CEIS REVIEW INC.

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Consulting Services to the Financial Community

Quarterly Client Survey – 1st Q16

New York, August 31, 2016—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

"C&I Loans were impacted in large part by the energy sector, especially the oil and gas producers and a large part of banking exposure to this sector is held by bigger banks."

Based on the **FDIC Quarterly Banking Profile for the First Quarter 2016,** Community Banks, which represent 92% of insured institutions, reported a 7.4% increase in aggregate net income from the year earlier quarter, 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 contrast to the aggregate FDIC insured institution results which showed a decline of 1.9% for this period, principally attributed to higher expenses for loan losses and lower non-interest income. Over the 12 months ended March 31, 2016 total loan and lease balances for all insured institutions increased by 6.9% which is the highest 12-month growth rate for loan portfolios since mid-year 2007 to mid-year 2008. The Community Bank sector exceeded this growth rate, reflecting an 8.9% increase with close to 80% of community banks increasing their year over year loan and lease balances. All insured banks reported an increase in non-current loans of $3.3 billion (2.4%) during the first 3 months of 2016. This was the first quarterly increase in total non-current loan balances in 24 quarters and it was driven principally by a 65% increase in non-current C&I loans. C&I loans were impacted in large part by the energy sector, especially the oil and gas producers and a large part of banking exposure to this sector is held by bigger banks. In contrast the Community Bank sector reported a reduction in non-current loan and lease balances for the quarter of $16 billion or 9.8% from the year before.

The FDIC also reports that all insured institutions set aside $12.5 billion in provisions for loan losses in the first quarter, a year over year increase of $4.2 billion (49.7 %) which is the largest quarterly increase since 4th quarter 2012. The increase in loan loss provisions is primarily attributed to rising levels of troubled loans to C&I borrowers particularly in the energy sector. FDIC Chairman Martin Gruenberg stated that …" the full impact of low energy prices on the banking industry remains to be seen." This marks the seventh consecutive quarter that loss provisions have increased and most of the increase in loss provisions occurred at larger banks. As a result of the aforementioned increase in non-current loans, the industry's coverage of loan loss reserves to non-current loans posted its first quarterly decline in 14 quarters, falling slightly, from 86% at the end of 2015 to 85.5% at the end of March. In contrast, the Community Bank sector reported this coverage ratio at 116.2% up from 104.7 % a year earlier and this ratio has been above 100 percent for the past six consecutive quarters.

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The Office of the Comptroller of the Currency (OCC) issued its Spring 2016 Semiannual Risk Perspective reflecting bank financial data as of 12/31/2015. The OCC charters, regulates and supervises national banks and federal savings associations to ensure that they operate in a safe and sound manner and comply with applicable laws and regulations. It is noted in this report that the banking environment is experiencing growing competition among banks, nonbanks and financial technology firms. As a result, strategic risk may heighten as banks increasingly offer innovative products and services. The report also notes that "Credit risk is increasing because of strong loan growth combined with easing in underwriting standards." Along these lines the OCC points out that ALLL levels and methods may not be sufficiently addressing the aforementioned risks. The underlying theme here is that heightened completion pushes some banks to relax credit structure and terms and to adopt innovative products without the infrastructure to support same. Credit concentrations in banks of all sizes increased, primarily in CRE loans, particularly multifamily. It is also highlighted that there has been a substantial deterioration in quality of loans to the oil and gas sector as classified loans to these companies increased to 15.2% of commitments at year end compared to 0.7% a year earlier. Higher levels of classified loans are expected here driven by continued low commodity prices and borrower cash flow declines that impact the ability to service debt.

