

Q U A R T E R L Y R E V I E W



CHRISTIANA

BANK & TRUST

Subsidiary of National Penn



MARCH 31, 2009

FINANCIAL MARKETS REVIEW

FIRST QUARTER

MARCH 31, 2009

Stocks worldwide continued their retreat in the first quarter despite efforts by central banks and governments to stem the financial crisis at the root of the global recession. A significant rally late in the period boosted investors' confidence some and trimmed losses. Bonds were barely positive as credit markets tried to gain some traction.

Large cap U.S. stocks (-11.0%) fell for the sixth consecutive quarter during the period. Concern about the duration of this global recession, worries that the finance sector may need additional assistance, and uncertainty about the impact of the new administration's historic stimulus plan for the economy all weighed on stocks. Despite the defensive mood, technology stocks (+4.0%) fared best, especially those with solid balance sheets. Not surprisingly, financial stocks (-29.5%) were the worst performers as that sector's woes continue. Diversification by market cap was a mixed bag as mid caps (-8.7%) fared a little better while small caps (-15.0%) fell more. One encouraging sign for investors was a March rally (+8.8%) that resulted in the best monthly performance since October 2002 and helped narrow first quarter losses significantly.

International stocks (-13.9%) continued to mirror domestic stocks in the first quarter as the recession maintained its grip on most global economies. One encouraging sign that the world wide slowdown may be starting to abate some was the divergent performance by country. Major developed economies like Japan (-17.1%), France (-15.9%), and the United Kingdom (-10.8%), which comprise over half of the Europe, Australia and Far East Index - an index of developed economies, continued to struggle. Meanwhile, major developing economies like Brazil (+10.8%), Taiwan (+9.7%) and China (+3.6%) showed signs of recovery. That did not happen last year as all economies, both developed and developing, fell significantly.

Bonds (+0.1%) needed a March rally to push into positive territory for the quarter. The Federal Reserve and Treasury introduced several programs during the period to help thaw credit markets. Investors responded positively as they began to shift from the safety of Treasuries back to corporate, mortgage and municipal bonds. As a result, the yield on the benchmark ten-year U.S. Treasury note rose from 2.25% to 2.69% during the quarter. Near term progress in the credit markets is heavily dependent on the direction of government - corporate relations.

Despite the poor start for stocks in the first quarter, the March rally gave investors a glimmer of hope that better days are ahead for equities. History supports that view. Prior to last year's -37.0% decline, stocks suffered double digit losses for the year ten times since 1926 and the average return the following year was +8.5%. For that trend to continue in 2009 cooperation between the government, businesses and consumers is needed to provide evidence that credit markets and corporate earnings are starting to recover. We are optimistic that this can happen.

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IN THE NEWS

FINANCIAL TIMES

February 24, 2009

Volatile session ends with S&P falling below the 750 mark

By Alistair Gray

Particular weakness in material, industrial and technology shares pushed the benchmark S&P 500 index beneath a nadir reached in November last year. Technical analysts warned that the market could be set for more declines now that the benchmark index had breached the significant support level.

The market now stands beneath the level at which it stood when Alan Greenspan warned of "irrational exuberance" in December 1996, from which it slid in the months after.

"It's a psychological barrier," said **Thomas Nyheim**, Portfolio Manager at **Christiana Bank & Trust**. "Selling begets selling. It probably is capitulation today."



March 24, 2009

Will Financial Stocks Clean Up?

The Treasury's toxic-asset plan is the latest positive development for the sector. But investors may want to keep their optimism in check

By Ben Steverman

You don't need to like the Treasury plan to be buying financial stocks. **Scott Armiger**, portfolio manager at **Christiana Bank & Trust**, has been boosting his exposure to banks stocks after months of avoiding the financial sector.

The main reason for his buying, starting in early March, he says: "The value of these companies is significantly more than the price."



March 9, 2009

Stocks on the slide

Wall Street abandons rally attempt, turns lower in choppy session.

By Alexandra Twin

"Valuations are reasonably attractive outside of financials, but most investors are in defensive mode," said **Thomas Nyheim**, portfolio manager at **Christiana Bank & Trust Company**. "They've seen too many losses and are sitting on the sidelines."

Nyheim said stocks aren't likely to make a bigger move up until later in the year. In the short term, investors will be keeping an eye on the fluctuations in the credit markets, and the weekly and monthly employment figures.

March 30, 2009

Stocks' 2nd Day in Reverse

Wall Street retreats again as auto and bank woes spark a selloff after the rally.

