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RECENT NEWS

Rising Rates Put Pressure on Long-Term Assets

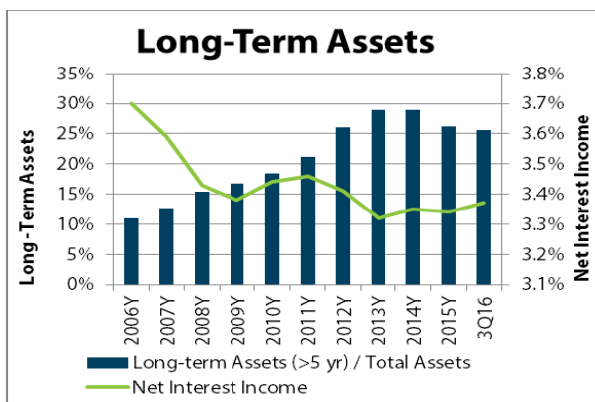
From December 2008 to December 2015, the federal funds target rate, as determined by the Federal Reserve, was at a record low of 0%-0.25%. Although the target rate was increased to 0.25%-0.50% in December 2015, the prolonged period of depressed rates has had a negative effect on banks' net interest margins and profits.

In order to compensate for depressed earnings, banks have been increasing long-term assets (loans or securities that mature or reprice in five or more years). Due to the long time commitment required, these assets generally carry a higher yield. Banks carrying large amounts of long-term assets can be a cause of concern for two main reasons. First, in a rising interest rate environment, long-term assets will take longer to reprice creating pressure on net interest margins. For example, a bank could hold a loan paying 3% that matures in five years, when the current market rate is 5%. Secondly, long-term assets have greater price sensitivity to changes in interest rates. Falling bond prices create unrealized losses that may become realized if the bank needs to sell the securities or chooses to strategically realign its securities portfolio.

It is also important to consider the composition of long-term assets. Most of the increase in long-term assets have been loans rather than securities. Not only does this increase interest rate risk, it provides less opportunity for banks to modify loans if the risk profile of the borrower changes. As a result, the shift to longer term loans has the potential to increase credit risk for banks.

Positively, recent increases in interest rates will allow banks to charge higher interest rates, which should improve earnings for most banks.

Sources: Federal Reserve, SNL Financial

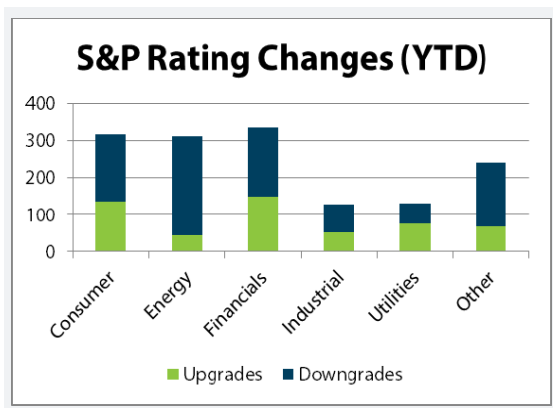


Source: SNL Financial

S&P RATING CHANGES:

The number of Standard & Poor's U.S. upgrade and downgrade rating changes

CREDIT TRENDS AND COMMENTARY



Source: Bloomberg

Year to date, Standard & Poor's upgraded 525 corporate issuers, compared to 935 downgrades. The rating agency stated "Downgrades from the commodity-related sectors (especially oil and gas) remain elevated, though the number of downgrades declined as commodity prices showed more stability." Additionally, 50% of oil and gas companies and 29% of metals, mining and steel companies have a negative outlook, which could indicate further downgrades.

Source: Standard & Poor's

PROFITABILITY

2016	95.2%
2015	94.6%
2014	93.2%

Percentage of banks
generating positive 3rd quarter
earnings

Source: SNL Financial

BANKING TRENDS

3rd Quarter 2016 Highlights

FDIC-insured institutions earned net income of \$45.6 billion for the third quarter of 2016, an increase of 12.9% over the prior year period. This increase is largely due to growth in interest-bearing assets and improvement in the industry's net interest margin. Only 4.6% of banks were unprofitable for the quarter, down from 5.2% in the third quarter of 2015.

Noncurrent loans (90 days or more past due or nonaccruing) declined for the 25th time in the last 26 quarters, falling by 1.8% during the third quarter. The decline was led by a 3.8% fall in residential mortgage loan balances. The average noncurrent loan rate fell from 1.5% to 1.45%, which is the lowest level since 2007. However, net chargeoff losses increased 16.9% from the prior year period, and this is the fourth quarter in a row that chargeoffs have posted a year over year increase.

Total assets rose by 1.4% during the third quarter of 2016, while total loans and leases increased by 1.2% and investment securities rose by 2.5%. The growth in securities was attributable to a 2.9% increase in mortgage-backed securities and an 8.5% increase in U.S. Treasury securities. Additionally, deposit growth was strong, with growth at 2.2% for the third quarter.

Source: FDIC: Quarterly Banking Profile

PRUDENT MAN PROCESS

The Prudent Man Analysis

The Prudent Man Process includes four steps which begin with gathering data and analyzing a bank's credit quality and continues with ongoing risk management throughout the life of a deposit. The process helps public funds investors avoid repayment, reinvestment and reputation risk that may be associated with a bank failure.

Step 2: Assign PMA Rating and Deposit Limits

After all of the data has been gathered and analyzed, each bank is rated on a scale of 1 to 5 (with 1 being the highest and 5 being the lowest). Deposit limits such as day limits on the term for an individual deposit and aggregate dollar limits on deposits per bank are also applied.

The PMA rating reflects PMA's opinion of a bank's complete financial profile. The firm believes current financial performance alone often does not tell the entire story of a bank's risk profile. Banks currently displaying strong performance may hold exceptionally high levels of risk. Conversely, some currently underperforming banks may hold acceptable levels of risk and represent a prudent investment for public funds. A thorough understanding of the banking industry and a detailed knowledge of each bank enable PMA to make informed judgments of the creditworthiness of each bank within PMA's network.

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