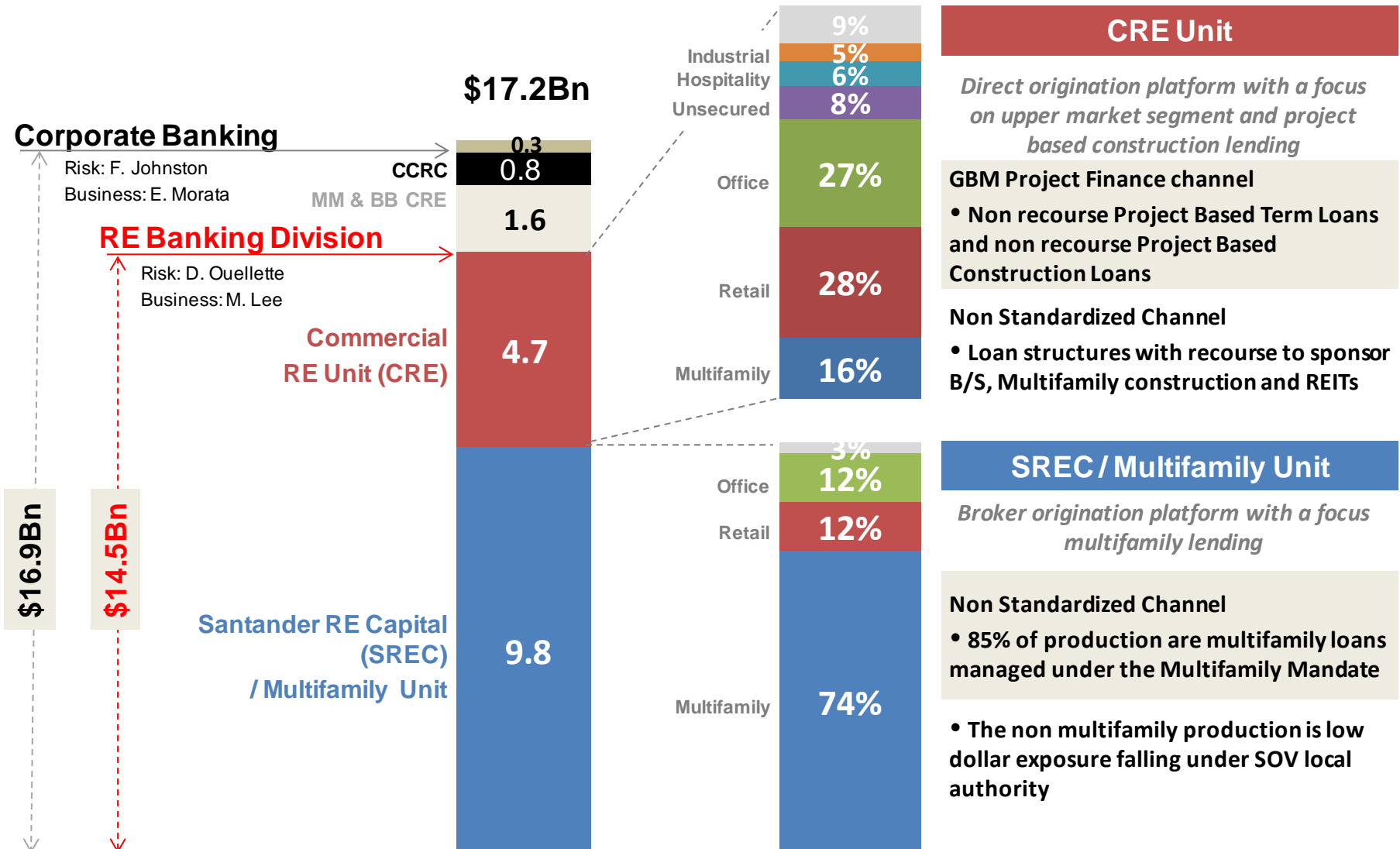
- Tier I capital is core capital established by Basel accords, includes equity capital and disclosed reserves
- Allowance for credit loss: Allowance for loan losses and contingent reserves for letters of credit and unfunded commitment