By Alexandra Twin

"I think we would have had a selloff anyway, and it was made worse by the autos," said **Scott Armiger**, portfolio manager at **Christiana Bank & Trust Company**

The Obama administration rejected General Motors' and Chrysler's turnaround plans, saying that a massive overhaul is needed for the companies to become viable and get more taxpayer money.

As part of the directive, GM CEO Rick Wagoner stepped down at the behest of the White House.

Armiger said that the firing of Wagoner was probably unnerving investors more than anything else.

"I don't think the market is reacting to the administration rejecting the recovery plans, but rather to the intrusion of the government into the private sector," **Armiger** said. "The government firing CEOs is concerning."

To view more quotes by our portfolio management team, please visit the "In the Media" page on our Web site.

www.christianatrust.com

LARGE CAP GARP EQUITY COMPOSITE

MARCH 31, 2009

INVESTMENT STYLE GROWTH AT A REASONABLE PRICE

The primary objective of the Large Cap GARP Equity style is growth of principal. This style's goal is to identify companies that have demonstrated superior operating characteristics and long-term prospects. We strive to purchase them at a fair price. These companies will generally have a market capitalization in excess of \$5 Billion. Sector weightings may differ significantly from the S&P 500 Index. Individual issues are identified and selected using quantitative proprietary screens with growth and value factors and fundamental research.

PORTFOLIO CONSTRUCTION

Portfolios will generally contain 30 to 45 issues. A portfolio's dividend yield will generally be slightly lower than the S&P 500 Index. Turnover is moderate. Over a full market cycle, a portfolio would be expected to demonstrate controlled volatility, a higher ROE, and a moderately higher P/E ratio than the benchmark S&P 500 Index.

PORTFOLIO CHARACTERISTICS

| | <u>Composite</u> | <u>S&P 500</u> |
|---------------------------------|------------------|--------------------|
| Price/Earnings | 11.25 | 12.49 |
| Price/Book | 2.39 | 1.87 |
| Price/Sales | 1.08 | 0.85 |
| Beta | 0.92 | 1.00 |
| Yield | 2.19% | 3.42% |
| EPS Growth* | 12.18% | 6.00% |
| Median Market Cap. (\$Millions) | \$20,993.44 | |
| Turnover | 25-40% | |
| Composite ROE | 24.98% | |

*5-Year Growth Estimate

SECTOR WEIGHTINGS

| | |
|------------------------|-------|
| Basic Materials | 3.8% |
| Industrials | 16.8% |
| Telecommunications | 1.5% |
| Consumer Discretionary | 6.0% |
| Utilities | 1.7% |
| Financial | 6.9% |
| Consumer Staples | 17.7% |
| Energy | 12.8% |
| Health Care | 14.2% |
| Technology | 18.6% |

TOP 10 EQUITY HOLDINGS

| | |
|------------------------------|------|
| Exxon Mobil Corp. | 5.8% |
| Procter & Gamble | 4.6% |
| Thermo Fisher Scientific | 4.5% |
| Pepsico Inc. | 4.2% |
| Johnson & Johnson | 4.1% |
| Wal Mart Stores Inc. | 3.8% |
| Precision Castparts Corp. | 3.6% |
| Monsanto Co. | 3.5% |
| Burlington Northern Santa Fe | 3.4% |
| Oracle | 3.3% |

PERFORMANCE

| | <u>CBT</u> | <u>LCC**</u> | <u>S&P 500</u> |
|--------------|---------------|---------------|--------------------|
| 1999 | 34.21% | 22.35% | 21.04% |
| 2000 | 1.71% | -8.96% | -9.09% |
| 2001 | -12.05% | -13.76% | -11.88% |
| 2002 | -23.87% | -23.49% | -22.10% |
| 2003 | 25.76% | 25.59% | 28.68% |
| 2004 | 8.71% | 7.79% | 10.88% |
| 2005 | 4.95% | 4.85% | 4.91% |
| 2006 | 6.88% | 13.50% | 15.80% |
| 2007 | 8.21% | 5.80% | 5.49% |
| 2008 | -32.28% | -37.23% | -37.00% |
| 2009 (3 Mo.) | -9.64% | -9.18% | -11.01% |
| ITD* | -0.73% | -3.23% | -2.46% |

*Inception to date (1999) annualized

**Large Cap Core equity mutual fund average from Lipper

| | | |
|--------------------------------------|------------------|--|
| NOT A DEPOSIT | NOT FDIC INSURED | MAY LOSE VALUE |
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LARGE CAP GARP EQUITY COMPOSITE

