

INSIDE THIS ISSUE

- 1 Recent News
- 1 Credit Trends and Commentary
- 2 Banking Trends
- 2 The Prudent Man Analysis

RECENT NEWS

Farmers See Multiple Risks Ahead

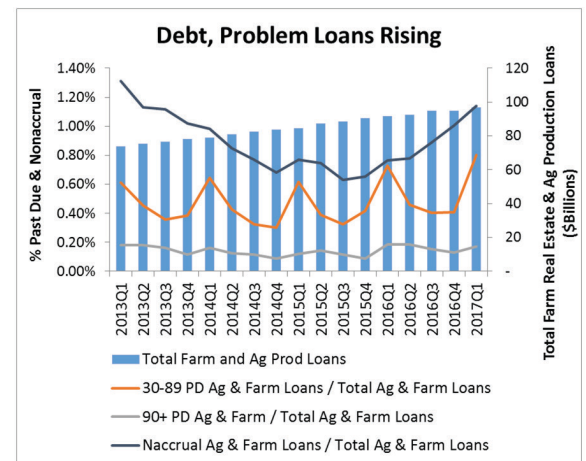
The farming downturn is now in its fourth year and farmers are feeling the impact on their farm financial sheets. Low commodity prices for crops such as corn and soybeans have cut deep into farm income. As a result, farmers are taking on more debt to replenish cash reserves. Based on 1st quarter 2017 bank financial data, total agriculture and farm real estate loans are up nearly 30% compared to four years ago. Weaker financial conditions including growing debt have lead to higher levels of past due and nonaccrual loans over the past two years.

According to Mark Jensen, Farm Credit Services chief risk officer, "Commodity prices have been cut in half, and our data would show costs have come down 10 to 15 percent. After three years, that's taking a toll." Record corn and soybean production last year offset the financial strain, but farmers are paying for it this year as the glut of grain depresses prices. Working through the oversupply of grain will take a couple of years or more according to experts.

These worries have been compounded by political concerns. Policies around trade, energy and farm subsidies could all affect farmers. President Trump has threatened tariffs on trade with China, Canada and Mexico including plans to renegotiate the North America Free Trade Agreement.

Energy policy could also impact agricultural commodities. Iowa leads the nation in ethanol and biodiesel production. Policies that reduce oil and gas prices or that reduce subsidies for ethanol and biodiesel could send grain prices down further. While commodity prices are low, they have yet to retest the deeply depressed levels seen before Iowa's ethanol boom in 2006. Other farm subsidies could also pressure farmers' income if reduced. American farm subsidies, mostly through crop insurance, cost taxpayers over \$20 billion per year. Farmers and communities across rural America will be watching these issues closely as their livelihoods may be further pressured by changing winds in markets and politics.

Source: www.desmoinesregister.com, www.economist.com

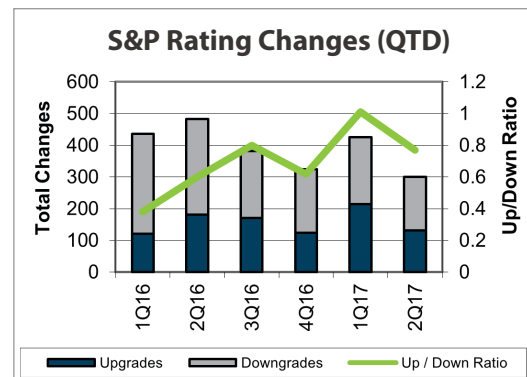


Source: SNL Financial

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 342 corporate issuers compared to 356 downgrades. While downgrades continue to exceed upgrades at S&P, downgrades have been decreasing since the 1st quarter of 2016. S&P upgraded a large number of firms in the 1st quarter as financial, energy and industrial firms all saw more upgrades than downgrades. Of these three sectors, only energy firms have continued to see more upgrades than downgrades so far in the 2nd quarter.

Source: Standard & Poor's

BANKING TRENDS**1st Quarter 2017 Highlights**

First quarter 2017 net income rose 12.7% from a year earlier as over half of banks reported year-over-year increases in quarterly earnings. Average return on assets (ROA) rose to 1.04% from 0.97% a year ago. Higher income drove the improvement in net income. The industry's average net interest margin (NIM) improved to 3.19% from 3.10% a year ago. Much of the (NIM) improvement occurred at large banks as higher short-term interest rates lifted average asset yields. More than half of all banks (53.7%) reported lower NIMs than a year ago.

During the first quarter, bank charge-offs increased 13.4% over the first quarter of 2016 due to higher losses on loans to individuals. Net charge-offs of credit cards and auto loans were higher by 22.1% and 27.7%, respectively. Charge-offs on commercial & industrial loans and residential mortgages were both lower. Meanwhile, the amount of loans noncurrent or in nonaccrual status fell for the 27th time in the last 28 quarters. All major loan categories saw noncurrent balances fall during the quarter.

Total loans and leases declined by 0.1% during the three months ended March 31. This is the first quarterly decline in loan balances since the first quarter of 2013. A seasonal decline in credit card loans was largely responsible. Residential mortgage loans also fell reflecting increased loan sales activity. Commercial & industrial loans and commercial real estate loans both increased. The 12-month loan growth rate slowed to 4%. The FDIC noted that loan growth remains above the nominal GDP growth rate.

In the first three months of 2017, mergers absorbed 54 insured institutions, while 3 banks failed. Two new charters were added during the quarter, the first new charters since the third quarter of 2015. The number of insured institutions on the FDIC's Problem Bank List fell from 123 to 112 during the first quarter. This is the smallest number since the first quarter of 2008.

Source: FDIC: Quarterly Banking Profile

PRUDENT MAN PROCESS**The Prudent Man Process History**

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.

CONTACT**BRIAN HEXTELL**

630.657.6485

bhextell@pmanetwork.com

Integrity. Commitment. Performance.™

This document was prepared for PMA Financial Network, Inc., PMA Securities, Inc. and Prudent Man Advisors, Inc. (hereinafter "PMA") clients. It is being provided for informational and/or educational purposes only without regard to any particular user's investment objectives, financial situation or means. The content of this document is not to be construed as a recommendation, solicitation or offer to buy or sell any security, financial product or instrument; or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Nor does it constitute any legal, tax, accounting or investment advice of services regarding the suitability or profitability of any security or investment. Although the information contained in this document has been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. It is understood that PMA is not responsible for any errors or omissions in the content in this document and the information is being provided to you on an "as is" basis without warranties or representations of any kind. Securities, public finance services and institutional brokerage services are offered through PMA Securities, Inc. PMA Securities, Inc. is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. Prudent Man Advisors, Inc., an SEC registered investment adviser, provides investment advisory services to local government investment pools and separately managed accounts. All other products and services are provided by PMA Financial Network, Inc. PMA Financial Network, Inc., PMA Securities, Inc. and Prudent Man Advisors (collectively "PMA") are under common ownership.

©2017 PMA Financial Network, Inc.