CEIS REVIEW INC.

ceisreview.com

Consulting Services to the Financial Community

Quarterly Client Survey - 1st Q17

New York, June 14, 2017 – CEIS Review Inc., a financial service consulting firm serving the needs of commercial and savings banks, has released its survey of loan quality trends as observed from reviews of its client base.

EXECUTIVE SUMMARY-INDUSTRY WIDE TRENDS

Based on the FDIC Quarterly Banking Profile for the First Quarter 2017, Community Banks[1], which represent 92% of insured institutions, reported a 10.4% increase in aggregate net income from the first quarter of 2016, driven by higher net interest income and non-interest income, offset in part by higher loan loss provisions and non-interest expense. These results are in line with the aggregate FDIC insured institution results which showed an increase in net income of 12.7% for this period, principally attributed to higher net operating revenues increasing quarterly earnings of FDIC-insured institutions to $44 billion in 1Q17.

During the first quarter of 2017, total loans and leases for all FDIC insured institutions declined by $8.1 billion (0.01%) representing the first quarterly decline since 1Q13; however, over the 12 months ended March 31, 2017, total loans and leases increased by 4%. Loan balances for community backs rose during 1Q17 to $1.5 trillion, up 1.1% from the fourth quarter of 2016 and up 6.0% from 1Q16. The 12-month growth was led by construction and development loans (up 7.6%), non-farm nonresidential loans (up 7.2%), 1-4 family residential loans (up 5.0%) and commercial & industrial loans (up 3.6%).

All FDIC insured banks reported a decline in the amount of non-current loans (90 days or more past due or non-accrual) for the 27th time in the last 28 quarters.

All FDIC insured banks reported a decline in the amount of non-current loans (90 days or more past due or non-accrual) for the 27th time in the last 28 quarters. During the first quarter of 2017, non-current loans declined by 5.3%. Non-current loan decreases were reported across all major loan types. The non-current loan rate improved to 1.34% at 3/31/17 from 1.42% at YE 2016. A decline was also evident for 52% of community banks. In aggregate, non-current loan balances fell 0.2% in the first quarter of 2017. Among community banks, all major loan categories except for commercial & industrial loans saw improvement in their non-current loan rate. For commercial & industrial loans, the non-current loan rate increased for the seventh consecutive quarter to 1.46%.

On a combined basis, reserves for loan losses at 3/31/17 remained flat among FDIC insured banks compared to the prior year. The primarily unchanged level of reserves coupled with the decline in non-current loan balances has resulted in the highest level for the coverage ratio since 3QE 2007. The industry's coverage ratio improved to 97.5% at 1QE 2017.

[1] As defined by the FDIC, the determination of which is based on a five-step process

For the sixth consecutive quarter, all FDIC insured banks reported a year-over-year increase in net charge-offs (up 13.4%) as of 3/31/17. The increase was primarily driven by higher losses on loans to individuals. Conversely, charge-offs on commercial & industrial loans were down 15.7% from the prior year. For community banks, the net charge-off rate remained flat from the prior year at 0.10% as of 3/31/17. Among these banks, a slight decline in the net charge-off rate was reported across all loan types except for commercial & industrial loans which reported a 0.03% rise compared to the prior year.

Top priorities for the OCC for the period from June 2016 to June 2017 for the mid-size and community banks include strategic risk, credit underwriting, ALLL, and interest rate risk.

The Office of the Comptroller of the Currency (OCC) issued its Spring 2016 Semiannual Risk Perspective reflecting bank financial data as of 6/30/16. The semi-annual reports address key issues facing banks, focusing on those that pose threats to the safety and soundness of banks and their compliance with applicable laws and regulations. The report somewhat mirrors FDIC concerns that competitive pressures and continued growing credit risk appetites have caused banks to ease underwriting practices and increase credit risk within their portfolios. Strong CRE growth is evident in all sizes of banks, but CRE concentration build-up is primarily in mid-size and community banks. On a year-over-year basis, commercial loan growth has been primarily driven by significant increases in loans to non-depository financial institutions (up 23.5%), non-owner occupied CRE loans (up 17.4%), multifamily loans (up 16.4%) and domestic commercial & industrial lending (up 11.8%).

