

People's United Financial, Inc.
Form 10-Q
November 09, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-8447891
(I.R.S. Employer
Identification No.)

850 Main Street, Bridgeport, Connecticut
(Address of principal executive offices)

06604
(Zip Code)

(203) 338-7171

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2015, there were 310,233,412 shares of the registrant's common stock outstanding.

Table of Contents

People s United Financial Inc.

Form 10-Q

Table of Contents

	Page
<u>Part I Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Condition as of September 30, 2015 and December 31, 2014</u>	1
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	3
<u>Consolidated Statements of Changes in Stockholders Equity for the Nine Months Ended September 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	50
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	91
Item 4. <u>Controls and Procedures</u>	92
<u>Part II Other Information</u>	
Item 1. <u>Legal Proceedings</u>	92
Item 1A. <u>Risk Factors</u>	92
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	92
Item 3. <u>Defaults Upon Senior Securities</u>	93
Item 4. <u>Mine Safety Disclosures</u>	93
Item 5. <u>Other Information</u>	93
Item 6. <u>Exhibits</u>	93
<u>Signatures</u>	94

Table of Contents

Part 1 - Financial Information

Item 1 - Financial Statements

People's United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 300.3	\$ 345.1
Short-term investments (note 2)	244.6	668.6
Total cash and cash equivalents	544.9	1,013.7
Securities purchased under agreements to resell (note 2)		100.0
Securities (note 2):		
Trading account securities, at fair value	8.3	8.3
Securities available for sale, at fair value	4,221.2	3,993.7
Securities held to maturity, at amortized cost (fair value of \$1.4 billion and \$881.6 million)	1,377.1	834.3
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	314.7	175.7
Total securities	5,921.3	5,012.0
Loans held for sale	36.2	34.2
Loans (note 3):		
Commercial	10,313.3	10,055.1
Commercial real estate	9,785.4	9,404.3
Residential mortgage	5,381.4	4,932.0
Consumer	2,192.1	2,200.6
Total loans	27,672.2	26,592.0
Less allowance for loan losses	(207.5)	(198.3)
Total loans, net	27,464.7	26,393.7
Goodwill (note 6)	1,954.5	1,954.5
Bank-owned life insurance	345.6	343.3
Premises and equipment, net	258.7	277.8
Other acquisition-related intangible assets (note 6)	130.2	148.0
Other assets (notes 1, 3 and 11)	821.6	719.9

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total assets \$ 37,477.7 \$ 35,997.1

Liabilities

Deposits:

Non-interest-bearing	\$ 5,877.2	\$ 5,655.1
Savings, interest-bearing checking and money market	17,236.6	15,252.4
Time	5,165.9	5,230.7

Total deposits 28,279.7 26,138.2

Borrowings:

Federal Home Loan Bank advances	2,164.5	2,291.7
Customer repurchase agreements	472.3	486.0
Federal funds purchased	360.0	913.0
Other borrowings		1.0

Total borrowings 2,996.8 3,691.7

Notes and debentures 1,044.9 1,033.5

Other liabilities (note 11) 425.5 500.6

Total liabilities 32,746.9 31,364.0

Commitments and contingencies (notes 1 and 8)

Stockholders Equity

Common stock (\$0.01 par value; 1.95 billion shares authorized; 398.8 million shares and 396.8 million shares issued)	3.9	3.9
Additional paid-in capital	5,327.3	5,291.2
Retained earnings	861.0	826.7
Accumulated other comprehensive loss (note 4)	(146.1)	(168.2)
Unallocated common stock of Employee Stock Ownership Plan, at cost (7.4 million shares and 7.7 million shares) (note 7)	(153.6)	(159.0)
Treasury stock, at cost (89.1 million shares and 89.0 million shares) (note 4)	(1,161.7)	(1,161.5)

Total stockholders equity 4,730.8 4,633.1

Total liabilities and stockholders equity \$ 37,477.7 \$ 35,997.1

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Commercial	\$ 92.5	\$ 89.1	\$ 271.7	\$ 261.9
Commercial real estate	85.7	89.2	257.4	266.5
Residential mortgage	41.9	38.1	122.4	113.7
Consumer	18.1	18.5	54.2	55.2
Total interest on loans	238.2	234.9	705.7	697.3
Securities	31.2	23.6	87.7	72.8
Loans held for sale	0.4	0.3	1.0	0.6
Short-term investments	0.1	0.1	0.3	0.3
Total interest and dividend income	269.9	258.9	794.7	771.0
Interest expense:				
Deposits	24.8	20.2	70.9	59.2
Borrowings	2.9	2.8	8.2	8.7
Notes and debentures	7.4	7.4	22.3	19.3
Total interest expense	35.1	30.4	101.4	87.2
Net interest income	234.8	228.5	693.3	683.8
Provision for loan losses (note 3)	6.2	12.4	23.7	30.7
Net interest income after provision for loan losses	228.6	216.1	669.6	653.1
Non-interest income:				
Bank service charges	32.5	33.3	94.1	96.6
Investment management fees	10.8	10.7	32.9	31.1
Operating lease income	10.5	10.2	31.8	31.4
Commercial banking lending fees	9.7	8.6	31.0	24.8
Insurance revenue	9.1	8.8	23.2	23.3
Brokerage commissions	3.1	3.4	9.5	10.2
Net gains on sales of residential mortgage loans	1.5	1.1	4.2	1.9
Gain on merchant services joint venture, net of expenses				20.6
Other non-interest income	9.9	7.9	32.4	24.1
Total non-interest income	87.1	84.0	259.1	264.0

Non-interest expense:

Compensation and benefits	113.4	108.1	337.5	327.8
Occupancy and equipment	37.0	36.4	112.5	111.0
Professional and outside services	17.0	14.3	50.1	44.5
Regulatory assessments	9.5	8.5	28.0	26.2
Operating lease expense	9.2	8.7	27.7	28.5
Amortization of other acquisition-related intangible assets (note 6)	5.9	6.2	17.8	18.6
Other non-interest expense	22.2	26.6	70.0	77.2
Total non-interest expense	214.2	208.8	643.6	633.8
Income before income tax expense	101.5	91.3	285.1	283.3
Income tax expense (note 1)	33.1	29.7	95.8	96.3
Net income	\$ 68.4	\$ 61.6	\$ 189.3	\$ 187.0

Earnings per common share (note 5):

Basic	\$ 0.23	\$ 0.21	\$ 0.63	\$ 0.62
Diluted	0.23	0.21	0.63	0.62

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

Consolidated Statements of Comprehensive Income - (Unaudited)

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Net income	\$ 68.4	\$ 61.6	\$ 189.3	\$ 187.0
Other comprehensive income, net of tax:				
Net actuarial loss and prior service credit related to pension and other postretirement benefit plans	1.1	0.6	3.3	1.9
Net unrealized gains and losses on securities available for sale	16.9	0.1	17.5	27.0
Amortization of unrealized losses on securities transferred to held to maturity	0.5	0.4	1.5	1.3
Net unrealized gains and losses on derivatives accounted for as cash flow hedges	(0.1)	0.6	(0.2)	0.4
Total other comprehensive income, net of tax (note 4)	18.4	1.7	22.1	30.6
Total comprehensive income	\$ 86.8	\$ 63.3	\$ 211.4	\$ 217.6

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

Consolidated Statements of Changes in Stockholders' Equity - (Unaudited)

Nine months ended September 30, 2015 (in millions, except per share data)	Additional		Accumulated		Unallocated		Total Stockholders Equity
	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Loss	ESOP Common Stock	Treasury Stock	
Balance at December 31, 2014	\$ 3.9	\$ 5,291.2	\$ 826.7	\$ (168.2)	\$ (159.0)	\$ (1,161.5)	\$ 4,633.1
Net income			189.3				189.3
Total other comprehensive income, net of tax (note 4)				22.1			22.1
Cash dividends on common stock (\$0.50 per share)			(150.6)				(150.6)
Restricted stock awards		8.1	0.1			(0.2)	8.0
Employee Stock Ownership Plan common stock committed to be released (note 7)			(1.4)		5.4		4.0
Common stock repurchased and retired upon vesting of restricted stock awards			(3.1)				(3.1)
Stock options and related tax benefits		28.0					28.0
Balance at September 30, 2015	\$ 3.9	\$ 5,327.3	\$ 861.0	\$ (146.1)	\$ (153.6)	\$ (1,161.7)	\$ 4,730.8

Nine months ended September 30, 2014 (in millions, except per share data)	Additional		Accumulated		Unallocated		Total Stockholders Equity
	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Loss	ESOP Common Stock	Treasury Stock	
Balance at December 31, 2013	\$ 3.9	\$ 5,277.0	\$ 779.0	\$ (155.1)	\$ (166.2)	\$ (1,170.2)	\$ 4,568.4
Net income			187.0				187.0
Total other comprehensive income, net of tax (note 4)				30.6			30.6
Cash dividends on common stock (\$0.4925 per share)			(147.4)				(147.4)
Restricted stock awards		0.5	(2.0)			8.8	7.3
Employee Stock Ownership Plan common stock committed to be released (note 7)			(1.6)		5.4		3.8
Common stock repurchased and retired upon vesting of restricted stock awards			(2.9)				(2.9)
Stock options and related tax benefits		8.2					8.2
Balance at September 30, 2014	\$ 3.9	\$ 5,285.7	\$ 812.1	\$ (124.5)	\$ (160.8)	\$ (1,161.4)	\$ 4,655.0

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

(in millions)	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 189.3	\$ 187.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	23.7	30.7
Depreciation and amortization of premises and equipment	29.4	29.6
Expense related to operating leases	27.7	28.5
Amortization of other acquisition-related intangible assets	17.8	18.6
Gain on merchant services joint venture, net of expenses		(20.6)
Net security gains		(0.3)
Net gains on sales of residential mortgage loans	(4.2)	(1.9)
Net (gains) losses on sales of acquired loans	(1.7)	0.6
Employee Stock Ownership Plan common stock committed to be released	4.0	3.8
Expense related to share-based awards	13.1	11.2
Originations of loans held-for-sale	(350.7)	(218.9)
Proceeds from sales of loans held-for-sale	353.0	210.7
Net changes in other assets and liabilities	(102.2)	(41.5)
Net cash provided by operating activities	199.2	237.5
Cash Flows from Investing Activities:		
Net decrease (increase) in securities purchased under agreements to resell	100.0	(300.0)
Proceeds from principal repayments and maturities of securities available for sale	623.7	517.0
Proceeds from sales of securities available for sale	201.2	410.0
Proceeds from principal repayments and maturities of securities held to maturity	12.4	63.5
Purchases of securities available for sale	(1,106.4)	(520.0)
Purchases of securities held to maturity	(555.2)	(48.4)
Net purchases of Federal Reserve Bank stock	(139.0)	
Proceeds from sales of loans	30.9	7.2
Loan disbursements, net of principal collections	(1,112.5)	(1,595.1)
Purchases of loans	(9.5)	
Purchases of premises and equipment	(18.3)	(14.2)
Purchases of leased equipment	(28.1)	(16.3)
Proceeds from sales of real estate owned	14.9	9.3
Return of premiums on bank-owned life insurance, net	1.2	0.5
Net cash used in investing activities	(1,984.7)	(1,486.5)

Cash Flows from Financing Activities:

Net increase in deposits	2,141.5	2,704.0
Net decrease in borrowings with terms of three months or less	(691.6)	(1,638.9)
Repayments of borrowings with terms of more than three months	(1.3)	(0.4)
Repayments of notes and debentures		(19.0)
Net proceeds from issuance of notes and debentures		394.4
Cash dividends paid on common stock	(150.6)	(147.4)
Common stock repurchases	(3.1)	(2.9)
Proceeds from stock options exercised, including excess income tax benefits	21.8	4.4
Net cash provided by financing activities	1,316.7	1,294.2
Net (decrease) increase in cash and cash equivalents	(468.8)	45.2
Cash and cash equivalents at beginning of period	1,013.7	474.4
Cash and cash equivalents at end of period	\$ 544.9	\$ 519.6

Supplemental Information:

Interest payments	\$ 100.9	\$ 77.8
Income tax payments	85.7	95.6
Real estate properties acquired by foreclosure	11.3	15.2
Unsettled purchases of securities	7.4	56.3

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. GENERAL

In the opinion of management, the accompanying unaudited consolidated financial statements of People's United Financial, Inc. (People's United or the Company) have been prepared to reflect all adjustments necessary to present fairly the financial position and results of operations as of the dates and for the periods shown. All significant intercompany transactions and balances are eliminated in consolidation. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

In preparing the consolidated financial statements, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from management's current estimates, as a result of changing conditions and future events.

Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses and asset impairment judgments, such as the recoverability of goodwill and other intangible assets. These accounting estimates are reviewed with the Audit Committee of the Board of Directors.

The judgments used by management in applying critical accounting policies may be affected by economic conditions, which may result in changes to future financial results. For example, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect outstanding principal may result in increased loan losses.

Note 1 to People's United's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014, as supplemented by the Quarterly Reports for the periods ended March 31, 2015 and June 30, 2015 and this Quarterly Report for the period ended September 30, 2015, provides disclosure of People's United's significant accounting policies.

People's United holds ownership interests in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout its franchise area. The underlying partnerships, which are considered variable interest entities, are not consolidated into the Company's Consolidated Financial Statements. These investments have historically played a role in enabling People's United Bank, N.A. (the Bank) to meet its Community Reinvestment Act requirements while, at the same time, providing federal income tax credits.

The balance of the Company's affordable housing investments reflected in the Consolidated Statement of Condition at September 30, 2015 totaled \$78.6 million (included in other assets). Future contingent commitments (capital calls) related to such investments, the timing of which cannot be reasonably estimated, totaled \$35.5 million at that date. The cost of the Company's investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). Amortization expense, which is included as a component of income tax expense, totaled \$2.8 million and \$2.6 million for the three months ended September 30, 2015 and 2014, respectively, and \$8.3 million and \$7.5 million for the nine months ended September 30, 2015 and 2014, respectively.

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles (GAAP) have been omitted or condensed. As a result, the accompanying consolidated financial statements should be read in conjunction with People s United s Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****NOTE 2. SECURITIES AND SHORT-TERM INVESTMENTS**

The amortized cost, gross unrealized gains and losses, and fair value of People's United's securities available for sale and securities held to maturity are as follows:

As of September 30, 2015 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	\$ 374.1	\$ 2.1	\$	\$ 376.2
GSE (1) residential mortgage-backed securities and CMOs (2)	3,823.3	40.5	(19.0)	3,844.8
Total debt securities	4,197.4	42.6	(19.0)	4,221.0
Equity securities	0.2			0.2
Total securities available for sale	\$ 4,197.6	\$ 42.6	\$ (19.0)	\$ 4,221.2
Securities held to maturity:				
Debt securities:				
State and municipal	\$ 946.3	\$ 43.7	\$ (1.6)	\$ 988.4
GSE residential mortgage-backed securities	429.3	2.4		431.7
Other	1.5			1.5
Total securities held to maturity	\$ 1,377.1	\$ 46.1	\$ (1.6)	\$ 1,421.6

(1) Government sponsored enterprise

(2) Collateralized mortgage obligations

As of December 31, 2014 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				

Edgar Filing: People's United Financial, Inc. - Form 10-Q

U.S. Treasury and agency	\$ 56.5	\$ 0.3	\$	\$ 56.8
GSE residential mortgage-backed securities and CMOs	3,943.4	39.7	(46.4)	3,936.7
Total debt securities	3,999.9	40.0	(46.4)	3,993.5
Equity securities	0.2			0.2
Total securities available for sale	\$ 4,000.1	\$ 40.0	\$ (46.4)	\$ 3,993.7
Securities held to maturity:				
Debt securities:				
State and municipal	\$ 832.8	\$ 47.4	\$ (0.1)	\$ 880.1
Other	1.5			1.5
Total securities held to maturity	\$ 834.3	\$ 47.4	\$ (0.1)	\$ 881.6

Securities available for sale with a fair value of \$1.61 billion and \$1.43 billion at September 30, 2015 and December 31, 2014, respectively, were pledged as collateral for public deposits and for other purposes.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following table is a summary of the amortized cost and fair value of debt securities as of September 30, 2015, based on remaining period to contractual maturity. Information for GSE residential mortgage-backed securities and CMOs is based on the final contractual maturity dates without considering repayments and prepayments.

(in millions)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and agency:				
Within 1 year	\$ 41.1	\$ 41.2	\$	\$
After 1 but within 5 years	333.0	335.0		
Total	374.1	376.2		
GSE residential mortgage-backed securities and CMOs:				
After 5 but within 10 years	742.6	755.3		
After 10 years	3,080.7	3,089.5	429.3	431.7
Total	3,823.3	3,844.8	429.3	431.7
State and municipal:				
Within 1 year			3.8	3.8
After 1 but within 5 years			21.6	21.9
After 5 but within 10 years			323.5	342.7
After 10 years			597.4	620.0
Total			946.3	988.4
Other:				
After 1 but within 5 years			1.5	1.5
Total			1.5	1.5
Total:				
Within 1 year	41.1	41.2	3.8	3.8
After 1 but within 5 years	333.0	335.0	23.1	23.4
After 5 but within 10 years	742.6	755.3	323.5	342.7
After 10 years	3,080.7	3,089.5	1,026.7	1,051.7
Total	\$ 4,197.4	\$ 4,221.0	\$ 1,377.1	\$ 1,421.6

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

Management conducts a periodic review and evaluation of the securities portfolio to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on debt securities when: (i) People's United has an intention to sell the security; (ii) it is more likely than not that People's United will be required to sell the security prior to recovery; or (iii) People's United does not expect to recover the entire amortized cost basis of the security. Other-than-temporary impairment losses on debt securities are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time People's United expects to receive full value for the securities.

The following tables summarize debt securities with unrealized losses, segregated by the length of time the securities have been in a continuous unrealized loss position at the respective dates.

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2015 (in millions)						
Securities available for sale:						
GSE residential mortgage-backed securities and CMOs	\$ 776.2	\$ (2.8)	\$ 993.9	\$ (16.2)	\$ 1,770.1	\$ (19.0)
Securities held to maturity:						
State and municipal	129.4	(1.6)			129.4	(1.6)
Total	\$ 905.6	\$ (4.4)	\$ 993.9	\$ (16.2)	\$ 1,899.5	\$ (20.6)

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2014 (in millions)						
Securities available for sale:						
GSE residential mortgage-backed securities and CMOs	\$ 111.9	\$ (0.1)	\$ 1,744.2	\$ (46.3)	\$ 1,856.1	\$ (46.4)
Securities held to maturity:						
State and municipal	31.8	(0.1)			31.8	(0.1)
Total	\$ 143.7	\$ (0.2)	\$ 1,744.2	\$ (46.3)	\$ 1,887.9	\$ (46.5)

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

At September 30, 2015, approximately 12% of the 1,264 securities owned by the Company, consisting of 48 securities classified as available for sale and 106 securities classified as held to maturity, had gross unrealized losses totaling \$19.0 million and \$1.6 million, respectively. All of the GSE residential mortgage-backed securities and CMOs had AAA credit ratings and an average maturity of 13 years. The state and municipal securities had an average credit rating of AA and an average maturity of 16 years. The cause of the temporary impairment with respect to all of these securities is directly related to changes in interest rates. Management believes that all gross unrealized losses within the securities portfolio at September 30, 2015 and December 31, 2014 are temporary impairments. Management does not intend to sell such securities nor is it more likely than not that management will be required to sell such securities prior to recovery. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three or nine months ended September 30, 2015 and 2014.

Security transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method and reported in non-interest income.

The Bank, as a member of the Federal Home Loan Bank (FHLB) of Boston, is currently required to purchase and hold shares of FHLB capital stock (total cost of \$164.4 million at both September 30, 2015 and December 31, 2014) in an amount equal to its membership base investment plus an activity based investment determined according to the Bank's level of outstanding FHLB advances. As a result of the Smithtown Bancorp, Inc. (Smithtown) acquisition completed in 2010, People's United acquired shares of capital stock in the FHLB of New York (total cost of \$11.3 million at both September 30, 2015 and December 31, 2014). Based on the current capital adequacy and liquidity position of both the FHLB of Boston and the FHLB of New York, management believes there is no impairment in the Company's investment at September 30, 2015 and the cost of the investment approximates fair value. The Bank, as a member of the Federal Reserve Bank (FRB) system, is currently required to purchase and hold shares of FRB of New York capital stock in an amount equal to six percent of its capital and surplus. In the first nine months of 2015, the Bank's net purchases of FRB capital stock totaled \$139.0 million. Based on the current capital adequacy and liquidity position of the FRB of New York, management believes there is no impairment in the Company's investment at September 30, 2015 and the cost of the investment approximates fair value.

Included in short-term investments are interest-bearing deposits at the FRB of New York totaling \$164.1 million at September 30, 2015 and \$626.5 million at December 31, 2014. These deposits represent an alternative to overnight federal funds sold and had a yield of 0.25% at both dates.

People's United accounts for securities purchased under agreements to resell as secured lending transactions. In connection with such agreements, People's United takes delivery of collateral from all counterparties. The fair value of the collateral securing the agreements outstanding at December 31, 2014 was \$100.4 million (no agreements were outstanding at September 30, 2015).

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 3. LOANS

For purposes of disclosures related to the credit quality of financing receivables and the allowance for loan losses, People's United has identified two loan portfolio segments, Commercial and Retail, which are comprised of the following loan classes:

Commercial Portfolio: commercial real estate; commercial and industrial; and equipment financing.

Retail Portfolio: residential mortgage; home equity; and other consumer.

Loans acquired in connection with business combinations beginning in 2010 are referred to as acquired loans as a result of the manner in which they are accounted for (see further discussion under Acquired Loans). All other loans are referred to as originated loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

People's United maintains several significant accounting policies with respect to loans, including:

Establishment of the allowance for loan losses (including the identification of impaired loans and related impairment measurement considerations);

Income recognition (including the classification of a loan as non-accrual and the treatment of loan origination costs); and

Recognition of loan charge-offs.

The Company did not change its policies with respect to loans or its methodology for determining the allowance for loan losses during the nine months ended September 30, 2015.

The following table summarizes People's United's loans by loan portfolio segment and class:

(in millions)	September 30, 2015			December 31, 2014		
	Originated	Acquired	Total	Originated	Acquired	Total
Commercial:						

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Commercial real estate	\$ 9,436.7	\$ 348.7	\$ 9,785.4	\$ 8,960.3	\$ 444.0	\$ 9,404.3
Commercial and industrial	7,257.2	235.0	7,492.2	6,891.1	298.5	7,189.6
Equipment financing	2,802.4	18.7	2,821.1	2,839.0	26.5	2,865.5
Total commercial	10,059.6	253.7	10,313.3	9,730.1	325.0	10,055.1
Total Commercial Portfolio	19,496.3	602.4	20,098.7	18,690.4	769.0	19,459.4
Retail:						
Residential mortgage:						
Adjustable-rate	4,655.7	125.4	4,781.1	4,254.7	139.1	4,393.8
Fixed-rate	527.5	72.8	600.3	446.8	91.4	538.2
Total residential mortgage	5,183.2	198.2	5,381.4	4,701.5	230.5	4,932.0
Consumer:						
Home equity	2,101.3	39.9	2,141.2	2,092.9	50.2	2,143.1
Other consumer	49.9	1.0	50.9	56.3	1.2	57.5
Total consumer	2,151.2	40.9	2,192.1	2,149.2	51.4	2,200.6
Total Retail Portfolio	7,334.4	239.1	7,573.5	6,850.7	281.9	7,132.6
Total loans	\$ 26,830.7	\$ 841.5	\$ 27,672.2	\$ 25,541.1	\$ 1,050.9	\$ 26,592.0

Net deferred loan costs, which are included in total loans and accounted for as interest yield adjustments, totaled \$58.9 million at September 30, 2015 and \$54.8 million at December 31, 2014.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following table presents a summary, by loan portfolio segment, of activity in the allowance for loan losses. With respect to the originated portfolio, an allocation of a portion of the allowance to one segment does not preclude its availability to absorb losses in another segment.

Three months ended September 30, 2015 (in millions)	Commercial			Retail			Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Balance at beginning of period	\$ 176.4	\$ 10.1	\$ 186.5	\$ 18.7	\$ 0.2	\$ 18.9	\$ 205.4
Charge-offs	(4.1)		(4.1)	(2.0)		(2.0)	(6.1)
Recoveries	1.2		1.2	0.8		0.8	2.0
Net loan charge-offs	(2.9)		(2.9)	(1.2)		(1.2)	(4.1)
Provision for loan losses	3.8	(0.9)	2.9	3.3		3.3	6.2
Balance at end of period	\$ 177.3	\$ 9.2	\$ 186.5	\$ 20.8	\$ 0.2	\$ 21.0	\$ 207.5

Nine months ended September 30, 2015 (in millions)	Commercial			Retail			Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Balance at beginning of period	\$ 169.6	\$ 9.8	\$ 179.4	\$ 18.5	\$ 0.4	\$ 18.9	\$ 198.3
Charge-offs	(14.4)		(14.4)	(5.8)		(5.8)	(20.2)
Recoveries	4.0		4.0	1.7		1.7	5.7
Net loan charge-offs	(10.4)		(10.4)	(4.1)		(4.1)	(14.5)
Provision for loan losses	18.1	(0.6)	17.5	6.4	(0.2)	6.2	23.7
Balance at end of period	\$ 177.3	\$ 9.2	\$ 186.5	\$ 20.8	\$ 0.2	\$ 21.0	\$ 207.5

Three months ended September 30, 2014 (in millions)	Commercial			Retail			Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Balance at beginning of period	\$ 163.5	\$ 9.6	\$ 173.1	\$ 19.0	\$ 0.5	\$ 19.5	\$ 192.6
Charge-offs	(6.2)	(0.2)	(6.4)	(2.9)		(2.9)	(9.3)
Recoveries	0.5		0.5	0.7		0.7	1.2
Net loan charge-offs	(5.7)	(0.2)	(5.9)	(2.2)		(2.2)	(8.1)

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Provision for loan losses	8.2	2.1	10.3	2.2	(0.1)	2.1	12.4
Balance at end of period	\$ 166.0	\$ 11.5	\$ 177.5	\$ 19.0	\$ 0.4	\$ 19.4	\$ 196.9

Nine months ended September 30, 2014 (in millions)	Commercial			Retail			Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Balance at beginning of period	\$ 158.5	\$ 9.8	\$ 168.3	\$ 19.0	\$ 0.5	\$ 19.5	\$ 187.8
Charge-offs	(15.3)	(2.6)	(17.9)	(8.3)	(0.1)	(8.4)	(26.3)
Recoveries	3.1		3.1	1.6		1.6	4.7
Net loan charge-offs	(12.2)	(2.6)	(14.8)	(6.7)	(0.1)	(6.8)	(21.6)
Provision for loan losses	19.7	4.3	24.0	6.7		6.7	30.7
Balance at end of period	\$ 166.0	\$ 11.5	\$ 177.5	\$ 19.0	\$ 0.4	\$ 19.4	\$ 196.9

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following is a summary, by loan portfolio segment and impairment methodology, of the allowance for loan losses and related portfolio balances:

As of	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
September 30, 2015 (in millions)	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial	\$ 169.0	\$ 8.2	\$ 19,327.3	\$ 169.1	\$ 602.4	\$ 9.2	\$ 20,098.7	\$ 186.5
Retail	97.2	3.7	7,237.2	17.1	239.1	0.2	7,573.5	21.0
Total	\$ 266.2	\$ 11.9	\$ 26,564.5	\$ 186.2	\$ 841.5	\$ 9.4	\$ 27,672.2	\$ 207.5

As of	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
December 31, 2014 (in millions)	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial	\$ 174.5	\$ 7.6	\$ 18,515.9	\$ 162.0	\$ 769.0	\$ 9.8	\$ 19,459.4	\$ 179.4
Retail	95.0	3.9	6,755.7	14.6	281.9	0.4	7,132.6	18.9
Total	\$ 269.5	\$ 11.5	\$ 25,271.6	\$ 176.6	\$ 1,050.9	\$ 10.2	\$ 26,592.0	\$ 198.3

The recorded investments, by class of loan, of originated non-performing loans are summarized as follows:

(in millions)	September 30, 2015	December 31, 2014
Commercial:		
Commercial and industrial	\$ 62.9	\$ 55.8
Commercial real estate	31.8	60.2
Equipment financing	29.4	25.4
Total (1)	124.1	141.4
Retail:		
Residential mortgage	38.2	37.6

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Home equity	21.0	17.9
Other consumer		0.1
Total (2)	59.2	55.6
Total	\$ 183.3	\$ 197.0

- (1) Reported net of government guarantees totaling \$17.3 million and \$17.6 million at September 30, 2015 and December 31, 2014, respectively. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At September 30, 2015, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).
- (2) Includes \$19.8 million and \$18.9 million of loans in the process of foreclosure at September 30, 2015 and December 31, 2014, respectively.

