

People's United Financial, Inc.  
 Form 424B3  
 March 21, 2007  
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Filed Pursuant to Rule 424(b)(3)  
 File No. 333-138389

PROSPECTUS

## Up to 185,437,500 Shares

(subject to increase to up to 213,253,125 shares)

### COMMON STOCK

People's United Financial, Inc. is offering up to 185,437,500 shares of its common stock for sale in connection with the conversion of People's Bank and People's Mutual Holdings from the mutual holding company structure to the stock holding company structure. We may increase the maximum number of shares that we sell in the offering, without notice to persons who have subscribed for shares, by up to 15%, to 213,253,125 shares, as a result of market demand, regulatory considerations or changes in financial markets. The shares of People's United Financial common stock are being offered for sale at a price of \$20.00 per share. People's Bank common stock is currently listed on the Nasdaq Global Select Market under the trading symbol PBCT. We expect People's United Financial common stock to trade on that market under the symbol PBCTD for a period of 20 trading days after completion of the offering. Thereafter, People's United Financial's trading symbol will revert to PBCT. Concurrent with the completion of the offering, shares of People's Bank common stock owned by the public will be exchanged for shares of People's United Financial common stock so that People's Bank's existing public stockholders will own approximately the same percentage of People's United Financial common stock as they owned of People's Bank common stock immediately prior to the conversion. In connection with the conversion, we also intend to form The People's Community Foundation and contribute to it 2,000,000 shares of People's United Financial common stock and \$20.0 million in cash from the offering proceeds.

People's United Financial is offering these shares for sale to People's Bank's depositors in a subscription offering and to the general public through a syndicate of selected dealers. People's Bank's depositors have a priority right to purchase shares of People's United Financial common stock in the subscription offering, and accordingly, the number of shares available for sale in the syndicated offering will be reduced by the number of shares sold in the subscription offering. In order to complete the subscription offering and the syndicated offering we must sell, in the aggregate, a minimum of 137,062,500 shares. The minimum purchase is 25 shares. The syndicated offering is expected to expire on or about April 10, 2007. However, we may extend this expiration date without notice to you to up to May 6, 2007, or such later date as the Office of Thrift Supervision may approve, which will not be beyond April 5, 2009. The offering must be completed no later than 24 months after People's Bank's depositors approve the plan of conversion. After that, the offering may not be extended by us or by the Office of Thrift Supervision. The members of the syndicate will deposit any funds they receive from interested investors prior to closing of the syndicated offering into one or more separate non-interest bearing accounts.

Morgan Stanley & Co. Incorporated is acting as sole book-running manager and Keefe, Bruyette & Woods, Inc., Lehman Brothers Inc. and Ryan Beck & Co., Inc. are acting as joint lead managers for the syndicated offering, which is being conducted on a best efforts basis. None of Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. or any other member of the syndicate is required to purchase any shares in the offering.

**Investing in our common stock involves risks. Please read the Risk Factors beginning on page 21.**

PRICE \$20.00 A SHARE

	Minimum	Maximum	Adjusted Maximum
Number of shares	137,062,500	185,437,500	213,253,125
Gross offering proceeds	\$2,741,250,000	\$3,708,750,000	\$4,265,062,500
Estimated offering expenses <sup>(1)</sup>	\$83,572,500	\$122,272,500	\$144,525,000
Estimated net proceeds	\$2,657,677,500	\$3,586,477,500	\$4,120,537,500
Estimated net proceeds per share	\$19.39	\$19.34	\$19.32

(1) Includes: (1) selling commissions payable by us to Ryan Beck & Co., Inc. in connection with the subscription offering equal to the lesser of 1% of the aggregate amount of common stock sold in the subscription offering or \$12.0 million; (2) fees and selling commissions payable by us to Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. and the other syndicate members participating in the syndicated offering equal to 4% of the aggregate amount of common stock sold in the syndicated offering; and (3) other fees and expenses of the offering estimated to be \$10.0 million. Does not include an advisory fee in the amount of \$5.0 million payable to Morgan Stanley & Co. Incorporated in the event gross proceeds from the subscription offering equal or exceed \$1.75 billion. Also does not include an additional advisory fee in the amount of \$2.5 million payable, in People's Bank's sole discretion, to Morgan Stanley & Co.

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*Incorporated in the event gross proceeds from the subscription offering equal or exceed \$2.5 billion. For information regarding compensation to be received by Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. and the other syndicate members that may participate in the syndicated offering, including the assumptions regarding the number of shares that may be sold in the subscription offering and the syndicated offering to determine the estimated offering expenses, see Pro Forma Data on page 50 and The Conversion and Offering Plan of Distribution; Selling Agent Compensation on page 190.*

*These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Neither the Securities and Exchange Commission, the Office of Thrift Supervision nor any state securities regulator has approved or disapproved these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.*

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*Sole Book-Running Manager*

**MORGAN STANLEY**

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*Joint Lead Managers*

**KEEFE, BRUYETTE & WOODS**

**LEHMAN BROTHERS**

**RYAN BECK & CO.**

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**SANDLER O NEILL + PARTNERS, L.P.**

February 14, 2007

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	<b>VILLA AVENUE SUPER STOP &amp; SHOP</b>	<b>RIDGEFIELD SUPER STOP &amp; SHOP</b>	<b>PARADISE GREEN</b>	<b>BLOOMFIELD SUPER STOP &amp; SHOP</b>
<b>BETHEL</b>	766 Villa Avenue	125 Danbury Road	3395 Main Street	315 Cottage Grove Road
293 Greenwood Avenue	Fairfield, CT 06825	Ridgefield, CT 06877	Stratford, CT 06614	Bloomfield, CT 06002
Bethel, CT 06801				
	<b>BLACK ROCK TURNPIKE</b>	<b>RIDGEFIELD</b>	<b>RYDER S LANDING</b>	<b>DUNCASTER</b>
<b>MADISON AVENUE SUPER STOP &amp; SHOP</b>	1940 Black Rock Turnpike	66 Danbury Road	88 Ryder s Lane	40 Loeffler Road
2600 Madison Avenue	Fairfield, CT 06824	Ridgefield, CT 06877	Stratford, CT 06614	Bloomfield, CT 06002
Bridgeport, CT 06606				
	<b>FAIRFIELD</b>	<b>RIVERSIDE</b>	<b>STRATFORD</b>	<b>SEABURY</b>
<b>BROOKSIDE SUPER STOP &amp; SHOP</b>	1055 Post Road	1155 E. Putnam Avenue	2772 Main Street	200 Seabury Drive
4531 Main Street	Fairfield, CT 06824	Riverside, CT 06878	Stratford, CT 06615	Bloomfield, CT 06002
Bridgeport, CT 06606				
	<b>STRATFIELD</b>	<b>SHELTON SUPER STOP &amp; SHOP</b>	<b>TRUMBULL SUPER STOP &amp; SHOP</b>	<b>BRISTOL SUPER STOP &amp; SHOP</b>
<b>BARNUM AVENUE</b>	1237 Stratfield Road	898 Bridgeport Avenue	100 Quality Street	603 Farmington Avenue, Route 6
1450 Barnum Avenue	Fairfield, CT 06825	Shelton, CT 06484	Trumbull, CT 06611	Bristol, CT 06010
Bridgeport, CT 06610				
	<b>GREENWICH</b>	<b>SHELTON FINANCIAL CENTER</b>	<b>HAWLEY LANE</b>	<b>FORESTVILLE SUPER STOP &amp; SHOP</b>
<b>BOSTON AVENUE</b>	410 Greenwich Avenue	1000 Bridgeport Avenue	100 Hawley Lane	747 Pine Street
58 Boston Avenue	Greenwich, CT 06830	Shelton, CT 06484	Trumbull, CT 06611	Bristol, CT 06010
Bridgeport, CT 06610				
	<b>PICKWICK PLAZA</b>	<b>ENTERPRISE TOWER</b>	<b>NORTH MADISON AVENUE</b>	<b>EAST HARTFORD SUPER STOP &amp; SHOP</b>
<b>* BRIDGEPORT CENTER OFFICE</b>	3 Pickwick Plaza	1 Corporate Drive	4180 Madison Avenue	940 Silver Lane
850 Main Street	Greenwich, CT 06830	Shelton, CT 06484	Trumbull, CT 06611	East Hartford, CT 06118
Bridgeport, CT 06604				
	<b>MONROE FINANCIAL CENTER</b>			

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	Route 111, Village Square Shopping Center	<b>SOUTHPORT</b>	<b>TRUMBULL FINANCIAL CENTER</b>	
<b>FAIRFIELD AVENUE SUPER STOP &amp; SHOP</b>	Monroe, CT 06468	411 Old Post Road Southport, CT 06890	40 Quality Street Trumbull, CT 06611	<b>ENFIELD SUPER STOP &amp; SHOP</b>
2145 Fairfield Avenue Bridgeport, CT 06605				54 Hazard Avenue Enfield, CT 06082
	<b>STEPNEY</b>	<b>SOUTHPORT TRUST</b>	<b>WHITE PLAINS ROAD</b>	
	435 Main Street Monroe, CT 06468	226 Main Street Southport, CT 06890	888 White Plains Road Trumbull, CT 06611	<b>ENFIELD MALL</b>
<b>NORTH &amp; PARK</b>				25 Hazard Avenue Enfield, CT 06082
1728 Park Avenue Bridgeport, CT 06604				
	<b>NEW CANAAN</b>	<b>STAMFORD SUPER STOP &amp; SHOP</b>	<b>GREEN FARMS SUPER STOP &amp; SHOP</b>	
	95 Main Street New Canaan, CT 06840	2200 Bedford Street Stamford, CT 06905	1790 Post Road East Westport, CT 06880	<b>FARMINGTON</b>
<b>NORTH MAIN STREET</b>				188-210 Main Street Farmington, CT 06032
3969 Main Street Bridgeport, CT 06606				
	<b>SAND HILL PLAZA SUPER STOP &amp; SHOP</b>	<b>STAMFORD WEST SUPER STOP &amp; SHOP</b>	<b>GREEN FARMS</b>	
	228 South Main Street Newtown, CT 06470	1937 West Main Street Stamford, CT 06902	1800 Post Road Westport, CT 06880	<b>GLASTONBURY SUPER STOP &amp; SHOP</b>
<b>3030 PARK</b>				215 Glastonbury Boulevard Glastonbury, CT 06033
3030 Park Avenue Bridgeport, CT 06606				
	<b>NEWTOWN</b>	<b>BEDFORD STREET</b>	<b>WESTPORT</b>	
	6 Queen Street Newtown, CT 06470	350 Bedford Street Stamford, CT 06901	371 Post Road East Westport, CT 06880	<b>OAK STREET SUPER STOP &amp; SHOP</b>
<b>BROOKFIELD</b>				55 Oak Street Glastonbury, CT 06033
143 Federal Road, Route 7 Brookfield, CT 06804				
	<b>CONNECTICUT AVENUE SUPER STOP &amp; SHOP</b>	<b>HIGH RIDGE ROAD</b>	<b>WHITE BIRCH PLAZA</b>	
	385 Connecticut Avenue Norwalk, CT 06854	1022 High Ridge Road Stamford, CT 06905	361 Post Road West Westport, CT 06880	<b>GLASTONBURY FINANCIAL CENTER</b>
<b>COS COB</b>				Three Welles Street Glastonbury, CT 06033
119 East Putnam Avenue Cos Cob, CT 06807				
	<b>NORWALK SUPER STOP &amp; SHOP</b>	<b>HOPE STREET</b>	<b>WILTON CENTER SUPER STOP &amp; SHOP</b>	
	380 Main Avenue, Route 7 Norwalk, CT 06851	346 Hope Street Stamford, CT 06906	5 River Road Wilton, CT 06897	<b>GRANBY SUPER STOP &amp; SHOP</b>
<b>MILL PLAIN SUPER STOP &amp; SHOP</b>				124 Salmon Brook Street
44 Lake Ave Ext. Danbury, CT 06811				

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	<b>NORWALK FINANCIAL CENTER</b>	<b>SHIPPAN AVENUE</b>		Granby, CT 06035
<b>NUTMEG SQUARE SUPER STOP &amp; SHOP</b>	295 Westport Avenue	328 Shippan Avenue	<b>WILTON</b>	
72 Newtown Road	Norwalk, CT 06851	Stamford, CT 06902	31 Danbury Road	<b>HARTFORD SUPER STOP &amp; SHOP</b>
Danbury, CT 06810			Wilton, CT 06897	150 New Park Avenue
	<b>BELDEN AVENUE</b>	<b>SUMMER STREET</b>		Hartford, CT 06106
<b>DARIEN</b>	11 Belden Avenue	2586 Summer Street	<b><u>HARTFORD COUNTY</u></b>	
25 Old Kings Highway North	Norwalk, CT 06850	Stamford, CT 06905		<b>FINANCIAL PLAZA</b>
Darien, CT 06820			<b>AVON FINANCIAL CENTER</b>	One Financial Plaza
	<b>OLD GREENWICH</b>	<b>EDGEHILL</b>	27 East Main Street	Hartford, CT 06103
<b>NOROTON HEIGHTS</b>	146 Sound Beach Avenue	122 Palmers Hill Road	Avon, CT 06001	
72 Edgerton Street	Old Greenwich, CT 06870	Stamford, CT 06902		<b>FRANKLIN AVENUE</b>
Darien, CT 06820			<b>BERLIN SUPER STOP &amp; SHOP</b>	290 Franklin Avenue
		<b>THE DOCK SUPER STOP &amp; SHOP</b>	1135 Farmington Avenue	Hartford, CT 06114
<b>FAIRFIELD SUPER STOP &amp; SHOP</b>		200 East Main Street	Berlin, CT 06037	
1160 Kings Highway Cut-Off		Stratford, CT 06614		
Fairfield, CT 06824				

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<b>MANCHESTER SUPER STOP &amp; SHOP</b>	<b>NORTH CANAAN SUPER STOP &amp; SHOP</b>	<b>PUTNAM PLACE SUPER STOP &amp; SHOP</b>	<b>SOUTHURY SUPER STOP &amp; SHOP</b>	<b>NORWICH</b>
286 Broad Street	11 East Main Street	1245 Dixwell Avenue	100 Main Street North	4 Broadway
Manchester, CT 06040	North Canaan, CT 06018	Hamden, CT 06514	Southbury, CT 06488	Norwich, CT 06360
<b>NEW BRITAIN SUPER STOP &amp; SHOP</b>	<b>TORRINGTON SUPER STOP &amp; SHOP</b>	<b>HAMDEN</b>	<b>SOUTHURY</b>	<b>NORWICHTOWN FINANCIAL CENTER</b>
677 West Main Street	211 High Street	2165 Dixwell Avenue	61 Southbury Plaza	45 Town Street
New Britain, CT 06053	Torrington, CT 06790	Hamden, CT 06514	Southbury, CT 06488	Norwich, CT 06360
<b>NEWINGTON SUPER STOP &amp; SHOP</b>	<b>TORRINGTON FINANCIAL CENTER</b>	<b>WESTWOODS</b>	<b>WALLINGFORD SUPER STOP &amp; SHOP</b>	<b>WEST MAIN</b>
44 Fenn Road	1692 East Main Street	3496 Whitney Avenue	930 North Colony Road	624 West Main Street
Newington, CT 06111	Torrington, CT 06790	Hamden, CT 06518	Wallingford, CT 06492	Norwich, CT 06360
<b>NEWINGTON</b>	<b>WATERTOWN SUPER STOP &amp; SHOP</b>	<b>MADISON SUPER STOP &amp; SHOP</b>	<b>REIDVILLE DRIVE SUPER STOP &amp; SHOP</b>	<b>WATERFORD SUPER STOP &amp; SHOP</b>
135 Lowrey Place	757 Straits Turnpike	128 Samson Rock Drive	410 Reidville Drive	117 Boston Post Road,
Newington, CT 06111	Watertown, CT 06795	Madison, CT 06443	Waterbury, CT 06705	Route 1
<b>ROCKY HILL SUPER STOP &amp; SHOP</b>	<b>WINSTED SUPER STOP &amp; SHOP</b>	<b>MADISON CENTER</b>	<b>CHASE AVENUE SUPER STOP &amp; SHOP</b>	<b>WATERFORD</b>
80 Town Line Road	200 New Hartford Road, Route 44	752 Boston Post Road	240 Chase Avenue	716 Broad Street Ext.
Rocky Hill, CT 06067	Winsted, CT 06098	Madison, CT 06443	Waterbury, CT 06704	Waterford, CT 06385
<b>SIMSBURY SUPER STOP &amp; SHOP</b>	<b>MIDDLESEX COUNTY</b>	<b>MERIDEN SUPER STOP &amp; SHOP</b>	<b>NAUGATUCK VALLEY SUPER STOP &amp; SHOP</b>	<b>TOLLAND COUNTY</b>
530 Bushy Hill Road		485 Broad Street	920 Wolcott Road	
Simsbury, CT 06070		Meriden, CT 06450	Waterbury, CT 06705	
	<b>CLINTON SUPER STOP &amp; SHOP</b>			<b>MANSFIELD</b>
				155 Storrs Road, Route 195

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<b>SOUTH WINDSOR SUPER STOP &amp; SHOP</b>	215 East Main Street Clinton, CT 06413 1739 Ellington Road South Windsor, CT 06074	<b>MERIDEN WEST SUPER STOP &amp; SHOP</b>	<b>WATERBURY</b>	Mansfield Center, CT 06250
		580 West Main Street Meriden, CT 06451	255 Bank Street Waterbury, CT 06702	<b>STORRS</b>
	<b>CROMWELL SUPER STOP &amp; SHOP</b>			1244 Storrs Road Storrs, CT 06268
<b>SOUTHINGTON SUPER STOP &amp; SHOP</b>	195 West Street Cromwell, CT 06416 505 North Main Street Southington, CT 06489	<b>MILFORD SUPER STOP &amp; SHOP</b>	<b>WEST HAVEN SUPER STOP &amp; SHOP</b>	
		1364 East Town Road Milford, CT 06460	460 Elm Street West Haven, CT 06516	<b>UCONN CO-OP</b>
	<b>MIDDLETOWN SUPER STOP &amp; SHOP</b>			2075 Hillside Road Storrs, CT 06269
<b>SOUTHINGTON</b>	416 East Main Street Middletown, CT 06457 812 Queen Street Southington, CT 06489	<b>SILVER SANDS PLAZA SUPER STOP &amp; SHOP</b>	<b>SAVIN ROCK</b>	
		855 Bridgeport Avenue Milford, CT 06460	220 Captain Thomas Boulevard West Haven, CT 06516	<b>VERNON SUPER STOP &amp; SHOP</b>
	<b>OLD SAYBROOK SUPER STOP &amp; SHOP</b>			10 Pitkin Road Vernon, CT 06066
<b>BISHOP S CORNER</b>	105 Elm Street Old Saybrook, CT 06475 714 North Main Street West Hartford, CT 06117	<b>MILFORD</b>	<b>WOODBIDGE</b>	
		190 South Broad Street Milford, CT 06460	198 Amity Road Woodbridge, CT 06525	<b>VERNON CIRCLE</b>
	<b>NEW HAVEN COUNTY</b>			35 Talcottville Road, Tri City Plaza Vernon, CT 06066
<b>McAULEY</b>		<b>NAUGATUCK SUPER STOP &amp; SHOP</b>	<b>NEW LONDON COUNTY</b>	
275 Steele Road West Hartford, CT 06117	<b>ANSONIA SUPER STOP &amp; SHOP</b>	727 Rubber Avenue Naugatuck, CT 06770	<b>COLCHESTER</b>	
	100 Division Street Ansonia, CT 06401		139 South Main Street Colchester, CT 06415	<b>WINDHAM COUNTY</b>
<b>WEST HARTFORD CENTER</b>		<b>AMITY SUPER STOP &amp; SHOP</b>		<b>PUTNAM SUPER STOP &amp; SHOP</b>
1013 Farmington Avenue West Hartford, CT 06107	<b>LEETES ISLAND SUPER STOP &amp; SHOP</b>	112 Amity Road New Haven, CT 06515	<b>EAST LYME SUPER STOP &amp; SHOP</b>	60 Providence Pike Putnam, CT 06260
	22 Leetes Island Road Branford, CT 06405	<b>CENTURY TOWER</b>	248 Flanders Road Niantic, CT 06357	
<b>WEST HARTFORD/ FARMINGTON</b>		265 Church Street, One Century Tower		<b>WILLIMANTIC SUPER STOP &amp; SHOP</b>
1232 Farmington Avenue West Hartford, CT 06107				



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	<b>BRANFORD</b>	New Haven, CT 06510	<b>GROTON SUPER STOP &amp; SHOP</b>	1391 Main Street
<b>WETHERSFIELD SUPER STOP &amp; SHOP</b>	500 East Main Street		220 Groton Square,	Willimantic, CT 06226
1380 Berlin Turnpike	Branford, CT 06405	<b>NORTH HAVEN SUPER STOP &amp; SHOP</b>	Route 12	
Wethersfield, CT 06109		79 Washington Avenue	Groton, CT 06340	
	<b>CHESHIRE SUPER STOP &amp; SHOP</b>	North Haven, CT 06473		
<b>WETHERSFIELD</b>	275 Highland Avenue		<b>MONTVILLE</b>	
1310 Silas Deane Highway	Cheshire, CT 06410	<b>ORANGE SUPER STOP &amp; SHOP</b>	563 Norwich-New London Turnpike	
Wethersfield, CT 06109		259 Bull Hill Lane	Uncasville, CT 06382	
	<b>TROLLEY SQUARE SUPER STOP &amp; SHOP</b>	Orange, CT 06477		
<b>LITCHFIELD COUNTY</b>	370 Hemingway Avenue		<b>MYSTIC PACKER</b>	
	East Haven, CT 06512	<b>ORANGE</b>	12 Roosevelt Avenue	
<b>NEW MILFORD SUPER STOP &amp; SHOP</b>		653 Orange Center Road	Mystic, CT 06355	
180 Danbury Road		Orange, CT 06477		
New Milford, CT 06776	<b>HAMDEN SUPER STOP &amp; SHOP</b>		<b>NORWICH SUPER STOP &amp; SHOP</b>	
	2331 Dixwell Avenue	<b>SEYMOUR SUPER STOP &amp; SHOP</b>	42 Town Street	
	Hamden, CT 06514	12 Franklin Street	Norwich, CT 06360	
		Seymour, CT 06483		

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You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation would be unlawful. The affairs of People's Mutual Holdings, People's United Financial, People's Bank and their subsidiaries may change after the date of this prospectus. Delivery of this prospectus and the sales of shares of our common stock made hereunder does not mean otherwise.

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Until 40 days after the first date upon which the security was bona fide offered to the public in the syndicated offering by the issuer or by or through an underwriter, all dealers that buy, sell or trade shares of common stock of People's United Financial, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**PROSPECTUS SUMMARY**

*The following summary highlights the material information from this prospectus and may not contain all of the information that is important to you. You should read this entire document carefully, including the sections entitled Risk Factors and The Conversion and Offering and the consolidated financial statements and the notes to the consolidated financial statements, before making a decision to invest in our common stock.*

**The Companies**

**People's United Financial, Inc.** People's United Financial is a newly-formed Delaware corporation and currently a wholly-owned subsidiary of People's Bank. People's United Financial was formed for the purpose of effectuating the conversion and offering described in this prospectus. In connection with those transactions, People's United Financial is registering shares of its common stock with the Securities and Exchange Commission and will be selling shares of its common stock to new stockholders and, as described in this prospectus, issuing shares of its common stock to existing stockholders of People's Bank in exchange for their shares of People's Bank common stock. People's United Financial currently does not have significant assets, but as a result of the conversion and offering, it will become the holding company of People's Bank.

**People's Bank.** People's Bank is a federal stock savings bank and as a result of the conversion and offering will become the wholly-owned subsidiary of People's United Financial. People's Bank was organized in 1842 as a Connecticut mutual savings bank. In 1988, People's Bank reorganized into the mutual holding company structure, converted to a Connecticut-chartered stock savings bank and became the majority-owned subsidiary of People's Mutual Holdings, a Connecticut-chartered mutual holding company. Effective August 18, 2006, People's Bank converted to a federal stock savings bank regulated by the Office of Thrift Supervision. At September 30, 2006, People's Bank had total assets of \$10.6 billion, total deposits of \$9.0 billion and total stockholders' equity of \$1.4 billion.

**People's Mutual Holdings.** People's Mutual Holdings is the federally-chartered mutual holding company of People's Bank. Its principal business is to own a majority of People's Bank's outstanding shares of common stock. As of September 30, 2006, People's Mutual Holdings owned 82,012,500 shares, equivalent to approximately 57.7%, of People's Bank common stock. At September 30, 2006, People's Mutual Holdings had \$8.5 million of net assets, excluding the shares of People's Bank. As part of the conversion, People's Mutual Holdings will cease to exist as a separate entity.

**Our Business**

People's Bank offers a full range of financial services, primarily in the state of Connecticut, to individual, corporate, municipal and institutional customers. Its traditional banking activities include extending secured and unsecured commercial and consumer loans, originating mortgage loans secured by residential and commercial properties and accepting consumer, commercial and municipal deposits. In addition to traditional banking activities, People's Bank provides specialized services tailored to specific markets. Its operations are divided into two primary business lines that represent its core businesses:

**Commercial Banking.** Commercial banking consists principally of commercial lending, commercial real estate lending and commercial deposit gathering activities. This business line also includes the equipment financing operations of People's Capital and Leasing Corp., People's Bank's wholly-owned subsidiary, as well as cash management, correspondent banking and municipal banking and finance.

**Retail Banking.** Retail banking includes consumer deposit gathering activities, residential mortgage lending and home equity and other consumer lending. In addition to trust services, this business line also includes brokerage, financial advisory services, investment management services and life insurance provided by People's Securities, Inc. and other insurance services provided by R.C. Knox and Company, Inc., both wholly-owned subsidiaries of People's Bank.

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People's Bank's business model and broad product offerings allow it to meet the needs of a diverse customer base with varying demographic characteristics. People's Bank delivers its products and services through a network of 75 traditional branches, 73 branches located in Stop & Shop supermarkets, eight limited-service branches, 23 investment and brokerage offices (22 of which are located within branch offices), five wealth management and trust offices, nine People's Capital and Leasing offices (eight of which are located outside of Connecticut), seven commercial lending offices, and over 250 ATMs located in the state of Connecticut. People's Bank also originates residential mortgage and home equity loans in Connecticut and the contiguous markets of New York and Massachusetts. In addition, People's Bank maintains a loan production office in Massachusetts to support its commercial real estate lending initiatives in that state. Its distribution network includes fully integrated online banking and investment trading, a 24-hour telephone banking service and participation in a worldwide ATM network.

During 2005, People's Bank opened seven new branches, three of which are traditional branches and four of which are located in Stop & Shop supermarkets. For the first nine months of 2006, People's Bank opened three new Stop & Shop branches.

### **Our Market Area And Customer Base**

Connecticut is one of the most attractive banking markets in the United States with a total population of approximately 3.5 million and a median household income of \$66,018 as of June 30, 2006, ranking second in the United States and well above the U.S. median household income of \$51,546, according to estimates from SNL Securities. Fairfield County, where People's Bank is headquartered, is the wealthiest county in Connecticut, with a June 30, 2006 median household income of \$81,678 according to estimates from SNL Securities.

While People's Bank's primary market area is in the state of Connecticut, substantially all of the equipment financing activities of People's Capital and Leasing involve customers outside of Connecticut. In addition, People's Bank participates in certain loans that aggregate \$20 million or more and are shared by three or more supervised financial institutions. These loans are generally referred to as shared national credits. People's Bank's shared national credits portfolio totaled \$542 million at September 30, 2006, approximately 90% of which involved borrowers outside of Connecticut. People's Bank competes for deposits, loans and other services with commercial banks, savings institutions, commercial and consumer finance companies, mortgage banking companies, insurance companies, credit unions, and a variety of other institutional lenders and securities firms.

### **Our Competitive Strengths**

We believe that the following strengths give us a competitive advantage in our markets:

***Market Position in Connecticut.*** As of September 30, 2006, People's Bank had 156 branches throughout the state of Connecticut. At June 30, 2006, People's Bank ranked third in deposit market share in Connecticut and first in Fairfield County, according to the Federal Deposit Insurance Corporation.

***Stop & Shop Relationship.*** People's Bank has exclusive branching rights in Stop & Shop supermarkets in the state of Connecticut. Stop & Shop is the leading grocery store chain in Connecticut, with nearly twice the market share of its closest competitor, according to Modern Grocer. We believe that the Connecticut market area, with its compact geographical size and high population density, presents a unique opportunity to operate successful supermarket bank branches that complement our traditional branches. Unlike many other supermarket bank branches, People's Bank's Stop & Shop branches are full-service facilities that provide our customers with the convenience of seven-day-a-week banking. During 2005, these branches originated 27% of People's Bank's home equity loans, 47% of its retail checking and savings accounts, and 34% of its commercial checking accounts. Approximately 40% of People's Bank's total branch transactions originate in its Stop & Shop branches. People's Bank generally is required to open a branch in each new Connecticut Stop & Shop supermarket that meets projected size and customer criteria until 2012, and has the option to extend its exclusive right to open branches in Connecticut Stop & Shop supermarkets until 2022.

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***Strong Credit Culture.*** People's Bank's experienced credit risk professionals and conservative credit culture, combined with centralized processes and consistent underwriting standards across all business lines, have allowed it to maintain a high level of asset quality. Over the last eight quarters through September 30, 2006, People's Bank's net charge-offs to average loans ratio has averaged 0.08%, compared to 0.22% for the top 50 U.S. banks and thrifts, according to SNL Securities.

***Highly Experienced Management Team with a Proven Track Record.*** As a group, our executive officers have an average of 24 years of experience in the banking industry and have successfully operated through various industry economic cycles. In addition, our management team has significant experience operating publicly-traded banking companies. A number of our executive officers, including our president and chief executive officer, have been members of our management team since our conversion from the mutual form of ownership and initial public offering in 1988.

### **Our Business Strategy**

Our business strategy is to focus on those businesses in which we have proven competencies. We believe that this clear focus will enable us to continue to grow our franchise, both inside and outside of the state of Connecticut, while maintaining our commitment to the quality of our business, assets and customer service. The following are the key elements of our business strategy:

***Expand Our Geographic Reach.*** Our plans for geographic expansion are based upon both *de novo* branching and acquisitions of financial institutions and other businesses related to banking that are complementary to our current lines of business.

***De Novo Branching.*** As part of its strategy to broaden its footprint by entering markets similar to Connecticut, People's Bank plans to expand into the state of New York by opening at least 15 new branches in Westchester County over the next three years. People's Bank expects to open seven of these branches by the end of 2007. Westchester County is a contiguous market with comparable demographics to Fairfield County, Connecticut. As of June 30, 2006, the median household income in Westchester County was \$80,686. The branches People's Bank opens in Westchester County will be traditional branches.

***Complementary Acquisitions.*** We believe that acquisition opportunities exist both inside and outside of our current market area. We will consider acquiring select banking and banking-related businesses initially in contiguous or near contiguous market areas that will afford us the opportunity to add complementary products to our existing business or to expand our franchise geographically.

***Optimize Our Balance Sheet Management and Net Interest Margin.*** People's Bank strives to maintain a balance between loan portfolio growth and core deposit funding. Approximately 95% of its assets are funded by low-cost core deposits and stockholders equity. People's Bank believes that, other than for deployment of excess core deposits or excess equity, a large securities portfolio provides limited economic value. During the third quarter of 2006, People's Bank sold approximately \$810 million of debt securities and used a portion of the proceeds to pay down short-term borrowings and fund additional loan growth. These transactions were undertaken to better position People's Bank's balance sheet for the then current interest rate environment. At September 30, 2006, People's Bank had a securities portfolio of \$202 million, or 2% of its assets, and wholesale borrowings of \$14 million, or 0.1% of assets, ratios well below industry averages. This focused balance sheet management strategy has allowed People's Bank to increase its net interest margin by 42 basis points from 3.47% to 3.89% since the third quarter of 2004, compared to an average decline of 20 basis points for the top 50 U.S. banks and thrifts over the same time period, according to SNL Securities.

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***Maintain a Diversified Loan Portfolio.*** People's Bank's loan portfolio is highly diversified with a balance of commercial, residential lending and consumer assets. As of September 30, 2006, 44% of its loan portfolio was comprised of commercial banking loans and 42% was comprised of residential mortgage loans while consumer loans, primarily home equity loans and lines of credit, made up the remainder. In addition, the commercial loan portfolio is diversified across many industries. Loans to the manufacturing industry, which constitute approximately 41% of People's Bank's commercial loan portfolio, are divided among more than 20 manufacturing industry segments. No single borrower or group of related borrowers represents more than 1% of People's Bank's loan portfolio.

### **Selected Risk Factors**

You should consider carefully the following selected risk factors, as well as the full list of Risk Factors beginning on page 21, before deciding whether to invest in our common stock.

***Changes in Interest Rates.*** People's Bank makes most of its earnings based on the difference between interest it earns on assets such as loans compared to interest it pays on liabilities such as deposits. This difference is called the interest spread. People's Bank's interest spread may be lower if the timing of interest rate changes is very different for its interest-earning assets compared to its interest-bearing liabilities. People's Bank tries to manage this risk using many different techniques. If People's Bank is not successful in managing this risk, it will probably be less profitable.

***Asset Quality.*** Asset quality measures the performance of a borrower in repaying a loan, with interest, on time. It is unlikely that our asset quality will stay as strong as it has been for the past several years, particularly if the economy deteriorates.

***Plans for Growth.*** Our profitability may suffer if we do not continue to experience the type of growth that we have in the past, if we do not adequately and profitably implement our plans for growth or if we incur additional expenditures beyond current projections.

***Stop & Shop Branches.*** A drop in Stop & Shop's market share of the grocery market, a decrease in the number of Stop & Shop locations or customers, or a decline in the overall quality of Stop & Shop supermarkets could result in decreased business for People's Bank's Stop & Shop branches.

***Executive Officers and Key Personnel.*** Although we have an employment agreement with our president and chief executive officer, the loss of the services of one or more of our executive officers and key personnel could impair our ability to continue to develop and execute our business strategy.

### **Our Corporate Information**

The executive offices of People's Bank, People's Mutual Holdings and People's United Financial are located at 850 Main Street, Bridgeport, Connecticut 06604. The telephone number at this address is (203) 338-7171.

**Table of Contents****Summary Consolidated Financial And Other Data**

The summary information presented below under Summary Financial Condition Data, Summary Operating Data, Per Common Share Data, and Ratios at each of the dates or for each of the periods presented, except for the information at or for the periods ended September 30, 2005 and 2006 (which has not been audited), is derived in part from the audited consolidated financial statements of People's Bank. The following information is only a summary and you should read it in conjunction with People's Bank's audited consolidated financial statements and notes beginning on page F-1. All share, per share and dividend information reflects the three-for-two stock splits effected by People's Bank on May 15, 2004 and May 15, 2005.

	At September 30,		At December 31,			
	2006	2005	2004	2003	2002	2001
(In millions)						
<b>Summary Financial Condition Data:</b>						
Total assets	\$ 10,612	\$ 10,933	\$ 10,718	\$ 11,672	\$ 12,261	\$ 11,891
Loans	9,185	8,573	7,933	7,105	6,675	6,374
Securities, net	202	1,363	2,071	2,405	3,230	2,900
Allowance for loan losses	74	75	73	71	69	74
Deposits	8,979	9,083	8,862	8,714	8,426	7,983
Core deposits <sup>(1)</sup>	8,843	8,873	8,681	8,433	8,102	7,709
Borrowings	14	295	341	1,516	2,437	2,542
Stockholders' equity	1,351	1,289	1,200	1,002	940	935

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
(In millions)							
<b>Summary Operating Data:</b>							
Net interest income <sup>(2)</sup>	\$ 286.3	\$ 276.7	\$ 370.0	\$ 327.4	\$ 284.3	\$ 318.5	\$ 319.5
Provision for loan losses	2.0	3.3	8.6	13.3	16.7	22.2	45.3
Fee based revenues	113.5	111.7	151.5	142.9	143.0	136.2	113.9
Net security losses	(27.2)	(0.1)	(0.1)	(4.7)	(0.6)	(3.3)	(18.5)
All other non-interest income <sup>(3)</sup>	15.8	9.5	21.9	13.5	23.9	16.3	38.2
Non-interest expense <sup>(4)</sup>	261.3	253.8	344.4	479.7	346.0	341.5	343.5
Income (loss) from continuing operations	83.0	91.6	125.9	(5.6)	62.7	67.7	38.9
Income (loss) from discontinued operations <sup>(5)</sup>	1.7	10.3	11.2	205.3	1.1	(12.3)	36.9
Net income	84.7	101.9	137.1	199.7	63.8	55.4	75.8
Adjusted net income <sup>(1)</sup>	83.0	93.6	122.6	81.1	62.7	67.7	25.9

(1) See *Non-GAAP Financial Measures and Reconciliation to GAAP* for a reconciliation of deposits to core deposits, and net income to adjusted net income.

(2) Fully taxable equivalent basis.

(3) Includes \$8.1 million and \$20.0 million in gains on asset sales for the years ended December 31, 2005 and 2001, respectively.

(4) Includes liability restructuring costs totaling \$2.7 million, \$133.4 million, \$1.2 million and \$16.6 million for the years ended December 31, 2005, 2004, 2003 and 2001, respectively.

(5) Includes an after-tax gain on sale of \$6.2 million for both the nine months ended September 30, 2005 and the year ended December 31, 2005 and \$198.5 million for the year ended December 31, 2004 related to the sale of the credit card business in March 2004.