Top priorities for the OCC for the period from June 2016 to June 2017 for the mid-size and community banks include strategic risk, credit underwriting, ALLL, and interest rate risk. With respect to ALLL, the emphasis to be focused on is documentation and support for the qualitative factors given the increased credit risk from growing concentrations and easing in credit writing standards. The OCC is also reviewing banks of all sizes regarding programs for assessing cyber threat environment and the banks' cyber resilience. Additionally, the OCC is evaluating from an operational perspective s management plan to respond to risks resulting from introductions of new or revised business products to confirm that there is an appropriate infrastructure in place.

CEIS CLIENT SURVEY RESULTS

The following comments are based on quarterly testing results from loan review activities CEIS undertakes with its client base. CEIS compiles data from all of its completed reviews with the goal of identifying trends related to various activities including loan quality, variances, exceptions, and LLR coverage for classified loans. This particular report will focus on statistics compiled for the 1st Quarter 2017. The data used herein is for the most part on a "rolling four quarters" basis as data from any particular quarter can be misleading as extraordinary events can skew or distort the direction of the trends. The "rolling four quarters" method is considered to be more reflective of trends developed as it eliminates the impact of any outliers or chance events in any particular period.

The growth in the year-over-year period for the commercial segment:

18.4%

For the gross portfolio:

15.7%

The CEIS client base includes domestic and international bank portfolios, branches, agencies and specialty finance portfolios. The data referenced herein excludes portfolios that are managed outside of the US and those that are defined as specialty finance. The bank portfolios include those of commercial and savings banks primarily in the states of New York, New Jersey, Connecticut and Florida and, to a lesser extent, banks in Pennsylvania, Massachusetts, California, Texas, Michigan and Delaware.

The inclusion of a client bank's criticized portfolio segment in CEIS' reviews over the course of the review cycle (12 months) varies from minimal or partial coverage to full coverage with any frequency of once to four times in each review cycle. The statistics show that for the four-quarter period ended March 31, 2017, CEIS completed a reliable segment review and statistical summary of the criticized loan position for 58 banks and foreign branch offices or FBOs (51 banks and 7 FBOs). Prior stats on the database indicate that depending on the quarter cut-off for this overview, there can be as many as ~95 banks in the trend-lines at any one time.

While the CEIS client base includes ~138 portfolios and extends as far west as California, in this report's data, there are 53 client bank portfolios in the States of Connecticut, New Jersey, New York areas and five were in Florida. The CEIS client banks include portfolios in the lower scale of portfolio sizes and extends to portfolio clients with portfolios as large as ~$25 billion. In this report, CEIS elected to refer to total loan portfolios (35) greater than $750 million at 1QE 2017 (largest - $19.2B) and total loan portfolios (28) less than $750mm (smallest - $87mm) for the above noted period.

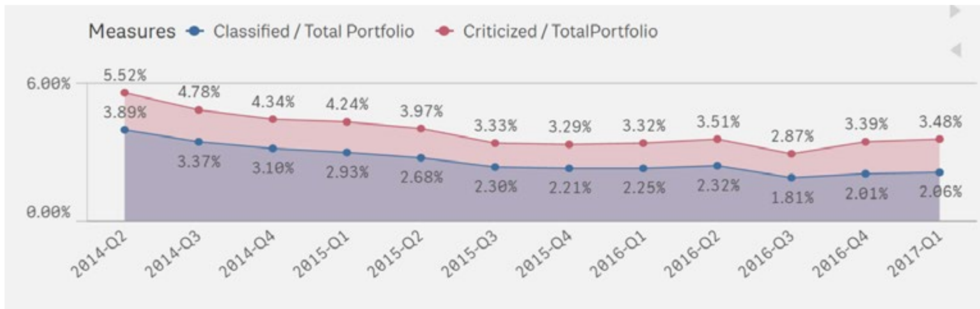
LOAN QUALITY (LQ)

The LQ ratios are closely grouped in the overall CEIS database. The average ratio of the ratios of criticized exposure relative to gross portfolio for all 58 banks in CEIS' database continued to trend upward increasing to 3.48% at 1Q17 from 3.39% at 4Q16. The level of criticized loans, while higher than the previous few quarters, remains lower than the levels reported in prior years. Similarly, average classified loans to portfolio continued to rise, up slightly from 2.01% at 4Q16 to 2.06% at 1Q17, but also remain below the levels reported in prior years. If the FBOs are eliminated from the aggregate ratios, the criticized trend-line of the US banks continues to show increases but very modestly.