Two other industry sources, **American Banker and BankRegData have each expressed concerns about the accelerated growth of the C&I portfolio and attendant increase** in NPLs for this portfolio. In an American Banker article dated June 1, 2016 it was noted that the jump in the number of noncurrent loans, particularly for commercial and industrial, was a sign of alarm. Additionally, it pointed out that C&I loans made up the bulk of the increase in charge-offs which rose by 145% in the period for such loans. The article also revealed that the average non-current loan rate on C&I loans rose significantly, to 1.24% from 0.78% during the quarter, the highest noncurrent rate for such loans since year end 2011. BankRegData provides analysis and commentary on the banking industry, particularly with respect to the cumulative quarterly call report data. As to the 1st Q 2016 it was noted that C&I portfolios grew at a quarterly rate of 3.86% for this period to $1.913 Trillion and that this same loan category has grown by $711 billion over the past 5 years as compared to $499 billion for all other major loan categories within this period. C&I NPLs climbed from $14.3 billion at 12/31/2015 to $23.6 billion at 3/31/2016 or from 0.78% of loans to 1.24%. It was opined here that, based on this rapid growth in C&I loans industry wide, NPLs are likely to climb considerably higher in the next few quarters.

CEIS CLIENT SURVEY RESULTS

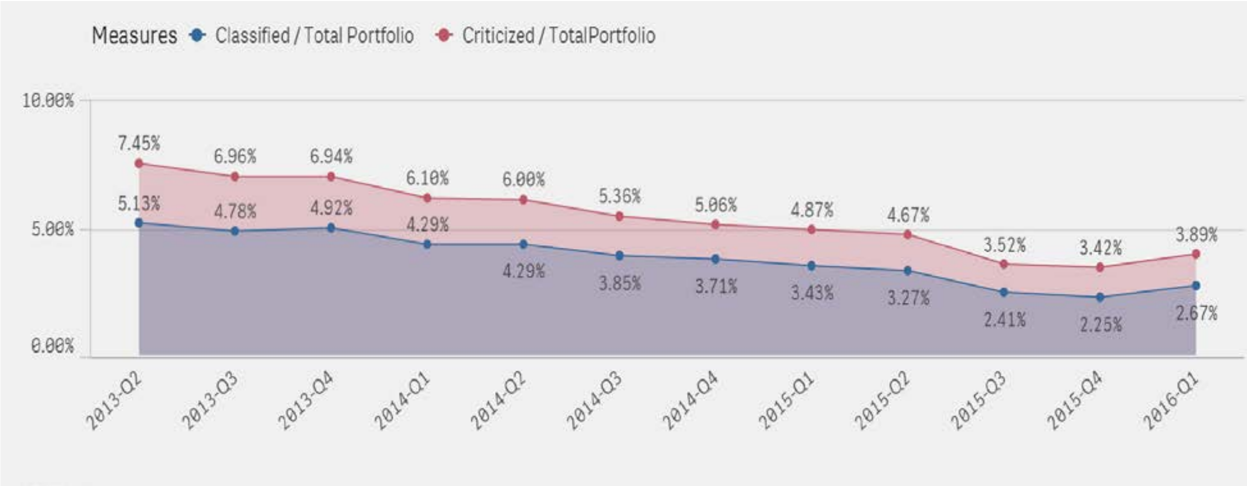
The following comments are based on quarterly testing results from loan review activities CEIS undertakes with its client base. CEIS compiles data from all of its completed reviews with the goal of identifying trends related to various activities including loan quality, variances, exceptions, and LLR coverage for Classified Loans. This particular report will focus on statistics compiled for the 1st Quarter 2016. 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 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, Vermont, Illinois, California and Maryland.

LOAN QUALITY (LQ)

The number of banks reviewed by CEIS for the 4 Quarters ended 3/31/2016 was 84 of which 71 were in the NY, NJ, CT areas, 9 were in Florida and 4 in other areas. The average criticized and average classified loans vs. total outstanding portfolios for all banks, the NY, NJ and CT banks and those banks with total portfolio greater than $750mm each show lower levels vs. averages one year ago but are showing slight upticks over the previous quarter averages. Florida banks are showing a larger improvement from averages a year ago and continue with a slight improvement vs. the previous quarter averages. The ratios of average criticized and average classified to Capital + LLR for all banks and for the NY, NJ, CT and Florida geographic regions all have trended favorably here from year ago averages and for quarter over quarter. There was a slight uptick in the quarter over quarter averages for those banks with total portfolios greater than $750MM.