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	At or For the Nine Months Ended September 30,		2005	At or For the Year Ended December 31,			
	2006	2005		2004	2003	2002	2001
<b>Per Common Share Data:</b>							
Basic earnings per share	\$ 0.60	\$ 0.72	\$ 0.97	\$ 1.43	\$ 0.46	\$ 0.40	\$ 0.55
Diluted earnings per share	0.59	0.72	0.97	1.42	0.46	0.40	0.55
Cash dividends paid per share <sup>(1)</sup>	0.72	0.63	0.85	0.75	0.68	0.63	0.59
Book value (end of period)	9.51	8.95	9.10	8.52	7.18	6.77	6.76
Tangible book value (end of period)	8.77	8.20	8.35	7.74	6.37	5.95	5.92
<b>Ratios:</b>							
Net interest margin <sup>(2)</sup>	3.83%	3.66%	3.68%	3.33%	2.89%	3.24%	3.40%
Efficiency ratio <sup>(3)</sup>	61.9	62.8	62.8	69.2	76.4	71.3	73.9
Return on average assets <sup>(4)</sup>	1.04	1.26	1.27	1.86	0.54	0.47	0.68
Return on average stockholders' equity <sup>(4)</sup>	8.6	11.1	11.1	17.6	6.6	5.9	8.2
Non-performing assets to total loans, real estate owned and repossessed assets	0.25	0.24	0.26	0.36	0.48	0.53	0.48
Non-performing assets to total assets	0.22	0.18	0.20	0.27	0.29	0.29	0.26
Net loan charge-offs to average loans <sup>(2)</sup>	0.05	0.05	0.07	0.15	0.22	0.42	0.62
Allowance for loan losses to total loans	0.81	0.87	0.87	0.91	0.99	1.04	1.16
Stockholders' equity to total assets	12.7	11.6	11.8	11.2	8.6	7.7	7.9
Tangible stockholders' equity to total tangible assets	11.9	10.8	10.9	10.3	7.7	6.8	7.0
Tier 1 capital <sup>(5)</sup>	14.7	14.9	14.8	14.6	9.9	9.1	8.8
Total risk-based capital <sup>(5)</sup>	16.2	17.0	16.4	16.7	13.1	12.5	12.3
<b>Other Information:</b>							
Number of branches	156	152	153	155	154	155	148
Full-time equivalent employees <sup>(6)</sup>	2,617	2,679	2,655	2,689	2,791	2,948	2,907

(1) Reflects the waiver of dividends on the substantial majority of the common shares owned by People's Mutual Holdings.

(2) Nine month ratios are presented on an annualized basis.

(3) See *Non-GAAP Financial Measures and Reconciliation to GAAP* for a reconciliation of the efficiency ratio to banking regulatory definitions.

(4) Calculated based on net income for all periods. Nine month ratios are presented on an annualized basis.

(5) Calculated in accordance with Office of Thrift Supervision regulations as of September 30, 2006 and Federal Deposit Insurance Corporation regulations for all prior period ends.

(6) Excluded from 2003, 2002 and 2001 are the employees of People's Bank's credit card division that was sold in March 2004.



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### **Recent Developments Unaudited 2006 Results**

For the year ended December 31, 2006, People's Bank reported net income of \$124.0 million, or \$0.87 per diluted share, compared to \$137.1 million, or \$0.97 per diluted share, for the year-ago period. Income from continuing operations totaled \$121.7 million, or \$0.85 per diluted share, compared to \$125.9 million, or \$0.89 per diluted share, for the year-ago period. Net interest income increased \$12.7 million, or 3%, from the year ended December 31, 2005, and the net interest margin improved 19 basis points to 3.87%. Total assets at December 31, 2006 were \$10.7 billion, a decrease of \$246 million, or 2%, from December 31, 2005. Total securities declined by \$1.3 billion and total loans increased by \$799 million compared with year-end 2005. See *Recent Developments* for more detail on People's Bank's results for the three-month and one-year periods ended December 31, 2006 and its financial condition as of that date.

### **Our Conversion And Offering**

We are converting from the mutual holding company structure, where People's Bank is 42.3% owned by public stockholders, to a stock holding company, which will be 100% owned by public stockholders. This is commonly referred to as a "second-step" conversion. As part of the conversion, People's Mutual Holdings will convert into a federal stock savings bank, which will merge with and into People's Bank, with People's Bank as the surviving entity. As a result, People's Mutual Holdings will cease to exist as a separate entity. Voting rights in People's United Financial will be vested solely in the public stockholders immediately following the conversion.

In connection with the conversion, the shares of common stock of People's Bank owned by People's Mutual Holdings will be canceled and new shares of common stock representing the 57.7% ownership interest of People's Mutual Holdings will be offered for sale by People's United Financial in the offering. In addition, the net assets of People's Mutual Holdings will be added to People's Bank as a capital contribution. At September 30, 2006, People's Mutual Holdings' net assets, excluding its ownership of shares of People's Bank common stock, totaled \$8.5 million. At the conclusion of the conversion and offering, existing public stockholders of People's Bank will receive shares of common stock of People's United Financial for each share of People's Bank common stock they own at that date, based on an exchange ratio as described in *The Conversion and Offering The Share Exchange of People's Bank Common Stock for People's United Financial Common Stock*. As a result, People's Bank's existing public stockholders will own approximately the same percentage of People's United Financial common stock as they owned of People's Bank common stock immediately prior to the conversion.

In addition, in connection with and immediately following the conversion, we intend to contribute 2,000,000 shares of People's United Financial common stock and \$20.0 million in cash from the offering proceeds to The People's Community Foundation, a charitable foundation to be established in connection with the conversion and offering. The shares of common stock contributed to the charitable foundation will be in addition to the shares being offered for sale. For a further discussion of the charitable foundation, see *The People's Community Foundation*.

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This chart shows our structure before the conversion and offering:

This chart shows our new structure after the conversion and offering:

**Terms Of The Offering**

We are offering between 137,062,500 and 185,437,500 shares of our common stock to our depositors and to the public in subscription and syndicated offerings (which we refer to in this document collectively as the offering). We may increase the maximum number of shares that we sell in the offering by up to 15% to 213,253,125 shares as a result of market demand, regulatory considerations or changes in financial markets. The offering price is \$20.00 per share. All new investors will pay the same purchase price per share. No commission will be charged to purchasers in the offering.

The shares of common stock are being offered on a priority basis to depositors of People's Bank in a subscription offering. Ryan Beck & Co., Inc., our financial advisor and selling agent in connection with the subscription offering,

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will use its best efforts to assist us in selling our common stock in the subscription offering. Ryan Beck & Co., Inc. is not obligated to purchase any shares of common stock in the subscription offering.

We are also offering for sale to the general public in a syndicated offering through a syndicate of selected dealers shares of our common stock not subscribed for by our depositors in the subscription offering. We may begin the syndicated offering at any time following the commencement of the subscription offering. Morgan Stanley & Co. Incorporated is acting as sole book-running manager and Keefe, Bruyette & Woods, Inc., Lehman Brothers Inc. and Ryan Beck & Co., Inc. are acting as joint lead managers for the syndicated offering, which is also being conducted on a best efforts basis. None of Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. or any other member of the syndicate is required to purchase any shares in the syndicated offering. Alternatively, we may sell remaining shares in an underwritten public offering, which would be conducted on a firm commitment basis.

## **Reasons For The Conversion And Offering**

The conversion and offering are intended to provide us with substantially greater access to capital than is currently available to us under the mutual holding company structure and are expected to significantly increase the liquidity of our common stock. In addition, the stock holding company structure will provide us with more flexibility in structuring mergers and acquisitions. The net proceeds raised in the offering will allow us and People's Bank to:

finance *de novo* expansion and support organic growth both inside and outside of the state of Connecticut;

acquire other financial institutions, businesses related to banking or branches, although there is no specific agreement with any institution or business at this time;

increase lending to support continued growth in our commercial banking loan portfolios;

form a charitable foundation to benefit the communities we serve; and

use the additional capital for other general corporate purposes.

See *How We Intend to Use the Proceeds from the Offering* for a detailed description of how we plan to use the net proceeds we raise in the offering.

After considering the relative merits of the conversion and offering, as well as applicable fiduciary duties, the Board of Trustees of People's Mutual Holdings and the Board of Directors of People's Bank approved the plan of conversion as being in the best interests of each such institution, the communities they serve and the depositors, stockholders and employees of People's Bank. The completion of the conversion and offering is subject to the approval of stockholders and depositors of People's Bank who are being asked to vote on the plan of conversion.

## **How We Determined The Offering Range And The Exchange Ratio**

The offering range and the exchange ratio are based on an independent appraisal of the market value of the common stock to be issued both in the offering and in exchange for shares of People's Bank common stock. RP Financial, LC., an appraisal firm experienced in appraisals of financial institutions, has advised us that, as of January 18, 2007, the estimated pro forma market value of our common stock, including offering shares, exchange shares and shares issued to the charitable foundation, ranges from a minimum of \$4.791 billion to a maximum of \$6.468 billion, with a midpoint of \$5.630 billion. Based on this valuation range, the percentage of People's Bank common stock owned by People's Mutual Holdings, the shares issued to the charitable foundation and the \$20.00 price per share, the Board of Directors of People's Bank and the Board of Trustees of People's Mutual Holdings determined to offer shares of People's United Financial common stock ranging from a minimum of 137,062,500 shares to a maximum of 185,437,500 shares, with a midpoint of 161,250,000 shares. The exchange ratio ranges from a minimum of 1.6712 to 2.2611 shares of People's United Financial common stock per share of People's Bank common stock. Under certain circumstances, the pro forma market value can be adjusted upward to reflect changes in market conditions, and, at the adjusted maximum, the estimated pro forma market value of People's United Financial's common stock would be \$7.432 billion, the number of shares offered would equal 213,253,125

shares and the exchange ratio would be 2.6003.

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The independent appraisal was based in part on our financial condition and results of operations, the pro forma impact of the additional capital raised by the sale of common stock in the offering, and an analysis of a peer group of companies that RP Financial considered comparable to us. RP Financial also considered that we intend to contribute cash and issue shares of People's United Financial common stock to The People's Community Foundation, a charitable foundation that will be established in connection with the conversion. The intended contribution of cash and shares of common stock to the charitable foundation has the effect of reducing the number of shares that may be offered in the offering. See *Comparison of Valuation and Pro Forma Information With and Without the Charitable Foundation*. RP Financial's independent valuation will be updated before we complete our offering.

The following table presents a summary of selected pricing ratios for the companies comprising the peer group used by RP Financial in its independent appraisal report dated January 18, 2007 and the pro forma pricing ratios for us, as calculated in the table on page 52 in the section of this prospectus entitled *Pro Forma Data*. Compared to the median pricing of the peer group, our pro forma pricing ratios at the midpoint of the offering range indicated a premium of 88% on a price-to-earnings basis and discounts of 34% on a price-to-book value basis and 45% on a price-to-tangible book value basis. The estimated appraised value and the resulting premiums and discounts took into consideration the potential financial impact of the conversion and offering and RP Financial's analysis of the results of operations and financial condition of People's United Financial compared to the peer group.

	Price-to-earnings multiple <sup>(1)</sup>	Price-to-book value ratio	Price-to-tangible book value ratio
<b>People's United Financial (pro forma)<sup>(2)</sup>:</b>			
Minimum of offering range	27.27x	128.12%	131.84%
Midpoint of offering range	30.00x	135.50%	138.99%
Maximum of offering range	32.61x	141.44%	144.82%
Maximum of offering range, as adjusted	35.71x	147.17%	150.26%
<b>Valuation of peer group companies as of January 18, 2007<sup>(3)</sup>:</b>			
Average	17.53x	209.12%	269.15%
Median	15.96x	205.31%	250.45%

- (1) Multiples calculated by RP Financial in the independent appraisal are based on an estimate of core, or recurring, earnings for the twelve months ended December 31, 2006, total pro forma outstanding shares of common stock, including all shares owned by our employee stock ownership plan, whether or not allocated to participants, and including shares issued to the charitable foundation, and equal 24.86x, 27.75x, 30.38x and 33.10x, respectively, at the minimum, midpoint, maximum and adjusted maximum of the offering range. Because this is a different method than used by us in calculating the numbers included in this table and in the pro forma information included under *Pro Forma Data*, the pro forma price-to-earnings multiples in the table do not correspond to the multiples in the independent appraisal. See note 2 to the pro forma information included under *Pro Forma Data* for more information on our treatment of shares owned by our employee stock ownership plan for purposes of this calculation.
- (2) Based on People's Bank's financial data as of and for the nine months ended September 30, 2006. Price-to-earnings multiples for People's United Financial are shown on an annualized basis.
- (3) Reflects earnings for the most recent 12-month period for which data were publicly available.

**The independent appraisal is not necessarily indicative of post-offering trading value. You should not assume or expect that the valuation of People's United Financial as indicated above means that the common stock will trade at or above the \$20.00 purchase price after the offering is completed.**

On February 14, 2007, we received authorization from the Office of Thrift Supervision to conduct the offering. The independent appraisal must be updated before we can complete the offering. The updated appraisal will be subject to the further approval of the Office of Thrift Supervision.

**Table of Contents****After-Market Performance Information Provided By The Independent Appraiser**

The following table, prepared by our independent appraiser, presents for all second-step conversions that began trading from January 1, 2004 to January 18, 2007, the percentage change in the trading price from the initial trading date of the offering to the dates shown in the table. The table also presents the average and median trading prices and percentage change in trading prices for the same dates. **This information relates to stock performance experienced by other companies that may have no similarities to us with regard to market capitalization, offering size, earnings quality and growth potential, among other factors.** Most of the institutions listed in the table are significantly smaller than we are in terms of asset size. In addition, gross proceeds raised in most of the offerings listed in the table are significantly less than the amount of gross proceeds we expect to raise in the offering. Also, two of the four largest offerings listed in the table involved a simultaneous acquisition of another financial institution.

**The table is not intended to indicate how our common stock may perform.** Data represented in the table reflects a small number of transactions and is not indicative of general stock market performance trends or of price performance trends of companies that undergo second-step conversions. Furthermore, this table presents only short-term price performance and may not be indicative of the longer-term stock price performance of these companies. **There can be no assurance that our stock price will appreciate or that our stock price will not trade below \$20.00 per share.** The movement of any particular company's stock price is subject to various factors, including, but not limited to, the amount of proceeds a company raises, the company's historical and anticipated operating results, the nature and quality of the company's assets, the company's market area and the quality of management and management's ability to deploy proceeds (such as through loans and investments, the acquisition of other financial institutions or other businesses, the payment of dividends and common stock repurchases). In addition, stock prices may be affected by general market and economic conditions, the interest rate environment, the market for financial institutions and merger or takeover transactions and the presence of professional and other investors who purchase stock on speculation, as well as other unforeseeable events not in the control of management. Before you make an investment decision, please carefully read this prospectus, including *Risk Factors*.

**After Market Trading Activity****Second Step Offerings****Completed Closing Dates between January 1, 2004 and January 18, 2007**

Transaction	Closing Date	Gross Proceeds (In millions)	Price Performance from Initial Trading Date			Through January 18, 2007
			1 Day	1 Week	1 Month	
Osage Bancshares, Inc.	1/18/07	\$ 25.1	-0.5%	N/A	N/A	-0.5%
New Westfield Financial, Inc.	1/4/07	\$ 184.0	7.0%	7.5%	N/A	8.8%
Citizens Community Bancorp, Inc.	11/1/06	\$ 52.9	-2.5%	-1.0%	-3.3%	-2.9%
Liberty Bancorp, Inc.	7/24/06	\$ 28.1	2.5%	1.0%	1.5%	5.5%
First Clover Leaf Financial Corp. <sup>(1)</sup>	7/11/06	\$ 41.7	3.9%	6.0%	11.2%	15.0%
Monadnock Bancorp, Inc.	6/29/06	\$ 5.7	0.0%	-5.0%	-13.8%	-16.3%
NEBS Bancshares, Inc.	12/29/05	\$ 30.8	6.6%	7.0%	7.0%	31.0%
American Bancorp, Inc.	10/6/05	\$ 99.2	1.6%	-2.5%	1.6%	17.7%
Hudson City Bancorp, Inc.	6/7/05	\$ 3,929.8	9.6%	10.8%	15.9%	39.7%
First Federal of Northern Michigan Bancorp, Inc.	4/4/05	\$ 17.0	-5.1%	-8.0%	-16.0%	-8.5%
Rome Bancorp, Inc.	3/31/05	\$ 59.0	0.5%	-2.5%	-5.6%	24.6%
Roebling Financial Corp.	10/1/04	\$ 9.1	-1.0%	-0.5%	-8.0%	22.5%
DSA Financial Corporation	7/30/04	\$ 8.5	-2.0%	-5.0%	-7.0%	30.0%
Partners Trust Financial Group, Inc. <sup>(1)</sup>	7/15/04	\$ 148.8	-0.1%	-0.2%	-1.9%	13.5%
Synergy Financial Group, Inc.	1/21/04	\$ 70.4	8.1%	8.0%	7.9%	61.8%
Provident Bancorp, Inc. <sup>(1)</sup>	1/15/04	\$ 195.7	15.0%	11.5%	15.1%	45.4%
Average			2.7%	1.8%	0.3%	18.0%
Median			1.1%	-0.2%	0.2%	16.4%

- (1) Included a simultaneous acquisition.

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Shares of People's Bank common stock held by stockholders as of the date of completion of the conversion and offering will be canceled and exchanged for new shares of People's United Financial common stock. The number of shares received will be based on an exchange ratio which will be determined as of the date of completion of the conversion and offering and will be based on the percentage of People's Bank common stock held by the public prior to the conversion, the final independent appraisal of People's United Financial common stock prepared by RP Financial and the number of shares of common stock sold in the offering. The exchange ratio will ensure that existing public stockholders of People's Bank common stock will own approximately the same percentage of People's United Financial common stock after the conversion and offering as they owned of People's Bank common stock immediately prior to completion of the conversion and offering, exclusive of the effect of their purchase of additional shares in the offering and the receipt of cash in lieu of fractional shares. The exchange ratio will not depend on the market price of People's Bank common stock.

The following table shows how many shares a hypothetical owner of People's Bank common stock would receive in the share exchange, based on the number of shares sold in the offering.

	Shares to be sold in		Shares to be exchanged for		Shares to be issued		Total shares of common stock to be outstanding after the conversion	Exchange ratio	Equivalent per share current market price <sup>(1)</sup>	Shares that would be exchanged per 100 shares of People's Bank common stock
	this offering		of People's Bank common stock		to the foundation					
	Amount	Percent	Amount	Percent	Amount	Percent				
Minimum	137,062,500	57.22%	100,491,584	41.95%	2,000,000	0.83%	239,554,084	1.6712	\$ 33.42	167
Midpoint	161,250,000	57.29%	118,225,393	42.00%	2,000,000	0.71%	281,475,393	1.9662	\$ 39.32	196
Maximum	185,437,500	57.34%	135,959,202	42.04%	2,000,000	0.62%	323,396,702	2.2611	\$ 45.22	226
Maximum, as adjusted	213,253,125	57.39%	156,353,083	42.07%	2,000,000	0.54%	371,606,208	2.6003	\$ 52.01	260

(1) Represents the value of shares of People's United Financial common stock and cash in lieu of fractional shares received in the share exchange by a holder of one share of People's Bank common stock at the exchange ratio, assuming a market price of \$20.00 per share. At the midpoint shown in the preceding table, a stockholder owning 100 shares of People's Bank common stock would receive 196 shares of People's United Financial common stock plus \$12.40 in cash.

No fractional shares of our common stock will be issued in the exchange. For each fractional share that would otherwise be issued, we will remit an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the \$20.00 per share purchase price.

We also will convert options previously awarded under the People's Bank 1998 Long-Term Incentive Plan into options to purchase People's United Financial common stock. At September 30, 2006, there were outstanding options to purchase 1,435,055 shares of People's Bank common stock. The number of outstanding options and related per share exercise prices will be adjusted based on the exchange ratio. The aggregate exercise price, term and vesting period of the outstanding options will remain unchanged. If any options are exercised before we complete the offering, the number of shares of People's Bank common stock outstanding will increase and the exchange ratio could be adjusted. If all currently outstanding options are exercised, stockholders will experience dilution of approximately 1.00% in their ownership interest in People's Bank common stock.

**Dividend Policy**

The amount of dividends that People's United Financial initially intends to pay to stockholders following the conversion and offering is intended to approximate the per share dividend amount, adjusted to reflect the share exchange, that People's Bank's stockholders currently receive on their shares of People's Bank common stock. For a detailed description of our dividend policy, see *Our Policy Regarding Dividends*.





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### **Ownership By Officers And Directors**

Collectively, our directors and executive officers and their associates expect to purchase a total of 387,500 shares, or approximately 0.2% of the shares of common stock available for sale in the offering plus the shares to be issued to the charitable foundation (assuming the midpoint of the offering range). These shares do not include shares that may be awarded or issued in the future under any of our stock benefit plans. The shares purchased by our directors and executive officers and their associates will be included in determining whether the minimum number of shares necessary to close the offering has been sold. See *Proposed Purchases of Common Stock by Management*.

After the offering and the exchange of existing shares of People's Bank common stock, including stock options exercisable within 60 days of September 30, 2006, our directors and executive officers, together with their associates, are expected to beneficially own approximately 3,928,240 shares of our common stock, or 1.40% of the total outstanding shares of our common stock, including shares to be issued to the charitable foundation, based upon the midpoint of the offering range.

### **Future Benefit Plans**

We intend to implement a tax-qualified employee stock ownership plan in connection with the offering which we expect will purchase an amount of common stock equal to up to 6% of the sum of the shares of common stock that we sell in the offering and those we issue to the charitable foundation, or 11,246,250 shares of common stock, assuming we sell 185,437,500 shares, the maximum of the offering range. We expect that this employee stock ownership plan will, with prior Office of Thrift Supervision approval, purchase these shares in the open market following the offering using funds borrowed from us. However, as a tax-qualified employee benefit plan, this plan may instead purchase shares in the subscription offering consistent with its subscription priority. The plan is a tax-qualified retirement plan for the benefit of all employees who meet certain eligibility requirements. Assuming the employee stock ownership plan purchases 11,246,250 shares, we will recognize additional compensation expense of \$224.9 million (or approximately \$148.4 million after tax) over a 30-year period, assuming the shares of common stock have a fair market value of \$20.00 per share for the full 30-year period. If, in the future, the shares of common stock have a fair market value greater or less than \$20.00, the compensation expense will increase or decrease accordingly.

Because investment decisions for our employee stock ownership plan are subject to the discretion of an independent fiduciary, we can offer no assurance as to the amount, timing or other terms of stock purchases by this plan.

We also intend to implement a stock option plan, providing for grants of stock options, and a recognition and retention plan, providing for awards of restricted stock to our key employees, officers and directors. If these stock-based incentive plans are implemented and approved by stockholders within one year of the completion of our conversion, the number of options granted or shares of restricted stock awarded under these stock-based incentive plans may not exceed 10% and 4%, respectively, of the shares of common stock sold in the offering and issued to the charitable foundation. We expect that any shares required for restricted stock awards would be purchased in the open market or privately negotiated transactions following stockholder approval of the plan. Funds necessary for stock purchases would be provided by People's United Financial. We anticipate that awards under the stock option plan and recognition and retention plan would vest over a five-year period measured from the award date and that compensation expense would be recognized over the vesting period. Both the stock option plan and recognition and retention plan cannot be adopted sooner than six months after the completion of our conversion and will be contingent on approval of People's United Financial stockholders.

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The following table summarizes the number of shares and aggregate dollar value of awards available for grant that are expected under the stock option and recognition and retention plans, if adopted as expected after the offering. A portion of the available stock grants shown in the table below may be made to non-executive employees.

	Number of new shares or options to be granted		As a percentage of common stock to be sold in the offering and issued to the foundation	Maximum dilution resulting from issuance of shares for stock benefit plans <sup>(2)</sup>	Value of new available grants <sup>(1)</sup>			
	At minimum of offering range	At maximum of offering range			At maximum, as adjusted of offering range	At minimum of offering range	At maximum of offering range	At maximum, as adjusted of offering range
Recognition and retention plan	5,562,500	7,497,500	8,610,125	4.00%	2.27%	\$ 111,250,000	\$ 149,950,000	\$ 172,202,500
Stock option plan	13,906,250	18,743,750	21,525,313	10.00%	5.48%	46,029,688	62,041,813	71,248,786
<b>Total</b>	<b>19,468,750</b>	<b>26,241,250</b>	<b>30,135,438</b>	<b>14.00%</b>	<b>7.51%</b>	<b>\$ 157,279,688</b>	<b>\$ 211,991,813</b>	<b>\$ 243,451,286</b>

- (1) The actual value of restricted stock grants will be determined based on their fair value as of the date that grants are made. For purposes of this table, the fair value of the restricted stock grants is assumed to be the same as the offering price of \$20.00 per share. The fair value of stock options has been estimated at \$3.31 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of \$20.00; dividend yield of 3.0%; expected option life of 10 years; risk-free interest rate of 4.64%; and volatility rate of 11.3% based on an index of publicly-traded thrifts. The actual value of option grants will be determined by the grant-date fair value of the option, which will depend on a number of factors, including the valuation assumptions used in the option pricing model.
- (2) Assumes shares are issued from authorized but unissued shares and dilution is calculated at the maximum and maximum, as adjusted of the offering range.

In addition to shares of common stock that could be issued under the future stock option and recognition and retention plans, additional shares can be issued under stock benefit plans currently maintained by People's Bank. At September 30, 2006, a total of 9,157,471 shares could be issued under existing stock benefit plans after applying the exchange ratio at the minimum of the offering range, and 12,389,874 shares could be issued under existing stock benefit plans after applying the exchange ratio at the maximum of the offering range. These totals represent shares that would be issued upon exercise of outstanding stock options and shares that would be issued because of future grants under existing benefit plans. The issuance of all of these shares would cause additional dilution of 3.69% at the maximum of the offering range.

Unless a waiver is obtained from the Office of Thrift Supervision, the following additional Office of Thrift Supervision restrictions would apply to the stock option plan and the recognition and retention plan:

non-employee directors in the aggregate may not receive more than 30% of the options and restricted stock awards authorized under the plans;

any one non-employee director may not receive more than 5% of the options and restricted stock awards authorized under the plans;

any officer or employee may not receive more than 25% of the options and restricted stock awards authorized under the plans;

the options and restricted stock awards may not vest more rapidly than 20% per year, beginning on the first anniversary of stockholder approval of the plans; and

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accelerated vesting is not permitted except for death, disability or upon a change in control of People's Bank or People's United Financial.

In the event the Office of Thrift Supervision changes its regulations or policies regarding stock-based incentive plans, including any regulations or policies restricting the size of awards and vesting of benefits as described above, the restrictions described above may not be applicable. Also, these restrictions will not apply to stock-based compensation

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plans currently maintained by People's Bank (the People's Bank 1998 Long-Term Incentive Plan and the People's Bank Directors' Equity Compensation Plan), which will continue in effect after the conversion.

The following table presents information regarding the eligible participants in our contemplated employee stock ownership plan and our contemplated stock-based incentive plans, the percentage of outstanding shares of common stock after the offering assuming shares are sold at the maximum of the offering range and the dollar value of the common stock available for issuance or allocation under these plans.

	Individuals Eligible to Participate	Number of Shares at the Maximum of Offering Range	Number of Shares at the Maximum, as adjusted of Offering Range	Percentage of Total Shares Outstanding (including shares issued to the charitable foundation)	Percentage of Shares Sold in the Offering (including shares issued to the charitable foundation)	Estimated Value of Shares at the Maximum of the Offering Range <sup>(1)</sup>	Estimated Value of Shares at the Maximum, as adjusted of Offering Range <sup>(1)</sup>
Employee stock ownership plan	Officers and Employees	11,246,250	12,915,188	3.48%	6.0%	\$ 224,925,000	\$ 258,303,760
Stock option plan	Directors, Officers and Employees	18,743,750	21,525,313	5.80%	10.0%	\$ 62,041,813	\$ 71,248,786
Recognition and retention plan	Directors, Officers and Employees	7,497,500	8,610,125	2.32%	4.0%	\$ 149,950,000	\$ 172,202,500

(1) The actual value of restricted stock grants will be determined based on their fair value as of the date that grants are made. For purposes of this table, the fair value of the restricted stock grants is assumed to be the same as the offering price of \$20.00 per share. The fair value of stock options has been estimated at \$3.31 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of \$20.00; dividend yield of 3.0%; expected option life of 10 years; risk free interest rate of 4.64%; and a volatility rate of 11.3% based on an index of publicly-traded thrifts. The actual value of option grants will be determined by the grant-date fair value of the option, which will depend on a number of factors, including the valuation assumptions used in the option pricing model.

For a detailed description of these potential plans and their applicable limitations as well as the benefit plans we currently have in place, see *Management of People's Bank*.

**Limits On Purchases Of Common Stock**

Limitations on the purchase of common stock in the offering have been set by the plan of conversion adopted by the People's Bank Board of Directors and the People's Mutual Holdings Board of Trustees. These limitations include the following:

You may not purchase fewer than 25 shares (\$500).

You may not purchase more than \$2 million of common stock (100,000 shares). If you are purchasing in the subscription offering, this limit applies to you, together with any persons with whom you are exercising subscription rights through a single qualifying deposit account held jointly.

You, together with any of the following persons (referred to as associates) or persons who may be acting in concert with you, may not purchase more than \$2 million of common stock (100,000 shares) in all categories of the offering combined, including the syndicated offering:

your spouse or relatives of you or your spouse living in your house; or

companies, trusts or other entities in which you have an ownership or financial interest or hold a senior position.

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If you are currently a People's Bank stockholder, in addition to the above purchase limitations, there is an additional ownership limitation for you. Shares of common stock that you purchase in the offering individually, and together with associates or persons acting in concert, plus any shares of People's United Financial common stock you and they receive in the share exchange, may not exceed 5% of the total shares of People's United Financial common stock issued and outstanding at the completion of the conversion and offering.

Subject to the approval of the Office of Thrift Supervision, we may increase or decrease the purchase and ownership limitations at any time. If a purchase limitation is increased, subscribers in the subscription offering who order the maximum amount of shares and so indicate on their stock order forms will be given the opportunity to increase their subscriptions up to the new limit. For a detailed description of purchase limitations, see *Limitations on Common Stock Purchases*.

## **Conditions To Completing The Conversion And Offering**

We are conducting the conversion and offering pursuant to the terms of our plan of conversion. We cannot complete the conversion and offering unless:

the plan of conversion is approved by at least a majority of votes eligible to be cast by depositors of People's Bank;

the plan of conversion is approved by a majority of the outstanding shares of People's Bank common stock entitled to vote at a meeting of stockholders of People's Bank (because People's Mutual Holdings owns more than 50% of People's Bank's outstanding shares, we expect that People's Mutual Holdings will control the outcome of this vote);

the plan of conversion is approved by a majority of the outstanding shares of People's Bank common stock held by the stockholders of People's Bank, excluding People's Mutual Holdings;

we sell at least the minimum number of shares of common stock offered; and

we receive approval from the Office of Thrift Supervision to complete the conversion and offering.

In order to establish and fund the charitable foundation, we must receive regulatory, public stockholder and depositor approvals, similar to those described above.

People's Mutual Holdings intends to vote its ownership interest in favor of the plan of conversion and the establishment and funding of the charitable foundation. At September 30, 2006, it owned 57.7% of the outstanding common stock of People's Bank. As of September 30, 2006, the directors and executive officers of People's Bank and their associates beneficially owned 1,800,802 shares of People's Bank common stock (including options exercisable within 60 days of September 30, 2006), or 1.27% of the outstanding shares of common stock. They intend to vote their shares in favor of the plan of conversion and establishment and funding of the charitable foundation.

## **Market For Our Common Stock**

People's Bank's common stock is currently listed on the Nasdaq Global Select Market under the symbol PBCT. Upon completion of the offering, the new shares of People's United Financial will replace existing shares and will be traded on the Nasdaq Global Select Market. For a period of 20 trading days following completion of the offering, our symbol will be PBCTD. Thereafter, our trading symbol will revert to PBCT. See *Market for the Common Stock*.

## **Tax Aspects Of The Conversion**

As a general matter, the conversion and offering will not be taxable transactions for federal or state income tax purposes to People's Mutual Holdings, People's Bank, People's United Financial, persons eligible to subscribe in the subscription offering or existing stockholders of People's Bank. Existing stockholders of People's Bank who receive cash in lieu of a fractional share of People's United Financial common stock in the

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share exchange will recognize a gain or loss equal to the difference between the cash received and the tax basis of such fractional share. Thacher Proffitt & Wood LLP has issued an opinion to us to the effect that consummation of the transactions contemplated by



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the conversion and offering qualifies as a tax-free transaction for federal income tax purposes and will not result in any adverse federal tax consequences to People's Mutual Holdings, People's Bank, People's United Financial, persons eligible to subscribe in the subscription offering or existing stockholders of People's Bank before or after the conversion. PricewaterhouseCoopers LLP has issued an opinion to us to the effect that consummation of the transactions contemplated by the conversion and offering should qualify as a tax-free transaction for Connecticut state income tax purposes and should not result in any adverse Connecticut state tax consequences to People's Mutual Holdings, People's Bank, People's United Financial, persons eligible to subscribe in the subscription offering or existing stockholders of People's Bank before or after the conversion. See *The Conversion and Offering Tax Aspects*.

### **The Subscription Offering**

#### ***Persons Who May Order Stock in the Subscription Offering.***

We are offering shares of People's United Financial common stock in a subscription offering in the following descending order of priority:

- (1) Depositors with accounts at People's Bank with aggregate balances of at least \$50 on June 30, 2005;
- (2) Our tax-qualified employee stock benefit plans;
- (3) Depositors with accounts at People's Bank with aggregate balances of at least \$50 on December 31, 2006; and
- (4) People's Bank depositors on February 5, 2007.

If you qualify under one of these categories, you will have priority subscription rights and the following provisions will apply to you.

#### ***How You May Purchase Common Stock in the Subscription Offering.***

To purchase shares of common stock in the subscription offering, you must deliver a properly signed and completed original stock order form, accompanied by full payment or a deposit account withdrawal authorization as described below, so that it is received by us (not postmarked) by 11:00 a.m., Eastern Time, on March 22, 2007. You may submit your stock order form and payment by mail using the return envelope provided, by overnight delivery to the address indicated on the stock order form or by hand, to a secure drop box located at the information desk in the lobby of People's Bank's headquarters, 850 Main Street, Bridgeport, Connecticut. Mail or delivery of stock order forms to branches or other offices of People's Bank will not be accepted. We are not required to accept orders submitted on photocopied or facsimiled stock order forms.

You may pay for your shares by:

*Personal check, bank check or money order.* The check or money order must be made payable directly to People's United Financial, Inc. Cash, wire transfers, third party checks, People's Bank equity line of credit checks and funds drawn from People's Bank personal lines of credit may not be remitted as payment for your purchase; or

*Authorized deposit account withdrawal.* The stock order form includes instructions on how you can authorize direct withdrawals from certain types of People's Bank deposit accounts. The funds you designate must be in your account at the time your stock order form is received. A hold will be placed on these funds making them unavailable to you for any reason. Funds authorized for withdrawal will continue to earn interest within the account at the contract rate until the conversion is completed, at which time the designated withdrawal will be made. You may authorize withdrawal from a People's Bank certificate of deposit account without incurring an early withdrawal penalty if the withdrawal is authorized for the purchase of shares of common stock in the offering.



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You may not authorize withdrawals from People's Bank retirement accounts (IRAs, Keogh) or People's Bank accounts with check-writing privileges. If you wish to use funds from an account with check-writing privileges, please make payment by a check drawn on such account. You may not purchase shares of People's United Financial common stock in your People's Bank retirement account. If you wish to use any of the funds that are currently in a People's Bank retirement account, the funds must be transferred to a self-directed retirement account maintained by a brokerage firm or other type of independent trustee other than People's Securities, Inc., before your order is placed. If you are interested in using funds in a retirement account at People's Bank or elsewhere to purchase common stock, you should contact our Stock Information Center as soon as possible for assistance, preferably by March 8, 2007, because processing such transactions takes additional time. Your ability to use such funds for the purchasing of shares of common stock in the offering may depend on time constraints as well as limitations imposed by the institution where the funds are held.

Once we receive your properly completed stock order form, you may not change or rescind your order unless the number of shares of common stock to be issued is increased to more than 213,253,125 or decreased below 137,062,500, or the offering is not completed by May 6, 2007. We are not required to notify you of incomplete or improperly executed stock order forms. We have the right to waive or permit the correction of incomplete or improperly executed stock order forms, but do not represent that we will do so.

We may not lend funds, guarantee loans or otherwise extend credit to any person other than our tax-qualified employee stock ownership plan to purchase shares of common stock in the offering.

Funds received in the subscription offering will be held in a segregated escrow account at People's Bank established to hold funds received as payment for shares. We will pay interest on these funds at People's Bank's passbook savings rate from the date payment is received until completion or termination of the conversion and offering. We may, at our discretion, determine during the offering that it is in the best interest of People's Bank to hold subscription funds in a segregated escrow account at another insured financial institution instead of People's Bank.

### ***Deadline for Ordering Stock in the Subscription Offering.***

The subscription offering will expire at 11:00 a.m., Eastern Time, on March 22, 2007. We may extend this expiration date without notice to you up to 45 days until May 6, 2007, but in no event may the offering extend beyond May 6, 2007, unless the Office of Thrift Supervision approves a later date. We may decide to extend the expiration date of the subscription offering for any reason, whether or not subscriptions have been received for shares at the minimum, midpoint or maximum of the offering range. If we extend the offering beyond May 6, 2007, we will promptly return your funds with interest unless you confirm your subscription.

### ***Steps We May Take if We Do Not Sell the Minimum Number of Shares.***

We will not complete the subscription and syndicated offerings until at least the minimum number of shares of common stock have been sold. If at least 137,062,500 shares have not been sold by May 6, 2007 and the Office of Thrift Supervision has not consented to an extension, all funds delivered to us to purchase shares of common stock in the subscription offering will be returned promptly to the subscribers with interest at People's Bank's passbook savings rate and all deposit account withdrawal authorizations will be canceled. If an extension beyond May 6, 2007 is granted by the Office of Thrift Supervision, we will notify each person who subscribed for common stock in the subscription offering, indicating that each such person who subscribed for common stock may increase, decrease, or rescind their subscription within the resolicitation period.

We reserve the right in our sole discretion to terminate the offering at any time and for any reason, in which case we will cancel all deposit account withdrawal authorizations and will return by check all funds submitted in the subscription offering, plus interest at People's Bank's passbook savings rate calculated from the date of receipt of the stock order.

