

RECENT NEWS

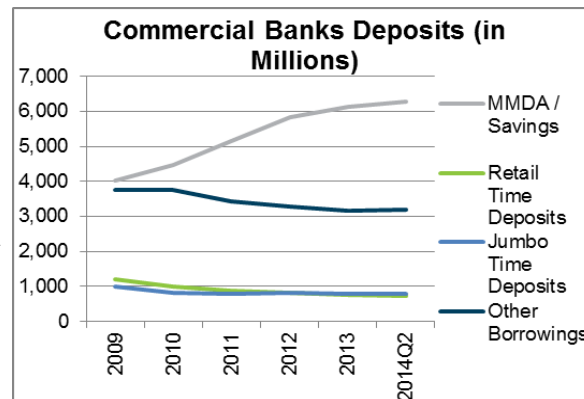
Banks Hopeful, Cautious About Rising Rates

The banking industry is waiting for the day Federal Reserve Chairwoman Janet Yellen announces that interest rates will be rising once again, with many experts predicting this will happen in the next twelve months. A long period of low interest rates has compressed banks' net interest margins (NIM), which is the difference between interest income and interest paid. According to S&P, "the aggregate NIM for the bank holding companies tracked by the Federal Reserve Bank of New York has dropped 62 basis points to 2.66% in fourth-quarter 2013 from 3.28% in fourth quarter 2008." Higher rates would result in higher interest income on banks' securities and loan portfolios. On the surface, it would seem to help banks boost their margins. However, while the increase should boost interest income, it may elevate banks' funding costs, which could initially negate the positive effects of the interest rates rise.

The effect of higher rates on banks' income statements may be exacerbated by recent trends in the industry's liability structure. Retail and jumbo time deposits have declined 40% since the 2009 year end to the second quarter of 2014, while money market deposit accounts (MMDA) and savings have increased 56%. With interest rates rising, these products will re-price quickly. Furthermore, consumers may want to move their money out of these overnight deposit accounts into higher yielding certificates of deposit.

In addition to the higher costs, banks could face liquidity pressure. JPMorgan Chief Financial Officer Marianne Lake, speaking on higher interest rates at the Morgan Stanley Financials Conference, stated the banking industry may experience \$1 trillion of liquidity losses. In addition to managing daily liquidity, banks will also need to meet new regulatory liquidity requirements. New regulations and shifting balance sheets will require banks to manage their income statements and balance sheets closely when the Fed begins to loosen monetary policy.

Sources: American Banker, JPMorgan Chase & Co., SNL Financial, Standard & Poor's



Source: SNL Financial

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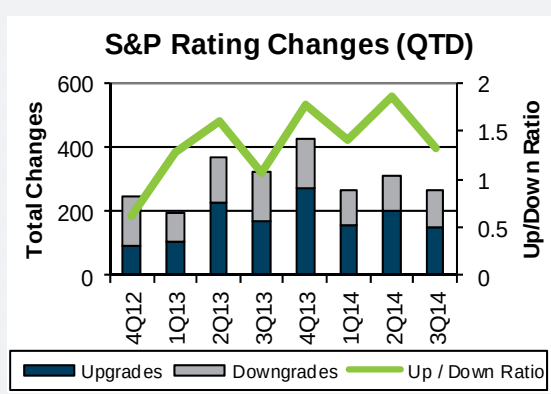
CREDIT TRENDS

S&P RATING CHANGES

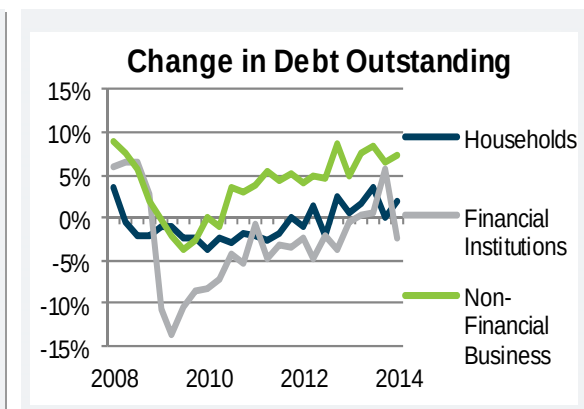
The number of Standard & Poor's U.S. rating changes and the ratio of upgrades to downgrades.

CHANGE IN DEBT OUTSTANDING

The annual percent change in credit market debt by sector.



Source: Bloomberg, Federal Reserve Bank



BANK FAILURES

2014 14

Illinois	4
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

2nd Quarter 2014 Highlights

FDIC insured institutions reported a 5.3% increase in net income compared with the second quarter of 2013. The positive gain in earnings reflected lower expenses for loan-loss provisions, goodwill impairment, and payrolls. Earnings increased overall, but the average net interest margin fell ten basis points to 3.15%, which is the lowest margin for the banking industry since 1989. Noninterest income also decreased 5.3% from the prior year period, as banks saw income from sales, securitization and servicing of residential mortgages fall. Positively, reduced expenses allowed banks to offset the declining revenues. The second quarter had the lowest proportion of unprofitable banks in over 8 years, at only 6.8%.

Both total assets and loan and lease balances grew slightly for the quarter. Growth in deposits increased by 1.5% quarter over quarter, led by accounts with balances greater than \$250,000, followed by noninterest-bearing accounts. Asset quality continued to improve, with noncurrent loan balances declining in all major loan categories, except auto loans. This marks the 17th consecutive quarter of improvement, with the noncurrent loan rate was at 2.24%, the lowest level since 2008.

The number of institutions on the FDIC's "Problem List" declined from 411 to 354, or a 60% decrease from end of the first quarter of 2011. Additionally, as of June 30, 2014, 98.4% of all FDIC insured institutions met or exceeded the requirements for the highest regulatory capital category (as defined for a Prompt Corrective Action).

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 4: ONGOING RISK MANAGEMENT

Risk management procedures include deposit restrictions and collateral requirements. PMA's Credit Committee, which includes members of PMA's senior management, meets formally on a quarterly basis, to review credit reports and recommendations for PMA Ratings and deposit limits. PMA actively manages and adjust bank's ratings and deposit limits throughout the life of the deposit.

When deposits exceed FDIC or other federal deposit insurance limits, collateral must be put into place, which is monitored and reported to clients every month. Collateral programs offered by PMA include letters of credit issued by a Federal Home Loan Bank and marketable securities pledged to third party custodians.

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