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by a Federal Deposit Insurance Corporation (FDIC) loss-share agreement (LSA) totaling \$36.6 million and \$1.8 million, respectively, at September 30, 2015 and \$100.6 million and \$3.0 million, respectively, at December 31, 2014. Such loans otherwise meet People's United's definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectability of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection. There were no loans past due 90 days or more and still accruing interest at September 30, 2015 or December 31, 2014.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impaired loans also include certain originated loans whose terms have been modified in such a way that they are considered troubled debt restructurings (TDRs). Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan's original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest. Generally, TDRs are placed on non-accrual status (and reported as non-performing loans) until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months in the case of a commercial loan or, in the case of a retail loan, when the loan is less than 90 days past due. Loans may continue to be reported as TDRs after they are returned to accrual status. In accordance with regulatory guidance, residential mortgage and home equity loans restructured in connection with the borrower's bankruptcy and meeting certain criteria are also required to be classified as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Acquired loans that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis.

People's United's recorded investment in originated loans classified as TDRs totaled \$199.2 million and \$181.6 million at September 30, 2015 and December 31, 2014, respectively. The related allowance for loan losses at September 30, 2015 and December 31, 2014 was \$6.8 million and \$7.1 million, respectively. Interest income recognized on TDRs totaled \$1.1 million for both the three months ended September 30, 2015 and 2014, and \$3.2 million and \$3.1 million for the nine months ended September 30, 2015 and 2014, respectively. Fundings under commitments to lend additional amounts to borrowers with loans classified as TDRs were immaterial for the three and nine months ended September 30, 2015 and 2014. Originated loans that were modified and classified as TDRs during the three and nine months ended September 30, 2015 and 2014 principally involve reduced payment and/or payment deferral, extension of term (generally no more than two years for commercial loans and nine years for retail loans) and/or a temporary reduction of interest rate (generally less than 200 basis points).

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following tables summarize, by class of loan, the recorded investments in loans modified as TDRs during the three and nine months ended September 30, 2015 and 2014. For purposes of this disclosure, recorded investments represent amounts immediately prior to and subsequent to the restructuring.

(dollars in millions)	Number of Contracts	Three Months Ended September 30, 2015	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	10	\$ 7.0	\$ 7.0
Commercial and industrial (2)	7	24.4	24.4
Equipment financing (3)	8	4.2	4.2
Total	25	35.6	35.6
Retail:			
Residential mortgage (4)	15	5.0	5.0
Home equity (5)	17	1.3	1.3
Other consumer			
Total	32	6.3	6.3
Total	57	\$ 41.9	\$ 41.9

- (1) Represents the following concessions: extension of term (7 contracts; recorded investment of \$2.1 million); reduced payment and/or payment deferral (2 contracts; recorded investment of \$1.2 million); or a combination of concessions (1 contract; recorded investment of \$3.7 million).
- (2) Represents the following concessions: extension of term (3 contracts; recorded investment of \$9.8 million); reduced payment and/or payment deferral (3 contracts; recorded investment of \$13.6 million); or a combination of concessions (1 contract; recorded investment of \$1.0 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (3 contracts; recorded investment of \$2.0 million); or a combination of concessions (5 contracts; recorded investment of \$2.2 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (6 contracts; recorded investment of \$1.2 million); reduced payment and/or payment deferral (4 contracts; recorded investment of \$0.8 million); or a combination of concessions (5 contracts; recorded investment of \$3.0 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (12 contracts; recorded investment of \$0.9 million); reduced payment and/or payment deferral (1 contract; recorded investment of \$0.1 million); or a

combination of concessions (4 contracts; recorded investment of \$0.3 million).

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(dollars in millions)	Nine Months Ended September 30, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	20	\$ 12.3	\$ 12.3
Commercial and industrial (2)	35	59.2	59.2
Equipment financing (3)	18	19.6	19.6
Total	73	91.1	91.1
Retail:			
Residential mortgage (4)	50	16.9	16.9
Home equity (5)	70	6.2	6.2
Other consumer			
Total	120	23.1	23.1
Total	193	\$ 114.2	\$ 114.2

- (1) Represents the following concessions: extension of term (17 contracts; recorded investment of \$7.4 million); reduced payment and/or payment deferral (2 contracts; recorded investment of \$1.2 million); or a combination of concessions (1 contract; recorded investment of \$3.7 million).
- (2) Represents the following concessions: extension of term (19 contracts; recorded investment of \$22.9 million); reduced payment and/or payment deferral (11 contracts; recorded investment of \$33.0 million); or a combination of concessions (5 contracts; recorded investment of \$3.3 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (8 contracts; recorded investment of \$12.7 million); or a combination of concessions (10 contracts; recorded investment of \$6.9 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (16 contracts; recorded investment of \$5.1 million); reduced payment and/or payment deferral (11 contracts; recorded investment of \$3.6 million); temporary rate reduction (2 contracts; recorded investment of \$0.3 million); or a combination of concessions (21 contracts; recorded investment of \$7.9 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (48 contracts; recorded investment of \$3.8 million); reduced payment and/or payment deferral (4 contracts; recorded investment of \$0.3 million); temporary rate reduction (1 contract; recorded investment of \$0.5 million); or a combination of concessions (17 contracts; recorded investment of \$1.6 million).

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(dollars in millions)	Three Months Ended September 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	9	\$ 5.8	\$ 5.8
Commercial and industrial (2)	7	2.9	2.9
Equipment financing (3)	6	1.4	1.4
Total	22	10.1	10.1
Retail:			
Residential mortgage (4)	28	6.6	6.6
Home equity (5)	36	3.3	3.3
Other consumer			
Total	64	9.9	9.9
Total	86	\$ 20.0	\$ 20.0

- (1) Represents the following concessions: extension of term (8 contracts; recorded investment of \$5.5 million); or reduced payment and/or payment deferral (1 contract; recorded investment of \$0.3 million).
- (2) Represents the following concessions: extension of term (6 contracts; recorded investment of \$2.8 million); or reduced payment and/or payment deferral (1 contract; recorded investment of \$0.1 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (1 contract; recorded investment of \$0.1 million); or a combination of concessions (5 contracts; recorded investment of \$1.3 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (11 contracts; recorded investment of \$1.0 million); reduced payment and/or payment deferral (4 contracts; recorded investment of \$0.7 million); or a combination of concessions (13 contracts; recorded investment of \$4.9 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (22 contracts; recorded investment of \$1.6 million); reduced payment and/or payment deferral (7 contracts; recorded investment of \$0.8 million); temporary rate reduction (1 contract; recorded investment of \$0.5 million); or a combination of concessions (6 contracts; recorded investment of \$0.4 million).

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

(dollars in millions)	Nine Months Ended September 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	22	\$ 32.1	\$ 32.1
Commercial and industrial (2)	36	27.2	27.2
Equipment financing (3)	17	5.1	5.1
Total	75	64.4	64.4
Retail:			
Residential mortgage (4)	113	32.0	32.0
Home equity (5)	108	10.2	10.2
Other consumer			
Total	221	42.2	42.2
Total	296	\$ 106.6	\$ 106.6

- (1) Represents the following concessions: extension of term (14 contracts; recorded investment of \$10.9 million); reduced payment and/or payment deferral (4 contracts; recorded investment of \$1.8 million); temporary rate reduction (1 contract; recorded investment of \$18.2 million); or a combination of concessions (3 contracts; recorded investment of \$1.2 million).
- (2) Represents the following concessions: extension of term (13 contracts; recorded investment of \$5.9 million); reduced payment and/or payment deferral (8 contracts; recorded investment of \$2.5 million); or a combination of concessions (15 contracts; recorded investment of \$18.8 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (2 contracts; recorded investment of \$0.3 million); or a combination of concessions (15 contracts; recorded investment of \$4.8 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (28 contracts; recorded investment of \$5.0 million); extension of term (1 contract; recorded investment of \$0.5 million); reduced payment and/or payment deferral (26 contracts; recorded investment of \$8.6 million); or a combination of concessions (58 contracts; recorded investment of \$17.9 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (53 contracts; recorded investment of \$4.7 million); reduced payment and/or payment deferral (16 contracts; recorded investment of \$2.1 million); temporary rate reduction (2 contracts; recorded investment of \$0.6 million); or a combination of concessions (37 contracts; recorded investment of \$2.8 million).

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following is a summary, by class of loan, of information related to TDRs of originated loans completed within the previous 12 months that subsequently defaulted during the three and nine months ended September 30, 2015 and 2014. For purposes of this disclosure, the previous 12 months is measured from October 1 of the respective prior year and a default represents a previously-modified loan that became past due 30 days or more during the three or nine months ended September 30, 2015 or 2014.

(dollars in millions)	Number of Contracts	Three Months Ended September 30,		
		2015 Recorded Investment as of Period End	2014 Recorded Investment as of Period End	
Commercial:				
Commercial real estate		\$	3	\$ 3.7
Commercial and industrial	1	0.6	1	0.7
Equipment financing	1	0.3		
Total	2	0.9	4	4.4
Retail:				
Residential mortgage	2	0.2	13	2.1
Home equity	2	0.1	6	0.3
Other consumer				
Total	4	0.3	19	2.4
Total	6	\$ 1.2	23	\$ 6.8

(dollars in millions)	Number of Contracts	Nine Months Ended September 30,		
		2015 Recorded Investment as of Period End	2014 Recorded Investment as of Period End	
Commercial:				
Commercial real estate	2	\$ 3.4	5	\$ 4.1
Commercial and industrial	4	1.4	2	0.8
Equipment financing	8	4.1	8	1.0
Total	14	8.9	15	5.9

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Retail:

Residential mortgage	18	6.7	39	12.7
Home equity	16	1.5	23	1.6
Other consumer				
Total	34	8.2	62	14.3
Total	48	\$ 17.1	77	\$ 20.2

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

People's United's impaired loans consist of certain originated loans, including all TDRs. The following table summarizes, by class of loan, information related to individually-evaluated impaired loans within the originated portfolio.

(in millions)	As of September 30, 2015			As of December 31, 2014		
	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses
Without a related allowance for loan losses:						
Commercial:						
Commercial real estate	\$ 48.0	\$ 47.4	\$	\$ 57.1	\$ 55.8	\$
Commercial and industrial	63.5	59.6		51.7	48.6	
Equipment financing	21.5	17.7		30.2	21.4	
Retail:						
Residential mortgage	67.9	61.1		65.4	58.9	
Home equity	22.3	19.5		21.3	18.3	
Other consumer						
Total	\$ 223.2	\$ 205.3	\$	\$ 225.7	\$ 203.0	\$
With a related allowance for loan losses:						
Commercial:						
Commercial real estate	\$ 17.8	\$ 13.5	\$ 1.9	\$ 52.1	\$ 27.8	\$ 4.0
Commercial and industrial	22.2	21.3	5.6	21.4	17.4	3.5
Equipment financing	12.5	9.5	0.7	3.6	3.5	0.1
Retail:						
Residential mortgage	14.9	14.8	2.9	15.6	15.3	2.6
Home equity	1.9	1.8	0.8	2.6	2.5	1.3
Other consumer						
Total	\$ 69.3	\$ 60.9	\$ 11.9	\$ 95.3	\$ 66.5	\$ 11.5
Total impaired loans:						
Commercial:						
Commercial real estate	\$ 65.8	\$ 60.9	\$ 1.9	\$ 109.2	\$ 83.6	\$ 4.0
Commercial and industrial	85.7	80.9	5.6	73.1	66.0	3.5
Equipment financing	34.0	27.2	0.7	33.8	24.9	0.1

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total	185.5	169.0	8.2	216.1	174.5	7.6
Retail:						
Residential mortgage	82.8	75.9	2.9	81.0	74.2	2.6
Home equity	24.2	21.3	0.8	23.9	20.8	1.3
Other consumer						
Total	107.0	97.2	3.7	104.9	95.0	3.9
Total	\$ 292.5	\$ 266.2	\$ 11.9	\$ 321.0	\$ 269.5	\$ 11.5

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following table summarizes, by class of loan, the average recorded investment and interest income recognized on impaired loans for the periods indicated. The average recorded investment amounts are based on month-end balances.

(in millions)	Three Months Ended September 30,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial:				
Commercial real estate	\$ 59.2	\$ 0.5	\$ 81.8	\$ 0.3
Commercial and industrial	83.0	0.2	51.0	0.2
Equipment financing	26.7	0.1	30.6	0.2
Total	168.9	0.8	163.4	0.7
Retail:				
Residential mortgage	74.4	0.4	72.3	0.4
Home equity	21.2	0.1	18.4	0.1
Other consumer				
Total	95.6	0.5	90.7	0.5
Total	\$ 264.5	\$ 1.3	\$ 254.1	\$ 1.2

(in millions)	Nine Months Ended September 30,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial:				
Commercial real estate	\$ 67.8	\$ 1.2	\$ 75.7	\$ 1.2
Commercial and industrial	71.1	1.2	42.9	0.8
Equipment financing	28.9	0.3	29.4	0.6
Total	167.8	2.7	148.0	2.6
Retail:				
Residential mortgage	75.3	1.1	71.4	1.0

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Home equity	21.3	0.2	17.3	0.2
Other consumer				
Total	96.6	1.3	88.7	1.2
Total	\$ 264.4	\$ 4.0	\$ 236.7	\$ 3.8

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following tables summarize, by class of loan, aging information for originated loans:

As of September 30, 2015 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial:					
Commercial real estate	\$ 9,403.2	\$ 21.0	\$ 12.5	\$ 33.5	\$ 9,436.7
Commercial and industrial	7,173.6	29.2	54.4	83.6	7,257.2
Equipment financing	2,733.3	59.0	10.1	69.1	2,802.4
Total	19,310.1	109.2	77.0	186.2	19,496.3
Retail:					
Residential mortgage	5,117.5	39.9	25.8	65.7	5,183.2
Home equity	2,084.6	6.3	10.4	16.7	2,101.3
Other consumer	49.6	0.3		0.3	49.9
Total	7,251.7	46.5	36.2	82.7	7,334.4
Total originated loans	\$ 26,561.8	\$ 155.7	\$ 113.2	\$ 268.9	\$ 26,830.7

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling \$19.3 million, \$25.8 million and \$19.3 million, respectively, and \$23.0 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

As of December 31, 2014 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial:					
Commercial real estate	\$ 8,908.0	\$ 17.6	\$ 34.7	\$ 52.3	\$ 8,960.3
Commercial and industrial	6,814.9	32.4	43.8	76.2	6,891.1
Equipment financing	2,793.3	41.0	4.7	45.7	2,839.0

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total	18,516.2	91.0	83.2	174.2	18,690.4
Retail:					
Residential mortgage	4,647.3	29.1	25.1	54.2	4,701.5
Home equity	2,079.3	5.0	8.6	13.6	2,092.9
Other consumer	55.8	0.4	0.1	0.5	56.3
Total	6,782.4	34.5	33.8	68.3	6,850.7
Total originated loans	\$ 25,298.6	\$ 125.5	\$ 117.0	\$ 242.5	\$ 25,541.1

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling \$25.6 million, \$29.5 million and \$20.7 million, respectively, and \$21.8 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Commercial Credit Quality Indicators

The Company utilizes an internal loan risk rating system as a means of monitoring portfolio credit quality and identifying both problem and potential problem loans. Under the Company's risk rating system, loans not meeting the criteria for problem and potential problem loans as specified below are considered to be Pass-rated loans. Problem and potential problem loans are classified as either Special Mention, Substandard or Doubtful. Loans that do not currently expose the Company to sufficient enough risk of loss to warrant classification as either Substandard or Doubtful, but possess weaknesses that deserve management's close attention, are classified as Special Mention. Substandard loans represent those credits characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful possess all the weaknesses inherent in those classified Substandard with the added characteristic that collection or liquidation in full, on the basis of existing facts, conditions and values, is highly questionable and/or improbable.

Risk ratings on commercial loans are subject to ongoing monitoring by lending and credit personnel with such ratings updated annually or more frequently, if warranted. The Company's internal Loan Review function is responsible for independently evaluating the appropriateness of those credit risk ratings in connection with its cyclical reviews, the approach to which is risk-based and determined by reference to underlying portfolio credit quality and the results of prior reviews. Differences in risk ratings noted in conjunction with such periodic portfolio loan reviews, if any, are reported to management each month.

Retail Credit Quality Indicators

Pools of smaller-balance, homogeneous loans with similar risk and loss characteristics are also assessed for probable losses. These loan pools include residential mortgage, home equity and other consumer loans that are not assigned individual loan risk ratings. Rather, the assessment of these portfolios is based upon a consideration of recent historical loss experience, broader portfolio indicators, including trends in delinquencies, non-performing loans and portfolio concentrations, and portfolio-specific risk characteristics, the combination of which determines whether a loan is classified as High, Moderate or Low risk.

The portfolio-specific risk characteristics considered include: (i) collateral values/ loan-to-value (LTV) ratios (above and below 70%); (ii) borrower credit scores under the FICO scoring system (above and below a score of 680); and (iii) other relevant portfolio risk elements such as income verification at the time of underwriting (stated income vs. non-stated income) and the property's intended use (owner occupied, non-owner occupied, second home, etc.). In classifying a loan as either High, Moderate or Low risk, the combination of each of the aforementioned risk characteristics is considered for that loan, resulting, effectively, in a matrix approach to its risk classification. These risk classifications are reviewed periodically to ensure that they continue to be appropriate in light of changes within the portfolio and/or economic indicators as well as other industry developments.

For example, to the extent LTV ratios exceed 70% (reflecting a weaker collateral position for the Company) or borrower FICO scores are less than 680 (reflecting weaker financial standing and/or credit history of the customer), the loans are considered to have an increased level of inherent loss. As a result, a loan with a combination of these characteristics would generally be classified as High risk. Conversely, as LTV ratios decline (reflecting a stronger

collateral position for the Company) or borrower FICO scores exceed 680 (reflecting stronger financial standing and/or credit history of the customer), the loans are considered to have a decreased level of inherent loss. A loan with a combination of these characteristics would generally be classified as Low risk. This analysis also considers (i) the extent of underwriting that occurred at the time of origination (direct income verification provides further support for credit decisions) and (ii) the property's intended use (owner-occupied properties are less likely to default compared to investment-type non-owner occupied properties, second homes, etc.). Loans not otherwise deemed to be High or Low risk are classified as Moderate risk.

LTV ratios and FICO scores are determined at origination and updated periodically throughout the life of the loan. LTV ratios are updated for loans 90 days past due and FICO scores are updated for the entire portfolio quarterly. The portfolio stratification (High , Moderate and Low risk) and identification of the corresponding credit quality indicators also occurs quarterly.

Commercial and Retail loans are also evaluated to determine whether they are impaired loans, which are included in the tabular disclosures of credit quality indicators that follow.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)***Acquired Loans Credit Quality Indicators*

Upon acquiring a loan portfolio, the Company's internal Loan Review function undertakes the process of assigning risk ratings to all commercial loans in accordance with the Company's established policy, which may differ in certain respects from the risk rating policy of the predecessor company. The length of time necessary to complete this process varies based on the size of the acquired portfolio, the quality of the documentation maintained in the underlying loan files and the extent to which the predecessor company followed a risk rating approach comparable to People's United's. As a result, while acquired loans are risk rated, there are occasions when such ratings may be deemed preliminary until the Company's re-rating process has been completed.

Acquired loans are initially recorded at fair value, determined based upon an estimate of the amount and timing of both principal and interest cash flows expected to be collected and discounted using a market interest rate. The difference between contractually required principal and interest payments at the acquisition date and the undiscounted cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference, which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time. At September 30, 2015 and December 31, 2014, the allowance for loan losses on acquired loans was \$9.4 million and \$10.2 million, respectively.

The following is a summary, by class of loan, of credit quality indicators:

As of September 30, 2015 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial:				
Originated loans:				
Pass	\$ 9,211.9	\$ 6,864.3	\$ 2,434.7	\$ 18,510.9
Special mention	93.9	106.0	95.3	295.2
Substandard	130.9	283.8	272.4	687.1
Doubtful		3.1		3.1
Total originated loans	9,436.7	7,257.2	2,802.4	19,496.3
Acquired loans:				
Pass	269.6	184.9	5.5	460.0
Special mention	22.3	5.4	0.4	28.1
Substandard	55.0	44.1	12.8	111.9
Doubtful	1.8	0.6		2.4
Total acquired loans	348.7	235.0	18.7	602.4

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total \$ 9,785.4 \$ 7,492.2 \$ 2,821.1 \$ 20,098.7

As of September 30, 2015 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	\$ 2,502.4	\$ 950.7	\$ 25.9	\$ 3,479.0
Moderate risk	2,171.3	636.9	8.3	2,816.5
High risk	509.5	513.7	15.7	1,038.9
Total originated loans	5,183.2	2,101.3	49.9	7,334.4
Acquired loans:				
Low risk	99.3			99.3
Moderate risk	40.3			40.3
High risk	58.6	39.9	1.0	99.5
Total acquired loans	198.2	39.9	1.0	239.1
Total	\$ 5,381.4	\$ 2,141.2	\$ 50.9	\$ 7,573.5

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

As of December 31, 2014 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial:				
Originated loans:				
Pass	\$ 8,730.9	\$ 6,477.4	\$ 2,481.2	\$ 17,689.5
Special mention	82.4	114.2	110.6	307.2
Substandard	135.3	297.3	247.2	679.8
Doubtful	11.7	2.2		13.9
Total originated loans	8,960.3	6,891.1	2,839.0	18,690.4
Acquired loans:				
Pass	302.5	174.5	7.6	484.6
Special mention	20.9	52.8	0.7	74.4
Substandard	113.5	55.0	18.2	186.7
Doubtful	7.1	16.2		23.3
Total acquired loans	444.0	298.5	26.5	769.0
Total	\$ 9,404.3	\$ 7,189.6	\$ 2,865.5	\$ 19,459.4

As of December 31, 2014 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	\$ 2,280.6	\$ 931.5	\$ 29.5	\$ 3,241.6
Moderate risk	1,921.6	597.1	8.3	2,527.0
High risk	499.3	564.3	18.5	1,082.1
Total originated loans	4,701.5	2,092.9	56.3	6,850.7
Acquired loans:				
Low risk	107.0			107.0
Moderate risk	50.5			50.5
High risk	73.0	50.2	1.2	124.4
Total acquired loans	230.5	50.2	1.2	281.9
Total	\$ 4,932.0	\$ 2,143.1	\$ 57.5	\$ 7,132.6

Acquired Loans

Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are initially recorded at fair value without recording an allowance for loan losses. Fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. Acquired loans are generally accounted for on a pool basis, with pools formed based on the loans' common risk characteristics, such as loan collateral type and accrual status. Each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the *accretable yield*, is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, acquired loans are not subject to classification as non-accrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the *nonaccretable difference*, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

Subsequent to acquisition, actual cash collections are monitored relative to management's expectations and revised cash flow forecasts are prepared, as warranted. These revised forecasts involve updates, as necessary, of the key assumptions and estimates used in the initial estimate of fair value. Generally speaking, expected cash flows are affected by:

Changes in the expected principal and interest payments over the estimated life Updates to changes in expected cash flows are driven by the credit outlook and actions taken with borrowers. Changes in expected future cash flows resulting from loan modifications are included in the assessment of expected cash flows;

Changes in prepayment assumptions Prepayments affect the estimated life of the loans which may change the amount of interest income, and possibly principal, expected to be collected; and

Changes in interest rate indices for variable rate loans Expected future cash flows are based, as applicable, on the variable rates in effect at the time of the assessment of expected cash flows.

A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods serves, first, to reduce any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool.

An acquired loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within non-interest income based on the difference between the sales proceeds and the carrying amount of the loan. In other cases, individual loans are removed from the pool based on comparing the

amount received from its resolution (fair value of the underlying collateral less costs to sell in the case of a foreclosure) with its outstanding balance. Any difference between these amounts is absorbed by the nonaccretable difference established for the entire pool. For loans resolved by payment in full, there is no adjustment of the nonaccretable difference since there is no difference between the amount received at resolution and the outstanding balance of the loan. In these cases, the remaining accretable yield balance is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed in connection with the subsequent cash flow re-assessment for the pool. Acquired loans subject to modification are not removed from the pool even if those loans would otherwise be deemed TDRs as the pool, and not the individual loan, represents the unit of account.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

At the respective acquisition dates in 2011 and 2010, on an aggregate basis, the acquired loan portfolio had contractually required principal and interest payments receivable of \$7.57 billion; expected cash flows of \$7.02 billion; and a fair value (initial carrying amount) of \$5.36 billion. The difference between the contractually required principal and interest payments receivable and the expected cash flows (\$550.9 million) represented the initial nonaccretable difference. The difference between the expected cash flows and fair value (\$1.66 billion) represented the initial accretable yield. Both the contractually required principal and interest payments receivable and the expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At September 30, 2015, the outstanding principal balance and carrying amount of the acquired loan portfolio were \$946.1 million and \$841.5 million, respectively (\$1.18 billion and \$1.05 billion, respectively, at December 31, 2014). At September 30, 2015, the aggregate remaining nonaccretable difference applicable to acquired loans totaled \$83.4 million.

The following tables summarize activity in the accretable yield for the acquired loan portfolio:

(in millions)	Three Months Ended	
	September 30, 2015	September 30, 2014
Balance at beginning of period	\$ 316.9	\$ 447.7
Accretion	(13.3)	(18.9)
Reclassification from nonaccretable difference for loans with improved cash flows (1)		0.3
Other changes in expected cash flows (2)	5.0	(15.7)
Balance at end of period	\$ 308.6	\$ 413.4

(in millions)	Nine Months Ended	
	September 30, 2015	September 30, 2014
Balance at beginning of period	\$ 396.3	\$ 639.7
Accretion	(42.9)	(63.9)
Reclassification from nonaccretable difference for loans with improved cash flows (1)	1.1	6.7
Other changes in expected cash flows (2)	(45.9)	(169.1)
Balance at end of period	\$ 308.6	\$ 413.4

- (1) Results in increased interest accretion as a prospective yield adjustment over the remaining life of the corresponding pool of loans.
- (2) Represents changes in cash flows expected to be collected due to factors other than credit (e.g. changes in prepayment assumptions and/or changes in interest rates on variable rate loans), as well as loan sales, modifications and payoffs.

Other Real Estate Owned and Repossessed Assets (included in Other Assets)

Other real estate owned (REO) was comprised of residential and commercial properties totaling \$10.8 million and \$8.2 million, respectively, at September 30, 2015, and \$13.6 million and \$11.0 million, respectively, at December 31, 2014. Repossessed assets totaled \$7.3 million and \$2.5 million at September 30, 2015 and December 31, 2014, respectively.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 4. STOCKHOLDERS' EQUITY

Treasury Stock

Treasury stock includes (i) common stock repurchased by People's United, either directly or through agents, in the open market at prices and terms satisfactory to management in connection with stock repurchases authorized by its Board of Directors (88.8 million shares at September 30, 2015) and (ii) common stock purchased in the open market by a trustee with funds provided by People's United and originally intended for awards under the People's United Financial, Inc. 2007 Recognition and Retention Plan (the "RRP") (0.3 million shares at September 30, 2015). Following shareholder approval of the People's United Financial, Inc. 2014 Long-Term Incentive Plan in the second quarter of 2014, no new awards may be granted under the RRP.

Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including (on an after-tax basis): (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People's United's pension and other postretirement benefit plans; (ii) net unrealized gains and losses on securities available for sale; (iii) net unrealized gains and losses on securities transferred to held to maturity; and (iv) net unrealized gains and losses on derivatives accounted for as cash flow hedges. People's United's total comprehensive income for the three and nine months ended September 30, 2015 and 2014 is reported in the Consolidated Statements of Comprehensive Income.