Effective Redeployment of Capital in Preferred Asset Types



RE Banking Division - Units and Portfolio Segmentation



Agenda

Market Environment & Competitive Landscape

Business Unit Background

Business Plan 2014-2016

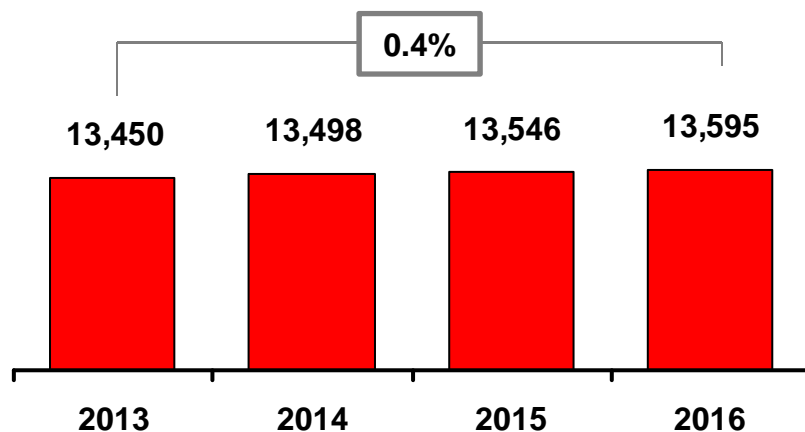
- **Business-as-Usual**
- **Initiatives**
- **Consolidated Plan**

Key Conclusions

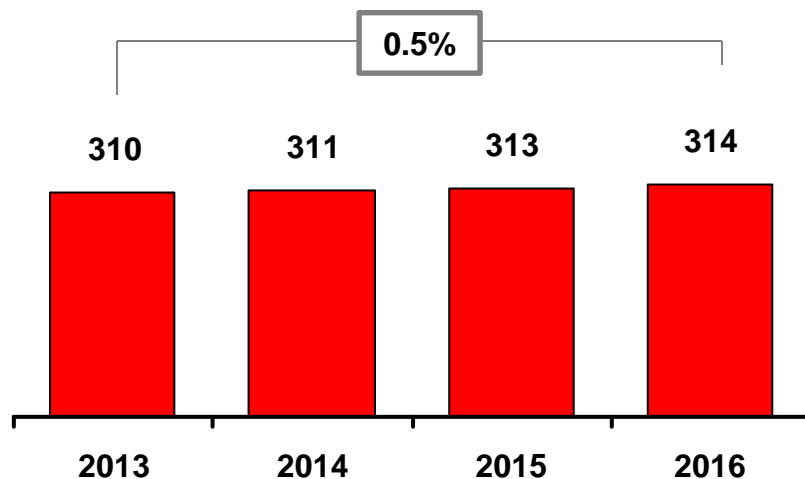
Appendix

BAU Plan

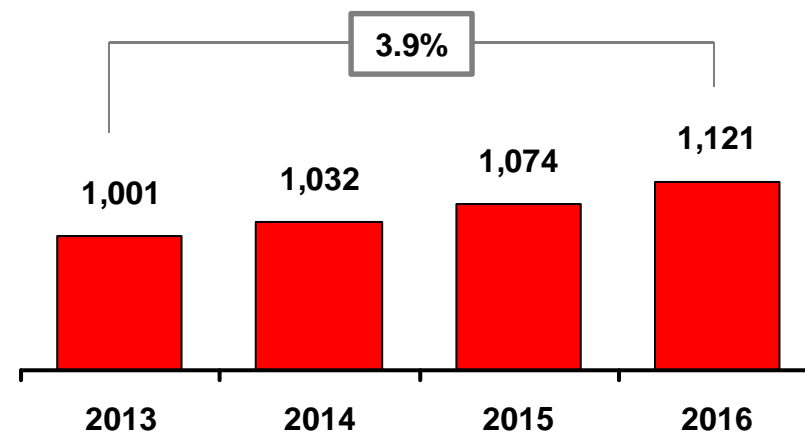
Y/E Loan O/S (\$MM)



Net Revenue (\$MM)



Y/E Deposit Balances (\$MM)



BAU Initiatives

- Direct lending (CRE Unit) – Maintain dominant position in NE and expertise as a project based construction lender
- Broker lending (Multifamily Unit) – defend Multifamily concentration in Metro NY with bond-like portfolio performances (target low leverage transactions through competitive pricing, maturity management program and execution on performance based contract)
- Redeploy capital from exit businesses and workout into desired product types
- Redeploy capital from out footprint markets (FL, CA, IL) into core markets

