PMA FINANCIAL NETWORK

CREDIT QUARTERLY

INSIDE THIS ISSUE

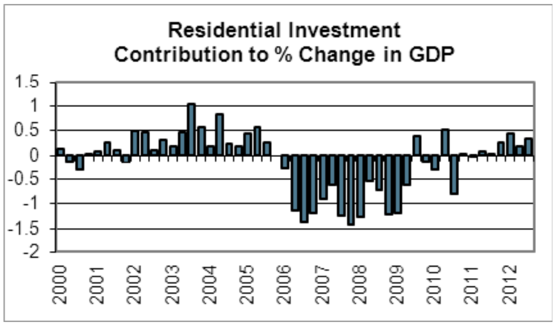
RECENT NEWS

Housing Market Shows Signs of Improvement

There have been several optimistic reports on the housing market since June, as record low mortgage rates, rising rent prices, and falling inventory levels have led to increases in home prices and housing starts.

According to the most recent report from S&P Case-Shiller, U.S. home prices in the 20-City Composite index rose 0.3% in September 2012 from the prior month and 3.0% from the prior year. The index has now recorded positive monthly changes for six consecutive months and positive annual changes for four consecutive months. Phoenix recorded the largest annual gain with prices up 20.4%, while Chicago and New York were the only two cities to post annual declines at -1.5% and -2.3%, respectively.

Housing starts increased in October to the highest level in more than four years, largely driven by an increase in multifamily home construction. Single family starts were flat from the prior month but were up 35.3% from the prior year.



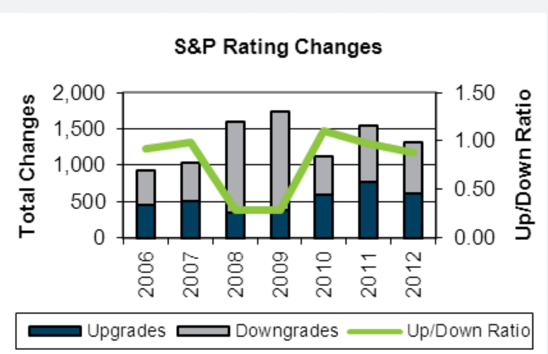
The improvement in housing has also begun to positively affect GDP growth. Housing's contribution to GDP is captured in part through the residential investment figures reported by the Commerce Department, which includes home construction and improvements as well as real-estate broker commissions. The Commerce Department reported that residential investment accounted for 0.32 percentage points of the projected 2.7% GDP growth during the third quarter, up from 0.19 points in the second quarter and 0.03 points in the third quarter of 2011. Strong housing starts are expected to lead to further gains in residential investment in the fourth quarter. While still far below the sector's historical contribution to growth, the trend remains a positive sign for the economy.

Sources: S&P Case Shiller, Wall Street Journal, Bureau of Economic Analysis

CREDIT TRENDS

S&P RATING CHANGES:

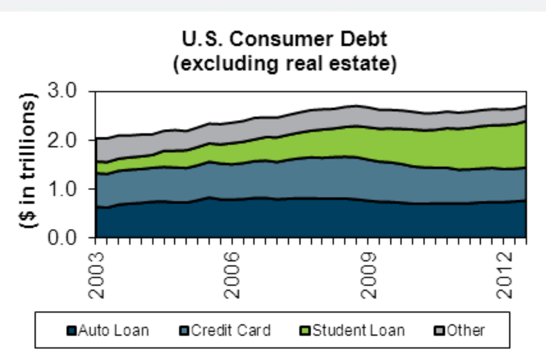
The number of Standard & Poor's U.S. rating changes and the ratio of upgrades to downgrades.



Source: Bloomberg, 11/29/12

U.S. CONSUMER DEBT:

Total outstanding debt by loan type in trillions of dollars, excluding debt secured by real estate.



Source: Federal Reserve Bank of New York, 11/29/12

BANKING TRENDS
3rd Quarter 2012 Highlights

FDIC insured institutions reported net income of $37.6 billion in the third quarter of 2012, representing the highest quarterly total since the third quarter of 2006. Earnings were up 6.6% during the quarter from the prior year period, representing the 13th consecutive quarter that earnings registered an annual increase. Recent improvement was primarily attributable to higher noninterest income and lower provisions for loan losses.

Loan balances increased 0.9% during the quarter, with more than 55% of all banks reporting loan growth. Growth was driven by increases in commercial and industrial lending, residential mortgages and auto lending. Deposit balances increased 1.8% during the quarter, led by an increase in noninterest-bearing transaction accounts exceeding $250,000, which temporarily have unlimited FDIC coverage under the Dodd-Frank Act.

Asset quality metrics continued to improve as noncurrent loans and leases declined for the tenth consecutive quarter, falling to the lowest level since the first quarter of 2009. Net chargeoffs were down 16.5% from the prior year period.

The number of banks on the FDIC's "problem list" declined to 694 from 732 during the quarter, falling below 700 for the first time in three years. Mergers absorbed 49 institutions during the quarter, while 12 institutions failed.

Source: FDIC: Quarterly Banking Profile

BANK FAILURES

2012	**50**
Georgia	10
Illinois	8
Florida	8
Minnesota	4
Tennessee	3
Missouri	3
2011	**92**
Georgia	23
Florida	13
Illinois	9
California	6
Michigan	4

Source: Federal Deposit Insurance Corporation (FDIC)

PRUDENT MAN PROCESS
The Prudent Man Analysis

The Prudent Man Process includes a four step process which begins 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 - Qualitative

Bank credit analysis requires insight into a bank's balance sheet, management and regulatory standing. The composition and quality of assets and liabilities are reviewed, as any balance sheet concentrations can provide insight into a bank's risk profile. To determine regulatory standing, analysts search for bank enforcement actions on the FDIC, OCC and Federal Reserve Bank websites. Additionally, if the company is publicly traded, a review of public Securities and Exchange Commission documents is completed.

Qualitative analysis also includes an assessment of industry performance and economic conditions. Banking industry developments are monitored daily and analysts conduct sector analysis within the banking industry to better understand business segments such as commercial real estate, residential mortgages and credit card lending. Economic trends that may affect bank performance are also monitored.

CONTACT

BRIAN D. HEXTELL
630.657.6485
bhextell@pmanetwork.com

LAURA A. PAULI
630.657.6400
lpauli@pmanetwork.com