The following is a summary of the changes in the components of accumulated other comprehensive loss ("AOCL"), which are included in People's United's stockholders' equity on an after-tax basis:

(in millions)	Pension and Other Postretirement Benefits	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized		Total Accumulated Other Comprehensive Loss
			Gains (Losses) on Securities Transferred to Held to Maturity	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	
Balance at December 31, 2014	\$ (142.9)	\$ (3.7)	\$ (21.5)	\$ (0.1)	\$ (168.2)
Other comprehensive income (loss) before reclassifications		17.5		(0.8)	16.7
	3.3		1.5	0.6	5.4

Amounts reclassified from AOCL (1)					
Current period other comprehensive income (loss)	3.3	17.5	1.5	(0.2)	22.1
Balance at September 30, 2015	\$ (139.6)	\$ 13.8	\$ (20.0)	\$ (0.3)	\$ (146.1)

(in millions)	Pension and Other Postretirement Benefits	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized Gains (Losses) on Securities Transferred to Held to Maturity	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2013	\$ (85.0)	\$ (46.5)	\$ (23.3)	\$ (0.3)	\$ (155.1)
Other comprehensive income (loss) before reclassifications		27.2		(0.2)	27.0
Amounts reclassified from AOCL (1)	1.9	(0.2)	1.3	0.6	3.6
Current period other comprehensive income (loss)	1.9	27.0	1.3	0.4	30.6
Balance at September 30, 2014	\$ (83.1)	\$ (19.5)	\$ (22.0)	\$ 0.1	\$ (124.5)

(1) See the following table for details about these reclassifications.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following is a summary of the amounts reclassified from AOCL:

(in millions)	Amounts Reclassified from AOCL				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014		
Details about components of AOCL:					
Amortization of pension and other postretirement benefits items:					
Net actuarial loss	\$ (2.0)	\$ (1.2)	\$ (6.0)	\$ (3.9)	(1)
Prior service credit	0.3	0.2	0.8	0.8	(1)
	(1.7)	(1.0)	(5.2)	(3.1)	Income before income tax expense
	0.6	0.4	1.9	1.2	Income tax expense
	(1.1)	(0.6)	(3.3)	(1.9)	Net income
Reclassification adjustment for net realized gains on securities available for sale					
		0.2		0.3	Income before income tax expense (2)
		(0.1)		(0.1)	Income tax expense
		0.1		0.2	Net income
Amortization of unrealized losses on securities transferred to held to maturity					
	(0.8)	(0.7)	(2.3)	(2.2)	Income before income tax expense (3)
	0.2	0.3	0.8	0.9	Income tax expense
	(0.6)	(0.4)	(1.5)	(1.3)	Net income
Amortization of unrealized gains and losses on cash flow hedges:					
Interest rate swaps	(0.3)	(0.3)	(1.0)	(1.0)	(4)
Interest rate locks	0.1	0.1	0.1	0.1	(4)
	(0.2)	(0.2)	(0.9)	(0.9)	Income before income tax expense

Edgar Filing: People's United Financial, Inc. - Form 10-Q

	0.1	0.1	0.3	0.3	Income tax expense
	(0.1)	(0.1)	(0.6)	(0.6)	Net income
Total reclassifications for the period	\$ (1.8)	\$ (1.0)	\$ (5.4)	\$ (3.6)	

- (1) Included in the computation of net periodic pension cost reflected in compensation and benefits expense (see Note 7 for additional details).
- (2) Included in other non-interest income.
- (3) Included in interest and dividend income - securities.
- (4) Included in interest expense - notes and debentures.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 5. EARNINGS PER COMMON SHARE

The following is an analysis of People's United's basic and diluted earnings per share (EPS), reflecting the application of the two-class method, as described below:

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 68.4	\$ 61.6	\$ 189.3	\$ 187.0
Dividends and undistributed earnings allocated to participating securities	(0.3)	(0.3)	(0.9)	(0.9)
Income attributable to common shareholders	\$ 68.1	\$ 61.3	\$ 188.4	\$ 186.1
Average common shares outstanding for basic EPS	301.0	298.4	300.1	298.1
Effect of dilutive equity-based awards				
Average common and common-equivalent shares for diluted EPS	301.0	298.4	300.1	298.1
Basic EPS	\$ 0.23	\$ 0.21	\$ 0.63	\$ 0.62
Diluted EPS	\$ 0.23	\$ 0.21	\$ 0.63	\$ 0.62

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends or dividend equivalents, are considered to participate with common stock in undistributed earnings for purposes of computing EPS. Companies that have such participating securities, including People's United, are required to calculate basic and diluted EPS using the two-class method. Restricted stock awards granted by People's United are considered participating securities. Calculations of EPS under the two-class method (i) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (ii) exclude from the denominator the dilutive impact of the participating securities.

All unallocated Employee Stock Ownership Plan (ESOP) common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted EPS. Anti-dilutive equity-based awards totaling 20.3 million shares for both the three and nine months ended September 30, 2015 and 17.9 million shares for

both the three and nine months ended September 30, 2014 have been excluded from the calculation of diluted EPS.

NOTE 6. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

People's United's goodwill totaled \$1.95 billion at both September 30, 2015 and December 31, 2014. At both dates, goodwill was allocated to People's United's operating segments as follows: Commercial Banking (\$1.22 billion); Retail Banking (\$681.9 million); and Wealth Management (\$49.8 million).

Acquisitions have been undertaken with the objective of expanding the Company's business, both geographically and through product offerings, as well as realizing synergies and economies of scale by combining with the acquired entities. For these reasons, a market-based premium was generally paid for the acquired entities which, in turn, resulted in the recognition of goodwill, representing the excess of the respective purchase prices over the estimated fair value of the net assets acquired.

All of People's United's tax deductible goodwill was created in transactions in which the Company purchased the assets of the target (as opposed to purchasing the issued and outstanding stock of the target). At September 30, 2015 and December 31, 2014, tax deductible goodwill totaled \$12.1 million and \$13.0 million, respectively, and related, almost entirely, to the Butler Bank acquisition completed in 2010.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

People's United's other acquisition-related intangible assets totaled \$130.2 million and \$148.0 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible (\$81.9 million); core deposit intangible (\$27.0 million); trust relationship intangible (\$20.6 million); and insurance relationship intangible (\$0.7 million).

Amortization expense of other acquisition-related intangible assets totaled \$5.9 million and \$6.2 million for the three months ended September 30, 2015 and 2014, respectively, and \$17.8 million and \$18.6 million for the nine months ended September 30, 2015 and 2014, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2015 and each of the next five years is as follows: \$23.8 million in 2015; \$22.7 million in 2016; \$21.6 million in 2017; \$10.2 million in 2018; \$9.4 million in 2019; and \$9.0 million in 2020. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the nine months ended September 30, 2015 and 2014.

NOTE 7. EMPLOYEE BENEFIT PLANS

People's United Employee Pension and Other Postretirement Benefit Plans

People's United maintains a qualified noncontributory defined benefit pension plan (the "Qualified Plan") that covers substantially all full-time and part-time employees who (i) meet certain age and length of service requirements and (ii) were employed by the Bank prior to August 14, 2006. Benefits are based upon the employee's years of credited service and either the average compensation for the last five years or the average compensation for the five consecutive years of the last ten years that produce the highest average.

New employees of the Bank starting on or after August 14, 2006 are not eligible to participate in the Qualified Plan. Instead, the Bank makes contributions on behalf of these employees to a qualified defined contribution plan in an annual amount equal to 3% of the employee's eligible compensation. Employee participation in this plan is restricted to employees who (i) are at least 18 years of age and (ii) worked at least 1,000 hours in a year. Both full-time and part-time employees are eligible to participate as long as they meet these requirements.

In July 2011, the Bank amended the Qualified Plan to "freeze", effective December 31, 2011, the accrual of pension benefits for Qualified Plan participants. As such, participants will not earn any additional benefits after that date. Instead, effective January 1, 2012, the Bank began making contributions on behalf of these participants to a qualified defined contribution plan in an annual amount equal to 3% of the employee's eligible compensation.

People's United's funding policy is to contribute the amounts required by applicable regulations, although additional amounts may be contributed from time to time. In the first quarter of 2015, the Company made a voluntary employer contribution of \$40.0 million to the Qualified Plan as a consequence of lower discount rates and the adoption of updated mortality tables.

People's United also maintains (i) unfunded, nonqualified supplemental plans to provide retirement benefits to certain senior officers and (ii) an unfunded plan that provides retirees with optional medical, dental and life insurance benefits (the other postretirement benefits plan). People's United accrues the cost of these postretirement benefits over the employees' years of service to the date of their eligibility for such benefit.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

Components of the net periodic benefit (income) expense and other amounts recognized in other comprehensive income for the plans described above are as follows:

Three months ended September 30 (in millions)	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Net periodic benefit (income) expense:				
Service cost	\$	\$	\$ 0.1	\$ 0.1
Interest cost	4.8	4.8	0.1	
Expected return on plan assets	(7.8)	(7.1)		
Recognized net actuarial loss	1.5	1.0		
Settlements	0.1	0.4		
Net periodic benefit (income) expense	\$ (1.4)	\$ (0.9)	\$ 0.2	\$ 0.1

Nine months ended September 30 (in millions)	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Net periodic benefit (income) expense:				
Service cost	\$	\$	\$ 0.2	\$ 0.2
Interest cost	14.4	14.4	0.4	0.3
Expected return on plan assets	(22.8)	(21.3)		
Recognized net actuarial loss	4.5	3.0	0.2	
Recognized prior service credit			(0.1)	(0.2)
Settlements	0.3	1.4		
Net periodic benefit (income) expense	(3.6)	(2.5)	0.7	0.3
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net actuarial loss	(4.5)	(3.0)	(0.2)	
Prior service credit			0.1	0.2
Total pre-tax changes recognized in other comprehensive income	(4.5)	(3.0)	(0.1)	0.2
Total recognized in net periodic benefit (income) expense and other comprehensive income	\$ (8.1)	\$ (5.5)	\$ 0.6	\$ 0.5

Chittenden Pension Plan

In addition to the benefit plans described above, People's United continues to maintain a qualified defined benefit pension plan that covers former Chittenden Corporation employees who meet certain eligibility requirements (the Chittenden Plan). Effective December 31, 2005, accrued benefits were frozen based on participants' then-current service and pay levels. During April 2010, participants who were in payment status as of April 1, 2010, or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010, based upon elections made by April 15, 2010, were transferred into the Qualified Plan. Net periodic benefit income for the Chittenden Plan totaled \$0.1 million and \$0.2 million for the nine months ended September 30, 2015 and 2014, respectively. In the first quarter of 2015, the Company made a voluntary employer contribution of \$10.0 million to the Chittenden Plan as a consequence of lower discount rates and the adoption of updated mortality tables.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Employee Stock Ownership Plan

In April 2007, People's United established an ESOP. At that time, People's United loaned the ESOP \$216.8 million to purchase 10,453,575 shares of People's United common stock in the open market. In order for the ESOP to repay the loan, People's United expects to make annual cash contributions of approximately \$18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares, which totaled \$3.8 million for the nine months ended September 30, 2015. The loan balance totaled \$192.1 million at September 30, 2015.

Employee participation in this plan is restricted to those employees who (i) are at least 18 years of age and (ii) worked at least 1,000 hours within 12 months of their hire date or any plan year (January 1 to December 31) after their date of hire. Employees meeting the aforementioned eligibility criteria during the plan year must continue to be employed as of the last day of the plan year in order to receive an allocation of shares for that plan year.

Shares of People's United common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant's eligible compensation. Since the ESOP was established, a total of 3,048,962 shares of People's United common stock have been allocated or committed to be released to participants' accounts. At September 30, 2015, 7,404,613 shares of People's United common stock, with a fair value of \$116.5 million at that date, have not been allocated or committed to be released.

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants' accounts multiplied by the average fair value of People's United's common stock during the reporting period. The difference between the fair value of the shares of People's United's common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled \$4.0 million and \$3.8 million for the nine months ended September 30, 2015 and 2014, respectively.

NOTE 8. LEGAL PROCEEDINGS

In the normal course of business, People's United is subject to various legal proceedings. Management has discussed with legal counsel the nature of the pending actions described below, as well as other legal proceedings. Based on the information currently available, advice of counsel, available insurance coverage and the recorded liability for probable legal settlements and costs, People's United believes that the eventual outcome of these matters will not (individually or in the aggregate) have a material adverse effect on its financial condition, results of operations or liquidity.

Litigation Relating to the Smithtown Transaction

On February 25, 2010 and March 29, 2010, Smithtown and several of its officers and directors were named in lawsuits commenced in United States District Court, Eastern District of New York (*Waterford Township Police & Fire Retirement v. Smithtown Bancorp, Inc., et al.* and *Yourgal v. Smithtown Bancorp, Inc. et al.*, respectively) on behalf of

a putative class of all persons and entities who purchased Smithtown's common stock between March 13, 2008 and February 1, 2010, alleging claims under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934. The plaintiffs allege, among other things, that Smithtown's loan loss reserve, fair value of its assets, recognition of impaired assets and its internal and disclosure controls were materially false, misleading or incomplete. As a result of the merger of Smithtown with and into People's United on November 30, 2010, People's United has become the successor party to Smithtown in this matter.

Following extensive preliminary filings with the Court by both parties, an agreement in principle to settle this matter was reached on October 23, 2014, subject to completion of appropriate documentation and Court approval. On January 12, 2015, the plaintiffs filed a Motion for Preliminary Approval of the settlement with the Court. On April 17, 2015, the U.S. Magistrate Judge recommended that the Court overseeing the case preliminarily approve of the settlement. On September 28, 2015, the Court issued a final order approving the settlement, thus concluding this matter. The amount of the agreed upon settlement did not have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 9. SEGMENT INFORMATION

See Segment Results included in Item 2 for segment information for the three and nine months ended September 30, 2015 and 2014.

NOTE 10. FAIR VALUE MEASUREMENTS

Accounting standards related to fair value measurements define fair value, provide a framework for measuring fair value and establish related disclosure requirements. Broadly, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accordingly, an exit price approach is required in determining fair value. In support of this principle, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value, requiring entities to maximize the use of market or observable inputs (as more reliable measures) and minimize the use of unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs generally require significant management judgment.

The three levels within the fair value hierarchy are as follows:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date (such as active exchange-traded equity securities or mutual funds and certain U.S. and government agency debt securities).

Level 2 Observable inputs other than quoted prices included in Level 1, such as:

quoted prices for similar assets or liabilities in active markets (such as U.S. agency and GSE issued mortgage-backed securities and CMOs);

quoted prices for identical or similar assets or liabilities in less active markets (such as certain U.S. and government agency debt securities, and corporate and municipal debt securities that trade infrequently); and

other inputs that (i) are observable for substantially the full term of the asset or liability (e.g. interest rates, yield curves, prepayment speeds, default rates, etc.) or (ii) can be corroborated by observable market data (such as interest rate and currency derivatives and certain other securities).

Level 3 Valuation techniques that require unobservable inputs that are supported by little or no market activity and are significant to the fair value measurement of the asset or liability (such as pricing models, discounted cash flow methodologies and similar techniques that typically reflect management's own estimates of the assumptions a market participant would use in pricing the asset or liability).

People's United maintains policies and procedures to value assets and liabilities using the most relevant data available. Described below are the valuation methodologies used by People's United and the resulting fair values for those financial instruments measured at fair value on both a recurring and a non-recurring basis, as well as for those financial assets and financial liabilities not measured at fair value but for which fair value is disclosed.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Recurring Fair Value Measurements

Trading Account Securities and Securities Available For Sale

When available, People's United uses quoted market prices for identical securities received from an independent, nationally-recognized, third-party pricing service (as discussed further below) to determine the fair value of investment securities such as U.S. Treasury and agency securities that are included in Level 1. When quoted market prices for identical securities are unavailable, People's United uses prices provided by the independent pricing service based on recent trading activity and other observable information including, but not limited to, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. These investments include certain U.S. and government agency debt securities, corporate and municipal debt securities, and GSE residential mortgage-backed securities and CMOs, all of which are included in Level 2.

Substantially all of the Company's available-for-sale securities represent GSE residential mortgage-backed securities and CMOs. The fair values of these securities are based on prices obtained from the independent pricing service. The pricing service uses various techniques to determine pricing for the Company's mortgage-backed securities, including option pricing and discounted cash flow analysis. The inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, monthly payment information and collateral performance. At both September 30, 2015 and December 31, 2014, the entire available-for-sale residential mortgage-backed securities portfolio was comprised of 10- and 15-year GSE securities. An active market exists for securities that are similar to the Company's GSE residential mortgage-backed securities and CMOs, making observable inputs readily available.

Changes in the prices obtained from the pricing service are analyzed from month to month, taking into consideration changes in market conditions including changes in mortgage spreads, changes in U.S. Treasury security yields and changes in generic pricing of 15-year securities. As a further point of validation, the Company generates its own month-end fair value estimate for all mortgage-backed securities, agency-issued CMOs (also backed by 15-year mortgage-backed securities), and state and municipal securities. While the Company has not adjusted the prices obtained from the independent pricing service, any notable differences between those prices and the Company's estimates are subject to further analysis. This additional analysis may include a review of prices provided by other independent parties, a yield analysis, a review of average life changes using Bloomberg analytics and a review of historical pricing for the particular security. Based on management's review of the prices provided by the pricing service, the fair values incorporate observable market inputs used by market participants at the measurement date and, as such, are classified as Level 2 securities.

Other Assets

As discussed in Note 7, certain unfunded, nonqualified supplemental benefit plans have been established to provide retirement benefits to certain senior officers. People's United has funded two trusts to provide benefit payments to the extent such benefits are not paid directly by People's United, the assets of which are included in other assets in the Consolidated Statements of Condition. When available, People's United determines the fair value of the trust assets using quoted market prices for identical securities received from a third-party nationally recognized pricing service.

Derivatives

People's United values its derivatives using internal models that are based on market or observable inputs including interest rate curves and forward/spot prices for selected currencies. Derivative assets and liabilities included in Level 2 represent interest rate swaps, foreign exchange contracts, risk participation agreements, forward commitments to sell residential mortgage loans and interest rate-lock commitments on residential mortgage loans.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following tables summarize People's United's financial instruments that are measured at fair value on a recurring basis:

As of September 30, 2015 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Trading account securities:				
U.S. Treasury	\$ 8.3	\$	\$	\$ 8.3
Securities available for sale:				
U.S. Treasury and agency	376.2			376.2
GSE residential mortgage-backed securities and CMOs		3,844.8		3,844.8
Equity securities		0.2		0.2
Other assets:				
Exchange-traded funds	28.3			28.3
Fixed income securities		5.4		5.4
Mutual funds	1.6			1.6
Interest rate swaps		198.7		198.7
Foreign exchange contracts		0.3		0.3
Forward commitments to sell residential mortgage loans		1.2		1.2
Total	\$ 414.4	\$ 4,050.6	\$	\$ 4,465.0
Financial liabilities:				
Interest rate swaps	\$	\$ 146.6	\$	\$ 146.6
Interest rate-lock commitments on residential mortgage loans		1.5		1.5
Total	\$	\$ 148.1	\$	\$ 148.1

As of December 31, 2014 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Trading account securities:				
U.S. Treasury	\$ 8.3	\$	\$	\$ 8.3
Securities available for sale:				
U.S. Treasury and agency	56.8			56.8

Edgar Filing: People's United Financial, Inc. - Form 10-Q

GSE residential mortgage-backed securities and CMOs		3,936.7		3,936.7
Equity securities		0.2		0.2
Other assets:				
Exchange-traded funds	30.3			30.3
Fixed income securities		6.0		6.0
Mutual funds	0.8			0.8
Interest rate swaps		131.1		131.1
Foreign exchange contracts		0.8		0.8
Forward commitments to sell residential mortgage loans		0.5		0.5
Total		\$ 96.2	\$ 4,075.3	\$ 4,171.5
Financial liabilities:				
Interest rate swaps		\$	\$ 95.8	\$ 95.8
Foreign exchange contracts			0.5	0.5
Interest rate-lock commitments on residential mortgage loans			0.7	0.7
Total		\$	\$ 97.0	\$ 97.0

As of September 30, 2015 and December 31, 2014, the fair value of risk participation agreements totaled less than \$0.1 million (see Note 11).

There were no transfers into or out of the Level 1 or Level 2 categories during the nine months ended September 30, 2015 and 2014.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Non-Recurring Fair Value Measurements

Loans Held for Sale

Residential mortgage loans held for sale are recorded at the lower of cost or fair value and are therefore measured at fair value on a non-recurring basis. When available, People's United uses observable secondary market data, including pricing on recent closed market transactions for loans with similar characteristics. Accordingly, such loans are classified as Level 2 measurements. When observable data is unavailable, valuation methodologies using current market interest rate data adjusted for inherent credit risk are used, and such loans are included in Level 3.

Impaired Loans

Loan impairment is deemed to exist when full repayment of principal and interest according to the contractual terms of the loan is no longer probable. Impaired loans are reported based on one of three measures: the present value of expected future cash flows discounted at the loan's original effective interest rate; the loan's observable market price; or the fair value of the collateral (less estimated cost to sell) if the loan is collateral dependent. Accordingly, certain impaired loans may be subject to measurement at fair value on a non-recurring basis. People's United has estimated the fair values of these assets using Level 3 inputs, such as discounted cash flows based on inputs that are largely unobservable and, instead, reflect management's own estimates of the assumptions a market participant would use in pricing such loans and/or the fair value of collateral based on independent third-party appraisals for collateral-dependent loans. Such appraisals are based on the market and/or income approach to value and are subject to a discount (to reflect estimated cost to sell) that generally approximates 10%.

REO and Repossessed Assets

REO and repossessed assets are recorded at the lower of cost or fair value, less estimated selling costs, and are therefore measured at fair value on a non-recurring basis. People's United has estimated the fair values of these assets using Level 3 inputs, such as independent third-party appraisals and price opinions. Such appraisals are based on the market and/or income approach to value and are subject to a discount (to reflect estimated cost to sell) that generally approximates 10%. Assets that are acquired through loan default are recorded as held for sale initially at the lower of the recorded investment in the loan or fair value (less estimated selling costs) upon the date of foreclosure/repossession. Subsequent to foreclosure/repossession, valuations are updated periodically and the carrying amounts of these assets may be reduced further.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following tables summarize People's United's assets that are measured at fair value on a non-recurring basis:

As of September 30, 2015 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Loans held for sale (1)	\$	\$ 36.2	\$	\$ 36.2
Impaired loans (2)			60.9	60.9
REO and repossessed assets (3)			26.3	26.3
Total	\$	\$ 36.2	\$ 87.2	\$ 123.4

As of December 31, 2014 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Loans held for sale (1)	\$	\$ 34.2	\$	\$ 34.2
Impaired loans (2)			66.5	66.5
REO and repossessed assets (3)			27.1	27.1
Total	\$	\$ 34.2	\$ 93.6	\$ 127.8

- (1) Consists of residential mortgage loans; no fair value adjustments were recorded for the nine months ended September 30, 2015 and 2014.
- (2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured in accordance with applicable accounting guidance. The total consists of \$44.3 million of Commercial loans and \$16.6 million of Retail loans at September 30, 2015. The provision for loan losses on impaired loans totaled \$6.0 million and \$6.7 million for the nine months ended September 30, 2015 and 2014, respectively.
- (3) Represents: (i) \$10.8 million of residential REO; (ii) \$8.2 million of commercial REO; and (iii) \$7.3 million of repossessed assets at September 30, 2015. Charge-offs to the allowance for loan losses related to loans that were transferred to REO or repossessed assets totaled \$1.5 million and \$1.0 million for the nine months ended September 30, 2015 and 2014, respectively. Write downs and net loss on sale of foreclosed/repossessed assets charged to non-interest expense totaled \$1.2 million and \$3.7 million for the same periods.

Financial Assets and Financial Liabilities Not Measured At Fair Value

As discussed previously, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (an "exit price" approach to fair value).

Acceptable valuation techniques (when quoted market prices are not available) that might be used to estimate the fair value of financial instruments include discounted cash flow analyses and comparison to similar instruments. Such estimates are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are made as of a specific point in time, they are susceptible to material near-term changes. Fair values estimated in this manner do not reflect any premium or discount that could result from the sale of a large volume of a particular financial instrument, nor do they reflect possible tax ramifications or estimated transaction costs.

The following is a description of the principal valuation methods used by People's United for those financial instruments that are not measured at fair value either on a recurring or non-recurring basis:

Cash, Short-Term Investments and Securities Purchased Under Agreements to Resell

Cash and due from banks are classified as Level 1. Short-term investments and securities purchased under agreements to resell have fair values that approximate the respective carrying amounts because the instruments are payable on demand or have short-term maturities, and present relatively low credit risk and interest rate risk (IRR). As such, these fair values are classified as Level 2.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Securities Held to Maturity

When available, the fair values of investment securities held to maturity are measured based on quoted market prices for identical securities in active markets and, accordingly, are classified as Level 1 assets. When quoted market prices for identical securities are not available, fair values are estimated based on quoted prices for similar assets in active markets or through the use of pricing models containing observable inputs (i.e. market interest rates, financial information and credit ratings of the issuer, etc.). These fair values are included in Level 2. In cases where there may be limited information available and/or little or no market activity for the underlying security, fair value is estimated using pricing models containing unobservable inputs and classified as Level 3.

FHLB and FRB Stock

Both FHLB and FRB stock are non-marketable equity securities classified as Level 2 and reported at cost, which equals par value (the amount at which shares have been redeemed in the past). No significant observable market data is available for either of these securities.

Loans

For valuation purposes, the loan portfolio is segregated into its significant categories, which are commercial real estate, commercial and industrial, equipment financing, residential mortgage, home equity and other consumer. These categories are further segregated, where appropriate, into components based on significant financial characteristics such as type of interest rate (fixed or adjustable) and payment status (performing or non-performing). Fair values are estimated for each component using a valuation method selected by management.

The fair values of performing loans were estimated by discounting the anticipated cash flows from the respective portfolios, assuming future prepayments and using market interest rates for new loans with comparable credit risk. As a result, the valuation method for performing loans, which is consistent with certain guidance provided in accounting standards, does not fully incorporate the exit price approach to fair value. The fair values of non-performing loans were based on recent collateral appraisals or management's analysis of estimated cash flows discounted at rates commensurate with the credit risk involved. The estimated fair values of residential mortgage loans are classified as Level 2 as a result of the observable market inputs (i.e. market interest rates, prepayment assumptions, etc.) available for this loan type. The fair values of all other loan types are classified as Level 3 as the inputs contained within the respective discounted cash flow models are largely unobservable and, instead, reflect management's own estimates of the assumptions a market participant would use in pricing such loans. The fair value of home equity lines of credit was based on the outstanding loan balances, and therefore does not reflect the value associated with earnings from future loans to existing customers.

Deposit Liabilities

The fair values of time deposits represent contractual cash flows discounted at current rates determined by reference to observable inputs including a LIBOR/swap curve over the remaining period to maturity. As such, these fair values are classified as Level 2. The fair values of other deposit liabilities (those with no stated maturity, such as checking and

savings accounts) are equal to the carrying amounts payable on demand. Deposit fair values do not include the intangible value of core deposit relationships that comprise a significant portion of People's United's deposit base. Management believes that People's United's core deposit relationships provide a relatively stable, low-cost funding source that has a substantial intangible value separate from the deposit balances.

Borrowings and Notes and Debentures

The fair values of federal funds purchased and repurchase agreements are equal to the carrying amounts due to the short maturities (generally overnight). The fair values of FHLB advances and other borrowings represent contractual repayments discounted using interest rates currently available on borrowings with similar characteristics and remaining maturities and are classified as Level 2. The fair values of notes and debentures were based on dealer quotes and are classified as Level 2.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)***Lending-Related Financial Instruments*

The estimated fair values of People's United's lending-related financial instruments approximate the respective carrying amounts. Such instruments include commitments to extend credit, unadvanced lines of credit and letters of credit, for which fair values were estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the instruments and the creditworthiness of the potential borrowers.

The following tables summarize the carrying amounts, estimated fair values and placement in the fair value hierarchy of People's United's financial instruments that are not measured at fair value either on a recurring or non-recurring basis:

As of September 30, 2015 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 300.3	\$ 300.3	\$	\$	\$ 300.3
Short-term investments	244.6		244.6		244.6
Securities held to maturity	1,377.1		1,420.1	1.5	1,421.6
FHLB and FRB stock	314.7		314.7		314.7
Total loans, net (1)	27,403.8		5,260.9	22,308.0	27,568.9
Financial liabilities:					
Time deposits	5,165.9		5,205.9		5,205.9
Other deposits	23,113.8		23,113.8		23,113.8
FHLB advances	2,164.5		2,172.6		2,172.6
Customer repurchase agreements	472.3		472.3		472.3
Federal funds purchased	360.0		360.0		360.0
Notes and debentures	1,044.9		1,018.3		1,018.3

(1) Excludes impaired loans totaling \$60.9 million measured at fair value on a non-recurring basis.