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### *Delivery of Shares.*

Subscribers who purchase shares of People's United Financial common stock in the subscription offering will receive stock certificates representing those shares. Certificates will be mailed to the persons entitled to the certificates at the certificate registration address noted by them on the stock order form as soon as practicable following consummation of the offering and receipt of all regulatory approvals. **Until certificates for the common stock are delivered to purchasers, purchasers might not be able to sell the shares of common stock which they ordered, even though the common stock will have commenced trading.**

If you are currently a stockholder of People's Bank, see *Public Stockholders Will Receive Shares Through The Exchange of People's Bank Common Stock.*

### *You May Not Sell or Transfer Your Subscription Rights.*

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. Your subscription rights may only be exercised by you for your own account. Common stock may be registered to you or in the name of a trust for which you are the sole beneficiary or sole income beneficiary. For this purpose, an individual retirement account that is held as a custodial account is deemed to be a trust. When completing your stock order form, you should not add the name(s) of persons who do not have subscription rights or who qualify in a lower subscription priority than you do. If you do so, you will lose your subscription rights. If you order shares of common stock in the subscription offering, you will be required to certify on the stock order form that you are purchasing shares solely for your own account and that you have no agreement or understanding to sell or transfer your subscription rights or the shares of common stock to be issued upon their exercise. The regulations also prohibit any person from offering or making an announcement of an offer or intent to make an offer to purchase subscription rights or shares of common stock to be issued upon their exercise. We will pursue any and all legal and equitable remedies in the event we become aware of the transfer of subscription rights. We will not honor orders that we believe involve the transfer of subscription rights. In addition, if you attempt to sell or otherwise transfer your subscription rights, you may be subject to criminal prosecution and/or other sanctions.

### *Stock Information Center.*

If you have any questions regarding the offering or the conversion, please call our Stock Information Center, toll-free, at (800) 867-5295, from 10:00 a.m. to 4:00 p.m., Eastern Time, Monday through Friday. The Stock Information Center is closed on weekends and bank holidays. Our branches and other offices will not have offering materials and cannot accept completed stock order forms or proxy cards.

**To ensure that you receive a prospectus at least 48 hours before the offering deadline, we may not mail prospectuses any later than five days prior to the offering deadline or hand-deliver any prospectus later than two days prior to the offering deadline. Stock order forms may only be distributed with or preceded by a prospectus.**

**By signing the stock order form, you are acknowledging your receipt of a prospectus and your understanding that the shares are not a deposit account and are not insured or guaranteed by People's Mutual Holdings, People's United Financial, People's Bank, the Federal Deposit Insurance Corporation or any other federal or state governmental agency.**

**We will make reasonable attempts to provide a prospectus and offering materials to holders of subscription rights. The subscription offering and all subscription rights are expected to expire at 11:00 a.m., Eastern Time, on March 22, 2007, whether or not we have been able to locate each person entitled to subscription rights.**

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### **The Syndicated Offering**

We are also offering any shares of our common stock not subscribed for by our depositors in the subscription offering for sale to the general public in a syndicated offering through a syndicate of selected dealers. We may begin the syndicated offering at any time following the commencement of the subscription offering. Morgan Stanley & Co. Incorporated is acting as sole book-running manager and Keefe, Bruyette & Woods, Inc., Lehman Brothers Inc. and Ryan Beck & Co., Inc. are acting as joint lead managers for the syndicated offering, which is being conducted on a best efforts basis. The syndicated offering will terminate no later than 45 days after the expiration of the subscription offering, unless extended by us with approval of the Office of Thrift Supervision. None of Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. or any other member of the syndicate is required to purchase any shares in the syndicated offering. Alternatively, we may sell any remaining shares in an underwritten public offering, which would be conducted on a firm commitment basis. For further information on the syndicated offering and any underwritten public offering, see *The Conversion and Offering Syndicated Offering/Underwritten Public Offering*.

### **The People's Community Foundation**

To continue our long-standing commitment to our local communities, we intend to establish a charitable foundation, The People's Community Foundation, as a non-stock Delaware corporation in connection with the conversion. We will fund the charitable foundation with 2,000,000 shares of People's United Financial common stock and \$20.0 million in cash from the offering proceeds. The shares of common stock contributed to the charitable foundation will be issued in addition to the shares being offered for sale in the offering and will not be included in determining whether the minimum number of shares of common stock has been sold in order to complete the offering. Our contribution to the charitable foundation would reduce net earnings by approximately \$39.6 million, after tax, in 2007.

Currently, there are no plans to make further contributions to the charitable foundation in the future. The amount of common stock that we offer for sale in the offering would be greater if the offering were to be completed without the contribution to The People's Community Foundation. The establishment and funding of the charitable foundation requires the affirmative vote of a majority of the votes eligible to be cast by People's Bank's depositors and the affirmative vote of a majority of the stockholders of People's Bank, excluding People's Mutual Holdings. If these approvals are not obtained, the foundation will not be established and the shares of People's United Financial common stock we intend to issue to the foundation will remain unissued. The charitable foundation will be required to vote its shares of People's United Financial common stock in the same ratio as all other shares of the common stock on all proposals considered by People's United Financial's stockholders.

Issuing shares of common stock to the charitable foundation will:

dilute the ownership interests of holders of People's United Financial common stock; and

result in an expense, and a reduction in earnings, during the year in which the contribution is made, equal to the full amount of the contribution to the charitable foundation, offset in part by a corresponding tax benefit.

For a further discussion of the financial impact of the charitable foundation, including its effect on those who purchase shares in the offering, see *Risk Factors The Contribution To The People's Community Foundation Will Hurt Our Profits For 2007 And Dilute Your Ownership Interest, Comparison of Valuation and Pro Forma Information With and Without the Charitable Foundation* and *The People's Community Foundation*.

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**RISK FACTORS**

*You should consider carefully the following risk factors before deciding whether to invest in our common stock. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the other information contained in this prospectus, including our consolidated financial statements and related notes.*

**Risks Related To Our Business**

***Changes in Interest Rates Could Adversely Affect Our Results of Operations and Financial Condition.*** People's Bank makes most of its earnings based on the difference between interest it earns compared to interest it pays. This difference is called the interest spread. People's Bank earns interest on loans and to a much lesser extent on securities and short-term investments. These are called interest-earning assets. People's Bank pays interest on some forms of deposits and on funds it borrows from other sources. These are called interest-bearing liabilities.

People's Bank's interest spread can change depending on when interest rates earned on interest-earning assets change, compared to when interest rates paid on interest-bearing liabilities change. Some rate changes occur while these assets or liabilities are still on People's Bank's books. Other rate changes occur when these assets or liabilities mature and are replaced by new interest-earning assets or interest-bearing liabilities at different rates. It may be difficult to replace interest-earning assets quickly, since customers may not want to borrow money when interest rates are high, or People's Bank may not be able to make loans that meet its lending standards. People's Bank's interest spread may also change based on the mix of interest-earning assets and interest-bearing liabilities.

People's Bank's interest spread may be lower if the timing of interest rate changes is different for its interest-earning assets compared to its interest-bearing liabilities. For example, if interest rates go down, People's Bank may earn less on its interest-earning assets while it is still locked in to paying higher rates on its interest-bearing liabilities. On the other hand, if interest rates go up, People's Bank might have to pay more on its interest-bearing liabilities while it is still locked in to receiving lower rates on its interest-earning assets.

People's Bank manages this risk using many different techniques. If it is not successful in managing this risk, People's Bank will probably be less profitable.

***Changes in Our Asset Quality Could Adversely Affect Our Results of Operations and Financial Condition.*** Asset quality measures the performance of a borrower in repaying a loan, with interest, on time. It is unlikely that our asset quality will stay as strong as it has been for the past several years, particularly if the economy deteriorates.

***We May Not Be Able to Successfully Implement Our Plans for Growth.*** Since our conversion to the mutual holding company form of organization in 1988, we have experienced significant growth. We will be raising a significant amount of capital from the offering, which we plan to use to continue implementing our growth strategy, primarily by building our core banking business through internal growth and increased *de novo* branching and acquisitions. During 2005, People's Bank opened seven new branches, three of which are traditional branches and four of which are located in Stop & Shop supermarkets. During the first nine months of 2006, People's Bank opened three new Stop & Shop branches. People's Bank also plans to expand into New York State by opening at least 15 new traditional branches in Westchester County over the next three years. Seven of these branches are expected to be open by the end of 2007. People's Bank also plans to continue its branch expansion in Connecticut by opening new traditional and Stop & Shop branches. In addition, we will consider expansion opportunities such as the acquisition of branches and other financial institutions, although we do not have any current understandings, agreements or arrangements for expansion by the acquisition of any branches or other financial institutions. Significant changes in interest rates or the competition we face may make it difficult to attract the level of customer deposits needed to fund our internal growth at projected levels. In addition, People's Bank may have difficulty finding suitable sites for *de novo* branches. Our expansion plans may result in People's Bank opening branches in geographic markets in which it has no previous experience. Our ability to grow effectively in those markets will be dependent on our ability to identify and retain personnel familiar with the new markets. Any future acquisitions of branches or of other financial institutions would present many challenges associated with integrating merged institutions and expanding operations. Our profitability may suffer if we do not continue to experience the type of growth that we have in the past, if we

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do not adequately and profitably implement our plans for growth or if we incur additional expenditures beyond current projections to support our growth.

***The Success of Our Stop & Shop Branches Depends on the Success of the Stop & Shop Brand.*** One element of our strategy is to focus on increasing deposits by providing a wide range of convenient services to our customers. An integral component of this strategy is People's Bank's supermarket banking initiative, pursuant to which, as of September 30, 2006, People's Bank has established 73 full-service Stop & Shop branches that provide customers with the convenience of seven-day-a-week banking. At September 30, 2006, 47% of People's Bank's branches were located in Stop & Shop supermarkets. During 2005, the Stop & Shop branches originated 27% of People's Bank's home equity loans, 47% of retail checking and savings accounts, and 34% of commercial checking accounts. Approximately 40% of People's Bank's branch transactions originate in Stop & Shop branches.

People's Bank currently has exclusive branching rights in Stop & Shop supermarkets in the state of Connecticut, in the form of a license agreement between The Stop & Shop Supermarket Company and People's Bank, which provides for the leasing of space to People's Bank within Stop & Shop supermarkets for branch use. Under the terms of the license agreement, People's Bank generally is required to open a branch in each new Connecticut Stop & Shop supermarket (up to a maximum of 120 supermarkets) that has either (1) a total square footage of greater than 45,000 square feet or (2) if less than 45,000 square feet in size, the store has projected customers of at least 15,000 per week. People's Bank has the exclusive right to branch in these supermarkets until 2012, provided that People's Bank does not default on its obligations under the licensing agreement. People's Bank has the option to extend the license agreement until 2022.

Stop & Shop is currently the leading grocery store in Connecticut, with nearly twice the market share of its closest competitor, according to Modern Grocer. The success of People's Bank's supermarket branches is dependent, in part, on the success of the Stop & Shop supermarkets in which they are located. The existing labor agreements between Stop & Shop and a number of the unions representing its employees in Connecticut expire on or around February 18, 2007. As of the date of this prospectus, members of at least one union have voted to strike if new labor agreements are not reached. A drop in Stop & Shop's market share, a decrease in the number of Stop & Shop locations or customers, a disruption in Stop & Shop's operations due to labor disputes or otherwise, or a decline in the overall quality of Stop & Shop supermarkets could result in decreased business for the Stop & Shop branches, in the form of fewer loan originations, lower deposit generation and fewer overall branch transactions, and could influence market perception of People's Bank's Stop & Shop supermarket branches as convenient banking locations. Under the terms of the license agreement, People's Bank has the obligation to open branches in new Connecticut Stop & Shop locations through 2012, even if Stop & Shop's market share declines or the value of the Stop & Shop brand is diminished.

In addition, People's Bank may not be able to renew or renegotiate the license agreement with Stop & Shop beyond 2022. If renewal or renegotiation of the license agreement were unsuccessful, People's Bank would be forced to find new locations for and relocate the Stop & Shop branches, or to close those branches and transfer the affected customer accounts to other People's Bank branches, either of which would involve significant expense and the possible loss of customer relationships.

***We Depend on Our Executive Officers and Key Personnel to Continue the Implementation of Our Long-Term Business Strategy and Could Be Harmed by the Loss of Their Services.*** We believe that our continued growth and future success will depend in large part upon the skills of our management team. The competition for qualified personnel in the financial services industry is intense, and the loss of our key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect our business. Although People's Bank has an employment agreement with its president and chief executive officer, the loss of the services of one or more of our executive officers and key personnel could impair our ability to continue to develop and execute our business strategy.

***Our Business Is Affected by the International, National, Regional and Local Economy Generally, and the Geographic Concentration of Our Loan Portfolio and Lending Activities Makes Us Vulnerable to a Downturn in the Local Economy.*** Changes in international, national, regional and local economic conditions affect our business. If economic conditions change significantly or quickly, our business operations could suffer, and we could become weaker financially as a result.

At September 30, 2006, approximately 77% of People's Bank's loans by outstanding principal amount were to people and businesses located in the state of Connecticut, or involved property located here. All of People's Bank's branches are currently in Connecticut. How well we perform depends very much on the health of the Connecticut economy, and we expect that to remain true for the foreseeable future.

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As of June 30, 2006, the median household income in Connecticut was \$66,018, ranking second in the United States and well above the U.S. median household income of \$51,546. Our state unemployment rate as of June 2006 was 4.1%, slightly lower than the national rate of 4.6%. A low unemployment rate usually means that businesses have a hard time finding qualified workers, and will have to pay them more if they can find them. Businesses that cannot find qualified workers or that have to pay higher wages might decide not to stay in Connecticut, or to send work outside the state. Someone deciding where to locate a new business or to expand an existing business might decide to go somewhere outside Connecticut.

If the general economic situation deteriorates, or there are negative trends in the stock market, the Connecticut economy could suffer more than the national economy. This would be especially likely in Fairfield County, where People's Bank has many of its branches and where many of its customers reside, because of the large number of Fairfield County residents who are professionals in the financial services industry.

People's Bank could experience losses in its real estate-related loan portfolios if the prices for housing and other kinds of real estate decreased significantly in Connecticut. Even though Connecticut (especially Fairfield County) has some of the highest housing prices in the country, property values can decrease. This has happened before (as recently as the early 1990s), and can happen again.

***In Response to Competitive Pressures, Our Costs Could Increase if We Were Required to Increase Our Service and Convenience Levels or Our Margins Could Decrease if We Were Required to Increase Deposit Rates or Lower Interest Rates on Loans.*** People's Bank faces significant competition for deposits and loans. In deciding where to deposit their money, many people look first at the interest rate they will earn. They also might think about whether the bank offers other kinds of services they might need and, if they have ever been a customer of the bank before, what their experience was like. People also like convenience, so the number of offices and banking hours may be important. Some people also think that on-line services are important.

People's Bank competes with other banks, credit unions, brokerage firms and money market funds for deposits. Some people may decide to buy bonds or similar kinds of investments issued by companies or by the U.S., state and local governments and agencies, instead of opening a deposit account.

In making decisions about loans, many people look first at the interest rate they will have to pay. They also think about any extra fees they might have to pay in order to get the loan. Some people also think about whether the bank offers other kinds of services they might need and, if they have ever been a customer of the bank before, what their experience was like. Many business loans are more complicated because there may not be a standard kind of loan that meets all of the customer's needs. Business borrowers look at many different factors that are not all financial in nature. Examples include the kind and amount of security the lender wants and other terms of the loan that do not involve the interest rate.

People's Bank competes with other banks, credit unions, credit card issuers, finance companies, mortgage lenders and mortgage brokers for loans. Insurance companies also compete with People's Bank for some kinds of commercial loans.

Many of People's Bank's competitors have branches in the same market area as it does. Some of them are much larger than it is. Connecticut, and especially Fairfield County, is an attractive banking market. Many locally-based banks have been acquired by large regional and national companies in the last several years. We expect this trend to continue. This means that there are not as many competitors in our market as there used to be, but the ones that are left are usually bigger and have more resources than the ones they acquired.

People's Bank also has competition from outside its own market area. A bank that does not have any branches in Connecticut can still have customers here by providing banking services on-line. It costs money to set up and maintain a branch system. Banks that do not spend as much money as People's Bank does on branches might be more profitable than it is, even if they pay higher interest on deposits and charge lower interest on loans.

***Changes in Federal and State Regulation Could Adversely Affect Our Results of Operations and Financial Condition.*** The banking business is heavily regulated by the federal and state governments. Banking laws and rules are for the most part intended to protect depositors, not stockholders.

Banking laws and rules can change at any time. The government agencies responsible for supervising People's Bank's business can also change the way they interpret these laws and rules, even if the rules themselves do not change. We need to



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make sure that our business activities comply with any changes in these rules or the interpretation of the rules. We might be less profitable if we have to change the way we conduct business in order to comply. Our business might suffer in other ways as well.

Changes in state and federal tax laws can make our business less profitable. Changes in the accounting rules we are required to follow may also make us less profitable. Changes in the government's economic and monetary policies may hurt our ability to compete for deposits and loans. Changes in these policies can also make it more expensive for us to do business.

The government agencies responsible for supervising our business can take drastic action if they think we are not conducting business safely or are too weak financially. They can force People's Bank to hold additional capital, pay higher deposit insurance premiums, stop paying dividends, stop making certain kinds of loans or stop offering certain kinds of deposits. If the agencies took any of these steps or other similar steps, it would probably make our business less profitable.

The Office of Thrift Supervision letter dated July 3, 2006 approving, among other things, People's Bank's conversion from a Connecticut savings bank to a federal savings bank, granted People's Bank (1) a phase-in period of three years from the date of its conversion to a federal savings bank, August 18, 2006, to comply with the Home Owners' Loan Act's commercial loan limits, with the ability to seek an additional one-year extension if necessary; and (2) an exception from the Qualified Thrift Lender test for a period of four years from the date of conversion. The manner in which the Office of Thrift Supervision interprets or applies its phase-in period can also make it more expensive for us to do business, make our business less profitable and limit our strategic flexibility. See *Regulation of People's Bank and People's United Financial - Federally Chartered Savings Bank Regulation* and *Regulation of People's Bank and People's United Financial - Qualified Thrift Lender Test*.

***If People's Bank Is Not Permitted to Pay Dividends to Us, We May Not Be Able to Fully Fund Our Operations, Pay Dividends or Make Acquisitions.*** People's United Financial will fund its operations and pay dividends to its stockholders through the net offering proceeds it retains, cash and cash equivalents held by People's United Financial, dividends paid by People's Bank to People's United Financial, and borrowings. Dividends may be paid by People's Bank only out of current or retained net profits, and prior Office of Thrift Supervision approval is required if dividends for the current year would exceed net income for the current year plus retained net income for the preceding two years. People's Bank will also be prohibited from paying cash dividends to People's United Financial to the extent that any such payment would reduce People's Bank's capital below required capital levels, would impair the liquidation account to be established for the benefit of the People's Bank's eligible account holders and supplemental eligible account holders at the time of the conversion and offering, or if the Office of Thrift Supervision notified People's Bank that it was in need of more than normal supervision. Payment of dividends by People's Bank also may be restricted at any time at the discretion of the Office of Thrift Supervision if it deems the payment to constitute an unsafe and unsound banking practice.

***If People's Bank's Allowance for Loan Losses Is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.*** People's Bank is exposed to the risk that customers will not be able to repay their loans. This risk is inherent in the lending business. There is also the risk that the customer's collateral will not be sufficient to cover the balance of their loan, as underlying collateral values fluctuate with market changes. People's Bank records an allowance for loan losses to cover probable losses inherent in the existing loan portfolio. The allowance for loan losses is established through provisions for loan losses charged to income. Losses on loans, including impaired loans, are charged to provision expense or to the allowance for loan losses when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance for loan losses when realized.

People's Bank maintains the allowance for loan losses at a level that it believes is adequate to absorb probable losses inherent in the existing loan portfolio, based on a quarterly evaluation of a variety of factors. These factors include, but are not limited to: its historical loan loss experience and recent trends in that experience; risk ratings assigned by lending personnel to commercial real estate finance, commercial and People's Capital and Leasing loans, and the results of ongoing reviews of those ratings by its independent loan review function; an evaluation of non-performing loans and related collateral values; the probability of loss in view of geographic and industry concentrations and other portfolio risk characteristics; the present financial condition of borrowers; and current economic conditions. While People's Bank seeks to use the best available information to make these evaluations, and at September 30, 2006, management believed that the allowance for loan losses was adequate to cover probable losses inherent in the existing loan portfolio, it is possible that borrower defaults could exceed the current estimates for loan losses, which would reduce earnings. In addition, future increases to the

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allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, increasing charge-offs of existing problem loans, or the identification of additional problem loans and other factors, which would also reduce earnings.

***Our Stock Benefit Plans Will Increase Our Costs, Which Will Reduce Our Profitability and Stockholders' Equity.*** We anticipate that our employee stock ownership plan will purchase an amount of common stock equal to up to 6% of the sum of the common stock that is sold in the offering and that is issued to the charitable foundation. The cost of acquiring the employee stock ownership plan shares will be between \$166.9 million at the minimum of the offering range and \$224.9 million at the maximum of the offering range, or \$258.3 million at the adjusted maximum of the offering range, assuming a purchase price of \$20.00 per share. Under current accounting standards, we will record annual employee stock ownership plan expenses in an amount equal to the fair market value of shares committed to be released to employees for that year. If our common stock appreciates in value over time, compensation expense relating to the employee stock ownership plan will increase.

We intend to adopt a stock option plan that will provide for grants to key employees, officers, and directors of options to purchase an amount of common stock equal to up to 10% of the shares of common stock sold in the offering and issued to the charitable foundation. We also intend to adopt a recognition and retention plan that will provide for awards of common stock to key employees, officers, and directors in an amount of up to 4% of the shares of common stock sold in the offering and issued to the charitable foundation. We will fund these plans through either open market purchases, if permitted, or from the issuance of authorized but unissued shares. These plans will increase our future costs of compensating our key employees, officers and directors, thereby reducing our earnings. In addition, at the maximum of our offering range, stockholders will experience a 2.27% reduction or dilution in ownership interest in the event authorized but unissued shares are used to fund restricted stock awards and a 5.48% reduction or dilution in ownership interest in the event authorized but unissued shares are used to fund the stock options. Under current accounting standards, we will expense the grant-date fair value of stock options granted to key employees, officers and directors over the vesting period of such awards. Similarly, under current accounting standards, as the restricted stock shares are awarded under the recognition and retention plan, we will recognize compensation expense equal to the fair market value of such shares at grant over the vesting period. Recognizing an expense equal to the grant-date fair value of stock options or shares of restricted stock will increase our compensation costs over the vesting period of the options or shares of restricted stock.

**Risks Related To The Offering**

***After the Offering, Our Return on Average Equity Will Be Low Compared to Other Companies. This Could Negatively Impact the Price of Our Common Stock.*** The net proceeds from the offering will substantially increase our equity capital. It may take a significant period of time to prudently invest this capital. Our ability to leverage our new capital and grow our balance sheet profitably will be significantly affected by industry competition for loans and deposits. The net proceeds will be invested initially in short-term investments, government securities or government-sponsored agency securities. These investments have lower average yields than a significant portion of our existing interest-earning assets. This excess capital will result in a significantly lower return on equity, which is the ratio of our earnings divided by our average stockholders' equity, than we have experienced previously. For the nine months ended September 30, 2006 and the year ended December 31, 2005, our return on average equity was 8.6% and 11.1%, respectively. On a pro forma basis assuming that 185,437,500 shares had been sold at the beginning of the year, the maximum of the offering range, and the net proceeds had been invested at an average yield of 5.25%, our return on pro forma equity for the nine months ended September 30, 2006 and the year ended December 31, 2005 would have been approximately 4.2% and 4.3%, respectively. As a result of the offering, our return on equity will be lower than that of our peers. To the extent that the stock market values a company based in part on its return on equity, our low return on equity relative to our peers could negatively affect the trading price of our common stock.

***We Have Broad Discretion in Allocating the Proceeds of the Offering. Our Failure to Effectively Utilize the Proceeds Could Significantly Reduce Our Profitability.*** People's United Financial intends to contribute approximately 50% of the net proceeds of the offering to People's Bank. People's United Financial may use the remaining net proceeds to purchase investment securities, finance the acquisition of other financial institutions or other businesses that are related to banking or for other general corporate purposes, including repurchases of common stock and the payment of cash dividends. People's United Financial expects to use a portion of the net proceeds to fund the purchase by People's Bank's employee stock ownership plan of shares of People's United Financial common stock. We also intend to contribute 2,000,000 shares of People's United Financial common stock and \$20.0 million in cash to The People's Community Foundation. People's Bank may use the net proceeds it receives to make acquisitions, fund new loans, purchase investment securities, establish or

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acquire new branches, acquire financial institutions or other businesses that are related to banking, pay dividends to People's United Financial or for general corporate purposes. Although the net proceeds of the offering are expected to be invested initially in short-term investments, government securities or government-sponsored agency securities, People's United Financial and People's Bank will have significant flexibility in determining how much of the net proceeds to apply to different uses and the timing of such applications. The failure by us or People's Bank to utilize these funds effectively could significantly reduce our profitability.

***Stock Market Volatility May Affect the Price of Our Common Stock.*** Publicly traded stocks can experience substantial market price volatility that may be unrelated to the operating performance of the particular companies. The final number of shares of common stock sold in the offering will be based on an independent appraisal prepared by RP Financial. The independent appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The valuation is based on estimates and projections of a number of factors, all of which are subject to change. After the shares begin trading, the trading price of our common stock will be determined by the marketplace, and will be influenced not only by our results of operations and financial condition but also by many factors outside of our control, including prevailing interest rates, investor perceptions of us, our performance relative to our peers, research analysts ratings, and general industry and economic conditions. Consequently, if you purchase shares of common stock in the offering, you may not be able to sell them later at or above the \$20.00 per share purchase price.

***The Certificate of Incorporation and Bylaws of People's United Financial and Certain Laws and Regulations May Prevent or Make More Difficult Certain Transactions, Including a Sale or Merger of People's United Financial.*** Provisions of the Certificate of Incorporation and Bylaws of People's United Financial, federal regulations and various other factors may make it more difficult for companies or persons to acquire control of People's United Financial. The factors that may discourage takeover attempts or make them more difficult include:

*Office of Thrift Supervision regulations.* Office of Thrift Supervision regulations prohibit, for three years following the completion of a mutual-to-stock conversion, the offer to acquire or the acquisition of more than 10% of any class of equity security of a converted institution without the prior approval of the Office of Thrift Supervision.

*Certificate of Incorporation, Bylaws and statutory provisions.* Provisions of the Certificate of Incorporation and Bylaws of People's United Financial and of Delaware law may make it more difficult and expensive to pursue a takeover attempt that the Board of Directors opposes. These provisions also make more difficult the removal of current directors or management, or the election of new directors. These provisions include:

supermajority voting requirements for certain business combinations, removal of directors and changes to some provisions of the Certificate of Incorporation and Bylaws;

the election of directors to staggered terms of three years;

provisions regarding the timing and content of stockholder proposals and nominations;

provisions restricting the calling of special meetings of stockholders;

the absence of cumulative voting by stockholders in the election of directors; and

limitations imposed by Delaware law on business transactions with certain significant stockholders.

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*Significant ownership by our directors, executive officers and stock benefit plans.* Following the conversion and offering, the directors, executive officers and stock benefit plans of People's United Financial are expected to own in the aggregate approximately 4.88% of People's United Financial common stock to be outstanding based upon the midpoint of the offering range. This significant percentage ownership by directors, executive officers and stock benefit plans could make it more difficult to obtain the required vote for a takeover or merger that management opposes.

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***You May Not Revoke Your Decision to Purchase People's United Financial Common Stock in the Subscription Offering After You Send Us Your Subscription.*** Funds submitted or automatic withdrawals authorized in connection with a purchase of shares of common stock in the subscription offering will be held by us until the completion or termination of the conversion and offering, including any extension of the expiration date. Because completion of the conversion and offering will be subject to regulatory approvals and an update of the independent appraisal prepared by RP Financial, among other factors, there may be one or more delays in the completion of the conversion and offering. Orders submitted in the subscription offering are irrevocable, and subscribers will have no access to subscription funds unless the offering is terminated, or extended beyond May 6, 2007, or the number of shares to be sold in the offering is increased to more than 213,253,125 shares or decreased to less than 137,062,500 shares.

## **Risks Related To The Formation Of Our Charitable Foundation**

***Our Contribution to The People's Community Foundation Will Hurt Our 2007 Profits and Dilute Your Ownership Interest.*** We intend to contribute 2,000,000 shares of People's United Financial common stock and \$20.0 million in cash from the offering proceeds to The People's Community Foundation. This contribution of common stock and cash will be an additional operating expense and will reduce net income during the fiscal year in which The People's Community Foundation is established, which is expected to be the year ending December 31, 2007. Based on the pro forma assumptions, the contribution to The People's Community Foundation would reduce net earnings by approximately \$39.6 million, after tax, in 2007. In addition, at the midpoint of the offering range, purchasers of shares in the offering and current People's Bank stockholders will have their ownership interests diluted by 0.71% at the close of the offering, when we contribute the shares of our common stock to The People's Community Foundation from authorized but unissued shares of common stock. For a further discussion regarding the effect of the contribution to the charitable foundation, see *Pro Forma Data* and *Comparison of Valuation and Pro Forma Information With and Without the Charitable Foundation*.

***Our Contribution to The People's Community Foundation May Not Be Tax Deductible, Which Could Hurt Our Profits.*** We believe that our \$60 million pre-tax contribution in cash and shares of our common stock to The People's Community Foundation will be deductible for federal income tax purposes. However, we do not have any assurance that the Internal Revenue Service will grant tax-exempt status to the charitable foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. In addition, even if the contribution is tax deductible, we may not have sufficient profits to be able to use the deduction fully.

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**FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements, which may be identified by the use of such words as may, believe, expect, anticipate, should, plan, estimate, predict, continue and potential or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

our business is affected by the international, national, regional and local economy generally, and the geographic concentration of our loan portfolio and lending activities makes us vulnerable to a downturn in the local economy;

in response to competitive pressures, our costs could increase if we were required to increase our service and convenience levels or our margins could decrease if we were required to increase deposit rates or lower interest rates on loans;

changes in our asset quality could adversely affect our results of operations and financial condition;

changes in federal and state regulation could adversely affect our results of operations and financial condition;

changes in interest rates could adversely affect our results of operations and financial condition;

we have broad discretion in allocating the net proceeds of the offering; our failure to effectively utilize the net proceeds could significantly reduce our profitability;

our stock benefit plans will increase our costs, which will reduce our profitability and stockholders' equity;

after the offering, our return on average equity will be low compared to other companies; this could negatively impact the price of our common stock;

stock market volatility may affect the price of our common stock;

our contribution to The People's Community Foundation will hurt our profits for 2007 and dilute your ownership interest;

our contribution to The People's Community Foundation may not be tax deductible, which could hurt our profits;

applicable technological changes may be more difficult or expensive than we anticipate;

success or consummation of new business initiatives may be more difficult or expensive than we anticipate; and

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litigation or matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than we anticipate.

Any or all of our forward-looking statements in this prospectus and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. We do not intend to update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual results.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The summary information presented below under Selected Financial Condition Data, Selected Operating Data, and Selected Financial Ratios and Other Data at each of the dates or for each of the periods presented, except for the information at or for the periods ended September 30, 2005 and 2006 (which has not been audited), is derived in part from the audited consolidated financial statements of People's Bank. The following information is only a summary and you should read it in conjunction with People's Bank's audited consolidated financial statements and notes beginning on page F-1. All share, per share and dividend information reflects the three-for-two stock splits effected by People's Bank on May 15, 2004 and May 15, 2005.

	At September 30,		At December 31,			
	2006	2005	2004	2003	2002	2001
<b>Selected Financial Condition Data:</b>						
Total assets	\$ 10,612	\$ 10,933	\$ 10,718	\$ 11,672	\$ 12,261	\$ 11,891
Loans	9,185	8,573	7,933	7,105	6,675	6,374
Securities, net	202	1,363	2,071	2,405	3,230	2,900
Allowance for loan losses	74	75	73	71	69	74
Deposits	8,979	9,083	8,862	8,714	8,426	7,983
Core deposits <sup>(1)</sup>	8,843	8,873	8,681	8,433	8,102	7,709
Borrowings	14	295	341	1,516	2,437	2,542
Subordinated notes	109	109	122	253	252	252
Stockholders' equity	1,351	1,289	1,200	1,002	940	935
Non-performing assets	23	22	29	34	36	31

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
<b>Selected Operating Data:</b>							
Net interest income <sup>(2)</sup>	\$ 286.3	\$ 276.7	\$ 370.0	\$ 327.4	\$ 284.3	\$ 318.5	\$ 319.5
Provision for loan losses	2.0	3.3	8.6	13.3	16.7	22.2	45.3
Fee based revenues	113.5	111.7	151.5	142.9	143.0	136.2	113.9
Net security losses	(27.2)	(0.1)	(0.1)	(4.7)	(0.6)	(3.3)	(18.5)
All other non-interest income <sup>(3)</sup>	15.8	9.5	21.9	13.5	23.9	16.3	38.2
Non-interest expense <sup>(4)</sup>	261.3	253.8	344.4	479.7	346.0	341.5	343.5
Income (loss) from continuing operations	83.0	91.6	125.9	(5.6)	62.7	67.7	38.9
Income (loss) from discontinued operations <sup>(5)</sup>	1.7	10.3	11.2	205.3	1.1	(12.3)	36.9
Net income	84.7	101.9	137.1	199.7	63.8	55.4	75.8
Adjusted net income <sup>(1)</sup>	83.0	93.6	122.6	81.1	62.7	67.7	25.9

(1) See *Non-GAAP Financial Measures and Reconciliation to GAAP* for a reconciliation of deposits to core deposits, and net income to adjusted net income.

(2) Fully taxable equivalent basis.

(3) Includes \$8.1 million and \$20.0 million in gains on asset sales for the years ended December 31, 2005 and 2001, respectively.

(4) Includes liability restructuring costs totaling \$2.7 million, \$133.4 million, \$1.2 million and \$16.6 million for the years ended December 31, 2005, 2004, 2003 and 2001, respectively.

(5) Includes an after-tax gain on sale of \$6.2 million for both the nine months ended September 30, 2005 and the year ended December 31, 2005 and \$198.5 million for the year ended December 31, 2004 related to the sale of the credit card business in March 2004.



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	At or For the Nine Months Ended September 30,		2005	At or For the Year Ended December 31,			
	2006	2005		2004	2003	2002	2001
<b>Selected Financial Ratios And Other Data:</b>							
<b>Performance Ratios:</b>							
Return on average assets <sup>(1)</sup>	1.04%	1.26%	1.27%	1.86%	0.54%	0.47%	0.68%
Return on average stockholders' equity <sup>(4)</sup>	8.6	11.1	11.1	17.6	6.6	5.9	8.2
Net interest margin <sup>(2)</sup>	3.83	3.66	3.68	3.33	2.89	3.24	3.40
Net interest rate spread	3.71	3.57	3.59	3.25	2.84	3.28	3.38
Efficiency ratio <sup>(3)</sup>	61.9	62.8	62.8	69.2	76.4	71.3	73.9
Average interest-earning assets to average interest-bearing liabilities	138.6	140.3	140.1	139.5	130.5	120.0	121.5
<b>Per Common Share Data:</b>							
Basic earnings per share	\$ 0.60	\$ 0.72	\$ 0.97	\$ 1.43	\$ 0.46	\$ 0.40	\$ 0.55
Diluted earnings per share	0.59	0.72	0.97	1.42	0.46	0.40	0.55
Cash dividends paid per share <sup>(4)</sup>	0.72	0.63	0.85	0.75	0.68	0.63	0.59
Book value (end of period)	9.51	8.95	9.10	8.52	7.18	6.77	6.76
Tangible book value (end of period)	8.77	8.20	8.35	7.74	6.37	5.95	5.92
Total dividend pay-out ratio <sup>(4)</sup>	52.5%	38.2%	38.3%	22.9%	63.7%	67.4%	49.4%
<b>Capital Ratios:</b>							
Average stockholders' equity to average assets	12.1	11.4	11.5	10.6	8.2	8.0	8.2
Stockholders' equity to total assets	12.7	11.6	11.8	11.2	8.6	7.7	7.9
Tangible stockholders' equity to total assets	11.7	10.7	10.8	10.2	7.6	6.7	6.9
<b>Regulatory Capital Ratios<sup>(5)</sup>:</b>							
Tier 1 capital	14.7	14.9	14.8	14.6	9.9	9.1	8.8
Leverage capital	11.8	11.0	11.2	10.5	8.0	7.4	7.7
Total risk-based capital	16.2	17.0	16.4	16.7	13.1	12.5	12.3
<b>Asset Quality Ratios:</b>							
Non-performing loans to total loans	0.23	0.23	0.25	0.35	0.48	0.52	0.46
Non-performing assets to total assets	0.22	0.18	0.20	0.27	0.29	0.29	0.26
Non-performing assets to total loans, real estate owned and repossessed assets	0.25	0.24	0.26	0.36	0.48	0.53	0.48
Net loan charge-offs to average loans <sup>(2)</sup>	0.05	0.05	0.07	0.15	0.22	0.42	0.62
Allowance for loan losses to non-performing loans	354.9	379.6	352.5	264.6	208.4	198.2	253.3
Allowance for loan losses to total loans	0.81	0.87	0.87	0.91	0.99	1.04	1.16
<b>Other Information:</b>							
Number of branches	156	152	153	155	154	155	148
Full-time equivalent employees <sup>(6)</sup>	2,617	2,679	2,655	2,689	2,791	2,948	2,907

(1) Calculated based on net income for all periods. Nine month ratios are presented on an annualized basis.

(2) Nine month ratios are presented on an annualized basis.

(3) See *Non-GAAP Financial Measures and Reconciliation to GAAP* for a reconciliation of the efficiency ratio to banking regulatory definitions.

(4) Reflects the waiver of dividends on the substantial majority of the common shares owned by People's Mutual Holdings.

(5) Calculated in accordance with Office of Thrift Supervision regulations as of September 30, 2006 and Federal Deposit Insurance Corporation regulations for all prior period ends.

(6) Excluded from 2003, 2002 and 2001 are the employees of People's Bank's credit card division that was sold in March 2004.

