3D ADVISORS

This 3DAdvisors Report Covers:	
✓	**Insider Trading**: Insider Trading Behavior
✓	**Accounting**: Quality of Earnings Issues
	Governance: Corporate Governance Issues
✓	**Fundamentals:** Analysis of fundamentals
	Deception: Deception detection analysis

Management Hypes Strength, But Sells With Abandon
People's United Financial Inc. (NASDAQ:PBCT)

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Business Description

People's United Financial Inc. (PBCT) operates as the savings and loan holding company of People's United Bank that provides various financial services to individual, corporate, and municipal customers principally in Connecticut, Massachusetts, Vermont, New Hampshire, Maine, and New York. On January 1, 2008, People's United Financial completed its acquisition of Chittenden Corporation, a multi-bank holding company headquartered in Burlington, Vermont. As of 09/30/08, PBCT had total deposits of $14.2 billion. Its services include extending secured and unsecured commercial and consumer loans, and originating mortgage loans secured by residential and commercial properties, as well as accepting consumer, commercial, and municipal deposits. The Company was founded in 1842 and is headquartered in Bridgeport, Connecticut.

Key Statistics

Sector:	Last Close:	Market Cap:	Avg Vol (3m):
Financial	**$16.65**	**$5.79B**	**5,506,640**
Industry:	**52 Wk Range:**	**Trailing P/E:**	**Shrs Out:**
Savings & Loans	**$13.93-$21.76**	**35.43**	**347.48M**
F/T Employees:	**FYE:**	**Forward P/E:**	**Short % of Float:**
2,416	**Dec-31**	**29.21**	**3.90%**

Summary of 3DAdvisors Findings for PBCT

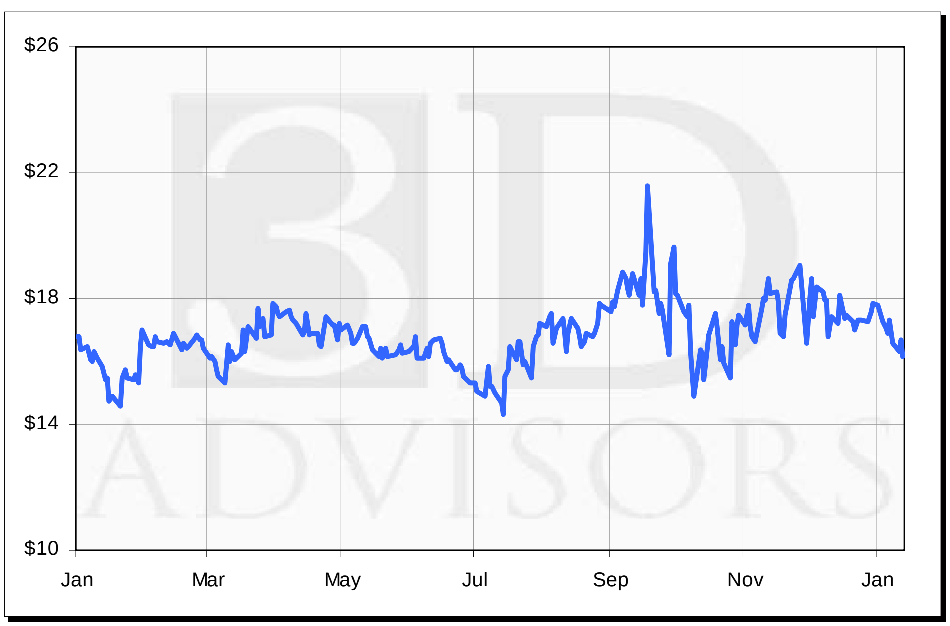
- **Fundamentals:** CEO sounds like Alfred E. Newman: "What, me worry?"
- **Fundamentals:** Chittenden acquisition increases exposure to commercial R/E
- **Accounting:** Non-performing loans, net charge-offs, loan loss reserves
- **Insider Trading:** Insiders sell shares as if they don't believe their own story
- **Accounting:** Miscellaneous noteworthy items

Discussion of 3DAdvisors Findings for PBCT

Some may accuse us of heresy by daring to write up People's United Financial Inc. as a short candidate. Clearly, this is not a bank facing the challenges confronting most of the industry in this environment. Indeed, it is commonly known that PBCT is among the best-capitalized banks in the Northeast, a fact constantly pounded home by management to anyone who will listen. In the same breath, PBCT staunchly maintains that it has no sub prime or Alt-A exposure of any kind, another fact repeated ad-nauseam in both text and conferences. The list goes on; no need for TARP funds; loan portfolios performing almost flawlessly with uncommonly low charge-off rates; so well-capitalized that it is hunting for acquisitions. What could possibly be wrong with this picture?

There is a problem with the picture, however, though the canvas remains quite abstract: Insiders are aggressively selling PBCT shares to a level that causes it to stand out dramatically among its peers in the region, if not the nation, for its level of insider liquidations, especially considering the apparent strength of its balance sheet and banking specific performance metrics. This management team is exhibiting exactly the type of disconnect we look for between what is being *said* regarding current performance and outlook, and what is being *done* in terms of how they are trading their personal stakes in the enterprise. Yet further inspection of Company financials and other disclosures reveals few plausible explanations for the seemingly contradictory urge to sell by management. Despite this, when a trading profile jumps out as this one has, we sharpen our search for potential events, not currently evident, that may occur in the future that could serve as catalysts. PBCT, 70% institutionally held and sporting a valuation richer than any of its peers, could be particularly vulnerable to any deterioration in its performance metrics, which through 3Q08 have all but defied logic. But if the PBCT metrics do begin to reflect the struggles of its customers and the broader economic landscape, and further, if they lead to a sudden and unexpected earnings miss, a significant portion of the large institutional ownership could head for the exits all at once, setting the shares up for a nasty return to reality.

Figure 1. PBCT Daily Closing Price, 01/03/07 through 01/15/09. Source: Reuters.



So therein lies our interest in the name. It is not so much a story about current credit quality but rather about valuation, especially as economic conditions begin to catch up with PBCT and it does begin to experience some deterioration, faint hints of which were evident in the otherwise strong results reported for the 3Q08. Recently, PBCT shares have been a hiding place for financial investors seeking respite from the problems of the rest of the banking world, encouraged by repeated management cheerleading, almost with an air of infallibility. Yet as skilled as management may have been up until now in avoiding many of the problems suffered by its peers, their trading actions may suggest they don't believe it will last, and that the souring economy may catch up with PBCT sooner rather than later.