As of December 31, 2014 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 345.1	\$ 345.1	\$	\$	\$ 345.1

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Short-term investments	668.6	668.6		668.6
Securities purchased under agreements to resell	100.0	100.0		100.0
Securities held to maturity	834.3	880.1	1.5	881.6
FHLB stock	175.7	175.7		175.7
Total loans, net (1)	26,327.2	4,798.5	21,508.8	26,307.3
Financial liabilities:				
Time deposits	5,230.7	5,262.6		5,262.6
Other deposits	20,907.5	20,907.5		20,907.5
FHLB advances	2,291.7	2,298.5		2,298.5
Federal funds purchased	913.0	913.0		913.0
Customer repurchase agreements	486.0	486.0		486.0
Repurchase agreements (2)	1.0	1.0		1.0
Notes and debentures	1,033.5	1,040.8		1,040.8

- (1) Excludes impaired loans totaling \$66.5 million measured at fair value on a non-recurring basis.
(2) Included in other borrowings in the Consolidated Statements of Condition.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

People's United uses derivative financial instruments as components of its market risk management (principally to manage IRR). Certain other derivatives are entered into in connection with transactions with commercial customers. Derivatives are not used for speculative purposes.

All derivatives are recognized as either assets or liabilities in the Consolidated Statements of Condition, reported at fair value and presented on a gross basis. Until a derivative is settled, a favorable change in fair value results in an unrealized gain that is recognized as an asset, while an unfavorable change in fair value results in an unrealized loss that is recognized as a liability.

The Company generally applies hedge accounting to its derivatives used for market risk management purposes. Hedge accounting is permitted only if specific criteria are met, including a requirement that a highly effective relationship exist between the derivative instrument and the hedged item, both at inception of the hedge and on an ongoing basis. The hedge accounting method depends upon whether the derivative instrument is classified as a fair value hedge (i.e. hedging an exposure related to a recognized asset or liability, or a firm commitment) or a cash flow hedge (i.e. hedging an exposure related to the variability of future cash flows associated with a recognized asset or liability, or a forecasted transaction). Changes in the fair value of effective fair value hedges are recognized in current earnings (with the change in fair value of the hedged asset or liability also recorded in earnings). Changes in the fair value of effective cash flow hedges are recognized in other comprehensive income (loss) until earnings are affected by the variability in cash flows of the designated hedged item. Ineffective portions of hedge results are recognized in current earnings. Changes in the fair value of derivatives for which hedge accounting is not applied are recognized in current earnings.

People's United formally documents at inception all relationships between the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities, or to specific firm commitments or forecasted transactions. People's United also formally assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of the hedged items. If it is determined that a derivative is not highly effective or has ceased to be a highly effective hedge, People's United would discontinue hedge accounting prospectively. Gains or losses resulting from the termination of a derivative accounted for as a cash flow hedge remain in accumulated other comprehensive income (loss) and are amortized to earnings over the remaining period of the former hedging relationship, provided the hedged item continues to be outstanding or it is probable the forecasted transaction will occur.

People's United uses the dollar offset method, regression analysis and scenario analysis to assess hedge effectiveness at inception and on an ongoing basis. Such methods are chosen based on the nature of the hedge strategy and are used consistently throughout the life of the hedging relationship.

Certain derivative financial instruments are offered to commercial customers to assist them in meeting their financing and investing objectives and for their risk management purposes. These derivative financial instruments consist primarily of interest rate swaps, but also include foreign exchange contracts. The IRR associated with customer interest rate swaps is mitigated by entering into similar derivatives having essentially offsetting terms with institutional counterparties.

Interest rate-lock commitments extended to borrowers relate to the origination of residential mortgage loans. To mitigate the IRR inherent in these commitments, People's United enters into mandatory delivery and best efforts contracts to sell adjustable-rate and fixed-rate residential mortgage loans (servicing released). Forward commitments to sell and interest rate-lock commitments on residential mortgage loans are considered derivatives and their respective estimated fair values are adjusted based on changes in interest rates.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Changes in the fair value of derivatives for which hedge accounting is not applied are recognized in current earnings, including customer derivatives, interest-rate lock commitments and forward sale commitments.

By using derivatives, People's United is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's counterparty credit risk is equal to the amount reported as a derivative asset in the Consolidated Statements of Condition. In accordance with the Company's balance sheet offsetting policy (see Note 12), amounts reported as derivative assets represent derivative contracts in a gain position, without consideration for derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People's United seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, execution of master netting arrangements and obtaining collateral, where appropriate. Counterparties to People's United's derivatives include major financial institutions and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company's external credit rating. If the Company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of master netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2015 was \$11.8 million, for which People's United had posted collateral of \$11.3 million in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$0.5 million in additional collateral would have been required.

The following sections further discuss each class of derivative financial instrument used by People's United, including management's principal objectives and risk management strategies.

Interest Rate Swaps

People's United may, from time to time, enter into interest rate swaps that are used to manage IRR associated with certain interest-earning assets and interest-bearing liabilities.

People's United has entered into a pay fixed/receive floating interest rate swap to hedge the LIBOR-based floating rate payments on the Company's \$125 million subordinated notes (such payments began in February 2012). These notes had a fixed interest rate of 5.80% until February 2012, at which time the interest rate converted to the three-month LIBOR plus 68.5 basis points. People's United has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate (1.99%) and floating-rate interest amounts calculated based on a notional amount of \$125 million. The floating-rate interest amounts received under the swap are calculated using the same floating-rate paid on these notes. The swap effectively converts the variable-rate subordinated notes to a fixed-rate liability and consequently reduces People's United's exposure to increases in interest rates. This swap is accounted for

as a cash flow hedge.

The Bank has entered into a pay floating/receive fixed interest rate swap to hedge the change in fair value of the Bank's \$400 million subordinated notes due to changes in interest rates. The Bank has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated based on a notional amount of \$375 million. The fixed-rate interest payments received on the swap will essentially offset the fixed-rate interest payments made on these notes, notwithstanding the notional difference between these notes and the swap. The floating-rate interest amounts paid under the swap are calculated based on three-month LIBOR plus 126.5 basis points. The swap effectively converts the fixed-rate subordinated notes to a floating-rate liability. This swap is accounted for as a fair value hedge.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Interest Rate Locks

In connection with its planned issuance of senior notes in the fourth quarter of 2012, People's United entered into U.S. Treasury forward interest rate locks (T-Locks) to hedge the risk that the 10-year U.S. Treasury yield component of the underlying coupon of the fixed rate senior notes would rise prior to establishing the fixed interest rate on the senior notes. Upon pricing the senior notes, the T-Locks were terminated and the unrealized gain of \$0.9 million was included (on a net-of-tax basis) as a component of AOCL. The gain is being recognized as a reduction of interest expense over the ten-year period during which the hedged item (\$500 million senior note issuance) affects earnings.

Foreign Exchange Contracts

Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People's United uses these instruments on a limited basis to (i) eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies and (ii) provide foreign exchange contracts on behalf of commercial customers within credit exposure limits. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

Risk Participation Agreements

People's United enters into risk participation agreements under which it may either assume or sell credit risk associated with a borrower's performance under certain interest rate derivative contracts. In those instances in which People's United has assumed credit risk, it is not a party to the derivative contract and has entered into the risk participation agreement because it is also a party to the related loan agreement with the borrower. In those instances in which People's United has sold credit risk, it is a party to the derivative contract and has entered into the risk participation agreement because it sold a portion of the related loan. People's United manages its credit risk under risk participation agreements by monitoring the creditworthiness of the borrower, based on its normal credit review process. The notional amounts of the risk participation agreements reflect People's United's pro-rata share of the derivative contracts, consistent with its share of the related loans.

Customer Derivatives

People's United enters into interest rate swaps with certain of its commercial customers. In order to minimize its risk, these customer derivatives (pay floating/receive fixed swaps) have been offset with essentially matching interest rate swaps with People's United's institutional counterparties (pay fixed/receive floating swaps). Hedge accounting has not been applied for these derivatives. Accordingly, changes in the fair value of all such swaps are recognized in current earnings.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)***Forward Commitments to Sell Residential Mortgage Loans and Related Interest Rate-Lock Commitments*

People's United enters into forward commitments to sell adjustable-rate and fixed-rate residential mortgage loans (all to be sold servicing released) in order to reduce the market risk associated with originating loans for sale in the secondary market. In order to fulfill a forward commitment, People's United delivers originated loans at prices or yields specified by the contract. The risks associated with such contracts arise from the possible inability of counterparties to meet the contract terms or People's United's inability to originate the necessary loans. Gains and losses realized on the forward contracts are reported in the Consolidated Statements of Income as a component of the net gains on sales of residential mortgage loans. In the normal course of business, People's United will commit to an interest rate on a mortgage loan application at the time of application, or anytime thereafter. The risks associated with these interest rate-lock commitments arise if market interest rates change prior to the closing of these loans. Both forward sales commitments and interest rate-lock commitments made to borrowers on held-for-sale loans are accounted for as derivatives, with changes in fair value recognized in current earnings.

The table below provides a summary of the notional amounts and fair values (presented on a gross basis) of derivatives outstanding:

(in millions)	Type of Hedge	Notional Amounts		Fair Values (1)			
		Sept. 30, 2015	Dec. 31, 2014	Assets		Liabilities	
				Sept. 30, 2015	Dec. 31, 2014	Sept. 30, 2015	Dec. 31, 2014
Derivatives Not Designated as Hedging Instruments:							
Interest rate swaps:							
Commercial customers	N/A	\$ 4,287.5	\$ 3,380.2	\$ 172.1	\$ 104.2	\$ 1.0	\$ 8.3
Institutional counterparties	N/A	4,287.5	3,380.2	1.3	11.8	144.4	86.5
Risk participation agreements (2)	N/A	240.4	150.1				
Foreign exchange contracts	N/A	46.9	49.6	0.3	0.8		0.5
Forward commitments to sell residential mortgage loans	N/A	62.3	35.3	1.2	0.5		
Interest rate-lock commitments on residential mortgage loans	N/A	83.4	57.5			1.5	0.7
Total				174.9	117.3	146.9	96.0

Derivatives Designated as Hedging Instruments:

Interest rate swaps:

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Subordinated notes	Cash flow	125.0	125.0			1.2	1.0
Subordinated notes	Fair value	375.0	375.0	25.3	15.1		
Total				25.3	15.1	1.2	1.0
Total derivatives				\$ 200.2	\$ 132.4	\$ 148.1	\$ 97.0

- (1) Assets are recorded in other assets and liabilities are recorded in other liabilities.
(2) Fair value totaled less than \$0.1 million at both dates.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following table summarizes the impact of People's United's derivatives on pre-tax income and AOCL:

Nine months ended September 30 (in millions)	Type of Hedge	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1)		Amount of Pre-Tax Gain (Loss) Recognized in AOCL	
		2015	2014	2015	2014
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps:					
Commercial customers	N/A	\$ 127.8	\$ 100.1	\$	\$
Institutional counterparties	N/A	(116.9)	(94.6)		
Foreign exchange contracts	N/A		0.4		
Risk participation agreements	N/A	(0.2)	(0.1)		
Forward commitments to sell residential mortgage loans	N/A	0.7	0.2		
Interest rate-lock commitments on residential mortgage loans	N/A	(0.8)	(0.3)		
Total		10.6	5.7		
Derivatives Designated as Hedging Instruments:					
Interest rate swaps	Cash flow	(1.0)	(1.0)	(1.2)	(0.4)
Interest rate locks	Cash flow	0.1	0.1		
Interest rate swaps	Fair value	6.9	2.3		
Total		6.0	1.4	(1.2)	(0.4)
Total derivatives		\$ 16.6	\$ 7.1	\$ (1.2)	\$ (0.4)

(1) Amounts recognized in earnings are recorded in interest income, interest expense or other non-interest income for derivatives designated as hedging instruments and in other non-interest income for derivatives not designated as hedging instruments.

NOTE 12. BALANCE SHEET OFFSETTING

Assets and liabilities relating to certain financial instruments, including derivatives, may be eligible for offset in the Consolidated Statements of Condition and/or subject to enforceable master netting arrangements or similar agreements. People's United's derivative transactions with institutional counterparties are generally executed under

International Swaps and Derivative Association (ISDA) master agreements, which include right of set-off provisions that provide for a single net settlement of all interest rate swap positions, as well as collateral, in the event of default on, or the termination of, any one contract. Nonetheless, the Company does not offset asset and liabilities under such arrangements in the Consolidated Statements of Condition.

Collateral (generally in the form of marketable debt securities) pledged by counterparties in connection with derivative transactions is not reported in the Consolidated Statements of Condition unless the counterparty defaults. Collateral that has been pledged by People s United to counterparties continues to be reported in the Consolidated Statements of Condition unless the Company defaults.

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

The following tables provide a gross presentation, the effects of offsetting, and a net presentation of the Company's financial instruments that are eligible for offset in the Consolidated Statements of Condition. The collateral amounts in these tables are limited to the outstanding balances of the related asset or liability (after netting is applied) and, therefore, instances of overcollateralization are not presented. The net amounts of the derivative assets and liabilities can be reconciled to the fair value of the Company's derivative financial instruments in Note 11. The Company's derivative contracts with commercial customers and customer repurchase agreements are not subject to master netting arrangements and, therefore, have been excluded from the tables below.

As of September 30, 2015 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Gross Amounts Financial Instruments	Amounts Not Offset Collateral	Net Amount
Financial assets:						
Interest rate swaps:						
Counterparty A	\$ 0.2	\$	\$ 0.2	\$ (0.2)	\$	\$
Counterparty B	0.4		0.4	(0.4)		
Counterparty C						
Counterparty D	0.5		0.5	(0.5)		
Counterparty E	25.5		25.5	(25.5)		
Other counterparties						
Foreign exchange contracts	0.3		0.3			0.3
Total	\$ 26.9	\$	\$ 26.9	\$ (26.6)	\$	\$ 0.3
Financial liabilities:						
Interest rate swaps:						
Counterparty A	\$ 11.7	\$	\$ 11.7	\$ (0.2)	\$ (11.5)	\$
Counterparty B	13.4		13.4	(0.4)	(13.0)	
Counterparty C	7.1		7.1		(7.0)	0.1
Counterparty D	11.1		11.1	(0.5)	(9.9)	0.7
Counterparty E	95.9		95.9	(25.5)	(70.4)	
Other counterparties	6.4		6.4		(6.3)	0.1
Total	\$ 145.6	\$	\$ 145.6	\$ (26.6)	\$ (118.1)	\$ 0.9

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)**

As of December 31, 2014 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Gross Amounts Financial Instruments	Amounts Not Offset Collateral	Net Amount
Financial assets:						
Interest rate swaps:						
Counterparty A	\$ 2.7	\$	\$ 2.7	\$ (2.7)	\$	\$
Counterparty B	1.5		1.5	(1.5)		
Counterparty C	2.5		2.5	(2.5)		
Counterparty D	3.2		3.2	(0.4)	(2.8)	
Counterparty E	15.7		15.7	(15.7)		
Other counterparties	1.3		1.3	(1.3)		
Securities purchased under agreements to resell	100.0		100.0		(100.0)	
Foreign exchange contracts	0.8		0.8			0.8
Total	\$ 127.7	\$	\$ 127.7	\$ (24.1)	\$ (102.8)	\$ 0.8
Financial liabilities:						
Interest rate swaps:						
Counterparty A	\$ 11.8	\$	\$ 11.8	\$ (2.7)	\$ (9.1)	\$
Counterparty B	11.8		11.8	(1.5)	(10.3)	
Counterparty C	4.5		4.5	(2.5)	(1.9)	0.1
Counterparty D	0.4		0.4	(0.4)		
Counterparty E	47.8		47.8	(15.7)	(32.1)	
Other counterparties	11.2		11.2	(1.3)	(8.9)	1.0
Repurchase agreements (1)	1.0		1.0		(1.0)	
Foreign exchange contracts	0.5		0.5			0.5
Total	\$ 89.0	\$	\$ 89.0	\$ (24.1)	\$ (63.3)	\$ 1.6

(1) Included in other borrowings in the Consolidated Statements of Condition.

NOTE 13. NEW ACCOUNTING STANDARDS***Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure***

In January 2014, the Financial Accounting Standards Board (the "FASB") amended its standards with respect to the accounting for consumer mortgage loans collateralized by residential real estate to clarify that such loans should, upon foreclosure, be reclassified by a creditor as REO when either (i) the creditor obtains legal title to the real estate

collateral or (ii) a deed in lieu of foreclosure, conveying all interest in the real estate to the creditor, is completed. In addition, the amendment requires a creditor to provide additional disclosures with respect to (i) the amount of residential real estate meeting the conditions set forth above and (ii) the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure. This amendment, which is being applied prospectively, became effective for People's United on January 1, 2015 and did not have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Revenue Recognition

In May 2014, the FASB amended its standards with respect to revenue recognition. The amended guidance serves to replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance, providing a unified model to determine when and how revenue is recognized. The underlying principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments also require enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. As originally issued, this new guidance, which can be applied retrospectively or through the use of the cumulative effect transition method, was to become effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2016 (January 1, 2017 for People's United) and early adoption was not permitted. In July 2015, the FASB approved a one-year deferral of the effective date (to January 1, 2018 for People's United) with early adoption, as of the original effective date, permitted. The Company is currently evaluating the impact of the amended guidance on the Company's Consolidated Financial Statements.

Repurchase Agreements

In June 2014, the FASB amended its standards with respect to repurchase agreements to (i) require that repurchase-to-maturity transactions be accounted for as secured borrowings, thereby eliminating the possibility of such transactions qualifying for sale accounting treatment, and (ii) eliminate existing guidance for repurchase financings. The amendment also requires enhanced disclosures for certain transactions accounted for as secured borrowings and transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. In adopting this new guidance, all entities must report changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. This amendment became effective for People's United on January 1, 2015 and did not have a significant impact on the Company's Consolidated Financial Statements as none of the Company's repurchase agreements represent repurchase-to-maturity transactions or repurchase financings and all repurchase agreements have been accounted for as secured borrowings.

Stock Compensation

In June 2014, the FASB amended its standards with respect to stock compensation to require that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. The amendment further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to those periods for which the requisite service has already been rendered. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for People's United) and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. The adoption of this amendment, for which early adoption is permitted, is not expected to have a significant impact on the Company's Consolidated Financial

Statements.

Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure

In August 2014, the FASB amended its standards with respect to the classification of certain government-guaranteed residential mortgage loans to clarify that upon foreclosure of mortgage loans within the scope of the standard, a creditor will be required to reclassify the previously existing mortgage loan to a separate receivable from the guarantor, measured at the amount of the guarantee that it expects to collect. This amendment, which is being applied prospectively, became effective for People's United on January 1, 2015 and did not have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Consolidation

In February 2015, the FASB amended its standards with respect to the analysis that a reporting entity must perform in determining whether certain types of legal entities should be consolidated. The amendment modifies the evaluation of whether limited partnerships or similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. This new guidance, which can be applied retrospectively or through the use of the cumulative effect transition method, is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for People's United) with early adoption permitted. The Company is currently evaluating the impact of the amended guidance on the Company's Consolidated Financial Statements.

Presentation of Debt Issuance Costs

In April 2015, the FASB amended its standards with respect to the presentation of debt issuance costs by changing the required presentation of such costs from an asset on the balance sheet to a deduction from the related debt liability. For public business entities this new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for People's United) and is to be applied retrospectively. The adoption of this amendment is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Retirement Benefits

In April 2015, the FASB amended its standards with respect to the accounting for retirement benefits by providing a practical expedient, for entities with fiscal year-ends that do not coincide with a month-end, permitting such entities to measure defined benefit plan assets and obligations using the month-end that is closest to its fiscal year-end. This practical expedient is to be applied consistently from year to year and to all plans if an entity has more than one plan. Further, in cases where a significant event caused by the entity (such as a plan amendment, curtailment or settlement) that requires the remeasurement of defined benefit plan assets and obligations does not coincide with a month-end, entities may elect to remeasure both plan assets and obligations using the month-end that is closest to the date of the significant event. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for People's United) and are to be applied prospectively. The adoption of this new guidance is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Business Combinations

In September 2015, the FASB amended its standards with respect to business combinations to eliminate the requirement to restate prior period financial statements for measurement period adjustments. Instead, the amended guidance requires that, during the measurement period, an acquirer recognize adjustments of previously recorded provisional amounts in the reporting period in which such adjustments are determined. In doing so, the acquirer would be required to record the cumulative effect of measurement period adjustments on current and prior period earnings,

including the prior period impact on depreciation, amortization or other income statement items. The amended standard also contains additional disclosure requirements with respect to measurement period adjustments. This new guidance is effective for fiscal years beginning after December 15, 2015 (January 1, 2016 for People's United) and is to be applied prospectively. Earlier application is permitted for financial statements that have not yet been made available for issuance. The adoption of this amendment is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Periodic and other filings made by People's United Financial, Inc. ("People's United" or the "Company") with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") may, from time to time, contain information and statements that are forward-looking in nature. Such filings include the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and may include other forms such as proxy statements. Other written or oral statements made by People's United or its representatives from time to time may also contain forward-looking statements.

In general, forward-looking statements usually use words such as "expect," "anticipate," "believe," "should," and similar expressions, and include all statements about People's United's operating results or financial position for future periods. Forward-looking statements represent management's beliefs, based upon information available at the time the statements are made, with regard to the matters addressed; they are not guarantees of future performance.

All forward-looking statements are subject to risks and uncertainties that could cause People's United's actual results or financial condition to differ materially from those expressed in or implied by such statements. Factors of particular importance to People's United include, but are not limited to: (1) changes in general, international, national or regional economic conditions; (2) changes in interest rates; (3) changes in loan default and charge-off rates; (4) changes in deposit levels; (5) changes in levels of income and expense in non-interest income and expense related activities; (6) changes in accounting and regulatory guidance applicable to banks; (7) price levels and conditions in the public securities markets generally; (8) competition and its effect on pricing, spending, third-party relationships and revenues; and (9) changes in regulation resulting from or relating to financial reform legislation.

All forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. People's United does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**Selected Consolidated Financial Information**

(dollars in millions, except per share data)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Earnings Data:					
Net interest income (fully taxable equivalent)	\$ 241.1	\$ 237.0	\$ 233.3	\$ 712.0	\$ 697.9
Net interest income	234.8	230.4	228.5	693.3	683.8
Provision for loan losses	6.2	7.7	12.4	23.7	30.7
Non-interest income (1)	87.1	83.0	84.0	259.1	264.0
Non-interest expense	214.2	211.8	208.8	643.6	633.8
Operating non-interest expense (2)	214.1	208.8	206.7	634.5	624.9
Income before income tax expense	101.5	93.9	91.3	285.1	283.3
Net income	68.4	61.7	61.6	189.3	187.0
Operating earnings (2)	68.4	63.7	63.0	195.3	179.4
Selected Statistical Data:					
Net interest margin (3)	2.87%	2.88%	3.05%	2.89%	3.12%
Return on average assets (3)	0.73	0.67	0.72	0.69	0.75
Operating return on average assets (2), (3)	0.73	0.70	0.74	0.71	0.72
Return on average tangible assets (3)	0.78	0.71	0.77	0.73	0.80
Return on average stockholders' equity (3)	5.8	5.3	5.3	5.4	5.4
Return on average tangible stockholders' equity (3)	10.5	9.5	9.7	9.7	10.0
Operating return on average tangible stockholders' equity (2), (3)	10.5	9.8	9.9	10.1	9.6
Efficiency ratio (2)	61.7	61.6	61.4	61.7	62.4
Common Share Data:					
Basic and diluted earnings per share	\$ 0.23	\$ 0.20	\$ 0.21	\$ 0.63	\$ 0.62
Operating earnings per share (2)	0.23	0.21	0.21	0.65	0.60
Dividends paid per share	0.1675	0.1675	0.165	0.50	0.4925
Dividend payout ratio	73.9%	81.8%	80.2%	79.5%	78.8%
Operating dividend payout ratio (2)	73.9	79.2	78.4	77.1	82.2
Book value per share (end of period)	\$ 15.64	\$ 15.51	\$ 15.52	\$ 15.64	\$ 15.52
Tangible book value per share (end of period) (2)	8.75	8.59	8.49	8.75	8.49
Stock price:					
High	16.95	16.64	15.32	16.95	15.70
Low	14.69	14.92	14.24	13.97	13.73
Close (end of period)	15.73	16.21	14.47	15.73	14.47

- (1) Nine months ended September 30, 2014 includes a \$20.6 million net gain (pre-tax) resulting from the formation of a merchant services joint venture.
- (2) See Non-GAAP Financial Measures and Reconciliation to GAAP.
- (3) Annualized.

Table of Contents

(dollars in millions)	As of and for the Three Months Ended				
	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
Financial Condition Data:					
Total assets	\$ 37,478	\$ 37,183	\$ 36,407	\$ 35,997	\$ 34,775
Loans	27,672	27,562	26,929	26,592	25,954
Securities	5,921	5,756	5,577	5,012	4,687
Short-term investments (1)	245	196	250	769	508
Allowance for loan losses	208	205	201	198	197
Goodwill and other acquisition-related intangible assets	2,085	2,091	2,097	2,103	2,109
Deposits	28,280	27,435	27,150	26,138	25,261
Borrowings	2,997	3,563	3,143	3,692	3,416
Notes and debentures	1,045	1,030	1,042	1,034	1,022
Stockholders' equity	4,731	4,686	4,682	4,633	4,655
Total risk-weighted assets (2):					
People's United	28,990	28,688	28,100	27,513	26,967
People's United Bank	28,953	28,648	28,084	27,454	26,931
Non-performing assets (3)	210	221	209	224	229
Net loan charge-offs	4.1	3.2	7.2	8.5	8.1
Average Balances:					
Loans	\$ 27,496	\$ 27,125	\$ 26,504	\$ 26,136	\$ 25,611
Securities (4)	5,880	5,577	5,325	4,718	4,691
Short-term investments (1)	245	223	276	276	254
Total earning assets	33,621	32,925	32,105	31,130	30,556
Total assets	37,257	36,617	35,768	34,763	34,150
Deposits	27,810	27,236	26,579	25,781	24,660
Borrowings	3,304	3,215	3,018	2,854	3,443
Notes and debentures	1,034	1,040	1,041	1,027	1,022
Total funding liabilities	32,148	31,491	30,638	29,662	29,125
Stockholders' equity	4,700	4,689	4,663	4,679	4,648
Ratios:					
Net loan charge-offs to average total loans (annualized)	0.06%	0.05%	0.11%	0.13%	0.13%
Non-performing assets to originated loans, real estate owned and repossessed assets (3)	0.78	0.83	0.80	0.88	0.92
Originated allowance for loan losses to:					
Originated loans (3)	0.74	0.73	0.74	0.74	0.75
Originated non-performing loans (3)	108.1	102.9	107.5	95.5	94.1
Average stockholders' equity to average total assets	12.6	12.8	13.0	13.5	13.6
Stockholders' equity to total assets	12.6	12.6	12.9	12.9	13.4
Tangible stockholders' equity to tangible assets (5)	7.5	7.4	7.5	7.5	7.8
Total risk-based capital (2):					
People's United	11.8	11.8	11.9	12.2	12.3

People's United Bank	12.8	12.9	13.1	13.0	13.2
----------------------	------	------	------	------	------

- (1) Includes securities purchased under agreements to resell.
- (2) September, June and March 2015 calculated in accordance with Basel III capital rules. See Regulatory Capital Requirements.
- (3) Excludes acquired loans.
- (4) Average balances for securities are based on amortized cost.
- (5) See Non-GAAP Financial Measures and Reconciliation to GAAP.

Table of Contents**Non-GAAP Financial Measures and Reconciliation to GAAP**

In addition to evaluating People's United's results of operations in accordance with U.S. generally accepted accounting principles (GAAP), management routinely supplements its evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency and tangible equity ratios, tangible book value per share and operating earnings metrics. Management believes these non-GAAP financial measures provide information useful to investors in understanding People's United's underlying operating performance and trends, and facilitates comparisons with the performance of other financial institutions. Further, the efficiency ratio and operating earnings metrics are used by management in its assessment of financial performance, including non-interest expense control, while the tangible equity ratio and tangible book value per share are used to analyze the relative strength of People's United's capital position.