CEIS notes that portfolio growth may be somewhat masking the increases in criticized and classified loans. As a matter of reference, for the portfolios in this report's database, the growth in the year-over-year period for the commercial segment was 18.4% and for the gross portfolio 15.7%.

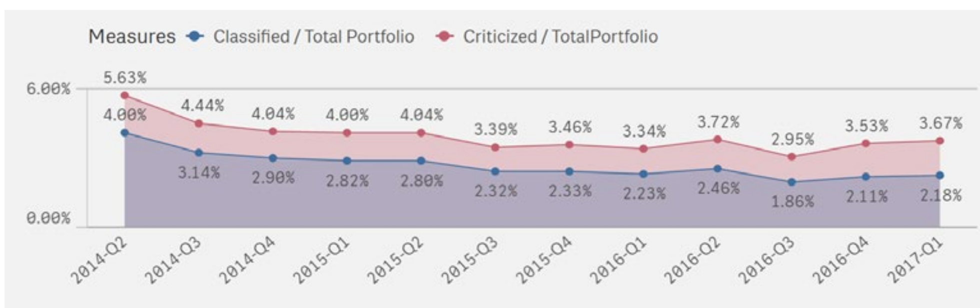
LOAN QUALITY (LQ) - Continued

All Banks

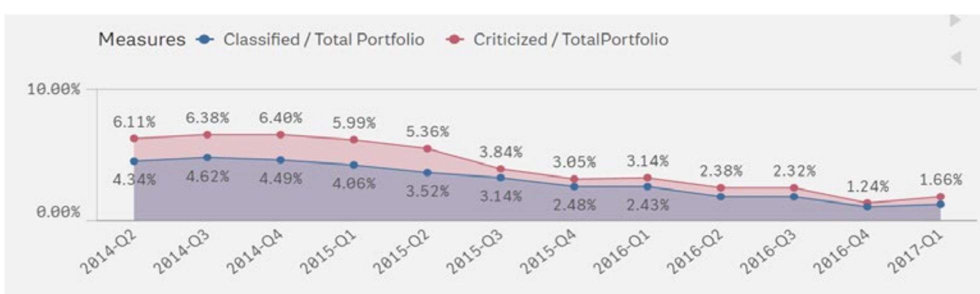


When we break out the portfolios located in the CT, NJ and NY region, we find that the pattern remains similar with the ratios slightly higher (2017-Q1 – 3.67%, 2.18%, respectively). Banks located in FL (Miami-Dade) are showing notable improvement from the averages observed in 2015 and the early part of 2016, although criticized and classified levels have increased this quarter to 1.66% and 1.13% of total loans, respectively.

CT, NJ, NY Banks



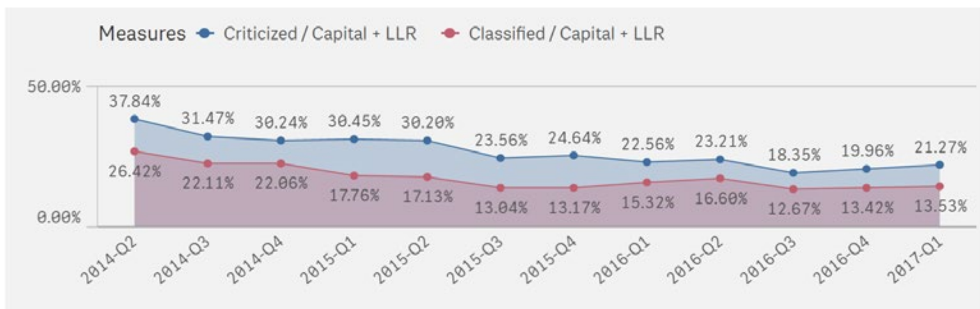
FL Banks



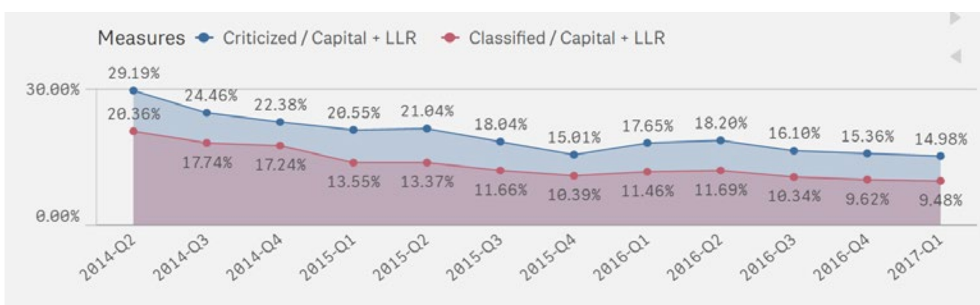
LOAN QUALITY (LQ) - Continued

At 1QE 2017 and excluding the FBOs, the averages for criticized and classified loans as a percent of tier 1 capital plus loan loss reserves compare favorably to the averages observed one year ago. However, the recent ratio trend-line has shown a modest increase in comparison to the prior two quarters in all categories, i.e. size and geography, except for those banks with total portfolio greater than $750 million. For portfolios over $750 million, criticized to capital + LLR declined from 15.36% at YE 2016 to 14.98% at 1QE 2017 and classified to capital + LLR decreased from 9.62% to 9.48% for the same period. Given the modest increase in criticized and classified loans relative to portfolio for these banks, the noted improvement is primarily driven by increases in reserve accounts and capital positions.

All Banks

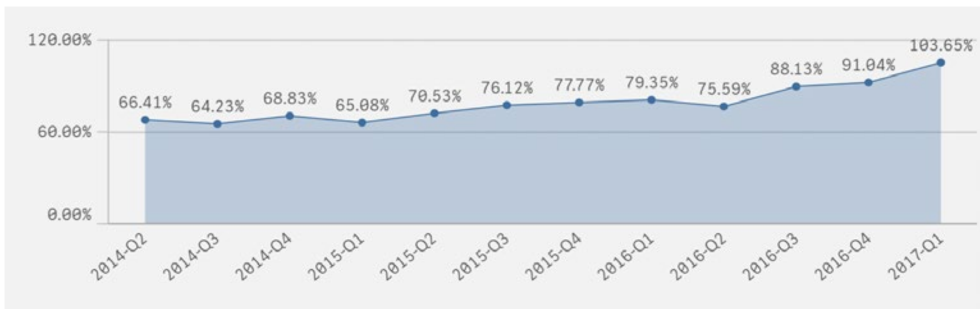


Banks with Total Portfolio > $750mm

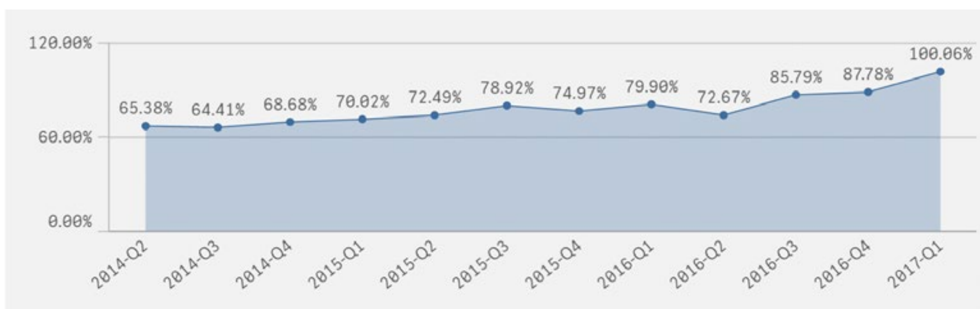


Reserve coverage of classified loans has continued to improve for banks in all categories (size and region). On a combined basis, reserve coverage of classified loans increased to 103.65% this quarter from 91.04% at YE 2016 demonstrating a continued cautious approach through increases in loan loss reserves.

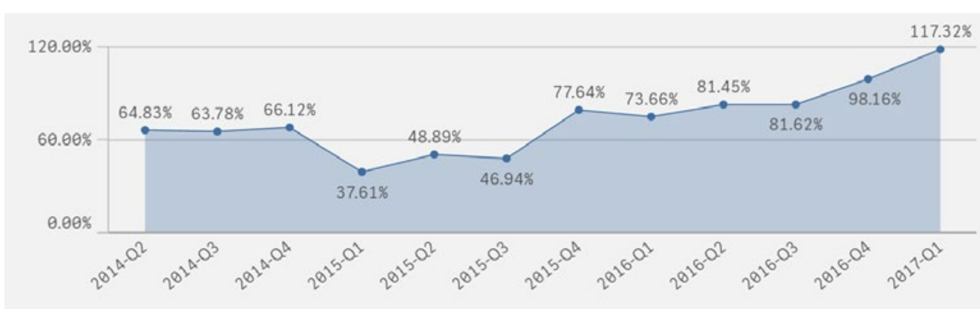
All Banks



CT, NJ, NY Banks



FL Banks

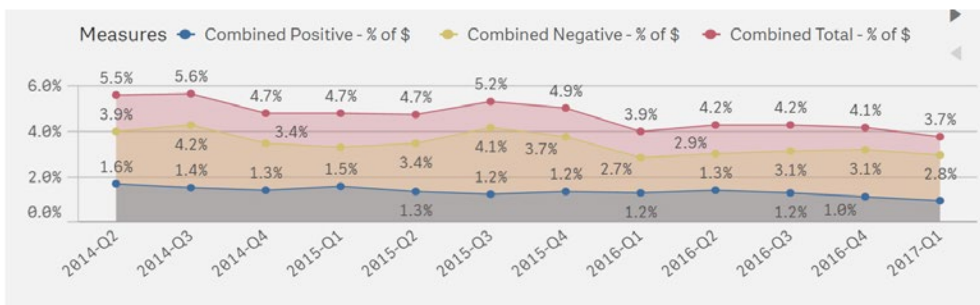


GRADE VARIANCES

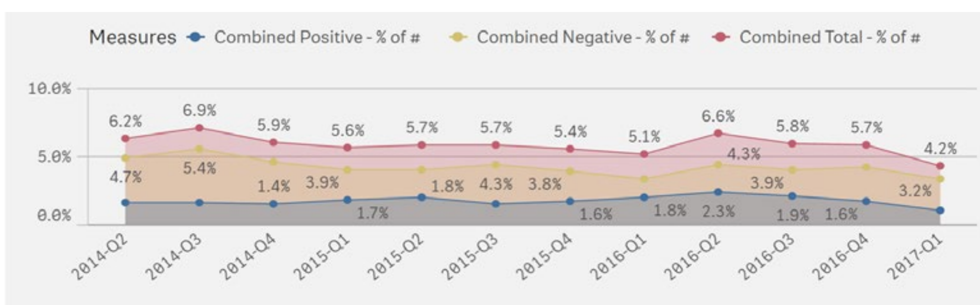
Grade variances calculated by CEIS are relative to all grade levels at the client banks and are estimated based on the dollar exposures as well as the number of loans at a variance; the ratios based on dollars can be impacted positively or negatively by the sizes of the subject loans at that institution.

On a rolling 4Q basis, average overall grade variances for all banks reviewed showed modest improvement since YE 2016. At 1QE 2017, average variances represented 3.7% of the dollars reviewed and 4.2% of the number of loans reviewed, down from 4.1% and 5.7% at YE 2016, respectively.

All Banks



All Banks

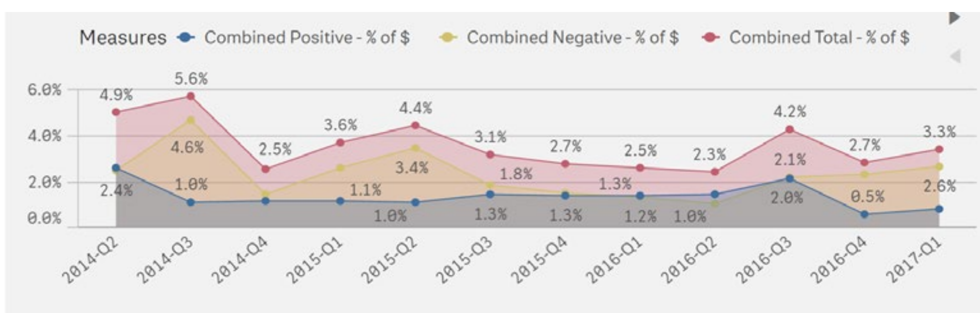


For Banks located in Florida, the relative level of grade variances increased slightly in terms of both dollars and number of loans reviewed, however, continue to remain well below the current averages of relative results typically observed across the remainder of the CEIS client base and well below the high points in 2014-15. For these banks, grade variances represented 0.09% of the dollars and 1.4% of the number of loans reviewed at 1QE 2017.

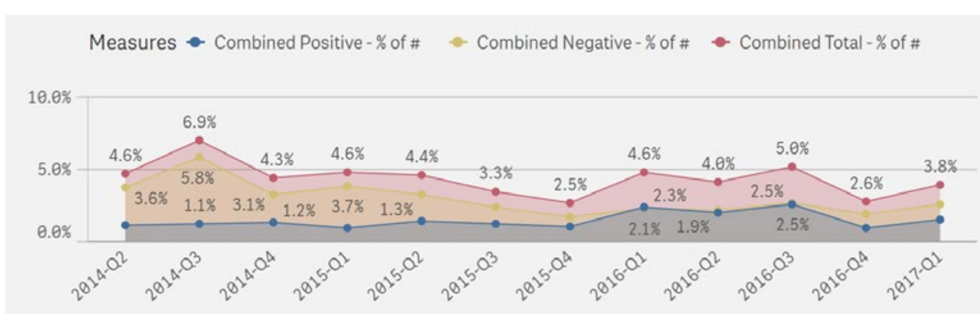
In terms of portfolio sizes, those portfolios of $1 billion or less show a decrease in variances relative to dollars and number of loans over the last two quarters, but remain at levels higher than the overall client averages previously noted. It should be noted that in the more limited segment of banks in the $500 million to $1 billion category, variances continued to decrease for the third straight quarter and represented 4.5% of dollars reviewed at 1QE 2017, down from a high level of 8.5% at 2QE 2016, while the ratio relative to the number of loans reviewed also decreased to 6.4% this period compared to 9.3% at YE 2016.

Portfolios over $1 billion have variances relative to loans reviewed that are modestly lower than the overall averages; however, for these portfolios, the grade variance levels have been somewhat erratic for the last three to four quarters. Most recently they showed a moderate increase after a decline during the fourth quarter of 2016. Average grade variances represented 3.3% of the dollars reviewed and 3.8% of the number of loans reviewed. This level of grade variance falls within the range observed over the past three years for banks of this size.

Banks with Total Portfolio >$1B



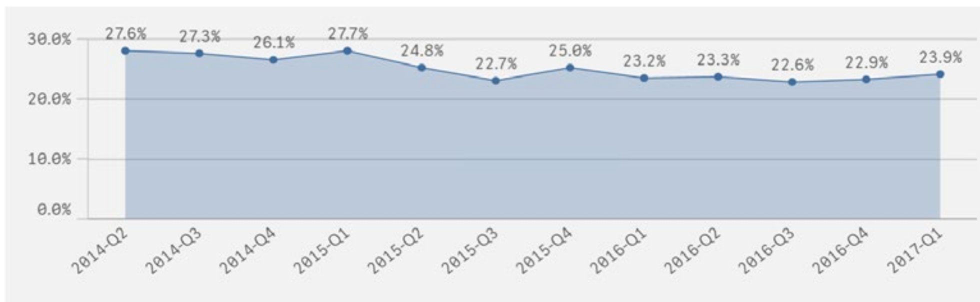
Banks with Total Portfolio >$1B



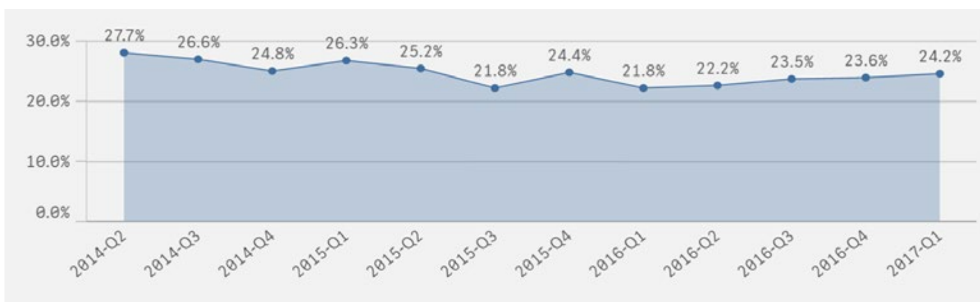
EXCEPTIONS

Exceptions to credit policies may exist for a multitude of reasons, some of which may be justified and explained in the credit proposal. The materiality of individual exceptions must be assessed in making a final judgement on the credit risk rating. CEIS' exception ratios are relative to the number of loans reviewed. For the four-quarter period ended March 31, 2017, CEIS' client base includes exception statistics resulting from the review of 86 portfolios of which 73 were in Connecticut, New Jersey and New York with nine located in Florida and four in "other" regions. The average percentage of borrowers with exceptions for the overall segment remained relatively stable for this period at 23.9% compared to 22.9% as of 12/31/16.

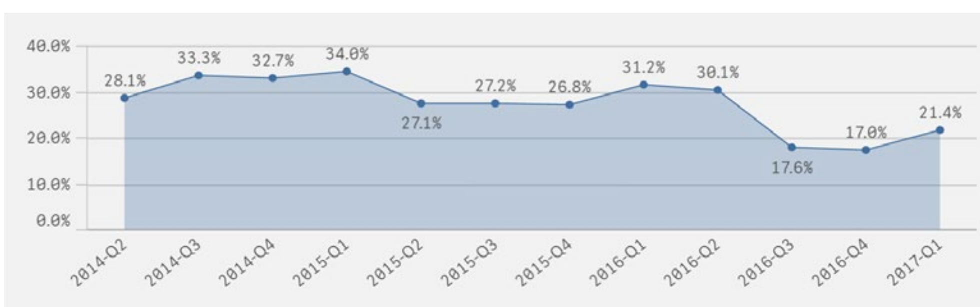
All Banks



CT, NJ, NY Banks



FL Banks



For all categories of banks by geographic location and size, exceptions related to stale or missing personal financial statements and tax returns far exceeded those for stale or missing corporate financial statements and tax returns.

SUMMARY

The credit quality metrics for the CEIS client base remain consistent with industry-wide results, as evidenced by average criticized and classified loans to portfolio remaining lower than prior years, although a slight uptick in those ratios has been noted for the 3/31/17 rolling four-quarter period.

Loan Loss Reserve to Classified Loans for all banks in the CEIS Client Base has also been consistently improving over the past two years which somewhat mirrors the industry-wide coverage for non-current loans. The CEIS Client Base coverage has increased from 65.0% at 3/31/15 to 103.65% at 3/31/17.

Overall grade variances for the four-quarter period ending March 31, 2017 showed modest improvement since the YE 2016, although slight increases in grade variance levels were noted for those banks in Florida, as well as those banks with total portfolio exceeding $1 billion in terms of both dollars and number of loans reviewed.

For this period, exception rates remained relatively stable. For banks in Florida a slight increase in the exception rate was evident, however, it remains below the level reported for the overall segment. As seen in prior quarters, for all categories of banks by geographic location and size, exceptions related to stale or missing personal financial statements and tax returns far exceeded those for stale or missing corporate financial statements and tax returns, suggesting closer attention may be warranted to bring personal financial information current.

The FDIC and OCC have each expressed concern about the rapid growth in C&I portfolios and the higher concentrations of commercial real estate loans. There is an underlying theme from the regulators that banks are easing underwriting standards in order to remain competitive with banks and non-bank lenders. CEIS continues to stress the critical importance of maintaining high levels of underwriting and loan monitoring standards at all times, as to maintain a sound credit portfolio on a going forward basis.

CEIS REVIEW INC.