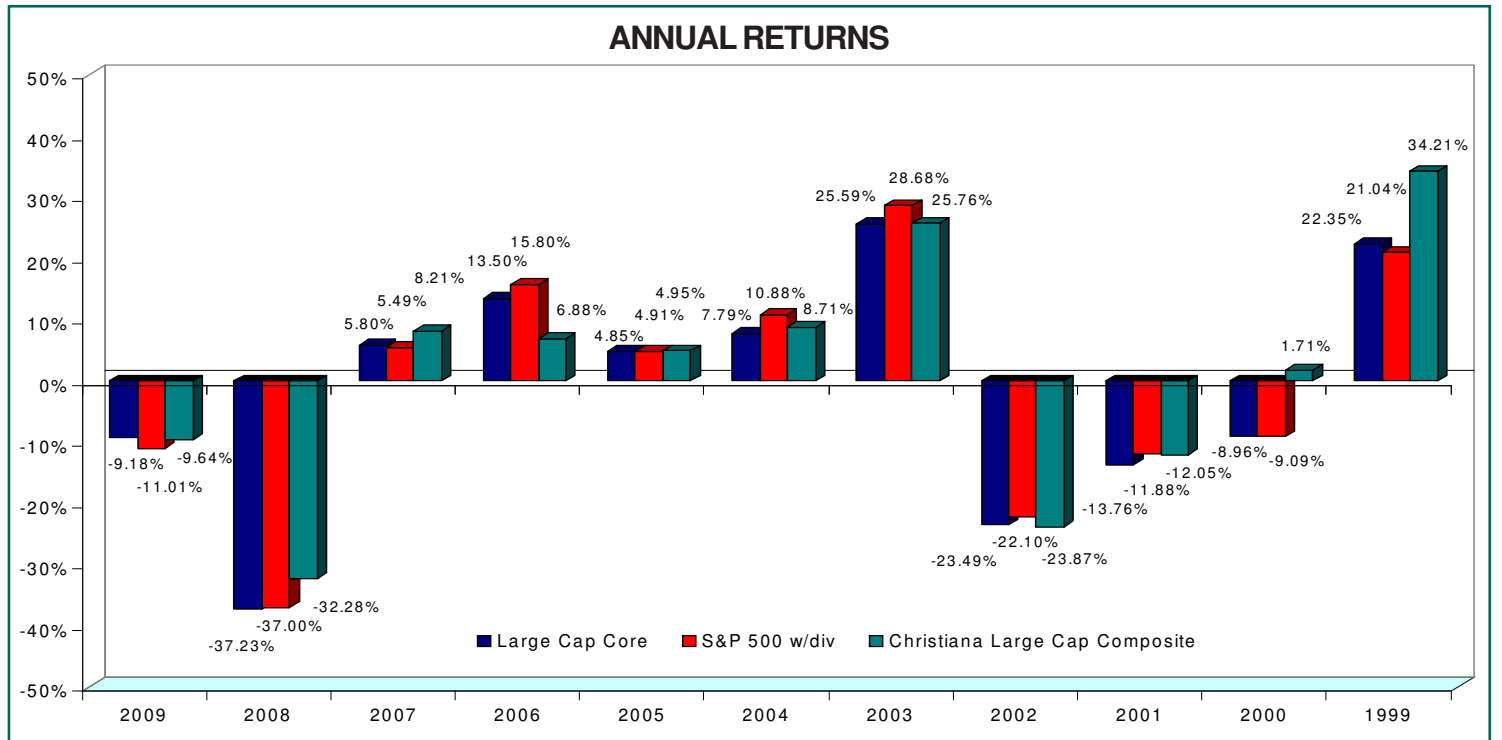
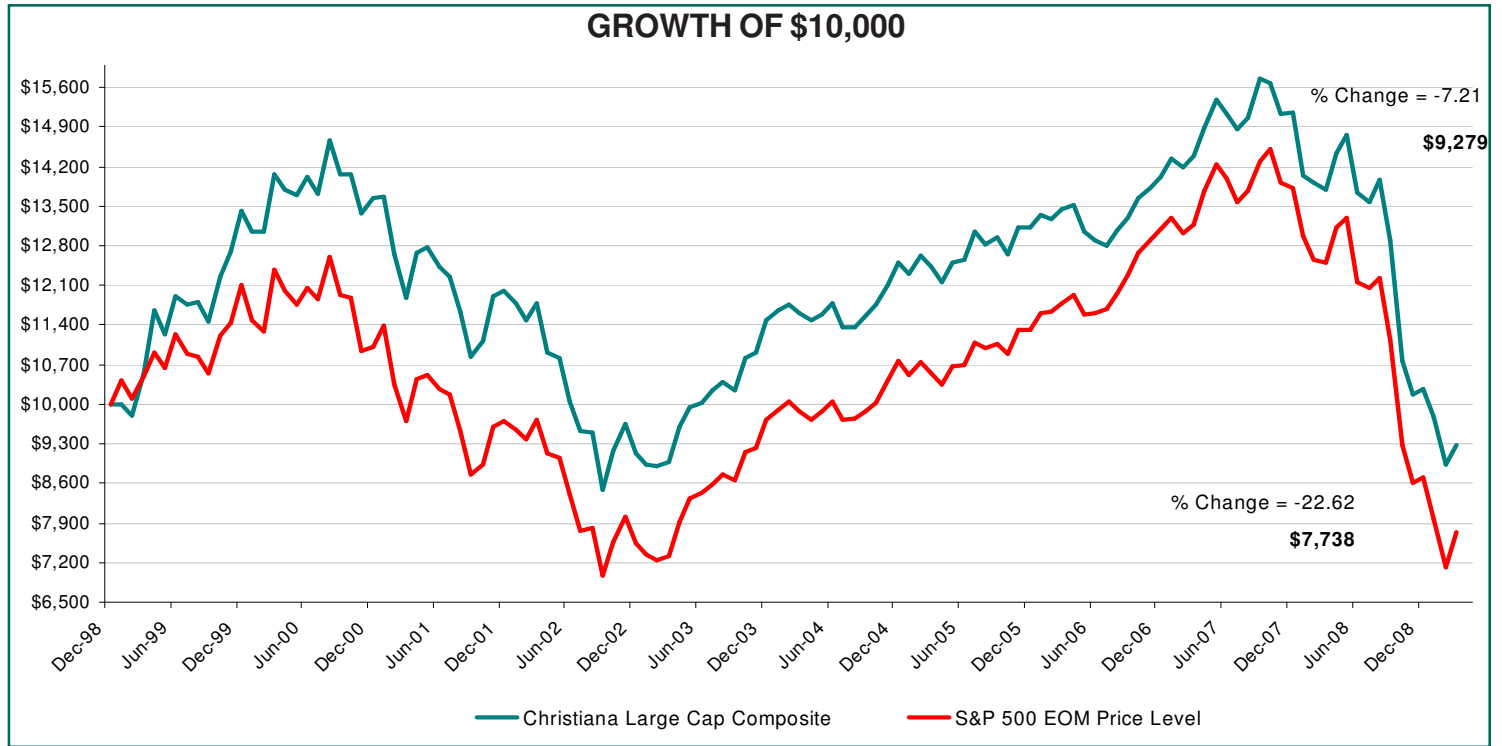
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Large Cap Equity composite returns represent a dollar weighted composite of all equity accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest, dividends and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the large cap core equity mutual fund average is Lipper.