The efficiency ratio, which represents an approximate measure of the cost required by People's United to generate a dollar of revenue, is the ratio of (i) total non-interest expense (excluding goodwill impairment charges, amortization of other acquisition-related intangible assets, losses on real estate assets and non-recurring expenses, which are also excluded in arriving at operating non-interest expense) (the numerator) to (ii) net interest income on a fully taxable equivalent (FTE) basis plus total non-interest income (including the FTE adjustment on bank-owned life insurance (BOLI) income, and excluding gains and losses on sales of assets other than residential mortgage loans and acquired loans, and non-recurring income) (the denominator). In addition, operating lease expense is excluded from total non-interest expense and netted against operating lease income within non-interest income to conform with the reporting approach applied to fee-based businesses already presented on a net basis. People's United generally considers an item of income or expense to be non-recurring if it is not similar to an item of income or expense of a type incurred within the last two years and is not similar to an item of income or expense of a type reasonably expected to be incurred within the following two years.

Operating earnings exclude from net income those items that management considers to be of such a non-recurring or infrequent nature that, by excluding such items (net of income taxes), People's United's results can be measured and assessed on a more consistent basis from period to period. Items excluded from operating earnings, which include, but are not limited to: (i) non-recurring gains/losses; (ii) writedowns of banking house assets; (iii) severance-related costs; (iv) merger-related expenses, including acquisition integration and other costs; and (v) charges related to executive-level management separation costs, are generally also excluded when calculating the efficiency ratio. Operating earnings per share (EPS) is derived by determining the per share impact of the respective adjustments to arrive at operating earnings and adding (subtracting) such amounts to (from) GAAP EPS. Operating return on average assets is calculated by dividing operating earnings by average total assets. Operating return on average tangible stockholders' equity is calculated by dividing operating earnings by average tangible stockholders' equity. The operating dividend payout ratio is calculated by dividing dividends paid by operating earnings for the respective period.

The tangible equity ratio is the ratio of (i) tangible stockholders' equity (total stockholders' equity less goodwill and other acquisition-related intangible assets) (the numerator) to (ii) tangible assets (total assets less goodwill and other acquisition-related intangible assets) (the denominator). Tangible book value per share is calculated by dividing tangible stockholders' equity by common shares (total common shares issued, less common shares classified as treasury shares and unallocated Employee Stock Ownership Plan (ESOP) common shares).

In light of diversity in presentation among financial institutions, the methodologies used by People's United for determining the non-GAAP financial measures discussed above may differ from those used by other financial

institutions.

Table of Contents

The following table summarizes People's United's operating non-interest expense and efficiency ratio, as derived from amounts reported in the Consolidated Statements of Income:

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Total non-interest expense	\$ 214.2	\$ 211.8	\$ 208.8	\$ 643.6	\$ 633.8
Adjustments to arrive at operating non-interest expense:					
Writedowns of banking house assets		(2.7)	(1.8)	(8.0)	(6.2)
Severance-related costs	(0.1)	(0.3)	(0.3)	(1.1)	(2.7)
Total	(0.1)	(3.0)	(2.1)	(9.1)	(8.9)
Operating non-interest expense	214.1	208.8	206.7	634.5	624.9
Operating lease expense (1)	(9.2)	(9.2)	(8.7)	(27.7)	(28.5)
Amortization of other acquisition-related intangible assets	(5.9)	(6.0)	(6.2)	(17.8)	(18.6)
Other (2)	(1.8)	(1.8)	(2.2)	(5.6)	(7.9)
Total non-interest expense for efficiency ratio	\$ 197.2	\$ 191.8	\$ 189.6	\$ 583.4	\$ 569.9
Net interest income (FTE basis)	\$ 241.1	\$ 237.0	\$ 233.3	\$ 712.0	\$ 697.9
Total non-interest income	87.1	83.0	84.0	259.1	264.0
Total revenues	328.2	320.0	317.3	971.1	961.9
Adjustments:					
Operating lease expense (1)	(9.2)	(9.2)	(8.7)	(27.7)	(28.5)
BOLI FTE adjustment	0.6	0.7	0.7	1.9	1.9
Net security gains			(0.2)		(0.3)
Gain on merchant services joint venture, net of expenses					(20.6)
Other (3)	(0.1)		(0.5)	(0.1)	(0.6)
Total revenues for efficiency ratio	\$ 319.5	\$ 311.5	\$ 308.6	\$ 945.2	\$ 913.8
Efficiency ratio	61.7%	61.6%	61.4%	61.7%	62.4%

(1)

Operating lease expense is excluded from total non-interest expense and netted against operating lease income within non-interest income to conform with the reporting approach applied to fee-based businesses already presented on a net basis.

- (2) Items classified as other and deducted from non-interest expense for purposes of calculating the efficiency ratio include, as applicable, certain franchise taxes, real estate owned expenses, contract termination costs and non-recurring expenses.
- (3) Items classified as other and added to (deducted from) total revenues for purposes of calculating the efficiency ratio include, as applicable, asset write-offs and gains associated with the sale of branch locations.

Table of Contents

The following table summarizes People's United's operating earnings, operating EPS and operating return on average assets:

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
(dollars in millions, except per share data)					
Net income, as reported	\$ 68.4	\$ 61.7	\$ 61.6	\$ 189.3	\$ 187.0
Adjustments to arrive at operating earnings:					
Writedowns of banking house assets		2.7	1.8	8.0	6.2
Severance-related costs	0.1	0.3	0.3	1.1	2.7
Gain on merchant services joint venture, net of expenses					(20.6)
Total pre-tax adjustments	0.1	3.0	2.1	9.1	(11.7)
Tax effect	(0.1)	(1.0)	(0.7)	(3.1)	4.1
Total adjustments, net of tax		2.0	1.4	6.0	(7.6)
Operating earnings	\$ 68.4	\$ 63.7	\$ 63.0	\$ 195.3	\$ 179.4
EPS, as reported	\$ 0.23	\$ 0.20	\$ 0.21	\$ 0.63	\$ 0.62
Adjustments to arrive at operating EPS:					
Writedowns of banking house assets		0.01		0.02	0.01
Severance-related costs					0.01
Gain on merchant services joint venture, net of expenses					(0.04)
Total adjustments per share		0.01		0.02	(0.02)
Operating EPS	\$ 0.23	\$ 0.21	\$ 0.21	\$ 0.65	\$ 0.60
Average total assets	\$ 37,257	\$ 36,617	\$ 34,150	\$ 36,553	\$ 33,412
Operating return on average assets (annualized)	0.73%	0.70%	0.74%	0.71%	0.72%

The following tables summarize People's United's operating return on average tangible stockholders' equity and operating dividend payout ratio:

Edgar Filing: People's United Financial, Inc. - Form 10-Q

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Operating earnings	\$ 68.4	\$ 63.7	\$ 63.0	\$ 195.3	\$ 179.4
Average stockholders' equity	\$ 4,700	\$ 4,689	\$ 4,648	\$ 4,684	\$ 4,607
Less: Average goodwill and average other acquisition-related intangible assets	2,088	2,094	2,112	2,094	2,118
Average tangible stockholders' equity	\$ 2,612	\$ 2,595	\$ 2,536	\$ 2,590	\$ 2,489
Operating return on average tangible stockholders' equity (annualized)	10.5%	9.8%	9.9%	10.1%	9.6%

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Dividends paid	\$ 50.6	\$ 50.5	\$ 49.4	\$ 150.6	\$ 147.4
Operating earnings	\$ 68.4	\$ 63.7	\$ 63.0	\$ 195.3	\$ 179.4
Operating dividend payout ratio	73.9%	79.2%	78.4%	77.1%	82.2%

Table of Contents

The following tables summarize People's United's tangible equity ratio and tangible book value per share derived from amounts reported in the Consolidated Statements of Condition:

(dollars in millions)	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
Total stockholders' equity	\$ 4,731	\$ 4,686	\$ 4,682	\$ 4,633	\$ 4,655
Less: Goodwill and other acquisition-related intangible assets	2,085	2,091	2,097	2,103	2,109
Tangible stockholders' equity	\$ 2,646	\$ 2,595	\$ 2,585	\$ 2,530	\$ 2,546
Total assets	\$ 37,478	\$ 37,183	\$ 36,407	\$ 35,997	\$ 34,775
Less: Goodwill and other acquisition-related intangible assets	2,085	2,091	2,097	2,103	2,109
Tangible assets	\$ 35,393	\$ 35,092	\$ 34,310	\$ 33,894	\$ 32,666
Tangible equity ratio	7.5%	7.4%	7.5%	7.5%	7.8%

(in millions, except per share data)	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
Tangible stockholders' equity	\$ 2,646	\$ 2,595	\$ 2,585	\$ 2,530	\$ 2,546
Common shares issued	398.84	398.66	397.81	396.85	396.71
Less: Common shares classified as treasury shares	89.05	89.06	89.05	89.05	89.04
Unallocated ESOP common shares	7.40	7.49	7.58	7.67	7.75
Common shares	302.39	302.11	301.18	300.13	299.92
Tangible book value per share	\$ 8.75	\$ 8.59	\$ 8.58	\$ 8.43	\$ 8.49

Financial Overview

People's United reported net income of \$68.4 million, or \$0.23 per diluted share, for the three months ended September 30, 2015, compared to \$61.6 million, or \$0.21 per diluted share, for the year-ago period. Operating earnings were \$68.4 million, or \$0.23 per share, and \$63.0 million, or \$0.21 per share, for the respective periods. Compared to the year-ago period, third quarter 2015 earnings reflect continued loan and deposit growth, meaningful cost control and the negative impact of the historically low interest rate environment. People's United's operating return

on average assets was 0.73% for the three months ended September 30, 2015 compared to 0.74% for the year-ago period. Operating return on average tangible stockholders' equity was 10.5% for the three months ended September 30, 2015 compared to 9.9% for the year-ago period.

Net income for the nine months ended September 30, 2015 totaled \$189.3 million, or \$0.63 per diluted share, compared to \$187.0 million, or \$0.62 per diluted share, for the year-ago period. Included in the results for the nine months ended September 30, 2014 is a net after-tax gain of \$13.4 million (\$0.04 per share) resulting from the formation of a merchant services joint venture. Operating earnings were \$195.3 million, or \$0.65 per share, and \$179.4 million, or \$0.60 per share, for the respective periods. People's United's operating return on average assets was 0.71% for the nine months ended September 30, 2015 compared to 0.72% for the year-ago period. Operating return on average tangible stockholders' equity was 10.1% for the nine months ended September 30, 2015 compared to 9.6% for the year-ago period. FTE net interest income totaled \$712.0 million for the nine months ended September 30, 2015, a \$14.1 million increase from the year-ago period and the net interest margin decreased 23 basis points to 2.89%.

Table of Contents

Compared to the third quarter of 2014, FTE net interest income increased \$7.8 million to \$241.1 million and the net interest margin decreased 18 basis points to 2.87%. FTE net interest income increased \$4.1 million and the net interest margin decreased one basis point compared to the second quarter of 2015 (see Net Interest Income).

Average total earning assets increased \$3.1 billion compared to the third quarter of 2014, primarily reflecting increases of \$1.9 billion in average total loans and \$1.2 billion in average securities. Average total funding liabilities increased \$3.0 billion compared to the year-ago quarter, reflecting a \$3.2 billion increase in average total deposits partially offset by a \$139 million decrease in average total borrowings.

Compared to the year-ago quarter, total non-interest income increased \$3.1 million and total non-interest expense increased \$5.4 million. The efficiency ratio was 61.7% for the third quarter of 2015 compared to 61.4% for the year-ago period (see Non-Interest Income and Non-Interest Expense).

The provision for loan losses in the third quarter of 2015 totaled \$6.2 million compared to \$12.4 million in the year-ago quarter. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.06% in the third quarter of 2015 compared to 0.13% in the year-ago quarter. The allowance for loan losses on originated loans was \$198.1 million at September 30, 2015, a \$10.0 million increase from December 31, 2014. The allowance for loan losses on acquired loans was \$9.4 million and \$10.2 million at September 30, 2015 and December 31, 2014, respectively. Non-performing assets (excluding acquired non-performing loans) totaled \$209.6 million at September 30, 2015, a \$14.5 million decrease from December 31, 2014. At September 30, 2015, the originated allowance for loan losses as a percentage of originated loans was 0.74% and as a percentage of originated non-performing loans was 108.1%, compared to 0.74% and 95.5%, respectively, at December 31, 2014 (see Asset Quality).

People's United's total stockholders' equity was \$4.7 billion at September 30, 2015 compared to \$4.6 billion at December 31, 2014. Stockholders' equity as a percentage of total assets was 12.6% at September 30, 2015 compared to 12.9% at December 31, 2014. Tangible stockholders' equity as a percentage of tangible assets was 7.5% at both September 30, 2015 and December 31, 2014 (see Stockholders' Equity and Dividends). People's United's and People's United Bank, N.A. (the Bank) total risk-based capital ratios were 11.8% and 12.8%, respectively, at September 30, 2015 (calculated in accordance with Basel III capital rules effective January 1, 2015) compared to 12.2% and 13.0%, respectively, at December 31, 2014 (see Regulatory Capital Requirements).

Segment Results

Public companies are required to report (i) certain financial and descriptive information about reportable operating segments, as defined, and (ii) certain enterprise-wide financial information about products and services, geographic areas and major customers. Operating segment information is reported using a management approach that is based on the way management organizes the segments for purposes of making operating decisions and assessing performance.

People's United's operations are divided into three primary operating segments that represent its core businesses: Commercial Banking; Retail Banking; and Wealth Management. In addition, the Treasury area manages People's United's securities portfolio, short-term investments, brokered deposits, wholesale borrowings and the funding center.

The Company's operating segments have been aggregated into two reportable segments: Commercial Banking and Retail Banking. These reportable segments have been identified and organized based on the nature of the underlying products and services applicable to each segment, the type of customers to whom those products and services are

offered and the distribution channel through which those products and services are made available. With respect to Wealth Management, this presentation results in the allocation of the Company's insurance business and certain trust activities to the Commercial Banking segment, and the allocation of the Company's brokerage business and certain other trust activities to the Retail Banking segment.

Table of Contents

People's United uses an internal profitability reporting system, which generates information by operating segment based on a series of management estimates and allocations regarding funds transfer pricing (FTP), the provision for loan losses, non-interest expense and income taxes. These estimates and allocations, some of which are subjective in nature, are subject to periodic review and refinement. Any changes in estimates and allocations that may affect the reported results of any segment will not affect the consolidated financial position or results of operations of People's United as a whole.

FTP, which is used in the calculation of each operating segment's net interest income, measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income (see Treasury). For fixed-term assets and liabilities, the FTP rate is assigned at the time the asset or liability is originated by reference to the Company's FTP yield curve, which is updated daily. For non-maturity-term assets and liabilities, the FTP rate is determined based upon the underlying characteristics, or behavior, of each particular product and results in the use of a historical rolling average FTP rate determined over a period that is most representative of the average life of the particular asset or liability. While the Company's FTP methodology serves to remove interest rate risk (IRR) from the operating segments and better facilitate pricing decisions, thereby allowing management to more effectively assess the longer-term profitability of an operating segment, it may, in sustained periods of low and/or high interest rates, result in a measure of operating segment net interest income that is not reflective of current interest rates.

During the first quarter of 2015, the Company modified its FTP methodology relating to certain deposit products that resulted in a reduction in the funding credit recognized within net interest income for Commercial Banking and Retail Banking, with the offset reflected in Treasury. Prior period segment results have not been adjusted and continue to reflect the previous FTP methodology.

A five-year rolling average net charge-off rate is used as the basis for the provision for loan losses for the respective operating segment in order to present a level of portfolio credit cost that is representative of the Company's historical experience, without presenting the potential volatility from year-to-year changes in credit conditions. While this method of allocation allows management to more effectively assess the longer-term profitability of a segment, it may result in a measure of segment provision for loan losses that does not reflect actual incurred losses for the periods presented.

People's United allocates a majority of non-interest expenses to each operating segment using a full-absorption costing process (i.e. all expenses are fully-allocated to the segments). Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate operating segment and corporate overhead costs are allocated to the operating segments. During the first quarter of 2015, the Company modified its cost allocation methodology with respect to the allocation of branch costs associated with servicing certain customers, which resulted in an increase in non-interest expense for Commercial Banking and Wealth Management, with the offset reflected in Retail Banking. Prior period segment results have not been adjusted and continue to reflect the previous cost allocation methodology. Income tax expense is allocated to each operating segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the year. Average total assets and average total liabilities are presented for each reportable segment due to management's reliance, in part, on such average balances for purposes of assessing segment performance.

Average total assets of each reportable segment include allocated goodwill and intangible assets, both of which are reviewed for impairment at least annually. For the purpose of goodwill impairment evaluations, management has identified reporting units based upon the Company's three operating segments: Commercial Banking; Retail Banking; and Wealth Management. The impairment evaluation is performed as of an annual date or more frequently if a

triggering event indicates that impairment may have occurred.

Table of Contents

Entities have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity is not required to perform the two-step impairment test as described below. In 2014, People's United elected to perform the two-step impairment test in its evaluation of goodwill impairment as of October 1st (the annual impairment evaluation date).

The first step (Step 1) is used to identify potential impairment, and involves comparing each reporting unit's estimated fair value to its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is not deemed to be impaired. Should the carrying amount of the reporting unit exceed its estimated fair value, an indicator of potential impairment is deemed to exist and a second step is performed to measure the amount of such impairment, if any. At this time, management believes that none of the Company's identified reporting units are at risk of failing the Step 1 goodwill impairment test.

Segment Performance Summary

Three months ended

September 30, 2015

(in millions)	Commercial Banking	Retail Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 139.5	\$ 86.1	\$ 225.6	\$ 16.6	\$ (7.4)	\$ 234.8
Provision for loan losses	12.1	3.8	15.9		(9.7)	6.2
Total non-interest income	41.4	43.6	85.0	2.3	(0.2)	87.1
Total non-interest expense	79.5	131.7	211.2	0.1	2.9	214.2
Income (loss) before income tax expense (benefit)	89.3	(5.8)	83.5	18.8	(0.8)	101.5
Income tax expense (benefit)	29.1	(1.9)	27.2	6.2	(0.3)	33.1
Net income (loss)	\$ 60.2	\$ (3.9)	\$ 56.3	\$ 12.6	\$ (0.5)	\$ 68.4
Average total assets	\$ 21,636.0	\$ 8,525.0	\$ 30,161.0	\$ 6,541.5	\$ 554.5	\$ 37,257.0
Average total liabilities	5,545.9	19,342.4	24,888.3	7,422.7	245.5	32,556.5

Nine months ended

September 30, 2015

(in millions)	Commercial Banking	Retail Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 410.7	\$ 258.4	\$ 669.1	\$ 45.8	\$ (21.6)	\$ 693.3
Provision for loan losses	35.4	11.4	46.8		(23.1)	23.7

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total non-interest income	123.6	127.7	251.3	7.9	(0.1)	259.1
Total non-interest expense	232.3	392.3	624.6	5.9	13.1	643.6
Income (loss) before income tax expense (benefit)	266.6	(17.6)	249.0	47.8	(11.7)	285.1
Income tax expense (benefit)	89.6	(6.0)	83.6	16.2	(4.0)	95.8
Net income (loss)	\$ 177.0	\$ (11.6)	\$ 165.4	\$ 31.6	\$ (7.7)	\$ 189.3
Average total assets	\$ 21,313.1	\$ 8,426.0	\$ 29,739.1	\$ 6,230.7	\$ 583.2	\$ 36,553.0
Average total liabilities	5,228.6	19,268.3	24,496.9	7,087.4	284.5	31,868.8

Table of Contents

Commercial Banking consists principally of commercial real estate lending, commercial and industrial lending, and commercial deposit gathering activities. This segment also includes the equipment financing operations of People's Capital and Leasing Corp. (PCLC) and People's United Equipment Finance Corp., as well as cash management, correspondent banking and municipal banking. In addition, Commercial Banking consists of institutional trust services, corporate trust, insurance services provided through People's United Insurance Agency, Inc. and private banking.

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net interest income	\$ 139.5	\$ 133.9	\$ 410.7	\$ 381.2
Provision for loan losses	12.1	12.3	35.4	34.6
Total non-interest income	41.4	36.6	123.6	105.6
Total non-interest expense	79.5	71.8	232.3	203.8
Income before income tax expense	89.3	86.4	266.6	248.4
Income tax expense	29.1	28.2	89.6	84.3
Net income	\$ 60.2	\$ 58.2	\$ 177.0	\$ 164.1
Average total assets	\$ 21,636.0	\$ 19,809.7	\$ 21,313.1	\$ 18,913.4
Average total liabilities	5,545.9	4,364.9	5,228.6	4,108.9

Commercial Banking net income increased \$2.0 million compared to the third quarter of 2014, reflecting increases in net interest income and non-interest income partially offset by an increase in non-interest expense. The \$5.6 million increase in net interest income primarily reflects continued loan growth partially offset by continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new originations at rates lower than the existing portfolio and declining interest income on acquired loans. The \$4.8 million increase in non-interest income compared to the year-ago period primarily reflects increases in customer interest rate swap income and commercial banking lending fees. The \$7.7 million increase in non-interest expense in the third quarter of 2015 compared to the third quarter of 2014 primarily reflects a higher level of direct (including operating lease expense) and allocated expenses. Average total assets increased \$1.8 billion and average total liabilities increased \$1.1 billion compared to the third quarter of 2014, reflecting loan and deposit growth. In addition, during the three months ended March 31, 2015, certain customer loans and deposits were transferred from Retail Banking to Commercial Banking to better align with the Bank's customer relationship management approach.

Table of Contents

Retail Banking includes, as its principal business lines, consumer lending (including residential mortgage and home equity lending) and consumer business deposit gathering activities. In addition, Retail Banking consists of brokerage, financial advisory services, investment management services and life insurance provided by People's Securities, Inc. and non-institutional trust services.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net interest income	\$ 86.1	\$ 99.0	\$ 258.4	\$ 313.2
Provision for loan losses	3.8	4.2	11.4	13.1
Total non-interest income	43.6	43.1	127.7	125.7
Total non-interest expense	131.7	128.3	392.3	398.2
(Loss) income before income tax (benefit) expense	(5.8)	9.6	(17.6)	27.6
Income tax (benefit) expense	(1.9)	3.1	(6.0)	9.4
Net (loss) income	\$ (3.9)	\$ 6.5	\$ (11.6)	\$ 18.2
Average total assets	\$ 8,525.0	\$ 8,451.7	\$ 8,426.0	\$ 8,621.2
Average total liabilities	19,342.4	19,050.4	19,268.3	19,152.9

Retail Banking's net loss in the third quarter of 2015 compared to net income in the third quarter of 2014 primarily reflects a \$12.9 million decrease in net interest income. The decrease in net interest income primarily reflects continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new originations at rates lower than the existing portfolio and declining interest income on acquired loans, and lower FTP funding credits, partially offset by an increase in average residential mortgage loans. The \$0.5 million increase in non-interest income primarily reflects an increase in net gains on sales of residential mortgage loans. The \$3.4 million increase in non-interest expense primarily reflects a higher level of allocated expenses partially offset by a lower level of direct expenses. Average total assets increased \$73 million and average total liabilities increased \$292 million compared to the third quarter of 2014. During the three months ended March 31, 2015, certain customer loans and deposits were transferred from Retail Banking to Commercial Banking to better align with the Bank's customer relationship management approach.

Table of Contents

Treasury encompasses the securities portfolio, short-term investments, brokered deposits, wholesale borrowings and the funding center, which includes the impact of derivative financial instruments used for risk management purposes.

The income or loss for the funding center represents the IRR component of People's United's net interest income as calculated by its FTP model in deriving each operating segment's net interest income. Under this process, the funding center buys funds from liability-generating business lines, such as consumer deposits, and sells funds to asset-generating business lines, such as commercial lending. The price at which funds are bought and sold on any given day is set by People's United's Treasury group and is based on the wholesale cost to People's United of assets and liabilities with similar maturities. Liability-generating businesses sell newly-originated liabilities to the funding center and recognize a funding credit, while asset-generating businesses buy funding for newly-originated assets from the funding center and recognize a funding charge. Once funding for an asset is purchased from or a liability is sold to the funding center, the price that is set by the Treasury group will remain with that asset or liability until it matures or reprices, which effectively transfers responsibility for managing IRR to the Treasury group.

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net interest income	\$ 16.6	\$ 1.7	\$ 45.8	\$ 6.2
Total non-interest income	2.3	2.5	7.9	6.0
Total non-interest expense	0.1	1.2	5.9	5.7
Income before income tax expense	18.8	3.0	47.8	6.5
Income tax expense	6.2	1.0	16.2	2.3
Net income	\$ 12.6	\$ 2.0	\$ 31.6	\$ 4.2
Average total assets	\$ 6,541.5	\$ 5,247.9	\$ 6,230.7	\$ 5,246.9
Average total liabilities	7,422.7	5,778.8	7,087.4	5,229.0

Treasury's net income increased \$10.6 million in the third quarter of 2015 compared to the third quarter of 2014. The \$14.9 million improvement in net interest income primarily reflects lower FTP funding costs and an increase in securities income, partially offset by an increase in interest expense. The decrease in non-interest income primary reflects a decrease in BOLI income. The decrease in non-interest expense primarily reflects a decrease in direct expenses partially offset by an increase allocated expenses. Average total assets increased \$1.3 billion compared to the third quarter of 2014, primarily reflecting an increase in average securities. The \$1.6 billion increase in average total liabilities compared to the third quarter of 2014 primarily reflects an increase in average deposits partially offset by a decrease in average borrowings.

Other includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment; assets and liabilities not attributable to a particular segment; reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis; and the FTP impact from excess capital. The **Other** category also includes certain non-recurring items, such as: the net gain resulting from the formation of a merchant services joint venture totaling \$20.6 million for the nine months ended September 30, 2014 (included in total non-interest income); and one-time charges totaling \$0.1 million and \$9.1 million for the three and nine months ended September 30, 2015, respectively,

Edgar Filing: People's United Financial, Inc. - Form 10-Q

and \$2.1 million and \$8.9 million for the three and nine months ended September 30, 2014, respectively (included in total non-interest expense).

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net interest loss	\$ (7.4)	\$ (6.1)	\$ (21.6)	\$ (16.8)
Provision for loan losses	(9.7)	(4.1)	(23.1)	(17.0)
Total non-interest income	(0.1)	1.8		26.7
Total non-interest expense	3.0	7.5	13.2	26.1
(Loss) income before income tax (benefit) expense	(0.8)	(7.7)	(11.7)	0.8
Income tax (benefit) expense	(0.3)	(2.6)	(4.0)	0.3
Net (loss) income	\$ (0.5)	\$ (5.1)	\$ (7.7)	\$ 0.5
Average total assets	\$ 554.5	\$ 641.1	\$ 583.2	\$ 630.8
Average total liabilities	245.5	308.2	284.5	314.3

Table of Contents**Net Interest Income**

Net interest income and net interest margin are affected by many factors, including changes in average balances; interest rate fluctuations and the slope of the yield curve; sales of loans and securities; residential mortgage loan and mortgage-backed security prepayment rates; product pricing; competitive forces; the relative mix, repricing characteristics and maturity of interest-earning assets and interest-bearing liabilities; non-interest-bearing sources of funds; hedging activities; and asset quality.

Since December 2008, the Federal Reserve Board has not changed its targeted range for the federal funds rate of 0% to 0.25% and, for the third quarter of 2015, the average effective federal funds rate was 0.14%. The net interest margin was 2.87% in the third quarter of 2015 compared to 2.88% in the second quarter of 2015 and 3.05% in the third quarter of 2014. The decline in the net interest margin from the second quarter of 2015 primarily reflects continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at rates lower than the existing portfolio, declining interest income on acquired loans and an increase in average deposit balances, partially offset by the benefit from one additional calendar day in the third quarter. The net interest margin continues to be negatively impacted by the historically low interest rate environment where loan repricings are outpacing the Company's ability to lower deposit costs as well as the continued investment of a portion of the Company's capital in low-yielding short-term investments.

Third Quarter 2015 Compared to Third Quarter 2014

FTE net interest income increased \$7.8 million compared to the third quarter of 2014, reflecting a \$12.5 million increase in total interest and dividend income (including a \$5.6 million decrease in interest income on acquired loans) partially offset by a \$4.7 million increase in total interest expense, and the net interest margin decreased 18 basis points to 2.87%. The decline in the net interest margin primarily reflects new loan volume at rates lower than the existing portfolio and increases in average deposit balances.