**Table of Contents****RECENT DEVELOPMENTS**

The summary information presented below under Selected Financial Condition Data, Selected Operating Data, and Selected Financial Ratios and Other Data at December 31, 2005 and for the three months and year ended December 31, 2005 is derived in part from the audited consolidated financial statements of People's Bank. The information at December 31, 2006 and for the three months and year ended December 31, 2006 is derived from unaudited financial data. In the opinion of management, this unaudited financial data has been prepared to reflect all normal recurring accruals necessary to present fairly the financial data for the periods shown. The results for the three months and year ended December 31, 2006 are not necessarily indicative of the results that may be expected for any other interim or full-year period.

This discussion and analysis reflects People's Bank's consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. The following information is only a summary and you should read it in conjunction with People's Bank's audited consolidated financial statements and notes beginning on page F-1.

	At December 31,	
	2006	2005
(In millions)		
<b>Selected Financial Condition Data:</b>		
Total assets	\$ 10,687	\$ 10,933
Loans	9,372	8,573
Securities, net	77	1,363
Allowance for loan losses	74	75
Deposits	9,083	9,083
Core deposits <sup>(1)</sup>	8,958	8,873
Borrowings	4	295
Subordinated notes	65	109
Stockholders' equity	1,340	1,289
Non-performing assets	23	22

	For the Three Months Ended		For the Year Ended	
	December 31, 2006	2005	December 31, 2006	2005
(In millions)				
<b>Selected Operating Data:</b>				
Net interest income	\$ 96.1	\$ 93.3	\$ 382.4	\$ 369.7
Provision for loan losses	1.4	5.3	3.4	8.6
Fee-based revenues	39.5	39.8	153.0	151.5
Net security losses			(27.2)	(0.1)
All other non-interest income <sup>(2)</sup>	5.8	12.3	21.6	21.9
Non-interest expense	85.6	90.5	346.9	344.4
Income from continuing operations	38.7	34.3	121.7	125.9
Income from discontinued operations <sup>(3)</sup>	0.6	0.9	2.3	11.2
Net income	39.3	35.2	124.0	137.1
Adjusted net income <sup>(1)</sup>	38.7	29.0	121.7	122.6

(1) See *Non-GAAP Financial Measures and Reconciliation to GAAP* for a reconciliation of deposits to core deposits, and net income to adjusted net income.

(2) Includes an \$8.1 million gain on sale of branches for both the three months and the year ended December 31, 2005.

(3) Includes an after-tax gain of \$6.2 million for the year ended December 31, 2005 related to the sale of the credit card business in March 2004.

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	At or For the Three Months Ended December 31,		At or For the Year Ended December 31,	
	2006	2005	2006	2005
<b>Selected Financial Ratios and Other Data:</b>				
<b>Performance Ratios:</b>				
Return on average assets <sup>(1)</sup>	1.49%	1.30%	1.15%	1.27%
Return on average stockholders' equity <sup>(4)</sup>	11.6	11.1	9.4	11.1
Net interest margin <sup>(2)</sup>	4.01	3.75	3.87	3.68
Net interest rate spread	3.86	3.65	3.75	3.59
Efficiency ratio <sup>(3)</sup>	59.7	62.3	61.3	62.8
Average interest-earning assets to average interest-bearing liabilities	138.6	139.3	138.6	140.1
<b>Per Common Share Data:</b>				
Basic earnings per share	\$ 0.28	\$ 0.25	\$ 0.88	\$ 0.97
Diluted earnings per share	0.28	0.25	0.87	0.97
Cash dividends paid per share <sup>(4)</sup>	0.25	0.22	0.97	0.85
Book value (end of period)	9.42	9.10	9.42	9.10
Tangible book value (end of period)	8.68	8.35	8.68	8.35
Total dividend pay-out ratio <sup>(4)</sup>	39.3%	38.6%	48.3%	38.3%
<b>Capital Ratios:</b>				
Average stockholders' equity to average assets	12.8	11.8	12.3	11.5
Stockholders' equity to total assets	12.5	11.8	12.5	11.8
Tangible stockholders' equity to total assets	11.6	10.8	11.6	10.8
<b>Regulatory Capital Ratios<sup>(5)</sup>:</b>				
Tier 1 capital	14.8	14.8	14.8	14.8
Leverage capital	12.0	11.2	12.0	11.2
Total risk-based capital	16.1	16.4	16.1	16.4
<b>Asset Quality Ratios:</b>				
Non-performing loans to total loans	0.24	0.25	0.24	0.25
Non-performing assets to total assets	0.21	0.20	0.21	0.20
Non-performing assets to total loans, real estate owned and repossessed assets	0.24	0.26	0.24	0.26
Net loan charge-offs to average loans <sup>(2)</sup>	0.06	0.16	0.05	0.07
Allowance for loan losses to non-performing loans	327.9	352.5	327.9	352.5
Allowance for loan losses to total loans	0.79	0.87	0.79	0.87
<b>Other Information:</b>				
Number of branches	158	153	158	153
Full-time equivalent employees	2,657	2,655	2,657	2,655

(1) Calculated based on net income for all periods. Three month ratios are presented on an annualized basis.

(2) Three month ratios are presented on an annualized basis.

(3) See *Non-GAAP Financial Measures and Reconciliation to GAAP* for a reconciliation of the efficiency ratio to banking regulatory definitions.

(4) Reflects the waiver of dividends on the substantial majority of the common shares owned by People's Mutual Holdings.

(5) Calculated in accordance with Office of Thrift Supervision regulations for December 31, 2006 and Federal Deposit Insurance Corporation regulations for December 31, 2005.

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**Comparison of Financial Condition at December 31, 2006 and December 31, 2005.**

Total assets at December 31, 2006 were \$10.7 billion, a decrease of \$246 million, or 2%, from December 31, 2005, primarily due to a \$1.3 billion decline in total securities, partially offset by increases of \$799 million in total loans, \$193 million in short-term investments, \$58 million in bank-owned life insurance and \$66 million in other assets.

Total loans increased \$799 million, or 9%, from December 31, 2005 to December 31, 2006. This increase reflects growth of \$456 million, or 10%, in consumer financial services and \$343 million, or 9%, in commercial banking. The growth in consumer financial services was driven by increases of \$392 million, or 11%, in residential mortgage loans to \$3.9 billion and \$64 million, or 5%, in consumer loans to \$1.3 billion. The increase in residential mortgage loans reflects, in part, the purchase of \$170 million of adjustable-rate residential mortgage loans towards the end of the first quarter of 2006. The increase in commercial banking reflects increases of \$235 million, or 37%, in net loans originated by People's Capital and Leasing, our equipment financing subsidiary, \$135 million, or 29%, in our national credits portfolio and \$60 million, or 5%, in commercial lending. These increases were partially offset by an \$87 million, or 5%, decline in commercial real estate finance loans.

The decrease in the securities portfolio reflects the sale of \$266 million and \$810 million of debt securities in the second and third quarters of 2006, respectively, as part of restructuring activities to better position People's Bank's balance sheet for the prevailing interest rate environment at the time. People's Bank also funded an additional \$50 million of bank-owned life insurance with proceeds from maturing securities in the first quarter of 2006 and contributed \$91.5 million in the third quarter of 2006 to its employee retirement plan (reported in other assets) to more than fully fund its projected benefit obligation. Proceeds from sales of securities were also used to reduce total borrowings and subordinated notes by \$335 million since December 31, 2005.

Non-performing assets totaled \$22.7 million at December 31, 2006, a \$0.7 million increase from December 31, 2005. Non-performing assets declined by \$0.2 million during the fourth quarter of 2006, reflecting an increase in non-performing commercial loans to \$11.9 million at December 31, 2006 as one commercial loan totaling \$10.6 million was classified as non-performing, partially offset by a decrease in non-performing commercial real estate finance loans to \$0.2 million resulting from the full recovery on one commercial real estate finance loan totaling \$5.5 million. The allowance for loan losses decreased \$1.0 million to \$74 million at December 31, 2006 compared to December 31, 2005, primarily reflecting reductions in the allowance for loan losses allocated to the consumer loan portfolios, partially offset by net additions allocated to the commercial banking loan portfolios. At December 31, 2006, the allowance for loan losses as a percentage of total loans was 0.79% and as a percentage of non-performing loans was 328%, compared to 0.87% and 353%, respectively, at December 31, 2005.

At December 31, 2006, liabilities totaled \$9.3 billion, a \$297 million, or 3%, decrease from December 31, 2005, reflecting a \$335 million reduction in total borrowings and subordinated notes. Core deposits increased \$85 million, or 1%, in 2006 compared to 2005, reflecting People's Bank's strategy to fund loan growth with proceeds from maturities and sales of securities rather than deposits.

People's Bank's total stockholders' equity was \$1.34 billion at December 31, 2006, a \$51 million net increase from December 31, 2005, reflecting net income of \$124.0 million, partially offset by dividends paid of \$60 million and a \$25 million increase in accumulated other comprehensive loss. The increase in accumulated other comprehensive loss reflects a \$40 million after-tax increase from the implementation of SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, partially offset by a \$19 million reduction in the after-tax net unrealized loss on securities available for sale due to the sales of securities discussed above. As a percentage of total assets, stockholders' equity was 12.5% at December 31, 2006 compared to 11.8% at December 31, 2005.

People's Bank's leverage, tier 1 and total risk-based capital ratios were 12.0%, 14.8% and 16.1%, respectively, at December 31, 2006, compared to 11.2%, 14.8% and 16.4%, respectively, at December 31, 2005. The capital ratios were calculated in accordance with Office of Thrift Supervision regulations as of December 31, 2006 and Federal Deposit Insurance Corporation regulations as of December 31, 2005.

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**Comparison of Results of Operations for the Year Ended December 31, 2006 and December 31, 2005**

People's Bank reported net income of \$124.0 million, or \$0.87 per diluted share, for the year ended December 31, 2006, compared to \$137.1 million, or \$0.97 per diluted share, for the year-ago period. Income from continuing operations totaled \$121.7 million, or \$0.85 per diluted share, for the year ended December 31, 2006, compared to \$125.9 million, or \$0.89 per diluted share, for the year-ago period.

Results for 2006 include net security losses totaling \$27.4 million from the sale of \$266 million and \$810 million of debt securities in the second and third quarters of 2006, respectively. Results for 2006 also include a \$2.4 million income tax benefit related to certain prior-year tax matters. The net impact of these items reduced 2006 net income by \$15.8 million, or \$0.11 per share.

Results for 2005 included an \$8.1 million gain on the sale of three branches, a \$9.7 million gain from the resolution of a significant contingency related to the sale of the credit card business in 2004 (reported in income from discontinued operations), a \$2.0 million income tax benefit resulting from the completion of a routine federal tax audit, a \$2.0 million goodwill impairment charge and expenses incurred in connection with the repurchase of subordinated notes (\$2.7 million) and the accelerated vesting of stock options (\$0.7 million). The net impact of these items increased 2005 net income by \$9.3 million, or \$0.07 per share.

Net interest income increased \$12.7 million, or 3%, from the year ended December 31, 2005 and the net interest margin improved 19 basis points to 3.87%. The higher net interest margin reflects the asset-sensitive position of the balance sheet, including the substitution of securities with higher-yielding loans, the partial benefit from the sales of securities in the second and third quarters of 2006, and the impact of People's Bank's deposit pricing strategy.

Compared to 2005, average earning assets decreased \$173 million, or 2%, as a \$934 million, or 54%, decline in average securities funded a \$715 million, or 9%, increase in average loans and a \$113 million, or 27%, decrease in average total borrowings and average subordinated notes. The loan growth reflects increases of \$285 million, or 8%, in average commercial banking loans, \$345 million, or 10%, in average residential mortgage loans, and \$108 million, or 9%, in the average home equity loan portfolio, all as compared to the year-ago period. The increase in average residential mortgage loans reflects, in part, the purchase of \$170 million of adjustable-rate residential mortgage loans towards the end of the first quarter of 2006. In addition, People's Bank invested \$50 million in the first quarter of 2006 and \$150 million in the second quarter of 2005 in bank-owned life insurance, and contributed \$91.5 million to its employee retirement plan in September 2006.

Compared to the year ended December 31, 2005, total non-interest income, excluding net security losses, increased \$1.2 million, or 1%; total non-interest expense increased \$2.5 million, or 1%; and the efficiency ratio improved to 61.3% from 62.8%.

The provision for loan losses was \$3.4 million compared to \$8.6 million in the year-ago period. The provision for loan losses for the year ended December 31, 2006 reflects net loan charge-offs of \$4.4 million, partially offset by a \$1.0 million decrease in the allowance for loan losses. The provision for loan losses in 2005 reflected net loan charge-offs of \$6.1 million and a \$2.5 million increase in the allowance for loan losses. Net loan charge-offs decreased \$1.7 million, or 28%, for 2006, compared to 2005. Net loan charge-offs as a percentage of average loans equaled 0.05%, down from 0.07% for 2005.

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**Comparison of Results of Operations for the Three Months Ended December 31, 2006 and December 31, 2005**

People's Bank reported net income of \$39.3 million, or \$0.28 per diluted share, for the three months ended December 31, 2006, a 12% increase compared to \$35.2 million, or \$0.25 per diluted share, for the year-ago period. Income from continuing operations totaled \$38.7 million, or \$0.27 per diluted share, for the three months ended December 31, 2006, a 13% increase compared to \$34.3 million, or \$0.24 per diluted share, for the year-ago period.

Results for the three months ended December 31, 2006 include a \$2.4 million income tax benefit related to certain prior-year tax matters. Results for the three months ended December 31, 2005 included an \$8.1 million gain on the sale of three branches (included in non-interest income) and a \$2.0 million income tax benefit resulting from the completion of a routine federal tax audit, as well as a \$2.7 million charge related to the repurchase of subordinated notes and a \$0.7 million charge for the accelerated vesting of stock options (both included in non-interest expense).

Compared to the three months ended December 31, 2005, total non-interest income, excluding the \$8.1 million gain on the sale of branches from the 2005 period, increased \$1.3 million, or 3%; total non-interest expense, excluding the items discussed above from the 2005 period, decreased \$1.5 million, or 2%; and the efficiency ratio improved to 59.7% from 62.3%.

Net interest income increased \$2.8 million, or 3%, from the three months ended December 31, 2005 and the net interest margin improved 26 basis points to 4.01%. The higher net interest margin reflects the asset-sensitive position of the balance sheet, including the substitution of securities with higher-yielding loans, the full benefit from the sales of securities in the second and third quarters of 2006, and the impact of People's Bank's deposit pricing strategy.

Compared to the three months ended December 31, 2005, average earning assets decreased \$366 million, or 4%, as a \$1.3 billion, or 88%, decline in average securities funded an \$808 million, or 10%, increase in average loans; a \$294 million reduction in average total borrowings and average subordinated notes; a \$91.5 million contribution to People's Bank's employee retirement plan (made in September 2006); and a \$59 million increase in average bank-owned life insurance. Growth in loans reflects increases of \$334 million, or 9%, in average commercial banking loans, \$414 million, or 12%, in average residential mortgage loans, and \$76 million, or 6%, in the average home equity loan portfolio, all as compared to the year-ago period. The increase in average residential mortgage loans reflects, in part, the purchase of \$170 million of adjustable-rate residential mortgage loans towards the end of the first quarter of 2006.

The provision for loan losses was \$1.4 million compared to \$5.3 million in the year-ago period. The provision for loan losses for the three months ended December 31, 2006 reflects net loan charge-offs of \$1.4 million. The provision for loan losses for the three months ended December 31, 2005 reflected net loan charge-offs of \$3.3 million and a \$2.0 million increase in the allowance for loan losses. Net loan charge-offs decreased \$1.9 million, or 58%, for the three months ended December 31, 2006, compared to the year-ago period. Net loan charge-offs as a percentage of average loans on an annualized basis equaled 0.06%, down from 0.16% for the three months ended December 31, 2005.

**Table of Contents****NON-GAAP FINANCIAL MEASURES AND RECONCILIATION TO GAAP**

In addition to evaluating People's Bank's results of operations in accordance with U.S. generally accepted accounting principles (GAAP), management routinely supplements this evaluation with an analysis of certain non-GAAP financial measures, such as adjusted net income, which excludes certain significant items that are routinely excluded by banking analysts in assessing financial performance in the banking industry. Management believes this non-GAAP financial measure provides information useful to investors in understanding People's Bank's underlying operating performance and trends, and facilitates comparisons with the performance of other banks and thrifts.

The following adjustments to net income for this financial measure are made to better indicate the ongoing operating results over a period that involved People's Bank reshaping itself through substantial restructuring activities, including the sale of a major business line:

Income (loss) from discontinued operations, net of tax, reflects results related to People's Bank's credit card business, including the sale of the business in the first quarter of 2004.

Liability restructuring costs related to the sale of the credit card business reflect significant non-recurring charges taken to prepay slightly over \$1.0 billion of long-term borrowings and to cancel derivative positions with notional values of \$770 million, utilizing a portion of the proceeds from the sale of People's Bank's credit card business in the first quarter of 2004.

Gains on asset sales reflect non-recurring transactions occurring in 2001 and 2005 related to branch sales and the sale of People's Bank's investment in the NYCE ATM network.

Goodwill impairment charge is a non-recurring item.

In addition to adjusted net income, management also utilizes core deposits and purchased funds as non-GAAP financial measures to supplement its analysis of People's Bank's business performance. Core deposits is a measure of stable funding sources and is defined as total deposits, other than brokered certificates of deposit (acquired in the wholesale market), municipal deposits (which are seasonally variable by nature) and non-interest bearing deposits utilized for the operation of People's Bank's businesses. Purchased funds include borrowings, brokered certificates of deposit and municipal deposits.

Although management believes that the above-mentioned non-GAAP financial measures enhance investors' understanding of People's Bank's operating performance, these non-GAAP financial measures should not be considered an alternative to GAAP. The reconciliation of these non-GAAP financial measures from GAAP to non-GAAP is presented below.

The following tables provide reconciliations between GAAP and non-GAAP financial measures:

	For the Nine						
	Months Ended						
	September 30, 2006	2005	2005	For the Year Ended December 31, (In millions)			
			2004	2003	2002	2001	
Net income <sup>(1)</sup>	\$ 84.7	\$ 101.9	\$ 137.1	\$ 199.7	\$ 63.8	\$ 55.4	\$ 75.8
Adjusted for:							
Income (loss) from discontinued operations, net of tax	1.7	10.3	11.2	205.3	1.1	(12.3)	36.9

Other adjustments:

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Liability restructuring costs relating to the sale of the credit card business									133.4						
Gains on asset sales									(8.1)	(20.0)					
Goodwill impairment charge	2.0								2.0						
Total other adjustments	2.0								(6.1)	133.4	(20.0)				
Tax effect of other adjustments									(2.8)	46.7	(7.0)				
Adjusted net income <sup>(1)</sup>									\$ 83.0	\$ 93.6	\$ 122.6	\$ 81.1	\$ 62.7	\$ 67.7	\$ 25.9

- (1) For the nine months ended September 30, 2006, includes an after-tax loss on the sale of securities of \$18.2 million relating to balance sheet restructuring activities.



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	For the Three			
	Months Ended		For the Year Ended	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
	(In millions)			
Net income <sup>(1)</sup>	\$ 39.3	\$ 35.2	\$ 124.0	\$ 137.1
Adjusted for:				
Income from discontinued operations, net of tax	0.6	0.9	2.3	11.2
Other adjustments:				
Gain on sale of branches		(8.1)		(8.1)
Goodwill impairment charge				2.0
Total other adjustments		(8.1)		(6.1)
Tax effect of other adjustments		(2.8)		(2.8)
Adjusted net income <sup>(1)</sup>	\$ 38.7	\$ 29.0	\$ 121.7	\$ 122.6

(1) For the year ended December 31, 2006, includes an after-tax loss on the sale of securities of \$18.2 million relating to balance sheet restructuring activities.

	At September 30,		At December 31,			
	2006	2005	2004	2003	2002	2001
	(In millions)					
Deposits	\$ 8,979	\$ 9,083	\$ 8,862	\$ 8,714	\$ 8,426	\$ 7,983
Less:						
Municipal deposits	47	129	106	125	77	160
Brokered certificates of deposit				70	120	10
Other non-interest-bearing deposits	89	81	75	86	127	104
Core deposits	\$ 8,843	\$ 8,873	\$ 8,681	\$ 8,433	\$ 8,102	\$ 7,709

	At September 30,		At December 31,			
	2006	2005	2004	2003	2002	2001
	(In millions)					
Borrowings	\$ 14	\$ 295	\$ 341	\$ 1,516	\$ 2,437	\$ 2,542
Plus:						
Municipal deposits	47	129	106	125	77	160
Brokered certificates of deposit				70	120	10
Purchased funds	\$ 61	\$ 424	\$ 447	\$ 1,711	\$ 2,634	\$ 2,712

	At December 31,	
	2006	2005
	(In millions)	
Deposits	\$ 9,083	\$ 9,083

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Less:		
Municipal deposits	44	129
Brokered certificates of deposit		
Other non-interest-bearing deposits	81	81

Core deposits	\$ 8,958	\$ 8,873
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	<b>At December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In millions)</b>	
Borrowings	\$ 4	\$ 295
Plus:		
Municipal deposits	44	129
Brokered certificates of deposit		
Purchased funds	\$ 48	\$ 424

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In addition to the above non-GAAP financial measures, management uses the efficiency ratio to monitor its operating efficiency compared to its peers. The efficiency ratio, which represents an approximate measure of the cost required by People's Bank to generate a dollar of revenue, is the ratio of total non-interest expense (excluding goodwill impairment charges, amortization of acquisition-related intangibles, losses on real estate assets and nonrecurring expenses) (the numerator) to net interest income plus total non-interest income (excluding gains and losses on sales of assets, other than residential mortgage loans, and nonrecurring income) (the denominator). People's Bank generally considers an income or expense to be nonrecurring if it is not similar to an income or expense of a type incurred within the last two years and is not similar to an income or expense of a type reasonably expected to be incurred within the following two years. Management considers the efficiency ratio to be more representative of People's Bank's ongoing operating efficiency, as the excluded items are generally related to external market conditions and non-routine transactions. Since there is not a comparable GAAP financial measure related to the efficiency ratio, the following tables reconcile People's Bank's calculation of the efficiency ratio to the efficiency ratio calculations as defined by the Office of Thrift Supervision, People's Bank's banking regulator, for the nine months ended September 30, 2006 and the three months and year ended December 31, 2006 and by the Federal Deposit Insurance Corporation, People's Bank's former banking regulator, for all prior periods.

The following tables summarize People's Bank's efficiency ratio derived from amounts reported in the Thrift Financial Reports to the Office of Thrift Supervision. Differences in the numerator are primarily related to People's Bank excluding certain nonrecurring items as indicated in the tables below. Differences in the denominator are primarily related to the Office of Thrift Supervision excluding certain fee-based revenues, net gains on sales of residential mortgages, income from bank-owned life insurance and other non-interest income. Additionally, in calculating the denominator, People's Bank excludes certain nonrecurring items and adjusts bank-owned life insurance income to a fully taxable equivalent basis, as indicated in the tables below.

	<b>For the Nine Months Ended September 30, 2006 (Dollars in millions)</b>
Total non-interest expense	\$ 260.6
Less:	
Amortization of other acquisition-related intangibles	0.8
Total	\$ 259.8
Total interest income	\$ 433.5
Add:	
Dividend income on equity investments not subject to SFAS No. 115	1.2
Mortgage loan servicing fees	0.1
Other fees and charges	92.3
Less:	
Total interest expense	145.1
Total	\$ 382.0
Efficiency ratio	68.0%

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	For the Three Months Ended December 31, 2006	For the Year Ended December 31, 2006
	(Dollars in millions)	
Total non-interest expense	\$ 85.4	\$ 346.0
Less:		
Amortization of other acquisition-related intangibles	0.3	1.1
Total	\$ 85.1	\$ 344.9
Total interest income	\$ 152.3	\$ 585.8
Add:		
Dividend income on equity investments not subject to SFAS No. 115	0.3	1.5
Mortgage loan servicing fees		0.1
Other fees and charges	31.9	124.2
Less:		
Total interest expense	54.5	199.6
Total	\$ 130.0	\$ 512.0
Efficiency ratio	65.5%	67.4%

The following tables summarize People's Bank's efficiency ratio derived from amounts reported in the Consolidated Statements of Income.

	For the Nine Months Ended September 30, 2006
	(Dollars in millions)
Total non-interest expense	\$ 261.3
Less:	
Amortization of other acquisition-related intangibles	0.8
Loss on sale of reverse repurchase agreements	0.3
Severance-related charges	1.2
RC Knox settlement	0.9
Other	0.3
Total	\$ 257.8
Net interest income	\$ 286.3
Total non-interest income	102.1
Add:	
Net security losses	27.2
BOLI FTE adjustment <sup>(1)</sup>	3.2
Less:	
Gain on asset sale	0.7
MasterCard common stock redemption	0.7

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Interest from completed IRS audit	0.6
Total	\$ 416.8
Efficiency ratio	61.9%

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(1) Fully taxable equivalent.

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	For the Three Months Ended December 31, 2006	For the Year Ended December 31, 2006
	(Dollars in millions)	
Total non-interest expense	\$ 85.6	\$ 346.9
Less:		
Amortization of other acquisition-related intangibles	0.3	1.1
Loss on sale of reverse repurchase agreements		0.3
Severance-related charges		1.2
RC Knox settlement		0.9
Other		0.3
Total	\$ 85.3	\$ 343.1
Net interest income	\$ 96.1	\$ 382.4
Total non-interest income	45.3	147.4
Add:		
Net security losses		27.2
BOLI FTE adjustment <sup>(1)</sup>	1.4	4.6
Less:		
Gain on asset sale		0.7
MasterCard common stock redemption		0.7
Interest from completed IRS audit		0.6
Total	\$ 142.8	\$ 559.6
Efficiency ratio	59.7%	61.3%

(1) Fully taxable equivalent.

The following table summarizes People's Bank's efficiency ratio derived from amounts reported in the Consolidated Reports of Condition and Income to the Federal Deposit Insurance Corporation. Amounts reported for the years ended December 31, 2003, 2002 and 2001 have not been adjusted to reflect the reclassification of the results of operations of the credit card business for all years prior to the sale in March 2004 to discontinued operations.

	For the Nine Months Ended September 30,		For the Year Ended December 31,			
	2005	2005	2004	2003	2002	2001
	(Dollars in millions)					
Total non-interest expense	\$ 252.3	\$ 342.3	\$ 478.3	\$ 435.7	\$ 442.1	\$ 442.1
Net interest income <sup>(1)</sup>	\$ 284.8	\$ 380.8	\$ 333.9	\$ 341.6	\$ 368.7	\$ 372.4
Total non-interest income	111.3	160.4	148.2	231.8	235.1	324.4
Total	\$ 396.1	\$ 541.2	\$ 482.1	\$ 573.4	\$ 603.8	\$ 696.8

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Efficiency ratio	63.7%	63.2%	99.2%	76.0%	73.2%	63.4%
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(1) Fully taxable equivalent.

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The following table summarizes People's Bank's efficiency ratio derived from amounts reported in the Consolidated Statements of Income.

	For the Nine		For the Year Ended December 31,			
	Months Ended					
	September 30,					
	2005	2005	2004	2003	2002	2001
	(Dollars in millions)					
Total non-interest expense	\$ 253.8	\$ 344.4	\$ 479.7	\$ 346.0	\$ 341.5	\$ 343.5
Less:						
Amortization of goodwill and other acquisition-related intangibles	1.5	1.8	3.4	3.5	3.1	10.0
Goodwill impairment charge	2.0	2.0				
Accelerated vesting of stock options charge		0.7				
Liability restructuring costs		2.7	133.4	1.2		
Non-recurring compensation costs			6.7			
Other	0.1	0.1	1.6	0.2	2.6	0.4
<b>Total</b>	<b>\$ 250.2</b>	<b>\$ 337.1</b>	<b>\$ 334.6</b>	<b>\$ 341.1</b>	<b>\$ 335.8</b>	<b>\$ 333.1</b>
Net interest income <sup>(1)</sup>	\$ 276.7	\$ 370.0	\$ 327.4	\$ 284.3	\$ 318.5	\$ 319.5
Total non-interest income	121.1	173.3	151.7	166.3	149.2	133.6
Add:						
BOLI FTE adjustment <sup>(1)</sup>	0.9	1.8				
Net security losses	0.1	0.1	4.7	0.6	3.3	18.5
Less:						
Interest from completed IRS audit				4.3		
Gain on sale of assets		8.1				20.0
Other	0.2	0.3	0.1	0.3		0.6
<b>Total</b>	<b>\$ 398.6</b>	<b>\$ 536.8</b>	<b>\$ 483.7</b>	<b>\$ 446.6</b>	<b>\$ 471.0</b>	<b>\$ 451.0</b>
Efficiency ratio	62.8%	62.8%	69.2%	76.4%	71.3%	73.9%

(1) Fully taxable equivalent.



**Table of Contents****HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING**

The net offering proceeds will depend on the total number of shares of common stock sold in the offering, which in turn will depend on RP Financial's independent appraisal, regulatory and market considerations, and the expenses incurred in connection with the offering. Although we will not be able to determine the actual net proceeds from the sale of the common stock until we complete the offering, we estimate the net proceeds to be between \$2.658 billion and \$3.587 billion, or \$4.121 billion if the offering is increased by 15%.

We intend to distribute the net proceeds from the offering as follows:

	Number of Shares Sold			Adjusted Maximum 213,253,125
	Minimum 137,062,500	Midpoint 161,250,000	Maximum 185,437,500	
	Shares	Shares	Shares	
	(In millions)			
Gross offering proceeds	\$ 2,741.3	\$ 3,225.0	\$ 3,708.8	\$ 4,265.1
Less: offering expenses	83.6	102.9	122.3	144.5
Net offering proceeds	2,657.7	3,122.1	3,586.5	4,120.6
Less:				
Proceeds contributed to People's Bank	1,328.8	1,561.1	1,793.2	2,060.3
Loan to employee stock ownership plan	166.9	195.9	224.9	258.3
Proceeds contributed to charitable foundation	20.0	20.0	20.0	20.0
Proceeds retained by People's United Financial	\$ 1,142.0	\$ 1,345.1	\$ 1,548.4	\$ 1,782.0

We intend to contribute 50% of the net proceeds from the offering to People's Bank. We also intend to lend our employee stock ownership plan cash to enable the plan to purchase an amount of common stock equal to up to 6% of the sum of the shares sold in the offering and those issued to the charitable foundation. Our employee stock ownership plan, with prior Office of Thrift Supervision approval, expects to purchase these shares of common stock in the open market after the offering, although it may purchase common stock in the offering pursuant to the subscription right granted to our tax-qualified employee stock benefit plans. In addition, we expect to contribute \$20.0 million in cash to The People's Community Foundation. The balance of the net proceeds will be retained by People's United Financial and used for general corporate purposes, which we expect to include:

financing acquisitions of other financial institutions or other businesses related to banking (although there is no specific agreement with any institution or business at this time);

investing in short-term investments, government securities or government-sponsored agency securities;

payment of cash dividends; and

repurchasing shares of our common stock.

The funds contributed to People's Bank will be used for general business purposes, including:

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financing acquisitions of other financial institutions or other businesses related to banking (although there is no specific agreement with any institution or business at this time);

originating and purchasing residential mortgage loans, commercial real estate loans, commercial loans, People's Capital and Leasing loans and home equity lines of credit;

opening additional branch offices on a *de novo* basis; and

distributions of capital to People's United Financial.

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People's Bank currently intends to open at least 15 traditional branches in Westchester County, New York over the next three years. These additional traditional branches will be evaluated and added consistent with the branch expansion strategy that People's Bank has followed in the past. The expected average cost to construct and equip a new 3,000 square foot traditional storefront branch located within a shopping center is \$1.0 million. The expected average cost to construct and equip a new 3,000 square foot free-standing branch is \$1.7 million. Factors that would affect this investment include the locations of the properties, whether the properties are purchased or leased, local zoning ordinances, whether the properties are existing structures or new construction and, if existing structures, the state of repair of the structures.

In addition to expanding our core banking business through internal growth (funded by customer deposits and borrowed funds) and *de novo* branching, we will also consider expansion opportunities such as the acquisition of other financial institutions, businesses related to banking and branches. We do not, however, have any current understandings, agreements or arrangements for expansion by the acquisition of any branches or other financial institutions.

Due to the amount of net proceeds being raised in the offering, it may take a significant amount of time for us and People's Bank to deploy the net proceeds to our best advantage. We anticipate that our retained portion of the net proceeds and the net proceeds that we contribute to People's Bank from the offering proceeds will be invested in accordance with People's Bank's investment policy. It is expected that the investments will include short-term investments, government securities or government-sponsored agency securities.

The net proceeds may vary because total expenses relating to the conversion and offering may be more or less than our estimates. For example, our expenses will increase if we sell a smaller amount of common stock in the subscription offering and a larger amount in the syndicated offering than is set forth in our assumptions under *Pro Forma Data*. The net proceeds will also vary if the number of shares to be sold in the offering is adjusted to reflect a change in the estimated pro forma market value of People's United Financial. Payments for shares made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment by People's United Financial or People's Bank but will result in a reduction of People's Bank's deposits and may result in a reduction of interest expense as funds are transferred from interest-bearing deposit accounts.

**Table of Contents****OUR POLICY REGARDING DIVIDENDS**

People's Bank has paid quarterly cash dividends in each quarter since the fourth quarter of 1993. On October 19, 2006, the Board of Directors of People's Bank declared a quarterly cash dividend of \$0.25 per common share outstanding, or \$1.00 per share on an annualized basis, payable on November 15, 2006 to stockholders of record as of the close of business on November 1, 2006. The amount of dividends that People's United Financial initially intends to pay to stockholders following the conversion is intended to approximate the per share dividend amount, adjusted to reflect the share exchange, that People's Bank's stockholders currently receive on their shares of People's Bank common stock. During the three-year period following the completion of the conversion, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

The following table sets forth the dividend amounts that we expect to initially pay per share at the minimum, midpoint, maximum and adjusted maximum of the offering range.

	Quarterly dividends per share	Annual dividends per share	Annual dividend yield(1)
<b>Dividends on People's United Financial Common Stock:</b>			
Minimum of offering range	\$ 0.15	\$ 0.60	3.00%
Midpoint of offering range	\$ 0.13	\$ 0.52	2.60%
Maximum of offering range	\$ 0.11	\$ 0.44	2.20%
15% above the maximum of offering range	\$ 0.10	\$ 0.40	2.00%

(1) Based upon a price of \$20.00 per share.

The continued payment of dividends will be subject to the determination of the Board of Directors of People's Bank and People's United Financial, which will take into account, among other things, our debt and equity structure, earnings and financial condition, need for capital in connection with possible future acquisitions and other factors, including economic conditions, regulatory restrictions and tax considerations. We cannot guarantee that we will pay dividends in the future or, if we pay dividends, the amount and frequency of these dividends.

The only funds available for the payment of dividends on People's United Financial common stock will be cash and cash equivalents held by People's United Financial, earnings from the investment of net proceeds from the sale of common stock retained by People's United Financial, dividends paid by People's Bank to People's United Financial, and borrowings.

People's Bank's ability to pay dividends will be governed by the Home Owners' Loan Act and the regulations of the Office of Thrift Supervision. Under that statute and those regulations, all dividends declared by a federal savings bank must be paid out of current or retained net profits. In addition, the prior approval of the Office of Thrift Supervision is required for the payment of a dividend if the total of all dividends declared by a federal savings bank in any calendar year would exceed the total of its net profits for the year combined with its net profits for the two preceding years, less any capital distributions (including dividends) paid during that time and any required transfers to surplus or a fund for the retirement of any preferred stock. People's Bank will also be prohibited from paying cash dividends to People's United Financial to the extent that any such payment would reduce People's Bank's capital below required capital levels or would impair the liquidation account to be established for the benefit of the People's Bank's eligible account holders and supplemental eligible account holders at the time of the conversion and offering. See *The Conversion and Offering Effects of the Conversion Effect on Liquidation Rights*. For more information regarding the capital distribution regulations of the Office of Thrift Supervision and restrictions on the ability of People's Bank to lend funds or make other payments to People's United Financial, see *Regulation of People's Bank and People's United Financial*.

**Table of Contents****MARKET FOR THE COMMON STOCK**

People's Bank common stock is currently listed on the Nasdaq Global Select Market under the trading symbol PBCT. Upon completion of the offering, the new shares of People's United Financial common stock will replace existing shares and will continue to be traded on the Nasdaq Global Select Market. For a period of 20 trading days following completion of the offering, our trading symbol will be PBCTD. Thereafter, our trading symbol will revert to PBCT. At September 30, 2006, People's Bank had approximately 32 market makers, including Ryan Beck & Co., Inc. and Morgan Stanley & Co. Incorporated, which intend to remain market makers in our common stock following the offering.

At the close of business on September 29, 2006, there were 142,142,485 shares of People's Bank common stock outstanding. The following table sets forth for the periods indicated the high and low sales prices per share of the common stock as reported by the Nasdaq Global Select Market and dividends paid per share. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	Sales Price		Amount Per Share	Dividend Information
	High	Low		Date of Payment
<b>2004</b>				
First Quarter	\$ 20.91	\$ 14.44	\$ 0.18	February 15, 2004
Second Quarter	22.49	18.39	0.19	May 15, 2004
Third Quarter	24.67	20.00	0.19	August 15, 2004
Fourth Quarter	29.65	23.30	0.19	November 15, 2004
<b>2005</b>				
First Quarter	\$ 28.00	\$ 23.99	\$ 0.19	February 15, 2005
Second Quarter	30.48	26.27	0.22	May 15, 2005
Third Quarter	33.75	28.17	0.22	August 15, 2005
Fourth Quarter	33.57	28.85	0.22	November 15, 2005
<b>2006</b>				
First Quarter	\$ 33.83	\$ 30.00	\$ 0.22	February 15, 2006
Second Quarter	34.50	30.87	0.25	May 15, 2006
Third Quarter	41.15	31.89	0.25	August 15, 2006
Fourth Quarter	45.40	39.24	0.25	November 15, 2006

Figures in the table above have been adjusted to reflect the three-for-two stock splits effected by People's Bank on each of May 15, 2004 and May 15, 2005.

On September 19, 2006, the business day immediately preceding the public announcement of the conversion, the closing price of People's Bank common stock, as reported on the Nasdaq Global Select Market, was \$37.39 per share. On February 13, 2007, the closing price of People's Bank common stock was \$45.33 per share and there were approximately 6,200 holders of record.

**Table of Contents****BANK REGULATORY CAPITAL COMPLIANCE**

At September 30, 2006, People's Bank exceeded all regulatory capital requirements. Set forth below is a summary of People's Bank's capital computed under accounting principles generally accepted in the United States of America, referred to as GAAP, and its compliance with regulatory capital standards at September 30, 2006, on a historical and pro forma basis under Office of Thrift Supervision regulations. The pro forma calculations reflect several assumptions. First, we have assumed that the indicated number of shares were sold as of September 30, 2006. Second, we have assumed that the assets of People's Bank increased as a result of receiving 50% of the net proceeds from the offering and receiving a deposit from People's United Financial for the portion of the net proceeds retained after funding the employee stock ownership plan and funding the cash portion of the charitable foundation. The change in risk weighted assets assumed People's Bank invested the funds in 20% risk-weighted assets. Third, we have assumed that tangible, core and total risk-based capital of People's Bank increased as a result of receiving 50% of the net proceeds from the offering, reduced by the contra-equity adjustment related to the employee stock ownership plan. See *Pro Forma Data*. For a discussion of the capital requirements applicable to People's Bank, see *Regulation of People's Bank and People's United Financial Federally Chartered Savings Bank Regulation Capital Requirements*.

	Pro Forma at September 30, 2006 Based Upon the Sale at \$20.00 Per Share									
	Historical at		137,062,500 Shares		161,250,000 Shares		185,437,500 Shares		213,253,125 Shares	
	September 30, 2006		(Minimum of the		(Midpoint of the		(Maximum of the		(15% Above Maximum	
	Percent	Range)	Range)	Range)	Range)	Range)	Range)	Range)	of the Range) <sup>(1)</sup>	Percent
	Amount	of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>	Amount of Assets <sup>(2)</sup>
	(Dollars in millions)									
Capital under generally accepted accounting principles <sup>(3)</sup>	\$ 1,351.4	12.73%	\$ 2,513.4	19.19%	\$ 2,716.5	20.08%	\$ 2,919.8	20.91%	\$ 3,153.4	21.80%
Tangible capital Requirement	\$ 1,248.5	11.80%	\$ 2,410.5	18.47%	\$ 2,613.6	19.38%	\$ 2,816.9	20.24%	\$ 3,050.5	21.15%
Excess	158.7	1.50%	195.7	1.50%	202.3	1.50%	208.8	1.50%	216.3	1.50%
Core capital <sup>(4)</sup> Requirement	\$ 1,248.5	11.80%	\$ 2,410.5	18.47%	\$ 2,613.6	19.38%	\$ 2,816.9	20.24%	\$ 3,050.5	21.15%
Excess	423.1	4.00%	522.0	4.00%	539.4	4.00%	556.8	4.00%	576.8	4.00%
Total risk-based capital Requirement	\$ 825.4	7.80%	\$ 1,888.5	14.47%	\$ 2,074.2	15.38%	\$ 2,260.1	16.24%	\$ 2,473.7	17.15%
Excess	\$ 1,374.7	16.19%	\$ 2,536.7	28.24%	\$ 2,739.8	30.21%	\$ 2,943.1	32.14%	\$ 3,176.7	34.31%
Excess	679.2	8.00%	718.7	8.00%	725.7	8.00%	732.6	8.00%	740.7	8.00%
Excess	\$ 695.5	8.19%	\$ 1,818.0	20.24%	\$ 2,014.1	22.21%	\$ 2,210.5	24.14%	\$ 2,436.0	26.31%

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% as a result of market demand, regulatory considerations or changes in financial markets following the commencement of the offering.
- (2) Core capital levels are shown as a percentage of total assets, and risk-based capital levels are calculated on the basis of a percentage of risk-weighted assets, each as defined in the Office of Thrift Supervision regulations.
- (3) At September 30, 2006, the \$102.9 million decrease in the amount of tangible capital from the amount of capital under generally accepted accounting principles, referred to as GAAP, is due to the deduction of \$105.5 million of goodwill and certain other intangible assets from GAAP capital, the addition of \$2.6 million of unrealized losses on cash flow derivatives and to the inclusion in GAAP capital of an unrealized gain on People's Bank's available for sale securities. The increase of \$126.2 million in the amount of total risk-based capital is due to the addition of \$52.1 million of qualifying subordinated notes and the addition of the allowance for loan losses up to 1.25% of total risk weighted assets in the total risk-based capital calculation.

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- (4) The current core capital requirement for savings banks is 3% of total adjusted assets for savings banks that receive the highest supervisory ratings for safety and soundness and that are not experiencing or anticipating significant growth. The current core capital ratio applicable to all other savings banks is 4%.

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The following table provides a reconciliation of People's Bank's capital under generally accepted accounting principles to regulatory capital amounts under Office of Thrift Supervision regulations at September 30, 2006.

	At September 30, 2006 (In millions)
Capital under generally accepted accounting principles	\$ 1,351.4
Adjustments for regulatory capital purposes:	
Goodwill and certain other intangible assets	(105.5)
Net unrealized losses on derivatives accounted for as cash flow hedges, net of tax	2.6
<b>Total tangible, leverage and core (tier 1) capital</b>	<b>1,248.5</b>
Qualifying subordinated notes	52.1
Qualifying allowance for loan losses	74.0
Other	0.1
<b>Total risk-based capital</b>	<b>\$ 1,374.7</b>

The following table provides a reconciliation of People's Bank's historical regulatory capital amounts under Office of Thrift Supervision regulations to regulatory capital amounts stated on a pro forma basis at September 30, 2006.

	137,062,500 Shares	At September 30, 2006		213,253,125 Shares
	(Minimum of Range)	161,250,000 Shares (Midpoint of Range)	185,437,500 Shares (Maximum of Range)	(15% Above Maximum of Range)(1)
	(In millions)			
Historical total tangible, leverage and core (tier 1) capital	\$ 1,248.5	\$ 1,248.5	\$ 1,248.5	\$ 1,248.5
Pro forma adjustments:				
Gross proceeds	2,741.3	3,225.0	3,708.8	4,265.1
Offering expenses	(83.6)	(102.9)	(122.3)	(144.5)
Retained at holding company <sup>(2)</sup>	(1,328.8)	(1,561.1)	(1,793.2)	(2,060.3)
ESOP contra	(166.9)	(195.9)	(224.9)	(258.3)
<b>Pro forma total tangible, leverage and core (tier 1) capital</b>	<b>2,410.5</b>	<b>2,613.6</b>	<b>2,816.9</b>	<b>3,050.5</b>
Qualifying subordinated notes	52.1	52.1	52.1	52.1
Qualifying allowance for loan losses	74.0	74.0	74.0	74.0
Other	0.1	0.1	0.1	0.1
<b>Pro forma total risk-based capital</b>	<b>\$ 2,536.7</b>	<b>\$ 2,739.8</b>	<b>\$ 2,943.1</b>	<b>\$ 3,176.7</b>

(1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% as a result of market demand, regulatory considerations or changes in financial markets following the commencement of the offering.

(2) Funds retained at holding company will be used to fund the loan to the employee stock ownership plan and the cash contribution to the charitable foundation.



**Table of Contents****CAPITALIZATION**

The following table presents the historical deposits and consolidated capitalization of People's Bank at September 30, 2006, and the pro forma consolidated capitalization of People's United Financial after giving effect to the conversion and offering, based upon the sale of the number of shares shown below at \$20.00 per share and the other assumptions set forth under *Pro Forma Data*. A change in the number of shares sold in the offering may materially affect the capitalization.

	Historical	Pro Forma Capitalization at September 30, 2006			
		137,062,500	161,250,000	185,437,500	213,253,125
		Shares	Shares	Shares	Shares
		(Minimum of Range)	(Midpoint of Range)	(Maximum of Range)	(15% Above Maximum of Range) <sup>(1)</sup>
		(Dollars in millions)			
Deposits <sup>(2)</sup>	\$ 8,978.6	\$ 8,978.6	\$ 8,978.6	\$ 8,978.6	\$ 8,978.6
Borrowed funds	13.6	13.6	13.6	13.6	13.6
Subordinated notes	108.8	108.8	108.8	108.8	108.8
Total deposits and borrowings	\$ 9,101.0	\$ 9,101.0	\$ 9,101.0	\$ 9,101.0	\$ 9,101.0
Stockholders' equity:					
Common stock, par value \$0.01 per share, 1.95 billion shares authorized; to be issued as reflected <sup>(3)</sup>	\$ 142.1	\$ 2.4	\$ 2.8	\$ 3.2	\$ 3.7
Additional paid-in capital	177.8	3,015.2	3,479.2	3,943.2	4,476.8
Retained earnings <sup>(4)</sup>	1,038.6	1,038.6	1,038.6	1,038.6	1,038.6
Accumulated other comprehensive (loss) <sup>(5)</sup>	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)
Add: MHC capital contribution <sup>(6)</sup>		8.5	8.5	8.5	8.5
Less:					
Expense of cash contribution to charitable foundation		(20.0)	(20.0)	(20.0)	(20.0)
Expense of stock contribution to charitable foundation		(40.0)	(40.0)	(40.0)	(40.0)
Add: Tax benefit of contribution to charitable foundation <sup>(7)</sup>		20.4	20.4	20.4	20.4
Less:					
Common stock acquired by employee stock ownership plan <sup>(8)</sup>		(166.9)	(195.9)	(224.9)	(258.3)
Common stock acquired by recognition and retention plan <sup>(9)</sup>		(111.3)	(130.6)	(150.0)	(172.2)
Total stockholders' equity	\$ 1,351.4	\$ 3,739.8	\$ 4,155.9	\$ 4,571.9	\$ 5,050.4
Stockholders' equity as a percentage of total assets	12.73%	28.77%	30.98%	33.05%	35.29%
Tangible stockholders' equity as a percentage of tangible assets	11.86%	28.19%	30.43%	32.54%	34.81%

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% as a result of market demand, regulatory considerations or changes in financial markets following the commencement of the offering.
- (2) Does not reflect withdrawals from deposit accounts for the purchase of common stock in the offering. Withdrawals from deposit accounts would reduce pro forma deposits by the amount of such withdrawals.
- (3) Reflects the total shares to be outstanding after the conversion and offering: 239,554,084 shares at the minimum of the estimated valuation range, 281,475,393 shares at the midpoint, 323,396,702 shares at the maximum and 371,606,207 shares at the adjusted maximum. After the conversion and offering, we will have 50,000,000 authorized shares of preferred stock, par value \$0.01 per share, all of which will be unissued. Historical common stock has no par value, but an assumed \$1.00 per share value for presentation purposes.
- (4) The retained earnings of People's Bank will be substantially restricted after the offering.

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- (5) Represents the net unrealized gains and losses on securities classified as available-for-sale and derivatives, net of related taxes.

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- (6) Reflects contribution of People's Mutual Holdings capital as a result of the conversion of People's Mutual Holdings into a federal stock savings bank and merger into People's Bank as part of the conversion.
- (7) Represents the tax effect of the contribution to the charitable foundation based on an effective 34% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable foundations equal to 10% of our annual taxable income, subject to our ability to carry forward any unused portion of the deduction for five years following the year in which the contribution is made.
- (8) Assumes that an amount equal to 6% of the sum of the shares sold in the offering and those issued to the charitable foundation will be purchased by the employee stock ownership plan at \$20.00 per share and the funds used to acquire the employee stock ownership plan shares will be borrowed from People's United Financial. People's Bank intends to contribute funds to the employee stock ownership plan to enable the plan to repay the loan from People's United Financial. The common stock acquired by the employee stock ownership plan is reflected as a reduction of stockholders' equity.
- (9) Assumes that, subsequent to the offering, an amount equal to 4% of the sum of the shares sold in the offering and those issued to the charitable foundation is purchased by a recognition and retention plan at \$20.00 per share through open market purchases or in privately negotiated transactions. We intend to purchase the common stock for the recognition and retention plan with funds from general operating cash flows. The common stock purchased by the recognition and retention plan is reflected as a reduction of stockholders' equity.

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**PRO FORMA DATA**

We cannot determine the actual net proceeds from the sale of the common stock until the offering is completed. However, we estimate that net proceeds will be between \$2.658 billion and \$3.587 billion, or \$4.121 billion if the offering range is increased by 15%. The following tables set forth People's Bank's historical net income and stockholders' equity prior to the offering and pro forma net income and stockholders' equity giving effect to the offering. In preparing these tables and in calculating net proceeds and pro forma data, we have made the following assumptions:

For purposes of calculating the expenses of the offering, we assumed that we will sell approximately 60.0 million shares of common stock in the subscription offering and between 77.1 million and 125.4 million shares in the syndicated offering, or 153.3 million shares at the adjusted maximum of the offering range. We estimated that expenses of the offering, including the fees and selling commissions of Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. and the other syndicate members in the syndicated offering, would be approximately \$83.6 million at the minimum and \$122.3 million at the maximum of the offering range, or \$144.5 million at the adjusted maximum of the offering range. These expenses include fixed expenses of \$10.0 million exclusive of the fees and selling commissions of Morgan Stanley & Co. Incorporated, Ryan Beck & Co., Inc. and the other syndicate members.

We assumed that we will loan an amount equal to the cost of purchasing an amount equal to 6% of the sum of the shares of common stock sold in the offering and those issued to the charitable foundation to our employee stock ownership plan to fund its purchase of our common stock in the open market (with prior Office of Thrift Supervision approval) upon the completion of the offering at an assumed purchase price of \$20.00 per share. We assumed that People's Bank would make annual contributions to the plan in an amount at least equal to the principal and interest requirement of the loan. We have assumed a 30-year amortization period for the loan, with an interest rate of 8.0%. The common stock acquired by the employee stock ownership plan is reflected as a reduction of stockholders' equity.

We assumed that a recognition and retention plan, expected to be adopted by us no sooner than six months following the offering, had been approved by stockholders of People's United Financial and that the recognition and retention plan had acquired an amount equal to 4% of the sum of the shares of common stock sold in the offering and those issued to the charitable foundation at the beginning of the periods presented through open market purchases or privately negotiated transactions at a price of \$20.00 per share using funds contributed to the recognition and retention plan by People's United Financial. We assumed that all the shares held by the plan were granted to plan participants at the beginning of the period, that the shares would vest at a rate of 20% per year and that compensation expense will be recognized on a straight-line basis over the five year vesting period.

We assumed that a stock option plan expected to be adopted by us no sooner than six months following the offering had been approved by the stockholders of People's United Financial and that the exercise price of the stock options and the market price of the stock at the date of grant were \$20.00 per share, and that the stock options had a term of ten years, vested over five years and that the stock option plan granted options to acquire an amount equal to 10% of the shares of common stock sold in the offering and issued to the charitable foundation. We applied the Black-Scholes option pricing model to estimate a grant-date fair value of \$3.31 for each option. In addition to the terms of the options described above, the Black-Scholes option pricing model incorporated an estimated volatility rate of 11.3% for the common stock based on the trading activity of an index of publicly-traded thrifts, a dividend yield of 3.0%, an expected option life of ten years and a risk free interest rate of 4.64%.

Pro forma earnings have been calculated assuming the common stock had been sold at the beginning of the period and the net proceeds had been invested at an average yield of 5.25% and 4.25% for the nine months ended September 30, 2006 and the year ended December 31, 2005, which approximates the federal funds rate on September 30, 2006 and December 31, 2005, respectively. The federal funds yield, rather than an arithmetic average of the average yield on interest-earning assets and the average rate paid on deposits, has been used to estimate income on net proceeds because we believe that this rate is a more accurate estimate of the rate that would be obtained on an investment of net proceeds from the offering. The pro forma after-tax yield on the net proceeds is assumed to be 3.47% and 2.81% for the nine months ended September 30, 2006 and the year ended December 31, 2005, respectively.

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We used an effective tax rate of 34% in calculating the pro forma net income.

We did not give effect to any withdrawals from deposit accounts to purchase shares in the offering.

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Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of stock, as adjusted in the pro forma net earnings per share to give effect to the purchase of shares by the employee stock ownership plan.

Pro forma stockholders' equity amounts have been calculated as if the stock had been sold on September 30, 2006 and December 31, 2005, respectively, and no effect has been given to the assumed earnings effect of the transaction.

The following pro forma data relies on the assumptions outlined above, and does not represent the fair market value of the common stock, the current value of our assets or liabilities, or the amount of money that would be distributed to stockholders if People's United Financial were liquidated. Book value does not give effect to intangibles, bad debt reserve or the liquidation account in the event of liquidation. The pro forma data does not predict how much we will earn in the future. **You should not use the following information to predict future results of operations.**

	At or for the Nine Months Ended September 30, 2006			
	Minimum 137,062,500 Shares Sold at \$20.00 Per Share	Midpoint 161,250,000 Shares Sold at \$20.00 Per Share (Dollars in millions, except per share amounts)	Maximum 185,437,500 Shares Sold at \$20.00 Per Share	Adjusted Maximum 213,253,125 Shares Sold at \$20.00 Per Share <sup>(1)</sup>
Gross proceeds of offering	\$ 2,741.3	\$ 3,225.0	\$ 3,708.8	\$ 4,265.1
Plus: Market value of shares issued to charitable foundation	40.0	40.0	40.0	40.0
Plus: Market value of shares issued in the exchange	2,009.8	2,364.5	2,719.1	3,127.0
Pro forma market capitalization	\$ 4,791.1	\$ 5,629.5	\$ 6,467.9	\$ 7,432.1
Gross proceeds of offering	\$ 2,741.3	3,225.0	\$ 3,708.8	\$ 4,265.1
Less: Expenses	83.6	102.9	122.3	144.5
Estimated net proceeds	2,657.7	\$ 3,122.1	3,586.5	\$ 4,120.6
Less: Common stock purchased by employee stock ownership plan <sup>(2)</sup>	(166.9)	(195.9)	(224.9)	(258.3)
Less: Common stock purchased by recognition and retention plan <sup>(3)</sup>	(111.3)	(130.6)	(150.0)	(172.2)
Less: Cash contribution to charitable foundation	(20.0)	(20.0)	(20.0)	(20.0)
Plus: MHC capital contribution <sup>(4)</sup>	8.5	8.5	8.5	8.5
Estimated net proceeds, as adjusted	\$ 2,368.0	\$ 2,784.1	\$ 3,200.1	\$ 3,678.6
Net income:				
Historical	\$ 84.7	\$ 84.7	\$ 84.7	\$ 84.7
Plus: Pro forma income on net proceeds	61.5	72.4	83.2	95.6
Less: Pro forma stock option plan adjustment <sup>(5)</sup>	(4.6)	(5.3)	(6.1)	(7.1)
Less: Pro forma employee stock ownership plan adjustment <sup>(2)</sup>	(2.8)	(3.2)	(3.7)	(4.3)
Less: Pro forma recognition and retention plan adjustment <sup>(3)</sup>	(11.0)	(12.9)	(14.9)	(17.0)
Pro forma net income	\$ 127.8	\$ 135.7	\$ 143.2	\$ 151.9

Per share net income:

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Historical	\$ 0.36	\$ 0.31	\$ 0.27	\$ 0.23
Plus: Pro forma income on net proceeds, as adjusted <sup>(4)</sup>	0.27	0.27	0.27	0.27
Less: Pro forma stock option plan adjustment <sup>(5)</sup>	(0.02)	(0.02)	(0.02)	(0.02)
Less: Pro forma employee stock ownership plan adjustment <sup>(2)</sup>	(0.01)	(0.01)	(0.01)	(0.01)
Less: Pro forma recognition and retention plan adjustment <sup>(3)</sup>	(0.05)	(0.05)	(0.05)	(0.05)
Pro forma net income per share <sup>(6)</sup>	\$ 0.55	\$ 0.50	\$ 0.46	\$ 0.42

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	At or for the Nine Months Ended September 30, 2006			
	Minimum 137,062,500 Shares Sold at \$20.00 Per Share	Midpoint 161,250,000 Shares Sold at \$20.00 Per Share (Dollars in millions, except per share amounts)	Maximum 185,437,500 Shares Sold at \$20.00 Per Share	Adjusted Maximum 213,253,125 Shares Sold at \$20.00 Per Share <sup>(1)</sup>
Offering price as a multiple of pro forma net income per share	27.27x	30.00x	32.61x	35.71x
Number of shares outstanding for pro forma net income per share calculations <sup>(7)</sup>	231,418,928	271,925,268	312,431,609	359,013,900
<b>Stockholders' equity:</b>				
Historical	\$ 1,351.4	\$ 1,351.4	\$ 1,351.4	\$ 1,351.4
Estimated net proceeds	2,657.7	3,122.1	3,586.5	4,120.6
Plus: Market value of shares issued to charitable foundation	40.0	40.0	40.0	40.0
Plus: Tax benefit of contribution to charitable foundation <sup>(8)</sup>	20.4	20.4	20.4	20.4
Plus: MHC capital contribution <sup>(4)</sup>	8.5	8.5	8.5	8.5
Less: Common stock acquired by employee stock ownership plan <sup>(2)</sup>	(166.9)	(195.9)	(224.9)	(258.3)
Less: Common stock acquired by recognition and retention plan <sup>(3)</sup>	(111.3)	(130.6)	(150.0)	(172.2)
Less: Expense of contribution to charitable foundation	(60.0)	(60.0)	(60.0)	(60.0)
Pro forma stockholders' equity	3,739.8	4,155.9	4,571.9	5,050.4
Intangible assets	(105.3)	(105.3)	(105.3)	(105.3)
Pro forma tangible stockholders' equity	\$ 3,634.5	\$ 4,050.6	\$ 4,466.6	\$ 4,945.1
<b>Stockholders' equity per share<sup>(9)</sup>:</b>				
Historical	\$ 5.63	\$ 4.80	\$ 4.19	\$ 3.64
Estimated net proceeds	11.09	11.09	11.09	11.09
Plus: Market value of shares issued to charitable foundation	0.17	0.14	0.12	0.11
Plus: Tax benefit of contribution to charitable foundation <sup>(8)</sup>	0.09	0.07	0.06	0.05
Plus: MHC capital contribution <sup>(4)</sup>	0.04	0.03	0.03	0.02
Less: Common stock acquired by employee stock ownership plan <sup>(2)</sup>	(0.70)	(0.70)	(0.70)	(0.70)
Less: Common stock acquired by recognition and retention plan <sup>(3)</sup>	(0.46)	(0.46)	(0.46)	(0.46)
Less: Expense of contribution to charitable foundation	(0.25)	(0.21)	(0.19)	(0.16)
Pro forma stockholders' equity per share <sup>(9)</sup>	15.61	14.76	14.14	13.59
Intangible assets	(0.44)	(0.37)	(0.33)	(0.28)
Pro forma tangible stockholders' equity per share <sup>(9)</sup>	\$ 15.17	\$ 14.39	\$ 13.81	\$ 13.31
Offering price as a percentage of stockholders' equity per share	128.12%	135.50%	141.44%	147.17%
Offering price as a percentage of tangible equity per share	131.84%	138.99%	144.82%	150.26%



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Shares used for pro forma stockholders' equity per share <sup>(7)</sup>	239,554,084	281,475,393	323,396,702	371,606,207
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- (1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% as a result of market demand, regulatory considerations or changes in financial markets following the commencement of the offering.

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- (2) It is assumed that an amount of common stock equal to 6.0% of the sum of the shares of common stock sold in the offering and those issued to the charitable foundation will be purchased by our employee stock ownership plan. For purposes of this table, it is assumed that the funds used to acquire such shares have been borrowed by the employee stock ownership plan from People's United Financial. The amount to be borrowed is reflected as a reduction of stockholders' equity. Employee stock ownership plan expense is based upon generally accepted accounting principles as described in Statement of Position 93-6. Generally accepted accounting principles require that as and when shares pledged as security for an employee stock ownership plan loan are committed to be released from the loan (*i.e.*, as the loan is repaid), employee stock ownership plan expense is recorded based upon the fair value of the shares at the time. People's Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the principal and interest requirement of the debt. People's Bank's total annual payment of the employee stock ownership plan debt is based upon 30 equal annual installments of principal, with an assumed interest rate of 8.0%. The pro forma net income assumes: (1) that People's Bank's contribution to the employee stock ownership plan is equivalent to the debt service requirement for the nine months ended September 30, 2006, and was made at the end of the period; (2) that 208,594 shares at the minimum of the offering range, 244,875 shares at the midpoint of the offering range, 281,156 shares at the maximum of the offering range and 322,880 shares at the adjusted maximum of the offering range were committed to be released during the nine months ended September 30, 2006 at an average fair value of \$20.00 per share in accordance with Statement of Position 93-6; and (3) that the employee stock ownership plan shares committed to be released were considered outstanding for the entire period for purposes of the net income per share calculations.
- (3) Gives effect to the recognition and retention plan expected to be adopted by People's United Financial no sooner than six months following the offering and thereafter presented for approval at a meeting of stockholders. Assumes that the recognition and retention plan acquires an amount of common stock equal to 4% of the sum of the shares of common stock sold in the offering and those issued to the charitable foundation, or 5,562,500 shares at the minimum of the offering range, 6,530,000 shares at the midpoint of the offering range, 7,497,500 shares at the maximum of the offering range and 8,610,125 shares at the adjusted maximum of the offering range through open market purchases or privately negotiated transactions. We intend to purchase the common stock for the recognition and retention plan with funds from general operating cash flows. In calculating the pro forma effect of the recognition and retention plan, it is assumed that the shares were acquired by the recognition and retention plan at the beginning of the period presented in open market purchases at a purchase price of \$20.00 per share and that 20% of the amount contributed was an amortized expense during such period. The issuance of authorized but previously unissued shares of common stock for the recognition and retention plan would dilute stockholders' ownership and voting interests by approximately 2.27% at the maximum of the offering range.
- (4) Reflects contribution of People's Mutual Holdings' capital as a result of the conversion of People's Mutual Holdings into a federal stock savings bank and its merger into People's Bank as part of the conversion.
- (5) Gives effect to the stock option plan expected to be adopted by People's United Financial no sooner than six months following the offering and thereafter presented for approval at a meeting of stockholders. Assumes that options to acquire an amount of common stock equal to 10% of the common stock sold in the offering and issued to the charitable foundation will be granted. In calculating the pro forma effect of the stock option expense, it is assumed that the exercise price of the stock options and trading price of the common stock at the date of grant were \$20.00 per share, the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was \$3.31 for each option, the aggregate grant-date fair value of the stock options was amortized to expense on a straight-line basis over a five year vesting period of the options and that option expense was tax effected with an assumed effective tax rate of 34%. Under the above assumptions, the adoption of the stock option plan will result in no additional shares under the treasury stock method for purposes of calculating earnings per share. There can be no assurance that the actual exercise price of the stock options will be equal to the \$20.00 per share price. If a portion of the shares to satisfy the exercise of options under stock option plan are obtained from the issuance of authorized but unissued shares, our net income per share and stockholders' equity per share will decrease. This will also have a dilutive effect of up to 5.48% at the maximum of the offering range on the ownership interests of persons who purchase common stock in the offering.
- (6) Per share figures include publicly held shares of People's Bank common stock that will be exchanged for share of People's United Financial. See *The Conversion and Offering: The Share Exchange of People's Bank Common Stock for People's United Financial Common Stock*. Net income per share computations are determined by taking the number of shares assumed to be sold in the offering, the number of shares expected to be issued in exchange for publicly held shares and the number of shares expected to be contributed to the charitable foundation and, in accordance with Statement of Position 93-6, subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods. See footnote 2. The number of shares of common stock actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts.

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- (7) The number of shares used to calculate the pro forma net income per share is equal to the total number of shares to be outstanding upon completion of the conversion and offering, less the number of shares purchased by the employee stock ownership plan not committed to be released during the respective periods. The number of shares used to calculate pro forma stockholders' equity per share is equal to the total number of shares to be outstanding upon completion of the conversion and offering.
- (8) Represents the tax effect of the contribution to the charitable foundation based on an effective 34% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable foundations equal to 10% of our annual taxable income, subject to our ability to carry forward any unused portion of the deduction for five years following the year in which the contribution is made.
- (9) Per share figures include shares of People's Bank common stock that will be issued in the share exchange that is part of the conversion and offering. The additional shares reflect an exchange ratio of 1.6712, 1.9662, 2.2611 and 2.6003 at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. The number of shares of common stock actually sold and the corresponding number of shares issued in the share exchange may be more or less than the assumed amounts.

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	At or for the Year Ended December 31, 2005			
	Minimum 137,062,500	Midpoint		Adjusted
		161,250,000 Shares	Maximum 185,437,500 Shares	Maximum 213,253,125 Shares
	Shares Sold at \$20.00 Per Share	Sold at \$20.00 Per Share	Sold at \$20.00 Per Share	Sold at \$20.00 Per Share <sup>(1)</sup>
(Dollars in millions, except per share amounts)				
Gross proceeds of offering	\$ 2,741.3	\$ 3,225.0	\$ 3,708.8	\$ 4,265.1
Plus: Market value of shares issued to charitable foundation	40.0	40.0	40.0	40.0
Plus: Market value of shares issued in the exchange	2,009.8	2,364.5	2,719.1	3,127.0
Pro forma market capitalization	\$ 4,791.1	\$ 5,629.5	\$ 6,467.9	\$ 7,432.1
Gross proceeds of offering	\$ 2,741.3	\$ 3,225.0	\$ 3,708.8	\$ 4,265.1
Less: Expenses	83.6	102.9	122.3	144.5
Estimated net proceeds	2,657.7	3,122.1	3,586.5	4,120.6
Less: Common stock purchased by employee stock ownership plan <sup>(2)</sup>	(166.9)	(195.9)	(224.9)	(258.3)
Less: Common stock purchased by recognition and retention plan <sup>(3)</sup>	(111.3)	(130.6)	(150.0)	(172.2)
Less: Cash contribution to charitable foundation	(20.0)	(20.0)	(20.0)	(20.0)
Plus: MHC capital contribution <sup>(4)</sup>	8.5	8.5	8.5	8.5
Estimated net proceeds, as adjusted	\$ 2,368.0	\$ 2,784.1	\$ 3,200.1	\$ 3,678.6
Net income:				
Historical	\$ 137.1	\$ 137.1	\$ 137.1	\$ 137.1
Plus: Pro forma income on net proceeds	66.4	78.1	89.8	103.2
Less: Pro forma stock option plan adjustment <sup>(5)</sup>	(6.1)	(7.1)	(8.2)	(9.4)
Less: Pro forma employee stock ownership plan adjustment <sup>(2)</sup>	(3.7)	(4.3)	(4.9)	(5.7)
Less: Pro forma recognition and retention plan adjustment <sup>(3)</sup>	(14.7)	(17.2)	(19.8)	(22.7)
Pro forma net income	\$ 179.0	\$ 186.6	\$ 194.0	\$ 202.5
Per share net income:				
Historical	\$ 0.59	\$ 0.51	0.44	0.38
Plus: Pro forma income on net proceeds, as adjusted <sup>(4)</sup>	0.29	0.29	0.29	0.29
Less: Pro forma stock option plan adjustment <sup>(5)</sup>	(0.03)	(0.03)	(0.03)	(0.03)
Less: Pro forma employee stock ownership plan adjustment <sup>(2)</sup>	(0.02)	(0.02)	(0.02)	(0.02)
Less: Pro forma recognition and retention plan adjustment <sup>(3)</sup>	(0.06)	(0.06)	(0.06)	(0.06)
Pro forma net income per share <sup>(6)</sup>	\$ 0.77	\$ 0.69	\$ 0.62	\$ 0.56

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	At or for the Year Ended December 31, 2005			
	Minimum 137,062,500 Shares Sold at \$20.00 Per Share	Midpoint 161,250,000 Shares Sold at \$20.00 Per Share (Dollars in millions, except per share amounts)	Maximum 185,437,500 Shares Sold at \$20.00 Per Share	Adjusted Maximum 213,253,125 Shares Sold at \$20.00 Per Share <sup>(1)</sup>
Offering price as a multiple of pro forma net income per share	25.97x	28.99x	32.26x	35.71x
Number of shares outstanding for pro forma net income per share calculations <sup>(7)</sup>	231,488,459	272,006,893	312,525,327	359,121,527
<b>Stockholders' equity:</b>				
Historical	\$ 1,288.6	\$ 1,288.6	\$ 1,288.6	\$ 1,288.6
Estimated net proceeds	2,657.7	3,122.1	3,586.5	4,120.6
Plus: Market value of shares issued to charitable foundation	40.0	40.0	40.0	40.0
Plus: Tax benefit of contribution to charitable foundation <sup>(8)</sup>	20.4	20.4	20.4	20.4
Plus: MHC capital contribution <sup>(4)</sup>	8.5	8.5	8.5	8.5
Less: Common stock acquired by employee stock ownership plan <sup>(2)</sup>	(166.9)	(195.9)	(224.9)	(258.3)
Less: Common stock acquired by recognition and retention plan <sup>(3)</sup>	(111.3)	(130.6)	(150.0)	(172.2)
Less: Expense of contribution to charitable foundation	(60.0)	(60.0)	(60.0)	(60.0)
Pro forma stockholders' equity	3,677.0	4,093.1	4,509.1	4,987.6
Intangible assets	(106.1)	(106.1)	(106.1)	(106.1)
Pro forma tangible stockholders' equity	\$ 3,570.9	\$ 3,987.0	\$ 4,403.0	\$ 4,881.5
<b>Stockholders' equity per share<sup>(8)</sup>:</b>				
Historical	\$ 5.37	\$ 4.58	\$ 3.99	\$ 3.47
Estimated net proceeds	11.09	11.09	11.09	11.09
Plus: Market value of shares issued to charitable foundation	0.17	0.14	0.12	0.11
Plus: Tax benefit of contribution to charitable foundation <sup>(8)</sup>	0.09	0.07	0.06	0.05
Plus: MHC capital contribution <sup>(4)</sup>	0.04	0.03	0.03	0.02
Less: Common stock acquired by employee stock ownership plan <sup>(2)</sup>	(0.70)	(0.70)	(0.70)	(0.70)
Less: Common stock acquired by recognition and retention plan <sup>(3)</sup>	(0.46)	(0.46)	(0.46)	(0.46)
Less: Expense of contribution to charitable foundation	(0.25)	(0.21)	(0.19)	(0.16)
Pro forma stockholders' equity per share <sup>(8)</sup>	15.35	14.54	13.94	13.42
Intangible assets	(0.44)	(0.38)	(0.33)	(0.29)
Pro forma tangible stockholders' equity per share <sup>(9)</sup>	\$ 14.91	\$ 14.16	\$ 13.61	\$ 13.13

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Offering price as a percentage of stockholders equity per share	130.29%	137.55%	143.47%	149.03%
Offering price as a percentage of tangible equity per share	134.14%	141.24%	146.95%	152.32%
Shares used to pro forma stockholders equity per share <sup>(7)</sup>	239,554,084	281,475,393	323,396,702	371,606,207

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% as a result of market demand, regulatory considerations or changes in financial markets following the commencement of the offering.

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- (2) It is assumed that an amount of common stock equal to 6.0% of the sum of the shares of common stock sold in the offering and those issued to the charitable foundation will be purchased by our employee stock ownership plan. For purposes of this table, it is assumed that the funds used to acquire such shares have been borrowed by the employee stock ownership plan from People's United Financial. The amount to be borrowed is reflected as a reduction of stockholders' equity. Employee stock ownership plan expense is based upon generally accepted accounting principles as described in Statement of Position 93-6. Generally accepted accounting principles require that as and when shares pledged as security for an employee stock ownership plan loan are committed to be released from the loan (*i.e.*, as the loan is repaid), employee stock ownership plan expense is recorded based upon the fair value of the shares at the time. People's Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the principal and interest requirement of the debt. People's Bank's total annual payment of the employee stock ownership plan debt is based upon 30 equal annual installments of principal, with an assumed interest rate of 8.0%. The pro forma net income assumes: (1) that People's Bank's contribution to the employee stock ownership plan is equivalent to the debt service requirement for the twelve months ended December 31, 2005, and was made at the end of the period; (2) that 278,125 shares at the minimum of the offering range, 326,500 shares at the midpoint of the offering range, 374,875 shares at the maximum of the offering range and 430,506 shares at the adjusted maximum of the offering range were committed to be released during the twelve months ended December 31, 2005 at an average fair value of \$20.00 per share in accordance with Statement of Position 93-6; and (3) that the employee stock ownership plan shares committed to be released were considered outstanding for the entire period for purposes of the net income per share calculations.
- (3) Gives effect to the recognition and retention plan expected to be adopted by People's United Financial no sooner than six months following the offering and thereafter presented for approval at a meeting of stockholders. Assumes that the recognition and retention plan acquires an amount of common stock equal to 4% of the sum of the shares of common stock sold in the offering and those issued to the charitable foundation, or 5,562,500 shares at the minimum of the offering range, 6,530,000 shares at the midpoint of the offering range, 7,497,500 shares at the maximum of the offering range and 8,610,125 shares at the adjusted maximum of the offering range through open market purchases or privately negotiated transactions. We intend to purchase the common stock for the recognition and retention plan with funds from general operating cash flows. In calculating the pro forma effect of the recognition and retention plan, it is assumed that the shares were acquired by the recognition and retention plan at the beginning of the period presented in open market purchases at a purchase price of \$20.00 per share and that 20% of the amount contributed was an amortized expense during such period. The issuance of authorized but previously unissued shares of common stock for the recognition and retention plan would dilute stockholders' ownership and voting interests by approximately 2.27% at the maximum of the offering range.
- (4) Reflects contribution of People's Mutual Holdings' capital as a result of the conversion of People's Mutual Holdings into a federal stock savings bank and its merger into People's Bank as part of the conversion.
- (5) Gives effect to the stock option plan expected to be adopted by People's United Financial no sooner than six months following the offering and thereafter presented for approval at a meeting of stockholders. Assumes that options to acquire an amount of common stock equal to 10% of the common stock sold in the offering and issued to the charitable foundation will be granted. In calculating the pro forma effect of the stock option expense, it is assumed that the exercise price of the stock options and trading price of the common stock at the date of grant were \$20.00 per share, the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was \$3.31 for each option, the aggregate grant-date fair value of the stock options was amortized to expense on a straight-line basis over a five year vesting period of the options and that option expense was tax effected with an assumed effective tax rate of 34%. Under the above assumptions, the adoption of the stock option plan will result in no additional shares under the treasury stock method for purposes of calculating earnings per share. There can be no assurance that the actual exercise price of the stock options will be equal to the \$20.00 per share price. If a portion of the shares to satisfy the exercise of options under stock option plan are obtained from the issuance of authorized but unissued shares, our net income per share and stockholders' equity per share will decrease. This will also have a dilutive effect of up to 5.48% at the maximum of the offering range on the ownership interests of persons who purchase common stock in the offering.
- (6) Per share figures include publicly held shares of People's Bank common stock that will be exchanged for share of People's United Financial. See *The Conversion and Offering: The Share Exchange of People's Bank Common Stock for People's United Financial Common Stock*. Net income per share computations are determined by taking the number of shares assumed to be sold in the offering, the number of shares expected to be issued in exchange for publicly held shares and the number of shares expected to be contributed to the charitable foundation and, in accordance with Statement of Position 93-6, subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods. See footnote 2. The number of shares of common stock actually sold and the corresponding number of exchange shares may be more or less than the assumed amounts.

