PMA FINANCIAL NETWORK

CREDIT QUARTERLY

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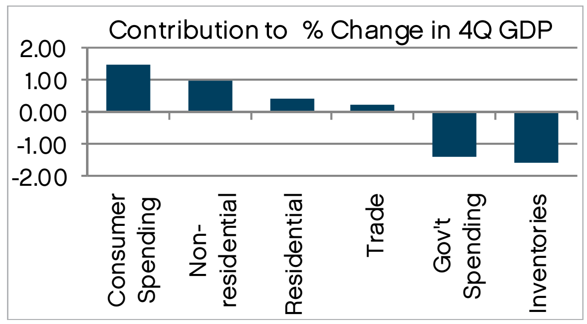
RECENT NEWS

4th Quarter Growth Weakens

The U.S. economy grew slower than expected in the fourth quarter of 2012, even as personal consumption increased and the housing market continued to improve. GDP increased by 0.1% during the fourth quarter, compared to growth of 3.1% during the third quarter. The decline in growth was primarily due to lower contributions from federal government spending and lower growth in inventories. Positively, personal consumption and expenditures, which accounts for approximately 70% of total GDP, increased by 2.1% during the quarter, while residential and non-residential investment increased by 17.5% and 9.7%, respectively.



Government spending on goods, services and investments declined by an annualized 14.8% in the fourth quarter compared to an increase of 9.5% in the third quarter. The decline was predominately driven by a 22% decline in defense spending, while nondefense spending slightly increased. Also contributing to slowing growth in the fourth quarter was lower inventory growth. Although trade positively contributed to GDP during the quarter, exports declined for the first time since 2009, possibly reflecting economic weakness in the global economy.

Outside of the U.S., fourth quarter economic reports showed dismal growth rates in all of the G7 countries. The economies of Germany, France and Italy all shrank more than expected reporting GDP growth at -0.6%, -0.3% and -0.9%, respectively. The U.K. and Japan also reported negative growth, reporting -0.3% and -0.4%, respectively. Canada is projecting 1.1% GDP growth in the fourth quarter, after growing just 0.6% in the third quarter. Low economic growth throughout the developed world is expected to continue to be a concern for the U.S. as the economy continues to struggle with a weak recovery.

Sources: Bureau of Economic Analysis; Wall Street Journal; Bloomberg

CREDIT TRENDS

Negative Outlook for French Banks

According to a recent report from Standard & Poor's, "economic and financial risks remain elevated in France and Europe," given continued economic weakness in the Eurozone. S&P views French banks as vulnerable to further deterioration and cites capital as a rating weakness. Additionally, S&P expects higher provisioning for credit losses and declining net interest margins to negatively impact earnings in the near term. The agency maintains a negative outlook on the long-term ratings of all large French banks.

Gross Domestic Product (%)

	3Q12	4Q12	2012	2013 [1]
Germany	0.2	-0.6	0.1	0.8
France	0.1	-0.3	-0.1	0.2
Italy	-0.2	-0.9	-0.7	-0.9
Spain	-1.6	-1.8	-1.4	-1.5
Eurozone	-0.1	-0.6	-0.2	-0.1

Sources: "Will French Banks Continue to Withstand the Rigors Ahead?" Standard & Poor's, 2/12/13; Bloomberg, 02/25/13

GROSS DOMESTIC PRODUCT (GDP):

The chart depicts quarterly and annual changes in GDP for the largest Eurozone countries and the aggregate Eurozone.

[1] 2013 figures represent projections from the European Central Bank.

BANK FAILURES

2013	**3**
Washington	1
Minnesota	1
Illinois	1
2012	**50**
Georgia	10
Illinois	8
Florida	8
Minnesota	4
Tennessee	3
Missouri	3

Source: Federal Deposit Insurance Corporation (FDIC)

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BANKING TRENDS

4th Quarter 2012 Highlights

FDIC insured institutions reported net income of $34.7 billion during the fourth quarter of 2012 up 36.9% from the fourth quarter of 2011. Contributing to higher net income was higher noninterest income and lower provisions for loan loss, partially offset by a decline in net interest income. Noninterest income increased by 18.2% from the prior year period as banks benefited from increased mortgage activity, higher trading revenues, and lower losses on foreclosed property.

Asset quality metrics continued to improve across the industry during the fourth quarter, as net chargeoffs and noncurrent loan balances declined in all major loan categories. Net chargeoffs declined 27.4% while noncurrent loan balances declined 5.5% from the prior year period led by improvement in residential real estate loans.

Total loans increased by 1.7% during the fourth quarter, led by increases in C&I loans, credit cards and commercial real estate loans. Total deposits at FDIC insured institutions increased by 3% during the quarter led by an increase in uninsured deposits greater than $250,000.

During the fourth quarter, mergers absorbed 88 institutions while just 8 institutions failed. The number of institutions on the FDIC's "problem list" declined for the sixth consecutive quarter to 651 from 694.

Source: FDIC: Quarterly Banking Profile

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 – 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:

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 5 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.