MARCH 31, 2009

INVESTMENT STYLE
INTERMEDIATE FIXED INCOME

The primary objective of the Intermediate Fixed Income style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

PORTFOLIO CONSTRUCTION

Portfolios utilize investment grade and highly liquid issues. All fixed income market sectors are reviewed. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

PORTFOLIO CHARACTERISTICS

| | <u>Composite</u> |
|--------------------------|------------------|
| Average Maturity (years) | 1.8 |
| Yield to Worst | 2.7% |
| Yield to Maturity | 4.3% |
| Duration (years) | 1.5 |
| Current Number of Issues | 32 |
| Duration Emphasis | Intermediate |
| Turnover | 20% |
| Current Term Structure | Ladder |

QUALITY ALLOCATIONS

| | |
|----------|-------|
| AAA/Aaa: | 49.9% |
| AA/Aa: | 4.8% |
| A: | 25.0% |
| BBB/Baa: | 20.3% |
| BB/Ba: | 0.0% |
| B: | 0.0% |

| | |
|------------------------|----|
| Average Quality Issue: | A |
| Minimum Quality Issue: | BB |

SECTOR ALLOCATIONS

| | |
|---------------------------|-------|
| US Govts/Agencies: | 23.2% |
| US Inv. Grade Corporates: | 76.8% |
| US High Yield Corporates: | 0.0% |
| US MBS/ABS: | 0.0% |
| Mortgage Pass Thrus/TBA: | 0.0% |
| Municipals: | 0.0% |
| Yankees: | 0.0% |
| Emerging Market Debt: | 0.0% |