Agenda

Market Environment & Competitive Landscape

Business Unit Background

Business Plan 2014-2016

-Business-as-Usual

-2016 Initiatives

-Consolidated Plan

Key Conclusions

Appendix

Summary: 2016 Strategic Initiatives

1

Broker Lending (Multifamily Unit)

- Expand direct originations in NE to reduce Meridian concentration
- Diversify revenues through cross sell and deposit gathering

2

Direct Lending (CRE Unit)

- Expand presence in prime NY and DC markets
- Develop syndications strategy

3

Client Acquisition & Fee-Based Businesses

- Client acquisition
- Fee-based income
- Investment

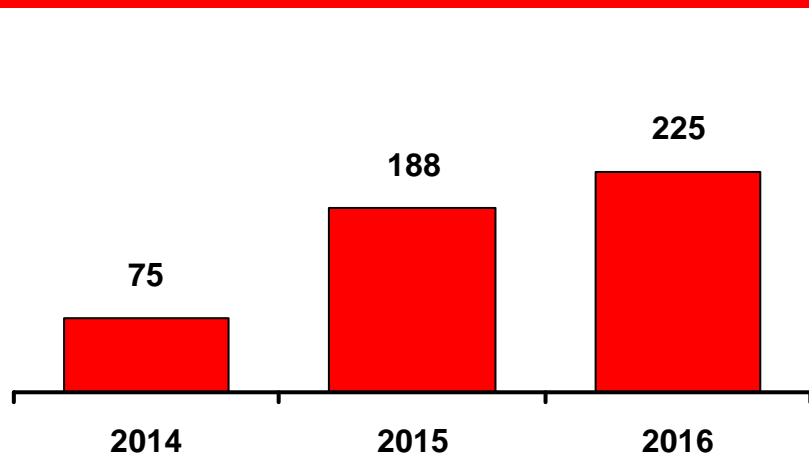
Corporate CRE consolidation project

- Phase I: Align CRE governance within Corporate Banking, specifically with respect to Middle Market and Business Banking
- Phase II: Integrate Middle Market and Business Banking CRE clients into the Real Estate Banking specialty group

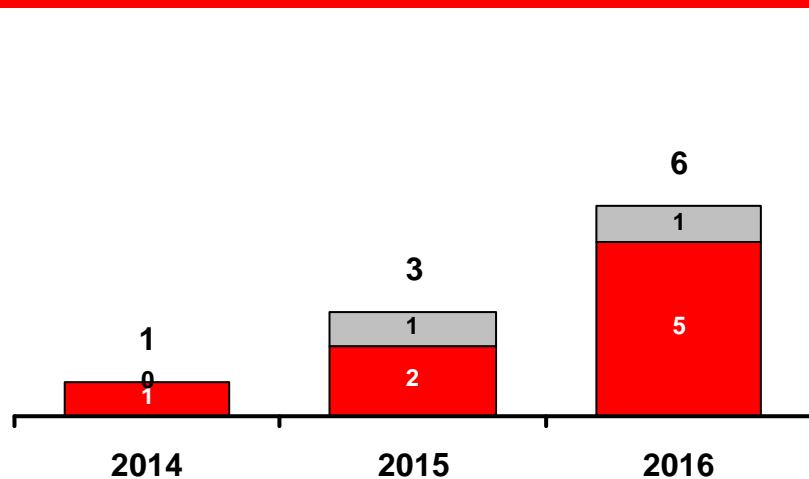
Broker Lending (Multifamily Unit)

Geographic Expansion
Cross Sell

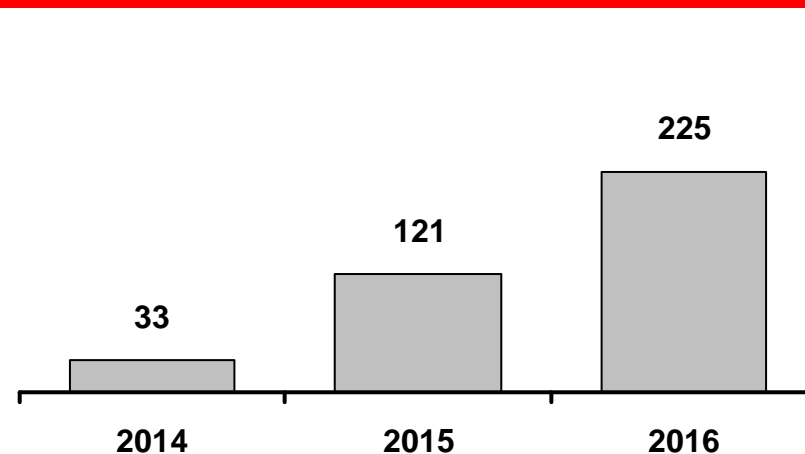
Incremental Y/E Loan O/S (\$MM)