ALL BANKS



ALL BANKS

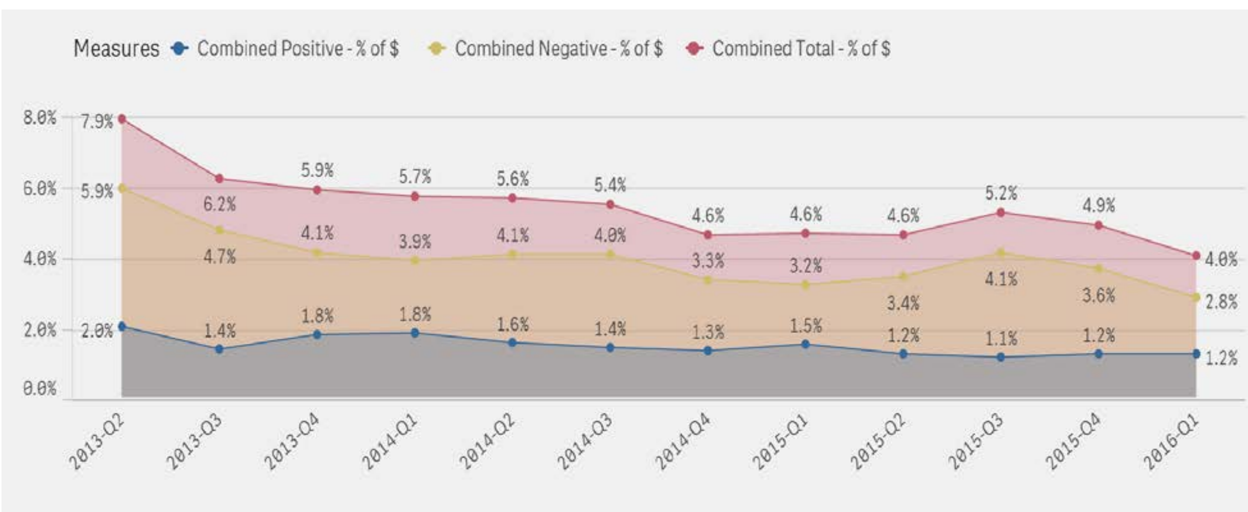
Loan Loss Reserve/Classified Ratio for the composite group continues to increase from 65.0% at 3/31/15 to 79.5% at 3/31/16 demonstrating a continued cautious approach to the mix in this portfolio.