PERFORMANCE

| | <u>CBT</u> | <u>IB*</u> | <u>B**</u> |
|---------------|--------------|--------------|--------------|
| 1999 | -4.41% | -1.32% | 0.39% |
| 2000 | 12.50% | 9.74% | 10.10% |
| 2001 | 8.76% | 7.57% | 8.98% |
| 2002 | 10.05% | 8.14% | 9.82% |
| 2003 | 5.51% | 4.55% | 4.30% |
| 2004 | 2.93% | 3.83% | 3.04% |
| 2005 | 1.95% | 1.77% | 1.57% |
| 2006 | 4.72% | 4.00% | 4.07% |
| 2007 | 5.01% | 4.70% | 7.40% |
| 2008 | 3.11% | -4.43% | 5.08% |
| 2009 (3 Mo.) | 0.42% | -0.10% | -0.05% |
| ITD*** | 4.83% | 3.67% | 5.28% |

*Intermediate Bond mutual fund average from Lipper
**Barclays Intermediate Government/Credit Index
***Inception to date (1999) annualized

| | | |
|--------------------------------------|------------------|--|
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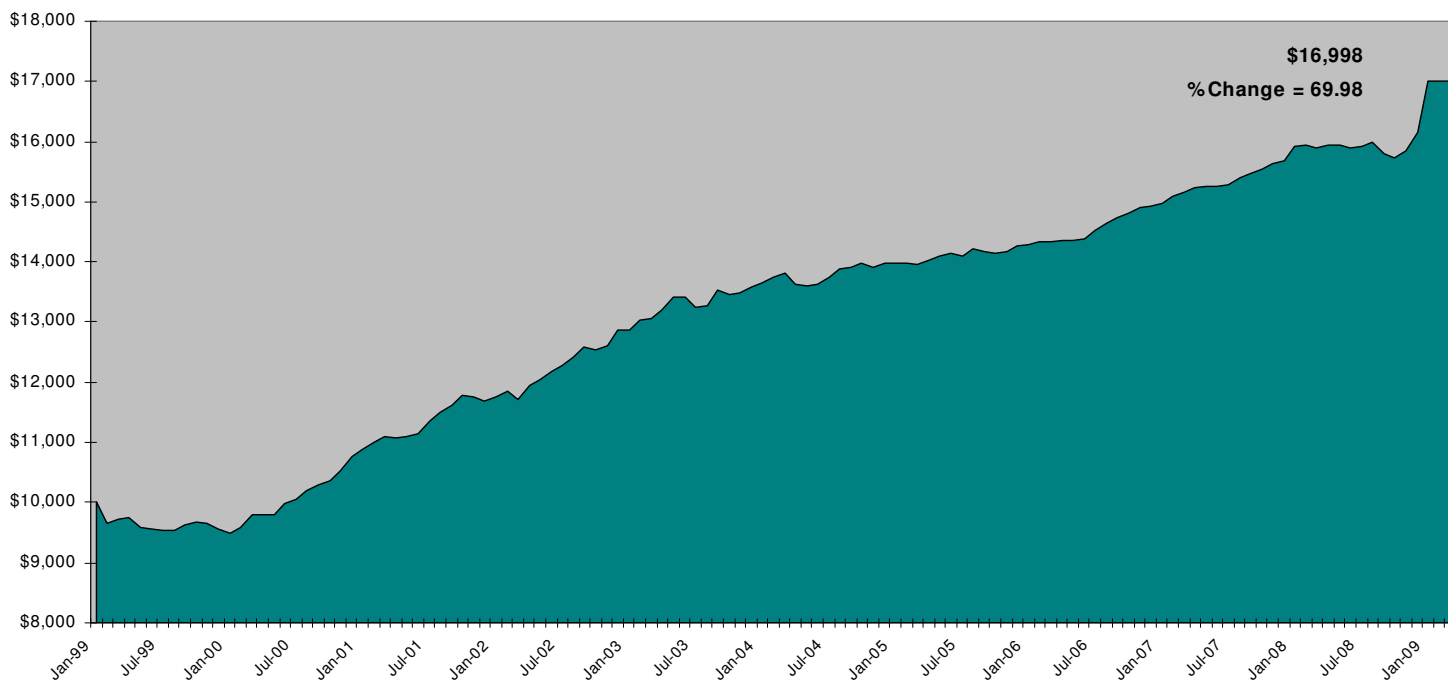
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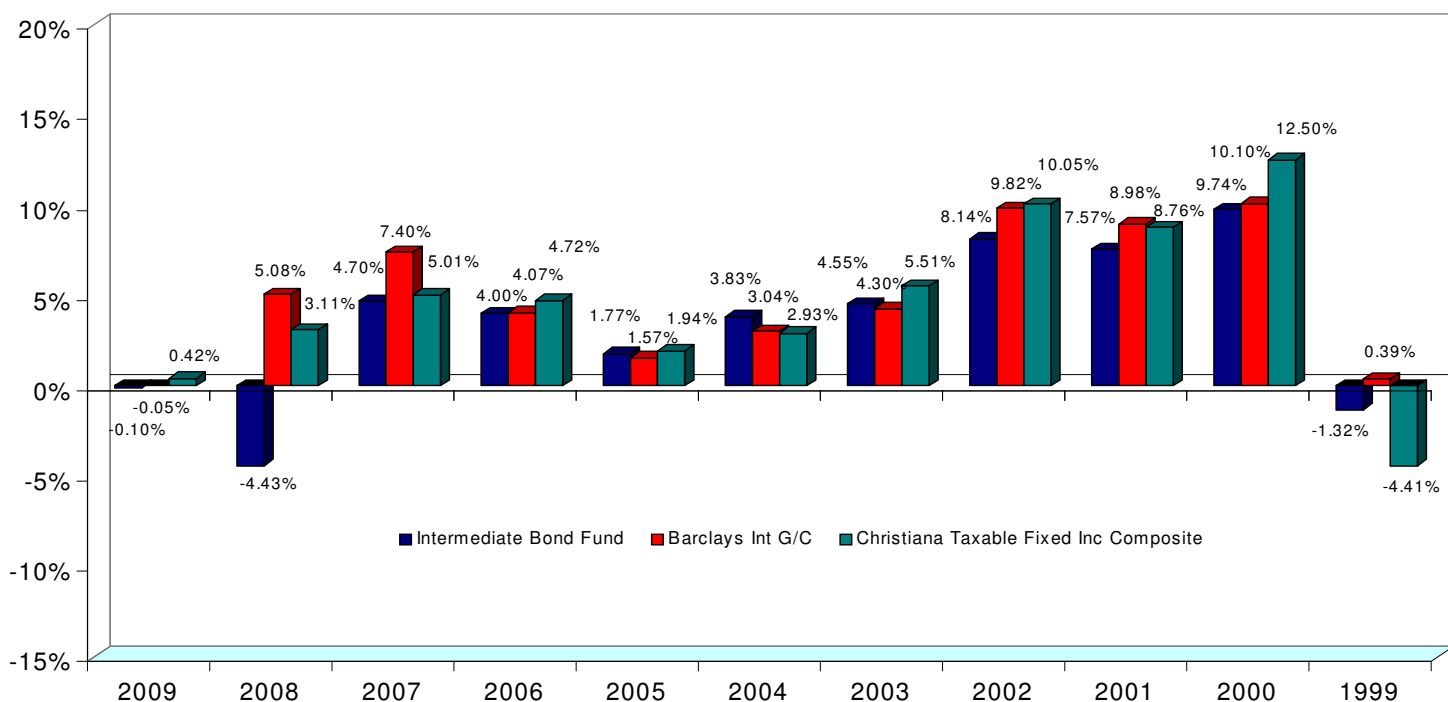
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FIXED INCOME COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



Intermediate Fixed Income composite returns represent a dollar weighted composite of all fixed income accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the intermediate bond mutual fund average is Lipper.



MARCH 31, 2009

INVESTMENT STYLE
INTERMEDIATE FIXED INCOME

The primary objective of the Intermediate Tax-Exempt Municipal Bond style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

PORTFOLIO CONSTRUCTION

Portfolios utilize primarily tax-exempt municipal bonds based on client's tax considerations. The composite seeks a high level of income that is exempt from both federal and state income taxes. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

PORTFOLIO CHARACTERISTICS

| | <u>Composite</u> |
|--------------------------|------------------|
| Average Maturity (years) | 2.5 |
| Yield to Worst | 1.8% |
| Yield to Maturity | 3.9% |
| Duration (years) | 2.3 |
| Current Number of Issues | 148 |
| Duration Emphasis | Intermediate |
| Turnover | 20% |
| Current Term Structure | Ladder |

