People's United Financial, Inc.
Form 10-Q
November 09, 2016
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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, 2016

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-8447891**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

850 Main Street, Bridgeport, Connecticut	**06604**
(Address of principal executive offices)	**(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 x 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 x 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 x	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 x

As of October 31, 2016, there were 311,390,747 shares of the registrant s common stock outstanding.

People s United Financial Inc.

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Part 1 - Financial Information

Item 1 - Financial Statements

People s United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 347.5	$ 334.8
Short-term investments (note 2)	372.8	380.5
Total cash and cash equivalents	720.3	715.3
Securities (note 2):		
Trading account securities, at fair value	6.8	6.7
Securities available for sale, at fair value	4,906.5	4,527.7
Securities held to maturity, at amortized cost (fair value of $1.91 billion and $1.66 billion)	1,817.5	1,609.6
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	315.5	305.4
Total securities	7,046.3	6,449.4
Loans held for sale	46.5	34.5
Loans (note 3):		
Commercial real estate	10,001.7	10,028.8
Commercial and industrial	8,201.2	7,748.7
Equipment financing	2,987.6	2,973.3
Total Commercial Portfolio	21,190.5	20,750.8
Residential mortgage	6,028.0	5,457.0
Consumer	2,149.3	2,203.1
Total Retail Portfolio	8,177.3	7,660.1
Total loans	29,367.8	28,410.9
Less allowance for loan losses	(226.3)	(211.0)
Total loans, net	29,141.5	28,199.9

Goodwill (note 6)	1,957.0	1,958.7
Bank-owned life insurance	347.8	346.5
Premises and equipment, net	245.1	257.8
Other acquisition-related intangible assets (note 6)	113.3	129.1
Other assets (notes 1, 3 and 11)	1,074.3	855.5
Total assets	$ 40,692.1	$ 38,946.7
Liabilities		
Deposits:		
Non-interest-bearing	$ 6,521.8	$ 6,178.6
Savings	4,391.4	4,199.9
Interest-bearing checking and money market	14,055.5	13,220.8
Time	4,686.8	4,818.1
Total deposits	29,655.5	28,417.4
Borrowings:		
Federal Home Loan Bank advances	3,261.8	3,463.8
Federal funds purchased	844.0	374.0
Customer repurchase agreements	330.7	469.5
Total borrowings	4,436.5	4,307.3
Notes and debentures (note 1)	1,053.9	1,033.1
Other liabilities (notes 1 and 11)	683.9	457.3
Total liabilities	35,829.8	34,215.1
Commitments and contingencies (notes 1 and 8)		
Stockholders Equity		
Common stock ($0.01 par value; 1.95 billion shares authorized; 400.1 million shares and 399.2 million shares issued)	4.0	3.9
Additional paid-in capital	5,359.8	5,337.7
Retained earnings	927.3	880.8
Accumulated other comprehensive loss (note 4)	(120.4)	(177.2)
Unallocated common stock of Employee Stock Ownership Plan, at cost (7.0 million shares and 7.3 million shares) (note 7)	(146.4)	(151.8)
Treasury stock, at cost (89.1 million shares at both dates) (note 4)	(1,162.0)	(1,161.8)
Total stockholders equity (note 14)	4,862.3	4,731.6
Total liabilities and stockholders equity	$ 40,692.1	$ 38,946.7

See accompanying notes to consolidated financial statements.

People s United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

(in millions, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest and dividend income:				
Commercial real estate	$ 85.7	$ 85.7	$ 257.8	$ 257.4
Commercial and industrial	66.9	59.3	190.0	175.2
Equipment financing	32.8	33.2	99.1	96.5
Residential mortgage	45.7	41.9	133.4	122.4
Consumer	18.4	18.1	55.4	54.2
Total interest on loans	249.5	238.2	735.7	705.7
Securities	34.2	31.2	103.4	87.7
Loans held for sale	0.4	0.4	0.8	1.0
Short-term investments	0.4	0.1	1.1	0.3
Total interest and dividend income	284.5	269.9	841.0	794.7
Interest expense:				
Deposits	25.2	24.8	75.8	70.9
Borrowings	6.1	2.9	16.4	8.2
Notes and debentures	7.9	7.4	23.4	22.3
Total interest expense	39.2	35.1	115.6	101.4
Net interest income	245.3	234.8	725.4	693.3
Provision for loan losses (note 3)	8.4	6.2	28.9	23.7
Net interest income after provision for loan losses	236.9	228.6	696.5	669.6
Non-interest income:				
Bank service charges	25.3	26.1	73.8	75.6
Investment management fees	11.6	10.8	34.1	32.9
Operating lease income	11.2	10.5	31.7	31.8
Insurance revenue	9.8	9.1	26.1	23.2
Commercial banking lending fees	7.1	10.3	24.4	33.4
Cash management fees	6.5	6.4	18.8	18.4
Brokerage commissions	3.2	3.1	9.4	9.5
Net gains on sales of residential mortgage loans	1.9	1.5	3.7	4.2
Other non-interest income	14.2	9.3	36.5	30.1

Total non-interest income	90.8	87.1	258.5	259.1
Non-interest expense:				
Compensation and benefits	116.1	113.4	341.6	337.5
Occupancy and equipment	37.7	37.0	112.6	112.5
Professional and outside services (notes 1 and 14)	17.7	17.0	51.5	50.1
Operating lease expense	9.7	9.2	28.0	27.7
Regulatory assessments	9.9	9.5	27.1	28.0
Amortization of other acquisition-related intangible assets (note 6)	5.8	5.9	17.4	17.8
Other non-interest expense	24.5	22.2	73.4	70.0
Total non-interest expense	221.4	214.2	651.6	643.6
Income before income tax expense	106.3	101.5	303.4	285.1
Income tax expense (note 1)	32.6	33.1	98.3	95.8
Net income	$ 73.7	$ 68.4	$ 205.1	$ 189.3
Earnings per common share (note 5):				
Basic	$ 0.24	$ 0.23	$ 0.68	$ 0.63
Diluted	0.24	0.23	0.68	0.63

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Comprehensive Income - (Unaudited)

(in millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$ 73.7	$ 68.4	$ 205.1	$ 189.3
Other comprehensive income (loss), net of tax:				
Net actuarial loss and prior service credit related to pension and other postretirement plans	0.9	1.1	2.8	3.3
Net unrealized gains and losses on securities available for sale	(1.7)	16.9	52.3	17.5
Amortization of unrealized losses on securities transferred to held to maturity	0.5	0.5	1.5	1.5
Net unrealized gains and losses on derivatives accounted for as cash flow hedges	0.2	(0.1)	0.2	(0.2)
Total other comprehensive income (loss), net of tax (note 4)	(0.1)	18.4	56.8	22.1
Total comprehensive income	$ 73.6	$ 86.8	$ 261.9	$ 211.4

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Changes in Stockholders Equity - (Unaudited)

Nine months ended September 30, 2016 (in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2015	$ 3.9	$ 5,337.7	$ 880.8	$ (177.2)	$ (151.8)	$ (1,161.8)	$ 4,731.6
Net income			205.1				205.1
Total other comprehensive income, net of tax (note 4)				56.8			56.8
Cash dividends on common stock ($0.5075 per share)			(154.1)				(154.1)
Restricted stock and performance-based share awards		7.1	0.1			(0.2)	7.0
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			(3.2)				(3.2)
Stock options and related tax benefits	0.1	15.0					15.1
Balance at September 30, 2016	$ 4.0	$ 5,359.8	$ 927.3	$ (120.4)	$ (146.4)	$ (1,162.0)	$ 4,862.3

Nine months ended September 30, 2015 (in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Treasury Stock	Total Stockholders Equity
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

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

(in millions)	Nine Months Ended September 30, 2016	2015
Cash Flows from Operating Activities:		
Net income	$ 205.1	$ 189.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	28.9	23.7
Expense related to operating leases	28.0	27.7
Depreciation and amortization of premises and equipment	27.6	29.4
Amortization of other acquisition-related intangible assets	17.4	17.8
Expense related to restricted stock and performance-based share awards	11.4	13.1
Employee Stock Ownership Plan common stock committed to be released	4.0	4.0
Net gains on sales of residential mortgage loans	(3.7)	(4.2)
Net security gains	(0.1)	
Net gains on sales of acquired loans		(1.7)
Originations of loans held-for-sale	(296.1)	(350.7)
Proceeds from sales of loans held-for-sale	287.8	353.0
Net increase in trading account securities	(0.1)	
Net changes in other assets and other liabilities	(23.8)	(102.2)
Net cash provided by operating activities	286.4	199.2
Cash Flows from Investing Activities:		
Net decrease in securities purchased under agreements to resell		100.0
Proceeds from principal repayments and maturities of securities available for sale	680.2	623.7
Proceeds from sales of securities available for sale	249.9	201.2
Proceeds from principal repayments and maturities of securities held to maturity	83.6	12.4
Purchases of securities available for sale	(1,228.3)	(1,106.4)
Purchases of securities held to maturity	(286.8)	(555.2)
Net purchases of Federal Reserve Bank stock	(9.1)	(139.0)
Net purchases of Federal Home Loan Bank stock	(1.0)	
Proceeds from sales of loans	2.8	30.9
Loan disbursements, net of principal collections	(944.8)	(1,112.5)
Purchases of loans	(30.6)	(9.5)
Purchases of premises and equipment	(14.9)	(18.3)
Purchases of leased equipment	(14.3)	(28.1)
Proceeds from sales of real estate owned	8.0	14.9
Return of premium on bank-owned life insurance, net	1.7	1.2
Net cash used in investing activities	(1,503.6)	(1,984.7)

Cash Flows from Financing Activities:		
Net increase in deposits	1,238.1	2,141.5
Net increase (decrease) in borrowings with terms of three months or less	131.2	(691.6)
Repayments of borrowings with terms of more than three months	(0.2)	(1.3)
Cash dividends paid on common stock	(154.1)	(150.6)
Common stock repurchases	(3.2)	(3.1)
Proceeds from stock options exercised, including excess income tax benefits	10.4	21.8
Net cash provided by financing activities	1,222.2	1,316.7
Net increase (decrease) in cash and cash equivalents	5.0	(468.8)
Cash and cash equivalents at beginning of period	715.3	1,013.7
Cash and cash equivalents at end of period	$ 720.3	$ 544.9
Supplemental Information:		
Interest payments	$ 114.3	$ 100.9
Income tax payments	86.1	85.7
Real estate properties acquired by foreclosure	17.9	11.3
Unsettled purchases of securities	9.7	7.4

See accompanying notes to consolidated financial statements.

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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, 2015, as supplemented by the Quarterly Reports for the periods ended March 31, 2016 and June 30, 2016 and this Quarterly Report for the period ended September 30, 2016, 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 (VIEs), are not consolidated into the Company s Consolidated Financial Statements. These investments have historically played a role in enabling People s United Bank, National Association (the Bank) to meet its Community Reinvestment Act requirements while, at the same time, providing federal income tax credits.

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Notes to Consolidated Financial Statements (Unaudited)

Affordable housing investments, including all legally binding commitments to fund future investments, are included in other assets in the Consolidated Statements of Condition ($176.4 million and $158.4 million at September 30, 2016 and December 31, 2015, respectively). Included in other liabilities in the Consolidated Statements of Condition is a liability for all legally binding unfunded commitments to fund future investments ($82.6 million and $74.9 million at those dates). 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 in the Consolidated Statements of Income, totaled $3.0 million and $2.8 million for the three months ended September 30, 2016 and 2015, respectively, and $8.9 million and $8.3 million for the nine months ended September 30, 2016 and 2015, respectively.

As discussed in Note 13, effective January 1, 2016, the Company adopted, with retrospective application, amended standards with respect to the presentation of debt issuance costs by changing the required presentation of such costs from an asset on the statement of condition to a deduction from the related debt liability. The adoption of this new guidance did not impact the Company s results of operations or cash flows. In accordance with the amended standard, debt issuance costs totaling $5.6 million at December 31, 2015, previously included in other assets, are now included as a component of notes and debentures in the Consolidated Statements of Condition.

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, 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

Pending Acquisition

On June 27, 2016, People s United announced the signing of a definitive agreement to acquire Suffolk Bancorp (Suffolk) based in Riverhead, New York. Under the terms of the definitive agreement, each share of Suffolk common stock will be converted into the right to receive 2.225 shares of People s United common stock, with a total transaction value, as of September 30, 2016, of approximately $423 million. At September 30, 2016, Suffolk reported total assets of $2.2 billion, total deposits of $1.9 billion and operated 27 branches in the greater Long Island area. The acquisition, which is subject to regulatory approval, was approved by Suffolk shareholders on October 13, 2016. People s United shareholder approval is not required for the acquisition. Merger-related expenses relating to this transaction, which have been included in professional and outside services in the Consolidated Statements of Income, totaled $1.9 million for both the three and nine months ended September 30, 2016.

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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, 2016 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	$ 871.2	$ 3.6	$ (0.9)	$ 873.9
GSE (1) residential mortgage-backed securities and CMOs (2)	3,981.9	55.9	(5.4)	4,032.4
Total debt securities	4,853.1	59.5	(6.3)	4,906.3
Equity securities	0.2			0.2
Total securities available for sale	$ 4,853.3	$ 59.5	$ (6.3)	$ 4,906.5
Securities held to maturity:				
Debt securities:				
State and municipal	$ 1,284.1	$ 80.7	$ (1.2)	$ 1,363.6
GSE residential mortgage-backed securities	531.9	8.4		540.3
Other	1.5			1.5
Total securities held to maturity	$ 1,817.5	$ 89.1	$ (1.2)	$ 1,905.4

(1) Government sponsored enterprise
(2) Collateralized mortgage obligations

As of December 31, 2015 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				

U.S. Treasury and agency	$ 363.7	$ 0.2	$ (1.1)	$ 362.8
GSE residential mortgage-backed securities and CMOs	4,191.3	22.3	(48.9)	4,164.7
Total debt securities	4,555.0	22.5	(50.0)	4,527.5
Equity securities	0.2			0.2
Total securities available for sale	$ 4,555.2	$ 22.5	$ (50.0)	$ 4,527.7
Securities held to maturity:				
Debt securities:				
State and municipal	$ 1,019.6	$ 55.8	$ (0.1)	$ 1,075.3
GSE residential mortgage-backed securities	588.5		(2.8)	585.7
Other	1.5			1.5
Total securities held to maturity	$ 1,609.6	$ 55.8	$ (2.9)	$ 1,662.5

Securities available for sale with a fair value of $1.90 billion and $1.64 billion at September 30, 2016 and December 31, 2015, respectively, were pledged as collateral for public deposits and for other purposes.

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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, 2016, 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.

	Available for Sale		Held to Maturity	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and agency:				
Within 1 year	$ 126.6	$ 126.7	$	$
After 1 but within 5 years	181.6	184.2		
After 5 but within 10 years	563.0	563.0		
Total	871.2	873.9		
GSE residential mortgage-backed securities and CMOs:				
After 5 but within 10 years	841.9	868.5		
After 10 years	3,140.0	3,163.9	531.9	540.3
Total	3,981.9	4,032.4	531.9	540.3
State and municipal:				
Within 1 year			4.7	4.7
After 1 but within 5 years			26.1	26.8
After 5 but within 10 years			358.1	388.4
After 10 years			895.2	943.7
Total			1,284.1	1,363.6
Other:				
Within 1 year			1.5	1.5
Total			1.5	1.5
Total:				
Within 1 year	126.6	126.7	6.2	6.2
After 1 but within 5 years	181.6	184.2	26.1	26.8
After 5 but within 10 years	1,404.9	1,431.5	358.1	388.4
After 10 years	3,140.0	3,163.9	1,427.1	1,484.0

Total	$ 4,853.1	$ 4,906.3	$ 1,817.5	$ 1,905.4

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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. Certain unrealized losses totaled less than $0.1 million.

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
As of September 30, 2016 (in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
GSE residential mortgage-backed securities and CMOs	$ 112.9	$ (0.4)	$ 617.3	$ (5.0)	$ 730.2	$ (5.4)
State and municipal	352.6	(0.9)			352.6	(0.9)
Securities held to maturity:						
State and municipal	115.5	(1.2)			115.5	(1.2)
Total	$ 581.0	$ (2.5)	$ 617.3	$ (5.0)	$ 1,198.3	$ (7.5)

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
As of December 31, 2015 (in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
GSE residential mortgage-backed securities and CMOs	$ 2,200.8	$ (20.3)	$ 933.9	$ (28.6)	$ 3,134.7	$ (48.9)
U.S. Treasury and agency	346.3	(1.1)			346.3	(1.1)
Securities held to maturity:						
GSE residential mortgage-backed securities	585.7	(2.8)			585.7	(2.8)

State and municipal	22.3	(0.1)	3.7		26.0	(0.1)
Total	$ 3,155.1	$ (24.3)	$ 937.6	$ (28.6)	$ 4,092.7	$ (52.9)

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

At September 30, 2016, approximately 7% of the 1,530 securities owned by the Company, consisting of 32 securities classified as available for sale and 79 securities classified as held to maturity, had gross unrealized losses totaling $6.3 million and $1.2 million, respectively. All of the GSE residential mortgage-backed securities and CMOs had AAA credit ratings and an average final maturity of 11 years. The state and municipal securities had an average credit rating of AA and an average maturity of 12 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, 2016 and December 31, 2015 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, 2016 and 2015.

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 (the FHLB) of Boston, is currently required to purchase and hold shares of capital stock in the FHLB of Boston (total cost of $155.0 million and $154.0 million at September 30, 2016 and December 31, 2015, respectively) 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. acquisition, the Bank acquired shares of capital stock in the FHLB of New York (total cost of $11.3 million at both September 30, 2016 and December 31, 2015). 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, 2016 and the cost of the investment approximates fair value.

The Bank, as a member of the Federal Reserve Bank system, is currently required to purchase and hold shares of capital stock in the Federal Reserve Bank of New York (the FRB-NY) (total cost of $149.2 million and $140.1 million at September 30, 2016 and December 31, 2015, respectively) in an amount equal to 6% of its capital and surplus. Based on the current capital adequacy and liquidity position of the FRB-NY, management believes there is no impairment in the Company s investment at September 30, 2016 and the cost of the investment approximates fair value.

Included in short-term investments are interest-bearing deposits at the FRB-NY totaling $202.4 million at September 30, 2016 and $333.7 million at December 31, 2015. These deposits represent an alternative to overnight federal funds sold and had a yield of 0.50% at both dates.

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 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, 2016.

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

	September 30, 2016			December 31, 2015		
(in millions)	Originated	Acquired	Total	Originated	Acquired	Total
Commercial:						

Commercial real estate	$ 9,752.3	$ 249.4	$ 10,001.7	$ 9,696.9	$ 331.9	$ 10,028.8
Commercial and industrial	8,007.0	194.2	8,201.2	7,526.4	222.3	7,748.7
Equipment financing	2,975.2	12.4	2,987.6	2,957.6	15.7	2,973.3
Total Commercial Portfolio	20,734.5	456.0	21,190.5	20,180.9	569.9	20,750.8
Retail:						
Residential mortgage:						
Adjustable-rate	5,290.3	98.0	5,388.3	4,733.3	117.9	4,851.2
Fixed-rate	580.8	58.9	639.7	536.1	69.7	605.8
Total residential mortgage	5,871.1	156.9	6,028.0	5,269.4	187.6	5,457.0
Consumer:						
Home equity	2,068.3	31.5	2,099.8	2,115.5	38.2	2,153.7
Other consumer	48.7	0.8	49.5	48.5	0.9	49.4
Total consumer	2,117.0	32.3	2,149.3	2,164.0	39.1	2,203.1
Total Retail Portfolio	7,988.1	189.2	8,177.3	7,433.4	226.7	7,660.1
Total loans	$ 28,722.6	$ 645.2	$ 29,367.8	$ 27,614.3	$ 796.6	$ 28,410.9

Net deferred loan costs, which are included in loans by respective class and accounted for as interest yield adjustments, totaled $67.5 million at September 30, 2016 and $59.8 million at December 31, 2015.

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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 for the three and nine months ended September 30, 2016 and 2015. 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	Commercial			Retail			
September 30, 2016 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	Total
Balance at beginning of period	$ 189.7	$ 7.2	$ 196.9	$ 23.3	$ 0.2	$ 23.5	$ 220.4
Charge-offs	(2.7)	(0.1)	(2.8)	(1.1)		(1.1)	(3.9)
Recoveries	0.9		0.9	0.5		0.5	1.4
Net loan charge-offs	(1.8)	(0.1)	(1.9)	(0.6)		(0.6)	(2.5)
Provision for loan losses	7.1		7.1	1.3		1.3	8.4
Balance at end of period	$ 195.0	$ 7.1	$ 202.1	$ 24.0	$ 0.2	$ 24.2	$ 226.3

Nine months ended	Commercial			Retail			
September 30, 2016 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	Total
Balance at beginning of period	$ 181.8	$ 7.9	$ 189.7	$ 21.1	$ 0.2	$ 21.3	$ 211.0
Charge-offs	(10.7)	(0.4)	(11.1)	(6.6)		(6.6)	(17.7)
Recoveries	1.6		1.6	2.5		2.5	4.1
Net loan charge-offs	(9.1)	(0.4)	(9.5)	(4.1)		(4.1)	(13.6)
Provision for loan losses	22.3	(0.4)	21.9	7.0		7.0	28.9
Balance at end of period	$ 195.0	$ 7.1	$ 202.1	$ 24.0	$ 0.2	$ 24.2	$ 226.3

Three months ended	Commercial			Retail			
September 30, 2015 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	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	Commercial			Retail			
September 30, 2015 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	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

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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 September 30, 2016 (in millions)	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial	$ 161.0	$ 5.4	$ 20,573.5	$ 189.6	$ 456.0	$ 7.1	$ 21,190.5	$ 202.1
Retail	93.5	3.9	7,894.6	20.1	189.2	0.2	8,177.3	24.2
Total	$ 254.5	$ 9.3	$ 28,468.1	$ 209.7	$ 645.2	$ 7.3	$ 29,367.8	$ 226.3

As of December 31, 2015 (in millions)	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial	$ 155.1	$ 5.5	$ 20,025.8	$ 176.3	$ 569.9	$ 7.9	$ 20,750.8	$ 189.7
Retail	97.0	3.9	7,336.4	17.2	226.7	0.2	7,660.1	21.3
Total	$ 252.1	$ 9.4	$ 27,362.2	$ 193.5	$ 796.6	$ 8.1	$ 28,410.9	$ 211.0

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

(in millions)	September 30, 2016	December 31, 2015
Commercial:		
Commercial real estate	$ 23.4	$ 30.2
Commercial and industrial	40.0	44.9
Equipment financing	46.0	27.5
Total (1)	109.4	102.6
Retail:		
Residential mortgage	28.2	37.2

Home equity	16.5	19.5
Other consumer		0.1
Total (2)	44.7	56.8
Total	$ 154.1	$ 159.4

(1) Reported net of government guarantees totaling $13.0 million and $16.9 million at September 30, 2016 and December 31, 2015, 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, 2016, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).

(2) Includes $11.5 million and $19.9 million of loans in the process of foreclosure at September 30, 2016 and December 31, 2015, 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 $22.4 million and $2.2 million, respectively, at September 30, 2016 and $27.7 million and $2.3 million, respectively, at December 31, 2015. 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.

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, 2016 or December 31, 2015.

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.

TDRs may either be accruing or placed on non-accrual status (and reported as non-performing loans) depending upon the loan s specific circumstances, including the nature and extent of the related modifications. TDRs on non-accrual status remain classified as such 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.

Impairment is evaluated on a collective basis for smaller-balance loans with similar credit risk and on an individual loan basis for other loans. If a loan is deemed to be impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported (net of the allowance) at the present value of expected future cash flows discounted at the loan s original effective interest rate or at the fair value of the collateral less cost to sell if repayment is expected solely from the collateral. Interest payments on impaired non-accrual loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

People s United s recorded investment in originated loans classified as TDRs totaled $187.0 million and $195.7 million at September 30, 2016 and December 31, 2015, respectively. The related allowance for loan losses at September 30, 2016 and December 31, 2015 was $5.2 million and $5.9 million, respectively. Interest income recognized on TDRs totaled $1.2 million and $1.1 million for the three months ended September 30, 2016 and 2015, respectively, and $3.3 million and $3.2 million for the nine months ended September 30, 2016 and 2015, 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, 2016 and 2015. Originated loans that were modified and classified as TDRs during the three and nine months ended September 30, 2016 and 2015 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).

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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, 2016 and 2015. For purposes of this disclosure, recorded investments represent amounts immediately prior to and subsequent to the restructuring.

	Three Months Ended September 30, 2016		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	7	$ 22.1	$ 22.1
Commercial and industrial (2)	11	4.5	4.5
Equipment financing (3)	22	10.4	10.4
Total	40	37.0	37.0
Retail:			
Residential mortgage (4)	9	2.9	2.9
Home equity (5)	17	1.2	1.2
Other consumer			
Total	26	4.1	4.1
Total	66	$ 41.1	$ 41.1

(1) Represents the following concessions: extension of term (5 contracts; recorded investment of $3.3 million); reduced payment and/or payment deferral (1 contract; recorded investment of $1.7 million); or a combination of concessions (1 contract; recorded investment of $17.1 million).

(2) Represents the following concessions: extension of term (9 contracts; recorded investment of $4.1 million); or reduced payment and/or payment deferral (2 contracts; recorded investment of $0.4 million).

(3) Represents the following concessions: extension of term (6 contracts; recorded investment of $4.3 million); reduced payment and/or payment deferral (13 contracts; recorded investment of $4.7 million); or a combination of concessions (3 contracts; recorded investment of $1.4 million).

(4) Represents the following concessions: loans restructured through bankruptcy (6 contracts; recorded investment of $1.0 million); reduced payment and/or payment deferral (1 contract; recorded investment of $0.7 million); or a combination of concessions (2 contracts; recorded investment of $1.2 million).

(5) Represents the following concessions: loans restructured through bankruptcy (11 contracts; recorded investment of $0.5 million); reduced payment and/or payment deferral (1 contract; recorded investment of $0.2 million); or a

combination of concessions (5 contracts; recorded investment of $0.5 million).

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(dollars in millions)	Number of Contracts	Nine Months Ended September 30, 2016 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	12	$ 25.9	$ 25.9
Commercial and industrial (2)	36	22.9	22.9
Equipment financing (3)	49	21.7	21.7
Total	97	70.5	70.5
Retail:			
Residential mortgage (4)	47	13.1	13.1
Home equity (5)	50	3.8	3.8
Other consumer			
Total	97	16.9	16.9
Total	194	$ 87.4	$ 87.4

(1) Represents the following concessions: extension of term (8 contracts; recorded investment of $6.2 million); reduced payment and/or payment deferral (2 contracts; recorded investment of $2.6 million); or a combination of concessions (2 contracts; recorded investment of $17.1 million).

(2) Represents the following concessions: extension of term (23 contracts; recorded investment of $12.3 million); reduced payment and/or payment deferral (9 contracts; recorded investment of $9.8 million); or a combination of concessions (4 contracts; recorded investment of $0.8 million).

(3) Represents the following concessions: extension of term (17 contracts; recorded investment of $6.3 million); reduced payment and/or payment deferral (25 contracts; recorded investment of $12.5 million); or a combination of concessions (7 contracts; recorded investment of $2.9 million).

(4) Represents the following concessions: loans restructured through bankruptcy (18 contracts; recorded investment of $3.2 million); reduced payment and/or payment deferral (11 contracts; recorded investment of $5.5 million); or a combination of concessions (18 contracts; recorded investment of $4.4 million).

(5) Represents the following concessions: loans restructured through bankruptcy (31 contracts; recorded investment of $2.1 million); reduced payment and/or payment deferral (2 contracts; recorded investment of $0.3 million); or a combination of concessions (17 contracts; recorded investment of $1.4 million).

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

	Three Months Ended September 30, 2015		
(dollars in millions)	Number of Contracts	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).

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People s United Financial, Inc.

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	Nine Months Ended September 30, 2015		
(dollars in millions)	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).

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People s United Financial, Inc.

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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, 2016 and 2015. 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, 2016 or 2015.

	Three Months Ended September 30,			
	2016		2015	
(dollars in millions)	Number of Contracts	Recorded Investment as of Period End	Number of Contracts	Recorded Investment as of Period End
Commercial:				
Commercial real estate		$		$
Commercial and industrial			1	0.6
Equipment financing	14	2.2	1	0.3
Total	14	2.2	2	0.9
Retail:				
Residential mortgage	3	0.6	2	0.2
Home equity			2	0.1
Other consumer				
Total	3	0.6	4	0.3
Total	17	$ 2.8	6	$ 1.2

	Nine Months Ended September 30,			
	2016		2015	
(dollars in millions)	Number of Contracts	Recorded Investment as of Period End	Number of Contracts	Recorded Investment as of Period End
Commercial:				
Commercial real estate	2	$ 0.9	2	$ 3.4
Commercial and industrial	5	0.6	4	1.4
Equipment financing	20	5.9	8	4.1
Total	27	7.4	14	8.9

Retail:						
Residential mortgage	10		1.9	18		6.7
Home equity	7		0.5	16		1.5
Other consumer						
Total	17		2.4	34		8.2
Total	44	$	9.8	48	$	17.1

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People s United Financial, Inc.

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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.

	As of September 30, 2016			As of December 31, 2015		
(in millions)	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	$ 43.5	$ 42.4	$	$ 46.5	$ 45.3	$
Commercial and industrial	46.3	40.8		53.2	50.8	
Equipment financing	42.5	38.1		32.6	26.0	
Retail:						
Residential mortgage	63.8	58.1		67.2	60.4	
Home equity	22.9	19.3		23.3	20.5	
Other consumer						
Total	$ 219.0	$ 198.7	$	$ 222.8	$ 203.0	$
With a related allowance for loan losses:						
Commercial:						
Commercial real estate	$ 9.4	$ 8.6	$ 0.6	$ 18.8	$ 14.7	$ 1.9
Commercial and industrial	23.2	22.6	3.2	19.2	14.7	3.3
Equipment financing	9.1	8.5	1.6	3.8	3.6	0.3
Retail:						
Residential mortgage	14.1	14.0	3.0	14.1	14.0	2.9
Home equity	2.2	2.1	0.9	2.3	2.1	1.0
Other consumer						
Total	$ 58.0	$ 55.8	$ 9.3	$ 58.2	$ 49.1	$ 9.4
Total impaired loans:						
Commercial:						
Commercial real estate	$ 52.9	$ 51.0	$ 0.6	$ 65.3	$ 60.0	$ 1.9
Commercial and industrial	69.5	63.4	3.2	72.4	65.5	3.3
Equipment financing	51.6	46.6	1.6	36.4	29.6	0.3

Total	174.0	161.0	5.4	174.1	155.1	5.5
Retail:						
Residential mortgage	77.9	72.1	3.0	81.3	74.4	2.9
Home equity	25.1	21.4	0.9	25.6	22.6	1.0
Other consumer						
Total	103.0	93.5	3.9	106.9	97.0	3.9
Total	$ 277.0	$ 254.5	$ 9.3	$ 281.0	$ 252.1	$ 9.4

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize, 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.

	Three Months Ended September 30,			
	2016		2015	
(in millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial:				
Commercial real estate	$ 54.1	$ 0.4	$ 59.2	$ 0.5
Commercial and industrial	60.5	0.3	83.0	0.2
Equipment financing	38.2	0.1	26.7	0.1
Total	152.8	0.8	168.9	0.8
Retail:				
Residential mortgage	71.7	0.4	74.4	0.4
Home equity	21.3	0.1	21.2	0.1
Other consumer				
Total	93.0	0.5	95.6	0.5
Total	$ 245.8	$ 1.3	$ 264.5	$ 1.3

	Nine Months Ended September 30,			
	2016		2015	
(in millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial:				
Commercial real estate	$ 58.6	$ 1.1	$ 67.8	$ 1.2
Commercial and industrial	61.9	1.2	71.1	1.2
Equipment financing	35.9	0.2	28.9	0.3
Total	156.4	2.5	167.8	2.7
Retail:				
Residential mortgage	72.1	1.2	75.3	1.1

Home equity	21.9		0.2	21.3	0.2
Other consumer					
Total	94.0		1.4	96.6	1.3
Total	$ 250.4	$	3.9	$ 264.4	$ 4.0

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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, 2016 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial:					
Commercial real estate	$ 9,721.8	$ 19.0	$ 11.5	$ 30.5	$ 9,752.3
Commercial and industrial	7,967.2	11.1	28.7	39.8	8,007.0
Equipment financing	2,889.5	70.6	15.1	85.7	2,975.2
Total	20,578.5	100.7	55.3	156.0	20,734.5
Retail:					
Residential mortgage	5,821.4	32.5	17.2	49.7	5,871.1
Home equity	2,053.9	6.6	7.8	14.4	2,068.3
Other consumer	48.6	0.1		0.1	48.7
Total	7,923.9	39.2	25.0	64.2	7,988.1
Total originated loans	$ 28,502.4	$ 139.9	$ 80.3	$ 220.2	$ 28,722.6

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 $11.9 million, $24.3 million and $30.9 million, respectively, and $19.7 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, 2015 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial:					
Commercial real estate	$ 9,667.7	$ 15.0	$ 14.2	$ 29.2	$ 9,696.9
Commercial and industrial	7,466.5	13.1	46.8	59.9	7,526.4
Equipment financing	2,886.7	63.9	7.0	70.9	2,957.6

Total	20,020.9	92.0	68.0	160.0	20,180.9
Retail:					
Residential mortgage	5,212.9	31.1	25.4	56.5	5,269.4
Home equity	2,098.9	7.1	9.5	16.6	2,115.5
Other consumer	48.2	0.2	0.1	0.3	48.5
Total	7,360.0	38.4	35.0	73.4	7,433.4
Total originated loans	$ 27,380.9	$ 130.4	$ 103.0	$ 233.4	$ 27,614.3

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 $16.0 million, $15.0 million and $20.5 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.

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 quarterly 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.

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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, 2016 and December 31, 2015, the allowance for loan losses on acquired loans was $7.3 million and $8.1 million, respectively.

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

As of September 30, 2016 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial:				
Originated loans:				
Pass	$ 9,533.1	$ 7,564.7	$ 2,535.1	$ 19,632.9
Special mention	112.1	179.4	104.5	396.0
Substandard	106.2	260.5	335.6	702.3
Doubtful	0.9	2.4		3.3
Total originated loans	9,752.3	8,007.0	2,975.2	20,734.5
Acquired loans:				
Pass	193.5	161.5	0.8	355.8
Special mention	13.9	3.5	8.8	26.2
Substandard	41.3	29.2	2.8	73.3
Doubtful	0.7			0.7
Total acquired loans	249.4	194.2	12.4	456.0

Total	$ 10,001.7	$ 8,201.2	$ 2,987.6	$ 21,190.5

As of September 30, 2016 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	$ 2,909.9	$ 964.8	$ 29.1	$ 3,903.8
Moderate risk	2,428.6	661.4	7.3	3,097.3
High risk	532.6	442.1	12.3	987.0
Total originated loans	5,871.1	2,068.3	48.7	7,988.1
Acquired loans:				
Low risk	83.1			83.1
Moderate risk	27.3			27.3
High risk	46.5	31.5	0.8	78.8
Total acquired loans	156.9	31.5	0.8	189.2
Total	$ 6,028.0	$ 2,099.8	$ 49.5	$ 8,177.3

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2015 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial:				
Originated loans:				
Pass	$ 9,438.6	$ 7,153.4	$ 2,550.0	$ 19,142.0
Special mention	130.6	121.0	119.1	370.7
Substandard	127.7	250.5	288.5	666.7
Doubtful		1.5		1.5
Total originated loans	9,696.9	7,526.4	2,957.6	20,180.9
Acquired loans:				
Pass	260.9	175.9	6.1	442.9
Special mention	20.1	6.6	5.0	31.7
Substandard	49.1	39.8	4.6	93.5
Doubtful	1.8			1.8
Total acquired loans	331.9	222.3	15.7	569.9
Total	$ 10,028.8	$ 7,748.7	$ 2,973.3	$ 20,750.8

As of December 31, 2015 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	$ 2,579.3	$ 959.2	$ 25.8	$ 3,564.3
Moderate risk	2,208.6	651.2	7.9	2,867.7
High risk	481.5	505.1	14.8	1,001.4
Total originated loans	5,269.4	2,115.5	48.5	7,433.4
Acquired loans:				
Low risk	97.7			97.7
Moderate risk	36.2			36.2
High risk	53.7	38.2	0.9	92.8
Total acquired loans	187.6	38.2	0.9	226.7
Total	$ 5,457.0	$ 2,153.7	$ 49.4	$ 7,660.1

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.

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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.

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, 2016, the outstanding principal balance and carrying amount of the acquired loan portfolio were $743.6 million and $645.2 million, respectively ($901.9 million and $796.6 million, respectively, at December 31, 2015).

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

(in millions)	Three Months Ended September 30, 2016	2015
Balance at beginning of period	$ 270.3	$ 316.9
Accretion	(9.0)	(13.3)
Reclassification from nonaccretable difference for loans with improved cash flows (1)		
Other changes in expected cash flows (2)	2.4	5.0
Balance at end of period	$ 263.7	$ 308.6

(in millions)	Nine Months Ended September 30, 2016	2015
Balance at beginning of period	$ 296.0	$ 396.3
Accretion	(31.1)	(42.9)
Reclassification from nonaccretable difference for loans with improved cash flows (1)		1.1
Other changes in expected cash flows (2)	(1.2)	(45.9)
Balance at end of period	$ 263.7	$ 308.6

(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 commercial and residential properties totaling $11.2 million and $7.9 million, respectively, at September 30, 2016, and $5.5 million and $7.1 million, respectively, at December 31, 2015. Repossessed assets totaled $6.9 million and $9.5 million at September 30, 2016 and December 31, 2015, respectively.

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 (86.4 million shares at both September 30, 2016 and December 31, 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) (2.7 million shares at both September 30, 2016 and December 31, 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.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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 pension and other postretirement 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, 2016 and 2015 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 Plans	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 AOCL
Balance at December 31, 2015	$ (140.0)	$ (17.7)	$ (19.5)	$	$ (177.2)
Other comprehensive income (loss) before reclassifications		52.4		(0.1)	52.3
Amounts reclassified from AOCL (1)	2.8	(0.1)	1.5	0.3	4.5
Current period other comprehensive income	2.8	52.3	1.5	0.2	56.8
Balance at September 30, 2016	$ (137.2)	$ 34.6	$ (18.0)	$ 0.2	$ (120.4)

(in millions)	Pension and Other Postretirement Plans	Net Unrealized Gains (Losses) on Securities	Net Unrealized Gains (Losses) on	Net Unrealized Gains (Losses) on Derivatives	Total AOCL

		Available for Sale	Securities Transferred to Held to Maturity	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
Amounts reclassified from AOCL (1)	3.3		1.5	0.6	5.4
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)

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	Amounts Reclassified from AOCL				Affected Line Item
	Three Months Ended September 30,		Nine Months Ended September 30,		in the Statement Where
(in millions)	2016	2015	2016	2015	Net Income is Presented
Details about components of AOCL:					
Amortization of pension and other postretirement plans items:					
Net actuarial loss	$ (1.7)	$ (2.0)	$ (4.8)	$ (6.0)	(1)
Prior service credit	0.2	0.3	0.6	0.8	(1)
	(1.5)	(1.7)	(4.2)	(5.2)	Income before income tax expense
	0.6	0.6	1.4	1.9	Income tax expense
	(0.9)	(1.1)	(2.8)	(3.3)	Net income
Reclassification adjustment for net realized gains on securities available for sale			0.1		Income before income tax expense (2)
					Income tax expense
			0.1		Net income
Amortization of unrealized losses on securities transferred to held to maturity	(0.9)	(0.8)	(2.4)	(2.3)	Income before income tax expense (3)
	0.4	0.2	0.9	0.8	Income tax expense
	(0.5)	(0.6)	(1.5)	(1.5)	Net income
Amortization of unrealized gains and losses on cash flow hedges:					
Interest rate swaps	(0.1)	(0.3)	(0.6)	(1.0)	(4)
Interest rate locks	0.1	0.1	0.1	0.1	(4)
		(0.2)	(0.5)	(0.9)	Income before income tax expense
		0.1	0.2	0.3	Income tax expense

		(0.1)	(0.3)	(0.6)	Net income
Total reclassifications for the period	$ (1.4)	$ (1.8)	$ (4.5)	$ (5.4)	

(1) Included in the computation of net periodic benefit income (expense) 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.

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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, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$ 73.7	$ 68.4	$ 205.1	$ 189.3
Dividends and undistributed earnings allocated to participating securities	(0.2)	(0.3)	(0.6)	(0.9)
Income attributable to common shareholders	$ 73.5	$ 68.1	$ 204.5	$ 188.4
Average common shares outstanding for basic EPS	302.9	301.0	302.4	300.1
Effect of dilutive equity-based awards	0.4		0.4	
Average common and common-equivalent shares for diluted EPS	303.3	301.0	302.8	300.1
Basic EPS	$ 0.24	$ 0.23	$ 0.68	$ 0.63
Diluted EPS	$ 0.24	$ 0.23	$ 0.68	$ 0.63

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 18.2 million shares for both the three and nine months ended September 30, 2016 and 20.3 million shares for both the three and nine months ended September 30, 2015 have been excluded from the calculation of diluted EPS.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 6. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

Changes in the carrying amount of People s United s goodwill are summarized as follows for the nine months ended September 30, 2016. There were no changes in goodwill during the nine months ended September 30, 2015.

	Operating Segment			
(in millions)	Commercial Banking	Retail Banking	Wealth Management	Total
Balance at December 31, 2015	$ 1,222.8	$ 681.9	$ 54.0	$ 1,958.7
Acquisition of Eagle Insurance Group, LLC			1.4	1.4
Adjustments	(0.7)	(2.3)	(0.1)	(3.1)
Balance at September 30, 2016	$ 1,222.1	$ 679.6	$ 55.3	$ 1,957.0

In April 2016, People s United Insurance Agency, a subsidiary of the Bank, acquired Eagle Insurance Group, LLC (Eagle Insurance), a Massachusetts-based insurance brokerage firm, focused on commercial insurance, in an all-cash transaction. In connection with the acquisition, the Company recorded goodwill of $1.4 million, other acquisition-related intangible assets, representing insurance customer relationships, of $1.6 million and a deferred tax asset of $0.9 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, 2016 and December 31, 2015, tax deductible goodwill totaled $26.1 million and $24.1 million, respectively, and related, almost entirely, to the acquisitions of Eagle Insurance, Kesten-Brown Insurance, LLC and Butler Bank.

People s United s other acquisition-related intangible assets totaled $113.3 million and $129.1 million at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible ($74.2 million); core deposit intangible ($14.8 million); trust relationship intangible ($17.8 million); and insurance relationship intangible ($6.5 million).

Amortization expense of other acquisition-related intangible assets totaled $5.8 million and $5.9 million for the three months ended September 30, 2016 and 2015, respectively, and $17.4 million and $17.8 million for the nine months ended September 30, 2016 and 2015, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2016 and each of the next five years is as follows: $23.3 million in 2016; $22.2 million in 2017; $10.8 million in 2018; $10.1 million in 2019; $9.7 million in 2020; and $9.4 million in 2021. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the nine months ended September 30, 2016 and 2015.

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NOTE 7. EMPLOYEE BENEFIT PLANS

People s United Employee Pension and Other Postretirement Plans

People s United maintains a qualified noncontributory defined benefit pension plan (the People s 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 People s 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 People s Qualified Plan to freeze , effective December 31, 2011, the accrual of pension benefits for People s 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.

In addition to the People s Qualified Plan, People s United continues to maintain a qualified defined benefit pension plan that covers former Chittenden employees who meet certain eligibility requirements (the Chittenden Qualified Plan). Effective December 31, 2005, accrued benefits were frozen based on participants then-current service and pay levels. Interest continues to be credited on undistributed balances at a crediting rate specified by the Chittenden Qualified Plan. 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 People s Qualified Plan.

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.

People s United also maintains (i) unfunded, nonqualified supplemental plans to provide retirement benefits to certain senior officers (the Supplemental Plans) and (ii) an unfunded plan that provides retirees with optional medical, dental and life insurance benefits (the Other Postretirement 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.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Components of net periodic benefit (income) expense and other amounts recognized in other comprehensive income for the People s Qualified Plan, the Chittenden Qualified Plan and the Supplemental Plans (together the Pension Plans) and the Other Postretirement Plan are as follows:

	Pension Plans		Other Postretirement Plan	
Three months ended September 30 (in millions)	2016	2015	2016	2015
Net periodic benefit (income) expense:				
Service cost	$	$	$	$ 0.1
Interest cost	4.7	5.8	0.2	0.1
Expected return on plan assets	(8.7)	(8.6)		
Recognized net actuarial loss	1.6	2.0	0.1	
Recognized prior service credit	(0.2)	(0.2)		
Settlements	0.3	0.3		
Net periodic benefit (income) expense	$ (2.3)	$ (0.7)	$ 0.3	$ 0.2

	Pension Plans		Other Postretirement Plan	
Nine months ended September 30 (in millions)	2016	2015	2016	2015
Net periodic benefit (income) expense:				
Service cost	$	$	$ 0.2	$ 0.2
Interest cost	14.1	17.2	0.5	0.4
Expected return on plan assets	(25.9)	(25.5)		
Recognized net actuarial loss	4.6	5.8	0.2	0.2
Recognized prior service credit	(0.6)	(0.6)		(0.1)
Settlements	0.9	0.8		
Net periodic benefit (income) expense	(6.9)	(2.3)	0.9	0.7
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net actuarial loss	(4.6)	(5.8)	(0.2)	(0.2)
Prior service credit	0.6	0.6		0.1
Total pre-tax changes recognized in other comprehensive income	(4.0)	(5.2)	(0.2)	(0.1)
	$ (10.9)	$ (7.5)	$ 0.7	$ 0.6

Total recognized in net periodic benefit (income) expense and other comprehensive income

Effective January 1, 2016, People s United changed the method used to estimate the interest cost component of net periodic benefit income for the Pension Plans and the Other Postretirement Plan. Instead of using spot interest rate yield curves, People s United has elected to use a full yield curve approach to estimate this component of benefit income by applying the specific spot rates along the yield curve, used in the determination of the benefit obligations, to the relevant projected cash flows. This change did not affect the measurement of People s United s total benefit obligations as the change in interest cost is completely offset by the actuarial gain or loss recognized. People s United considers this a change in accounting estimate and, accordingly, accounted for it prospectively in 2016.

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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 $3.7 million for the nine months ended September 30, 2016. At September 30, 2016, the loan balance totaled $188.6 million.

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 3,397,411 shares of People s United common stock have been allocated or committed to be released to participants accounts. At September 30, 2016, 7,056,164 shares of People s United common stock, with a fair value of $111.6 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 for both the nine months ended September 30, 2016 and 2015.

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 these legal proceedings and, based on the advice of counsel and the information currently available, believes that the eventual outcome of these legal proceedings will not have a material adverse effect on its financial condition, results of operations or liquidity.

NOTE 9. SEGMENT INFORMATION

See Segment Results included in Item 2 for segment information for the three and nine months ended September 30, 2016 and 2015.

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Notes to Consolidated Financial Statements (Unaudited)

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.

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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, 2016 and December 31, 2015, 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 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.

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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:

	Fair Value Measurements Using			
As of September 30, 2016 (in millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Trading account securities:				
U.S. Treasury	$ 6.8	$	$	$ 6.8
Securities available for sale:				
U.S. Treasury and agency	873.9			873.9
GSE residential mortgage-backed securities and CMOs		4,032.4		4,032.4
Equity securities		0.2		0.2
Other assets:				
Exchange-traded funds	31.1			31.1
Fixed income securities		4.3		4.3
Mutual funds	3.5			3.5
Interest rate swaps		328.5		328.5
Foreign exchange contracts		0.1		0.1
Forward commitments to sell residential mortgage loans		1.4		1.4
Total	$ 915.3	$ 4,366.9	$	$ 5,282.2
Financial liabilities:				
Interest rate swaps	$	$ 253.2	$	$ 253.2
Risk participation agreements		0.1		0.1
Foreign exchange contracts		0.1		0.1
Interest rate-lock commitments on residential mortgage loans		1.9		1.9
Total	$	$ 255.3	$	$ 255.3

	Fair Value Measurements Using			
As of December 31, 2015 (in millions)	Level 1	Level 2	Level 3	Total
Financial assets:				
Trading account securities:				
U.S. Treasury	$ 6.7	$	$	$ 6.7
Securities available for sale:				
U.S. Treasury and agency	362.8			362.8

GSE residential mortgage-backed securities and CMOs		4,164.7		4,164.7
Equity securities		0.2		0.2
Other assets:				
Exchange-traded funds	29.4			29.4
Fixed income securities		5.1		5.1
Mutual funds	2.0			2.0
Interest rate swaps		157.0		157.0
Foreign exchange contracts		0.6		0.6
Forward commitments to sell residential mortgage loans		0.6		0.6
Total	$ 400.9	$ 4,328.2	$	$ 4,729.1
Financial liabilities:				
Interest rate swaps	$	$ 108.5	$	$ 108.5
Risk participation agreements (1)				
Foreign exchange contracts		0.2		0.2
Interest rate-lock commitments on residential mortgage loans		0.8		0.8
Total	$	$ 109.5	$	$ 109.5

(1) As of December 31, 2015, 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, 2016 and 2015.

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.

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:

	Fair Value Measurements Using			
As of September 30, 2016 (in millions)	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	$	$ 46.5	$	$ 46.5
Impaired loans (2)			55.8	55.8
REO and repossessed assets (3)			26.0	26.0
Total	$	$ 46.5	$ 81.8	$ 128.3

	Fair Value Measurements Using			
As of December 31, 2015 (in millions)	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	$	$ 34.5	$	$ 34.5
Impaired loans (2)			49.1	49.1
REO and repossessed assets (3)			22.1	22.1
Total	$	$ 34.5	$ 71.2	$ 105.7

(1) Consists of residential mortgage loans; no fair value adjustments were recorded for the nine months ended September 30, 2016 and 2015.

(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 $39.7 million of Commercial loans and $16.1 million of Retail loans at September 30, 2016. The provision for loan losses on impaired loans totaled $3.5 million and $6.0 million for the nine months ended September 30, 2016 and 2015, respectively.

(3) Represents: (i) $11.2 million of commercial REO; (ii) $7.9 million of residential REO; and (iii) $6.9 million of repossessed assets at September 30, 2016. Charge-offs to the allowance for loan losses related to loans that were transferred to REO or repossessed assets totaled $3.3 million and $1.5 million for the nine months ended September 30, 2016 and 2015, respectively. Write downs and net loss on sale of foreclosed/repossessed assets charged to non-interest expense totaled $2.9 million and $1.2 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.

People s United Financial, Inc.

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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-NY Stock

Both FHLB and FRB-NY 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.

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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, 2016 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 347.5	$ 347.5	$	$	$ 347.5
Short-term investments	372.8		372.8		372.8
Securities held to maturity	1,817.5		1,903.9	1.5	1,905.4
FHLB and FRB stock	315.5		315.5		315.5
Total loans, net (1)	29,085.7		5,961.5	23,281.7	29,243.2
Financial liabilities:					
Time deposits	4,686.8		4,703.6		4,703.6
Other deposits	24,968.7		24,968.7		24,968.7
FHLB advances	3,261.8		3,267.0		3,267.0
Federal funds purchased	844.0		844.0		844.0
Customer repurchase agreements	330.7		330.7		330.7
Notes and debentures	1,053.9		1,028.3		1,028.3

(1) Excludes impaired loans totaling $55.8 million measured at fair value on a non-recurring basis.

As of December 31, 2015 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 334.8	$ 334.8	$	$	$ 334.8
Short-term investments	380.5		380.5		380.5

Securities held to maturity	1,609.6	1,661.0	1.5	1,662.5
FHLB and FRB stock	305.4	305.4		305.4
Total loans, net (1)	28,150.8	5,315.3	22,893.7	28,209.0
Financial liabilities:				
Time deposits	4,818.1	4,836.5		4,836.5
Other deposits	23,599.3	23,599.3		23,599.3
FHLB advances	3,463.8	3,468.7		3,468.7
Customer repurchase agreements	469.5	469.5		469.5
Federal funds purchased	374.0	374.0		374.0
Notes and debentures	1,033.1	1,012.9		1,012.9

(1) Excludes impaired loans totaling $49.1 million measured at fair value on a non-recurring basis.

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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 AOCL 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 interest rate and foreign exchange risks associated with customer interest rate swaps and foreign exchange contracts are 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.

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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). There were no derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2016.

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.

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People s United Financial, Inc.

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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 interest rate swaps are recognized in current earnings.

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.

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.

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.

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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:

				Fair Values (1)			
		Notional Amounts		Assets		Liabilities	
(in millions)	Type of Hedge	Sept. 30, 2016	Dec. 31, 2015	Sept. 30, 2016	Dec. 31, 2015	Sept. 30, 2016	Dec. 31, 2015
Derivatives Not Designated as Hedging Instruments:							
Interest rate swaps:							
Commercial customers	N/A	$ 5,405.7	$ 4,644.8	$ 288.2	$ 130.9	$ 1.4	$ 2.6
Institutional counterparties	N/A	5,405.7	4,644.8	1.7	7.2	251.6	105.3
Risk participation agreements (2)	N/A	234.5	244.4			0.1	
Foreign exchange contracts	N/A	54.8	56.7	0.1	0.6	0.1	0.2
Forward commitments to sell residential mortgage loans	N/A	82.3	44.7	1.4	0.6		
Interest rate-lock commitments on residential mortgage loans	N/A	115.1	65.4			1.9	0.8
Total				291.4	139.3	255.1	108.9
Derivatives Designated as Hedging Instruments:							
Interest rate swaps:							

Subordinated notes	Cash flow	125.0	125.0			0.2	0.6
Subordinated notes	Fair value	375.0	375.0	38.6	18.9		
Total				38.6	18.9	0.2	0.6
Total fair value of derivatives				$ 330.0	$ 158.2	$ 255.3	$ 109.5

(1) Assets are recorded in other assets and liabilities are recorded in other liabilities.
(2) Fair value totaled less than $0.1 million at December 31, 2015.

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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:

		Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1)		Amount of Pre-Tax Gain (Loss) Recognized in AOCL	
Nine months ended September 30 (in millions)	Type of Hedge	2016	2015	2016	2015
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps:					
Commercial customers	N/A	$ 210.7	$ 127.8	$	$
Institutional counterparties	N/A	(200.3)	(116.9)		
Foreign exchange contracts	N/A	(0.6)			
Risk participation agreements	N/A	0.1	(0.2)		
Forward commitments to sell residential mortgage loans	N/A	0.8	0.7		
Interest rate-lock commitments on residential mortgage loans	N/A	(1.1)	(0.8)		
Total		9.6	10.6		
Derivatives Designated as Hedging Instruments:					
Interest rate swaps	Cash flow	(0.6)	(1.0)	(0.2)	(1.2)
Interest rate locks	Cash flow	0.1	0.1		
Interest rate swaps	Fair value	6.4	6.9		
Total		5.9	6.0	(0.2)	(1.2)
Total		$ 15.5	$ 16.6	$ (0.2)	$ (1.2)

(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.

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, 2016 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Gross Amounts Not Offset Financial Instruments	Collateral	Net Amount
Financial assets:						
Interest rate swaps:						
Counterparty A	$	$	$	$	$	$
Counterparty B	0.1		0.1	(0.1)		
Counterparty C	0.1		0.1	(0.1)		
Counterparty D	1.3		1.3	(1.3)		
Counterparty E	38.8		38.8	(38.8)		
Other counterparties						
Foreign exchange contracts	0.1		0.1			0.1
Total	$ 40.4	$	$ 40.4	$ (40.3)	$	$ 0.1
Financial liabilities:						
Interest rate swaps:						
Counterparty A	$ 10.8	$	$ 10.8	$	$ (10.8)	$
Counterparty B	16.6		16.6	(0.1)	(16.5)	
Counterparty C	12.0		12.0	(0.1)	(11.9)	
Counterparty D	13.6		13.6	(1.3)	(12.3)	
Counterparty E	190.3		190.3	(38.8)	(151.5)	
Other counterparties	8.5		8.5		(8.5)	
Foreign exchange contracts	0.1		0.1			0.1
Total	$ 251.9	$	$ 251.9	$ (40.3)	$ (211.5)	$ 0.1

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2015 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Gross Amounts Not Offset Financial Instruments	Collateral	Net Amount
Financial assets:						
Interest rate swaps:						
Counterparty A	$ 0.6	$	$ 0.6	$ (0.6)	$	$
Counterparty B	0.7		0.7	(0.7)		
Counterparty C	0.6		0.6	(0.6)		
Counterparty D	0.7		0.7	(0.7)		
Counterparty E	22.6		22.6	(22.6)		
Other counterparties	0.8		0.8	(0.7)		0.1
Foreign exchange contracts	0.6		0.6			0.6
Total	$ 26.6	$	$ 26.6	$ (25.9)	$	$ 0.7
Financial liabilities:						
Interest rate swaps:						
Counterparty A	$ 8.4	$	$ 8.4	$ (0.6)	$ (7.8)	$
Counterparty B	10.4		10.4	(0.7)	(9.7)	
Counterparty C	5.1		5.1	(0.6)	(4.5)	
Counterparty D	8.9		8.9	(0.7)	(7.3)	0.9
Counterparty E	69.5		69.5	(22.6)	(46.9)	
Other counterparties	3.6		3.6	(0.7)	(2.9)	
Foreign exchange contracts	0.2		0.2			0.2
Total	$ 106.1	$	$ 106.1	$ (25.9)	$ (79.1)	$ 1.1

NOTE 13. NEW ACCOUNTING STANDARDS

Standards effective in 2016

Stock Compensation

In June 2014, the Financial Accounting Standards Board (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 amendment, which is being applied prospectively, became effective for People s United on January 1, 2016 and did not have a significant impact on the Company s Consolidated Financial Statements.

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 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 amendment, which is being applied retrospectively, became effective for People s United on January 1, 2016 and did not have a significant impact on the Company s Consolidated Financial Statements.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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 statement of condition to a deduction from the related debt liability. This amendment, which is being applied retrospectively, became effective for People s United on January 1, 2016 and did not have a significant impact on the Company s Consolidated Financial Statements. See Note 1.

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. This amendment, which is being applied prospectively, became effective for People s United on January 1, 2016 and did not 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 amendment, which is being applied prospectively, became effective for People s United on January 1, 2016 and did not have a significant impact on the Company s Consolidated Financial Statements.

Standards effective in 2017

Derivatives and Hedging

In March 2016, the FASB amended its standards with respect to derivatives and hedging. The first amendment clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship and discontinuation of the application of hedge accounting. This amendment does not require additional disclosures beyond disclosure about a change in accounting principle in the period of adoption. The second amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence and no longer is required to assess whether the event that triggers the ability to exercise the option is related to interest rate or credit risk. For public business entities, both of these new amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (January 1, 2017 for People s United) and may be applied either prospectively or on a modified retrospective basis. Earlier application is permitted as of the beginning of an interim or annual reporting period. The adoption of these amendments is not expected to have a significant impact on the Company s Consolidated Financial Statements.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Investments Equity Method and Joint Ventures

In March 2016, the FASB amended its standards with respect to the equity method of accounting by eliminating the requirement that, upon an investment qualifying for use of the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations and retained earnings retrospectively, as if the equity method of accounting had been in effect during all previous periods that the investment was held. Rather, under the new guidance, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. Instead, any unrealized holding gain or loss is to be recognized through other comprehensive income on the date the investment qualifies for use of the equity method. This amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (January 1, 2017 for People s United) and is to be applied prospectively. The adoption of this amendment is not expected to have a significant impact on the Company s Consolidated Financial Statements.

Stock Compensation

In March 2016, the FASB amended its standards with respect to certain aspects of the accounting for share-based payment awards, including: (i) the related income tax consequences; (ii) the classification of awards as either equity or liabilities; and (iii) the classification in the statement of cash flows. For public business entities, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (January 1, 2017 for People s United) and should be applied prospectively. The adoption of this amendment is not expected to have a significant impact on the Company s Consolidated Financial Statements.

Standards effective in 2018

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 (now January 1, 2018 for People s United) with early adoption, as of the original effective date, permitted. In March, April and May 2016, the FASB issued amendments to clarify the implementation guidance and add some practical expedients in certain areas, including: (i) principal versus agent considerations; (ii) the identification of performance obligations; and (iii) certain aspects of the accounting for licensing arrangements. These amendments do not change the core principle of the guidance and are effective for and follow the same transition requirements as the core principle. The Company is currently evaluating the impact of the amended guidance on the Company s Consolidated Financial Statements.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Presentation of Deferred Taxes

In November 2015, the FASB amended its standards with respect to the presentation of deferred income taxes to eliminate the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of condition, thereby simplifying the presentation of deferred income taxes. For public business entities, this new amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 (January 1, 2018 for People s United) and may be applied either prospectively or retrospectively to all periods presented. Earlier application of the amendment is permitted as of the beginning of an interim or annual reporting period. The adoption of this amendment is not expected to have a significant impact on the Company s Consolidated Financial Statements.

Recognition and Measurement of Financial Instruments

In January 2016, the FASB amended its standards to address certain aspects of recognition, presentation and disclosure of financial instruments. The amended guidance (i) requires that equity investments be measured at fair value with changes in fair value recognized in net income and (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by permitting a qualitative assessment to identify impairment. The guidance also contains additional disclosure and presentation requirements associated with financial instruments. For public business entities this new guidance is effective in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 (January 1, 2018 for People s United). The cumulative effect transition method will be applied to all outstanding instruments as of the date of adoption, while changes to the accounting for equity investments without readily determinable fair values will be applied prospectively. The Company is currently evaluating the impact of the amended guidance on the Company s Consolidated Financial Statements.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB amended its standards to address the classification of certain cash receipts and payments within the statement of cash flows. Specifically, the amended guidance addresses the following: (i) debt prepayment or debt extinguishment costs; (ii) settlement of zero-coupon bonds; (iii) contingent payments made after a business combination; (iv) proceeds from the settlement of insurance claims; (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions; and (viii) separately identifiable cash flows and application of the predominance principle. For public business entities this new guidance is effective in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 (January 1, 2018 for People s United). The retrospective transition method will be applied to all periods presented and early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this amendment is not expected to have a significant impact on the Company s Consolidated Financial Statements.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Standards effective in 2019

Accounting for Leases

In February 2016, the FASB amended its standards with respect to the accounting for leases. The amended guidance serves to replace all current U.S. GAAP guidance on this topic and requires that an operating lease be recognized on the statement of condition as a right-to-use asset along with a corresponding liability representing the rent obligation. Key aspects of current lessor accounting remain unchanged from existing guidance. This standard is expected to result in an increase to assets and liabilities recognized and, therefore, increase risk-weighted assets for regulatory capital purposes. The guidance requires the use of the modified retrospective transition approach for existing leases that have not expired before the date of initial application and will become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (January 1, 2019 for People s United). The Company is currently evaluating the impact of the amended guidance on the Company s Consolidated Financial Statements.

Standards effective in 2020

Financial Instruments Credit Losses

In June 2016, the FASB amended its standards with respect to certain aspects of measurement, recognition and disclosure of credit losses on loans and other financial instruments, including available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is to be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). For certain assets (such as debt securities for which an other-than-temporary impairment has been recognized before the effective date and purchased financial assets with credit deterioration), a prospective transition approach is required. For public business entities, this new amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (January 1, 2020 for People s United) and earlier application is permitted as of the beginning of an interim or annual reporting period beginning after December 15, 2018. The Company is currently evaluating the impact of the amended guidance on the Company s Consolidated Financial Statements.

NOTE 14. SUBSEQUENT EVENTS

On October 31, 2016, People s United issued 10 million shares of fixed-to-floating rate non-cumulative perpetual preferred stock, with a par value of $0.01 per share and a liquidation preference of $25.00 per share. Dividends on the preferred stock are based on the liquidation preference amount and, when and if declared, will be payable quarterly in arrears based on a fixed-rate of 5.625% per annum beginning on December 15, 2016. Proceeds from the preferred stock offering are expected to be used for general corporate purposes, including (subject to obtaining required regulatory approval) contributions of capital or extensions of credit to the Bank.

On November 2, 2016, the Bank announced that its subsidiary, People s Securities, Inc., completed an all-cash acquisition of Gerstein, Fisher & Associates, Inc., a $3 billion investment management firm based in New York City. The acquisition brings People s United Wealth Management s total assets under administration to nearly $20 billion, of which approximately $8 billion is under discretionary management. Merger-related expenses relating to this transaction, which have been included in professional and outside services in the Consolidated Statements of Income, totaled $1.2 million for both the three and nine months ended September 30, 2016.

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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; (9) the successful integration of acquisitions; and (10) 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.

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Selected Consolidated Financial Information

(dollars in millions, except per share data)	Three Months Ended Sept. 30, 2016	June 30, 2016	Sept. 30, 2015	Nine Months Ended Sept. 30, 2016	Sept. 30, 2015
Earnings Data:					
Net interest income (fully taxable equivalent)	$ 254.2	$ 247.7	$ 241.1	$ 749.3	$ 712.0
Net interest income	245.3	240.0	234.8	725.4	693.3
Provision for loan losses	8.4	10.0	6.2	28.9	23.7
Non-interest income	90.8	85.4	87.1	258.5	259.1
Non-interest expense (1)	221.4	212.9	214.2	651.6	643.6
Income before income tax expense	106.3	102.5	101.5	303.4	285.1
Net income (1)	73.7	68.5	68.4	205.1	189.3
Selected Statistical Data:					
Net interest margin (2)	2.80%	2.79%	2.87%	2.80%	2.89%
Return on average assets (1), (2)	0.73	0.70	0.73	0.69	0.69
Return on average tangible assets (2)	0.77	0.73	0.78	0.73	0.73
Return on average stockholders equity (2)	6.1	5.7	5.8	5.7	5.4
Return on average tangible stockholders equity (1), (2)	10.7	10.1	10.5	10.1	9.7
Efficiency ratio (1)	59.9	60.4	61.7	61.0	61.7
Common Share Data:					
Basic and diluted earnings per share (1)	$ 0.24	$ 0.23	$ 0.23	$ 0.68	$ 0.63
Dividends paid per share	0.17	0.17	0.1675	0.5075	0.50
Dividend payout ratio (1)	70.1%	75.4%	73.9%	75.1%	79.5%
Book value per share (end of period)	$ 15.99	$ 15.91	$ 15.64	$ 15.99	$ 15.64
Tangible book value per share (end of period) (1)	9.18	9.07	8.75	9.18	8.75
Stock price:					
High	16.40	16.68	16.95	16.68	16.95
Low	14.22	13.80	14.69	13.62	13.97
Close (end of period)	15.82	14.66	15.73	15.82	15.73

(1) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(2) Annualized.

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(dollars in millions)	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015
	As of and for the Three Months Ended				
Financial Condition Data:					
Total assets	$ 40,692	$ 40,150	$ 39,264	$ 38,947	$ 37,507
Loans	29,368	29,038	28,511	28,411	27,672
Securities	7,046	6,785	6,732	6,449	5,921
Short-term investments	373	364	251	380	245
Allowance for loan losses	226	220	216	211	208
Goodwill and other acquisition-related intangible assets	2,070	2,076	2,079	2,088	2,085
Deposits	29,656	28,999	29,105	28,417	28,280
Borrowings	4,437	4,563	3,717	4,307	2,997
Notes and debentures	1,054	1,058	1,050	1,033	1,039
Stockholders equity	4,862	4,830	4,791	4,732	4,731
Total risk-weighted assets:					
People s United	30,451	30,267	29,832	29,646	28,990
People s United Bank, National Association	30,415	30,232	29,826	29,621	28,953
Non-performing assets (1)	180	182	189	182	210
Net loan charge-offs	2.5	5.1	6.0	6.2	4.1
Average Balances:					
Loans	$ 29,107	$ 28,558	$ 28,159	$ 27,853	$ 27,496
Securities (2)	6,873	6,699	6,498	6,133	5,880
Short-term investments	361	298	348	247	245
Total earning assets	36,341	35,555	35,005	34,233	33,621
Total assets	40,304	39,422	38,773	37,955	37,284
Deposits	29,437	29,079	28,721	28,481	27,810
Borrowings	4,296	3,895	3,664	3,187	3,304
Notes and debentures	1,056	1,049	1,044	1,037	1,028
Total funding liabilities	34,789	34,023	33,429	32,705	32,142
Stockholders equity	4,841	4,795	4,761	4,736	4,700
Ratios:					
Net loan charge-offs to average total loans (annualized)	0.04%	0.07%	0.09%	0.09%	0.06%
Non-performing assets to originated loans, real estate owned and repossessed assets (1)	0.63	0.64	0.68	0.66	0.78
Originated allowance for loan losses to:					
Originated loans (1)	0.76	0.75	0.75	0.73	0.74
Originated non-performing loans (1)	142.0	135.3	123.3	127.3	108.1
Average stockholders equity to average total assets	12.0	12.2	12.3	12.5	12.6
Stockholders equity to total assets	11.9	12.0	12.2	12.1	12.6
Tangible stockholders equity to tangible assets (3)	7.2	7.2	7.3	7.2	7.5
Total risk-based capital:					
People s United	11.5	11.5	11.5	11.7	11.8
People s United Bank, National Association	12.8	12.8	12.9	12.6	12.8

(1) Excludes acquired loans.
(2) Average balances for securities are based on amortized cost.
(3) See Non-GAAP Financial Measures and Reconciliation to GAAP.

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 and related lease termination costs; (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. Effective with the quarter ended March 31, 2016, recurring writedowns of banking house assets and certain severance-related costs are no longer considered to be non-operating expenses. 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.

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

	Three Months Ended			Nine Months Ended	
(dollars in millions)	Sept. 30, 2016	June 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Total non-interest expense	$ 221.4	$ 212.9	$ 214.2	$ 651.6	$ 643.6
Adjustments to arrive at operating non-interest expense:					
Merger-related expenses	(3.1)			(3.1)	
Writedowns of banking house assets					(8.0)
Severance-related costs			(0.1)		(1.1)
Total	(3.1)	n/a	(0.1)	(3.1)	(9.1)
Operating non-interest expense	218.3	n/a	214.1	648.5	634.5
Operating lease expense (1)	(9.7)	(9.1)	(9.2)	(28.0)	(27.7)
Amortization of other acquisition-related intangible assets	(5.8)	(5.8)	(5.9)	(17.4)	(17.8)
Other (2)	(1.8)	(1.8)	(1.8)	(5.1)	(5.6)
Total non-interest expense for efficiency ratio	$ 201.0	$ 196.2	$ 197.2	$ 598.0	$ 583.4
Net interest income (FTE basis)	$ 254.2	$ 247.7	$ 241.1	$ 749.3	$ 712.0
Total non-interest income	90.8	85.4	87.1	258.5	259.1
Total revenues	345.0	333.1	328.2	1,007.8	971.1
Adjustments:					
Operating lease expense (1)	(9.7)	(9.1)	(9.2)	(28.0)	(27.7)
BOLI FTE adjustment	0.6	1.0	0.6	2.1	1.9
Net security gains				(0.1)	
Other (3)	(0.3)			(1.0)	(0.1)
Total revenues for efficiency ratio	$ 335.6	$ 325.0	$ 319.6	$ 980.8	$ 945.2
Efficiency ratio	59.9%	60.4%	61.7%	61.0%	61.7%

n/a For the three months ended June 30, 2016, no expenses were considered to be non-operating expenses. Accordingly, operating metrics were not applicable.

(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.

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

(dollars in millions, except per share data)	Three Months Ended Sept. 30, 2016	Three Months Ended June 30, 2016	Three Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016	Nine Months Ended Sept. 30, 2015
Net income, as reported	$ 73.7	$ 61.7	$ 68.4	$ 205.1	$ 189.3
Adjustments to arrive at operating earnings:					
Merger-related expenses	3.1			3.1	
Writedowns of banking house assets					8.0
Severance-related costs			0.1		1.1
Total pre-tax adjustments	3.1	n/a	0.1	3.1	9.1
Tax effect	(1.0)	n/a	(0.1)	(1.0)	(3.1)
Total adjustments, net of tax	2.1	n/a		2.1	6.0
Operating earnings	$ 75.8	n/a	$ 68.4	$ 207.2	$ 195.3
EPS, as reported	$ 0.24	$ 0.23	$ 0.23	$ 0.68	$ 0.63
Adjustments to arrive at operating EPS:					
Merger-related expenses	0.01			0.01	
Writedowns of banking house assets					0.02
Severance-related costs					
Total adjustments per share	0.01	n/a		0.01	0.02
Operating EPS	$ 0.25	n/a	$ 0.23	$ 0.69	$ 0.65
Average total assets	$ 40,304	$ 39,422	$ 37,257	$ 39,503	$ 36,580
Operating return on average assets (annualized)	0.75%	n/a	0.73%	0.70%	0.71%

n/a For the three months ended June 30, 2016, no expenses were considered to be non-operating expenses. Accordingly, operating metrics were not applicable.

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

(dollars in millions)	Three Months Ended Sept. 30, 2016	Three Months Ended June 30, 2016	Three Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016	Nine Months Ended Sept. 30, 2015
Operating earnings	$ 75.8	n/a	$ 68.4	$ 207.2	$ 195.3
Average stockholders equity	$ 4,841	$ 4,795	$ 4,700	$ 4,799	$ 4,684
Less: Average goodwill and average other acquisition-related intangible assets	2,073	2,079	2,088	2,079	2,094
Average tangible stockholders equity	$ 2,768	$ 2,716	$ 2,612	$ 2,720	$ 2,590
Operating return on average tangible stockholders equity (annualized)	11.0%	n/a	10.5%	10.2%	10.1%

(dollars in millions)	Three Months Ended Sept. 30, 2016	Three Months Ended June 30, 2016	Three Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016	Nine Months Ended Sept. 30, 2015
Dividends paid	$ 51.7	$ 50.6	$ 50.6	$ 154.1	$ 150.6
Operating earnings	$ 75.8	n/a	$ 68.4	$ 207.2	$ 195.3
Operating dividend payout ratio	68.2%	n/a	73.9%	74.4%	77.1%

n/a For the three months ended June 30, 2016, no expenses were considered to be non-operating expenses. Accordingly, operating metrics were not applicable.

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

(dollars in millions)	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015
Total stockholders equity	$ 4,862	$ 4,830	$ 4,791	$ 4,732	$ 4,731
Less: Goodwill and other acquisition-related intangible assets	2,070	2,076	2,079	2,088	2,085
Tangible stockholders equity	$ 2,792	$ 2,754	$ 2,712	$ 2,644	$ 2,646
Total assets	$ 40,692	$ 40,150	$ 39,264	$ 38,947	$ 37,507
Less: Goodwill and other acquisition-related intangible assets	2,070	2,076	2,079	2,088	2,085
Tangible assets	$ 38,622	$ 38,074	$ 37,185	$ 36,859	$ 35,422
Tangible stockholders equity ratio	7.2%	7.2%	7.3%	7.2%	7.5%

(in millions, except per share data)	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015
Tangible stockholders equity	$ 2,792	$ 2,754	$ 2,712	$ 2,644	$ 2,646
Common shares issued	400.13	399.74	399.54	399.24	398.84
Less: Common shares classified as treasury shares	89.05	89.05	89.04	89.06	89.05
Unallocated ESOP common shares	7.06	7.14	7.23	7.32	7.40
Common shares	304.02	303.55	303.27	302.86	302.39
Tangible book value per share	$ 9.18	$ 9.07	$ 8.94	$ 8.73	$ 8.75

Recent Developments

On October 31, 2016, People s United issued 10 million shares of fixed-to-floating rate non-cumulative perpetual preferred stock, with a par value of $0.01 per share and a liquidation preference of $25.00 per share. Dividends on the preferred stock are based on the liquidation preference amount and, when and if declared, will be payable quarterly in arrears based on a fixed-rate of 5.625% per annum beginning on December 15, 2016. Proceeds from the preferred stock offering are expected to be used for general corporate purposes, including (subject to obtaining required regulatory approval) contributions of capital or extensions of credit to People s United Bank, National Association (the Bank).

On November 2, 2016, the Bank announced that its subsidiary, People s Securities, Inc., completed an all-cash acquisition of Gerstein, Fisher & Associates, Inc., (Gerstein Fisher) a $3 billion investment management firm based in New York City. The acquisition brings People s United Wealth Management s total assets under administration to nearly $20 billion, of which approximately $8 billion is under discretionary management. Merger-related expenses relating to this transaction, which have been included in professional and outside services in the Consolidated Statements of Income, totaled $1.2 million for both the three and nine months ended September 30, 2016.

Pending Acquisition

On June 27, 2016, People s United announced the signing of a definitive agreement to acquire Suffolk Bancorp (Suffolk) based in Riverhead, New York. Under the terms of the definitive agreement, each share of Suffolk common stock will be converted into the right to receive 2.225 shares of People s United common stock, with a total transaction value, as of September 30, 2016, of approximately $423 million. At September 30, 2016, Suffolk reported total assets of $2.2 billion, total deposits of $1.9 billion and operated 27 branches in the greater Long Island area. The acquisition, which is subject to regulatory approval, was approved by Suffolk shareholders on October 13, 2016. People s United shareholder approval is not required for the acquisition. Merger-related expenses relating to this transaction, which have been included in professional and outside services in the Consolidated Statements of Income, totaled $1.9 million for both the three and nine months ended September 30, 2016.

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Financial Overview

People s United reported net income of $73.7 million, or $0.24 per diluted share, for the three months ended September 30, 2016, compared to $68.4 million, or $0.23 per diluted share, for the year-ago period. Included in this quarter s results were merger-related expenses totaling $3.1 million ($2.1 million after-tax), or $0.01 per diluted share. Compared to the year-ago period, third quarter 2016 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 return on average assets was 0.73% for both the three months ended September 30, 2016 and 2015. Return on average tangible stockholders equity was 10.7% for the three months ended September 30, 2016, compared to 10.5% for the year-ago period. Compared to the third quarter of 2015, FTE net interest income increased $13.3 million to $254.2 million and the net interest margin decreased seven basis points to 2.80%. FTE net interest income increased $6.5 million and the net interest margin increased one basis point compared to the second quarter of 2016 (see Net Interest Income).

Net income for the nine months ended September 30, 2016 totaled $205.1 million, or $0.68 per diluted share, compared to $189.3 million, or $0.63 per diluted share, for the year-ago period. People s United s return on average assets was 0.69% for both the nine months ended September 30, 2016 and 2015. Return on average tangible stockholders equity was 10.1% for the nine months ended September 30, 2016, compared to 9.7% for the year-ago period. FTE net interest income totaled $749.3 million for the nine months ended September 30, 2016, a $37.3 million increase from the year-ago period, and the net interest margin decreased nine basis points to 2.80%.

Average total earning assets increased $2.7 billion compared to the third quarter of 2015, reflecting increases of $1.6 billion in average total loans and $1.0 billion in average securities. Average total funding liabilities increased $2.6 billion compared to the year-ago quarter, reflecting increases of $1.6 billion in average total deposits and $1.0 billion in average total borrowings.

Compared to the year-ago quarter, total non-interest income increased $3.7 million and total non-interest expense increased $7.2 million. The efficiency ratio was 59.9% for the third quarter of 2016, compared to 61.7% for the year-ago period (see Non-Interest Income and Non-Interest Expense).

The provision for loan losses in the third quarter of 2016 totaled $8.4 million compared to $6.2 million in the year-ago quarter. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.04% in the third quarter of 2016 compared to 0.06% in the year-ago quarter. The allowance for loan losses on originated loans was $219.0 million at September 30, 2016, a $16.1 million increase from December 31, 2015. The allowance for loan losses on acquired loans was $7.3 million and $8.1 million at September 30, 2016 and December 31, 2015, respectively. Non-performing assets (excluding acquired non-performing loans) totaled $180.1 million at September 30, 2016, a $1.4 million decrease from December 31, 2015. At September 30, 2016, the originated allowance for loan losses as a percentage of originated loans was 0.76% and as a percentage of originated non-performing loans was 142.0%, compared to 0.73% and 127.3%, respectively, at December 31, 2015 (see Asset Quality).

People s United s total stockholders equity was $4.9 billion at September 30, 2016, compared to $4.7 billion at December 31, 2015. Stockholders equity as a percentage of total assets was 11.9% at September 30, 2016, compared to 12.1% at December 31, 2015. Tangible stockholders equity as a percentage of tangible assets was 7.2% at September 30, 2016, compared to 7.2% at December 31, 2015 (see Stockholders Equity and Dividends). People s United s and the Bank s Total risk-based capital ratios were 11.5% and 12.8%, respectively, at September 30, 2016, compared to 11.7% and 12.6%, respectively, at December 31, 2015 (see Regulatory Capital Requirements).

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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.

People s United uses an internal profitability reporting system to generate information by operating segment, which is 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. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

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.

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. 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.

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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.

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. In 2015, 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, 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, 2016 (in millions)	Commercial Banking	Retail Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	$ 143.6	$ 87.0	$ 230.6	$ 21.0	$ (6.3)	$ 245.3
Provision for loan losses	10.0	3.3	13.3		(4.9)	8.4
Total non-interest income	42.5	42.8	85.3	6.7	(1.2)	90.8
Total non-interest expense	84.1	128.0	212.1	1.9	7.4	221.4
Income (loss) before income tax expense (benefit)	92.0	(1.5)	90.5	25.8	(10.0)	106.3
Income tax expense (benefit)	28.2	(0.5)	27.7	7.9	(3.0)	32.6
Net income (loss)	$ 63.8	$ (1.0)	$ 62.8	$ 17.9	$ (7.0)	$ 73.7
Average total assets	$ 23,003.3	$ 9,023.2	$ 32,026.5	$ 7,552.0	$ 725.5	$ 40,304.0
Average total liabilities	6,852.4	19,194.9	26,047.3	9,069.1	347.1	35,463.5

Nine months ended September 30, 2016 (in millions)	Commercial Banking	Retail Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	$ 423.2	$ 258.8	$ 682.0	$ 65.8	$ (22.4)	$ 725.4
Provision for loan losses	29.3	9.7	39.0		(10.1)	28.9

Total non-interest income	120.3	124.2	244.5	12.2	1.8	258.5
Total non-interest expense	244.3	380.3	624.6	5.9	21.1	651.6
Income (loss) before income tax expense (benefit)	269.9	(7.0)	262.9	72.1	(31.6)	303.4
Income tax expense (benefit)	87.5	(2.3)	85.2	23.3	(10.2)	98.3
Net income (loss)	$ 182.4	$ (4.7)	$ 177.7	$ 48.8	$ (21.4)	$ 205.1
Average total assets	$ 22,613.4	$ 8,847.8	$ 31,461.2	$ 7,338.3	$ 703.1	$ 39,502.6
Average total liabilities	6,575.4	19,256.7	25,832.1	8,525.1	346.4	34,703.6

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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. 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 September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net interest income	$ 143.6	$ 139.5	$ 423.2	$ 410.8
Provision for loan losses	10.0	12.1	29.3	35.4
Total non-interest income	42.5	41.4	120.3	123.6
Total non-interest expense	84.1	79.5	244.3	232.1
Income before income tax expense	92.0	89.3	269.9	266.9
Income tax expense	28.2	29.1	87.5	89.7
Net income	$ 63.8	$ 60.2	$ 182.4	$ 177.2
Average total assets	$ 23,003.3	$ 21,636.0	$ 22,613.4	$ 21,313.1
Average total liabilities	6,852.4	5,545.9	6,575.4	5,228.6

Commercial Banking s net income increased $3.6 million in the third quarter of 2016 compared to the year-ago period. The $4.1 million increase in net interest income primarily reflects the benefit from an increase in average commercial loans, partially offset by increases in interest expense and net FTP funding charges, and continued pricing pressure within the loan portfolio, which includes the pay-off of higher-yielding loans, partially mitigated by new originations at rates higher than the existing portfolio and declining interest income on acquired loans. Non-interest income increased $1.1 million compared to the year-ago period, primarily reflecting increases in institutional and corporate trust fees, operating lease income, insurance revenue and customer interest rate swap income, partially offset by a decrease in commercial banking lending fees. The $4.6 million increase in non-interest expense in the third quarter of 2016 compared to the third quarter of 2015 reflects a higher level of direct expenses partially offset by a lower level of allocated expenses. Average total assets increased $1.4 billion and average liabilities increased $1.3 billion compared to the third quarter of 2015, primarily reflecting loan and deposit growth, respectively.

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Retail Banking includes, as its principal business lines, consumer lending (including residential mortgage and home equity lending) and consumer 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, 2016	2015	Nine Months Ended September 30, 2016	2015
Net interest income	$ 87.0	$ 86.1	$ 258.8	$ 258.4
Provision for loan losses	3.3	3.8	9.7	11.4
Total non-interest income	42.8	43.6	124.2	127.7
Total non-interest expense	128.0	131.7	380.3	392.3
Loss before income tax benefit	(1.5)	(5.8)	(7.0)	(17.6)
Income tax benefit	(0.5)	(1.9)	(2.3)	(6.1)
Net loss	$ (1.0)	$ (3.9)	$ (4.7)	$ (11.5)
Average total assets	$ 9,023.2	$ 8,525.0	$ 8,847.8	$ 8,426.0
Average total liabilities	19,194.9	19,342.4	19,256.7	19,268.3

Retail Banking s net loss decreased $2.9 million in the third quarter of 2016 compared to the third quarter of 2015. The $0.9 million increase in net interest income primarily reflects the benefit from an increase in average residential mortgage loans and a decrease in interest expense, partially offset by lower FTP funding credits and continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, partially mitigated by new originations at rates higher than the existing portfolio and declining interest income on acquired loans. The $0.8 million decrease in non-interest income primarily reflects a decrease in bank service charges, partially offset by increases in investment management fees and net gains on sales of residential mortgage loans. The $3.7 million decrease in non-interest expense reflects a lower level of allocated expenses. Compared to the third quarter of 2015, average total assets increased $498 million, primarily reflecting loan growth, and average total liabilities decreased $148 million, primarily reflecting a decrease in deposits.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Net interest income	$ 21.0	$ 16.6	$ 65.8	$ 45.7
Total non-interest income	6.7	2.3	12.2	7.9
Total non-interest expense	1.9	0.1	5.9	5.9
Income before income tax expense	25.8	18.8	72.1	47.7
Income tax expense	7.9	6.2	23.3	16.2
Net income	$ 17.9	$ 12.6	$ 48.8	$ 31.5
Average total assets	$ 7,552.0	$ 6,463.8	$ 7,338.3	$ 6,193.6
Average total liabilities	9,069.1	7,416.8	8,525.1	7,081.4

Treasury s net income increased $5.3 million in the third quarter of 2016 compared to the third quarter of 2015. The $4.4 million increase in net interest income primarily reflects an increase in securities income and lower FTP funding costs, partially offset by an increase in interest expense. The $4.4 million increase in non-interest income primarily reflects income related to a distribution from an acquired equity investment. Non-interest expense increased $1.8 million compared to the year-ago period, primarily reflecting an increase in allocated expenses. Average total assets increased $1.1 billion compared to the third quarter of 2015, primarily reflecting an increase in average securities. The $1.7 billion increase in average total liabilities compared to the third quarter of 2015 primarily reflects increases in average deposits and 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. Non-interest income for the nine months ended September 30, 2016 includes a $1.2 million gain on the sale of an interest in a real estate investment. Non-interest expense for both the three and nine months ended September 30, 2016 includes $3.1 million of merger-related expenses and, for the three and nine months ended September 30, 2015, includes severance-related costs and charges related to writedowns of certain banking house assets of $0.1 million and $9.1 million, respectively.

(in millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net interest loss	$ (6.3)	$ (7.4)	$ (22.4)	$ (21.6)
Provision for loan losses	(4.9)	(9.7)	(10.1)	(23.1)
Total non-interest income	(1.2)	(0.2)	1.8	(0.1)
Total non-interest expense	7.4	2.9	21.1	13.3
Loss before income tax benefit	(10.0)	(0.8)	(31.6)	(11.9)
Income tax benefit	(3.0)	(0.3)	(10.2)	(4.0)
Net loss	$ (7.0)	$ (0.5)	$ (21.4)	$ (7.9)
Average total assets	$ 725.5	$ 659.5	$ 703.1	$ 647.7
Average total liabilities	347.1	278.7	346.4	317.9

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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.

In December 2015, the Board of Governors of the Federal Reserve System (the FRB) raised the targeted range for the federal funds rate by 25 basis points to 0.25% to 0.50%. Until then, the FRB had not changed the targeted range of 0% to 0.25% since December 2008. For the third quarter of 2016, the average effective federal funds rate was 0.40%. On February 18, 2016, the FRB issued an interim final rule, which serves to implement a reduction in the dividend rate paid on Federal Reserve Bank capital stock from an annual fixed-rate of 6% to the lesser of 6% or a rate based on 10-year Treasury notes, for those banks with total assets greater than $10 billion, including the Bank. The Company estimates that dividend income from the Federal Reserve Bank of New York (the FRB-NY) capital stock may be reduced by approximately $5 million on an annual basis.

The net interest margin was 2.80% in the third quarter of 2016, compared to 2.79% in the second quarter of 2016 and 2.87% in the third quarter of 2015. The improvement in the net interest margin from the second quarter of 2016 reflects improved loan yields and mix, and one additional calendar day in the third quarter, partially offset by a decline in the yield on the securities portfolio and an increase in average total borrowings. 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 2016 Compared to Third Quarter 2015

FTE net interest income increased $13.1 million compared to the third quarter of 2015, reflecting a $17.2 million increase in total interest and dividend income, partially offset by a $4.1 million increase in total interest expense, and the net interest margin decreased seven basis points to 2.80%. The decline in the net interest margin primarily reflects increases in average investment, deposit and borrowing balances (which reduced the net interest margin by a total of nine basis points), partially offset by new loan volume at rates higher than the existing portfolio (which benefited the net interest margin by two basis points).

Average total earning assets were $36.3 billion in the third quarter of 2016, a $2.7 billion increase from the third quarter of 2015, primarily reflecting increases of $1.6 billion in average total loans and $1.0 billion in average securities. Average total loans, average securities and average short-term investments comprised 80%, 19% and 1%, respectively, of average total earning assets in the third quarter of 2016, compared to 82%, 17% and 1%, respectively, in the year-ago quarter. In the current quarter, the yield earned on the total loan portfolio was 3.49% and the yield earned on securities and short-term investments was 2.18%, compared to 3.51% and 2.28%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, 51% of the loan portfolio had floating interest rates at September 30, 2016, compared to 49% at December 31, 2015.

The average total commercial and residential mortgage loan portfolios increased $1.0 billion and $642 million, respectively, compared to the year-ago quarter, reflecting growth. Average consumer loans decreased $32 million compared to the year-ago quarter, primarily reflecting a $30 million decrease in average home equity loans.

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Average total funding liabilities were $34.8 billion in the third quarter of 2016, a $2.6 billion increase from the year-ago period, reflecting increases of $1.6 billion in average total deposits and $1.0 million in average total borrowings. The increase in average total deposits reflects organic growth, partially offset by a $60 million decrease in average brokered deposits. Excluding brokered deposits, average savings, interest-bearing checking and money market deposits, and average non-interest-bearing deposits increased $1.6 billion and $472 million, respectively, and average time deposits decreased $370 million. Average total deposits comprised 85% and 87% of average total funding liabilities in the third quarter of 2016 and the year-ago period, respectively. The increase in average total borrowings reflects the additional funding used to support loan growth and securities purchases.

The one basis point increase to 0.45% in the rate paid on average total funding liabilities primarily reflects an increase in the cost of total borrowings, reflecting the increase in the federal funds rate in December 2015 discussed above. The rate paid on average total deposits decreased two basis points from the third quarter of 2015, primarily reflecting a decrease of three basis points in time deposits, partially offset by an increase of two basis points in savings, interest-bearing checking and money market deposits. Average savings, interest-bearing checking and money market deposits, and average time deposits comprised 62% and 16%, respectively, of average total deposits in the third quarter of 2016, compared to 60% and 19%, respectively, in the comparable 2015 period.

Third Quarter 2016 Compared to Second Quarter 2016

FTE net interest income increased $6.5 million compared to the second quarter of 2016, reflecting a $7.2 million increase in total interest and dividend income, partially offset by a $0.7 million increase in total interest expense, and the net interest margin increased one basis point to 2.80%. The improvement in the net interest margin reflects an improvement in loan yields and mix, and one additional calendar day in the third quarter (which each benefitted the net interest margin by two basis points), partially offset by a lower yield on the securities portfolio and higher average borrowing balances (which collectively reduced the net interest margin by three basis points).

Average total earning assets increased $786 million, primarily reflecting increases of $549 million in average total loans and $174 million in average securities. The average total commercial and residential mortgage loan portfolios increased $311 million and $255 million, respectively, compared to the second quarter of 2016.

Average total funding liabilities increased $766 million, reflecting increases of $358 million in average total deposits and $400 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, 2016, June 30, 2016 and September 30, 2015, and the nine months ended September 30, 2016 and 2015. 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.

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Average Balance Sheet, Interest and Yield/Rate Analysis (1)

Three months ended (dollars in millions)	September 30, 2016 Average Balance	Interest	Yield/ Rate	June 30, 2016 Average Balance	Interest	Yield/ Rate	September 30, 2015 Average Balance	Interest	Yield/ Rate
Assets:									
Short-term investments	$ 361.0	$ 0.4	0.47%	$ 297.8	$ 0.3	0.42%	$ 245.3	$ 0.1	0.19%
Securities (2)	6,872.5	38.9	2.26	6,698.7	39.2	2.34	5,879.9	34.8	2.37
Loans:									
Commercial real estate	9,978.8	85.7	3.44	9,997.0	85.3	3.41	9,688.4	85.7	3.54
Commercial and industrial	8,053.2	71.1	3.53	7,727.8	66.0	3.42	7,518.0	62.1	3.30
Equipment financing	2,984.7	32.8	4.39	2,981.4	33.0	4.43	2,809.7	33.1	4.72
Residential mortgage	5,935.3	46.1	3.11	5,679.9	44.0	3.10	5,293.2	42.3	3.20
Consumer	2,155.4	18.4	3.41	2,172.5	18.4	3.38	2,186.9	18.1	3.30
Total loans	29,107.4	254.1	3.49	28,558.6	246.7	3.46	27,496.2	241.3	3.51
Total earning assets	36,340.9	$ 293.4	3.23%	35,555.1	$ 286.2	3.22%	33,621.4	$ 276.2	3.29%
Other assets	3,963.1			3,866.9			3,662.9		
Total assets	$ 40,304.0			$ 39,422.0			$ 37,284.3		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing	$ 6,325.3	$	%	$ 6,098.3	$	%	$ 5,853.7	$	%
Savings, interest-bearing checking and money market	18,356.6	13.3	0.29	18,151.0	12.9	0.28	16,634.9	11.1	0.27
Time	4,755.1	11.9	1.00	4,830.1	12.5	1.04	5,321.6	13.7	1.03
Total deposits	29,437.0	25.2	0.34	29,079.4	25.4	0.35	27,810.2	24.8	0.36
Borrowings:									
Federal Home Loan Bank advances	3,306.7	5.1	0.62	3,157.8	4.7	0.59	2,444.2	2.5	0.41
Federal funds purchased	674.1	0.9	0.51	421.5	0.5	0.48	378.4	0.2	0.19

Customer repurchase agreements	314.8	0.1	0.19	315.9	0.1	0.19	481.1	0.2	0.19
Other borrowings							0.5		1.75
Total borrowings	4,295.6	6.1	0.57	3,895.2	5.3	0.55	3,304.2	2.9	0.35
Notes and debentures	1,056.4	7.9	2.97	1,048.8	7.8	2.98	1,028.2	7.4	2.90
Total funding liabilities	34,789.0	$ 39.2	0.45%	34,023.4	$ 38.5	0.45%	32,142.6	$ 35.1	0.44%
Other liabilities	674.5			603.3			441.2		
Total liabilities	35,463.5			34,626.7			32,583.8		
Stockholders equity	4,840.5			4,795.3			4,700.5		
Total liabilities and stockholders equity	$ 40,304.0			$ 39,422.0			$ 37,284.3		
Net interest income/spread (3)		$ 254.2	2.78%		$ 247.7	2.77%		$ 241.1	2.85%
Net interest margin			2.80%			2.79%			2.87%

(1) Average yields earned and rates paid are annualized.
(2) Average balances and yields for securities are based on amortized cost.
(3) The fully taxable equivalent adjustment was $8.9 million, $7.7 million and $6.3 million for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015, respectively.

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Average Balance Sheet, Interest and Yield/Rate Analysis (1)

Nine months ended (dollars in millions)	September 30, 2016 Average Balance	Interest	Yield/ Rate	September 30, 2015 Average Balance	Interest	Yield/ Rate
Assets:						
Short-term investments	$ 335.7	$ 1.1	0.46%	$ 248.1	$ 0.3	0.20%
Securities (2)	6,690.4	116.7	2.33	5,596.1	98.0	2.33
Loans:						
Commercial real estate	9,991.1	257.8	3.44	9,553.9	257.4	3.59
Commercial and industrial	7,754.1	200.6	3.45	7,334.7	183.6	3.34
Equipment financing	2,972.7	99.1	4.44	2,817.3	96.5	4.57
Residential mortgage	5,719.3	134.2	3.13	5,148.9	123.4	3.20
Consumer	2,173.1	55.4	3.40	2,190.6	54.2	3.29
Total loans	28,610.3	747.1	3.48	27,045.4	715.1	3.53
Total earning assets	35,636.4	$ 864.9	3.24%	32,889.6	$ 813.4	3.30%
Other assets	3,866.2			3,690.8		
Total assets	$ 39,502.6			$ 36,580.4		
Liabilities and stockholders equity:						
Deposits:						
Non-interest-bearing	$ 6,139.3	$	%	$ 5,718.5	$	%
Savings, interest-bearing checking and money market	18,138.6	38.9	0.29	16,164.3	32.0	0.26
Time	4,802.7	36.9	1.02	5,330.3	38.9	0.97
Total deposits	29,080.6	75.8	0.35	27,213.1	70.9	0.35
Borrowings:						
Federal Home Loan Bank advances	3,115.5	14.1	0.61	2,290.7	7.0	0.41
Federal funds purchased	497.2	1.8	0.48	415.2	0.5	0.18
Customer repurchase agreements	340.0	0.5	0.19	473.3	0.7	0.19
Other borrowings				0.8		1.75
Total borrowings	3,952.7	16.4	0.55	3,180.0	8.2	0.34
Notes and debentures	1,049.7	23.4	2.97	1,032.0	22.3	2.88
Total funding liabilities	34,083.0	$ 115.6	0.45%	31,425.1	$ 101.4	0.43%

Other liabilities	620.6			471.1		
Total liabilities	34,703.6			31,896.2		
Stockholders equity	4,799.0			4,684.2		
Total liabilities and stockholders equity	$ 39,502.6			$ 36,580.4		
Net interest income/spread (3)		$ 749.3	2.79%		$ 712.0	2.87%
Net interest margin			2.80%			2.89%

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

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

(3) The fully taxable equivalent adjustment was $23.9 million and $18.7 million for the nine months ended September 30, 2016 and 2015, respectively.

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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.

	Three Months Ended September 30, 2016 Compared To					
	September 30, 2015 Increase (Decrease)			June 30, 2016 Increase (Decrease)		
(in millions)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	$ 0.1	$ 0.2	$ 0.3	$ 0.1	$	$ 0.1
Securities	5.7	(1.6)	4.1	1.0	(1.3)	(0.3)
Loans:						
Commercial real estate	2.5	(2.5)		(0.2)	0.6	0.4
Commercial and industrial	4.6	4.4	9.0	2.8	2.3	5.1
Equipment financing	2.0	(2.3)	(0.3)		(0.2)	(0.2)
Residential mortgage	5.0	(1.2)	3.8	2.0	0.1	2.1
Consumer	(0.3)	0.6	0.3	(0.1)	0.1	
Total loans	13.8	(1.0)	12.8	4.5	2.9	7.4
Total change in interest and dividend income	19.6	(2.4)	17.2	5.6	1.6	7.2
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	1.2	1.0	2.2	0.1	0.3	0.4
Time	(1.4)	(0.4)	(1.8)	(0.2)	(0.4)	(0.6)
Total deposits	(0.2)	0.6	0.4	(0.1)	(0.1)	(0.2)
Borrowings:						
Federal Home Loan Bank advances	1.1	1.5	2.6	0.2	0.2	0.4
Federal funds purchased	0.2	0.5	0.7	0.3	0.1	0.4
Customer repurchase agreements	(0.1)		(0.1)			
Other borrowings						
Total borrowings	1.2	2.0	3.2	0.5	0.3	0.8
Notes and debentures	0.2	0.3	0.5	0.1		0.1

Total change in interest expense	1.2	2.9	4.1	0.5	0.2	0.7
Change in net interest income	$ 18.4	$ (5.3)	$ 13.1	$ 5.1	$ 1.4	$ 6.5

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Volume and Rate Analysis

	Nine Months Ended September 30, 2016 Compared To September 30, 2015 Increase (Decrease)		
(in millions)	Volume	Rate	Total
Interest and dividend income:			
Short-term investments	$ 0.2	$ 0.6	$ 0.8
Securities	19.1	(0.4)	18.7
Loans:			
Commercial real estate	11.5	(11.1)	0.4
Commercial and industrial	10.7	6.3	17.0
Equipment financing	5.2	(2.6)	2.6
Residential mortgage	13.4	(2.6)	10.8
Consumer	(0.4)	1.6	1.2
Total loans	40.4	(8.4)	32.0
Total change in interest and dividend income	59.7	(8.2)	51.5
Interest expense:			
Deposits:			
Savings, interest-bearing checking and money market	4.1	2.8	6.9
Time	(4.0)	2.0	(2.0)
Total deposits	0.1	4.8	4.9
Borrowings:			
Federal Home Loan Bank advances	3.0	4.1	7.1
Federal funds purchased	0.1	1.2	1.3
Customer repurchase agreements	(0.2)		(0.2)
Other borrowings			
Total borrowings	2.9	5.3	8.2
Notes and debentures	0.4	0.7	1.1
Total change in interest expense	3.4	10.8	14.2
Change in net interest income	$ 56.3	$ (19.0)	$ 37.3

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Non-Interest Income

(in millions)	Three Months Ended Sept. 30, 2016	June 30, 2016	Sept. 30, 2015	Nine Months Ended Sept. 30, 2016	Sept. 30, 2015
Bank service charges	$ 25.3	$ 24.7	$ 26.1	$ 73.8	$ 75.6
Investment management fees	11.6	11.4	10.8	34.1	32.9
Operating lease income	11.2	10.1	10.5	31.7	31.8
Insurance revenue	9.8	7.0	9.1	26.1	23.2
Commercial banking lending fees	7.1	9.2	10.3	24.4	33.4
Cash management fees	6.5	6.3	6.4	18.8	18.4
Brokerage commissions	3.2	3.2	3.1	9.4	9.5
Net gains on sales of residential mortgage loans	1.9	0.9	1.5	3.7	4.2
Other non-interest income:					
Customer interest rate swap income, net	3.7	3.6	3.4	10.6	10.9
BOLI	1.2	2.0	1.1	4.2	3.6
Net gains on sales of acquired loans					1.7
Other	9.3	7.0	4.8	21.7	13.8
Total other non-interest income	14.2	12.6	9.3	36.5	30.1
Total non-interest income	$ 90.8	$ 85.4	$ 87.1	$ 258.5	$ 259.1

Total non-interest income in the third quarter of 2016 increased $3.7 million compared to the third quarter of 2015 and $5.4 million compared to the second quarter of 2016. The increase in non-interest income compared to the third quarter of 2015 primarily reflects increases in investment management fees, operating lease income, insurance revenue and income related to a distribution from an acquired equity investment (included in other), partially offset by a decrease in commercial banking lending fees. The increase compared to the second quarter of 2016 primarily reflects increases in insurance revenue, operating lease income, net gains on sales of residential mortgage loans and the distribution from an acquired equity investment (included in other), partially offset by a decrease in commercial banking lending fees.

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) as well as lower overdraft fees. The increase in insurance revenue from the second quarter of 2016 primarily reflects the seasonal nature of insurance renewals and the benefit from the recent acquisitions of Eagle Insurance Group, LLC and Kesten-Brown Insurance, LLC.

At September 30, 2016, assets under administration, which are not reported as assets of People s United Financial, totaled $18.2 billion, of which $5.7 billion are under discretionary management, compared to $16.5 billion and $5.6 billion, respectively, at June 30, 2016.

The decrease in commercial banking lending fees compared to the second quarter of 2016 primarily reflects lower commercial real estate prepayment fees resulting from a reduced level of commercial real estate lending activity. The increase in net gains on sales of residential mortgage loans compared to the second quarter of 2016 primarily reflects a 69% increase in the volume of residential mortgage loan sales.

On an FTE basis, BOLI income totaled $1.8 million in the third quarter of 2016, compared to $3.0 million in the second quarter of 2016 and $1.7 million in the year-ago quarter. BOLI income in the second quarter of 2016 includes death benefits received totaling $0.9 million.

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Non-Interest Expense

	Three Months Ended			Nine Months Ended	
(dollars in millions)	Sept. 30, 2016	June 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Compensation and benefits	$ 116.1	$ 111.4	$ 113.4	$ 341.6	$ 337.5
Occupancy and equipment	37.7	37.4	37.0	112.6	112.5
Professional and outside services	17.7	16.4	17.0	51.5	50.1
Operating lease expense	9.7	9.1	9.2	28.0	27.7
Regulatory assessments	9.9	9.2	9.5	27.1	28.0
Amortization of other acquisition-related intangibles	5.8	5.8	5.9	17.4	17.8
Other non-interest expense:					
Stationery, printing, postage and telephone	4.6	4.9	4.7	14.0	14.1
Advertising and promotion	3.0	2.8	3.2	8.1	9.0
Other	16.9	15.9	14.3	51.3	46.9
Total other non-interest expense	24.5	23.6	22.2	73.4	70.0
Total non-interest expense	$ 221.4				