Average total earning assets were \$33.6 billion in the third quarter of 2015, a \$3.1 billion increase from the third quarter of 2014, primarily reflecting increases of \$1.9 billion in average total loans and \$1.2 billion in average securities. Average total loans, average securities and average short-term investments comprised 82%, 17% and 1%, respectively, of average total earning assets in the third quarter of 2015, compared to 83%, 16% and 1%, respectively, in the year-ago quarter. In the current quarter, the yield earned on the total loan portfolio was 3.51% and the yield earned on securities and short-term investments was 2.28%, compared to 3.71% and 2.11%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, 49% of the loan portfolio had floating interest rates at September 30, 2015, compared to 47% at December 31, 2014 and 46% at September 30, 2014.

The average total commercial and residential mortgage loan portfolios increased \$1.2 billion and \$657 million, respectively, compared to the year-ago quarter, reflecting growth. Average consumer loans increased \$7 million compared to the year-ago quarter, reflecting a \$17 million increase in average home equity loans partially offset by a \$9 million decrease in average indirect auto loans.

Average total funding liabilities were \$32.1 billion in the third quarter of 2015, a \$3.8 billion increase from the year-ago period, reflecting a \$4.0 billion increase in average total deposits partially offset by a \$139 million decrease in average total borrowings. The increase in average total deposits reflects organic growth and an \$855 million increase in average brokered deposits. Excluding brokered deposits, average savings and money market deposits,

average time deposits and average non-interest-bearing deposits increased \$1.5 billion, \$408 million and \$362 million, respectively. Average total deposits comprised 87% and 85% of average total funding liabilities in the third quarter of 2015 and the year-ago period, respectively.

Table of Contents

The two basis points increase to 0.44% in the rate paid on average total funding liabilities primarily reflects increases in the costs of total deposit and total borrowings. The rate paid on average deposits increased three basis points from the third quarter of 2014, primarily reflecting increases of ten basis points in time deposits and one basis point in savings and money market deposits. Average savings and money market deposits and average time deposits comprised 60% and 19%, respectively, of average total deposits in the third quarter of 2015 compared to 59% and 19%, respectively, in the comparable 2014 period.

Third Quarter 2015 Compared to Second Quarter 2015

FTE net interest income increased \$4.1 million compared to the second quarter of 2015, reflecting a \$5.1 million increase in total interest and dividend income partially offset by a \$1.0 million increase in total interest expense, and the net interest margin decreased one basis point to 2.87%. The decline in the net interest margin primarily reflects new loan volume at rates lower than the existing portfolio and an increase in average total deposits (which reduced the net interest margin by two and one basis point, respectively), partially offset by one additional calendar day (which benefited the net interest margin by two basis points).

Average total earning assets increased \$696 million, primarily reflecting increases of \$372 million in average total loans and \$303 million in average securities. The average total commercial and residential mortgage loan portfolios increased \$220 million and \$153 million, respectively, compared to the second quarter of 2015.

Average total funding liabilities increased \$658 million, reflecting increases of \$574 million in average total deposits and \$90 million in average total borrowings. The increase in average total deposits reflects organic growth. The increase in average total borrowings reflects the additional funding used to support loan growth and securities purchases.

The following tables present average balance sheets, FTE-basis interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended September 30, 2015, June 30, 2015 and September 30, 2014, and the nine months ended September 30, 2015 and 2014. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People's United has ceased to accrue interest. Premium amortization and discount accretion (including amounts attributable to purchase accounting adjustments) are also included in the respective interest income and interest expense amounts. The impact of People's United's use of derivative instruments in managing IRR is also reflected in the table, classified according to the instrument hedged and the related risk management objective.

Table of Contents**Average Balance Sheet, Interest and Yield/Rate Analysis (1)**

Three months ended (dollars in millions)	September 30, 2015			June 30, 2015			September 30, 2014		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Short-term investments (2)									
	\$ 245.3	\$ 0.1	0.19%	\$ 223.3	\$ 0.1	0.21%	\$ 254.3	\$ 0.1	0.20%
Securities (3)									
	5,879.9	34.8	2.37	5,577.3	32.5	2.33	4,690.3	26.0	2.22
Loans:									
Commercial (4)									
	10,327.7	95.2	3.69	10,227.6	93.4	3.65	9,566.4	91.5	3.83
Commercial real estate									
	9,688.4	85.7	3.54	9,568.4	86.4	3.61	9,228.6	89.2	3.86
Residential mortgage									
	5,293.2	42.3	3.20	5,140.3	40.7	3.17	4,636.5	38.4	3.31
Consumer									
	2,186.9	18.1	3.30	2,188.4	18.0	3.28	2,179.6	18.5	3.40
Total loans	27,496.2	241.3	3.51	27,124.7	238.5	3.52	25,611.1	237.6	3.71
Total earning assets	33,621.4	\$ 276.2	3.29%	32,925.3	\$ 271.1	3.29%	30,555.7	\$ 263.7	3.45%
Other assets	3,635.6			3,692.1			3,594.7		
Total assets	\$ 37,257.0			\$ 36,617.4			\$ 34,150.4		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing									
	\$ 5,853.7	\$	%	\$ 5,695.9	\$	%	\$ 5,492.0	\$	%
Savings, interest-bearing checking and money market									
	16,634.9	11.1	0.27	16,155.6	10.9	0.27	14,481.8	9.3	0.26
Time									
	5,321.6	13.7	1.03	5,384.9	13.0	0.97	4,685.8	10.9	0.93
Total deposits	27,810.2	24.8	0.36	27,236.4	23.9	0.35	24,659.6	20.2	0.33
Borrowings:									
Federal Home Loan Bank advances									
	2,444.2	2.5	0.41	2,365.6	2.3	0.40	2,454.8	2.3	0.38
Customer repurchase agreements									
	481.1	0.2	0.19	452.3	0.2	0.19	486.8	0.2	0.20
	378.4	0.2	0.19	395.7	0.2	0.19	425.6	0.2	0.17

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Federal funds purchased									
Repurchase agreements	0.5	1.75	1.0	1.75	73.0	0.1	0.26		
Other borrowings					2.5		0.32		
Total borrowings	3,304.2	2.9	0.35	3,214.6	2.7	0.34	3,442.7	2.8	0.32
Notes and debentures	1,034.1	7.4	2.88	1,039.5	7.5	2.87	1,022.3	7.4	2.89
Total funding liabilities	32,148.5	\$ 35.1	0.44%	31,490.5	\$ 34.1	0.43%	29,124.6	\$ 30.4	0.42%
Other liabilities	408.0			438.3			377.7		
Total liabilities	32,556.5			31,928.8			29,502.3		
Stockholders equity	4,700.5			4,688.6			4,648.1		
Total liabilities and stockholders equity	\$ 37,257.0			\$ 36,617.4			\$ 34,150.4		
Net interest income/spread (5)		\$ 241.1	2.85%		\$ 237.0	2.86%		\$ 233.3	3.03%
Net interest margin			2.87%			2.88%			3.05%

(1) Average yields earned and rates paid are annualized.

(2) Includes securities purchased under agreements to resell.

(3) Average balances and yields for securities are based on amortized cost.

(4) Includes commercial and industrial loans and equipment financing loans.

(5) The FTE adjustment was \$6.3 million, \$6.6 million and \$4.8 million for the three months ended September 30, 2015, June 30, 2015 and September 30, 2014, respectively.

Table of Contents**Average Balance Sheet, Interest and Yield/Rate Analysis (1)**

Nine months ended (dollars in millions)	September 30, 2015			September 30, 2014		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:						
Short-term investments (2)	\$ 248.1	\$ 0.3	0.20%	\$ 194.3	\$ 0.3	0.20%
Securities (3)	5,596.1	98.0	2.33	4,756.4	79.7	2.23
Loans:						
Commercial (4)	10,152.0	280.1	3.68	9,121.9	269.1	3.93
Commercial real estate	9,553.9	257.4	3.59	9,069.6	266.5	3.92
Residential mortgage	5,148.9	123.4	3.20	4,553.3	114.3	3.35
Consumer	2,190.6	54.2	3.29	2,165.2	55.2	3.40
Total loans	27,045.4	715.1	3.62	24,910.0	705.1	3.77
Total earning assets	32,889.6	\$ 813.4	3.30%	29,860.7	\$ 785.1	3.51%
Other assets	3,663.4			3,551.6		
Total assets	\$ 36,553.0			\$ 33,412.3		
Liabilities and stockholders equity:						
Deposits:						
Non-interest-bearing	\$ 5,718.5	\$	%	\$ 5,327.5	\$	%
Savings, interest-bearing checking and money market	16,164.3	32.0	0.26	13,970.5	27.0	0.26
Time	5,330.3	38.9	0.97	4,499.9	32.2	0.95
Total deposits	27,213.1	70.9	0.35	23,797.9	59.2	0.33
Borrowings:						
Federal Home Loan Bank advances	2,290.7	7.0	0.41	2,812.9	7.2	0.34
Customer repurchase agreements	473.3	0.7	0.19	489.0	0.7	0.20
Federal funds purchased	415.2	0.5	0.18	479.9	0.7	0.17
Repurchase agreements	0.8		1.75	71.2	0.1	0.25
Other borrowings				4.7		0.08
Total borrowings	3,180.0	8.2	0.34	3,857.7	8.7	0.30
Notes and debentures	1,038.1	22.3	2.86	775.7	19.3	3.32
Total funding liabilities	31,431.2	\$ 101.4	0.43%	28,431.3	\$ 87.2	0.41%

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Other liabilities	437.6		373.8	
Total liabilities	31,868.8		28,805.1	
Stockholders' equity	4,684.2		4,607.2	
Total liabilities and stockholders' equity	\$ 36,553.0		\$ 33,412.3	
Net interest income/spread (5)	\$ 712.0	2.87%	\$ 697.9	3.10%
Net interest margin		2.89%		3.12%

- (1) Average yields earned and rates paid are annualized.
- (2) Includes securities purchased under agreements to resell.
- (3) Average balances and yields for securities are based on amortized cost.
- (4) Includes commercial and industrial loans and equipment financing loans.
- (5) The FTE adjustment was \$18.7 million and \$14.1 million for the nine months ended September 30, 2015 and 2014, respectively.

Table of Contents**Volume and Rate Analysis**

The following tables show the extent to which changes in interest rates and changes in the volume of average total earning assets and average interest-bearing liabilities have affected People's United's net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year's average interest rates); changes in rates (changes in average interest rates multiplied by the prior year's average balances); and the total change. Changes attributable to both volume and rate have been allocated proportionately.

(in millions)	Three Months Ended September 30, 2015 Compared To					
	September 30, 2014			June 30, 2015		
	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	\$	\$	\$	\$	\$	\$
Securities	6.9	1.9	8.8	1.8	0.5	2.3
Loans:						
Commercial	7.1	(3.4)	3.7	0.9	0.9	1.8
Commercial real estate	4.3	(7.8)	(3.5)	1.1	(1.8)	(0.7)
Residential mortgage	5.3	(1.4)	3.9	1.2	0.4	1.6
Consumer	0.1	(0.5)	(0.4)		0.1	0.1
Total loans	16.8	(13.1)	3.7	3.2	(0.4)	2.8
Total change in interest and dividend income	23.7	(11.2)	12.5	5.0	0.1	5.1
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	1.4	0.4	1.8	0.3	(0.1)	0.2
Time	1.6	1.2	2.8	(0.2)	0.9	0.7
Total deposits	3.0	1.6	4.6	0.1	0.8	0.9
Borrowings:						
Federal Home Loan Bank advances		0.2	0.2	0.1	0.1	0.2
Customer repurchase agreements						
Federal funds purchased	(0.1)	0.1				
Repurchase agreements	(0.1)		(0.1)			
Other borrowings						
Total borrowings	(0.2)	0.3	0.1	0.1	0.1	0.2
Notes and debentures					(0.1)	(0.1)

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total change in interest expense	2.8	1.9	4.7	0.2	0.8	1.0
Change in net interest income	\$ 20.9	\$ (13.1)	\$ 7.8	\$ 4.8	\$ (0.7)	\$ 4.1

Table of Contents**Volume and Rate Analysis**

(in millions)	Nine Months Ended September 30, 2015 Compared To September 30, 2014 Increase (Decrease)		
	Volume	Rate	Total
Interest and dividend income:			
Short-term investments	\$ 0.1	\$ (0.1)	\$
Securities	14.6	3.7	18.3
Loans:			
Commercial	29.1	(18.1)	11.0
Commercial real estate	13.8	(22.9)	(9.1)
Residential mortgage	14.5	(5.4)	9.1
Consumer	0.6	(1.6)	(1.0)
Total loans	58.0	(48.0)	10.0
Total change in interest and dividend income	72.7	(44.4)	28.3
Interest expense:			
Deposits:			
Savings, interest-bearing checking and money market	4.3	0.7	5.0
Time	6.1	0.6	6.7
Total deposits	10.4	1.3	11.7
Borrowings:			
Federal Home Loan Bank advances	(1.5)	1.3	(0.2)
Customer repurchase agreements			
Federal funds purchased	(0.1)	(0.1)	(0.2)
Repurchase agreements	(0.2)	0.1	(0.1)
Other borrowings			
Total borrowings	(1.8)	1.3	(0.5)
Notes and debentures	5.9	(2.9)	3.0
Total change in interest expense	14.5	(0.3)	14.2
Change in net interest income	\$ 58.2	\$ (44.1)	\$ 14.1

Table of Contents**Non-Interest Income**

(in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Bank service charges	\$ 32.5	\$ 31.5	\$ 33.3	\$ 94.1	\$ 96.6
Investment management fees	10.8	11.3	10.7	32.9	31.1
Operating lease income	10.5	10.5	10.2	31.8	31.4
Commercial banking lending fees	9.7	9.0	8.6	31.0	24.8
Insurance revenue	9.1	6.5	8.8	23.2	23.3
Brokerage commissions	3.1	3.2	3.4	9.5	10.2
Net gains on sales of residential mortgage loans	1.5	2.0	1.1	4.2	1.9
Gain on merchant services joint venture, net of expenses					20.6
Other non-interest income:					
Customer interest rate swap income, net	3.4	2.2	1.8	10.9	5.4
BOLI	1.1	1.4	1.4	3.6	4.1
Net security gains			0.2		0.3
Net (losses) gains on sales of acquired loans		(0.2)	(0.2)	1.7	(0.6)
Other	5.4	5.6	4.7	16.2	14.9
Total other non-interest income	9.9	9.0	7.9	32.4	24.1
Total non-interest income	\$ 87.1	\$ 83.0	\$ 84.0	\$ 259.1	\$ 264.0

Total non-interest income increased \$3.1 million compared to the third quarter of 2014 and \$4.1 million compared to the second quarter of 2015. The increase in non-interest income compared to the third quarter of 2014 primarily reflects increases in customer interest rate swap income and commercial banking lending fees partially offset by a decrease in bank service charges. The increase compared to the second quarter of 2015 primarily reflects increases in insurance revenue, customer interest rate swap income and bank service charges.

While bank service charges continue to be impacted as a result of certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA") (see below), the increase compared to the second quarter of 2015 primarily reflects the benefit from one additional business day in the third quarter and higher cash management fees. The increase in insurance revenue from the second quarter of 2015 reflects the seasonal nature of insurance renewals. In October 2015, People's United Insurance Agency, Inc. announced the acquisition of Kesten-Brown Insurance, LLC, a Connecticut-based insurance brokerage firm that focuses on commercial lines and employee benefits.

Assets under administration and those under full discretionary management, neither of which are reported as assets of People's United, totaled \$9.7 billion and \$5.4 billion, respectively, at September 30, 2015, compared to \$10.8 billion and \$5.6 billion, respectively, at December 31, 2014.

The increase in commercial banking lending fees compared to both the third quarter of 2014 and the second quarter of 2015 primarily reflects higher prepayment fees in the third quarter of 2015. Compared to third quarter of 2014, the increase in operating lease income reflects higher levels of equipment leased to PCLC customers. The increase in net gains on sales of residential mortgage loans from the third quarter of 2014 primarily reflects a 52% increase in the volume of residential mortgage loan sales and the decrease compared to the second quarter of 2015 primarily reflects narrower spreads on pricing.

On an FTE basis, BOLI income totaled \$1.7 million in the third quarter of 2015, compared to \$2.1 million in both the year-ago quarter and the second quarter of 2015. BOLI income in the second quarter of 2015 includes death benefits received totaling \$0.5 million.

The DFA, which was signed into law on July 21, 2010, imposes significant changes in the financial regulatory landscape and will continue to impact all financial institutions and their holding companies, including the Bank and People's United. Enactment of the DFA has resulted in significant increases in the Company's regulatory compliance burden and costs and may restrict the financial products and services People's United offers to its customers.

Table of Contents

The DFA limits the amount of interchange fee that an issuer of debit cards may charge or receive to an amount that is reasonable and proportional to the cost of the transaction. The DFA further provides that a debit card issuer may not restrict the number of payment card networks on which a debit card transaction may be processed to a single network or limit the ability of a merchant to direct the routing of debit card payments for processing.

The DFA created a new federal consumer protection agency, the Consumer Financial Protection Bureau (the CFPB), which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. In January 2014, a series of final rules issued by the CFPB to implement provisions in the DFA related to mortgage origination and mortgage servicing went into effect and in October 2015, new mortgage disclosure rules went into effect. These rules may increase the cost of originating and servicing residential mortgage loans.

Non-Interest Expense

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Compensation and benefits	\$ 113.4	\$ 109.3	\$ 108.1	\$ 337.5	\$ 327.8
Occupancy and equipment	37.0	36.8	36.4	112.5	111.0
Professional and outside service fees	17.0	17.3	14.3	50.1	44.5
Regulatory assessments	9.5	9.2	8.5	28.0	26.2
Operating lease expense	9.2	9.2	8.7	27.7	28.5
Amortization of other acquisition-related intangibles	5.9	6.0	6.2	17.8	18.6
Other non-interest expense:					
Stationery, printing, postage and telephone	4.7	4.6	4.8	14.1	15.2
Advertising and promotion	3.2	3.5	3.6	9.0	9.3
Other	14.3	15.9	18.2	46.9	52.7
Total other non-interest expense	22.2	24.0	26.6	70.0	77.2
Total non-interest expense	\$ 214.2	\$ 211.8	\$ 208.8	\$ 643.6	\$ 633.8
Efficiency ratio	61.7%	61.6%	61.4%	61.7%	62.4%

Total non-interest expense increased \$5.4 million compared to the third quarter of 2014 and \$2.4 million compared to the second quarter of 2015. Included in total non-interest expense are non-operating expenses (see below) totaling \$0.1 million in the third quarter of 2015, \$2.1 million in the third quarter of 2014 and \$3.0 million in the second quarter of 2015.

The slight increase in the efficiency ratio compared to the third quarter of 2014 reflects an increase in adjusted total expenses partially offset by an increase in adjusted total revenues (see Non-GAAP Financial Measures and Reconciliation to GAAP).

Compensation and benefits increased \$4.1 million compared to the second quarter of 2015 and \$5.3 million compared to the third quarter of 2014. Compensation and benefits includes severance-related costs (non-operating expenses) totaling \$0.1 million in the third quarter of 2015, \$0.3 million in the second quarter of 2015 and \$0.3 million in the third quarter of 2014. The year-over-year increase (\$5.5 million excluding non-operating expenses) primarily reflects normal merit increases, higher incentive and health care-related costs and compensation and benefit costs for additional employees primarily within commercial banking, wealth management and regulatory compliance. The increase from the second quarter of 2015 (\$4.3 million excluding non-operating expenses) primarily reflects an additional work day and higher health care-related costs in the third quarter of 2015.

The increase in professional and outside service fees compared to the third quarter of 2015 primarily reflects a number of initiatives focused on enhancing product offerings and processes. The decrease in advertising and promotion compared to both the third quarter of 2014 and the second quarter of 2015 reflects the timing of certain advertising campaigns.

Table of Contents

Regulatory assessments include Federal Deposit Insurance Corporation (FDIC) insurance premiums that are primarily based on the Bank's average total assets and average tangible equity, and FDIC-defined risk factors. The actual amount of future regulatory assessments will be dependent on several factors, including: (i) the Bank's average total assets and average tangible equity; (ii) the Bank's risk profile; and (iii) whether additional special assessments are imposed in future periods and the manner in which such assessments are determined. The increase in regulatory assessments compared to both the third quarter of 2014 and the second quarter of 2015 primarily reflects the increase in the Bank's average total assets.

In October 2015, the FDIC proposed a change that would serve to implement a DFA provision requiring banks with over \$10 billion in assets to be responsible for recapitalizing the FDIC insurance fund to 1.35 percent of insured deposits after it reaches a 1.15 percent reserve ratio. As proposed, the rule would go into effect in either the first or second quarter of 2016. For banks with over \$10 billion in assets, the proposed rule would impose a 4.5 basis point surcharge to bring the fund's reserve ratio to 1.35 percent by the end of 2018. For the surcharge only, the assessment base would be reduced by \$10 billion. The Company is currently evaluating the impact of the proposed surcharge on the Company's Consolidated Financial Statements.

Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2015 and each of the next five years is as follows: \$23.8 million in 2015; \$22.7 million in 2016; \$21.6 million in 2017; \$10.2 million in 2018; \$9.4 million in 2019; and \$9.0 million in 2020.

Included in other non-interest expense are non-operating expenses relating to charges associated with the writedowns of certain banking house assets totaling \$2.7 million in the second quarter of 2015, \$1.8 million in the third quarter of 2014 and \$8.0 million and \$6.2 million in the nine months ended September 30, 2015 and 2014, respectively.

Income Taxes

In the third quarter of 2015, People's United revised its estimate of the full-year effective income tax rate, resulting in an effective income tax rate of 32.6% for the third quarter of 2015. Excluding the effect of a change in Connecticut state tax law, People's United's effective income tax rate was 33.5% for the nine months ended September 30, 2015, approximating the expected effective income tax rate for the full-year of 2015. Differences, if any, arising between People's United's effective income tax rate and the U.S. federal statutory rate of 35% are generally attributable to: (i) tax-exempt interest earned on certain investments; (ii) tax-exempt income from BOLI; and (iii) state income taxes.

FINANCIAL CONDITION**General**

Total assets at September 30, 2015 were \$37.5 billion, a \$1.5 billion increase from December 31, 2014, reflecting increases of \$1.1 billion in total loans and \$909 million in total securities, partially offset by decreases of \$469 million in cash and cash equivalents and \$100 million in securities purchased under agreements to resell. The increase in total loans from December 31, 2014 to September 30, 2015 reflects increases of \$639 million in commercial loans and \$449 million in residential mortgage loans. Originated loans increased \$1.3 billion from December 31, 2014 to \$26.8 billion (commercial loans increased \$806 million and retail loans increased \$484 million) and acquired loans decreased \$209 million. At September 30, 2015, the carrying amount of the acquired loan portfolio totaled \$841

million. The increase in total securities primarily reflects purchases of residential mortgage-backed securities and U.S. Treasury and agency securities. The decrease in cash and cash equivalents primarily reflects a \$462 million decrease in interest-bearing deposits at the Federal Reserve Bank (FRB) of New York.

Non-performing assets (excluding acquired non-performing loans) totaled \$209.6 million at September 30, 2015, a \$14.5 million decrease from December 31, 2014, primarily reflecting decreases in non-performing commercial real estate loans of \$28.4 million and real estate owned (REO) of \$5.6 million, partially offset by increases in non-performing commercial and industrial loans of \$7.1 million and non-performing equipment financing loans of \$4.0 million. The allowance for loan losses totaled \$207.5 million (\$198.1 million on originated loans and \$9.4 million on acquired loans) at September 30, 2015, compared to \$198.3 million (\$188.1 million on originated loans and \$10.2 million on acquired loans) at December 31, 2014. At September 30, 2015, the originated allowance for loan losses as a percentage of originated loans was 0.74% and as a percentage of originated non-performing loans was 108.1%, compared to 0.74% and 95.5%, respectively, at December 31, 2014.

Table of Contents

At September 30, 2015, total liabilities were \$32.7 billion, a \$1.4 billion increase from December 31, 2014, reflecting a \$2.1 billion increase in total deposits, including a \$43 million increase in brokered deposits, partially offset by a \$695 million decrease in total borrowings.

People's United's total stockholders' equity was \$4.7 billion at September 30, 2015, a \$97.7 million increase from December 31, 2014. This increase primarily reflects net income of \$189.3 million for the nine months ended September 30, 2015, net restricted stock and stock option-related transactions totaling \$33.9 million during the first nine months of 2015 and a \$22.1 million decrease in accumulated other comprehensive loss (AOCL) since December 31, 2014, partially offset by dividends paid of \$150.6 million in the nine months ended September 30, 2015. As a percentage of total assets, stockholders' equity was 12.6% and 12.9% at September 30, 2015 and December 31, 2014, respectively. Tangible stockholders' equity as a percentage of tangible assets was 7.5% at both September 30, 2015 and December 31, 2014.

People's United's Tier 1 Leverage, Common Equity Tier 1, and Tier 1 and Total Risk-Based capital ratios were 8.1%, 9.9%, 9.9% and 11.8%, respectively, at September 30, 2015 (calculated in accordance with Basel III capital rules), compared to 7.9%, 9.8%, 9.8% and 12.2%, respectively, at December 31, 2014. The Bank's Tier 1 Leverage, Common Equity Tier 1, and Tier 1 and Total Risk-Based capital ratios were 8.5%, 10.4%, 10.4% and 12.8%, respectively, at September 30, 2015 (calculated in accordance with Basel III capital rules), compared to 8.5%, 10.5%, 10.5% and 13.1%, respectively, at December 31, 2014 (see Regulatory Capital Requirements).

Loans

People's United's lending activities consist of originating loans secured by commercial and residential properties, and extending secured and unsecured loans to commercial and consumer customers.

The following tables summarize People's United's loan portfolios:

Commercial Real Estate

(in millions)	September 30, 2015	December 31, 2014
Property Type:		
Residential (multi-family)	\$ 3,674.2	\$ 3,378.4
Retail	2,377.4	2,422.0
Office buildings	2,170.9	2,185.3
Industrial/manufacturing	553.7	538.6
Hospitality/entertainment	487.9	424.2
Mixed/special use	219.3	165.2
Self storage	135.5	147.3
Health care	62.3	19.2
Land	57.1	62.7
Other	47.1	61.4

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total commercial real estate	\$ 9,785.4	\$ 9,404.3
------------------------------	------------	------------

Table of Contents*Commercial and Industrial*

(in millions)	September 30, 2015	December 31, 2014
Industry:		
Service	\$ 1,318.7	\$ 1,328.5
Finance and insurance	1,229.7	1,174.9
Manufacturing	1,041.7	949.9
Wholesale distribution	848.1	802.6
Health services	827.0	724.0
Real estate, rental and leasing	776.1	873.5
Retail sales	599.2	589.0
Transportation/utility	248.0	202.8
Construction	181.4	194.4
Arts/entertainment/recreation	145.2	130.4
Information/media	124.4	102.2
Public administration	63.7	57.2
Mining, oil and gas	27.3	28.2
Other	61.7	32.0
 Total commercial and industrial	 \$ 7,492.2	 \$ 7,189.6

Equipment Financing

(in millions)	September 30, 2015	December 31, 2014
Industry:		
Transportation/utility	\$ 993.2	\$ 994.8
Construction	389.5	371.4
Finance, insurance and real estate	347.0	328.3
Waste	199.0	211.8
Printing	171.3	192.5
Manufacturing	160.6	174.9
Wholesale distribution	153.7	146.8
Packaging	131.7	140.0
Mining, oil and gas	72.9	104.6
Service	63.4	68.4
Health services	57.5	51.9
Other	81.3	80.1
 Total equipment financing	 \$ 2,821.1	 \$ 2,865.5

Table of Contents*Residential Mortgage*

(in millions)	September 30, 2015	December 31, 2014
Adjustable-rate	\$ 4,781.1	\$ 4,393.8
Fixed-rate	600.3	538.2
Total residential mortgage	\$ 5,381.4	\$ 4,932.0

Consumer

(in millions)	September 30, 2015	December 31, 2014
Home equity lines of credit	\$ 1,952.5	\$ 1,945.9
Home equity loans	188.7	197.2
Indirect auto	4.9	10.1
Other	46.0	47.4
Total consumer	\$ 2,192.1	\$ 2,200.6

Asset Quality*Recent Trends*

Significant volatility in the financial and capital markets for much of the period from 2008 through 2012 led to credit and liquidity concerns, a recessionary economic environment and, in turn, weakness within the commercial sector. While People's United continues to adhere to prudent underwriting standards, the loan portfolio is not immune to potential negative consequences arising as a result of general economic weakness and, in particular, a prolonged downturn in the housing market on a national scale. Decreases in real estate values could adversely affect the value of property used as collateral for loans. In addition, adverse changes in the economy could have a negative effect on the ability of borrowers to make scheduled loan payments, which would likely have an adverse impact on earnings. Further, an increase in loan delinquencies may serve to decrease interest income and adversely impact loan loss experience, resulting in an increased provision and allowance for loan losses.