QUALITY ALLOCATIONS

| | |
|------------------------|-------|
| AAA/Aaa: | 61.6% |
| AA/Aa: | 21.6% |
| A: | 8.3% |
| BBB/Baa: | 6.8% |
| BB/Ba: | 1.7% |
| B: | 0.0% |
| Average Quality Issue: | AA |
| Minimum Quality Issue: | BB |

SECTOR ALLOCATIONS

| | |
|---------------------------|-------|
| Municipals: | 99.1% |
| US Govts/Agencies: | 0.9% |
| Certificates of Deposit | 0.8% |
| US Inv. Grade Corporates: | 0.0% |
| US High Yield Corporates: | 0.0% |
| US MBS/ABS: | 0.0% |
| Mortgage Pass Thrus/TBA: | 0.0% |
| Yankees: | 0.0% |
| Emerging Market Debt: | 0.0% |

PERFORMANCE

| | <u>CBT</u> | <u>IMB*</u> | <u>B*</u> |
|---------------|--------------|--------------|--------------|
| 1999 (8 Mo.) | -3.72% | -2.17% | -0.60% |
| 2000 | 13.47% | 8.68% | 7.70% |
| 2001 | 3.56% | 4.79% | 6.20% |
| 2002 | 10.53% | 8.34% | 9.26% |
| 2003 | 3.51% | 4.35% | 4.13% |
| 2004 | 2.13% | 2.85% | 2.71% |
| 2005 | 1.80% | 2.01% | 0.95% |
| 2006 | 3.34% | 3.87% | 3.34% |
| 2007 | 4.29% | 2.90% | 5.13% |
| 2008 | 2.91% | -1.79% | 5.79% |
| 2009 (3 Mo.) | 1.45% | 3.30% | 2.19% |
| ITD*** | 4.27% | 3.69% | 4.69% |

*Intermediate Muni Bond mutual fund average from Lipper
*Barclays 5-Yr Muni Bond
***Inception to date (May 1999) annualized