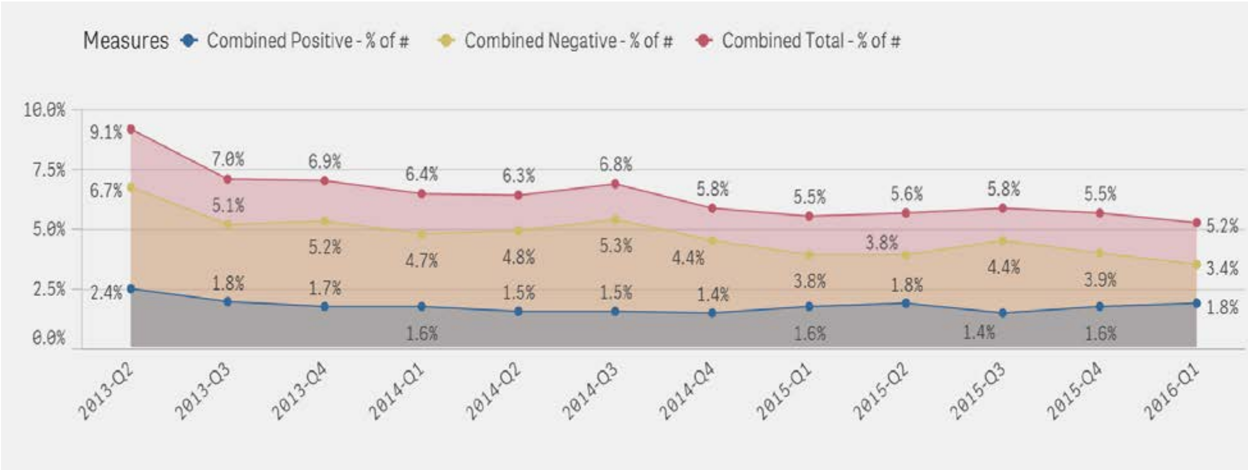
ALL BANKS

GRADE VARIANCES

On a rolling 4Q basis grade variances for all reviewed banks on as a percent of dollars reviewed and as a percent of number of loans reviewed have remained consistent over the past three such periods with a slight dip as a percent of dollars reviewed relative to portfolio in the period ended 3/31/2016 to 4.0% from 4.9% the previous period. Florida banks are showing the most consistent improvement in these categories over the same time frame.

ALL BANKS





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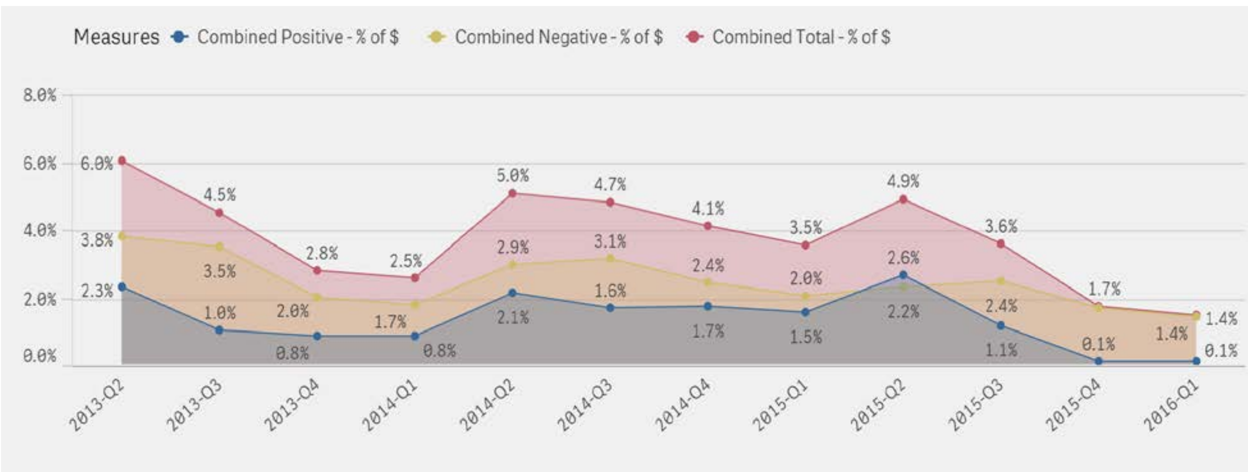