People's United actively manages asset quality through its underwriting practices and collection operations. Underwriting practices tend to focus on optimizing the return of a given risk classification while collection operations focus on minimizing losses once an account becomes delinquent. People's United attempts to minimize losses associated with commercial loans by requiring borrowers to pledge adequate collateral and/or provide for third-party guarantees. Loss mitigation within the residential mortgage loan portfolio is highly dependent on the value of the underlying real estate.

Over the past few years, People's United experienced an increase in the number of loan modification requests. Certain originated loans whose terms have been modified are considered troubled debt restructurings (TDRs). Acquired loans that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis. Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan's original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest.

The Office of the Comptroller of the Currency (OCC) guidance requires that loans subject to a borrower's discharge from personal liability following a Chapter 7 bankruptcy be treated as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Included in TDRs at September 30, 2015 are \$27.9 million of such loans. Of this amount, \$19.2 million, or 69%, were less than 90 days past due on their payments as of that date.

Table of Contents

Generally, TDRs are placed on non-accrual status (and reported as non-performing loans) until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months for commercial loans or, in the case of a retail loan, when the loan is less than 90 days past due. Loans may continue to be reported as TDRs after they are returned to accrual status.

During the nine months ended September 30, 2015, we performed 55 loan modifications that were not classified as TDRs. The balances of the loans at the time of the respective modifications totaled \$132.2 million. In each case, we concluded that the modification did not result in the granting of a concession based on one or more of the following considerations: (i) the receipt of additional collateral (the nature and amount of which was deemed to serve as adequate compensation for other terms of the restructuring) and/or guarantees; (ii) the borrower having access to funds at a market rate for debt with similar risk characteristics as the restructured debt; and (iii) the restructuring resulting in a delay in payment that is insignificant in relation to the other terms of the obligation. See Note 3 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

In October 2012, the FDIC adopted a final rule, which became effective April 1, 2013, that (i) revised the definitions of certain higher-risk assets used for deposit insurance assessment purposes, including leveraged loans (which are referred to as higher-risk commercial and industrial loans) and selected consumer loans (which are referred to as higher-risk consumer loans) and (ii) clarified when an asset must be classified as higher-risk. A consumer loan (residential mortgage loans and consumer loans for People's United) is considered higher-risk if the probability of default on such loan, as determined using regulatory-defined historical two-year stress periods, is greater than 20%.

Portfolio Risk Elements Residential Mortgage Lending

People's United does not actively engage in subprime mortgage lending which has, historically, been the riskiest sector of the residential housing market. People's United has virtually no exposure to subprime loans, or to similarly high-risk Alt-A loans and structured investment vehicles. While no standard definition of subprime exists within the industry, the Company has generally defined subprime as borrowers with credit scores of 660 or less, either at or subsequent to origination.

At September 30, 2015, the loan portfolio included \$1.1 billion of interest-only residential mortgage loans, of which \$1.0 million are stated income loans (which People's United has not offered since mid-2007). People's United began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. People's United has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 adjustable-rate mortgage). In general, People's United's underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value (LTV) ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post-closing reserves.

Updated estimates of property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At September 30, 2015, non-performing residential mortgage loans totaling \$1.8 million had current LTV ratios of more than 100%. At September 30, 2015, the weighted average LTV ratio and FICO score for the residential mortgage loan portfolio were 63% and 753, respectively.

The Company continues to monitor its foreclosure policies and procedures to ensure ongoing compliance with applicable industry standards. We believe that our established procedures for reviewing foreclosure affidavits and

validating information contained in related loan documentation are sound and consistently applied, and that our foreclosure affidavits are accurate. As a result, People's United has not found it necessary to interrupt or suspend foreclosure proceedings. We have also considered the effect of representations and warranties that we made to third-party investors in connection with whole loan sales, and believe our representations and warranties were true and correct and do not expose the Company to any material loss.

Table of Contents

During the nine months ended September 30, 2015, the Company repurchased three residential mortgage loans from government sponsored enterprises (GSEs) and other parties that we had previously sold to the GSEs and other parties. The balances of the loan at the time of the repurchase totaled \$0.5 million and related fees and expenses incurred totaled less than \$0.1 million. During that same time period, the Company issued ten investor refunds, totaling less than \$0.1 million, under contractual recourse agreements. Based on the limited number of repurchase requests the Company has historically received, the immaterial cost associated with such repurchase requests and management's view that this past experience is consistent with our current and near-term estimate of such exposure, the Company has established a reserve for such repurchase requests, which totaled \$0.5 million as of September 30, 2015.

The aforementioned foreclosure issues and the potential for additional legal and regulatory action could impact future foreclosure activities, including lengthening the time required for residential mortgage lenders, including the Bank, to initiate and complete the foreclosure process. In recent years, foreclosure timelines have increased as a result of, among other reasons: (i) delays associated with the significant increase in the number of foreclosure cases as a result of the economic crisis; (ii) additional consumer protection initiatives related to the foreclosure process; and (iii) voluntary and/or mandatory programs intended to permit or require lenders to consider loan modifications or other alternatives to foreclosure. Further increases in the foreclosure timeline may have an adverse effect on collateral values and our ability to minimize losses.

Portfolio Risk Elements Home Equity Lending

The majority of our home equity lines of credit (HELOCs) have an initial draw period of 10 years followed by a 20-year repayment phase. During the initial draw period, interest-only payments are required, after which the disbursed balance is fully amortized over a 20-year repayment term. HELOCs carry variable rates indexed to the Prime Rate with a lifetime interest rate ceiling and floor, and are secured by first or second liens on the borrower's primary residence. The rate used to qualify borrowers is the Prime Rate plus 3.00%, even though the initial rate may be substantially lower. The maximum LTV ratio is 80% on a single-family property, including a condominium, and 70% on a two-family property. Lower LTV ratios are required on larger line amounts. The minimum FICO credit score is 680. The borrower has the ability to convert the entire balance or a portion of the balance to a fixed-rate term loan during the draw period. There is a limit of three term loans that must be fully amortized over a term not to exceed the original HELOC maturity date.

A smaller portion of our HELOC portfolio has an initial draw period of 10 years with a variable-rate interest-only payment, after which there is a 5-year amortization period. An additional small portion of our HELOC portfolio has a 5-year draw period which, at our discretion, may be renewed for an additional 5-year interest-only draw period.

The following table sets forth, as of September 30, 2015, the committed amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2015	\$ 39.5
2016	209.4
2017	304.5
2018	311.5
2019	143.4
2020	242.9
Later years	2,435.2

Total \$ 3,686.4

More than 90% of our HELOCs are presently in their draw period. Although converted amortizing payment loans represent only a small portion of the portfolio, our default and delinquency statistics indicate a higher level of occurrence for such loans when compared to HELOCs that are still in the draw period.

Table of Contents

Delinquency statistics for the HELOC portfolio as of September 30, 2015 are as follows:

(dollars in millions)	Portfolio Balance	Delinquencies	
		Amount	Percent
HELOC status:			
Still in draw period	\$ 1,773.3	\$ 14.7	0.83%
Amortizing payment	179.3	10.1	5.62

For the three months ended September 30, 2015, 36% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

The majority of home equity loans fully amortize over terms ranging from 5 to 20 years. Home equity loans are limited to first or second liens on a borrower's primary residence. The maximum LTV ratio is 80% on a single-family property, including a condominium, and 70% on a two-family property. Lower LTV ratios are required on larger line amounts.

We are not able, at this time, to develop statistics for the entire home equity portfolio (both HELOCs and home equity loans) with respect to first liens serviced by third parties that have priority over our junior liens, as lien position data has not historically been captured on our loan servicing systems. As of September 30, 2015, full and complete first lien position data was not readily available for 40% of the home equity portfolio. Effective January 2011, we began tracking lien position data for all new originations and our collections department continues to add lien position data once a loan reaches 75 days past due in connection with our updated assessment of combined loan-to-value (CLTV) exposure, which takes place for loans 90 days past due. In addition, when we are notified that the holder of a superior lien has commenced a foreclosure action, our home equity account is identified in the collections system for ongoing monitoring of the legal action. As of September 30, 2015, the portion of the home equity portfolio more than 90 days past due with a CLTV greater than 80% was \$7.6 million.

As of September 30, 2015, full and complete first lien position data was readily available for 60%, or \$1.3 billion, of the home equity portfolio. Of that total, 38%, or \$486.6 million, are in a junior lien position. We estimate that of those junior liens, 35%, or \$170.3 million, are held or serviced by others.

When the first lien is held by a third party, we can, in some cases, obtain an indication that a first lien is in default through information reported to credit bureaus. However, because more than one mortgage may be reported in a borrower's credit report and there may not be a corresponding property address associated with reported mortgages, we are often unable to associate a specific first lien with our junior lien. As of September 30, 2015, there were 41 loans totaling \$3.6 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 26 of the loans (totaling \$1.9 million), our second lien position was performing at the time such foreclosure action was commenced. The total estimated loss related to those 26 loans was \$0.3 million as of September 30, 2015. It is important to note that the percentage of new home equity originations for which we hold the first lien has increased steadily from approximately 40% in 2009 to approximately 60% as of September 30, 2015.

We believe there are several factors that serve to mitigate the potential risk associated with the limitations on available first lien data. Most importantly, our underwriting guidelines for home equity loans, which have been, and continue to be, consistently applied, generally require the following: (i) properties located within our geographic footprint; (ii) lower LTV ratios; and (iii) higher credit scores. Notwithstanding the maximum LTV ratios and minimum FICO scores discussed previously, actual LTV ratios at origination were less than 60% on average and current FICO scores of our borrowers are greater than 750 on average. In addition, as of September 30, 2015, 91% of the portfolio balance

relates to originations that occurred since 2005, which is generally recognized as the peak of the recent housing bubble. We believe these factors are a primary reason for the portfolio's relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average total loans.

Each month, all home equity and second mortgage loans greater than 180 days past due (regardless of our lien position) are analyzed in order to determine the amount by which the balance outstanding (including any amount subject to a first lien) exceeds the underlying collateral value. To the extent a shortfall exists, a charge-off is recognized. This charge-off activity is reflected in our established allowance for loan losses for home equity and second mortgage loans as part of the component attributable to historical portfolio loss experience, which considers losses incurred over the most recent 12-month period. While the limitations on available first lien data could impact the accuracy of our loan loss estimates, we believe that our methodology results in an allowance for loan losses that appropriately estimates the inherent probable losses within the portfolio, including those loans originated prior to January 2011 for which certain lien position data is not available.

As of September 30, 2015, the weighted average CLTV ratio and FICO score for the home equity portfolio were 56% and 758, respectively.

Table of Contents*Portfolio Risk Elements Commercial Real Estate Lending*

In general, construction loans originated by People's United are used to finance improvements to commercial, industrial or residential property. Repayment is typically derived from the sale of the property as a whole, the sale of smaller individual units, or by a take-out from a permanent mortgage. The term of the construction period generally does not exceed two years. Loan commitments are based on established construction budgets which represent an estimate of total costs to complete the proposed project, including both hard (direct) costs (building materials, labor, etc.) and soft (indirect) costs (legal and architectural fees, etc.). In addition, project costs may include an appropriate level of interest reserve to carry the project through to completion. If established, such interest reserves are determined based on: (i) a percentage of the committed loan amount; (ii) the loan term; and (iii) the applicable interest rate. Regardless of whether a loan contains an interest reserve, the total project cost statement serves as the basis for underwriting and determining which items will be funded by the loan and which items will be funded through borrower equity.

Construction loans are funded, at the request of the borrower, not more than once per month, based on the extent of work completed, and are monitored, throughout the life of the project, by an independent professional construction engineer and the Company's commercial real estate lending department. Interest is advanced to the borrower upon request, based upon the progress of the project toward completion. The amount of interest advanced is added to the total outstanding principal under the loan commitment. Should the project not progress as scheduled, the adequacy of the interest reserve necessary to carry the project through to completion is subject to close monitoring by management. Should the interest reserve be deemed to be inadequate, the borrower is required to fund the deficiency. Similarly, once a loan is fully funded, the borrower is required to fund all interest payments.

People's United's construction loan portfolio totaled \$658.9 million (2% of total loans) at September 30, 2015. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, was \$1.1 billion. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At September 30, 2015, construction loans totaling \$372.0 million had remaining available interest reserves of \$39.0 million. At that date, the Company had no construction loans with interest reserves that were on non-accrual status and included in non-performing loans.

Recent economic conditions have resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which have related repayment guarantees. Modifications of originated commercial real estate loans involving maturity extensions are evaluated according to the Company's normal underwriting standards and are classified as TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United similar to those discussed previously. People's United had \$12.3 million of restructured construction loans at September 30, 2015.

An extension may be granted to allow for the completion of the project, marketing or sales of completed units, or to provide for permanent financing, and is based on a re-underwriting of the loan and management's assessment of the borrower's ability to perform according to the agreed-upon terms. Typically, at the time of an extension, borrowers are performing in accordance with contractual loan terms. Extension terms generally do not exceed 12 to 18 months and typically require that the borrower provide additional economic support in the form of partial repayment, additional collateral or guarantees. In cases where the fair value of the collateral or the financial resources of the borrower are deemed insufficient to repay the loan, reliance may be placed on the support of a guarantee, if applicable. However, such guarantees are never considered the sole source of repayment.

People's United evaluates the financial condition of guarantors based on the most current financial information available. Most often, such information takes the form of (i) personal financial statements of net worth, cash flow

statements and tax returns (for individual guarantors) and (ii) financial and operating statements, tax returns and financial projections (for legal entity guarantors). The Company's evaluation is primarily focused on various key financial metrics, including net worth, leverage ratios and liquidity. It is the Company's policy to update such information annually, or more frequently as warranted, over the life of the loan.

While People's United does not specifically track the frequency with which it has pursued guarantor performance under a guarantee, the Company's underwriting process, both at origination and upon extension, as applicable, includes an assessment of the guarantor's reputation, creditworthiness and willingness to perform. Historically, when the Company has found it necessary to seek performance under a guarantee, it has been able to effectively mitigate its losses.

In considering the impairment status of such loans, an evaluation is made of the collateral and future cash flow of the borrower as well as the anticipated support of any repayment guarantor. In the event that the guarantor is unwilling or unable to perform, a legal remedy is pursued. When performance under the loan terms is deemed to be uncertain, including performance of the guarantor, all or a portion of the loan may be charged-off, typically based on the fair value of the collateral securing the loan.

Table of Contents*Allowance and Provision for Loan Losses*

The allowance for loan losses is established through provisions for loan losses charged to income. Losses on loans, including impaired loans, are charged to the allowance for loan losses when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance for loan losses when realized.

People's United maintains the allowance for loan losses at a level that is deemed to be appropriate to absorb probable losses inherent in the respective loan portfolios, based on a quarterly evaluation of a variety of factors. These factors include, but are not limited to: (i) People's United's historical loan loss experience and recent trends in that experience; (ii) risk ratings assigned by lending personnel to commercial real estate loans, commercial and industrial loans, and equipment financing loans, and the results of ongoing reviews of those ratings by People's United's independent loan review function; (iii) an evaluation of delinquent and non-performing loans and related collateral values; (iv) the probability of loss in view of geographic and industry concentrations and other portfolio risk characteristics; (v) the present financial condition of borrowers; and (vi) current economic conditions.

The Company's allowance for loan losses consists of three elements: (i) an allowance for larger-balance, non-homogeneous loans that are evaluated on an individual (loan-by-loan) basis; (ii) an allowance for smaller-balance, homogeneous loans that are evaluated on a collective basis; and (iii) a specific allowance for loans deemed to be impaired, including originated loans classified as TDRs.

Larger-balance, Non-homogeneous Loans. The Company establishes a loan loss allowance for its larger-balance, non-homogeneous loans using a methodology that incorporates (i) the probability of default for a given loan risk rating and (ii) historical default data over a multi-year period. In accordance with the Company's loan risk rating system, each loan, with the exception of those included in large groups of smaller-balance homogeneous loans, is assigned a risk rating (using a nine-grade scale) by the originating loan officer, credit management, internal loan review or loan committee. Loans rated One represent those loans least likely to default while loans rated Nine represent a loss. The probability of loans defaulting for each risk rating, referred to as default factors, are estimated based on the frequency with which loans migrate from one risk rating to another and to default status over time as well as the length of time that it takes losses to emerge. Estimated loan default factors, which are updated annually (or more frequently, if necessary), are multiplied by loan balances within each risk-rating category and again multiplied by a historical loss-given-default estimate for each loan type to determine an appropriate level of allowance by loan type. The historical loss-given-default estimates are also updated annually (or more frequently, if necessary) based on actual charge-off experience. This approach is applied to the commercial, commercial real estate and equipment financing components of the loan portfolio.

In developing the allowance for loan losses for larger-balance, non-homogeneous loans, the Company also gives consideration to certain qualitative factors, including the macroeconomic environment and any potential imprecision inherent in its loan loss model that may result from having limited historical loan loss data which, in turn, may result in inaccurate probability of default and loss-given-default estimates. In consideration of these factors, the Company may adjust the allowance for loan losses upward or downward based on current economic conditions and portfolio trends. In determining the extent of any such adjustment, the Company considers both economic and portfolio-specific data that correlates with loan losses. The Company evaluates the qualitative factors on a quarterly basis in order to conclude that they continue to be appropriate. There were no significant changes in the amount of the qualitative component of the related allowance for loan losses during the nine months ended September 30, 2015.

Smaller-balance, Homogeneous Loans. Pools of smaller-balance, homogeneous loans with similar risk and loss characteristics are also assessed for probable losses. These loan pools include residential mortgage, home equity and other consumer loans that are not assigned individual loan risk ratings. Rather, the assessment of these portfolios, and

the establishment of the related allowance for loan losses, is based upon a consideration of (i) recent historical loss experience and (ii) certain qualitative factors.

In establishing the allowance for loan losses for residential mortgage loans, the Company principally considers historical portfolio loss experience of the most recent 1- and 3-year periods, as management believes this provides a reasonable basis for estimating the inherent probable losses within the residential mortgage portfolio. In establishing the allowance for loan losses for home equity loans, the Company principally considers historical portfolio loss experience of the most recent 12-month period.

The qualitative component of the allowance for loan losses for smaller-balance, homogenous loans is intended to incorporate risks inherent in the portfolio, economic uncertainties, regulatory requirements and other subjective factors such as changes in underwriting standards. Accordingly, consideration is given to: (i) present and forecasted economic conditions, including unemployment rates; (ii) changes in industry trends, including the impact of new regulations, (iii) trends in property values; (iv) broader portfolio indicators, including delinquencies, non-performing loans, portfolio concentrations, and trends in the volume and terms of loans; and (v) portfolio-specific risk characteristics.

Table of Contents

The portfolio-specific risk characteristics considered include: (i) collateral values/LTV ratios (above and below 70%); (ii) borrower credit scores under the FICO scoring system (above and below a score of 680); and (iii) other relevant portfolio risk elements such as income verification at the time of underwriting (stated income vs. non-stated income) and the property's intended use (owner-occupied, non-owner occupied, second home, etc.), the combination of which results is a loan being classified as either High, Moderate or Low risk. These risk classifications are reviewed quarterly to ensure that changes within the portfolio, as well as economic indicators and industry developments, have been appropriately considered in establishing the related allowance for loan losses.

In establishing the allowance for loan losses for smaller-balance, homogeneous loans, the amount reflecting the Company's consideration of qualitative factors is added to the amount attributable to historical portfolio loss experience. In this manner, historical charge-off data (whether periods or amounts) is not adjusted and the allowance for loan losses always includes a component attributable to qualitative factors, the degree of which may change from period to period as such qualitative factors indicate improving or worsening trends. There were no significant changes in the amount of the qualitative component of the related allowance for loan losses during the nine months ended September 30, 2015.

Individually Impaired Loans. The allowance for loan losses also includes specific allowances for individually impaired loans. Generally, the Company's impaired loans consist of (i) classified commercial loans in excess of \$750,000 that have been placed on non-accrual status and (ii) originated loans classified as TDRs. Individually impaired loans are measured based upon observable market prices; the present value of expected future cash flows discounted at the loan's original effective interest rate; or, in the case of collateral dependent loans, fair value of the collateral (based on appraisals and other market information) less cost to sell. If the recorded investment in a loan exceeds the amount measured as described in the preceding sentence, a specific allowance for loan losses would be established as a component of the overall allowance for loan losses or, in the case of a collateral dependent loan, a charge-off would be recorded for the difference between the loan's recorded investment and management's estimate of the fair value of the collateral (less cost to sell). It would be rare for the Company to identify a loan that meets the criteria stated above and requires a specific allowance or a charge-off and not deem it impaired solely as a result of the existence of a guarantee.

People's United performs an analysis of its impaired loans, including collateral dependent impaired loans, on a quarterly basis. Individually impaired collateral dependent loans are measured based upon the appraised value of the underlying collateral and other market information. Generally, the Company's policy is to obtain updated appraisals for commercial collateral dependent loans when the loan is downgraded to a risk rating of substandard or doubtful, and the most recent appraisal is more than 12 months old or a determination has been made that the property has experienced a significant decline in value. Appraisals are prepared by independent, licensed third-party appraisers and are subject to review by the Company's internal commercial appraisal department or external appraisers contracted by the commercial appraisal department. The conclusions of the external appraisal review are reviewed by the Company's Chief Commercial Appraiser prior to acceptance. The Company's policy with respect to impaired loans secured by residential real estate is to receive updated estimates of property values upon the loan being classified as non-performing (typically upon becoming 90 days past due).

In determining the allowance for loan losses, People's United gives appropriate consideration to the age of appraisals through its regular evaluation of other relevant qualitative and quantitative information. Specifically, between scheduled appraisals, property values are monitored within the commercial portfolio by reference to current originations of collateral dependent loans and the related appraisals obtained during underwriting as well as by reference to recent trends in commercial property sales as published by leading industry sources. Property values are monitored within the residential mortgage and home equity portfolios by reference to available market indicators, including real estate price indices within the Company's primary lending areas.

In most situations where a guarantee exists, the guarantee arrangement is not a specific factor in the assessment of the related allowance for loan losses. However, the assessment of a guarantor's credit strength is reflected in the Company's internal loan risk ratings which, in turn, are an important factor in its allowance for loan loss methodology for loans within the commercial and commercial real estate portfolios.

People's United did not change its methodologies with respect to determining the allowance for loan losses during the first nine months of 2015. As part of its ongoing assessment of the allowance for loan losses, People's United made refinements to certain underlying assumptions used in its methodology during 2014, including the loss emergence period and selected qualitative factors. These refinements did not have a material impact on the allowance for loan losses or the provision for loan losses as of or for the nine months ended September 30, 2015.

Table of Contents*Acquired Loans*

Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are initially recorded at fair value without recording an allowance for loan losses. Fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. Acquired loans are generally accounted for on a pool basis, with pools formed based on the loans' common risk characteristics, such as loan collateral type and accrual status. Each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the *accretable yield*, is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, acquired loans are not subject to classification as non-accrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the *nonaccretable difference*, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

Selected asset quality metrics presented below distinguish between the *originated* portfolio and the *acquired* portfolio. All loans acquired in connection with acquisitions beginning in 2010 comprise the acquired loan portfolio; all other loans of the Company comprise the originated portfolio, including originations subsequent to the respective acquisition dates.

Provision and Allowance for Loan Losses

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Allowance for loan losses on originated loans:					
Balance at beginning of period	\$ 195.1	\$ 191.1	\$ 182.5	\$ 188.1	\$ 177.5
Charge-offs	(6.1)	(6.0)	(9.1)	(20.2)	(23.6)
Recoveries	2.0	2.8	1.2	5.7	4.7
Net loan charge-offs	(4.1)	(3.2)	(7.9)	(14.5)	(18.9)
Provision for loan losses	7.1	7.2	10.4	24.5	26.4
Balance at end of period	\$ 198.1	\$ 195.1	\$ 185.0	\$ 198.1	\$ 185.0

Allowance for loan losses on
acquired loans:

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Balance at beginning of period	\$ 10.3	\$ 9.8	\$ 10.1	\$ 10.2	\$ 10.3
Charge-offs			(0.2)		(2.7)
Provision for loan losses	(0.9)	0.5	2.0	(0.8)	4.3
Balance at end of period	\$ 9.4	\$ 10.3	\$ 11.9	\$ 9.4	\$ 11.9
Commercial originated allowance for loan losses as a percentage of originated commercial loans	0.91%	0.90%	0.92%	0.91%	0.92%
Retail originated allowance for loan losses as a percentage of originated retail loans	0.28	0.26	0.29	0.28	0.29
Total originated allowance for loan losses as a percentage of:					
Originated loans	0.74	0.73	0.75	0.74	0.75
Originated non-performing loans	108.1	102.9	94.1	108.1	94.1

The provision for loan losses on originated loans totaled \$7.1 million for the three months ended September 30, 2015, reflecting \$4.1 million in net loan charge-offs (including \$2.0 million against previously-established specific reserves) and a \$5.0 million increase in the originated allowance for loan losses in response to growth in both the commercial and residential mortgage loan portfolios. The provision for loan losses on originated loans totaled \$10.4 million in the year-ago period, reflecting \$7.9 million in net loan charge-offs (including \$3.7 million against previously-established specific reserves) and a \$6.2 million increase in the originated allowance for loan losses in response to growth in both the commercial and residential mortgage loan portfolios.

Table of Contents

The provision for loan losses on acquired loans for the three months ended September 30, 2015 reflects an allowance reversal while the provision on acquired loans in the year-ago period reflects loan impairment primarily attributable to a single credit.

Management believes that the level of the allowance for loan losses at September 30, 2015 is appropriate to cover probable losses.

Loan Charge-Offs

The Company's charge-off policies, which comply with standards established by banking regulators, are consistently applied from period to period. Charge-offs are recorded on a monthly basis. Partially charged-off loans continue to be evaluated on a monthly basis and additional charge-offs or loan loss provisions may be recorded on the remaining loan balance based on the same criteria.

For unsecured consumer loans, charge-offs are generally recorded when the loan is deemed to be uncollectible or 120 days past due, whichever occurs first. For consumer loans secured by real estate, including residential mortgage loans, charge-offs are generally recorded when the loan is deemed to be uncollectible or 180 days past due, whichever occurs first, unless it can be clearly demonstrated that repayment will occur regardless of the delinquency status. Factors that demonstrate an ability to repay may include: (i) a loan that is secured by adequate collateral and is in the process of collection; (ii) a loan supported by a valid guarantee or insurance; or (iii) a loan supported by a valid claim against a solvent estate.

For commercial loans, a charge-off is recorded when the Company determines that it will not collect all amounts contractually due based on the fair value of the collateral less cost to sell, or the present value of expected future cash flows.

The decision whether to charge-off all or a portion of a loan rather than to record a specific or general loss allowance is based on an assessment of all available information that aids in determining the loan's net realizable value. Typically this involves consideration of both (i) the fair value of any collateral securing the loan, including whether the estimate of fair value has been derived from an appraisal or other market information and (ii) other factors affecting the likelihood of repayment, including the existence of guarantees and insurance. If the amount by which the Company's recorded investment in the loan exceeds its net realizable value is deemed to be a confirmed loss, a charge-off is recorded. Otherwise, a specific or general reserve is established, as applicable.