| | | |
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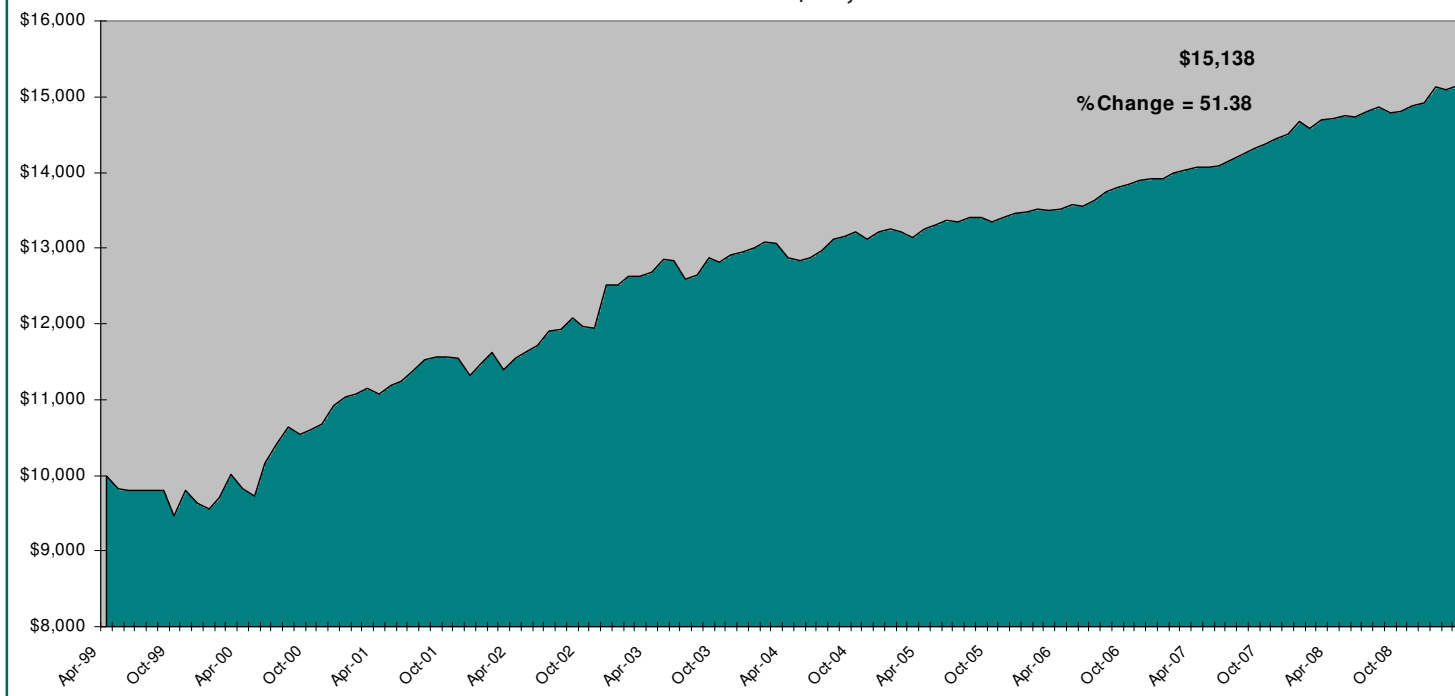
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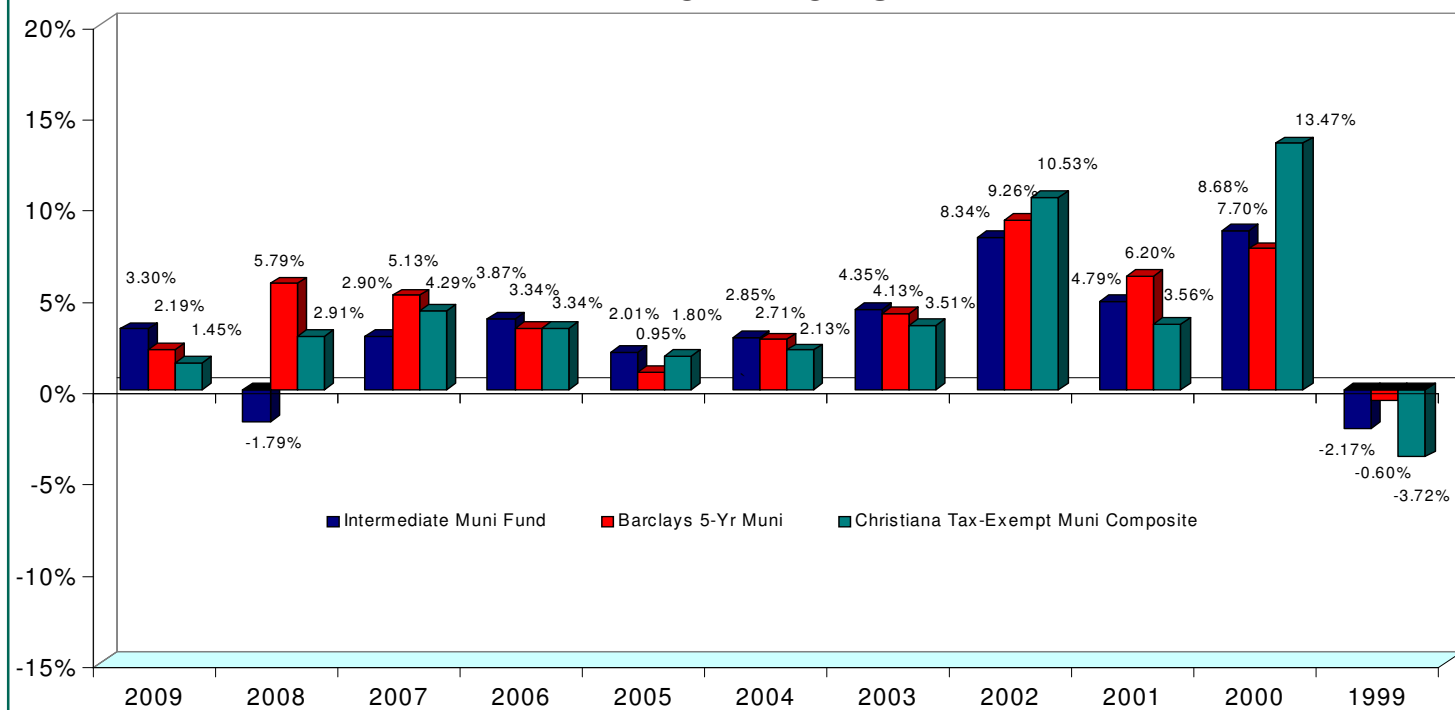
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TAX-EXEMPT MUNICIPAL COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



Intermediate Tax-Exempt Municipal composite returns represent a dollar weighted composite of all fixed income accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the intermediate muni bond mutual fund average is Lipper.



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