Incremental Net Revenue (\$MM)



Incremental Deposit Balances (\$MM)



INITIATIVES DESCRIPTION

WHAT

WHY

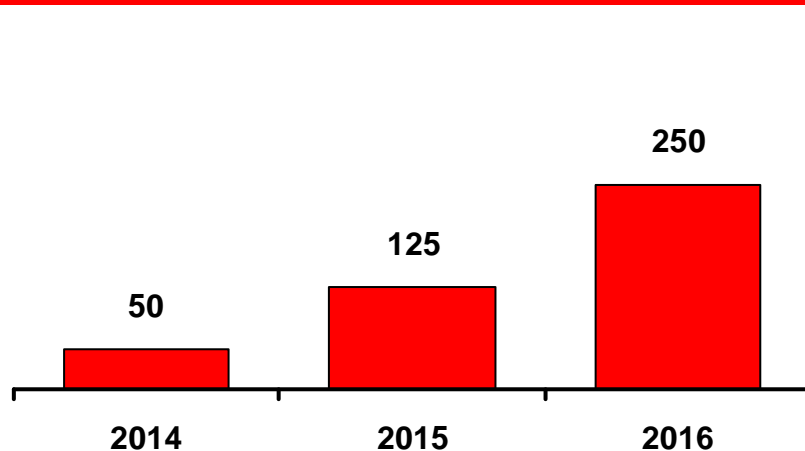
Geographic Expansion	<ul style="list-style-type: none"> Complement broker-origination channel by expanding our RM network Target direct originations outside of Meridian Territory 	<ul style="list-style-type: none"> Diversify revenues from Meridian and increase fees through direct lending
Cross Sell	<ul style="list-style-type: none"> Increase non-credit revenue via deposits and cash management cross sell 	<ul style="list-style-type: none"> Non existing cross sell strategy, opportunity to increase non credit revenues

1

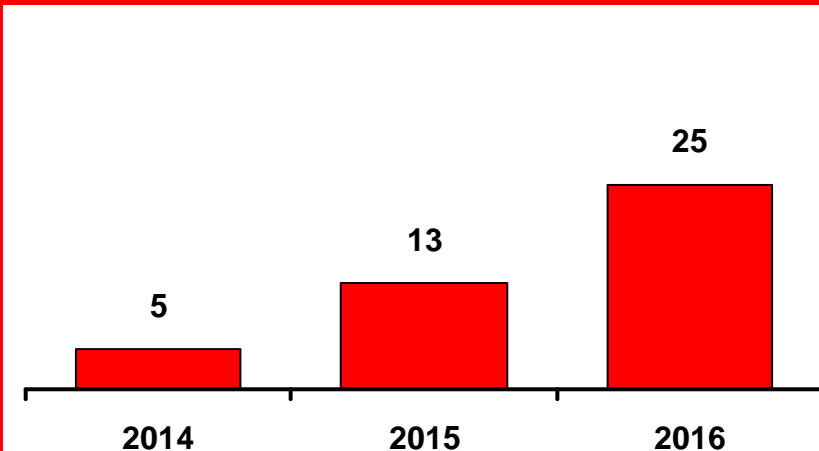
Broker Lending (Multifamily Unit): Resources

People	Division	Function	Area to support	Number of FTEs	Timeline for Hiring			Estimated cost
					2014	2015	2016	
	Real Estate	Relationship Manager	Multifamily	3	2	1	0	\$145K/ per FTE
	TOTAL			3	2	1	0	

