



Quarterly Client Survey-1st Q15

New York, July 22, 2015-CEIS Review Inc. , a financial services 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 2015**, Community Banks, which represent 93% of insured institutions, reported a 16.4% increase in net income from one year earlier, driven by higher net interest income and noninterest income coupled with lower loan loss reserve provisions. These results show a higher profitability growth rate versus the aggregate FDIC insured institutions which reported a 6.9% increase in earnings for the same period a year earlier. Loan balances at community banks also grew at a faster pace versus the overall industry with asset quality continuing to show improvement. Total industry results for all insured institutions also reflected continued asset quality improvement with net loan losses declining for the 19th consecutive quarter while noncurrent loan balances declined for the 20th consecutive quarter. Almost 63% of all insured institutions reported higher profits than the year before and only 5.6% of this universe were unprofitable, which is the lowest percentage of unprofitable institutions since the second quarter of 2005.

The FDIC also reports that insured institutions reduced their reserve for loan losses in the first quarter of 2015, which represents the 20th consecutive quarter that the industry's reserves have declined. However, the "coverage ratio" of reserves to noncurrent loans improved for the 10th consecutive quarter, rising from 75.4 percent to 79.1 percent as a result of a decline in noncurrent loan balances. Net interest margins, on the other hand, remain under pressure as higher yielding assets are being replaced by lower yielding investments in a low interest rate environment. Based on this lower yield environment, FDIC Chairman Martin J. Gruenberg has concluded that "Many institutions have responded by reaching for yield, which is a matter of regulatory concern."

The Office of the Comptroller of the Currency ("OCC") issued its Semiannual Risk Perspective on 6/30/15, reflecting bank financial data as of 12/31/14. The OCC charters, regulates and supervises national banks and federal savings associations. Supervision is to ensure that they operate in a safe and sound manner and comply with applicable laws and regulations. As noted in this report, "Competitive pressures, the search for revenue growth, and the ongoing low-interest-rate environment continue to challenge bank risk management and influence risk appetite." The report goes on to say that"many banks are changing their underwriting standards and granting more policy exceptions to bolster their competitive position." Overall, the large banks and community and midsize banks under OCC supervision were cited to have continued positive trends in traditional asset quality metrics. Despite this

apparent good news, the predominant key risk theme here goes to the prolonged low-interest rate environment which can lay the foundation for future vulnerability as to ongoing underwriting practices.

Additional industry data has come from **Sageworks**, a financial information company that provides credit risk management solutions to financial institutions. Sageworks conducted an online survey of 180 financial institutions between April 6 and June 6 of this year. The essence of this survey was to obtain feedback from these financial institutions as to expectations of the regulatory agencies from recent examinations. Categories in question included Management, Liquidity, Earnings, Capital Adequacy and Asset Quality. All areas received attention, but 60 percent of respondents named asset quality as the area receiving most of the focus from the regulatory agencies. The institutions faced more criticism related to credit administration than with other practices such as credit underwriting. The agencies were focused on proper credit administration practices, documented by operating procedures. The underlying theme from this survey was attention to asset quality which we will review for the CEIS client base.