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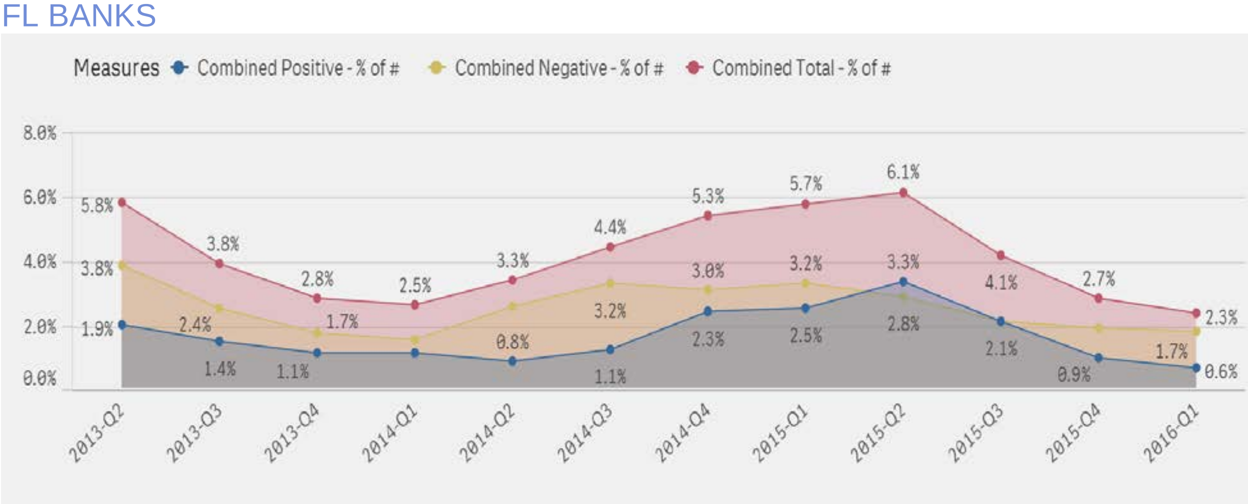
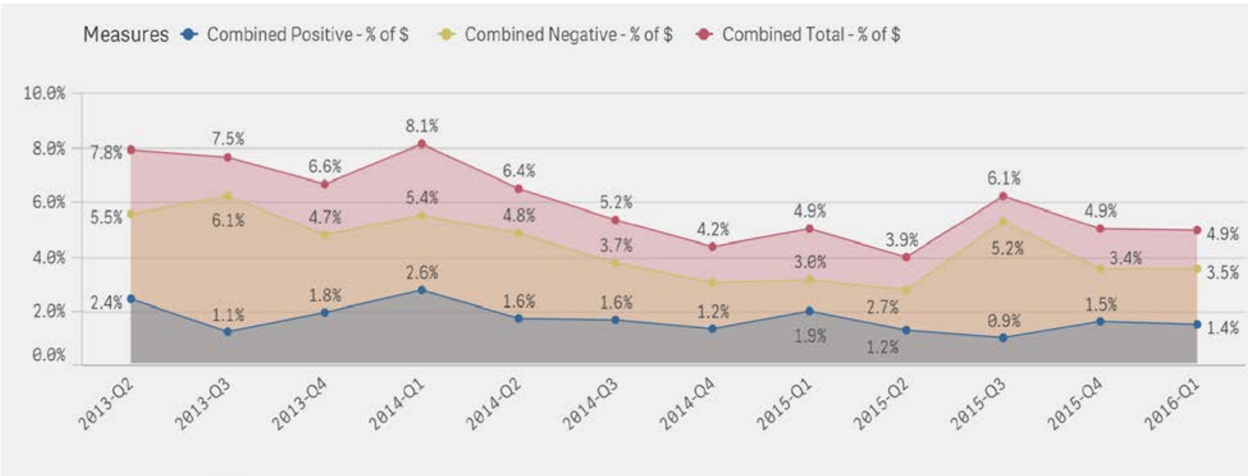
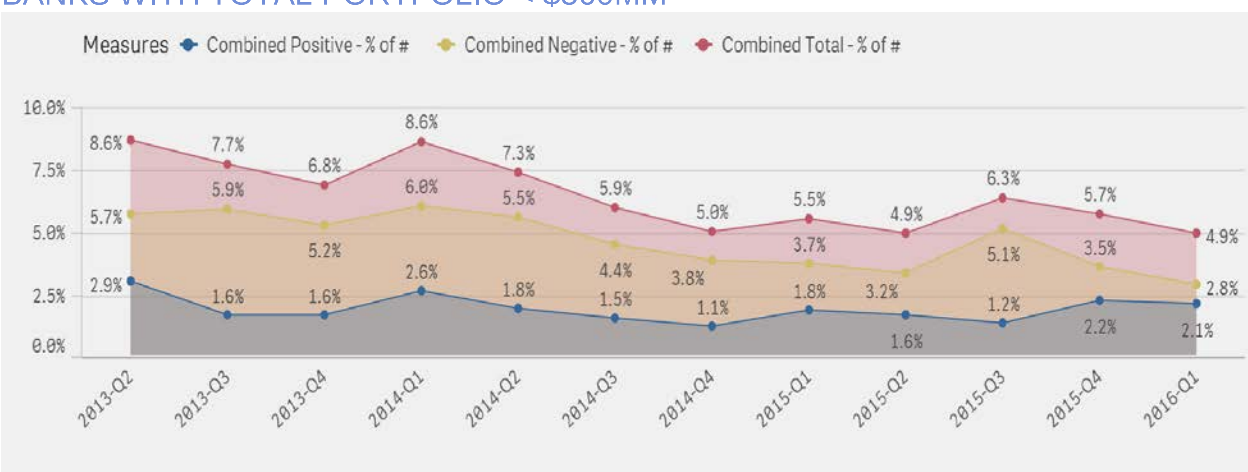