Net Loan Charge-Offs (Recoveries)

(in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30,	June 30,	Sept. 30,	Sept. 30,	Sept. 30,
	2015	2015	2014	2015	2014
Commercial:					
Commercial and industrial	\$ 1.4	\$ 1.4	\$ 1.8	\$ 4.9	\$ 4.2
Commercial real estate	0.5	(0.4)	4.2	2.9	10.1
Equipment financing	1.0	0.5	(0.1)	2.6	0.5

Edgar Filing: People's United Financial, Inc. - Form 10-Q

Total	2.9	1.5	5.9	10.4	14.8
Retail:					
Residential mortgage	0.4	0.5	0.7	1.3	2.2
Home equity	0.6	1.1	1.2	2.2	3.7
Other consumer	0.2	0.1	0.3	0.6	0.9
Total	1.2	1.7	2.2	4.1	6.8
Total net loan charge-offs	\$ 4.1	\$ 3.2	\$ 8.1	\$ 14.5	\$ 21.6

Table of Contents**Net Loan Charge-Offs (Recoveries) as a Percentage of Average Total Loans (Annualized)**

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2015	June 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Commercial:					
Commercial and industrial	0.07%	0.07%	0.10%	0.09%	0.09%
Commercial real estate	0.02	(0.01)	0.18	0.04	0.15
Equipment financing	0.04	0.02		0.12	0.03
Retail:					
Residential mortgage	0.03	0.05	0.06	0.03	0.06
Home equity	0.11	0.20	0.24	0.13	0.24
Other consumer	1.25	0.84	1.74	1.24	1.56
Total portfolio	0.06%	0.05%	0.13%	0.07%	0.12%

Net loan charge-offs as a percentage of average total loans (annualized) were 0.06% for the three months ended September 30, 2015. The comparatively low level of net loan charge-offs in recent years, in terms of absolute dollars and as a percentage of average total loans, may not be sustainable in the future.

Non-Performing Assets

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectability of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection.

All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the period in which the accrual of interest is discontinued. Interest payments received on non-accrual loans (including impaired loans) are generally applied as a reduction of principal if future collections are doubtful, although such interest payments may be recognized as income. A loan remains on non-accrual status until the factors that indicated doubtful collectability no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses. There were no loans past due 90 days or more and still accruing interest at September 30, 2015 or December 31, 2014.

Table of Contents**Non-Performing Assets**

(dollars in millions)	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014
Originated non-performing loans:					
Commercial:					
Commercial and industrial	\$ 62.9	\$ 52.4	\$ 42.6	\$ 55.8	\$ 52.8
Commercial real estate	31.8	36.5	43.3	60.2	56.0
Equipment financing	29.4	38.3	34.9	25.4	29.3
Total	124.1	127.2	120.8	141.4	138.1
Retail:					
Residential mortgage	38.2	40.9	37.5	37.6	41.8
Home equity	21.0	21.4	19.4	17.9	16.6
Other consumer		0.1	0.1	0.1	0.1
Total	59.2	62.4	57.0	55.6	58.5
Total originated non-performing loans (1)	183.3	189.6	177.8	197.0	196.6
REO:					
Residential	10.8	14.8	16.5	13.6	16.2
Commercial	8.2	10.6	10.2	11.0	12.4
Total REO	19.0	25.4	26.7	24.6	28.6
Repossessed assets	7.3	5.5	4.3	2.5	3.5
Total non-performing assets	\$ 209.6	\$ 220.5	\$ 208.8	\$ 224.1	\$ 228.7
Originated non-performing loans as a percentage of originated loans	0.68%	0.71%	0.68%	0.77%	0.79%
Non-performing assets as a percentage of:					
Originated loans, REO and repossessed assets	0.78	0.83	0.80	0.88	0.92
Tangible stockholders equity and originated allowance for loan losses	7.37	7.91	7.52	8.24	8.37

(1) Reported net of government guarantees totaling: \$17.3 million at September 30, 2015; \$16.6 million at June 30, 2015; \$17.5 million at March 31, 2015; \$17.6 million at December 31, 2014; and \$18.1 million at September 30, 2014. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans

that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At September 30, 2015, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by an FDIC loss-share agreement (LSA) totaling: \$36.6 million and \$1.8 million, respectively, at September 30, 2015; \$39.8 million and \$1.7 million, respectively, at June 30, 2015; \$72.2 million and \$2.6 million, respectively, at March 31, 2015; \$100.6 million and \$3.0 million, respectively, at December 31, 2014; and \$113.3 million and \$3.0 million, respectively, at September 30, 2014. Such loans otherwise meet People s United s definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

Total non-performing assets decreased \$14.5 million from December 31, 2014 and equaled 0.78% of originated loans, REO and repossessed assets at September 30, 2015. The decrease in total non-performing assets from December 31, 2014 primarily reflects decreases in non-performing commercial real estate loans of \$28.4 million and REO of \$5.6 million, partially offset by increases in non-performing commercial and industrial loans of \$7.1 million and repossessed assets of \$4.8 million.

Table of Contents

All loans and REO acquired in the Butler Bank acquisition (completed in 2010) are subject to an FDIC LSA, which provides for coverage by the FDIC, up to certain limits, on all such covered assets. The FDIC is obligated to reimburse the Company for 80% of any future losses on covered assets up to \$34 million. The Company will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Company 80% reimbursement under the loss-sharing coverage.

In addition to the originated non-performing loans discussed above, People's United has also identified \$577.3 million in originated potential problem loans at September 30, 2015. Originated potential problem loans represent loans that are currently performing, but for which known information about possible credit deterioration on the part of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms and which may result in the disclosure of such loans as non-performing at some time in the future. The originated potential problem loans are generally loans that, although performing, have been classified as substandard in accordance with People's United's loan rating system, which is consistent with guidelines established by banking regulators.

At September 30, 2015, originated potential problem loans consisted of commercial and industrial loans (\$235.0 million), commercial real estate loans (\$99.3 million) and equipment financing loans (\$243.0 million). Such loans are closely monitored by management and have remained in performing status for a variety of reasons including, but not limited to, delinquency status, borrower payment history and fair value of the underlying collateral. Management cannot predict the extent to which economic conditions may worsen or whether other factors may adversely impact the ability of these borrowers to make payments. Accordingly, there can be no assurance that originated potential problem loans will not become 90 days or more past due, be placed on non-accrual status, be restructured, or require additional provisions for loan losses.

The levels of non-performing assets and potential problem loans are expected to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with management's degree of success in resolving problem assets. While management takes a proactive approach with respect to the identification and resolution of problem loans, the level of non-performing assets may increase in the future.

Liquidity

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. Liquidity management addresses both People's United's and the Bank's ability to fund new loans and investments as opportunities arise, to meet customer deposit withdrawals and to repay borrowings and subordinated notes as they mature. People's United's, as well as the Bank's, liquidity positions are monitored daily by management. The Asset and Liability Management Committee (ALCO) of the Bank has been authorized by the Board of Directors of People's United to set guidelines to ensure maintenance of prudent levels of liquidity for People's United as well as for the Bank. ALCO reports to the Treasury and Finance Committee of the Board of Directors of People's United.

Asset liquidity is provided by: cash; short-term investments and securities purchased under agreements to resell; proceeds from maturities, principal repayments and sales of securities; and proceeds from scheduled principal collections, prepayments and sales of loans. In addition, certain securities may be used to collateralize borrowings under repurchase agreements. The Consolidated Statements of Cash Flows present data on cash provided by and used in People's United's operating, investing and financing activities. At September 30, 2015, People's United (parent company) liquid assets included \$203 million in debt securities available for sale and \$145 million in intercompany

short-term advances to the Bank while the Bank's liquid assets included \$545 million in cash and cash equivalents and \$4.0 billion in debt securities available for sale. Securities available for sale with a fair value of \$1.61 billion at September 30, 2015 were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by both People's United's and the Bank's ability to obtain deposits and borrowings at cost-effective rates that are diversified with respect to markets and maturities. Deposits, which are considered the most stable source of liability liquidity, totaled \$28.3 billion at September 30, 2015 and represented 76% of total funding (the sum of total deposits, total borrowings, notes and debentures, and stockholders' equity). Borrowings are used to diversify People's United's funding mix and to support asset growth. Borrowings and notes and debentures totaled \$3.0 billion and \$1.0 billion, respectively, at September 30, 2015, representing 8% and 3%, respectively, of total funding at that date.

Table of Contents

The Bank's current available sources of borrowings include: federal funds purchased, advances from the Federal Home Loan Bank (FHLB) of Boston and the FRB of New York, and repurchase agreements. At September 30, 2015, the Bank's total borrowing capacity from (i) the FHLB of Boston and the FRB of New York for advances and (ii) repurchase agreements was \$9.5 billion based on the level of qualifying collateral available for these borrowings. In addition, the Bank had unsecured borrowing capacity of \$1.2 billion at that date. FHLB advances are secured by the Bank's investment in FHLB stock and by a security agreement that requires the Bank to maintain, as collateral, sufficient qualifying assets not otherwise pledged (principally single-family residential mortgage loans, HELOCs, home equity loans and commercial real estate loans).

At September 30, 2015, the Bank had outstanding commitments to originate loans totaling \$1.2 billion and approved, but unused, lines of credit extended to customers totaling \$6.2 billion (including \$2.0 billion of HELOCs).

The sources of liquidity discussed above are deemed by management to be sufficient to fund outstanding loan commitments and to meet both People's United's and the Bank's other obligations.

Stockholders' Equity and Dividends

People's United's total stockholders' equity was \$4.73 billion at September 30, 2015, a \$97.7 million increase from December 31, 2014. This increase primarily reflects net income of \$189.3 million for the nine months ended September 30, 2015, net restricted stock and stock option-related transactions totaling \$33.9 million in the nine months ended September 30, 2015 and a \$22.1 million decrease in AOCL since December 31, 2014, partially offset by dividends paid of \$150.6 million in the nine months ended September 30, 2015. Stockholders' equity equaled 12.6% of total assets at September 30, 2015 compared to 12.9% at December 31, 2014. Tangible stockholders' equity equaled 7.5% of tangible assets at both September 30, 2015 and December 31, 2014.

In October 2015, People's United's Board of Directors declared a quarterly dividend on its common stock of \$0.1675 per share. The dividend is payable on November 15, 2015 to shareholders of record on November 1, 2015. In August 2015, the Bank paid a cash dividend of \$59 million to People's United (parent company).

Regulatory Capital Requirements

People's United and the Bank are subject to Basel III capital rules that became effective on January 1, 2015. The Basel III capital rules, among other things: (i) introduces as a new capital measure Common Equity Tier 1 (CET1) capital; (ii) specifies that Tier 1 capital consists of CET1 capital and Additional Tier 1 Capital instruments meeting specified requirements; (iii) defines CET1 capital narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 capital and not to the other components of capital; and (iv) expands the scope of the adjustments as compared to prior regulations.

When fully phased in on January 1, 2019, Basel III capital rule will require financial institutions to maintain: (i) as a newly adopted international standard, a minimum ratio of CET1 capital to total risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in beginning in 2016, effectively resulting in a minimum ratio of CET1 capital to total risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to total risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in beginning in 2016, effectively resulting in a

minimum Tier 1 capital ratio of 8.5% upon full implementation); (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to total risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% Total capital ratio as that buffer is phased in beginning in 2016, effectively resulting in a minimum Total capital ratio of 10.5% upon full implementation); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average total assets, as defined.

Table of Contents

The following summary compares People's United's and the Bank's regulatory capital amounts and ratios under the Basel III capital rules. The minimum capital required amounts as of September 30, 2015 are based on the phase-in provisions of the Basel III capital rules. In connection with the adoption of the Basel III capital rules, both the Company and the Bank elected to opt-out of the requirement to include most components of AOCL in Common Equity Tier 1 Capital.

(dollars in millions)	As of September 30, 2015		Minimum Capital Required Basel III Phase-In (2015)		Classification as Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Leverage (1):						
People's United	\$ 2,869.0	8.1%	\$ 1,415.4	4.0%	\$ 1,769.2	5.0%
Bank	3,004.8	8.5	1,406.9	4.0	1,758.6	5.0
Common Equity Tier 1 Capital (2):						
People's United	2,869.0	9.9	1,592.3	4.5	2,300.0	6.5
Bank	3,004.8	10.4	1,582.8	4.5	2,286.2	6.5
Tier 1 Risk-Based Capital (3):						
People's United	2,869.0	9.9	1,739.4	6.0	2,319.2	8.0
Bank	3,004.8	10.4	1,737.2	6.0	2,316.3	8.0
Total Risk-Based Capital (4):						
People's United	3,428.1	11.8	2,319.2	8.0	2,899.0	10.0
Bank	3,714.7	12.8	2,316.3	8.0	2,895.3	10.0

- (1) Tier 1 Leverage ratio represents Tier 1 Capital divided by Average Total Assets (less goodwill, other acquisition-related intangibles and other deductions from Common Equity Tier 1 Capital).
- (2) Common Equity Tier 1 Capital ratio represents equity capital, as defined, less: (i) after-tax net unrealized gains (losses) on certain securities classified as available for sale; (ii) after-tax net unrealized gains (losses) on securities transferred to held to maturity; (iii) goodwill and other acquisition-related intangible assets; and (iv) the amount recorded in AOCL relating to pension and other postretirement benefits divided by Total Risk-Weighted Assets.
- (3) Tier 1 Risk-Based Capital ratio represents Common Equity Tier 1 Capital plus additional Tier 1 Capital (together, Tier 1 Capital) divided by Total Risk-Weighted Assets.
- (4) Total Risk-Based Capital ratio represents Tier 1 Capital plus subordinated notes and debentures, up to certain limits, and the allowance for loan losses, up to 1.25% of Total Risk-Weighted Assets, divided by Total Risk-Weighted Assets.

Management currently estimates that, as of September 30, 2015, the Company's and the Bank's risk-based capital ratios could be negatively impacted by as much as 25-35 basis points on a fully phased-in basis compared to the ratios at December 31, 2014.

The following summary compares the Bank's regulatory capital amounts and ratios to the OCC's requirements for classification as a well-capitalized institution and for minimum capital adequacy (capital rules in effect through December 31, 2014). At December 31, 2014, the Bank's adjusted total assets, as defined, were \$34.0 billion and its total risk-weighted assets, as defined, were \$27.5 billion. At December 31, 2014, the Bank exceeded each of its regulatory capital requirements.

As of December 31, 2014 (dollars in millions)	People's United Bank		Classification as Well-Capitalized		OCC Requirements Minimum Capital Adequacy	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	\$ 2,881.5(1)	8.5%	n/a	n/a	\$ 510.3	1.5%
Leverage (core) capital	2,881.5(1)	8.5	\$ 1,700.9	5.0%	1,360.8	4.0
Risk-based capital:						
Tier 1	2,881.5(1)	10.5	1,647.3	6.0	1,098.2	4.0
Total	3,582.2(2)	13.0	2,745.4	10.0	2,196.3	8.0

- (1) Represents the Bank's total equity capital, excluding: (i) after-tax net unrealized gains and losses on certain securities classified as available for sale; (ii) after-tax net unrealized gains and losses on securities transferred to held to maturity; (iii) after-tax net unrealized gains and losses on derivatives accounted for as cash flow hedges; (iv) certain assets not recognized for regulatory capital purposes (principally goodwill and other acquisition-related intangible assets); and (v) the amount recorded in AOCL relating to pension and other postretirement benefits.
- (2) Represents Tier 1 capital plus qualifying subordinated notes and debentures, up to certain limits, and the allowance for loan losses up to 1.25% of total risk-weighted assets.

Table of Contents**Market Risk Management**

Market risk represents the risk of loss to earnings, capital and the economic values of certain assets and liabilities resulting from changes in interest rates, equity prices and foreign currency exchange rates. The only significant market risk exposure for People's United at this time is IRR, which is a result of the Company's core business activities of making loans and accepting deposits.

Interest Rate Risk

The effective management of IRR is essential to achieving the Company's financial objectives. Responsibility for overseeing management of IRR resides with ALCO. The goal of ALCO is to generate a stable net interest margin over entire interest rate cycles regardless of changes in either short- or long-term interest rates. Generating earnings by taking excessive IRR is prohibited by the IRR limits established by the Company's Board of Directors. ALCO manages IRR by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles of the Company.

Net Interest Income at Risk Simulation is used to measure the sensitivity of net interest income to changes in market rates over a forward twelve-month period. This simulation captures underlying product behaviors, such as asset and liability re-pricing dates, balloon dates, interest rate indices and spreads, rate caps and floors, as well as other behavioral attributes. The simulation of net interest income also requires a number of key assumptions such as: (i) future balance sheet volume and mix assumptions that are management judgments based on estimates and historical experience; (ii) prepayment projections for loans and securities that are projected under each interest rate scenario using internal and external analytics; (iii) new business loan rates that are based on recent new business origination experience; and (iv) deposit pricing assumptions that are based on historical regression models and management judgment. Combined, these assumptions can be inherently uncertain, and as a result, actual results may differ from simulation forecasts due to the timing, magnitude and frequency of interest rate changes, future business conditions, as well as unanticipated changes in management strategies.

The Company uses two sets of standard scenarios to measure net interest income at risk. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Yield curve twist scenarios assume the shape of the curve flattens or steepens instantaneously centered around the 18-month point of the curve, thereby segmenting the yield curve into a short-end and a long-end. Internal policy regarding IRR simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than: 7% for a 100 basis point shift; 10% for a 200 basis point shift; and 15% for a 300 basis point shift. Current policy does not specify limits for yield curve twist simulations.

The following tables set forth the estimated percent change in the Company's net interest income at risk over one-year simulation periods beginning September 30, 2015 and December 31, 2014. Given the interest rate environment at those dates, simulations for interest rate declines of more than 25 basis points were not deemed to be meaningful.

Parallel Shock Rate Change
(basis points)

Estimated Percent Change in
Net Interest Income
September 30, 2015 – December 31, 2014

Edgar Filing: People's United Financial, Inc. - Form 10-Q

+300	9.7%	9.2%
+200	7.2	6.9
+100	3.8	3.4
-25	(1.6)	(1.1)

Yield Curve Twist Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	September 30, 2015	December 31, 2014
Short End -25	(0.7)%	(0.2)%
Short End +100	1.6	1.1
Short End +200	3.6	2.7
Long End -100	(4.5)	(4.1)
Long End +100	2.4	2.6
Long End +200	4.2	4.9

Table of Contents

The net interest income at risk simulation results indicate that at both September 30, 2015 and December 31, 2014, the Company is asset sensitive over the twelve-month forecast horizon (i.e. net interest income will increase if market rates rise). This is primarily due to (i) approximately 89% of the Company's loan portfolio being funded by less rate-sensitive core deposits and (ii) approximately 41% of the Company's loan portfolio being comprised of Prime and one-month Libor-based floating-rate loans. The increase in asset sensitivity in the +100 basis points scenario reflects increases in both floating-rate loans and core deposits since December 31, 2014.

The Company is more asset sensitive when the short-end rises as a result of the increases in both one-month Libor-based floating-rate loans and core deposits since December 31, 2014. Based on the Company's IRR position at September 30, 2015, an immediate 100 basis point increase in interest rates translates to an approximate \$37 million increase in net interest income on an annualized basis.

Economic Value of Equity at Risk Simulation is conducted in tandem with net interest income simulations, to ascertain a longer term view of the Company's IRR position by capturing longer-term re-pricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. Economic value of equity at risk simulation values only the current balance sheet and does not incorporate the growth assumptions used for income simulations. As with net interest income modeling, this simulation captures product characteristics such as loan resets, re-pricing terms, maturity dates, rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. The Company conducts core deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to periodic review.

Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged. Internal policy currently limits the exposure to a decrease in economic value of equity at risk resulting from instantaneous parallel shifts of the yield curve in the following manner: 5% for a 100 basis point shift; 10% for a 200 basis point shift; and 15% for a 300 basis point shift.

The following table sets forth the estimated percent change in the Company's economic value of equity at risk, assuming various instantaneous parallel shocks in interest rates. Given the interest rate environment at both September 30, 2015 and December 31, 2014, simulations for interest rate declines of more than 25 basis points were not deemed to be meaningful.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Economic Value of Equity	
	September 30, 2015	December 31, 2014
+300	(4.9)%	(7.8)%
+200	(1.0)	(3.3)
+100	1.0	(0.6)
-25	(1.0)	(0.4)

The Company's economic value of equity at risk profile indicates that at September 30, 2015 the Company has effectively no economic value of equity risk within a +100 basis points shock (moderately liability sensitive at December 31, 2014), but becomes moderately liability sensitive for rate shocks greater than +100 basis points due to lengthening asset duration. The Company's economic value of equity risk declined at September 30, 2015 as compared to December 31, 2014, reflecting increases in floating rate loans and core deposits as well as lower long-term interest

rates.

People's United's IRR position at September 30, 2015, as set forth in the net interest income at risk and economic value of equity at risk tables above, reflects an asset sensitive net interest income at risk position and moderately liability sensitive economic value of equity at risk position. From a net interest income perspective, asset sensitivity over the next 12 months is primarily attributable to the effect of the substantial Prime and Libor-based loan balances that are primarily funded by less interest rate sensitive deposits. From an economic value of equity perspective, the increased value of these deposits in a rising interest rate environment is less than the decline in value of fixed-rate assets, which serves to create a moderately liability sensitive risk position for rate shocks greater than +100 basis points. Given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by the Company's models.

Table of Contents

Management has established procedures to be followed in the event of an anticipated or actual breach in policy limits. As of September 30, 2015, there were no breaches of the Company's internal policy limits with respect to either IRR measure. Management utilizes both interest rate measures in the normal course of measuring and managing IRR and believes that each measure is valuable in understanding the Company's IRR position.

People's United uses derivative financial instruments, including interest rate swaps, as components of its market risk management (principally to manage IRR). Certain other derivatives are entered into in connection with transactions with commercial customers. Derivatives are not used for speculative purposes. At September 30, 2015, People's United used interest rate swaps to manage IRR associated with certain interest-bearing liabilities.

People's United has entered into a pay fixed/receive floating interest rate swap to hedge the LIBOR-based floating interest rate payments on the Company's \$125 million subordinated notes (such payments began in February 2012). These notes had a fixed interest rate of 5.80% until February 2012, at which time the interest rate converted to three-month LIBOR plus 68.5 basis points. People's United has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate (1.99%) and floating-rate interest amounts calculated based on a notional amount of \$125 million. The floating-rate interest amounts received under the swap are calculated using the same floating-rate paid on these notes. The swap effectively converts the variable-rate subordinated notes to a fixed-rate liability and consequently reduces People's United's exposure to increases in interest rates. This swap is accounted for as a cash flow hedge.

The Bank has entered into a pay floating/receive fixed interest rate swap to hedge the change in fair value due to changes in interest rates of the Bank's \$400 million subordinated notes. The Bank has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated based on a notional amount of \$375 million. The fixed-rate interest payments received on the swap will essentially offset the fixed-rate interest payments made on these notes, notwithstanding the notional difference between these notes and the swap. The floating-rate interest amounts paid under the swap are calculated based on three-month LIBOR plus 126.5 basis points. The swap effectively converts the fixed-rate subordinated notes to a floating-rate liability. This swap is accounted for as a fair value hedge.

People's United has written guidelines that have been approved by its Board of Directors and ALCO governing the use of derivative financial instruments, including approved counterparties and credit limits. Credit risk associated with these instruments is controlled and monitored through policies and procedures governing collateral management and credit approval.

By using derivatives, People's United is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's counterparty credit risk is equal to the amount reported as a derivative asset in the Consolidated Statements of Condition. In accordance with the Company's balance sheet offsetting policy (see Note 12 to the Consolidated Financial Statements), amounts reported as derivative assets represent derivative contracts in a gain position, without consideration for derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People's United seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, execution of master netting arrangements and obtaining collateral, where appropriate. Counterparties to People's United's derivatives include major financial institutions and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company's external credit rating. If the Company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of master netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2015 was \$11.8 million, for which People's United had posted collateral of \$11.3 million in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$0.5 million in additional collateral would have been required.

Table of Contents**Foreign Currency Risk**

Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People's United uses these instruments on a limited basis to eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

Derivative Financial Instruments

The following table summarizes certain information concerning derivative financial instruments utilized by People's United in its management of IRR and foreign currency risk:

As of September 30, 2015 (dollars in million)	Interest Rate Swaps		Foreign Exchange Contracts
	Cash Flow Hedge	Fair Value Hedge	
Notional principal amounts	\$ 125.0	\$ 375.0	\$ 46.9
Weighted average interest rates:			
Pay floating (receive fixed)	N/A	Libor +1.265% (4.00%)	N/A
Pay fixed (receive floating)	1.99% (Libor + 0.685%)	N/A	N/A
Weighted average remaining term to maturity (in months)	17	106	1
Fair value:			
Recognized as an asset	\$	\$ 25.3	\$ 0.3
Recognized as a liability	1.2		

People's United enters into interest rate swaps with certain of its commercial customers. In order to minimize its risk, these customer derivatives (pay floating/receive fixed) have been offset with essentially matching interest rate swaps with People's United's institutional counterparties (pay fixed/receive floating). Hedge accounting has not been applied for these derivatives. Accordingly, changes in the fair value of all such interest rate swaps are recognized in current earnings.

The following table summarizes certain information concerning these interest rate swaps:

As of September 30, 2015 (dollars in millions)	Interest Rate Swaps	
	Commercial Customers	Institutional Counterparties
Notional principal amounts	\$ 4,287.5	\$ 4,287.5
Weighted average interest rates:		
Pay floating (receive fixed)	0.63% (2.00%)	
Pay fixed (receive floating)		1.89% (0.63%)
Weighted average remaining term to maturity (in months)	86	86
Fair value:		
Recognized as an asset	\$ 172.1	\$ 1.3
Recognized as a liability	1.0	144.4

See Notes 11 and 12 to the Consolidated Financial Statements for further information relating to derivatives.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The information required by this item appears on pages 88 through 91 of this report.

Table of Contents

Item 4 Controls and Procedures

People's United's management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of People's United's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that People's United's disclosure controls and procedures are effective, as of September 30, 2015, to ensure that information relating to People's United, which is required to be disclosed in the reports People's United files with the Securities and Exchange Commission under the Exchange Act, is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

During the quarter ended September 30, 2015, there has not been any change in People's United's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, People's United's internal control over financial reporting.

Part II Other Information

Item 1 Legal Proceedings

In the normal course of business, People's United is subject to various legal proceedings. Management has discussed with legal counsel the nature of these legal proceedings. In the opinion of management, People's United's financial condition, results of operations or liquidity will not be affected materially as a result of the eventual outcome of these legal proceedings. See Note 8 to the Consolidated Financial Statements for a further discussion of legal proceedings.

Item 1A Risk Factors

There have been no material changes in risk factors since December 31, 2014.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information with respect to purchases made by People's United of its common stock during the three months ended September 30, 2015:

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1 - 31, 2015:				
Tendered by employees (1)	3,284	\$ 16.31		

Edgar Filing: People's United Financial, Inc. - Form 10-Q

August 1 - 31, 2015:

Tendered by employees (1) \$

September 1 - 30, 2015:

Tendered by employees (1) 5,290 \$ 15.19

Total:

Tendered by employees (1) 8,574 \$ 15.62

Table of Contents

(1) All shares listed were tendered by employees of People's United in satisfaction of their related minimum tax withholding obligations upon the vesting of restricted stock awards granted in prior periods and/or in payment of the exercise price and satisfaction of their related minimum tax withholding obligations upon the exercise of stock options granted in prior periods. The average price paid per share is equal to the average of the high and low trading price of People's United's common stock on The NASDAQ Stock Market on the vesting or exercise date or, if no trades took place on that date, the most recent day for which trading data was available. There is no limit on the number of shares that may be tendered by employees of People's United in the future for these purposes. Shares acquired in payment of the option exercise price or in satisfaction of minimum tax withholding obligations are not eligible for reissuance in connection with any subsequent grants made pursuant to equity compensation plans maintained by People's United. All shares acquired in this manner are retired by People's United, resuming the status of authorized but unissued shares of People's United's common stock.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

None.

Item 5 Other Information

None.

Item 6 Exhibits

The following Exhibits are filed herewith:

Designation	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.1	The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, People's United Financial, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEOPLE'S UNITED FINANCIAL,
INC.

Date: November 9, 2015

By: /s/ John P. Barnes
John P. Barnes
President and Chief Executive
Officer
(Principal Executive Officer)

Date: November 9, 2015

By: /s/ R. David Rosato
R. David Rosato
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2015

By: /s/ Jeffrey Hoyt
Jeffrey Hoyt
Senior Vice President and Controller
(Principal Accounting Officer)

Table of Contents

INDEX TO EXHIBITS

Designation	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.1	The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) Consolidated Statements of Changes in Stockholders Equity for the nine months ended September 30, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements.