PMA FINANCIAL NETWORK

CREDIT QUARTERLY

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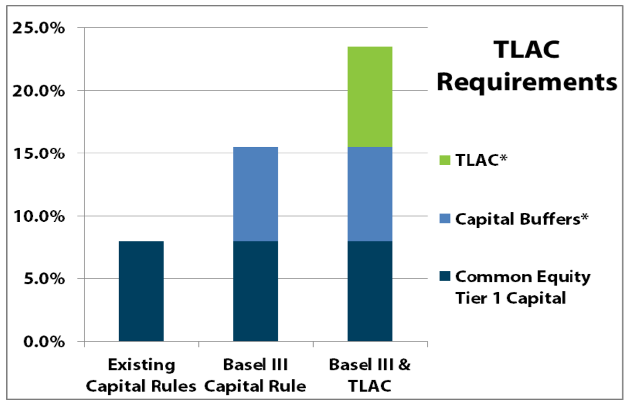
RECENT NEWS

Bail-Out Solution Creates Mixed Reactions

In order to protect taxpayers from another financial 'bail-out,' the Financial Stability Board (FSB) recently proposed a new policy titled Total Loss-Absorbing Capacity (TLAC). TLAC is intended to be an additional layer of debt, added on top of the new Basel III capital requirements. If a bank fails, the TLAC debt will be converted into equity, allowing critical functions to continue without taxpayer funding or impacting global financial stability. This 'bail-in' rule will apply to the thirty global systemically important banks (G-SIBs) and will also include a subjective component based on factors like the bank's size and risk profile.

The proposed TLAC requirements will such a great impact that the rating agencies are already adjusting their methodologies in preparation. Moody's Investors Service updated their fundamental credit factors and support and structural analysis for banks, while Standard & Poor's created a new Additional Loss Absorbing Capacity (ALAC) criteria. Fitch upgraded the long-term Issuer Default Ratings of eight U.S. G-SIBs in May 2015 due to TLAC.



*Required TLAC and capital buffers may be adjusted based on firm-specific risks.

Source: MRV Associates, Pricewaterhouse Coopers LLP

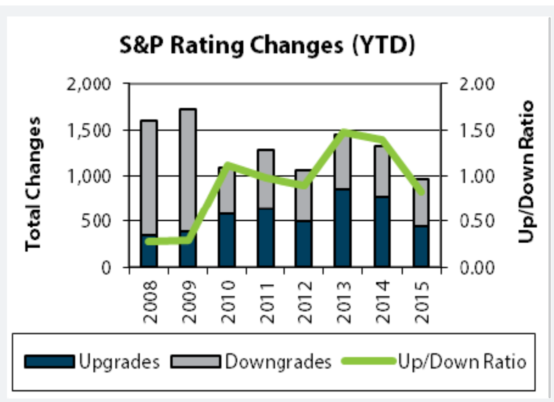
While the rating agencies feel TLAC is positive for the banking industry, opposition to the new rule has expressed several concerns, including that the rule penalizes banks that take large amounts of traditional deposits, while rewarding banks that issue potentially more expensive long-term debt. Additionally, some fear the higher cost of debt will force banks to participate in riskier activities to compensate for higher expenses. Currently, the FSB is completing a Quantitative Impact Study, with the final rule to be announced at the next G-20 Summit in November 2015.

Sources: Financial Stability Board, Fitch Ratings, Moody's Investors Services, PricewaterhouseCoopers LLP, Standard & Poor's

CREDIT TRENDS AND COMMENTARY

S&P RATING CHANGES:

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



Source: Bloomberg

Year to date, Standard & Poor's upgraded 440 corporate issuers, compared to 527 downgrades. The rating agency stated "defaults and downgrades rose to their highest quarterly levels (for the second quarter) since 2009." Oil and gas companies accounted for 28% of those second quarter downgrades. Positively, 80% of U.S. companies have a stable rating outlook.

Source: Standard & Poor's

PROFITABILITY

2015	94.4%
2014	94.0%
2013	92.8%

Percentage of banks generating positive 2nd quarter earnings

Source: SNL Financial

BANKING TRENDS

2nd Quarter 2015 Highlights

Earnings continue to be an area of improvement for the banking industry. FDIC-insured banks earned $43 billion in net income for the quarter, an increase of 7.3% compared with the second quarter of 2014. Nearly 60% of banks reported year-over-year growth in quarterly net income, with only 5.6% of banks reporting losses. Additionally, banks are earning more income from noninterest income, as servicing income grew by 63.9% from the first quarter.

Asset quality has been another source of strength for the banking industry. Noncurrent loans and leases fell by 5.4% since the first quarter of 2015, marking the 21st consecutive quarterly decline in noncurrent loan balances. Net chargeoffs declined for a 20th consecutive quarter, falling 11.2% from the 2014 level. The average net chargeoff rate fell to 0.42%, which is the lowest quarterly rate since the third quarter 2006.

The second quarter saw the total number of banks fall from 6,419 to 6,348, due to 66 institutions merging and one bank failure. This is the first time since the fourth quarter 2007 that there has been only one failure in a quarter. The number of insured institutions on the FDIC's "Problem List" declined for a 17th consecutive quarter, from 253 to 228. Total assets of problem institutions fell from $60.3 billion to $56.5 billion.

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: Data Analysis - Quantitative

PMA conducts quantitative ratio analysis utilizing a proprietary model to analyze bank and holding company data. Ratios are compared to historical trends, bank peers, and performance benchmarks. PMA begins its quantitative analysis of a bank's regulatory capital, asset quality and earnings by analyzing the following ratios, amongst many others:

1. Total Risk Based Capital
2. Nonperforming Assets
3. Return on Average Assets
4. Net Interest Margin

Additionally, PMA prepares a credit report for each bank that analyzes financial performance over a four year period. The analysis covers more than 50 ratios and delves further into a bank's balance sheet, income statement and off-balance sheet exposure.

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