The overall relative grade variance stat for those banks in the >$500mm portfolio bucket was flat for the two quarters ended 1QE16. Negative variances followed the similar pattern in those quarters; although the trend line since 4QE14 has been gradually upward. Grade variances as a percentage of dollars reviewed were 4.9% well below their peak of 8.1% at 1QE14. Grade variances as a percentage of the number of loans reviewed shows a similar overall pattern.

BANKS WITH TOTAL PORTFOLIO < $500MM

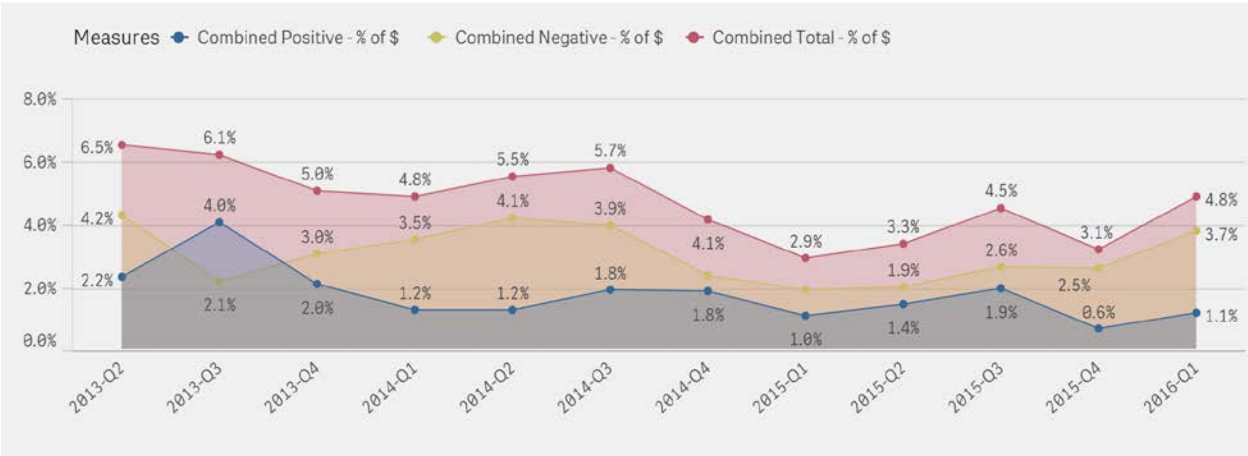


BANKS WITH TOTAL PORTFOLIO < $500MM

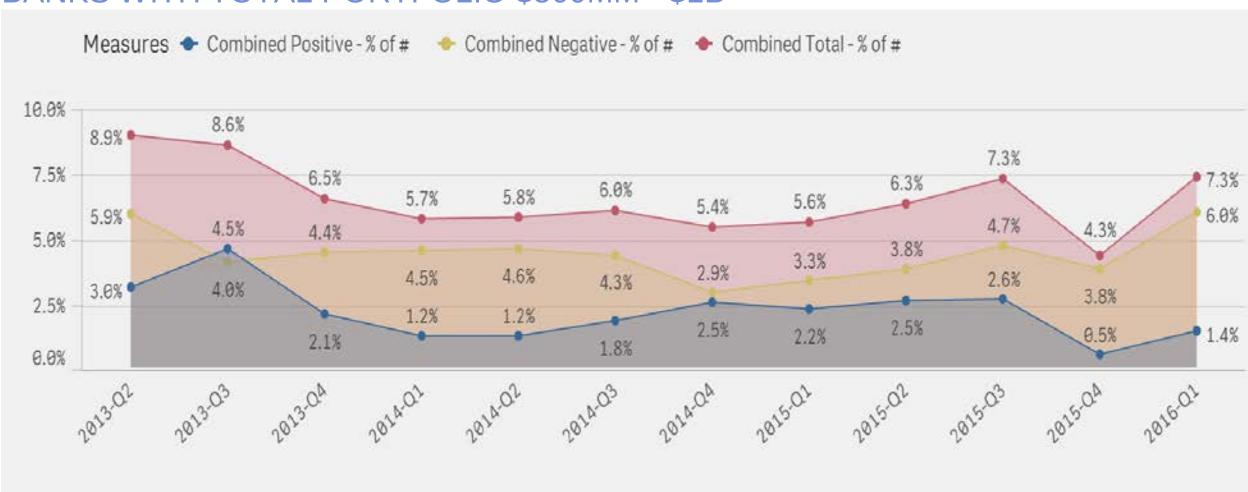


Grade variances for those banks in the $500mm-$1B category showed increases as compared to the previous period ended 12/31/2015. Grade variances as a percentage of dollars reviewed increased to 4.8%, the highest relative level since 3QE14. The same scenario is the case when compiling the same ratios on the basis of negative grade variances. Since the 1QE15, the trend line on negative grade variances has drifted upwards.