<u>Fundamentals: CEO sounds like Alfred E. Newman: "What, me worry?"</u>

One is hard-pressed to find disclosures from management that would indicate problems anywhere in PBCT's world, adding to the conundrum presented by the compromising nature of its insiders' behavior. The tone of management's hopeful confidence continued through the 3Q08 even as the rest of the banking world around them seemed to be melting down.

Even areas where there seemed to be the possibility of emerging exposures, management seems to brush them off with a "no problem", almost cavalier attitude. For example, the Company disclosed that, as of 09/30/08, it's Shared National Credits portfolio (loans of $20 million or more which are shared by three or more supervised financial institutions) totaled $679 million, down from $738 million from year end, 2007. Like other companies, PBCT has been trying to unwind its exposure to these loans but admits it will take 2 to 3 years to do so. The long wind down period is clear evidence of the problematic nature of the related loan assets (PBCT discloses that 93% of this portfolio consists of borrowers located outside of Connecticut, including $346 million, or 47%, located in California, Florida and New York). Yet management downplays any risk, citing low charge offs. When asked about the amount of construction loans in the portfolio during the 3Q08 conference call, CEO **Philip Sherringham** dodged the question ("unfortunately, I don't have the exact number handy, so I'll have to call you back on that later") but was quick to follow up with a happy face blanket statement:

> "As far as the health of the portfolio is concerned, so far it's going very well…I know it sounds surprising to most of you, but again it goes to the quality of our underwriting frankly, as well as our monitoring and management of the portfolio. So far this portfolio is performing just fine."

Sherringham's persistent "optimism" does not stop here though; it continues to show consistently through the 3Q08 conference call. Another analyst asked a question concerning the upheaval in the Wall Street area and whether PBCT sensed any related stress or spillover into Fairfield County in terms of its impact on its mortgage portfolio. Again, Sherringham answered as if any spillover effects were simply immaterial:

> "Well, at this point I'd have to say not. I would say it is something we are monitoring carefully. We did screen on our mortgage portfolio by a listed employer at the time of application, focusing on some of the companies that have been most affected by the recent turmoil. Frankly the results were very encouraging. We came back with about $55 million at the time of loans and

we made two people who listed Lehman Brothers, Bear Stearns, and there's another one --- Merrill Lynch as their employer. $55 million out of a $3.8 billion portfolio. Frankly all of those are performing excellently at this point."

Sherringham's easy answer seems in contrast to a risk disclosure, directly related to Fairfield County, appearing in PBCT's 2007 SEC Form 10-K:

"If the general economic situation deteriorates, or there are negative trends in the stock market, Connecticut economy could suffer more than the national economy. This would be especially likely in Fairfield County, where People's United Financial has many of its branches and where many of its customers reside, because of the large number of Fairfield Country residents who are professionals in the financial services industry. People's United Financial could experience losses in its real estate-related loan portfolios if the prices for housing and other kinds of real estate decreased significantly in Connecticut. Even though Connecticut (especially Fairfield County) has some of the highest housing prices in the country, property values can decrease."

The above risk disclosure, written long before the recent Wall Street meltdown which has witnessed changes unfathomable just a few months ago, would seem to suggest dire consequences for the PBCT mortgage portfolio given all that has happened. Granted, Sherringham's comments on the 3Q08 conference call were made on 10/17/08, a couple of weeks before extreme volatility gripped financial stocks, but one has to wonder how the landscape changed in the 4Q08 and what impact it may have had on PBCT's loan portfolio. RealtyTrac Inc., a firm that tracks foreclosed properties across the U.S., reported that foreclosures in November in Connecticut were down somewhat from October, but were still 71% higher than November, 2007.[1] Five Connecticut counties accounted for 90 percent of all foreclosure activity in the state for November, with Fairfield County coming in with the state's second highest total, reporting 509 properties with foreclosure filings. Though Connecticut ranks 15th nationally in foreclosure filings, it would seem the PBCT residential mortgage portfolio would have to be seeing more impact from weakening employment, declining home values and increasing foreclosure filings than suggested by Mr. Sherringham in mid-October.

Some interesting questions surfaced during PBCT's 3Q08 conference call about People's Capital & Leasing Corp.'s loan portfolio, and again Sherringham suggested that it had managed to avoid pitfalls that others have fallen into. An analyst asked how the portfolio was holding up and what sort of trends did Sherringham see, either positive or negative. The question was answered by Sherringham with his trademark assertion that all is well:

"Yes, I mean again I am happy to -- I know quite a few of you may be concerned about this portfolio, but frankly so far, no, we haven't seen any negative trends at all. The portfolio is still growing. It's growing very nicely and the asset quality is holding up. The other thing I would like to point out is that whenever we experienced an issue in that this portfolio, we have been

[1] "Connecticut Foreclosure Filings Down 29% in November; Foreclosure Activity Increases 71 Percent from November 2007", RealtyTrac Staff, December 29, 2008.

able so far to dispose of the assets that we took back very quickly which is maybe a difference between us and others. And again, that is because of the emphasis on the types of businesses that we have in this portfolio. The type of equipment we lend on. We focus on equipment that has a well-established resale value and more importantly of course, well-established resale markets. So it's generic stuff. It's like bread-and-butter -- and remember those are all loans essentially. There's no leasing, so there's no residual exposure in the portfolio. So you are talking about pretty generic stuff that can be turned around pretty quickly if it ever runs into problems."

The above said, it is a tough one for us to swallow that things are stable in the area of equipment loans; that there is not an increased level of repossessions; that once repossessed, equipment is easily sold so that there is "no residual exposure to the portfolio". Indeed, in a conversation we held with a contact, a former CEO of a construction rental company, Sherringham's above notion was categorically struck down as being impossible in the current economic environment. Perhaps evidence will show that reality has crept into the picture with the upcoming 4Q08 earnings release in this and perhaps other areas.

Fundamentals: Chittenden acquisition increases exposure to commercial R/E

Prior to the acquisition of the Vermont bank holding company Chittenden Corp., PBCT's loan exposure was as follows: Commercial Real Estate 21%, Commercial and Industrial 18%, Residential 35.9%, People's Leasing 11% and Consumer 14%. As one might expect, assets increased significantly following the Chittenden acquisition, however, the increase in assets also brought about a change in the profile of the loan portfolio. At the end of the 3Q08, PBCT's portfolio was as follows: 34% in Commercial Real Estate, 20.7% in Commercial & Industrial, 22.8% in Residential, 14.8% in Consumer and 7.7% in Leasing.

Loan Portfolio – By Sector (%)	2005	2006	2007	1Q08	2Q08	3Q08
Commercial Real Estate	20.7	19.1	21.1	31.1	33.8	34.0
Commercial & Industrial	23.7	25.2	18.0	19.4	20.3	20.7
People's Capital & Leasing Corp.	N/A	N/A	11.0	6.9	7.3	7.7
Residential Mortgage	40.9	41.6	35.9	29.0	24.3	22.8
Consumer	14.7	14.1	14.0	13.7	14.2	14.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

PBCT's exposure to the Commercial Real Estate segment increased 47% in the 1Q08 as a result of the Chittenden acquisition and increased by 61% at the end of the 3Q08 versus fiscal 2007. The shift to a more commercially focused loan portfolio has a few risks that are worth noting. PBCT does not disclose the geographic risk that is associated with these commercial loans. However, given that Chittenden was a more commercially focused bank and given the fact that they are headquartered in Vermont, it seems safe to assume that a great deal of the commercial exposure is in the northern

New England region. In the current economic environment and considering the more rural make-up of the northern New England region, commercial exposure seems a bit risky. In fact, on the 2Q08 conference call, although Sherringham confirms that the lending environment is a bit slower, his comments are very brief -- almost too brief -- considering that Chittenden significantly increased PBCT's exposure to commercial real estate [bolding is ours]:

> **Analyst:** I guess if you could just talk about the lending environment in your market areas. Are people still wanting to borrow money (inaudible) and pricing competition I guess for loans?
>
> **Philip Sherringham, CEO:** Yes, it's a two speed story if you will. If you look at our franchise, let's start with the New York and Connecticut piece, if you will. Things here are actually pretty good, particularly on the commercial lending side. We're seeing very good volume, very good activity, and very good deal flow. What's happened there – you may have heard this from others – is that for those of us who are still in the game in the position and willing to lend we're seeing increased activity and the spreads are improving. So it's a very positive picture in that sense. **When it comes to northern New England I would say things are a bit slower there.**

Digging a bit deeper, we find that in the 3Q08 $1.1 billion or 23% of the total commercial real estate loans and 7.8% of total loans were in the retail segment. On the surface this exposure does not sound extremely large. However, commercial retail loans represented the second largest concentration of loans next to home equity credit lines, which stood at 10.5% of PBCT's total loan portfolio at the end of the 3Q08. Again, PBCT does not provide any details on geographic exposure. The final red flag, that there may be more risk in the commercial segment is the fact that the commercial real estate segment accounted for 32.7% of total non-performing assets at the end of the 3Q08 versus 13.8% at the end of 2007 prior to the Chittenden acquisition. Furthermore, commercial real estate charge-offs accounted for 30% of total charge-offs at the end of the 3Q08 versus zero at the end of December 2007.

<u>Accounting: Non-performing loans, net charge-offs, loan loss reserves</u>

Non-performing assets totaled $91.4 million at the end of the 3Q08, a 250% increase from the end of 2007. The 3Q08 SEC Form 10-Q states that the increase primarily reflects "additional non-performing assets attributable to the acquired Chittenden loan portfolio". It should be little surprise that this "increase" in non-performing assets, whether as a result of the Chittenden acquisition or perhaps PBCT's original loan portfolio, has been steadily taking place since the beginning of 2008. In fact, non-performing assets were $72 million at the end of the 1Q08 and $86.4 million at the end of the 2Q08. Sherringham states in the opening comments of the 1Q08 conference call that acquired non-performers from Chittenden totaled $46.5 million, or 65% of PBCT's total non-performers. When asked about the acquired non-performers, management is consistent in stating that there are no surprises as a result of the acquisition and no "cracks in the foundation." However, the continuous rise in non-performing loans seems to indicate otherwise. The questions begin on the 1Q08 conference call:

Analyst: I was wondering if you could discuss the integration of Chittenden in some more detail and whether you've received any surprises both positive and negative; and also what kind of deposit run-off you've seen?

Philip Sherringham, CEO: Yes. First of all, no surprises. Chittenden, we thought it was a good bank, that's why we bought it, it's been confirmed; Chittenden is a good bank. Again, in terms of asset quality, their methodology for reserving and things like that was a little different from ours, we made adjustments this quarter. So now we're on the same plane, if you will on that front.

Analyst: Okay. And when you say the reserve methodology is a little different, does that mean they tend to have higher reserve levels than People's did?

Philip Sherringham, CEO: Actually it's gone the other way around. The way they looked at non-performing assets compared to the way we look at non-performing assets, the slight differences which led us to increase the allowance $2 to $4.5 million in the first quarter as we indicated.

On the 2Q08 call, we learn that 25% of the acquired non-performers were from a bank that Chittenden had acquired just before PBCT's acquisition of Chittenden but that Sherringham seems to feel like the issue is under control:

Analyst: My first question is – you went over it kind of quickly. You said two-thirds was it of the growth of non-performing assets came from Community Bank & Trust or is it two-thirds of total non-performing assets?

Philip Sherringham, CEO: Its two-thirds of the growth in the second quarter from first quarter levels. And at this point what I said was as a result of this 25% of the total non-performers come from Community bank & Trust.

Analyst: Okay. And is there any kind of systemic issue up there that we should be worried about or is anything being done to curb this trend?

Philip Sherringham, CEO: Well, obviously we've been combing this portfolio with a fine tooth comb. At this point – by the way, I want to remind you, this portfolio totals only about $350 million and we've got about $21 million of non-performers out of $350 million. So you can see it's not exactly what I'd call great. At this point we feel that whatever needed to be nonperforming is in nonperforming status in this portfolio.

Analyst: And there are no other cracks in the Chittenden mortar?

Philip Sherringham, CEO: No, nothing significant.

However, the non-performing loans continue to grow in the third quarter. The question then becomes are the Chittenden non-performers growing or is PBCT beginning to see some of its own foundation "crack".

Analyst: Okay, just two quick last questions. How much of the non-performance, the $90 million you have of non-performers came from the Chittenden side of things? And then secondly – or I'll let you answer that first.

Philip Sherringham, CEO: Probably a little bit over half.

If close to half of the non-performers came from Chittenden, could it then imply that PBCT is now beginning to see some growth in the non-performance of some of its loans prior to the Chittenden acquisition?

Looking at the composition of the non-performing assets we do see that following the acquisition of Chittenden, commercial real estate and commercial loans did post a significant rise. This is no real surprise as management has reminded us of Chittenden's commercial focus. In fact, when we look at Chittenden's 3Q07 SEC Form 10-Q, we see that total non-performing assets were $29.09 million. Although Chittenden does not provide a specific breakdown by segment one assumes that most of the non-performers were in the commercial real estate and commercial segments. In addition, when we compare the 1Q08 numbers to those of the 2Q08, there seems to be some restating taking place.

Here is how the numbers looked at the end of the 1Q08.

Non-performing Assets ($m)	2005	2006	2007	1Q08*	1Q08**	2Q08	3Q08
Commercial Real Estate	5.8	0.2	3.7	28.4	27.8	31.9	29.9
Commercial	1.3	11.9	1.3	16.9	12.8	23.4	23.9
Residential Mortgage	6.7	6.7	8.9	15.3	15.0	18.3	21.1
Consumer	1.3	1.7	3.1	3.8	3.8	3.1	3.3
PCLC	6.2	2.1	3.1	2.7	2.7	6.4	6.9
R/E Owned & Repos. Assets	0.7	0.1	5.8	4.9	4.9	3.3	6.3
Total	22.0	22.7	26.1	72.0	67.0	86.4	91.4

* Taken from the 1Q08 SEC Form 10-Q.
** Taken from the 2Q08 SEC Form 10-Q.

The most significant changes appear to be in the areas of commercial and residential mortgages. In fact, non-performing assets within the residential mortgage loan portfolio (read: PBCT loan book prior to Chittenden acquisition) have risen 137.1% since the end of 2007. As mentioned above, the increase in both commercial real estate and commercial non-performing assets was a result of the Chittenden acquisition, however, commercial non-performers have risen an additional 38% since the 1Q08. Furthermore, real estate owned and repossessed assets, which were experiencing a decline in the 1Q08 and 2Q08, saw a 90.9% increase in the 3Q08.

In comparison to other regional banks, PBCT's non-performing loans as a percentage of total loans are still on the lower end of the range. However, when looking at the table below what stands out for PBCT is the degree of increase in the 1Q08 as well as the fact that the percentage of non-performing loans to total loans appears to be increasing at a faster rate than some of its peers. Nevertheless, non-performing loans as a percentage of total loans are surprisingly low for the group as a whole.

Non-Performing Loans as a % of Repossessed Assets & Total Loans	2006	2007	1Q08	2Q08	3Q08	2008	1Q09
PBCT	0.24	0.29	0.50	0.60	0.64	n/a	n/a
HBNK	1.62	1.08	1.07	1.04	1.04	1.34	1.25
HCBK	0.16	0.33	0.41	0.43	0.50	n/a	n/a
NBN	1.19	1.20	1.12	1.82	1.87	1.88	1.61
NPBC	0.27	0.39	0.40	0.36	0.46	n/a	n/a
MTB	0.55	1.01	1.00	1.20	1.46	n/a	n/a

In the current economic environment, we find it surprising that net charge-offs are so low. Interestingly, in the 2006 and 2007 SEC Form 10-K the following appears: "The very low level of net loan charge-offs in terms of absolute dollars and as a percentage of average loans is unlikely to be sustainable in the future." In the 1Q08 the wording changes only slightly from "very low level" to "relatively low level." There is no new disclosure in the 3Q08. See Appendix A for PBCT's net charge-offs and provisions as well as those of some of the northeast regional banks.

In fact, charge-offs have remained so low that it almost gives one cause for concern. One analyst questions Sherringham on the 2Q08 conference call and, reading beyond the assurances, the response almost seems to set the stage for significantly higher charge-offs in the future, a seemingly "justifying" response if you will.

> **Analyst:** Just with respect to charge-offs, you've had a very low rate for the first half of the year. Do you foresee that continuing in the back half?
>
> **Philip Sherringham, CEO:** I'm cautiously optimistic is all I can say. Our charge-offs are so low all it takes is one slightly larger loan to be charged off and you could see a bump, but that wouldn't be meaningful, candidly. When you're talking about dual sales of charge-offs compared to the industry, I mean you look at other companies you know the numbers. The contrast is still stark so I can't necessarily commit to 7 basis points forever. And in fact, I'd like to remind all of you that I've been asked historically what the normalized level of charge-offs for us would be in our commercial portfolio. We said about 35 basis points would be normalized. So we're still at 7 and 8. Obviously it could go higher and that would still not be unusual, particularly in this environment. But at this point again, back to my earlier comments, we are pleased with our asset quality. We don't see cracks in the foundation. We're dealing with this

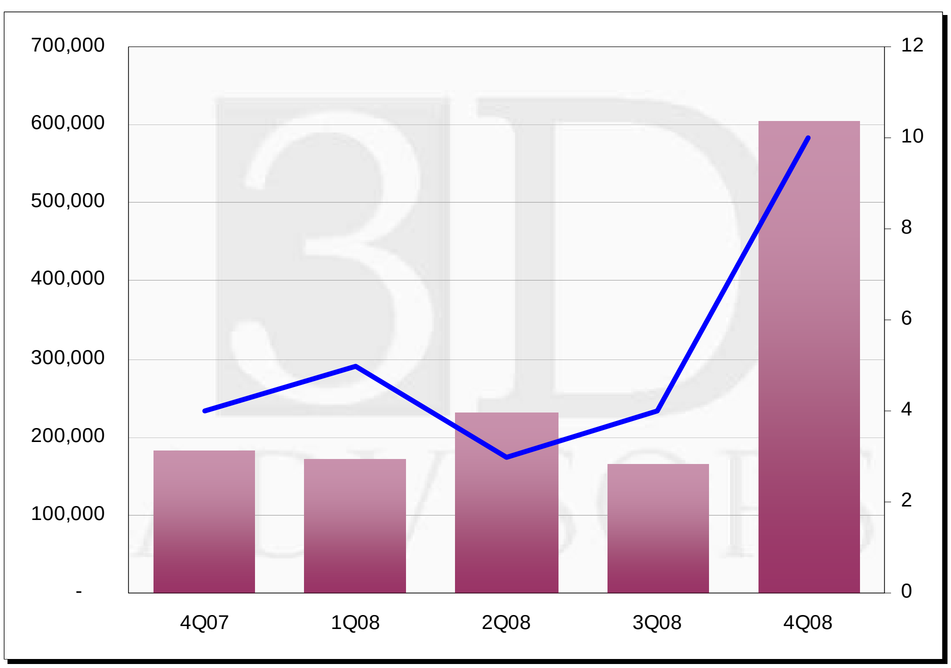
Community Bank & Trust – or former Community Bank & Trust portfolio in New Hampshire, but in general certainly on a relative basis and even on an absolute level I'm very pleased with where we are.

And indeed net charge-offs did increase during the 3Q08. In the opening remarks of the 3Q08 conference call, Sherringham states, "As to asset quality, net loan charge-offs for the quarter remain exceptionally low at 11 basis points average loans on an annualized basis compared to 7 basis point in the second quarter." Low, yes in comparison to the disclosed "normalized" rate of 35 basis points discussed above, however, the actual allowance for loan losses at the end of fiscal 2007 was $72.7 million, representing .8% of total gross loans. By the end of the 3Q08, allowances for loan losses climbed to $154.5 million, representing 1.1% of gross loans, a 34.8% increase.

Insider Trading: Insiders sell shares as if they don't believe their own story

For more than a year now we have been closely watching the trading behavior of the PBCT management team. We were initially drawn to the name when key operating officers and board members who bought into the Company's subscription offering in April 2007 began selling the stock at a loss shortly after their three month lock-up period expired. We highlighted the first round of sales in *Research Notes* on 02/27/08. But the profit taking has persisted despite the financial sector's meltdown and continued through mid-December, just prior to the blackout period associated with the release of 4Q08 earnings prohibited further trading. The fact was not lost on us that just after PBCT issued third quarter earnings of $0.14 per share, which met Wall Street's expectations but were 30% below year ago levels, insiders immediately began taking profits on the first day the post-earnings trading window opened on 10/20/08. By 12/10/08, ten of them had sold a total of 604,582 shares at an average price of $17.34. This marks record quarterly highs in both the number of trading insiders and selling volume.

Figure 2. PBCT Quarterly Shares Sold by Insiders (Red Bars and Left Scale) and Number of Insiders Selling (Blue Line and Right Scale). Source: PBCT SEC Filings.



As we mentioned in our earlier coverage, People's United poses a situation rarely seen: a strong convergence of insiders selling their shares at a loss. And not just any shares, but stock purchased in an initial subscription offering that symbolized, at that time, their apparent approval of the conversion as well as their confidence in the Company's long-term success. After initially spending a total of $8.1 million to acquire 408,000 shares ($20 per share) in the initial offering, they have since sold 1,355,288 shares for $23.4 million (weighted average price of $17.30). In fact, of the 17 buyers in the offering (excluding Klein), 12 have sold their shares at a loss. After selling all of the shares originally purchased in the initial offering, they then quickly began selling converted stock and options, as well as burning through equity that had vested in the past year (more on this later). People's shares have been range bound for more than a year now (see Figure 1 above), trading between $16 and $18 with only a few brief periods above or below these prices. Yet, the issue's inability to build any momentum has not tempered their profit taking. Based on their activity, it is becoming more apparent management might view the current price level as a ceiling.

Valuation is clearly the issue. We could identify only three other domestic banks, all S&Ls, with a market capitalization above $1 billion that have a higher forward P/E than PBCT's 29. Breaking it down even further, PBCT is currently the second priciest Northeast bank with at least a $1 billion capitalization. But valuation is not at the top of the list of relevant topics management chooses to publicly discuss. Instead, as evidenced by the opening remarks made by Sherringham on the 3Q08 conference call, management is bluntly hyping the Company's capital position, which now stands at $3 billion in cash and short- term investments [bolding is ours]:

> **"I hope that you have all seen the recent Barron's article featuring People's United. If you haven't, there's a link to the article on the Peoples.com website. Barron's reported that People's United -- and I quote -- "stands out for the strength of its balance sheet, lack of subprime mortgage exposure, and prospects for still stronger returns. And is so well-capitalized that it is hunting for acquisitions as others are watching their franchises shrink."**

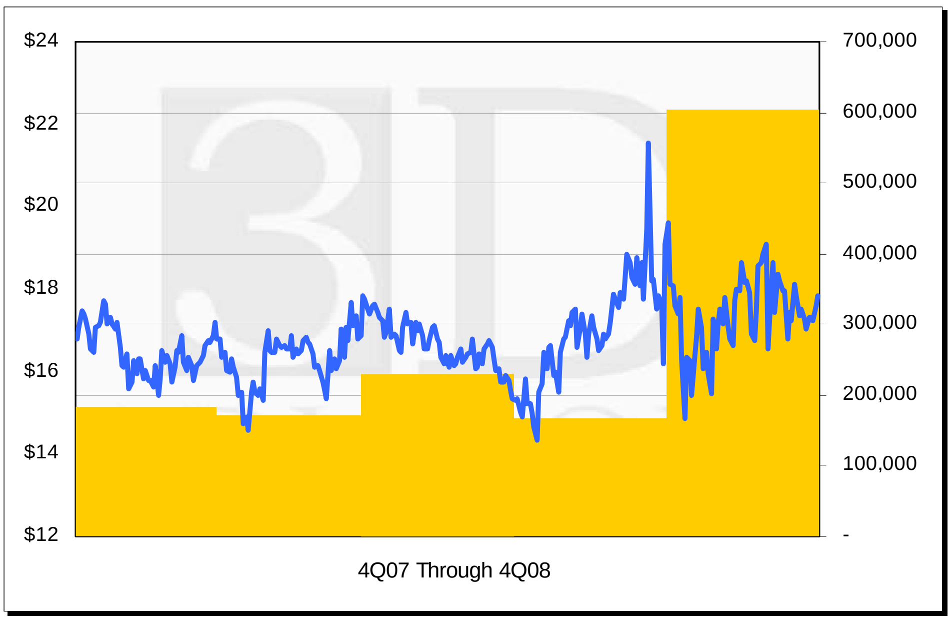
If the above hype wasn't enough, new CFO **Paul Burner** who, incidentally, previously served as CFO at Citibank, N.A. parroted Sherringham's exact same quote (above) in his prepared text delivered at the Sandler O'Neill & Partners L.P. East Coast Financial Services Conference held on November 13th.

It is not often we see corporate executives citing positive media reports on a conference call in such a fashion even once, but on two separate occasions? This style reflects what we have come to recognize as managements' proclivity towards hyping the positive and ignoring or downplaying any negative. The practice seems an attempt to hold sway over sell-side analysts who might not have been buying into the Company's story. This seems to have been a valid assessment, judging by critical comments made by multiple analysts shortly after the 3Q08 call.

Sherringham's posturing started to look hollow to us when he surfaced less than two weeks later with his largest sale to date at the lowest prices of any insider sale thus far. After paying $20 per share back in April 2007, Sherringham sold at an average price of $17 last December and then at $16.30 last month. And there are others with similar trading profiles, such as Executive V.P. of Commercial Banking **Brian Dreyer**, who has sold at successively lower prices in four of the last five quarters. All six Section 16 filing officers who were with the Company at the time of the thrift conversion have already sold, at a loss, the stock they purchased in the IPO and five of the six have executed multiple sales, typically at sequentially lower prices.

Another seller of interest is **William Kosturko**, formerly PBCT's head counsel and a named executive officer, who returned early from a 2008 leave of absence. His role is currently unclear since PBCT is yet to file the mandatory 8-K disclosing his reassignment (required for any principal officer), but he reported having the title of Senior Executive Vice President on recent Form 4 filings. Kosturko increased his volume in Q4 and cleared out all of his actionable stock options, resulting in the divestiture of 85% of his actionable holdings.

Figure 3. PBCT Daily Closing Price, 10/01/07 through 12/31/08 (Blue Line and Left Scale) and Quarterly Sales by Insiders (Orange Bars and Right Scale). Source: Reuters and PBCT SEC Filings.



While it is our opinion that management sentiment is the basis for their continued selling, it is interesting to put the recent trading activity in the context of the overall post-conversion compensation practices, which generously benefited both directors and executives. In October 2007 the Compensation Committee recommended and the shareholders approved the 2007 Recognition and Retention Plan, an equity-based benefit plan aimed at awarding executive officers and board members for the completion of the second-step conversion as well as the then pending Chittendon Corp. acquisition. At the same time the 2007 People's United Financial Stock Option Plan was approved, which together, the two plans reserved 22 million shares and options. The top five executives alone were immediately awarded stock and options with a combined fair value of $48 million while the board members each received a combination of at least 290,000 shares and options with a fair value of $5 million, regardless of their time with the Company. This was in addition to their annual equity grants made in March 2008. For example, CEO Sherringham received a total of 1.4 million shares and options in a span of five months, just before the Company went back for shareholder approval of the 2008 Long-Term Incentive Plan, which reserves another 10 million shares to be awarded to the management hierarchy. To us, the insider trading behavior we are seeing by these executives and directors running a mid-cap bank is consistent with the overly generous compensation structure and makes them look more like over paid large-cap technology executives during the hey day of the tech bubble.

We are left scratching our heads as to why shareholders supported these generous benefit plans considering the financial industry climate at the time; PBCT was already underperforming the Dow Jones by 20% year-to-date. We cannot recall a board compensating itself and the officers so handsomely for events like a thrift conversion and acquisition. In fact, we went back a number of years to check the compensation practices at other thrift conversions to see if they received similar retention awards. Take for example Hudson City Bancorp Inc. (HCBK), a comparable-sized holding company which completed its conversion in July 2005. Named executive officers received an increase in their annual bonus, equivalent to roughly 100% of their regular bonuses, which for the top five execs added less than $2 million to their collective 2005 compensation. More importantly, no extra equity was provided. We also looked at Investors Bancorp Inc. (ISBC), a smaller savings and loan conversion that completed its second step in 2005. ISBC waited more than a year to adopt a new equity plan to reward management for the conversion, and while they did in fact grant a large number of shares and options to the insiders, the payout value was roughly one-third of what PBCT awarded its team.

It is beginning to look more and more like these options and shares have little to do with retention, either the insiders' retention or retention of the shares, as the plan's title implies. Unlike two-thirds of the companies listed in the Proxy that comprise the peer group used for compensation benchmark data, People's United does not have stock ownership guidelines for its officers or board members. One would think that when a large amount of equity is awarded to an executive team to promote long-term performance as well as align insider interests with those of the shareholders, imposing some minimum ownership requirements would seem appropriate. But again, there is additional evidence that these awards are better classified as 'gifts' rather than long-term incentives.

At the 2008 annual meeting in April, the Company asked shareholders to vote for a proposal to amend the Recognition and Retention and 2007 Stock Option plans concerning the language used to define the vesting component of the stock and options. Before, an insider was not entitled to the unvested portion of the grants except in the case of death or change of control. This was changed to accelerate the vesting in the case of retirement, which is quite applicable to the current directors. The board consists of ten independent directors, six of whom currently qualify for retirement (older than 65 years) while another two will reach the required age in one or two years. Each of these individuals now over the age of 65, including two who sit on the Compensation Committee, will now be entitled to receive the unvested equity (currently 80% of initial grants) if they were to leave tomorrow.

Below we have highlighted some of the more notable sellers:

- **Brian Dreyer (61)*** – Executive V.P. of Commercial Banking Group. Dreyer has now taken profits in four of the last five open trading windows, although 'profits' is hardly a fitting description for his first sales. After buying $500,000 worth of PBCT shares in the April 2007 initial offering, for which he paid $20 per share, he waited the mandatory three months before selling the acquired shares at a loss in October 2007. Since that time he has cleared out his stock and options at every turn, including some which only recently had their restrictions lapse in Q4 and the aforementioned benefit plan shares. To date, Dreyer has distributed 304,812 shares for $5.3 million, including 120,000 sold in the fourth quarter for an average price of $17.36. With regards to the percentage of ownership sold since the conversion, **Dreyer's 92% reduction is the most of any PBCT insider**. He will have another 148,000 options and shares become actionable through the end of 2009, but three-fourths of these are under water at current market prices (see Appendix B).