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- (7) The number of shares used to calculate the pro forma net income per share is equal to the total number of shares to be outstanding upon completion of the conversion and offering, less the number of shares purchased by the employee stock ownership plan not committed to be released during the respective periods. The number of shares used to calculate pro forma stockholders' equity per share is equal to the total number of shares to be outstanding upon completion of the conversion and offering.
- (8) Represents the tax effect of the contribution to the charitable foundation based on an effective 34% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable foundations equal to 10% of our annual taxable income, subject to our ability to carry forward any unused portion of the deduction for five years following the year in which the contribution is made.
- (9) Per share figures include shares of People's Bank common stock that will be issued in the share exchange that is part of the conversion and offering. The additional shares reflect an exchange ratio of 1.6712, 1.9662, 2.2611 and 2.6003 at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. The number of shares of common stock actually sold and the corresponding number of shares issued in the share exchange may be more or less than the assumed amounts.



**Table of Contents****COMPARISON OF VALUATION AND PRO FORMA INFORMATION****WITH AND WITHOUT THE CHARITABLE FOUNDATION**

As set forth in the following table, if we did not make a contribution to The People's Community Foundation as part of the offering, RP Financial estimates that our pro forma valuation would be greater, which would increase the amount of common stock offered for sale. Without the charitable foundation, the amount of common stock offered for sale at the midpoint of the offering would be \$3.265 billion. If The People's Community Foundation were not established, there is no assurance that the updated appraisal that RP Financial will prepare at the closing of the conversion would conclude that our pro forma market value would be the same as the estimate set forth in the table below. The updated appraisal will be based on the facts and circumstances existing at closing time, including, among other things, market and economic conditions. The offering amounts referred to in the table below relate to the value of the shares sold to the public.

	At the Minimum of the Offering Range		At the Midpoint of the Offering Range		At the Maximum of the Offering Range		At the Maximum, As Adjusted, of the Offering Range	
	With Foundation	Without Foundation	With Foundation	Without Foundation	With Foundation	Without Foundation	With Foundation	Without Foundation
(Dollars in millions, except per share amounts)								
Estimated offering amount	\$ 2,741.3	\$ 2,775.3	\$ 3,225.0	\$ 3,265.0	\$ 3,708.8	\$ 3,754.8	\$ 4,265.1	\$ 4,318.0
Pro forma market capitalization	\$ 4,791.1	\$ 4,810.0	\$ 5,629.5	\$ 5,658.8	\$ 6,467.9	\$ 6,507.7	\$ 7,432.1	\$ 7,483.8
Total assets	\$ 13,000.5	\$ 13,013.5	\$ 13,416.6	\$ 13,434.6	\$ 13,832.6	\$ 13,855.8	\$ 14,311.1	\$ 14,340.2
Total liabilities	\$ 9,260.7	\$ 9,260.7	\$ 9,260.7	\$ 9,260.7	\$ 9,260.7	\$ 9,260.7	\$ 9,260.7	\$ 9,260.7
Pro forma stockholders' equity	\$ 3,739.8	\$ 3,752.8	\$ 4,155.9	\$ 4,173.9	\$ 4,571.9	\$ 4,595.1	\$ 5,050.4	\$ 5,079.5
Pro forma net income (nine months ended September 30, 2006)	\$ 127.8	\$ 128.9	\$ 135.7	\$ 136.6	\$ 143.2	\$ 144.2	\$ 151.9	\$ 153.1
Pro forma stockholders' equity per share	\$ 15.61	\$ 15.60	\$ 14.76	\$ 14.75	\$ 14.14	\$ 14.12	\$ 13.59	\$ 13.57
Pro forma tangible stockholders' equity per share	\$ 15.17	\$ 15.16	\$ 14.39	\$ 14.38	\$ 13.81	\$ 13.80	\$ 13.31	\$ 13.29
Pro forma net income per share (nine months ended September 30, 2006)	\$ 0.55	\$ 0.55	\$ 0.50	\$ 0.50	\$ 0.46	\$ 0.46	\$ 0.42	\$ 0.42
<b>Pro Forma Pricing Ratios</b>								
Offering price as a percentage of pro forma stockholders' equity per share	128.12%	128.21%	135.50%	135.59%	141.44%	141.64%	147.17%	147.38%
Offering price as a percent of pro forma tangible stockholders' equity per share	131.84%	131.93%	138.99%	139.08%	144.82%	144.93%	150.26%	150.49%
Offering price to pro forma net income per share	27.27x	27.27x	30.00x	30.00x	32.61x	32.61x	35.71x	35.71x
<b>Pro Forma Financial Ratios</b>								
Return on assets (annualized)	1.31%	1.32%	1.35%	1.36%	1.38%	1.39%	1.42%	1.42%
Return on equity (annualized)	4.56%	4.58%	4.35%	4.36%	4.18%	4.18%	4.01%	4.02%
Equity/assets	28.77%	28.84%	30.98%	31.07%	33.05%	33.16%	35.29%	35.42%
Tangible equity ratio	28.19%	28.26%	30.43%	30.52%	32.54%	32.65%	34.81%	34.94%

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion and analysis reflects People's Bank's consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with People's Bank's consolidated financial statements and accompanying notes to the consolidated financial statements beginning on page F-1 of this prospectus, and the other statistical data provided elsewhere in this prospectus. The results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period. **Unless otherwise indicated, the financial information presented in this section reflects the consolidated financial condition and operations of People's Bank.**

**General**

People's Bank is a federally-chartered stock savings bank headquartered in Bridgeport, Connecticut with \$10.6 billion in total assets as of September 30, 2006. People's Bank was organized in 1842 as a mutual savings bank and converted to stock form in 1988. In August 2006, People's Bank converted from a Connecticut-chartered stock savings bank to a federally-chartered stock savings bank.

People's Bank offers a full range of financial services to individual, corporate and municipal customers. Traditional banking activities are conducted primarily within the state of Connecticut and include extending secured and unsecured commercial and consumer loans, originating mortgage loans secured by residential and commercial properties, and accepting consumer, commercial and municipal deposits. In addition to traditional banking activities, People's Bank provides specialized services tailored to specific markets including: personal, institutional and employee benefit trust; cash management; and municipal banking and finance. Through its subsidiaries, People's Bank offers: brokerage, financial advisory services, investment management services and life insurance through People's Securities, Inc.; equipment financing through People's Capital and Leasing Corp.; and other insurance services through R.C. Knox and Company, Inc.

This full range of financial services is delivered through a network of 75 traditional branches, 73 Stop & Shop supermarket branches, eight limited-service branches, 23 investment and brokerage offices (22 of which are located within branch offices), five wealth management and trust offices, nine People's Capital and Leasing offices and seven commercial banking offices. People's Bank's distribution network also includes fully integrated online banking and investment trading, a 24-hour telephone banking service and participation in a worldwide ATM network.

People's Bank has expanded its residential mortgage and home equity lending activities in the contiguous markets of New York and Massachusetts. In addition, People's Bank maintains a loan production office in Massachusetts and People's Capital and Leasing offices in six states in addition to Connecticut to support commercial real estate lending and equipment financing initiatives, respectively, outside of Connecticut. Within the Commercial banking division, People's Bank maintains a national credits group, which seeks to participate in commercial loans and commercial real estate finance loans to borrowers in various industries across the country.

People's Bank's results of operations are largely dependent upon revenues generated through net interest income and fee-based revenues and, to a much lesser extent, other forms of non-interest income such as gains on asset sales. Sources for these revenues are diversified across People's Bank's two primary business segments representing its core businesses, commercial banking and consumer financial services, and to a lesser extent, treasury. People's Bank's results of operations are also significantly affected by the provision for loan losses and the level of non-interest expense. In addition, People's Bank's results of operations may also be affected by general and local economic conditions, changes in market interest rates, government policies and actions of regulatory authorities.

**Financial Overview**

***Comparison of Financial Condition at September 30, 2006 and December 31, 2005.*** Total assets at September 30, 2006 were \$10.6 billion, a decrease of \$320 million, or 3%, from December 31, 2005, primarily due to a \$1.2 billion decline in total securities, partially offset by increases of \$612 million in total loans, \$148 million in short-term investments and \$57 million in bank-owned life insurance. Additionally, People's Bank contributed \$91.5 million in the third quarter of 2006 to its employee retirement plan (reported in other assets) to more than fully fund its projected benefit obligation.

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Total loans increased \$612 million, or 10% on an annualized basis, from December 31, 2005 to September 30, 2006. This increase reflects growth of \$423 million, or 12% annualized, in consumer financial services and \$189 million, or 7% annualized, in commercial banking. The increase in total loans from year-end 2005 was largely attributable to increases of \$370 million in residential mortgage loans, \$117 million in People's Capital and Leasing loans and \$78 million in shared national credits. The increase in residential mortgage loans reflects, in part, the purchase of \$170 million of adjustable-rate mortgages towards the end of the first quarter of 2006.

The decrease in the securities portfolio reflects the sale of \$810 million and \$266 million of debt securities in the third and second quarters of 2006, respectively, as part of restructuring activities to better position People's Bank's balance sheet for the then current interest rate environment. People's Bank also funded an additional \$50 million of bank-owned life insurance with proceeds from maturing securities in the first quarter of 2006.

Non-performing assets totaled \$22.9 million at September 30, 2006, a \$0.9 million increase from year-end 2005. The allowance for loan losses decreased \$1.0 million to \$74 million at September 30, 2006 compared to December 31, 2005, primarily reflecting reductions in the allowance for loan losses allocated to the consumer loan portfolios, partially offset by net additions allocated to the commercial banking loan portfolios. At September 30, 2006, the allowance for loan losses as a percentage of total loans was 0.81% and as a percentage of non-performing loans was 355%, compared to 0.87% and 353%, respectively, at December 31, 2005.

At September 30, 2006, liabilities totaled \$9.3 billion, a \$383 million decrease from December 31, 2005, reflecting a \$281 million reduction in total borrowings and a \$104 million decrease in total deposits. Core deposits decreased \$30 million since December 31, 2005, reflecting People's Bank's strategy to fund loan growth with proceeds from maturities and sales of securities rather than deposits.

People's Bank's total stockholders' equity was \$1.35 billion at September 30, 2006, a \$63 million increase from December 31, 2005, reflecting net income of \$84.7 million and a \$16.3 million decrease in accumulated other comprehensive loss, partially offset by dividends paid of \$44.5 million. As a percentage of total assets, stockholders' equity was 12.7% at September 30, 2006, compared to 11.8% at December 31, 2005. People's Bank's leverage capital ratio, and tier 1 and total risk-based capital ratios were 11.8%, 14.7% and 16.2%, respectively, at September 30, 2006, compared to 11.2%, 14.8% and 16.4%, respectively, at December 31, 2005. The capital ratios were calculated in accordance with Office of Thrift Supervision regulations as of September 30, 2006 and Federal Deposit Insurance Corporation regulations as of December 31, 2005.

***Comparison of Financial Condition at December 31, 2005 and December 31, 2004.*** Total assets at December 31, 2005 were \$10.9 billion, an increase of \$215 million, or 2%, from December 31, 2004, primarily due to increases of \$640 million in total loans and \$154 million in bank-owned life insurance, partially offset by a \$708 million decline in total securities.

At December 31, 2005, liabilities totaled \$9.6 billion, a \$126 million increase from December 31, 2004, reflecting a \$221 million increase in total deposits, partially offset by a \$46 million reduction in total borrowings.

The increase in total loans from year-end 2004 was largely attributable to increases of \$340 million in commercial banking loans and \$242 million in residential mortgage loans. The decrease in the securities portfolio reflects the substitution of higher-yielding loans for securities and the funding of a \$150 million investment in bank-owned life insurance with proceeds from maturing securities.

Non-performing assets totaled \$22.0 million at December 31, 2005, a \$6.6 million decrease from year-end 2004. The allowance for loan losses increased \$2.5 million to \$75 million at December 31, 2005 compared to December 31, 2004, primarily reflecting increases in the allowance for loan losses allocated to commercial loans of \$2.0 million and People's Capital and Leasing loans of \$2.5 million, partially offset by a \$2.0 million reduction in the allowance for loan losses allocated to the consumer loan portfolio. At December 31, 2005, the allowance for loan losses as a percent of total loans was 0.87% and as a percent of non-performing loans was 353%, compared to 0.91% and 265%, respectively, at December 31, 2004.

People's Bank's total stockholders' equity was \$1.29 billion at December 31, 2005, an \$89 million increase from December 31, 2004, reflecting net income of \$137.1 million, partially offset by dividends paid of \$52.4 million. As a percentage of total assets, stockholders' equity was 11.8% at December 31, 2005, compared to 11.2% at December 31, 2004.

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People's Bank's leverage capital ratio, and tier 1 and total risk-based capital ratios were 11.2%, 14.8% and 16.4%, respectively, at December 31, 2005, compared to 10.5%, 14.6% and 16.7%, respectively, at December 31, 2004. The capital ratios were calculated in accordance with Federal Deposit Insurance Corporation regulations.

***Comparison of Results of Operations for the Nine Months Ended September 30, 2006 and 2005.*** People's Bank reported net income of \$84.7 million, or \$0.59 per diluted share, for the nine months ended September 30, 2006, compared to \$101.9 million, or \$0.72 per diluted share, for the year-ago period. Income from continuing operations totaled \$83.0 million, or \$0.58 per diluted share, for the first nine months of 2006, compared to \$91.6 million, or \$0.65 per diluted share, for the year-ago period.

Results for the first nine months of 2006 included net security losses of \$27.4 million on the sale of \$810 million and \$266 million of debt securities in the third and second quarters of 2006, respectively. These transactions were undertaken to better position People's Bank's balance sheet for the then current interest rate environment. Results for the first nine months of 2005 included a \$2.0 million goodwill impairment charge and after-tax income of \$6.2 million from the resolution of a significant contingency related to the sale of the credit card business (reported in income from discontinued operations). The net impact of these items reduced 2006 net income by \$18.2 million, or \$0.13 per share and increased 2005 net income by \$4.2 million, or \$0.03 per share.

Net interest income increased \$9.9 million, or 4%, from the year-ago period and the net interest margin improved 17 basis points to 3.83%. The higher net interest margin reflects the asset sensitive position of the balance sheet, the substitution of securities with higher-yielding loans, and the use of a portion of the proceeds from security sales discussed above to pay down borrowings. Compared to the first nine months of 2005, average earning assets decreased 1%, as a \$684 million, or 8%, increase in average loans was more than offset by an \$820 million, or 45%, decline in average securities. In addition to funding loan growth with proceeds from maturing securities, People's Bank invested \$50 million in the first quarter of 2006 and \$150 million in the second quarter of 2005 in bank-owned life insurance. Average core deposits increased \$51 million, or 1%, compared to the first nine months of 2005, reflecting People's Bank's current decision to fund loan growth with proceeds from maturing securities.

Compared to the first nine months of 2005, total non-interest income, excluding net security losses, increased \$8.1 million, or 7%; non-interest expense increased \$7.5 million, or 3%; and the efficiency ratio improved to 61.9%, from 62.8%.

The provision for loan losses in the first nine months of 2006 was \$2.0 million compared to \$3.3 million in the year-ago period. The provision for loan losses in the 2006 period reflected net loan charge-offs of \$3.0 million, partially offset by a \$1.0 million decrease in the allowance for loan losses. The 2005 period reflected net loan charge-offs of \$2.8 million and a \$0.5 million increase in the allowance for loan losses. Net loan charge-offs increased \$0.2 million, or 7%, for the first nine months of 2006, compared to the year-ago period. The allowance for loan losses as a percentage of total loans was 0.81% at September 30, 2006, compared to 0.87% at September 30, 2005. Net loan charge-offs as a percentage of average total loans equaled 0.05% on an annualized basis, unchanged from the year-ago period.

***Comparison of Results of Operations for 2005 and 2004.*** People's Bank reported net income in 2005 of \$137.1 million, or \$0.97 per diluted share, compared to \$199.7 million, or \$1.42 per diluted share in 2004. Per share data has been restated to give retroactive effect to the three-for-two stock split completed in 2005. Included in the 2005 results were a gain on the sale of three branches, a gain from the resolution of a significant contingency related to the sale of People's Bank's credit card portfolio in 2004, an income tax benefit, a goodwill impairment charge and expenses incurred in connection with the repurchase of subordinated notes and the accelerated vesting of stock options. The 2004 results included the net gain on the sale of People's Bank's credit card business, liability restructuring charges, other nonrecurring expenses and an income tax benefit. People's Bank's return on average assets was 1.27% and return on average stockholders' equity was 11.1% in 2005.

The net interest margin improved 35 basis points from 2004, reflecting a combination of People's Bank's asset-sensitive position and the ongoing shift of its asset mix from investment securities to higher-yielding loans. Other important factors that affected the financial results in 2005 were:

strong loan growth in People's Bank's commercial banking and home equity lending portfolios;

a 35% reduction in the provision for loan losses;

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growth in fee-based revenues; and

continued expense control.

On March 5, 2004, People's Bank completed the sale of its credit card business, which included \$2.0 billion of credit card receivables, as well as the transfer of its related credit card operations and 420 employees, to The Royal Bank of Scotland Group. The net pre-tax gain on sale of \$305.4 million is included in income from discontinued operations for 2004 in the consolidated statements of income.

People's Bank utilized a portion of the proceeds from the sale of its credit card business to prepay slightly over \$1.0 billion of long-term borrowings. In addition, derivative positions with notional values of \$770 million, including positions on certain of these borrowings, were canceled. Liability restructuring costs totaling \$133.4 million are included in total non-interest expense for 2004 in the Consolidated Statements of Income.

**Critical Accounting Policies**

In preparing the consolidated financial statements, People's Bank is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including the classification of revenues and expenses to discontinued operations. Actual results could differ from People's Bank's current estimates, as a result of changing conditions and future events. Several estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses, the valuation of derivative financial instruments, and asset impairment judgments including other than temporary declines in the value of securities and the recoverability of goodwill and other intangible assets. People's Bank's significant accounting policies and critical estimates are summarized in Note 1 to the consolidated financial statements.

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

Management maintains the allowance for loan losses at a level that is believed to be adequate to absorb probable losses inherent in the existing loan portfolio, based on a quarterly evaluation of a variety of factors. These factors include, but are not limited to: People's Bank's historical loan loss experience and recent trends in that experience; risk ratings assigned by lending personnel to commercial real estate finance, commercial and People's Capital and Leasing loans, and the results of ongoing reviews of those ratings by People's Bank's independent loan review function; an evaluation of non-performing loans and related collateral values; the probability of loss in view of geographic and industry concentrations and other portfolio risk characteristics; the present financial condition of borrowers; and current economic conditions. While management seeks to use the best available information to make these evaluations, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, the identification of additional problem loans and other factors.

The allowance for loan losses consists of amounts determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, and SFAS No. 114, Accounting by Creditors for Impairment of a Loan. In applying SFAS No. 5, management considers the factors listed in the preceding paragraph in order to estimate a loss allowance for (1) each homogeneous pool of smaller balance loans (residential mortgage and consumer loans) that are evaluated on a collective basis, and (2) commercial real estate finance, commercial and People's Capital and Leasing loans that are not considered impaired under SFAS No. 114. A loan is considered impaired when, based on current information and events, it is probable that People's Bank will be unable to collect all principal and interest due according to the contractual terms of the loan. People's Bank applies SFAS No. 114 to loans that are individually evaluated for collectibility in accordance with its normal loan review procedures. Under SFAS No. 114, impaired loans are reported based on one of three measures: the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's observable market price; or the fair value of the collateral if the loan is collateral dependent. If the measure is less than an impaired loan's recorded investment, an impairment loss is recognized as part of the allowance for loan losses.

**Valuation of Derivative Financial Instruments.** People's Bank uses derivatives for market risk management purposes (principally interest rate risk) and not for trading or speculation purposes.

All derivatives are recognized as either assets or liabilities and are measured at fair value. Favorable changes in fair values result in unrealized gains that are recognized as assets, while unfavorable changes result in unrealized losses that are



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recognized as liabilities. People's Bank's hedge accounting methods vary depending on whether the derivative instrument is classified as a fair value hedge or a cash flow hedge. 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. Results of effective hedges are recognized in current earnings for fair value hedges. Changes in the fair value of effective cash flow hedges are recognized in other comprehensive income 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.

People's Bank formally documents 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 Bank 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 Bank would discontinue hedge accounting prospectively.

Interest rate-lock commitments extended to borrowers relate to the origination of residential mortgage loans. To mitigate the interest rate risk inherent in these commitments, People's Bank enters into mandatory delivery and best efforts contracts to sell fixed-rate residential mortgage loans. 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 and exclude the value of mortgage servicing rights.

### **Asset Impairment Judgments**

***Goodwill and Other Intangible Assets.*** SFAS No. 141, Business Combinations, requires, among other things, use of the purchase method to account for all business combinations and specifies criteria that acquired intangible assets must meet in order to be recognized and reported separately from goodwill. The assets and liabilities of an acquired company are recorded at fair value at the date of acquisition. Intangible assets are recognized in an amount equal to the excess of the acquisition cost over the fair value of the net assets acquired. Other acquisition-related intangibles are separately identified, where appropriate, for the estimated value of acquired customer relationships and are amortized on a straight-line basis over the estimated remaining average life of those relationships (ranging from 7 to 12 years from the respective acquisition dates). The remaining intangible asset is classified as goodwill.

SFAS No. 142, Goodwill and Other Intangible Assets, requires that goodwill be reviewed for impairment at least annually, with impairment losses charged to expense when they occur. Acquisition-related intangible assets other than goodwill are amortized to expense over their estimated useful lives and are periodically reviewed by management to assess recoverability. Impairment losses are recognized as a charge to expense if carrying amounts exceed fair values.

SFAS No. 142 requires that goodwill be tested for impairment using a two-step approach that involves the identification of reporting units and the estimation of fair values. Goodwill shall also be tested for impairment when events occur that would more likely than not reduce the implied fair value of goodwill below its carrying value. An impairment loss is recognized as a charge to expense for any excess of the goodwill carrying amount over implied fair value.

***Securities.*** Marketable equity and debt securities (other than those reported as short-term investments) are classified as either trading account securities, held to maturity securities (applicable only to debt securities) or available for sale securities. Management determines the classification of a security at the time of its purchase.

Securities purchased for sale in the near term and those held by People's Securities in accordance with the requirements for a broker-dealer are classified as trading account securities and reported at fair value. Unrealized gains and losses are reported in non-interest income. Debt securities that People's Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. All other securities are classified as available for sale and reported at fair value. Unrealized gains and losses on securities available for sale are reported on an after-tax basis in stockholders' equity as accumulated other comprehensive income or loss. Premiums are amortized and discounts are accreted to interest income for debt securities, using the interest method over the remaining period to contractual maturity, adjusted for the effect of actual prepayments in the case of mortgage-backed securities, collateralized mortgage obligations and other asset-backed securities. Federal Home Loan Bank stock is a non-marketable equity security reported at cost.

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

Management conducts a periodic review and evaluation of the securities portfolio to determine if the decline in fair value of any security appears to be other than temporary. If the decline is deemed to be other than temporary, the security is written down to a new cost basis and the resulting loss is reported in non-interest income. The factors considered by management in its periodic review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; the ratings of the security; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions; and People's Bank's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value.

**Economic Environment**

People's Bank's results are subject to fluctuations based on economic conditions. Economic activity in the United States showed continued signs of expanding in 2005. Real gross domestic product increased at a rate of 3.5%, a level that represents the country's long-term historical average growth rate, and the national unemployment rate was 4.9% as of December 31, 2005, down from 5.4% at the end of 2004. The national economy continued to grow despite widening federal budget and trade deficits, rising energy costs, the negative impact from the hurricanes in 2005 and geopolitical uncertainties. In response to continuing signs that the U.S. economy was expanding, the Federal Reserve Board increased the targeted federal funds rate eight times in 2005 by a total of 200 basis points, after five interest rate increases in the second half of 2004 totaling 125 basis points, bringing the rate to 4.25% as of December 31, 2005 from 1.00% at the end of 2003.

The national economy continues to grow in 2006, albeit at a slower pace than in 2005. Real gross domestic product increased at a rate of 2.6% for the second quarter of 2006 and the unemployment rate at June 30, 2006 was 4.6%. The Federal Reserve raised interest rates an additional 100 basis points bringing the Federal Funds rate to 5.25% as of June 30, 2006.

People's Bank's primary market area, Connecticut, continues to enjoy the second highest median household income in the country. The state's unemployment rate, which decreased to 4.1% as of June 30, 2006, compared to 4.6% at the end of 2005, was below the national rate of 4.6%. The Connecticut economy experienced moderate job growth in 2005, with total employment in 2005 increasing by 12,500 jobs, or approximately 0.8% since December 31, 2004. As of June 30, 2006, Connecticut's total employment increased by 7,700 or 0.5%, over June 30, 2005.

**Business Segment Results**

People's Bank's operations are divided into two primary business segments that represent its core businesses, commercial banking and consumer financial services. In addition, the treasury area is responsible for managing People's Bank's securities portfolio, short-term investments and wholesale funding activities, such as borrowings and the funding center, which includes the impact of derivative financial instruments used for risk management purposes. The funding center refers to People's Bank's funds transfer pricing model, which is used in the calculation of the respective business segment's net interest income, and measures the value of funds used in and provided by each business segment.

**Business Segment Performance Summary - Net Income**

	For the Nine Months		For the Year Ended		
	Ended September 30, 2006	2005	2005 December 31,	2004	2003
	(In millions)				
Commercial banking	\$ 30.1	\$ 35.3	\$ 45.7	\$ 45.1	\$ 50.4
Consumer financial services	65.1	65.1	94.2	90.0	92.6
Treasury	(25.5)	(21.8)	(25.0)	(60.5)	(73.8)
Total reportable segments	69.7	78.6	114.9	74.6	69.2
Other	15.0	23.3	22.2	125.1	(5.4)
Total consolidated	\$ 84.7	\$ 101.9	\$ 137.1	\$ 199.7	\$ 63.8





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People's Bank uses an internal profitability reporting system to generate information by business segment, which is based on a series of management estimates and allocations regarding funds transfer pricing, the provision for loan losses, non-interest expense and income taxes. These estimates and allocations, some of which can be subjective in nature, are continually being reviewed and refined. Any changes in estimates and allocations that may affect the reported results of any business segment will not affect the consolidated financial position or results of operations of People's Bank as a whole.

Funds transfer pricing is used in the calculation of the respective business segment's net interest income, and measures the value of funds used in and provided by a business segment. The difference between the interest income on earning assets and the interest expense on funding liabilities and the corresponding funds transfer pricing charge for interest income or credit for interest expense results in net spread income. The provision for loan losses for the commercial banking and consumer financial services segments is generally based on a five-year rolling average net charge-off rate for the respective segment. The provision for loan losses for the national consumer loan portfolio is based on the actual loan loss provision for the period. People's Bank allocates a majority of non-interest expenses to each business segment using a full-absorption costing process. Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate business segment. Corporate overhead costs are assigned to the business segments using a standard allocation process. Income tax expense is allocated to each business segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the period.

In the second quarter of 2006, the results of the funding center, previously included in other, were reclassified to treasury. In the first quarter of 2006, People's Bank revised its funds transfer pricing methodology assumptions relating to those deposit products with indeterminate maturities, based on a comprehensive historical analysis of the implied maturities and repricing characteristics of those deposits. As a result, the duration for most of those deposits was lengthened, which in turn increased their value and corresponding funds transfer pricing credit. Segment information for all periods presented has been restated to reflect the changes resulting from the reclassification of the funding center to treasury and the revised funds transfer pricing methodology assumptions.

For a more detailed description of the estimates and allocations used to measure business segment performance, see Note 20 to the consolidated financial statements.

**Commercial Banking.** Commercial banking consists principally of commercial lending, commercial real estate finance lending and commercial deposit gathering activities. This segment also includes the equipment financing operations of People's Capital and Leasing, as well as cash management, correspondent banking and municipal banking.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(In millions)				
Net interest income	\$ 96.6	\$ 97.4	\$ 129.7	\$ 125.8	\$ 120.3
Provision for loan losses	7.7	6.9	9.4	8.8	7.1
Non-interest income:					
Fee-based revenues	12.1	17.3	21.7	18.4	21.3
Other non-interest income	3.3	1.3	2.0	1.4	1.1
Total non-interest income	15.4	18.6	23.7	19.8	22.4
Non-interest expense	57.9	54.9	73.7	67.4	60.1
Income before income tax expense	46.4	54.2	70.3	69.4	75.5
Income tax expense	16.3	18.9	24.6	24.3	25.1
Income from continuing operations	\$ 30.1	\$ 35.3	\$ 45.7	\$ 45.1	\$ 50.4
Average earning assets	\$ 3,864.3	\$ 3,598.4	\$ 3,620.9	\$ 3,204.3	\$ 2,908.0
Average liabilities	1,206.7	1,237.8	1,270.5	1,195.3	1,181.3
Period end assets	4,001.5	3,659.2	3,812.2	3,531.8	3,040.1

Commercial banking income from continuing operations declined \$5.2 million, or 15%, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, primarily reflecting lower fee-based revenues and an increase in non-interest expense,

partially offset by an increase in other non-interest income. Net interest income

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decreased \$0.8 million, or 1%, as a \$266 million, or 7%, increase in average earning assets was essentially offset by narrower net spreads. The \$5.2 million decrease in fee-based revenues reflects lower lending-related charges and fees, primarily lower commercial real estate finance loan prepayment penalties. The increase in other non-interest income primarily reflects a \$1.8 million increase in rental income on leased equipment. The \$3.0 million, or 5%, increase in non-interest expense reflects an increase in direct expenses due to the continued growth in this business, including a \$1.3 million increase in the amortization expense of leased equipment to People's Capital and Leasing customers.

The increase in average earning assets compared to the nine months ended September 30, 2005 reflects increases of \$182 million, or 37%, in People's Capital and Leasing loans, and \$134 million, or 10%, in commercial loans, partially offset by a \$48 million, or 3%, decrease in commercial real estate finance loans. Average commercial non-interest-bearing deposits totaled \$942 million for the nine months ended September 30, 2006, a \$34 million, or 3%, decrease compared to the year-ago period, reflecting the current interest rate environment.

Commercial banking income from continuing operations increased \$0.6 million, or 1%, in 2005 compared to 2004, reflecting increases in net interest income and fee-based revenues, partially offset by increases in non-interest expense and the provision for loan losses. Net interest income increased \$3.9 million, or 3%, reflecting a \$417 million, or 13%, increase in average earning assets, partially offset by narrower net spreads. The \$3.3 million increase in fee-based revenues reflects higher lending-related charges and fees, primarily higher commercial real estate loan prepayment penalties. The \$6.3 million, or 9%, increase in non-interest expense reflects a \$5.3 million increase in allocated expenses, due to the continued growth in this business during 2005 and a higher level of charges related to loan repayments.

The increase in average earning assets compared to 2004 reflects increases of \$224 million, or 21%, in commercial loans, \$164 million, or 46%, in People's Capital and Leasing loans and \$30 million, or 2%, in commercial real estate finance loans. Average commercial non-interest-bearing deposits grew \$43 million, or 5%, on a year-over-year basis.

Commercial banking income from continuing operations declined \$5.3 million, or 11%, in 2004 compared to 2003, as an increase in net interest income was more than offset by a reduction in fee-based revenues and increases in non-interest expense and the provision for loan losses. Net interest income increased \$5.5 million, or 5% in 2004 compared to 2003 reflecting a \$296 million, or 10%, increase in average earning assets, partially offset by narrower net spreads. The \$7.3 million, or 12%, increase in non-interest expense reflects increases in compensation and benefits, and a \$2.3 million increase in allocated expenses, largely related to portfolio growth in 2004. The \$2.9 million decrease in fee-based revenues reflects lower lending-related charges and fees, including loan prepayment penalties.

**Consumer Financial Services.** Consumer financial services includes, as its principal business lines, consumer deposit gathering activities, residential mortgage, home equity and other consumer lending (excluding the national consumer loan portfolio, which is reported in other). In addition to trust services, this segment also includes brokerage, financial advisory services, investment management services and life insurance provided by People's Securities, and other insurance services provided through R.C. Knox.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(In millions)				
Net interest income	\$ 194.2	\$ 200.5	\$ 266.4	\$ 268.0	\$ 264.3
Provision for loan losses	2.3	2.7	3.5	3.3	2.3
Non-interest income:					
Fee-based revenues	100.9	93.6	129.0	123.7	120.9
Net gains on sales of residential mortgage loans	1.5	3.1	4.0	3.7	14.8
Gain on sale of branches			8.1		
Other non-interest income	2.9	1.6	2.4	2.1	2.6
Total non-interest income	105.3	98.3	143.5	129.5	138.3
Non-interest expense	196.5	194.0	259.4	252.1	258.1
Income before income tax expense	100.7	102.1	147.0	142.1	142.2
Income tax expense	35.6	37.0	52.8	52.1	49.6
Income from continuing operations	\$ 65.1	\$ 65.1	\$ 94.2	\$ 90.0	\$ 92.6

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Average earning assets	\$ 5,024.4	\$ 4,585.4	\$ 4,634.9	\$ 4,148.2	\$ 3,821.0
Average liabilities	7,817.5	7,787.5	7,762.4	7,626.0	7,437.3
Period end assets	5,333.1	4,859.6	4,900.7	4,487.9	4,075.1

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Consumer financial services income from continuing operations was unchanged for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, primarily reflecting a \$6.3 million decrease in net interest income and a \$2.5 million increase in non-interest expense, partially offset by a \$7.3 million increase in fee-based revenues. The decrease in net interest income primarily reflects the reduction in net spread interest income for residential mortgage loans and the decline in net interest spread from the shift in deposits, partially offset by the benefit of an increase in average loan balances. The shift in deposit mix reflects an increase in higher-rate time deposits, partially offset by a decline in savings and money market deposits. During the nine months ended September 30, 2006, average earning assets increased \$439 million, or 10%, including increases of \$322 million, or 10%, in average residential mortgage loans and \$117 million, or 10%, in average home equity loans. People's Bank purchased \$170 million of adjustable-rate residential mortgage loans towards the end of the first quarter of 2006. Average consumer deposits totaled \$7.8 billion, a 1% increase compared to the nine months ended September 30, 2005.

The increase in fee-based revenues compared to the nine months ended September 30, 2005 primarily reflects an increase in service charges on deposit accounts, reflecting changes in People's Bank's fee structure. The increase in non-interest income reflects a \$0.7 million net gain from the sale of a corporate insurance account by R.C. Knox. The increase in non-interest expense reflects a \$5.4 million increase in allocated expenses in 2006 and a \$2.0 million goodwill impairment charge in the 2005 period.

Consumer financial services income from continuing operations increased \$4.2 million, or 5%, in 2005 compared to 2004. Fee-based revenues increased \$5.3 million compared to 2004, reflecting increases in service charges on deposit accounts and insurance revenue. Included in non-interest income in 2005 was an \$8.1 million gain on the sale of three branches. The increase in non-interest expense reflects a \$7.6 million increase in allocated expenses and a \$2.0 million goodwill impairment charge in 2005 resulting from the decision to combine Olson Mobeck Investment Advisors, Inc., previously a separate operating subsidiary, with one of People's Bank's other businesses within the consumer financial services segment (see Note 1 to the consolidated financial statements).

In 2005, average earning assets increased \$487 million, or 12%, including increases of \$250 million, or 8%, in average residential mortgage loans and \$228 million, or 25%, in average home equity loans. Average consumer deposits increased \$90 million, or 1%, compared to 2004.

Income from continuing operations for this segment decreased \$2.6 million, or 3%, in 2004 compared to 2003. The \$3.7 million increase in net interest income reflects increases in residential mortgage loans and consumer loans. Fee-based revenues increased \$2.8 million compared to 2003 reflecting an increase in insurance revenue, partially offset by slightly lower brokerage commissions. The \$11.1 million decrease in net gains on sales of residential mortgage loans reflects a substantial decline in fixed-rate residential mortgage origination volume (down 69% compared to 2003) and the resulting reduced level of loan sales. The \$6.0 million decrease in non-interest expense reflects reductions in compensation and commission expenses related to lower mortgage origination volume in 2004 and lower allocated expenses.

In 2004, average home equity loans increased \$230 million, or 34%, average residential mortgage loans increased \$101 million, or 3%, and average consumer deposits increased \$152 million, or 2%, all compared to 2003.

**Treasury.** Treasury encompasses the securities portfolio, short-term investments and wholesale funding activities, such as borrowings and the funding center, which includes the impact of derivative financial instruments used for risk management purposes. The funding center refers to People's Bank's funds transfer pricing model, which is used in the calculation of the respective business segment's net interest income, and measures the value of funds used in and provided by a business segment. Under this process, a money desk (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 Bank's treasury group and is based on the wholesale cost to People's Bank of assets and liabilities with similar maturities. Liability-generating businesses sell newly originated liabilities to the money desk and recognize a funding credit, while asset-generating businesses buy funding for newly originated assets from the money desk and recognize a funding charge. Once funding for an asset is purchased from or a liability is sold to the money desk, 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 interest rate risk to the treasury group.