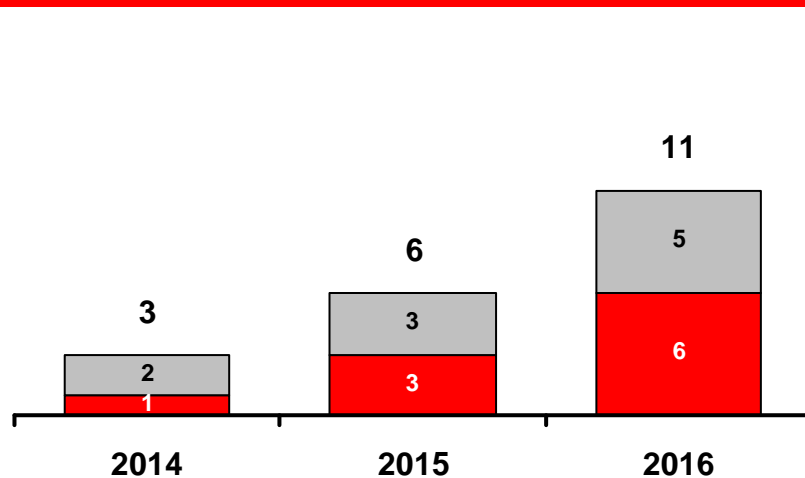
Incremental Y/E Loan O/S (\$MM)



Incremental Deposit Balances (\$MM)



Incremental Net Revenue (\$MM)



INITIATIVES DESCRIPTION

WHAT

WHY

Geographic Expansion	<ul style="list-style-type: none"> Expand project lending in NY and DC markets Target top tier investors and developers with access to capital, strong management, portfolios greater than \$100MM 	<ul style="list-style-type: none"> DC and NY underpenetrated and larger scale Leverage expertise and success in NE
	<ul style="list-style-type: none"> Expand syndication strategy by underwriting transactions up to \$150MM with increase hold levels up to \$50MM 	<ul style="list-style-type: none"> Increase non credit revenue from syndication transactions and non credit cross-sell

2 Direct Lending (CRE Unit): Resources

People	Division	Function	Area to support	Number of FTEs	Timeline for Hiring			Estimated cost
					2014	2015	2016	
	Real Estate	Sr RM	CRE	3	2	1	0	\$250K/ per FTE per annum
	Real Estate	Jr RM	CRE	3	2	1	0	\$100k per FTE per annum
	Real Estate	Middle Office	CRE	1	1	0	0	\$70k per FTE per annum
	Real Estate	Risk (UW)	CRE	1	1	0	0	\$150k per FTE per annum
	TOTAL			8	6	2	0	

3

Client Acquisition & Fee-Based Businesses

	WHAT	WHY
Client Acquisition <i>In process</i>	<ul style="list-style-type: none"> • FNMA portfolio buyback • Selective portfolio acquisition 	<ul style="list-style-type: none"> • Supplement organic growth or shortfalls in pipeline • Pricing opportunities that outperform organic production
Fee based Income <i>Conceptual</i>	<ul style="list-style-type: none"> • Access market liquidity: <ul style="list-style-type: none"> • via participations (pool sales) • via agency sales • Explore the development or acquisition of a securitization platform (FNMA?) 	<ul style="list-style-type: none"> • Supplement organic fee growth • Development of diversified fee based revenue stream • Liquidity planning tool for portfolio limits
Investment <i>Conceptual</i>	<ul style="list-style-type: none"> • Equity investment in existing opportunity funds • Development of captive investment funds 	<ul style="list-style-type: none"> • Enhanced returns • Development of diversified fee based revenue stream