BANKS WITH TOTAL PORTFOLIO $500MM - $1B

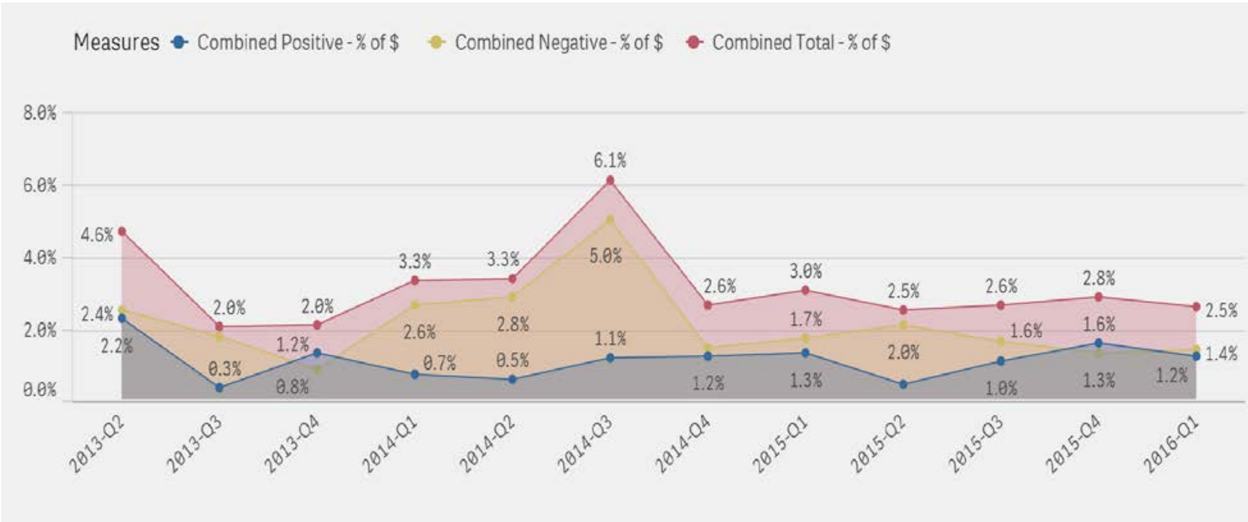


BANKS WITH TOTAL PORTFOLIO $500MM - $1B

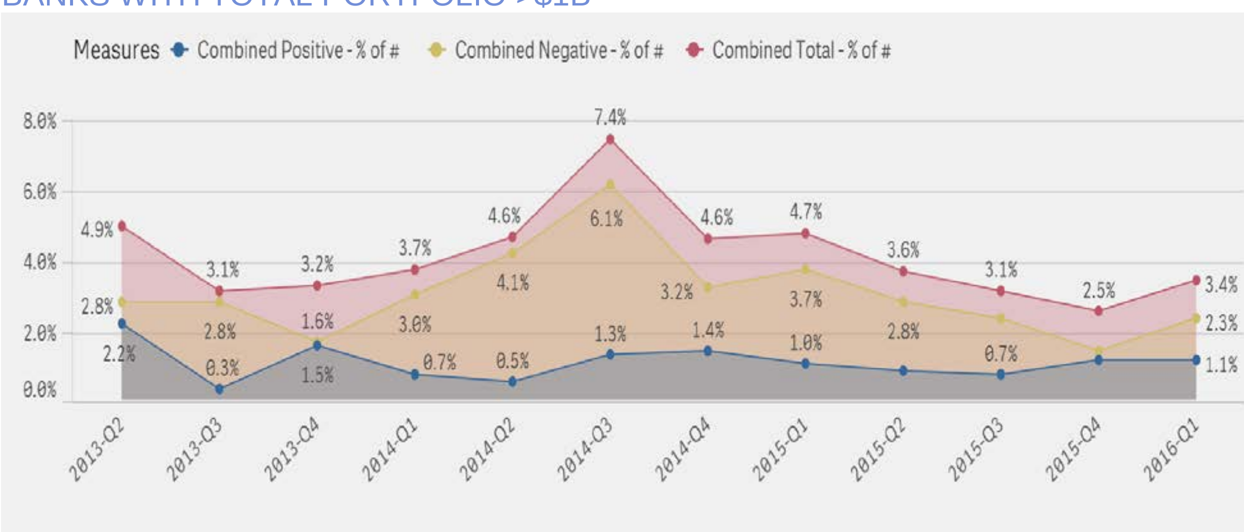


Grade variances for those banks with total portfolio greater than $1B have remained consistent over the past several periods with total variances representing 2.5% of the dollars reviewed and 3.4% of the number of loans reviewed. The trend line on overall variances has stayed in a fairly tight range since 4QE14. Negative grade variances as a percentage of dollars reviewed decreased slightly to 1.4% at 1QE16. On the basis of the number of loans reviewed, negative variances increased to 2.3%.

BANKS WITH TOTAL PORTFOLIO >$1B



BANKS WITH TOTAL PORTFOLIO >$1B



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 24% over the past 4 rolling 4 Quarter periods.

Florida banks and banks with portfolios less than $500mm each showed an average percentage of 29% over the same time frame. Within all categories of banks by geographic location or size the delinquent personal tax returns and personal financial statement categories far exceed the delinquent fiscal statements and/or delinquent business tax returns. Closer attention is needed here to bring these personal exceptions more current.

SUMMARY

The credit quality metrics for the CEIS client base remain consistent with industry wide results as evidenced by continued lower levels of average criticized and average classified loans vs. total outstanding portfolio with slight upticks over the previous quarter results. Per the FDIC quarterly report and, on an industry wide basis, the 12-month growth rate in loan and lease balances for community banks was at 8.9% as compared to the CEIS client base which has averaged 5.7% portfolio growth over this same period. Loan Loss Reserve to 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. The CEIS Client Base coverage has increased from 65.0% at 3/31/2015 to 79.5% at 3/31/2016. A more focused management attention is recommended with respect to grade variances on for those banks in the $500mm-$1B category.

The FDIC and OCC have each expressed concerns 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 time so as to maintain a sound credit portfolio on a going forward basis.

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