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	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(In millions)				
Net interest income (loss)	\$ (21.1)	\$ (34.2)	\$ (43.0)	\$ (88.4)	\$ (110.2)
Non-interest income:					
Fee-based revenues	0.4		0.5		
Net security losses	(27.4)			(4.5)	(0.3)
Bank-owned life insurance	6.3	1.7	3.3		
Other non-interest income	0.1	0.2	0.3	0.1	
Total non-interest income	(20.6)	1.9	4.1	(4.4)	(0.3)
Non-interest expense	1.1	1.3	1.4	0.2	3.4
Loss before income tax benefit	(42.8)	(33.6)	(40.3)	(93.0)	(113.9)
Income tax benefit	(17.3)	(11.8)	(15.3)	(32.5)	(40.1)
Loss from continuing operations	\$ (25.5)	\$ (21.8)	\$ (25.0)	\$ (60.5)	\$ (73.8)
Average earning assets	\$ 1,077.4	\$ 1,866.3	\$ 1,765.9	\$ 2,403.8	\$ 2,884.4
Average liabilities	277.1	301.4	282.5	480.8	1,919.7
Period end assets	546.1	1,749.6	1,553.2	2,086.8	2,452.7

Treasury's loss from continuing operations for the nine months ended September 30, 2006 compared to the 2005 period reflects \$27.4 million of net security losses, partially offset by a \$13.1 million improvement in net interest income and the income from People's Bank's investment in bank-owned life insurance of \$6.3 million (\$9.5 million on a taxable-equivalent basis).

The improvement in net interest income reflects the funding center's net spread loss declining by \$22.3 million, partially offset by a \$9.2 million decline in treasury's net spread income. The reduction in treasury net interest income reflects an \$827 million decline in average securities and an increase in the funds transfer pricing charge for funding the bank-owned life insurance investment (with no offsetting interest income as bank-owned life insurance income is recorded in non-interest income). The improvement in the funding center's net spread loss reflects the rising interest rate environment and the asset sensitive position of People's Bank's balance sheet.

Average earning assets decreased \$789 million, or 42%, reflecting an \$827 million, or 45%, decline in average securities from the year-ago period given People's Bank's sale of its debt securities portfolio during 2006 as part of restructuring activities to better position People's Bank's balance sheet for the then current interest rate environment. The debt securities portfolio totaled \$145 million at September 30, 2006, compared to \$1.3 billion at December 31, 2005 and \$1.4 billion at September 30, 2005. During the nine months ended September 30, 2006, the debt securities portfolio decreased \$1.2 billion, reflecting the sale of approximately \$1.1 billion of securities and the substitution of securities with higher-yielding loans.

Average securities comprised 10% of average earning assets for the nine months ended September 30, 2006, compared to 18% in the year-ago period.

The improvement in treasury's loss from continuing operations in 2005 compared to 2004 reflects an increase in non-interest income (attributable to bank-owned life insurance income of \$3.3 million in 2005 and \$4.5 million of net security losses in 2004) and an improvement in net interest income of \$45.4 million.

The improvement in net interest income reflects the funding center's net spread loss declining by \$49.7 million, partially offset by a \$4.3 million decline in treasury's net spread income. The reduction in treasury net interest income reflects a \$510 million decline in average securities. The improvement in the funding center's net spread loss reflects the rising interest rate environment and the asset sensitive position of People's Bank's balance sheet.

People's Bank invested \$150 million in a bank-owned life insurance program in the second quarter of 2005 with proceeds from maturing securities. Increases in the cash surrender value of bank-owned life insurance are included in non-interest income and totaled \$3.3 million in 2005. People's Bank invested an additional \$50 million in bank-owned life insurance in February 2006 with proceeds from maturing securities.





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Average securities comprised 17% of average earning assets in 2005, compared to 23% in 2004 and 27% in 2003.

Treasury's loss from continuing operations improved \$13.3 million in 2004 compared to 2003 primarily due to an improvement in net interest income, partially offset by a \$4.2 million increase in net security losses. The improvement in net interest income reflects the funding center's net spread loss declining by \$22.3 million, partially offset by a \$0.5 million decline in treasury's net spread income. The improvement in the funding center's net spread loss reflects the rising interest rate environment and the asset sensitive position of People's Bank's balance sheet.

**Other.** Other includes the residual financial impact from the allocation of revenues and expenses and certain revenues and expenses not attributable to a particular segment. This category also includes: revenues and expenses relating to the national consumer loan portfolio; liability restructuring costs; certain nonrecurring items; income from discontinued operations, including the gain on the sale of the credit card business; and benefits from completed Internal Revenue Service audits in each of the three full years presented. Included in period-end assets are cash, national consumer loans, premises and equipment, assets of discontinued operations in 2003, and other assets.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(In millions)				
Net interest income	\$ 16.6	\$ 12.7	\$ 16.6	\$ 21.7	\$ 7.2
Provision for loan losses	(8.0)	(6.3)	(4.3)	1.2	7.3
Non-interest income	2.0	2.3	2.0	6.8	5.9
Liability restructuring costs			2.7	133.4	1.2
Other non-interest expense	5.8	3.6	7.2	26.6	23.2
Income (loss) before income tax expense (benefit)	20.8	17.7	13.0	(132.7)	(18.6)
Income tax expense (benefit)	7.5	4.7	2.0	(52.5)	(12.1)
Income (loss) from continuing operations	13.3	13.0	11.0	(80.2)	(6.5)
Income from discontinued operations, net of tax	1.7	4.1	5.0	6.8	1.1
Gain on sale of discontinued operations, net of tax		6.2	6.2	198.5	
Income from discontinued operations	1.7	10.3	11.2	205.3	1.1
Net income (loss)	\$ 15.0	\$ 23.3	\$ 22.2	\$ 125.1	\$ (5.4)
Average liabilities	\$ 249.0	\$ 271.1	\$ 264.5	\$ 316.0	\$ 302.0
Period end assets	731.4	622.7	666.4	611.4	2,103.6

**Results of Operations**

**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 earning assets and interest-bearing liabilities; non-interest-bearing sources of funds; hedging activities; and asset quality.

In response to signs of an expanding U.S. economy, since June 2004 the Federal Reserve Board increased the targeted federal funds rate 17 times by a total of 425 basis points, bringing the rate to 5.25% as of September 30, 2006. Given the asset sensitive position of the balance sheet, the net interest margin has generally benefited from these interest rate increases.

Net interest income increased \$10 million, or 4%, and the net interest margin improved 17 basis points to 3.83% for the first nine months of 2006 compared to the first nine months of 2005. The increase in net interest income reflects a \$57 million increase in total interest and dividend income, partially offset by a \$47 million increase in total interest expense.

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Average earning assets totaled \$10.0 billion for the first nine months of 2006, a \$108 million, or 1%, decrease from the 2005 period, while the asset mix continued to shift. The ongoing shift in asset mix from securities to higher yielding loans continues to benefit the net interest margin. Average loans increased \$684 million, or 8%, while average securities declined \$820 million, or 45%, for the first nine months of 2006 compared to the year-ago period. As a result, average loans and

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average securities comprised 89% and 10%, respectively, of average earning assets for the first nine months of 2006 compared to 81% and 18%, respectively, for the year-ago period. The yield earned on the total loan portfolio was 6.03% for the first nine months of 2006 while the yield earned on securities was 3.64%, compared to 5.31% and 3.45%, respectively, for the year-ago period.

Growth in loans reflects increases of \$323 million, or 10%, in average residential mortgage loans, \$268 million, or 7%, in average commercial banking loans and \$93 million, or 8%, in average consumer loans for the first nine months of 2006 compared to the year-ago period. The increase in average residential mortgage loans reflects, in part, the purchase of \$170 million of adjustable rate mortgage loans towards the end of the first quarter of 2006.

The growth in average commercial banking loans for the first nine months of 2006 compared to the year-ago period reflects a \$182 million, or 37%, increase in average People's Capital and Leasing loans and a \$134 million, or 10%, increase in average commercial loans, partially offset by a \$48 million, or 3%, decrease in average commercial real estate finance loans. Included in average commercial loans and average commercial real estate finance loans were increases of \$47 million, or 17%, and \$38 million, or 25%, in the respective national credits portfolios.

The growth in average consumer loans for the first nine months of 2006 compared to the year-ago period continues to reflect a shift in mix as an increase of \$119 million, or 11%, in home equity loans was partially offset by a \$24 million, or 80%, reduction in higher-yielding unsecured national personal installment loans, which continue to run off as a result of a management decision to discontinue this type of lending. Given the upward movement in market interest rates, future growth in both residential mortgage and home equity lending may not continue at recent levels in the future.

The significant decrease in the average securities portfolio for the first nine months of 2006 compared to the year-ago period reflects the substitution of securities with higher-yielding loans as securities pay down and mature, as well as the partial impact of security sales during 2006 as part of restructuring activities to better position People's Bank's balance sheet for the then current interest rate environment. People's Bank sold \$810 million and \$266 million of debt securities in the third and second quarters of 2006, respectively, and used the proceeds to fund loan growth and pay down borrowings. The duration of the securities portfolio was approximately 0.09 years at September 30, 2006. In addition to funding loan growth, People's Bank invested \$50 million in the first quarter of 2006 and \$150 million in the second quarter of 2005 in a bank-owned life insurance program with proceeds from maturing securities. The earnings from bank-owned life insurance are reported in non-interest income in the Consolidated Statements of Income.

The overall 82 basis point improvement in the yield on average earning assets for the first nine months of 2006 compared to the year-ago period primarily reflects increases in market interest rates since June 2004 and the ongoing shift in asset mix. The interest rate increases initiated by the Federal Reserve continue to have a beneficial effect on the earning asset yield as approximately 29% of the loan portfolio at September 30, 2006 has floating interest rates.

Average funding liabilities totaled \$9.4 billion for the first nine months of 2006, essentially flat with 2005. Average core deposits increased \$51 million, or 1%, to \$8.9 billion and comprised 95% of average funding liabilities, compared to 94% in 2005. Average interest-bearing core deposits increased \$86 million, or 1%, and average non-interest-bearing core deposits decreased \$35 million, or 2%, reflective of People's Bank's current strategy of funding loan growth with proceeds from the repayment of securities.

The 68 basis point increase to 2.06% from 1.38% in the rate paid on average funding liabilities for the first nine months of 2006 compared to the 2005 period primarily reflects increases in market interest rates since June 2004 and the ongoing shift in deposit mix. The rates paid on average core deposits increased 66 basis points in the first nine months of 2006, reflecting increases of 109 basis points in time deposits and 38 basis points in savings and money market deposits in response to rising market interest rates. The change in the mix of average interest-bearing core deposits reflects a \$632 million, or 24%, increase in higher-rate time deposits, partially offset by a \$546 million, or 13%, decline in savings and money market deposits, reflecting customers' preferences for deposit products with higher interest rates given the prevailing interest rate environment. Average time deposits comprised 36% of average total core deposits, compared to 29% for the year-ago period. Further shifts in deposit mix to higher-rate deposits are likely to raise People's Bank's overall cost of funding.

Net interest income increased \$43 million, or 13%, and the net interest margin improved 35 basis points to 3.68% in 2005 compared to 2004. The increase in net interest income reflects a \$71 million increase in total interest and dividend income, partially offset by a \$28 million increase in total interest expense.

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Average earning assets totaled \$10.0 billion in 2005, a \$205 million, or 2%, increase from 2004, while the asset mix continued to shift. Average loans increased \$836 million, or 11%, while average securities and average short-term investments declined a combined \$631 million, or 26%. As a result, average loans and average securities comprised 82% and 17%, respectively, of average earning assets, compared to 75% and 23%, respectively, in 2004. The yield earned on the total loan portfolio was 5.41% in 2005 while the yield earned on securities and short-term investments was 3.45%.

The total average commercial banking loan portfolio increased \$418 million, or 13%, in 2005 compared to 2004, reflecting increases of \$224 million, or 21%, in commercial loans, \$164 million, or 46%, in People's Capital and Leasing loans and \$30 million, or 2%, in commercial real estate finance loans. Included in average commercial loans and average commercial real estate finance loans were increases of \$83 million, or 41%, and \$8 million, or 5%, in the respective national credits portfolios.

Average residential mortgage loans increased \$250 million, or 8%, in 2005 compared to 2004, while average consumer loans increased \$168 million, or 16%. Consumer loans continued to reflect a shift in mix as growth of \$228 million, or 25%, in home equity loans generated by the Connecticut franchise was partially offset by a \$60 million, or 70%, reduction in higher-yielding unsecured national personal installment loans, which continued to run off as a result of a management decision to discontinue this type of lending. The growth in home equity lending reflected a combination of the emphasis placed on this line of business by People's Bank, as well as nationwide trends.

The \$510 million, or 23%, decrease in the average securities portfolio in 2005 compared to 2004 reflected the substitution of securities with higher-yielding loans as securities paid down and matured. The duration of the securities portfolio was approximately 1.7 years at December 31, 2005. In addition, People's Bank invested \$150 million in a bank-owned life insurance program with proceeds from maturing securities in 2005.

The overall 61 basis point improvement in the yield on average earning assets in 2005 compared to 2004 primarily reflected the increase in market interest rates since June 2004 and the ongoing shift in asset mix. The interest rate increases initiated by the Federal Reserve had a beneficial effect on the earning asset yield as approximately 30% of the loan portfolio had floating interest rates.

In 2005, average funding liabilities totaled \$9.4 billion, essentially flat with 2004 before the allocation of funding liabilities to discontinued operations. Average core deposits increased \$224 million, or 3%, and comprised 94% of average funding liabilities in 2005 compared to 91% in 2004 before the allocation of funding liabilities to discontinued operations. Average non-interest-bearing core deposits increased \$98 million, or 5%, and average interest-bearing core deposits increased \$126 million, or 2%, due in part to People's Bank's focus on growing core deposits during 2005.

The 27 basis point increase to 1.47% from 1.20% in the rate paid on average funding liabilities in 2005 compared to 2004 primarily reflected the increase in market interest rates throughout 2005 and the shift in deposit mix. The rates paid on average core deposits increased 32 basis points in 2005, reflecting increases of 50 basis points in time deposits and 25 basis points in savings and money market deposits in response to rising market interest rates, partially offset by growth in non-interest-bearing core deposits. The change in the mix of average interest-bearing core deposits reflected a \$377 million, or 17%, increase in higher-rate time deposits, partially offset by a \$251 million, or 6%, decline in savings and money market deposits, reflecting customers' preferences for deposit products with higher interest rates. Average time deposits comprised 29% of average total deposits in 2005, compared to 26% in 2004.

Average purchased funds decreased \$186 million, or 33%, and average subordinated notes decreased \$25 million, or 17%, in 2005 compared to 2004. In December 2005, People's Bank repurchased \$13.5 million of its 9.875% subordinated notes due 2010.

In the first quarter of 2004, People's Bank used a portion of the proceeds from the sale of its credit card business to pay down interest-bearing liabilities. The repayment of over \$1 billion in high-cost wholesale liabilities and the cancellation of derivative positions relating to a portion of these liabilities had a net beneficial impact on the net interest margin in 2004.

Net interest income increased \$43 million, or 15%, and the net interest margin improved 44 basis points to 3.33%, in 2004 compared to 2003. The increase in net interest income reflects a \$62 million reduction in total interest expense, partially offset by a \$19 million decrease in total interest and dividend income.

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Average earning assets totaled \$9.8 billion in 2004, essentially flat with 2003, while the asset mix continued to shift. Average loans increased \$484 million, or 7%, while average securities and average short-term investments declined a combined \$475 million, or 16%. As a result, average loans comprised 75% of average earning assets and average securities and average short-term investments comprised 25% of average earning assets, compared to 70% and 30%, respectively, in 2003. The decrease in the average securities portfolio reflects the decision to substitute, over time, securities with higher-yielding loans.

Average commercial loans increased \$178 million, or 14%, and included a \$104 million, or 42%, increase in average People's Capital and Leasing loans in 2004 compared to 2003. Average commercial real estate finance loans increased \$114 million, or 7%. Average consumer loans increased \$92 million, or 10%, and continued to reflect a shift in mix as growth of \$230 million, or 34%, in home equity loans generated by the Connecticut franchise was partially offset by a \$134 million, or 61%, reduction in higher-yielding unsecured national personal installment loans. The growth in home equity lending reflected the combination of increased focus placed on this line of business by People's Bank and nationwide trends.

The overall low level of interest rates adversely affected the yields on People's Bank's earning assets, as seen in the 20 basis point reduction in the yield on average earning assets in 2004 compared to 2003. The yield on average residential mortgage loans declined 28 basis points, reflecting refinancings and new originations at relatively low market interest rates that existed in 2003 and 2004. The 133 basis point decline in the yield on the consumer loan portfolio reflects a change in portfolio mix from higher-yielding national unsecured consumer loans to home equity loans originated at lower market and promotional interest rates.

In 2004, average funding liabilities before the allocation of funding liabilities to discontinued operations totaled \$9.4 billion, a \$1.3 billion, or 12%, decline from 2003, reflecting the impact of the balance sheet restructuring in 2004 and growth of \$258 million, or 3%, in average core deposits. Average non-interest-bearing core deposits increased \$175 million, or 9%, and average interest-bearing core deposits increased \$83 million, or 1%, due in part to People's Bank's focus on growing core deposits during 2004. Average core deposits comprised 91% of average funding liabilities before the allocation of funding liabilities to discontinued operations, compared to 78% in 2003, reflecting the balance sheet restructuring in 2004.

Average rates paid on total deposits declined 20 basis points in 2004 compared to 2003, reflecting the continued strong growth in non-interest-bearing core deposits and the overall low level of interest rates. The rates paid by People's Bank on certain interest-bearing deposit products began to increase by the end of 2004 from the historically low interest rate levels experienced in 2003, reflective of the increases in interest rates initiated by the Federal Reserve Board.

Average purchased funds decreased \$1.3 billion, or 71%, and average subordinated notes decreased \$106 million, or 42%, in 2004 compared to 2003, reflecting the results of the balance sheet restructuring in 2004. The 61 basis point improvement to 1.20% from 1.81% in the average rate paid on total funding liabilities primarily reflected the benefits from the balance sheet restructuring in 2004.

*Average Balance, Interest and Yield/Rate Analysis.* The tables on the following pages present average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the nine month periods ended September 30, 2006 and 2005 and for the years ended December 31, 2005, 2004 and 2003. 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 Bank has ceased to accrue interest. The impact of People's Bank's use of derivative instruments in managing interest rate risk is also reflected in the table, classified according to the instrument hedged and the risk management objective.

For 2004 and 2003, the net interest margin, net interest income and average funding liabilities reflect a reduction in funding liabilities and interest expense relating to the earning assets of the credit card business that were reclassified to discontinued operations for the periods prior to the sale in the first quarter of 2004. Interest expense was allocated to discontinued operations for those years by applying the weighted-average cost of funds previously used for credit card segment reporting purposes to the average earning assets of the discontinued operations for the respective year, with a corresponding reduction in total interest expense.

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	For the Nine Months Ended September 30,					
	2006			2005		
	Average Balance	Interest	Yield/ Rate <sup>(1)</sup>	Average Balance	Interest	Yield/ Rate <sup>(1)</sup>
	(Dollars in millions)					
<b>Earning assets:</b>						
Short-term investments	\$ 84.1	\$ 3.1	4.87%	\$ 55.7	\$ 1.0	2.53%
Securities purchased under agreements to resell	22.2	0.8	4.97	22.1	0.7	4.08
Securities <sup>(2)</sup>	1,018.7	27.8	3.64	1,838.9	47.7	3.45
<b>Loans:</b>						
Residential mortgage	3,708.2	135.2	4.86	3,385.7	114.0	4.49
Commercial real estate finance	1,755.9	92.5	7.02	1,804.0	86.4	6.39
Commercial	2,104.6	107.3	6.80	1,788.4	77.7	5.79
Consumer	1,278.5	64.8	6.76	1,185.1	46.9	5.27
Total loans	8,847.2	399.8	6.03	8,163.2	325.0	5.31
Total earning assets	\$ 9,972.2	\$ 431.5	5.77%	\$ 10,079.9	\$ 374.4	4.95%
<b>Funding liabilities:</b>						
<b>Deposits:</b>						
Non-interest-bearing deposits	\$ 2,107.7	\$	%	\$ 2,143.0	\$	%
Savings, interest-bearing checking and money market	3,549.8	36.8	1.38	4,095.8	30.7	1.00
Time	3,215.3	89.2	3.70	2,583.1	50.5	2.61
Total core deposits	8,872.8	126.0	1.89	8,821.9	81.2	1.23
Non-core deposits <sup>(3)</sup>	129.1	2.0	2.12	164.6	1.5	1.19
Total deposits	9,001.9	128.0	1.90	8,986.5	82.7	1.23
<b>Borrowings:</b>						
Federal funds purchased	207.2	7.4	4.76	242.5	5.2	2.90
Federal Home Loan Bank advances	63.2	2.4	5.13	64.9	1.3	2.68
Repurchase agreements				2.3	0.1	2.40
Total borrowings	270.4	9.8	4.84	309.7	6.6	2.85
Subordinated notes	108.7	7.4	9.04	121.9	8.4	9.18
Total funding liabilities	\$ 9,381.0	\$ 145.2	2.06%	\$ 9,418.1	\$ 97.7	1.38%
Excess of earning assets over funding liabilities	\$ 591.2			\$ 661.8		
Net interest income/spread <sup>(4)</sup>		\$ 286.3	3.71%		\$ 276.7	3.57%
Net interest margin			3.83%			3.66%

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

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

(3) Includes \$79.7 million and \$91.5 million of non-interest-bearing deposits for the nine months ended September 30, 2006 and 2005, respectively.

(4) The fully-taxable equivalent adjustment for 2005 was \$0.3 million. There was no adjustment for 2006.

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	For the Year Ended December 31,								
	2005			2004			2003		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in millions)								
<b>Earning assets:</b>									
Short-term investments	\$ 54.5	\$ 1.5	2.86%	\$ 198.0	\$ 2.3	1.19%	\$ 265.4	\$ 4.9	1.80%
Securities purchased under agreements to resell	22.8	1.0	4.22						
Securities (1)	1,737.8	60.3	3.47	2,248.0	72.5	3.23	2,656.0	85.8	3.23
<b>Loans:</b>									
Residential mortgage	3,413.3	154.7	4.53	3,163.4	137.7	4.35	3,062.4	141.7	4.63
Commercial real estate finance	1,790.5	116.2	6.49	1,760.7	105.0	5.96	1,647.1	103.1	6.26
Commercial	1,825.5	108.7	5.95	1,437.6	73.3	5.10	1,259.6	66.3	5.27
Consumer	1,203.3	65.8	5.47	1,035.0	46.7	4.51	943.5	55.1	5.84
Total loans	8,232.6	445.4	5.41	7,396.7	362.7	4.90	6,912.6	366.2	5.30
Total earning assets	\$ 10,047.7	\$ 508.2	5.06%	\$ 9,842.7	\$ 437.5	4.45%	\$ 9,834.0	\$ 456.9	4.65%
<b>Funding liabilities:</b>									
<b>Deposits:</b>									
Non-interest-bearing deposits	\$ 2,142.0	\$	%	\$ 2,043.7	\$	%	\$ 1,868.3	\$	%
Savings, interest-bearing checking and money market	4,023.4	42.6	1.06	4,274.7	34.4	0.81	3,973.6	35.5	0.89
Time	2,648.8	72.6	2.74	2,271.5	50.9	2.24	2,489.4	65.0	2.61
Total core deposits	8,814.2	115.2	1.31	8,589.9	85.3	0.99	8,331.3	100.5	1.20
Non-core deposits (2)	167.2	2.3	1.40	198.5	1.4	0.69	300.3	2.0	0.68
Total deposits	8,981.4	117.5	1.31	8,788.4	86.7	0.99	8,631.6	102.5	1.19
<b>Borrowings:</b>									
Federal funds purchased	250.5	7.9	3.19	249.6	3.2	1.25	517.9	9.3	1.80
Federal Home Loan Bank advances	50.3	1.4	2.73	176.1	9.4	5.32	1,059.5	53.8	5.08
Repurchase agreements	1.7	0.1	2.41	36.1	1.0	2.91	201.7	5.9	2.91
Total borrowings	302.5	9.4	3.11	461.8	13.6	2.94	1,779.1	69.0	3.88
Subordinated notes	121.2	11.3	9.29	146.5	13.4	9.16	252.7	22.8	9.04
Total	9,405.1			9,396.7			10,663.4		
Funding liabilities allocated to discontinued operations (3)				(203.6)	(3.6)	1.77	(1,133.6)	(21.7)	1.91
Total funding liabilities	\$ 9,405.1	\$ 138.2	1.47%	\$ 9,193.1	\$ 110.1	1.20%	\$ 9,529.8	\$ 172.6	1.81%
Excess of earnings assets over funding liabilities	\$ 642.6			\$ 649.6			\$ 304.2		
Net interest income/spread (4)		\$ 370.0	3.59%		\$ 327.4	3.25%		\$ 284.3	2.84%
Net interest margin			3.68%			3.33%			2.89%

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- (1) Average balances and yields for securities available for sale are based on amortized cost.
- (2) Includes \$89.7 million, \$94.6 million and \$125.1 million of non-interest-bearing deposits in 2005, 2004 and 2003, respectively.
- (3) Represents an allocation of funding liabilities and interest expense to discontinued operations.
- (4) The fully-taxable equivalent adjustment for 2005, 2004 and 2003 was \$0.3 million, \$0.3 million and \$2.7 million, respectively.



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The following table provides the weighted average yields earned and rates paid for each major category of earning assets and funding liabilities as of September 30, 2006.

	As of September 30, 2006	
	Actual Balance	Yield /Rate
	(Dollars in millions)	
Earning assets:		
Short-term investments	\$ 179.6	5.29%
Securities	201.9	4.45
Loans	9,184.9	6.17
<b>Total earning assets</b>	<b>\$ 9,566.4</b>	<b>6.12%</b>
Funding liabilities:		
Non-interest-bearing deposits	\$ 2,172.4	%
Savings, interest-bearing checking and money market deposits	3,286.1	1.37
Time deposits	3,520.1	4.28
Borrowings	13.6	5.15
Subordinated notes	108.8	9.04
<b>Total funding liabilities</b>	<b>\$ 9,101.0</b>	<b>2.27%</b>

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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 earning assets and average interest-bearing liabilities have affected People's Bank'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 rate); changes in rates (changes in average interest rates multiplied by the prior year's average balance); and the total change. Changes attributable to both volume and rate have been allocated proportionately.

	<b>Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 Increase (Decrease) Due To</b>		
	<b>Volume</b>	<b>Rate (In millions)</b>	<b>Net</b>
<b>Interest and dividend income:</b>			
Short-term investments	\$ 0.7	\$ 1.4	\$ 2.1
Securities purchased under agreements to resell		0.1	0.1
Securities	(22.3)	2.4	(19.9)
<b>Loans:</b>			
Residential mortgage	11.3	9.9	21.2
Commercial real estate finance	(2.4)	8.5	6.1
Commercial	14.9	14.7	29.6
Consumer	3.9	14.0	17.9
<b>Total loans</b>	<b>27.7</b>	<b>47.1</b>	<b>74.8</b>
<b>Total change in interest and dividend income</b>	<b>6.1</b>	<b>51.0</b>	<b>57.1</b>
<b>Interest expense:</b>			
<b>Deposits:</b>			
Savings, interest-bearing checking and money market	(4.5)	10.6	6.1
Time	14.3	24.4	38.7
<b>Total core deposits</b>	<b>9.8</b>	<b>35.0</b>	<b>44.8</b>
Non-core deposits	(0.4)	0.9	0.5
<b>Total deposits</b>	<b>9.4</b>	<b>35.9</b>	<b>45.3</b>
<b>Borrowings:</b>			
Federal Home Loan Bank advances		1.1	1.1
Federal funds purchased	(0.9)	3.1	2.2
Repurchase agreements	(0.1)		(0.1)
<b>Total borrowings</b>	<b>(1.0)</b>	<b>4.2</b>	<b>3.2</b>
Subordinated notes	(0.9)	(0.1)	(1.0)
<b>Total change in interest expense</b>	<b>7.5</b>	<b>40.0</b>	<b>47.5</b>
<b>Change in net interest income</b>	<b>\$ (1.4)</b>	<b>\$ 11.0</b>	<b>\$ 9.6</b>

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	2005 Compared to 2004			2004 Compared to 2003		
	Increase (Decrease) Due To Volume	Rate	Net	Increase (Decrease) Due To Volume	Rate	Net
(In millions)						
<b>Interest and dividend income:</b>						
Short-term investments	\$ (2.5)	\$ 1.7	\$ (0.8)	\$ (1.0)	\$ (1.6)	\$ (2.6)
Securities purchased under agreements to resell	1.0		1.0			
Securities	(17.4)	5.2	(12.2)	(13.2)	(0.1)	(13.3)
<b>Loans:</b>						
Residential mortgage	11.2	5.8	17.0	4.6	(8.6)	(4.0)
Commercial real estate finance	1.8	9.4	11.2	6.9	(5.0)	1.9
Commercial	21.8	13.6	35.4	9.1	(2.1)	7.0
Consumer	8.3	10.8	19.1	5.0	(13.4)	(8.4)
Total loans	43.1	39.6	82.7	25.6	(29.1)	(3.5)
Total change in interest and dividend income	24.2	46.5	70.7	11.4	(30.8)	(19.4)
<b>Interest expense:</b>						
<b>Deposits:</b>						
Savings, interest-bearing checking and money market	(2.1)	10.3	8.2	2.6	(3.7)	(1.1)
Time	9.3	12.4	21.7	(5.4)	(8.7)	(14.1)
Total core deposits	7.2	22.7	29.9	(2.8)	(12.4)	(15.2)
Non-core deposits	(0.2)	1.1	0.9	(0.7)	0.1	(0.6)
Total deposits	7.0	23.8	30.8	(3.5)	(12.3)	(15.8)
<b>Borrowings:</b>						
Federal Home Loan Bank advances	(4.8)	(3.2)	(8.0)	(46.9)	2.5	(44.4)
Federal funds purchased		4.7	4.7	(3.9)	(2.2)	(6.1)
Repurchase agreements	(0.9)		(0.9)	(4.8)	(0.1)	(4.9)
Total borrowings	(5.7)	1.5	(4.2)	(55.6)	0.2	(55.4)
Subordinated notes	(2.3)	0.2	(2.1)	(9.7)	0.3	(9.4)
Funding liabilities allocated to discontinued operations	3.6		3.6	16.6	1.5	18.1
Total change in interest expense	2.6	25.5	28.1	(52.2)	(10.3)	(62.5)
Change in net interest income	\$ 21.6	\$ 21.0	\$ 42.6	\$ 63.6	\$ (20.5)	\$ 43.1

**Provision for Loan Losses and Net Charge-offs.** The provision for loan losses in the first nine months of 2006 totaled \$2.0 million, a \$1.3 million, or 39%, reduction compared to the year-ago period. The 2006 period reflects \$3.0 million in net loan charge-offs, partially offset by a \$1.0 million reduction in the allowance for loan losses. The 2005 period reflected net loan charge-offs of \$2.8 million and a \$0.5 million increase in the allowance for loan losses. Net loan charge-offs increased \$0.2 million, or 7%, for the first nine months of 2006, compared to the year-ago period. The allowance for loan losses as a percentage of total loans was 0.81% at September 30, 2006 and 0.87% at September 30, 2005.

Commercial loan net charge-offs reflect a \$4.0 million charge-off in the third quarter of 2006 relating to one commercial banking loan that was placed on non-accrual status in the second quarter of 2006 as previously disclosed. Commercial real estate finance net recoveries reflect a \$2.3 million cash recovery in the first quarter of 2006 on one non-performing loan that was favorably resolved.

Consumer loan net charge-offs decreased \$0.8 million, or 40%, reflecting a \$1.6 million decrease in national consumer loan net charge-offs, partially offset by a \$0.6 million increase in charge-offs related to consumer overdrafts that were previously reported in non-interest expense through the second quarter of 2005. The average national consumer loan portfolio decreased \$24 million, or 80%, on a year-over-year basis.

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Net loan charge-offs as a percentage of average total loans equaled 0.05% on an annualized basis for the first nine months of 2006, unchanged from the year-ago period. The impact of the slight increase in net loan charge-offs on the net loan charge-off ratio was offset by a \$684 million, or 8%, increase in average loans from the first nine months of 2005. The very low level of net loan charge-offs in terms of absolute dollars and as a percentage of average loans is unlikely to be sustainable in the future.

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Net loan charge-offs in 2005 declined \$5.2 million, or 46%, compared to 2004. Consumer loan net charge-offs decreased \$4.0 million, or 58%, reflecting a 72% decrease in the dollar amount of national consumer loan net charge-offs given a \$60 million, or 70%, reduction in this portfolio's average balances during 2005. The increase in People's Capital and Leasing loan net charge-offs in 2005 reflected a \$2.3 million charge-off related to one loan. Commercial real estate finance loan net charge-offs in 2004 reflected a \$3.2 million charge-off related to one shared national credit that had been classified as non-performing since 2002. The provision for loan losses decreased \$4.7 million in 2005 compared to 2004, reflecting lower net loan charge-offs in 2005, partially offset by a \$2.5 million increase in the allowance for loan losses in 2005, compared to a \$2.0 million increase in the allowance for loan losses in 2004.

Net loan charge-offs as a percentage of average total loans decreased 8 basis points to 0.07% in 2005 compared to 0.15% in 2004. In addition to the \$5.2 million decrease in net loan charge-offs, the improvement in the net loan charge-off ratio reflected an \$836 million, or 11%, increase in average total loans.

Net loan charge-offs in 2004 declined \$4.1 million, or 27%, compared to 2003, reflecting a \$7.0 million, or 50%, reduction in consumer loan net charge-offs, partially offset by the commercial real estate loan charge-off discussed above. The provision for loan losses decreased \$3.4 million in 2004 compared to 2003, reflecting lower consumer loan net charge-offs in 2004.

**Non-Interest Income.** Non-interest income (especially fee-based revenues) is an important revenue source for People's Bank that can mitigate the impact of interest rate volatility on net interest income. People's Bank has focused on enhancing these revenue streams by leveraging its commercial banking relationships, growing existing fee-based revenue generating businesses, and strengthening its retail delivery network and products.

The following table sets forth the components of non-interest income for the periods indicated.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(In millions)				
<b>Fee-based Revenues:</b>					
Service charges on deposit accounts	\$ 58.4	\$ 52.6	\$ 72.4	\$ 69.2	\$ 68.7
Insurance revenue	20.2	20.4	28.0	27.9	26.2
Brokerage commissions	9.2	9.1	11.7	12.6	13.2
<b>Other fee-based revenues:</b>					
Other banking service charges and fees	11.9	11.6	15.5	14.4	13.7
Investment management fees	8.1	7.9	10.6	9.9	8.9
Other fees	5.7	10.1	13.3	8.9	12.3
<b>Total other fee-based revenues</b>	<b>25.7</b>	<b>29.6</b>	<b>39.4</b>	<b>33.2</b>	<b>34.9</b>
<b>Total fee-based revenues</b>	<b>113.5</b>	<b>111.7</b>	<b>151.5</b>	<b>142.9</b>	<b>143.0</b>
<b>Net security gains (losses):</b>					
Equity securities available for sale	0.1			(0.3)	(0.2)
Debt securities available for sale	(27.4)			(4.4)	(1.5)
Trading account securities	0.1	(0.1)	(0.1)		1.1
<b>Total net security losses</b>	<b>(27.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(4.7)</b>	<b>(0.6)</b>
Net gains on sales of residential mortgage loans	1.5	3.1	4.0	3.7	14.8
Gain on sale of branches			8.1		
Bank-owned life insurance	6.3	1.7	3.3		
Other non-interest income	8.0	4.7	6.5	9.8	9.1
<b>Total non-interest income</b>	<b>\$ 102.1</b>	<b>\$ 121.1</b>	<b>\$ 173.3</b>	<b>\$ 151.7</b>	<b>\$ 166.3</b>

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Total non-interest income decreased \$19.0 million in the first nine months of 2006, compared to the 2005 period, reflecting net security losses of \$27.4 million as part of balance sheet restructuring activities in 2006. Excluding net security losses from both periods, total non-interest income would have increased \$8.1 million, or 7%, reflecting higher fee-based

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revenues, higher bank-owned life insurance income and higher other non-interest income, partially offset by lower net gains on sales of residential mortgage loans.

Revenue from service charges on deposit accounts increased \$5.8 million, or 11%, compared to the first nine months of 2005, reflecting changes in People's Bank's fee structure implemented in both the second quarter of 2006 and the third quarter of 2005 to close the gap between People's Bank's pricing practices and those of the competition.

Insurance revenue declined \$0.2 million in the first nine months of 2006, reflecting industry-wide trends for this business, characterized as a soft market with lower pricing for renewals.

Other banking service charges and fees increased \$0.3 million in the first nine months of 2006, primarily due to growth in retail banking fees associated with higher levels of Personal Identification Number (PIN) debit interchange fees resulting from customer preferences for debit card-related transactions. PIN debit interchange refers to the revenue generated when a customer uses their PIN to make a purchase with their debit card. People's Bank earns a portion of the purchase amount whenever its customers use their debit card at a retail merchant. This interchange is paid by the retail merchant. Other fees decreased \$4.4 million, reflecting lower lending-related charges and fees, primarily lower commercial real estate loan prepayment penalties.

As previously discussed, \$810 million and \$266 million of debt securities were sold in the third and second quarters of 2006, respectively, resulting in net security losses of \$23.4 million and \$4.0 million for the respective periods. People's Bank also sold \$25 million in securities purchased under agreements to resell in the third quarter of 2006 at a loss of \$0.3 million, which is reported in other non-interest expense. These transactions were undertaken to better position People's Bank's balance sheet for the then current interest rate environment.

People's Bank invested an additional \$50 million in the first quarter of 2006 in bank-owned life insurance, after an initial investment of \$150 million in the second quarter of 2005 to help defray the rising costs of employee benefits. Increases in the cash surrender value of bank-owned life insurance are included in non-interest income and totaled \$6.3 million in the first nine months of 2006 (\$9.5 million on a taxable-equivalent basis), compared to \$1.7 million (\$2.6 million on a taxable-equivalent basis) for the year-ago period.