Agenda

Market Environment & Competitive Landscape

Business Unit Background

Business Plan 2014-2016

-Business-as-Usual

-2016 Initiatives

-Consolidated Plan

Key Conclusions

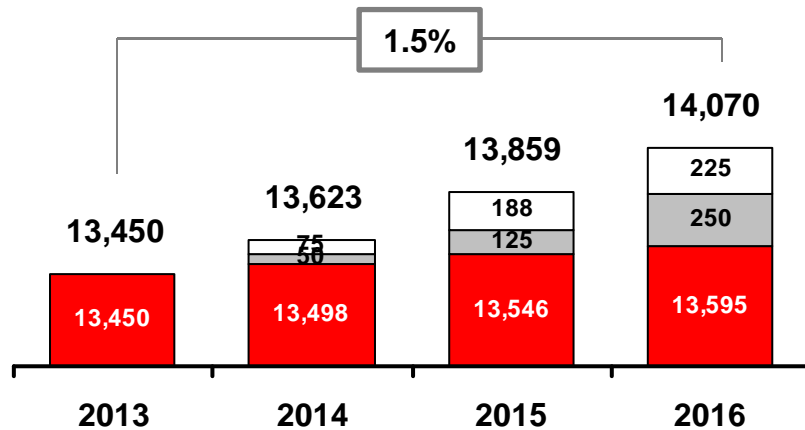
Appendix

Real Estate Banking 2016 Plan

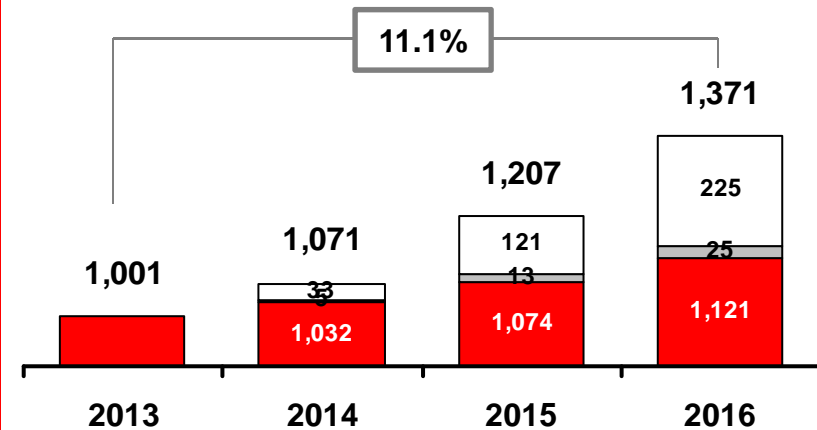
■ BAU
■ CRE Initiatives
■ Multifamily Initiatives

CAGR (%)

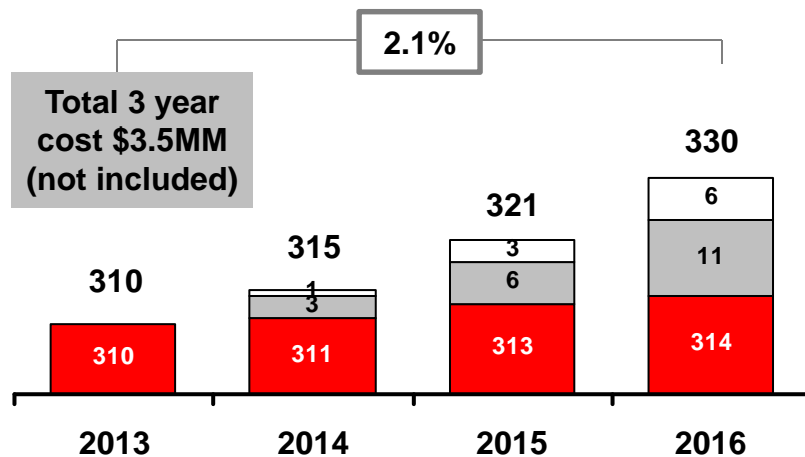
Y/E Loan O/S (\$MM)



Y/E Deposit Balances (\$MM)



Net Revenue (\$MM)



Key Success Factors

- Develop geographic expansion with a focus on executing the Syndication strategy
- Selective hiring of key resources (8 in '14 and 3 in '15)
- Achieving originations targets through Meridian
- Ability to adapt business and risk practices to market changes to execute with best in class competitors

Agenda

Market Environment & Competitive Landscape

Business Unit Background

Business Plan 2014-2016

-Business-as-Usual

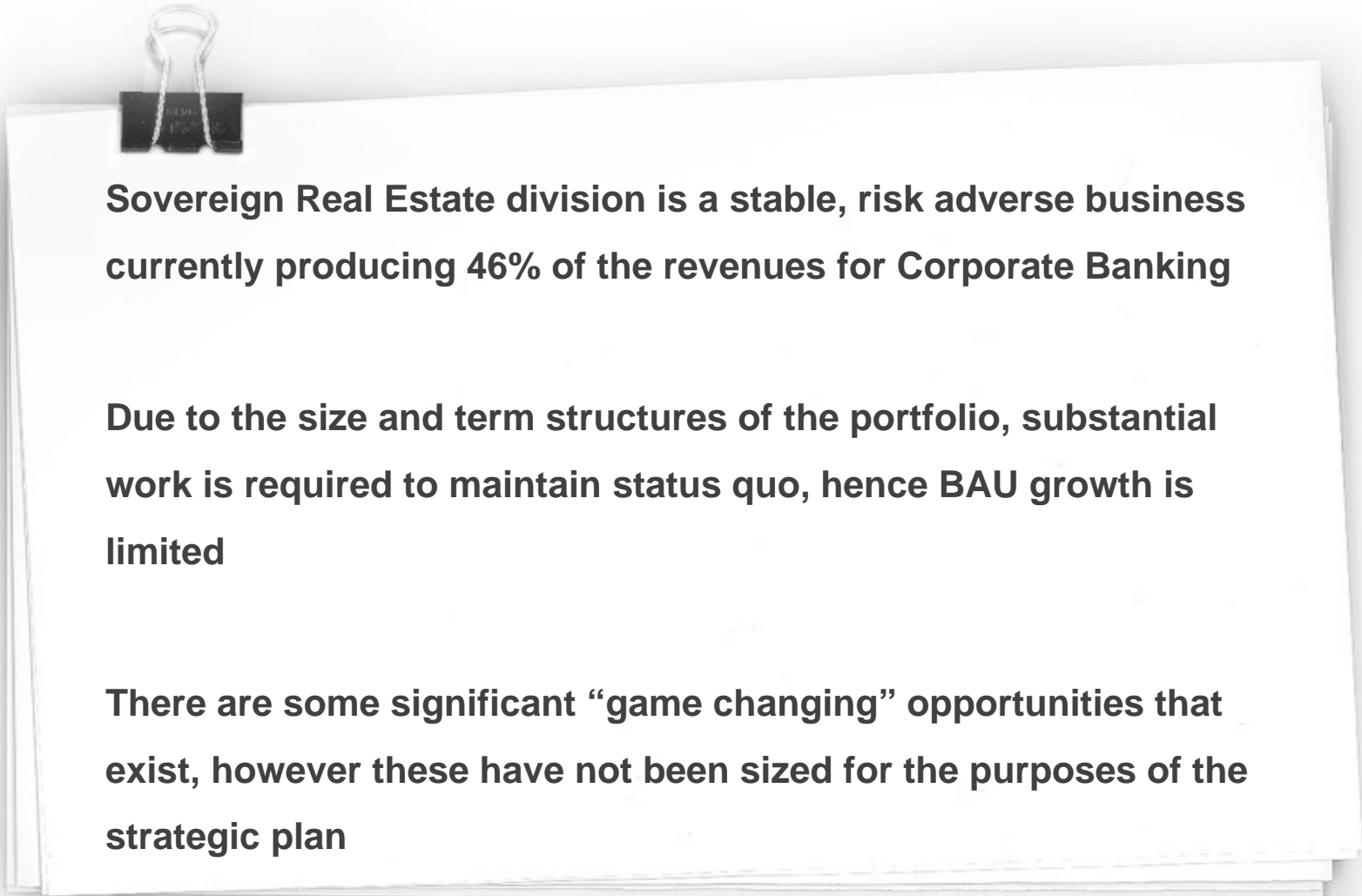
-2016 Initiatives

-Consolidated Plan

Key Conclusions

Appendix

Key Conclusions



Sovereign Real Estate division is a stable, risk adverse business currently producing 46% of the revenues for Corporate Banking

Due to the size and term structures of the portfolio, substantial work is required to maintain status quo, hence BAU growth is limited

There are some significant “game changing” opportunities that exist, however these have not been sized for the purposes of the strategic plan

Agenda

Market Environment & Competitive Landscape

Business Unit Background

Business Plan 2014-2016

Key Conclusions

Appendix

Broker Origination Contingency Plan

Division	Function	New FTEs	Timeline for hiring			*Estimated cost (MM)
			2014	2015	2016	
Business Line	Business Development	12	10	2	0	TBD
Business Line	Middle Office**	2	2	0	0	TBD
Total		14	12	2	0	TBD

* Estimates base salary, benefits and bonus

** Middle office includes the Pre-closing team, the Processing team and deposit/cash management RA's

This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain's prior written consent



Strategic Plan- FTE Required

