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RECENT NEWS

Regulators Strengthen Banking Industry with New Risk Management Rules

On September 15th, 2008, Lehman Brothers filed for the largest bankruptcy filing in U.S. history, causing banking regulators to closely examine rules including capital and liquidity requirements. The Basel Committee (the committee responsible for creating international standards) has already created new capital rules post-crisis. Liquidity, or the ability to convert an asset to cash quickly, has now become the focus. Basel created the Liquidity Coverage Ratio (LCR), which U.S. regulators finalized on September 3, 2014. The rule is intended to help prevent disasters such as the Lehman Brothers bankruptcy by creating a buffer that banks can access if funding becomes unavailable in a crisis.

Effective January 1, 2015, the largest banks in the country will be required to hold high quality, unencumbered, liquid assets, against total net cash outflows, to sufficiently cover a stress scenario lasting 30 days. The ratio percentage required will begin at 80% and will increase each year until it reaches 100% in 2017. High Quality Liquid Assets (HQLA) can include cash, central bank reserves, U.S. Treasuries, and certain other sovereign securities. Additionally, banks may use a limited amount of government agency securities, certain publicly traded corporate debt and common stock.

The LCR rule will have several positive benefits for the financial industry and its regulators. According to Standard & Poor's, "Cash flow problems can be triggered by high deposit withdrawals...Banks can mitigate this risk by holding high-quality assets." Regulators believe the rule will make it less likely that taxpayers will be called upon to support banks during periods of stress. Additionally, regulators expect the higher costs necessary to meet the LCR requirements will cause banks to reduce the use of short-term funding, as these less stable funding sources will increase the required LCR amount. However, the rule may cause banks to reduce the supply of funds available for loans, increase their costs and limit their abilities to pledge collateral. Positively, it is believed that many of the largest banks are well situated to meet the new requirements, with several banks disclosing their ability to meet the fully phased in requirements today.

Sources: American Banker, FDIC, Federal Reserve, Office of the Comptroller of the Currency, Standard & Poor's, Wall Street Journal

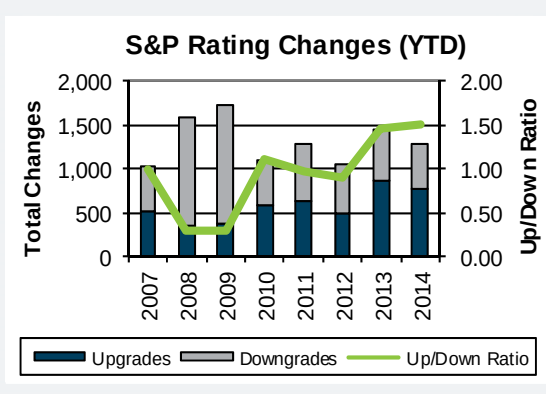
S&P RATING CHANGES

The number of Standard & Poor's U.S. rating changes and the ratio of upgrades to downgrades.

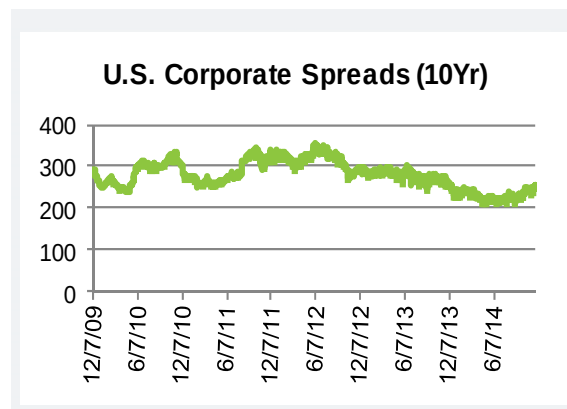
U.S. CORPORATE SPREADS

The spread between U.S. 10-year Moody's Baa-rated corporate bonds and 10-year U.S. Treasuries

CREDIT TRENDS



Source: Bloomberg



BANK FAILURES

2014 17

Illinois 5
Oklahoma 2
Georgia 1
Florida 1
Maryland 1
Ohio 1

2013 24

Florida 4
Arizona 3
Georgia 3
North Carolina 2
Tennessee 2

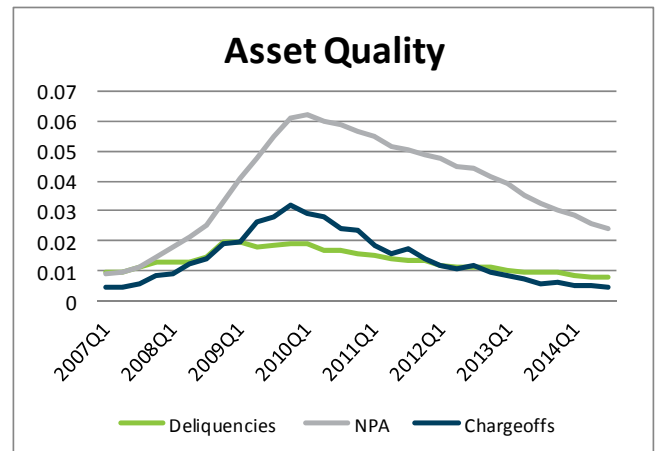
Source: Federal Deposit Insurance Corporation (FDIC)

BANKING TRENDS

3rd Quarter 2014 Highlights

The banking industry experienced positive results during the 3rd quarter of 2014. Net income increased 7.3 over the previous year period, with nearly 63% of institutions reporting a year-over-year improvement in quarterly net income. Only 6.4% reported net losses for the quarter. Additionally, noninterest income was 9.2%, as gains on loan sales and trading increased. This is the first time since June 2013 that noninterest income posted a year-over-year increase.

Chargeoffs fell 21% from the third quarter of 2013, which is the 17th consecutive quarter that chargeoffs have been below the previous year period. This corresponds with improvement in asset quality, as noncurrent loan and lease balances fell for the 18th quarter in a row. All categories except loans to individuals (this includes credit cards, auto loans and other loans to individuals) had declines in noncurrent balances. Additionally, reserves during the 3rd quarter of 2014 have fallen to less than half the peak level reached at the end of the 1st quarter of 2010. While reserves declined, the ratio of reserves to noncurrent loans improved for a 9th consecutive quarter, to 72.9%.



Sources: SNL Financial, PMA Financial Network, Inc.

The FDIC's "Problem List" fell from 354 to 329 during the third quarter, marking the 14th consecutive quarter of declines, and the lowest number of problem institutions since the first quarter of 2009. Two banks failed during the quarter, compared to six failures a year ago.

Source: FDIC: Quarterly Banking Profile

PRUDENT MAN PROCESS

History of the Prudent Man Process

PMA Financial Network, Inc. was founded in 1984 to provide public entities with credit ratings on banks. The firm's initial product, the Prudent Man Analysis, was the first report focused on the credit quality of financial institutions from a public depositor's perspective. The report ascertains the health of financial institutions utilizing fundamental analysis and an in-depth knowledge of the banking industry. This report is the origin of the name PMA. As PMA Financial Network, Inc. has expanded its services to public funds investors over the past 30 years, the Prudent Man Analysis has remained at the foundation of PMA's investment philosophy.

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