- **William Kosturko (59)*** – Senior Executive V.P. Kosturko not only bought into the initial offering in April 2007, but was the lone insider to purchase additional shares in the over-allotment, spending a total of $900,000 to acquire 45,000 shares. One year later it became apparent he did not see the same value in the shares, as he sold the 45,000 shares at a 15% loss plus another 47,000 from his existing holdings. And that was just the beginning. Kosturko would go on to sell another 50,000 shares on 08/28/08 and 242,731 shares between 11/02/08 and 12/10/08, all similarly around $17. Taking into account the new equity that has vested since last April, Kosturko still **managed to unload nearly 85% of his actionable ownership**. While he will have a bunch (106,000) of new stock and options at his disposal over the next 52 weeks, nearly 80,000 are options that are presently out of the money by 8% and 23% (see Appendix B).

- **Philip Sherringham (54)*** – President, Chief Executive Officer, Director. Sherringham served as the Company's chief financial officer from 2003 until February 2008, when he was called upon to lead People's when then CEO John Klein passed away. While he has not been as active a seller as some of his peers, his latest sales are quite material. After buying into the initial offering and selling those shares at a loss in December 2007, Sherringham resurfaced on 10/27/08 and 10/28/08 with his largest sales yet, disposing of 89,203 shares. Plus, the October sales came at even lower prices ($16) then those he accepted for his shares last December and were executed 26% below the high set one month earlier. The 131,000 shares sold in the past year **represented 38% of his actionable holdings**, but we anticipate his holdings will be replenished by the 350,000 options and shares scheduled to vest through 2009. As is the case with his peers, however, more than half of these are currently under water (see Appendix B).

- **David Bodor (61)** – Executive V.P., Chief Credit Officer. Bodor joined the bank in 1996 but became a Section 16 filer later than his peers (January 2008) upon receiving a promotion. He first surfaced on 12/01/08 and made quite a statement with his trade. Not only did Bodor monetize the majority of his options which would not have expired for another three to six years, but also cleared out all PBCT shares in his Excess Benefit Plan along with 12,000 of the 17,000 PBCT shares held in his 401(k) plan. Needless to say, Bodor's actions are a clear sign he wanted to protect his derivative equity and retirement holdings from any further downside. The 44,298 shares sold **accounted for 50% of his actionable ownership**. At this time he has only 3,500 restricted shares and 2,500 in-the-money options scheduled to become actionable this year (see Appendix B).

- **George Carter (71) – Chairman.** Though we typically discount sales by insiders approaching potential retirement age, Carter is a key director having served the board for more than 30 years and currently chairs the Audit Committee and Executive Committee in addition to holding the "Lead Director" title. He surfaced with his first sales on 10/29/08 and 10/30/08, selling the stock he purchased in April 2007 (and more) at a 16% loss. Although Carter already replaced some of the 22,000 shares sold with stock that vested at the end of 2008 (see Appendix B), the fact he was willing to sell at prices below $17 should not be overlooked. And he is not the only board member to act in the fourth quarter, as **Collin Baron**, **Eunice Groark** and **Janet Hansen** each made their first sales to date, selling a total of 50,000 shares between them.

We have rarely seen, if ever, a group of insiders collectively selling at losses such as we have here. Yes, we have been monitoring selling at the likes of Hudson City Bancorp (HCBK) and BB&T Corp. (BBT) but neither of them comes even close to the aggressive behavior shown by PBCT insiders. Suffice it to say that the insider picture at PBCT represents the most aggressive set of insider sales of any bank we have observed in this particular environment. Often, in situations where there is little disclosure of developing events, it is the actions of insiders that provide the only clue that something is occurring. The 4Q08 is widely believed to have been an awful quarter for most banks, and the trading signals provided by insiders suggest that may well be the case for PBCT, despite assurances from management to the contrary.

<u>Accounting: Miscellaneous noteworthy items</u>

➡ **Share repurchase plan lies dormant, unused:** Peoples announced an "initial" share repurchase plan during Q2 for up to 17.3 million shares (5% of outstanding). Through Q3 not a share has been purchased. This, combined with the aggressive nature of insider selling provides yet-another clue that management may be expecting lower share prices on the horizon.

➡ **Deposit drop blamed on transfer of funds to outside manager:** In a seemingly unorthodox move, PBCT transferred $234 million of its money market accounts in northern New England to an undisclosed outside investment manager. The reasoning given by Sherringham was that the move enabled the bank "to remove certain assets and liabilities from our balance sheet that were generating only marginal spread, thereby resulting in improved ROA while adding fee income" (2Q08 conference call). The moved seemed to have confused at least one analyst who probed into the matter during the Q208 call stating that he could not understand the motive except for the probable fact that they received a referral fee for doing so.

➡ **Dividend payout exceeds net income:** An interesting fact remains that, since 2007 and in each sequential quarter through Q3 of 2008, PBCT's dividend payout has exceeded net income.

➡ **Directors have been very busy:** A little known fact is that in 2007, as then-CEO Klein's health deteriorated, the PBCT board met 22 times. Admittedly, with the bank conversion and the acquisition of Chittenden underway, one can understand the need for more board participation. It struck us, however, that meetings averaging practically every two weeks for a year were far from ordinary, a fact that we have confirmed through a number of banking sources. Klein passed away in early 2008 and insider selling accelerated soon thereafter.

➡ **Chittenden synergies yet to be realized:** Although the deal closed in January of 2008, we found it curious that, through Q3, PBCT had yet to move on most of its $57 million cost savings goal expected to be achieved from the transaction. Most of this number was expected to be tied to "the consolidation of the back office system", according to CFO Paul Burner (formerly of Citibank N.A.) in the Q3 conference call. We say "curious" since it is far more common to see immediate movement toward the low-lying fruit of consolidations in order to show early benefit from a transaction. Why there has been no movement thus far has not been explained.