CEIS Client Survey Results

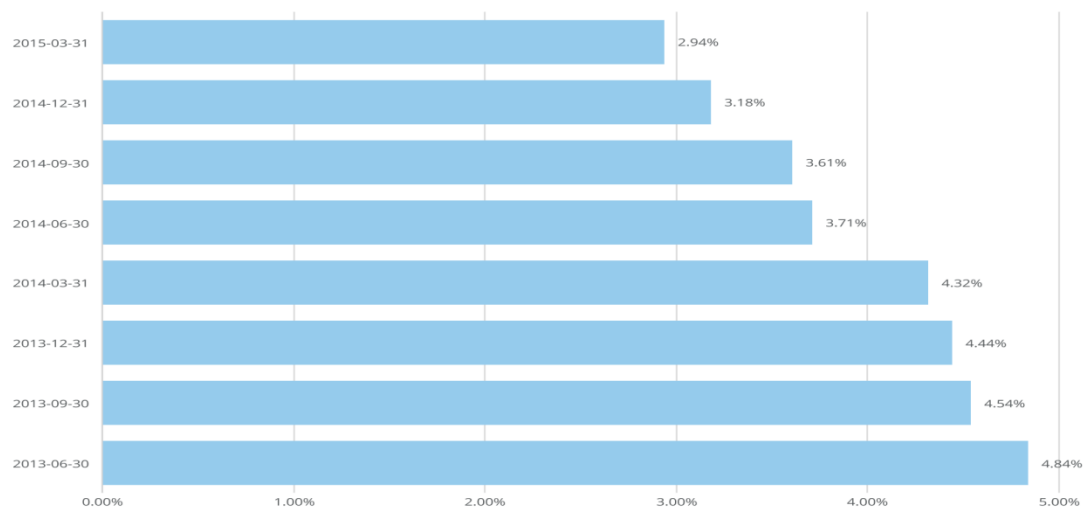
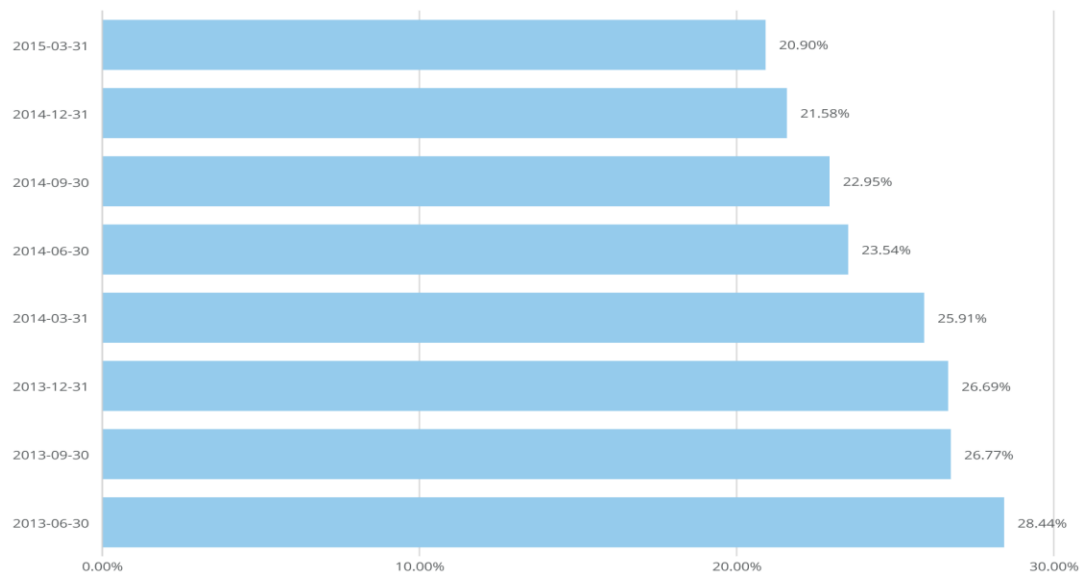
The following comments are based on quarterly testing results from loan review activities CEIS undertakes with its client base. CEIS compiles data from all of its completed reviews with the goal of identifying trends related to various activities including loan quality, delinquencies, variances, exceptions, LLR coverage for Classified loans and Grade outlook. This particular report will focus on statistics compiled for the 1st Quarter 2015.

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 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 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, Vermont, Illinois, California and Maryland.

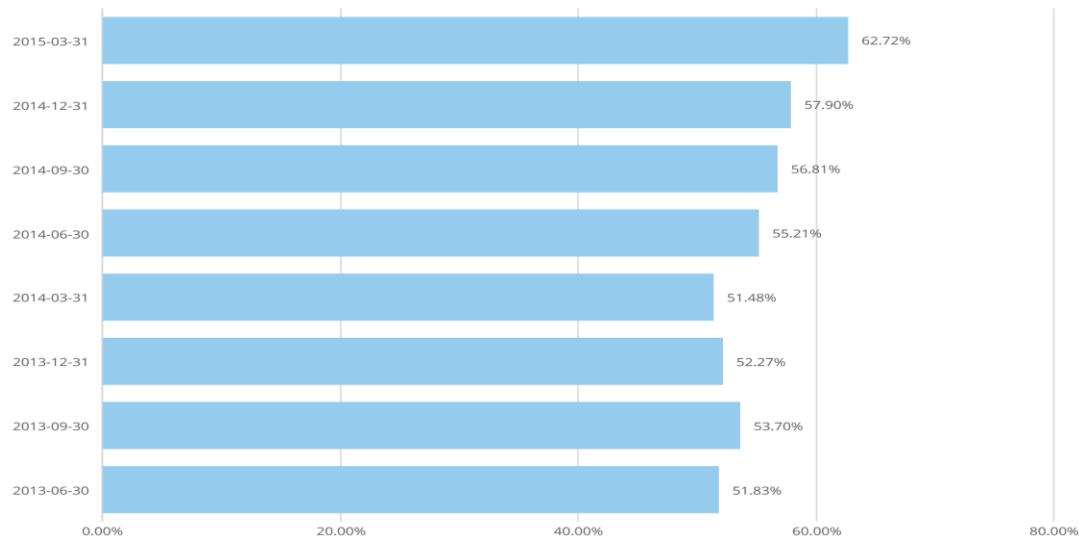
Loan Quality (LQ)

The number of banks reviewed by CEIS for the 4 Quarters ended 3/31/15 was 86 of which 41 were over \$500mm portfolio size and 45 were below \$500mm portfolio size. Regional breakdown was 67 in the NY, NJ, CT area, 13 in Florida and 6 in other areas. There continues to be an improving trend in asset quality ratios as evidenced by lower levels of average criticized and average classified loans vs. total outstanding portfolios. Banks with portfolio size lower than \$500mm and Florida banks were the leaders in reducing these categories. The ratios of average criticized and average classified loans to Capital+LLR also continue to move in a favorable direction with Florida banks and banks with portfolio size less than \$500mm showing a greater favorable impact.

Average Classified / Portfolio % - Rolling 4Q – All Banks**Average Classified / (Capital + LLR) % - Rolling 4Q All Banks**

LLR/Classified ratio for the composite group continues to increase from 52.5% at 3/31/14 to 62.7 % at 3/31/15 demonstrating a continued cautious approach to the mix in this portfolio.

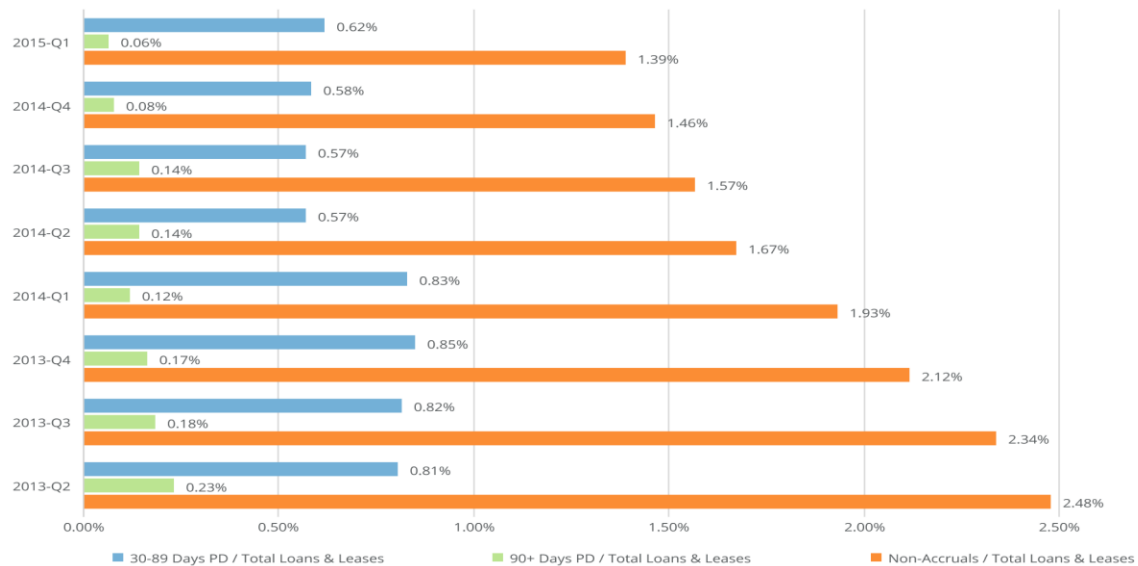
Average LLR / Classified % - Rolling 4Q – All Banks



Delinquencies

Average Delinquencies/Total Loans and Leases Ratio for all clients is showing improvement over the past two years especially in the non-accrual sector. This clearly demonstrates adherence to tighter monitoring controls to contain the level of delinquencies and stricter credit parameters.

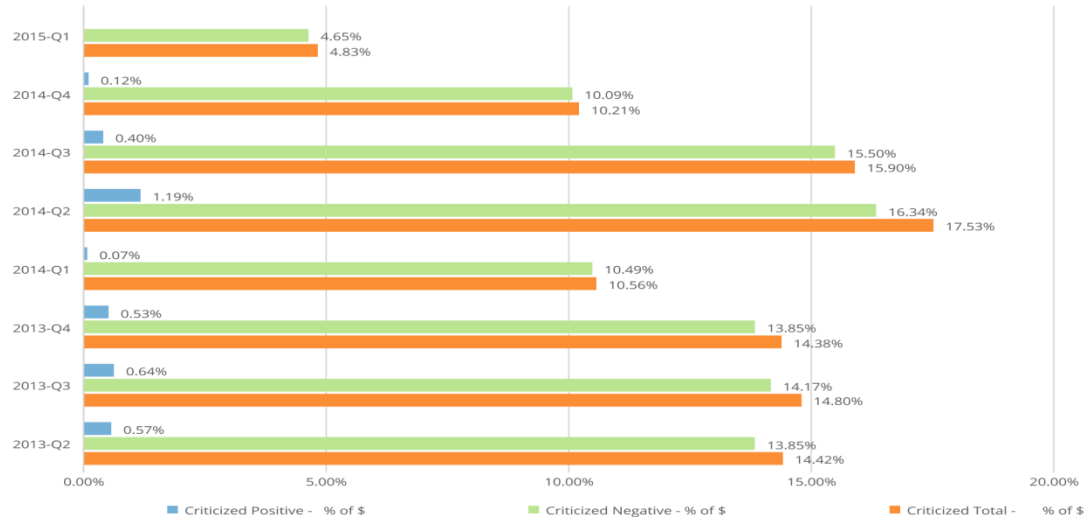
Average Delinquencies / Total Loans & Leases – All Clients



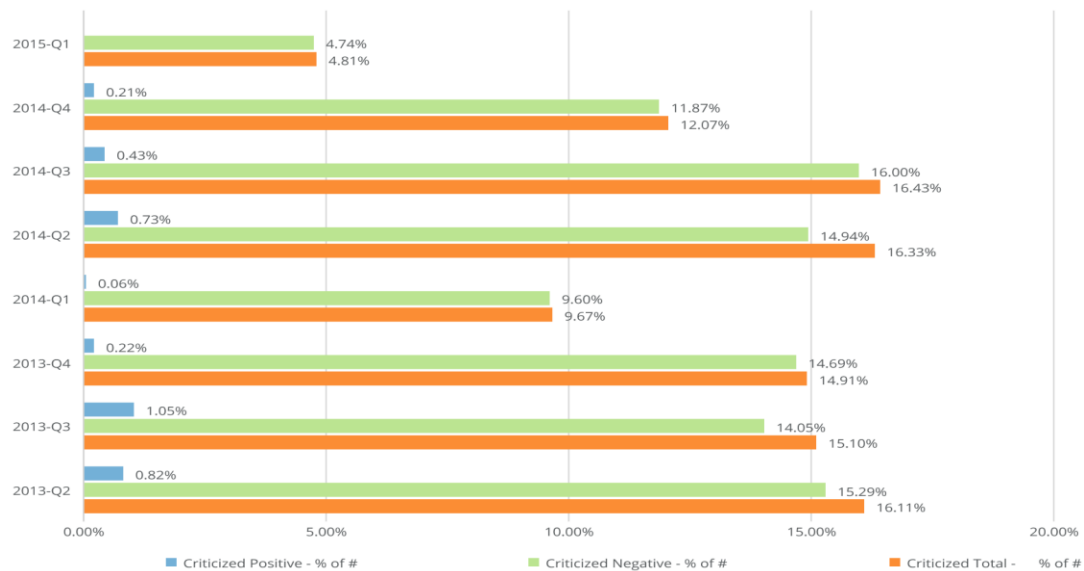
Grade Variances

Grade variances as a percent of outstanding dollar amounts for all banks in the CEIS client base have shown a positive trend over the past 4 Quarters, moving from a total of 6.1% at 6/30/14 to 4.4% at 3/31/15. Within this time frame the criticized loan sector showed the greatest improvement in negative variances, moving from 16.3% to 4.6%. Grade variances as a percentage of the number of loans also moved in a positive direction from 6.9% at 6/30/14 to 4.5% at 3/31/15 for total loans and criticized loans respectively.

Grade Variances – Average % of Dollars – Quarter by Quarter – All Banks – Criticized Loans

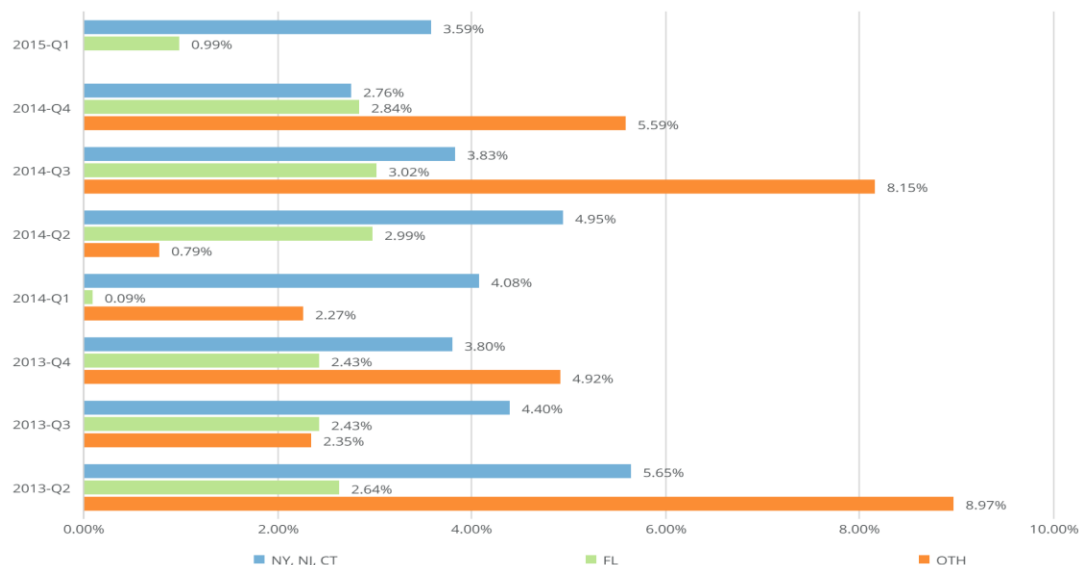


Grade Variances – Average % of Number of Loans – Quarter by Quarter – All Banks – Criticize Loans



On a regional basis, Florida showed the greatest improvement over the past 4 quarters regarding negative variances as a percent of outstanding dollars, moving from 2.99% at 6/30/14 to 0.99% at 3/31/15. NY area also improved in this category, from 4.9% to 3.6%.

Grade Variances – Average % of Dollars by Region – Quarter by Quarter – Negative Variances

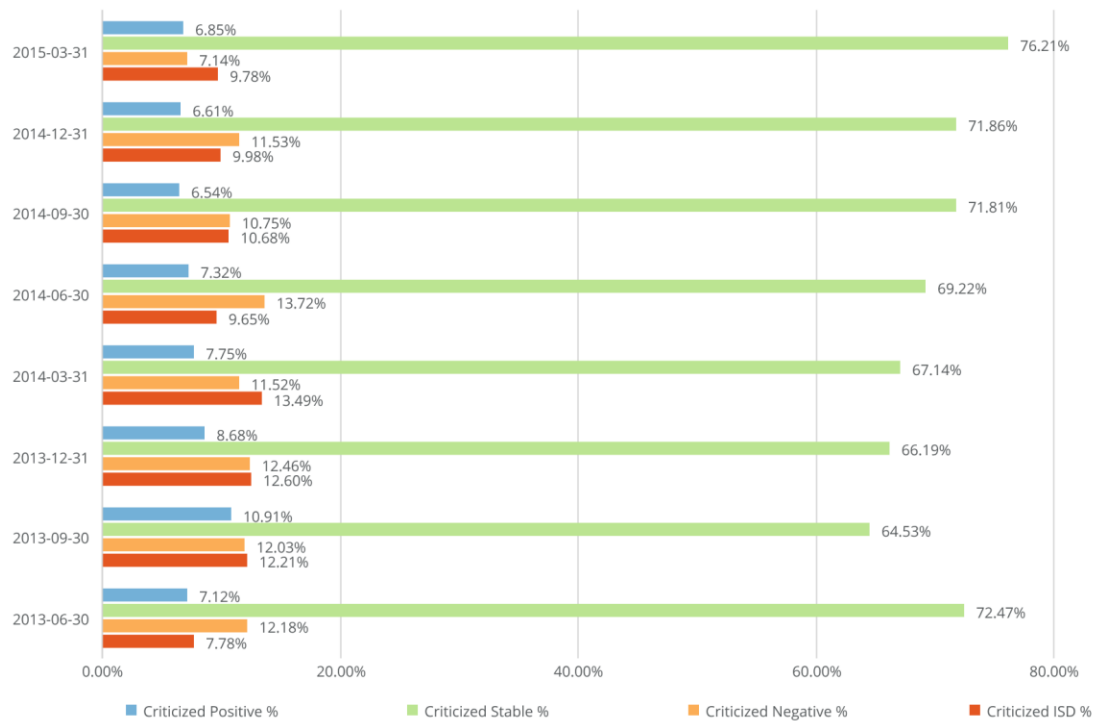


Overall, most loan variances continue to be within the criticized loan segment of which negative grade variances show substantially higher level versus the Pass categories.

Grade Outlook

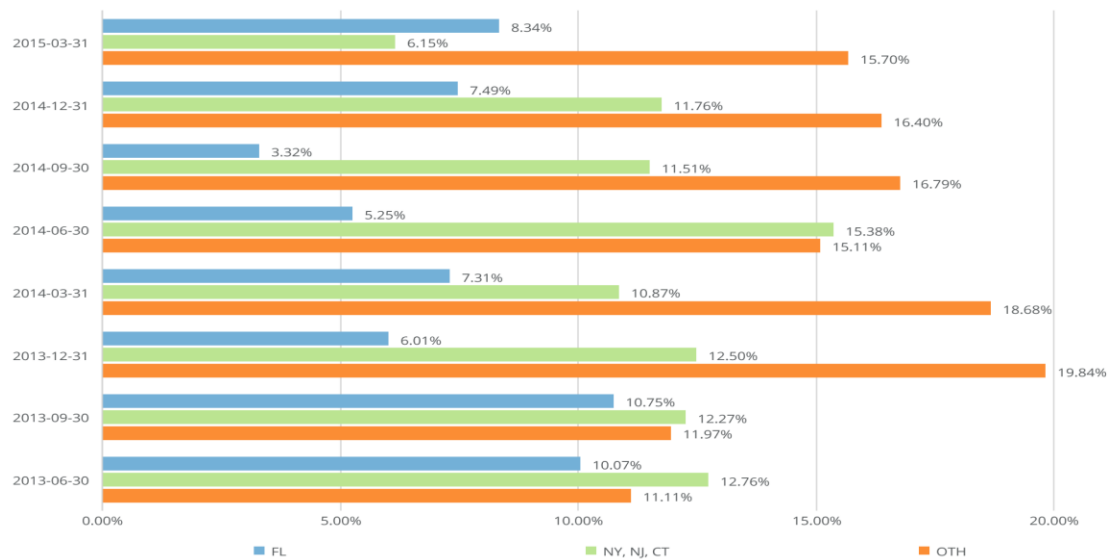
Based on available file information from the most recent credit review CEIS will assign a grade outlook which represents a forward looking assessment for the individual account over the next six months. As the grade outlook in the Pass loan category for the most recent rolling 4 quarters was predominantly Positive/Stable, we will focus here on the Criticized loan category. The grade outlook for this most recent 4 Quarter period on the Criticized sector for all banks showed an average of 76% in the Stable category. We have seen steady improvement here on a rolling 4 quarter basis since 9/30/13.

Average Grade Outlook - All Banks - Criticized Loans



The Positive Grade outlook for the Criticized loans in Florida has shown steady improvement over the past 3 rolling 4 Quarter periods ranging from 4.9% to 9.1%. NY area banks have been level during this same period at 6.8%. Negative Grade Outlook on the Criticized Loans in Florida has shown some increases over the past 3 rolling 4 Quarter periods with NY area banks somewhat steady with a drop in the most recent period.

Average Negative Grade Outlook by Region – Rolling 4Q – Criticized Loans



Exceptions

Exceptions will exist against existing credit policies for a multitude of reasons some of which can be justifiable and explained in the credit proposal. The materiality of individual exceptions must be assessed in making a final judgment on the credit risk rating. The average percentage of Borrowers with exceptions for all banks has remained stable at around 28% over the past 4 rolling 4 Quarter periods. Banks with portfolio size less than \$500mm have been consistently higher versus the larger banks for these same periods averaging 31% exception level.

Summary

The credit quality metrics for the CEIS Client Base remain consistent with industry results as evidenced by continued lower levels of average criticized and average classified loans vs. total outstanding portfolios. Loan Loss Reserve coverage vs. Classified Loans for all banks in the CEIS Client Base has also been consistently improving over the past 2 years which somewhat mirrors the industry wide coverage for non-current loans. Average delinquencies vs. total loans and leases is also trending lower in tandem with industry wide results. Additional positive trends are also related to negative grade variances within the Criticized Loan sector which has shown a reduction on the percent of outstanding dollars from 16.3% at 6/30/14 to 4.6% at 3/31/15.

Despite all this good news the FDIC and the OCC remain cautious regarding the continued lower interest rate environment which, combined with the search for revenue growth, could challenge bank risk management and influence risk appetite. CEIS continues to stress the critical importance of maintaining a high level of underwriting and loan monitoring standards at all times to maintain a sound credit portfolio on a going forward basis.

About CEIS Review

CEIS Review is an independently owned consulting firm founded in 1989 by proven commercial lenders that specializes in commercial loan portfolio consulting.

Our core services include Loan Review, loan portfolio Stress Testing, Loan Loss Reserve Methodology Validation or Refinement, portfolio acquisition review (Due Diligence), Structured Finance/Leveraged Lending Review, Credit Risk Management Process Review, and commercial loan policy consulting.

CEIS Review has provided consulting services to more than 200 banks domestically and abroad, thus solidifying ourselves as a proven and trusted resource within the banking community. To learn more about CEIS please visit our website www.ceisreview.com or call 888-967-7380.