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RECENT NEWS

Banks Preparing for Weaker Credit

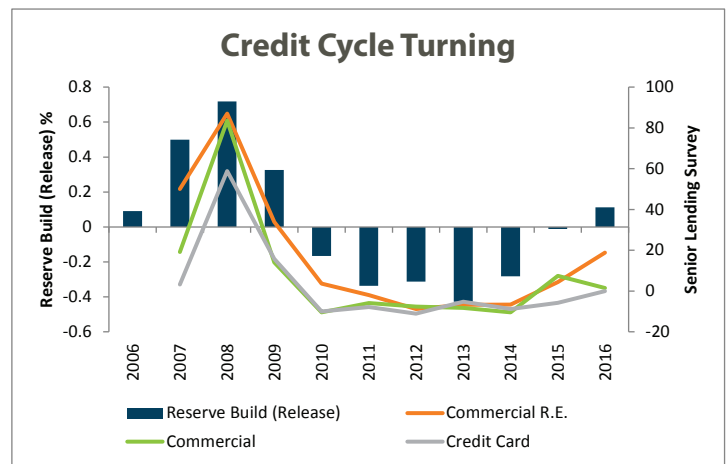
Since the financial crisis, banks have generally loosened credit standards and reduced the reserves they hold for bad loans. However, some signs of credit weakness emerged in late 2015 and banks began tightening credit standards according to a Federal Reserve survey on bank lending conditions. Then, for the first time since 2009, banks set aside more for bad loans in 2016 than they charged off.

The Senior Loan Officer Opinion Survey on Bank Lending Practices is a survey administered by the Federal Reserve to large, domestically chartered commercial banks to provide information on credit availability and demand, as well as to track the ongoing developments and evolving lending practices in the U.S. loan markets. The information obtained from the survey provides valuable insight on the changing credit markets including banks' expectations about changes in asset quality and credit standards over the coming year. Recent data from the survey shows that banks are increasingly cautious about commercial real estate loans.

Banks' caution is also displayed in the chart which depicts an increase in loan loss reserves in 2016. Reserve Build (Release) represents the amount that loan loss provisions exceed (fall short of) net charge-offs.

The past decade of data show that bank management teams' decisions around credit have been aligned. During the recession, management turned more conservative, keeping reserves high and implementing tougher lending standards. As the economy improved, banks kept lower reserves while loosening their lending standards. The recent increase in reserves and tougher lending standards lead us to believe that the credit cycle is near its peak, and problem loans may begin growing at U.S. banks.

Source: Wall Street Journal, www.census.gov

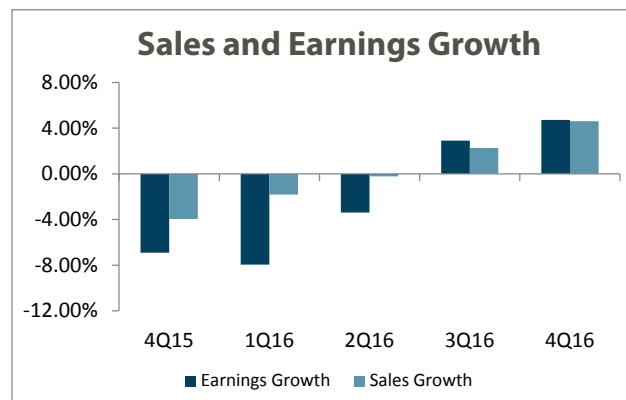


*Commercial R.E. data in 2013-2016 strictly represents CRE Non-Farm Non-Residential Loans.
Source: SNL Financial

S&P RATING CHANGES

The percentage of aggregate growth of sales and earnings for S&P 500 companies

CREDIT TRENDS AND COMMENTARY



Source: Bloomberg

Publicly traded companies have improved sales and earnings growth in recent quarters. After multiple quarters of decline, both sales and earnings growth turned positive in the 3rd quarter of 2016 and growth improved further in the 4th quarter. The Information Technology sector led growth higher in the fourth quarter while Energy was less of a drag on growth.

Source: Standard & Poor's

BANKING TRENDS

1st Quarter 2017 Highlights

FDIC-insured institutions reported net income of \$43.7 billion for the quarter, an increase of \$3.1 billion (7.7%) compared with the prior year period. Almost 60% of all banks reported year-over-year increases in quarterly earnings. The average return on assets (ROA) rose slightly to 1.04% from 1.02% in the fourth quarter of 2015. Quarterly earnings growth was supported by a higher average net interest margin. Though higher overall, a majority of banks reported lower net interest margins in the fourth quarter. The industry reported a 4.9% increase in full year earnings in 2016. Only 4.2% of all banks had negative full-year net income. This is the lowest percent of unprofitable banks since 1995.

Provisions for loan losses in 2016 increased 28.8% from 2015 as the average net charge-off rate rose slightly to 0.53% from 0.49% the year before due to higher credit card charge-offs. Noncurrent loans and leases declined for the 26th time in the last 27 quarters. The average noncurrent loan rate fell from 1.45% to 1.41%, the lowest level since year-end 2007.

Total assets rose by \$13.7 billion (0.1%) during the fourth quarter on growth in loans and securities. Growth in loan balances was fairly widespread with the exception of C&I loan balances, which fell for the first time in 26 quarters. Growth in loans and securities was offset by declines in trading assets and balances at Federal Reserve banks. Total equity capital declined in the fourth quarter as retained earnings were more than offset by unrealized losses of available-for-sale securities caused by rising interest rates. The number of institutions on the FDIC's "Problem List" declined from 5,980 in the third quarter of 2016 to 5,913 in the fourth quarter. There were 65 mergers of insured institutions during the quarter, while no insured banks failed.

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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