Appendix A

Net Charge-Off and Provisions for PBCT and Peer Group

2006 and 2007 (Annual); 1Q08 through 3Q08 (Quarterly)

Net Charge-Off and Provisions	2006	2007	1Q08	2Q08	3Q08
PBCT					
Net Charge-Offs ($m)	4.4	9.3	2.8	2.4	4.0
Total Loans ($m)	9,371.7	8,949.7	14,492.0	14,366.2	14,330.6
Net Charge-Offs as a % of Provisions for Credit Losses (%)	129.4	116.3	44.6	100.0	58.8
Charge-offs as a % of Total Loans (%)	0.05	0.1	0.03	0.02	0.03
Allowance for Credit Losses as a % of Total Loans	0.79	0.81	1.05	1.06	1.10
HBNK					
Net Charge-Offs ($m)	0.118	1.026	0.002	0.006	0.004
Total Loans ($m)	320.70	329.98	343.4	345.52	348.71
Net Charge-Offs as a % of Provisions for Credit Losses (%)	0.04	0.03	0.001	0.002	0.001
Net Charge-offs as a % of Total Loans (%)	0.0004	0.003	Nm	Nm	Nm
Allowance for Credit Losses as a % of Total Loans (%)	1.15	0.85	0.85	0.86	0.89
HCBK					
Net Charge-Offs ($m)	.076	0.684	0.469	0.694	1.4
Total Loans ($m)	19,083.6	24,192.3	24.895.7	27.229.8	28,519.8
Net Charge-Offs as a % of Provisions for Credit Losses (%)	n/a*	14.3	18.7	23.1	28.0
Net Charge-offs as a % of Total Loans (%)	0.0	.003	.002	.003	.005
Allowance for Credit Losses as a % of Total Loans (%)	0.16	0.14	0.15	0.14	0.15
NBN					
Net Charge-Offs ($m)	0.630	0.729	0.208	0.407	0.729
Total Loans ($m)	435.7	425.6	421.3	408.2	407.9
Net Charge-Offs as a % of Provisions for Credit Losses (%)	51.4	73.7	109.3	214.2	253.6
Net Charge-offs as a % of Total Loans (%)	0.1	0.2	0.05	0.1	0.2
Allowance for Credit Losses as a % of Total Loans (%)	1.3	1.4	1.4	1.4	1.4

NPBC					
Net Charge-Offs ($m)	3.19	11.24	2.56	3.7	4.82
Total Loans ($m)	4,631.9	3,875.3	6,062.1	6,183.2	6,257.2
Net Charge-Offs as a % of Provisions for Credit Losses (%)	125.7	143.5	75.1	99.7	70.1
Net Charge-offs as a % of Total Loans (%)	0.1	0.3	0.04	0.10	0.1
Allowance for Credit Losses as a % of Total Loans (%)	1.6	1.4	1.3	1.3	1.35
MTB					
Net Charge-Offs ($m)	67.72	113.76	45.82	99.22	94.2
Total Loans ($m)	43,206.9	48,352.3	49,615.5	49,456	49,044.5
Net Charge-Offs as a % of Provisions for Credit Losses (%)	84.6	59.3	76.4	99.2	93.3
Net Charge-offs as a % of Total Gross Loans (%)	0.002	0.002	0.001	0.002	0.002
Allowance for Credit Losses as a % of Total Loans (%)	1.51	1.58	1.6	1.6	1.6

*The HCBK balance sheet shows zero provisions in this year

Appendix B

Common Stock and Option Holdings for Selected People's United Financial Inc. (PBCT) Insiders

	Actionable Position as of 01/15/09:			Derivative Equity Expected to Vest in Next 12 Months			
Name	**Common**	**Options [1]**	**Total [2]**	**Grant Date**	**Strike Price [3]**	**Vesting Dates**	**# Vesting**
David Bodor	44,427	2,079	**46,506**	02/17/05	$12.02	02/17/09	1,568
EVP, Chief Credit Officer				02/17/05	N/A	02/17/09	489
				02/16/06	$14.91	02/16/09	1,040
				02/16/06	N/A	02/16/09	384
				02/15/07	$21.63	02/15/09	1,134
				02/15/07	N/A	02/15/09	567
				10/25/07	$18.10	10/25/09	9,640
				10/25/07	N/A	10/25/09	2,530
							17,351
George Carter	97,831	0	**97,831**	12/07/07	$17.08	12/07/09	47,336
Director				12/07/07	N/A	12/07/09	22,924
							70,260
Robert D'Amore	231,060	91,276	**322,336**	02/17/05	N/A	02/01/09	2,205
EVP of Retail and Small Business Banking				02/16/06	N/A	02/01/09	4,526
				02/15/07	N/A	02/01/09	7,392
				02/15/07	$21.63	02/15/09	11,561
				02/16/06	$14.91	02/16/09	12,327
				02/17/05	$12.02	02/17/09	8,033
				07/27/06	N/A	07/27/09	6,563
				10/25/07	$18.10	10/25/09	110,982
							163,588
Brian Dreyer	26,996	0	**26,996**	02/17/05	N/A	02/01/09	4,410
EVP of Commercial Banking Group				02/16/06	N/A	02/01/09	4,526
				02/15/07	N/A	02/01/09	7,392
				02/15/07	$21.63	02/15/09	11,561
				02/16/06	$14.91	02/16/09	12,327
				02/17/05	$12.02	02/17/09	8,033
				07/27/06	N/A	07/27/09	3,938
				10/25/07	$18.10	10/25/09	96,042
							148,228
William Kosturko	71,757	0	**71,757**	02/17/05	N/A	02/01/09	1,890
EVP				02/16/06	N/A	02/01/09	2,922
				02/15/07	N/A	02/01/09	4,757
				02/15/07	$21.63	02/15/09	9,639
				02/16/06	$14.91	02/16/09	7,962
				02/17/05	$12.02	02/17/09	7,088
				07/27/06	N/A	07/27/09	3,938
				10/25/07	$18.10	10/25/09	68,297
							106,492
Philip Sherringham	131,136	84,037	**215,173**	02/17/05	N/A	02/01/09	2,385
President, CEO, Director				02/16/06	N/A	02/01/09	9,083
				02/15/07	N/A	02/01/09	4,757
				02/15/07	$21.63	02/15/09	26,009
				02/16/06	$14.91	02/16/09	24,654
				02/17/05	$12.02	02/17/09	8,033
				07/27/06	N/A	07/27/09	6,668
				10/25/07	$18.10	10/25/09	170,742
							252,329

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options.

Note: Red text indicates series is currently out-of-the-money