Net gains on sales of residential mortgage loans decreased \$1.6 million in the first nine months of 2006, reflecting lower residential mortgage loan origination volume and subsequent lower levels of fixed-rate loan sales. Sales volume of fixed-rate residential mortgage loans decreased approximately 42% in the 2006 period, which is consistent with the 41% decrease in fixed-rate residential mortgage originations compared to the first nine months of 2005. Residential mortgage originations, including refinancings, totaled \$807 million in the first nine months of 2006, compared to \$1.0 billion in the year-ago period.

The increase in other non-interest income compared to the first nine months of 2005 reflects a \$1.8 million increase in rental income resulting from the higher level of equipment leased to People's Capital and Leasing customers. In addition, other non-interest income for the 2006 period includes a \$0.7 million net gain from the sale of a corporate insurance account by R.C. Knox (recorded in the third quarter of 2006), a \$0.7 million gain from the redemption of common stock received in conjunction with the MasterCard Incorporated initial public offering given People's Bank's debit card business (recorded in the second quarter of 2006) and \$0.6 million of interest related to the completion of a federal tax audit (recorded in the first quarter of 2006).

Total non-interest income increased \$21.6 million in 2005 compared to 2004, reflecting an \$8.1 million gain on the sale of three branches, higher fee-based revenues, higher bank-owned life insurance income and higher net security losses in 2004, partially offset by a reduction in other non-interest income in 2005 due to the elimination of servicing income from The Royal Bank of Scotland Group, which purchased People's Bank's credit card business in 2004.

Service charges on deposit accounts increased \$3.2 million compared to 2004, reflecting changes in People's Bank's fee structure implemented in the third quarter of 2005 to close the gap between People's Bank's pricing practices and those of the competition, partially offset by the impact of promotional campaigns on certain commercial and retail checking fees that began in the third quarter of 2004.

Insurance revenue reflects higher commissions earned by R.C. Knox in a soft insurance market, offset by lower contingent commission revenue and lower fee-based revenues from the sale of life insurance products offered in People's

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Bank's branch network. The decrease in brokerage commissions primarily reflects lower fees received from sales of annuity products.

Other banking service charges and fees increased primarily due to growth in retail banking fees associated with higher levels of PIN debit interchange fees resulting from customer preferences for debit card-related transactions. The increase in other fees reflects higher lending-related charges and fees, including higher commercial real estate loan prepayment penalties received as a result of the low interest rate environment in 2005.

Net gains on sales of residential mortgage loans increased \$0.3 million compared to 2004. Sales volume of fixed-rate residential mortgage loans increased approximately 6% in 2005, which is consistent with the 6% increase in fixed-rate residential mortgage originations compared to 2004.

People's Bank invested \$150 million in the second quarter of 2005 in a bank-owned life insurance program to help defray the rising costs of employee benefits. Increases in the cash surrender value of bank-owned life insurance are included in non-interest income and totaled \$3.3 million in 2005.

Included in other non-interest income in 2004 was \$4.8 million of servicing income related to the interim servicing agreement with The Royal Bank of Scotland Group following the credit card sale. Included in other non-interest income in 2003 was \$4.3 million of interest received related to the completion of a routine federal tax audit.

Total non-interest income decreased \$14.6 million in 2004 compared to 2003, reflecting a decrease in net gains on sales of residential mortgage loans, higher net security losses in 2004 and essentially flat fee-based revenues. Net gains on sales of residential mortgage loans decreased \$11.1 million, which is consistent with the 69% reduction in fixed-rate residential mortgage originations compared to 2003 and subsequent reduced levels of sales of these loans.

In 2004, People's Bank sold its remaining preferred and common stock portfolios after substantially reducing the preferred stock portfolio and selling virtually the entire common stock portfolio in 2003. Net security losses in 2003 included \$1.4 million in write-downs in the carrying amount of certain equity securities due to declines in value deemed to be other than temporary, reflecting the equity markets at the time.

**Non-Interest Expense.** The following table sets forth the components of non-interest expense for the periods indicated.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
			(In millions)		
Compensation and benefits	\$ 153.5	\$ 145.8	\$ 195.5	\$ 194.3	\$ 187.2
Occupancy and equipment	46.8	46.0	62.4	69.3	74.8
Professional and outside service fees	17.8	19.2	26.1	25.8	26.0
Advertising and promotion	8.0	7.5	9.9	9.8	12.8
Stationery, printing and postage	5.4	5.2	7.1	8.0	8.7
Amortization of other acquisition-related intangibles	0.8	1.5	1.8	3.4	3.5
Other non-interest expense	29.0	26.6	36.9	35.7	31.8
Total	261.3	251.8	339.7	346.3	344.8
Liability restructuring costs			2.7	133.4	1.2
Goodwill impairment charge		2.0	2.0		
Total non-interest expense	\$ 261.3	\$ 253.8	\$ 344.4	\$ 479.7	\$ 346.0
Efficiency ratio	61.9%	62.8%	62.8%	69.2%	76.4%

Total non-interest expense in the first nine months of 2006 increased \$7.5 million, or 3%, compared to the year-ago period, primarily reflecting higher compensation and benefits and lower professional and outside service fees.



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The first nine months of 2006 included the following items: severance-related expenses totaling \$0.4 million and \$1.2 million in the second and first quarters of 2006, respectively (recorded to compensation and benefits); a \$0.3 million charge related to the sale of \$25 million of securities purchased under agreements to resell as part of balance sheet restructuring

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activities (recorded to other non-interest expense in the third quarter of 2006); and a \$0.9 million charge related to an R.C. Knox contingency that was resolved in the second quarter of 2006 (recorded to other non-interest expense in the first quarter of 2006). The first nine months of 2005 included a \$2.0 million goodwill impairment charge (recorded in the second quarter of 2005). Excluding these expenses from the respective periods, total non-interest expense in the first nine months of 2006 would have increased \$6.7 million, or 3%, compared to the year-ago period.

Compensation and benefits increased \$6.1 million, or 4%, compared to the 2005 period, after excluding severance expense. The increase reflects the combination of normal merit increases, higher accruals for incentive compensation, and increased pension and health care-related costs. On September 29, 2006, People's Bank contributed \$91.5 million to the employee retirement plan, representing the maximum deductible contribution per Internal Revenue Service rules. Earnings on these contributions are expected to significantly reduce People's Bank's pension expense beginning in 2007.

Professional and outside service fees decreased \$1.4 million, or 7%, compared to the 2005 period, reflecting lower utilization of information technology contractors and lower costs for People's Bank's declining national consumer loan portfolio, partially offset by higher legal costs related to People's Bank's conversion to a federal charter.

The increase in other non-interest expense compared to the first nine months of 2005 primarily reflects a \$1.3 million increase in the amortization of equipment leased to People's Capital and Leasing customers and increased spending levels for advertising campaigns, partially offset by lower operational charge-offs and state assessment fees.

The \$2.0 million goodwill impairment charge in 2005 related to the decision to combine Olson Mobeck Investment Advisors, Inc. with one of People's Bank's other businesses in the consumer financial services business segment.

Included in total non-interest expense for 2005 and 2004 were liability restructuring costs and certain nonrecurring expenses totaling \$0.7 million in 2005 and \$9.3 million in 2004, as well as a \$2.0 million goodwill impairment charge in 2005. Excluding these expenses from the respective years, total non-interest expense would have increased \$2.0 million, or 1%, in 2005 compared to 2004. The improvement in People's Bank's efficiency ratio in 2005 primarily reflects a \$53.1 million, or 11%, increase in revenue.

Included in compensation and benefits was a \$0.7 million nonrecurring charge related to the accelerated vesting of stock options in 2005 (discussed below) and \$6.7 million of nonrecurring expenses in 2004. Compensation and benefits increased \$7.2 million, or 4%, compared to 2004, after excluding these nonrecurring expenses from both years. The increase reflects the combination of normal merit increases, higher accruals for incentives tied to overall bank performance, higher incentive compensation for revenue-generating businesses and increased health care costs.

Occupancy and equipment decreased \$6.9 million in 2005 compared to 2004, reflecting a \$3.2 million, or 14%, reduction in depreciation expense and a substantially higher level of costs incurred in 2004 to upgrade personal computers throughout People's Bank.

Professional and outside service fees increased \$0.7 million in 2005, after excluding \$0.4 million of nonrecurring expenses in 2004. Other non-interest expense included \$2.2 million of nonrecurring expenses in 2004.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123-R, Share-Based Payment, which replaced SFAS No. 123 and superseded APB Opinion No. 25 and its related interpretations. Among other things, SFAS No. 123-R requires that costs resulting from all share-based payment transactions with employees be recognized in the financial statements.

On December 22, 2005, People's Bank accelerated the vesting of all outstanding unvested stock options that had been previously awarded to employees. Shares of common stock acquired pursuant to the exercise of an accelerated option may not be sold or otherwise transferred until the earlier of (1) the date the option would have vested under the terms on which it was initially awarded, or (2) termination of the option holder's employment with People's Bank. The purpose of the acceleration was to eliminate compensation expense associated with these options in future years upon the adoption of SFAS No. 123-R in the first quarter of 2006. As a result of the acceleration, options to purchase 0.9 million shares of common stock became immediately exercisable. Substantially all of these options were in-the-money at the time of acceleration. The accelerated vesting of these options eliminated potential pre-tax compensation expense through 2008 of approximately \$1.7 million, including approximately \$0.8 million in 2006. People's Bank recorded a one-time charge of \$0.7 million in 2005 as



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a result of the accelerated vesting, which is included in compensation and benefits in the Consolidated Statements of Income. See Note 1 to the consolidated financial statements.

Included in total non-interest expense was \$133.4 million and \$1.2 million of liability restructuring costs in 2004 and 2003, respectively, and certain nonrecurring expenses totaling \$9.3 million in 2004. Excluding these expenses, total non-interest expense would have decreased \$7.8 million in 2004 compared to 2003.

Included in compensation and benefits was \$6.7 million of nonrecurring expenses in 2004. Compensation and benefits increased \$0.4 million compared to 2003, after excluding the nonrecurring expenses in 2004, reflecting a \$3.8 million increase in pension-related expenses and normal salary increases, essentially offset by an approximate 4% reduction in the number of full-time equivalent employees in 2004, and lower salary and commission expense related to the substantial reduction in mortgage origination volume in 2004.

In 2004, occupancy and equipment decreased \$5.5 million compared to 2003, reflecting a \$6.6 million, or 22%, reduction in depreciation expense in 2004, primarily due to lower levels of capital spending.

After excluding \$0.4 million of nonrecurring expenses in 2004, professional and outside service fees decreased \$0.6 million in 2004 compared to 2003.

Advertising and promotion decreased \$3.0 million in 2004 compared to 2003, reflecting lower spending on bank-wide advertising campaigns during 2004 and higher amortization of deferred consumer loan marketing expenses in 2003.

**Discontinued Operations.** Income from discontinued operations, net of income taxes, totaled \$1.7 million for the first nine months of 2006 compared to \$10.3 million for the year-ago period. Included in income from discontinued operations was an after-tax charge of \$0.5 million (recorded in the third quarter of 2006) from the resolution of a contingency related to the sale of People's Bank's credit card business in 2004 and after-tax income of \$6.2 million (recorded in the second quarter of 2005) from the resolution of a significant contingency related to the credit card sale.

Following the sale of its credit card business in 2004, People's Bank continues to generate recoveries from collection efforts on previously charged-off credit card accounts that were not included in the sale. These recoveries are included in income from discontinued operations in the Consolidated Statements of Income for periods subsequent to the sale. Recoveries, net of collection costs, totaled \$3.4 million for the first nine months of 2006, compared to \$6.2 million for the comparable period in 2005. The level of recoveries is expected to continue to decline due to the aging and diminishing pool of charged-off accounts.

Income from discontinued operations, net of income taxes, totaled \$11.2 million in 2005 and \$205.3 million in 2004. Recoveries, net of collection costs, totaled \$7.7 million in 2005 and \$11.2 million in 2004.

Included in income from discontinued operations in 2005 was after-tax income of \$6.2 million resulting from the resolution of a significant contingency relating to the credit card sale. Included in 2004 was an after-tax gain of \$198.5 million on the sale of the credit card business. See Note 21 to the consolidated financial statements.

**Income Taxes.** Income tax expense from continuing operations totaled \$42.1 million in the first nine months of 2006 compared to \$48.8 million in the 2005 period. The effective income tax rate from continuing operations was 33.7% and 34.8% for the first nine months of 2006 and 2005, respectively. The lower effective rate for 2006 primarily reflects the higher level of tax-exempt bank-owned life insurance income compared to the year-ago period.

Income tax expense (benefit) from continuing operations totaled \$64.1 million in 2005 compared to \$(8.6) million in 2004. Income tax benefits of \$2.0 million and \$4.0 million resulting from the completion of federal tax audits are included in income tax expense (benefit) from continuing operations in 2005 and 2004, respectively. Excluding these benefits from the respective years, People's Bank's effective income tax rate from continuing operations would have been 34.8% in 2005 and 32.4% in 2004.

Income tax expense (benefit) from continuing operations totaled \$(8.6) million in 2004 and \$22.5 million in 2003. Income tax benefits of \$4.0 million and \$6.0 million resulting from the completion of federal tax audits are included in income tax expense (benefit) from continuing operations in 2004 and 2003, respectively. Excluding these benefits from the respective years, People's Bank's effective income tax rate from continuing operations would have been 32.4% in 2004 and 33.4% in 2003.



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Income tax expense (benefit) for the nine months ended September 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003 reflects the state tax benefit resulting from the formation of People's Mortgage Investment Company, a wholly owned subsidiary. The formation of this subsidiary was a result of Connecticut tax legislation, which became effective on January 1, 1999, that allows for the transfer of mortgage loans to a passive investment subsidiary. The related earnings of the subsidiary, and any dividends it pays to the parent, are not subject to Connecticut income tax.

### **Liquidity**

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. Liquidity management addresses People's Bank's ability to fund new loans and investments as opportunities arise, to meet customer deposit withdrawals and to repay borrowings and subordinated notes as they mature. People's Bank's liquidity position is monitored daily by management. The Asset and Liability Management Committee is responsible for setting guidelines to ensure maintenance of prudent levels of liquidity.

Asset liquidity is provided by: cash; short-term investments; proceeds from security sales, maturities and principal repayments; and proceeds from scheduled principal collections, prepayments and sales of loans. In addition, certain securities may be used to collateralize borrowings under repurchase agreements. The Consolidated Statements of Cash Flows present data on cash provided by and used in People's Bank's operating, investing and financing activities. At September 30, 2006, People's Bank's liquid assets included \$30 million in trading account securities, \$535 million in cash and cash equivalents, and \$171 million in debt securities available for sale. At September 30, 2006, People's Bank had pledged securities available for sale with a total fair value of \$140 million as collateral for public deposits, for derivatives transactions and for other purposes.

Liability liquidity is measured by People's Bank's ability to obtain core deposits and purchased funds at cost-effective rates that are diversified with respect to markets and maturities. Core deposits, which are considered the most stable source of liability liquidity, totaled \$8.8 billion, \$8.9 billion and \$8.7 billion at September 30, 2006, December 31, 2005, and December 31, 2004, respectively, (representing 85%, 82% and 82% of total funding at the respective dates). Purchased funds are used from time to time to diversify People's Bank's funding mix and to support asset growth. People's Bank's purchased funds totaled \$0.1 billion, \$0.4 billion and \$0.4 billion at September 30, 2006, December 31, 2005 and December 31, 2004 (representing 1%, 4% and 4% of total funding at the respective dates).

People's Bank's sources of purchased funds include: municipal deposits, brokered certificates of deposit, federal funds purchased, advances from the Federal Home Loan Bank of Boston and the Federal Reserve Bank of New York, and repurchase agreements. At September 30, 2006, People's Bank's borrowing limit from Federal Home Loan Bank and Federal Reserve Bank advances and repurchase agreements was \$2.8 billion, based on the level of qualifying collateral available for these borrowing sources and People's Bank had unsecured borrowing capacity of \$825 million.

At September 30, 2006 and December 31, 2005, People's Bank had outstanding commitments to originate loans totaling \$1.1 billion and \$766 million, respectively, and approved, but unused, lines of credit extended to customers totaling \$2.2 billion at both dates. See Note 17 to the consolidated financial statements.

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

### **Capital**

People's Bank's total stockholders' equity was \$1.4 billion at September 30, 2006, a \$63 million net increase from December 31, 2005. This increase primarily reflects net income of \$85 million and a \$16 million decrease in accumulated other comprehensive loss, partially offset by dividends paid of \$44 million. The decrease in accumulated other comprehensive loss primarily reflects a \$19 million reduction in the after-tax net unrealized loss on securities available for sale as a result of the previously mentioned sale of debt securities in the second and third quarters of 2006.

People's Bank's total stockholders' equity was \$1.3 billion at December 31, 2005, an \$89 million net increase compared to \$1.2 billion at December 31, 2004. This increase primarily reflects net income of \$137 million and net stock option-related activity totaling \$15 million, partially offset by dividends paid of \$52 million and an \$11 million increase in accumulated other comprehensive loss since December 31, 2004. The increase in accumulated other comprehensive loss primarily reflects a \$10 million increase in the after-tax net unrealized loss on securities available for sale in response to rising interest rates.



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Dividends declared and paid per common share (other than shares on which People's Mutual Holdings waived receipt of dividends) were \$0.72, \$0.85, \$0.75 and \$0.68 in the first nine months of 2006 and for the full years of 2005, 2004 and 2003, respectively. Stockholders' equity equaled 12.7%, 11.8% and 11.2% of total assets at September 30, 2006, December 31, 2005 and December 31, 2004, respectively.

People's Bank's tangible capital ratio was 11.8% at September 30, 2006, compared to the minimum ratio of 1.5% generally required by Office of Thrift Supervision regulations. People's Bank is also subject to the Office of Thrift Supervision's risk-based capital regulations, which require minimum ratios of leverage (core) and total risk-based capital of 4.0% and 8.0%, respectively. People's Bank satisfied these requirements at September 30, 2006 with ratios of 11.80% and 16.19%, respectively, compared to 11.20% and 16.41%, respectively, at December 31, 2005. People's Bank converted to a federal savings bank in August 2006. Prior to the conversion, People's Bank was regulated by the Federal Deposit Insurance Corporation. Regulatory capital information for all dates prior to August 2006 were calculated in accordance with the capital regulations of the Federal Deposit Insurance Corporation rather than those of the Office of Thrift Supervision. While the capital regulations of these two agencies are substantially similar, they are not identical.

The following summary compares People's Bank's risk-based capital amounts and ratios as of September 30, 2006 to the Office of Thrift Supervision requirements for minimum capital adequacy. People's Bank's risk-adjusted total assets, as defined, totaled \$8.5 billion at September 30, 2006.

	People's Bank		Office of Thrift Supervision Requirements			
	Actual	Ratio	Minimum Capital Adequacy	Ratio	For Classification as Well-Capitalized	
	Amount		Amount	Ratio	Amount	Ratio
<b>As of September 30, 2006</b>						
Tangible capital	\$ 1,248.5	11.80%	\$ 158.7	1.50%	n/a	n/a
Leverage (core) capital	1,248.5	11.80	423.1	4.00	\$ 528.9	5.00%
Total-risk-based capital	1,374.7	16.19	679.2	8.00	849.0	10.00

People's Bank's regulatory capital ratios at September 30, 2006 exceeded the Office of Thrift Supervision's numeric criteria for classification as a well-capitalized institution. See Note 11 to the consolidated financial statements for additional information concerning People's Bank's regulatory capital amounts and ratios.

**Market Risk Management**

Market risk is the risk of loss to earnings, capital and the fair market values of certain assets and liabilities resulting from changes in interest rates, equity prices and foreign currency exchange rates.

**Interest Rate Risk.** For People's Bank, the only relevant market risk at this time is interest rate risk, which is the potential exposure to earnings or capital that may result from changes in interest rates. People's Bank actively manages its interest rate risk to achieve a balance between risk, earnings volatility and capital preservation. The Asset and Liability Management Committee has primary responsibility for managing People's Bank's interest rate risk and reports to the Treasury and Finance Committee of the Board of Directors. To evaluate People's Bank's interest rate risk profile, the Asset and Liability Management Committee monitors economic conditions, interest rate trends, liquidity levels and capital ratios. Management also reviews assumptions periodically for projected customer and competitor behavior, in addition to the expected repricing characteristics and cash flow projections for assets, liabilities and off-balance-sheet financial instruments. Actual conditions may vary significantly from People's Bank's assumptions.

Management evaluates the impact of interest rate risk on **Income at Risk** using an earnings simulation model to project earnings under multiple interest rate environments over a one-year time horizon resulting in a quantification of interest rate risk. **Income at Risk** includes significant interest rate sensitive income sources, such as net interest income, gains on sales of residential mortgage loans and bank-owned life insurance income.

The earnings projections are based on a static balance sheet and estimates of pricing levels for People's Bank's products under multiple scenarios intended to reflect instantaneous yield curve shocks. People's Bank estimates its base case **Income at Risk** using current interest rates. Internal guidelines regarding interest rate risk simulation specify that for instantaneous





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parallel shifts of the yield curve, estimated Income at Risk for the subsequent one-year period should not decline by more than: 10% for a 100 basis point shift; 15% for a 200 basis point shift; and 20% for a 300 basis point shift.

The following table shows the estimated percentage increase (decrease) in People's Bank's Income at Risk over a one-year simulation period beginning September 30, 2006.

Rate Change (basis points)	Percent Change in Income at Risk
+300	10.07 %
+200	7.10
+100	3.70
-100	(4.14)
-200	(10.03)
-300	(18.07)

While Income at Risk simulation identifies earnings exposure over a relatively short time horizon, Market Value of Equity takes a long-term economic perspective when quantifying interest rate risk. Market Value of Equity identifies possible margin behavior over a longer time horizon and is therefore a valuable complement of interest rate risk management. Base case Market Value of Equity is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged.

Internal guidelines limit the exposure of a decrease in Market Value of Equity resulting from instantaneous parallel shifts of the yield curve in the following manner: for 100 basis points 10% of base case Market Value of Equity; for 200 basis points 15% of base case Market Value of Equity; and for 300 basis points 20% of base case Market Value of Equity.

The following table shows the estimated percentage decrease in People's Bank's Market Value of Equity, assuming various shifts in interest rates.

Rate Change (basis points)	Percent Change in Market Value of Equity
+300	(5.72)%
+200	(3.28)
+100	(1.19)
-100	(0.54)
-200	(2.80)
-300	(5.52)

Management believes People's Bank's interest rate risk position at September 30, 2006 represented an acceptable level of risk. However, given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by People's Bank's models.

People's Bank uses derivative financial instruments, including interest rate swaps and interest rate floors as components of its interest rate risk management. People's Bank has written guidelines that have been approved by the Board of Directors and the Asset and Liability Management Committee governing the use of these financial instruments, including approved counterparties and risk limits, and controls the credit risk of these instruments through collateral, credit approvals and monitoring procedures. At September 30, 2006, each of People's Bank's counterparties had an investment grade credit rating from the major rating agencies and is specifically approved up to a maximum credit exposure. Derivative financial instruments have been used for market risk management purposes (principally interest rate risk) and not for trading or speculative purposes.

People's Bank is currently using interest rate swaps and interest rate floors to manage interest rate risk associated with certain interest-earning assets and interest-bearing liabilities. Interest rate swaps, which are accounted for as fair value hedges, are used to match more closely the repricing of certain commercial real estate finance loans and the funding associated with these loans. The interest rate swaps effectively convert

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the funding liabilities from a variable interest rate into a fixed interest rate and consequently reduce People's Bank's exposure to increases in interest rates and their effect on interest income and interest expense.

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People's Bank purchased interest rate floors to partially manage its exposure to a decrease in interest income resulting from declines in certain interest rates. These interest rate floors, which are accounted for as cash flow hedges, offer protection against a decline in interest income if the one-month LIBOR-index rate used to reprice certain floating-rate commercial loans declines below the strike rate on the interest rate floors. If the one-month LIBOR-index rate falls below the specified strike rate, People's Bank would receive an interest payment on the interest rate floor equal to the difference between the one-month LIBOR-index rate on the reset date and the strike rate, which in effect, would offset the decline in interest income earned on the hedged floating rate commercial loans from the decline in interest rates.

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

**Derivative Financial Instruments.** The following tables summarize certain information concerning the derivative financial instruments utilized by People's Bank in its management of interest rate risk. Also see Note 17 to the consolidated financial statements.

	As of and For the Nine Months		
	Ended September 30, 2006		
	Interest Rate	Interest Rate	Foreign
	Floors	Swaps	Exchange
	(Dollars in millions)		Contracts
Notional amount at period end	\$ 700.0	\$ 9.3	\$ 13.3
Weighted average remaining term to maturity (in months)	52	76	2
Decrease in pre-tax income	\$ (0.4)	\$	\$
Fair Value:			
Recognized as an asset	13.8		0.1
Recognized as a liability		0.2	

	As of and For the Year Ended December 31, 2005		
	Foreign		
	Interest Rate	Interest Rate	Exchange
	Floors	Swaps	Contracts
	(Dollars in millions)		
Notional amount at year end	\$ 400.0	\$ 9.6	\$ 17.4
Weighted average remaining term to maturity (in months)	60	85	3
Decrease in pre-tax income	\$	\$ (0.7)	\$
Fair Value:			
Recognized as an asset	5.9		
Recognized as a liability		0.4	

	As of and For the Year	
	Ended December 31, 2004	
	Interest Rate	
	Interest Rate	Corridors
	(Dollars in millions)	
Notional amount at year end	\$ 26.2	\$
Weighted average remaining term to maturity (in months)	86	

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Decrease in pre-tax income	\$ (3.0)	\$ (0.9)
Fair value recognized as a liability	1.3	

### **Off-Balance Sheet Arrangements and Contractual Obligations**

Detailed discussions pertaining to People's Bank's off-balance sheet arrangements are included in the following sections: *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity*, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital*, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Management* and *Business of People's Bank - Sources of Funds*.

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The following table summarizes People's Bank's contractual cash obligations, other than deposit liabilities, including operating leases at December 31, 2005. Additional information concerning these contractual cash obligations is included in Notes 8, 9 and 18 to the consolidated financial statements. Purchase obligations included in the table represent those agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the appropriate timing of the transactions. A substantial majority of People's Bank's purchase obligations are renewable on a year-to-year basis. As such, the purchase obligations included in this table only reflect the contractual commitment.

At December 31, 2005	Payments Due by Period				
	Total	Year	1 - 3 Years	3 - 5 Years	After 5 Years
			(In millions)		
Borrowings	\$ 294.9	\$ 294.9	\$	\$	\$
Subordinated notes	108.6	43.5			65.1
<b>Total on-balance-sheet</b>	<b>403.5</b>	<b>338.4</b>			<b>65.1</b>
Operating leases	115.2	18.1	34.2	28.8	34.1
Purchase obligations	108.3	34.9	44.5	20.4	8.5
<b>Total</b>	<b>\$ 627.0</b>	<b>\$ 391.4</b>	<b>\$ 78.7</b>	<b>\$ 49.2</b>	<b>\$ 107.7</b>

**Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. People's Bank is currently evaluating FIN 48 to determine if it will have a material effect on its Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a definition and measurement date for fair value and expands the disclosures regarding fair-value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. People's Bank is currently evaluating SFAS No. 157 to determine if it will have a material effect on its Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. Among other things, SFAS No. 158 will require an employer to recognize the funded status of its pension and other postretirement benefit plans in the statement of financial position effective for fiscal years ending after December 15, 2006. SFAS No. 158 will also require the measurement of plan assets and benefit obligations as of the date of the employer's fiscal year-end (eliminating the use of earlier measurement dates currently permissible), effective for fiscal years ending after December 15, 2008. As of September 30, 2006, People's Bank was evaluating SFAS No. 158 to determine if it will have a material effect on its consolidated financial statements. See *Recent Developments*.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) Topic IN, Financial Statements Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB No. 108), in order to address diversity in practice in quantifying financial statement misstatements. The techniques most commonly used in practice to accumulate and quantify misstatements are generally referred to as the rollover and iron curtain approaches. SAB No. 108 requires that errors be quantified under both the rollover and iron curtain approaches. Financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. SAB No. 108 is effective for annual financial statements for the first fiscal year ending after November 15, 2006. SAB No. 108 is not expected to have a material impact on People's Bank's Consolidated Financial Statements.

**Impact of Inflation and Changing Prices**

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America, commonly referred to as GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the



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relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than do the effects of inflation.

### **Statement of Management's Responsibility**

Management is responsible for the preparation, content and integrity of the consolidated financial statements. The consolidated financial statements and related footnotes are prepared in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for compliance with laws and regulations relating to safety and soundness as designated by the Federal Deposit Insurance Corporation.

The consolidated financial statements as identified in the accompanying Report of Independent Registered Public Accounting Firm have been audited by KPMG LLP, an independent registered public accounting firm. These audits were conducted in accordance with auditing standards generally accepted in the United States of America, and included tests of the accounting records and other auditing procedures considered necessary to formulate an opinion on the consolidated financial statements.

The Board of Directors of People's Bank has an Audit Committee composed of five outside directors, each of whom meets the criteria for independence as set forth in applicable listing standards. The Audit Committee meets regularly with the independent auditors, the internal auditors and management to ensure that the system of internal control over financial reporting is being properly administered and that financial data is being properly reported. The Audit Committee reviews the scope and timing of internal audits, including recommendations made with respect to the system of internal control over financial reporting. The independent auditors and the internal auditors have free access to the Audit Committee.

### **Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining effective internal control over financial reporting for People's Bank. Management maintains a system of internal control over financial reporting, including an internal audit function, which is designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized, and that accounting records are reliable for the preparation of financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on its assessment, management has concluded that People's Bank maintained effective internal control over financial reporting as of December 31, 2005, based on criteria in *Internal Control - Integrated Framework* issued by the COSO. Management's assessment of the effectiveness of People's Bank's internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

/s/ John A. Klein  
John A. Klein  
Chairman, Chief Executive Officer

and President  
March 3, 2006

/s/ Philip R. Sherringham  
Philip R. Sherringham  
Executive Vice President and

Chief Financial Officer



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**BUSINESS OF PEOPLE S BANK**

People s Bank is a federally-chartered stock savings bank headquartered in Bridgeport, Connecticut with \$10.6 billion in total assets as of September 30, 2006. People s Bank was organized in 1842 as a mutual savings bank and converted to stock form in 1988. In August 2006, People s Bank converted from a Connecticut-chartered stock savings bank to a federally-chartered stock savings bank.

People s Bank offers a full range of financial services to individual, corporate and municipal customers. Traditional banking activities are conducted primarily within the state of Connecticut and include extending secured and unsecured commercial and consumer loans, originating mortgage loans secured by residential and commercial properties, and accepting consumer, commercial and municipal deposits. In addition to traditional banking activities, People s Bank provides specialized services tailored to specific markets including: personal, institutional and employee benefit trust; cash management; and municipal banking and finance. Through its subsidiaries, People s Bank offers: brokerage, financial advisory services, investment management services and life insurance through People s Securities, Inc.; equipment financing through People s Capital and Leasing Corp. and other insurance services through R.C. Knox and Company, Inc.

This full range of financial services is delivered through a network of 75 traditional branches, 73 supermarket branches, eight limited-service branches, 23 investment and brokerage offices (22 of which are located within branch offices), five wealth management and trust offices, nine People s Capital and Leasing offices, seven commercial banking offices and over 250 ATMs. People s Bank s distribution network also includes fully integrated online banking and investment trading, a 24-hour telephone banking service and participation in a worldwide ATM network.

People s Bank s operations are divided into two primary business segments that represent its core businesses, commercial banking and consumer financial services. Commercial banking consists principally of commercial lending, commercial real estate finance lending and commercial deposit gathering activities. This segment also includes the equipment financing operations of People s Capital and Leasing, cash management, correspondent banking and municipal banking. Consumer financial services includes, as its principal business lines, consumer deposit gathering activities, residential mortgage lending and home equity and other consumer lending. In addition to trust services, this segment also includes brokerage, financial advisory services, investment management services and life insurance provided by People s Securities and other insurance services provided through R.C. Knox. In addition, treasury is responsible for managing People s Bank s securities portfolio and wholesale funding activities.

**Market Area and Competition**

People s Bank s primary market area is the state of Connecticut. However, substantially all of the equipment financing activities of People s Capital and Leasing involve customers outside of Connecticut. People s Capital and Leasing provides equipment financing for customers in 48 states. In addition, People s Bank also participates in certain loans that aggregate \$20 million or more and are shared by three or more supervised financial institutions. These loans are generally referred to as shared national credits. Approximately 90% of the shared national credits portfolio is to borrowers located outside of Connecticut as of September 30, 2006. People s Bank competes for deposits, loans and financial services with commercial banks, savings institutions, commercial and consumer finance companies, mortgage banking companies, insurance companies, credit unions, and a variety of other institutional lenders and securities firms.

Connecticut is one of the most attractive banking markets in the United States with a total population of approximately 3.5 million and a median household income of \$66,018 as of June 30, 2006, ranking second in the United States and well above the U.S. median household income of \$51,546, according to estimates from SNL Securities. The southern Connecticut market includes Fairfield, Middlesex, New Haven and New London Counties, while the northern Connecticut market includes Hartford, Litchfield, Tolland and Windham Counties. Fairfield County, where People s Bank is headquartered, is the wealthiest county in Connecticut, with a June 30, 2006 median household income of \$81,678 according to estimates from SNL Securities.

Median household income has increased in all of the Connecticut counties since 2000, with Fairfield, Middlesex and New Haven Counties recording the strongest growth in median household income. For the 2000 to 2006 period, Windham County had the lowest growth rate in median household income among the primary market area counties. Household income growth rates are generally projected to increase at comparable rates over the next five years as experienced during the 2000-2006 period.

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The southern Connecticut market contains more than half of Connecticut's population and a similar percentage of households. The southern Connecticut market also represents the greatest concentration of People's Bank's retail operations. All of the Connecticut counties experienced increases in population and households from 2000 through 2006, with the strongest growth occurring in the less populated counties of Middlesex, Tolland and Windham. However, only Tolland County's 1.5% annual population growth rate exceeded the comparable U.S. growth rate of 1.3%. Household growth measures parallel trends in population growth. The stronger growth occurring in Tolland County (in north-central Connecticut) has been supported by the presence of the University of Connecticut. Projected population and household growth rates for Connecticut are not expected to vary materially from recent historical trends. The southern Connecticut market is expected to remain a slower growth market because it is more densely populated with greater physical limitations to growth.

The principal basis of competition for deposits is the interest rate paid for those deposits and related fees, convenient access to services through traditional and non-traditional delivery alternatives and the quality of services to customers. The principal basis of competition for loans is through the interest rates and loan fees charged and by developing relationships based on the efficiency, convenience and quality of services provided to borrowers. Further competition has been created through the rapid acceleration of commerce conducted over the Internet. This has enabled institutions, including People's Bank, to compete in markets outside their traditional geographic boundaries.

## **Lending Activities**

People's Bank conducts its lending activities through its two major business segments that constitute its core businesses: consumer financial services and commercial banking. People's Bank's lending activities consist of originating loans secured by residential and commercial properties, and extending secured and unsecured loans to consumers and businesses.

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The following table presents the composition of the loan portfolio in dollar amounts and in percentages of the total portfolio at the dates indicated. Amounts represent gross loans before deducting the allowance for loan losses.

	At September 30, 2006		2005		2004		At December 31, 2003		2002		2001	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
<b>Consumer Financial Services:</b>												
Residential mortgage:												
Adjustable rate	\$ 3,787.2	41.2%	\$ 3,410.8	39.8%	\$ 3,156.6	39.8%	\$ 2,940.0	41.4%	\$ 2,515.7	37.7%	\$ 2,266.4	35.5%
Fixed rate	90.5	1.0	97.1	1.1	109.8	1.4	149.1	2.1	355.6	5.3	464.9	7.3
<b>Total residential mortgage</b>	<b>3,877.7</b>	<b>42.2</b>	<b>3,507.9</b>	<b>40.9</b>	<b>3,266.4</b>	<b>41.2</b>	<b>3,089.1</b>	<b>43.5</b>	<b>2,871.3</b>	<b>43.0</b>	<b>2,731.3</b>	<b>42.8</b>
Consumer	1,310.5	14.3	1,257.5	14.7	1,140.0	14.4	980.5	13.8	969.3	14.5	928.1	14.6
<b>Commercial Banking:</b>												
Commercial real estate finance	1,799.3	19.6	1,778.3	20.7	1,838.1	23.1	1,699.9	23.9	1,610.2	24.1	1,540.2	24.2
Commercial lending	1,445.5	15.7	1,394.5	16.3	1,235.9	15.6	1,035.2	14.6	1,002.6	15.0	949.2	14.9
People's Capital and Leasing	751.9	8.2	634.7	7.4	453.0	5.7	300.3	4.2	222.0	3.4	224.8	3.5
<b>Total commercial banking</b>	<b>3,996.7</b>	<b>43.5</b>	<b>3,807.5</b>	<b>44.4</b>	<b>3,527.0</b>	<b>44.4</b>	<b>3,035.4</b>	<b>42.7</b>	<b>2,834.8</b>	<b>42.5</b>	<b>2,714.2</b>	<b>42.6</b>
<b>Total loans</b>	<b>\$ 9,184.9</b>	<b>100.0%</b>	<b>\$ 8,572.9</b>	<b>100.0%</b>	<b>\$ 7,933.4</b>	<b>100.0%</b>	<b>\$ 7,105.0</b>	<b>100.0%</b>	<b>\$ 6,675.4</b>	<b>100.0%</b>	<b>\$ 6,373.6</b>	<b>100.0%</b>

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**Loan Maturity.** The following table presents the contractual maturity of loans at December 31, 2005. The table does not include the effect of prepayments or scheduled principal amortization. Prepayments and scheduled principal amortization on first mortgage loans totaled \$0.7 billion for 2005.

	At December 31, 2005		
	Consumer		
	Financial Services	Commercial Banking (In millions)	Total
<b>Amounts Due:</b>			
One year or less	\$ 285.6	\$ 903.0	\$ 1,188.6
After one year:			
One to five years	89.0	1,313.8	1,402.8
Over five years	4,416.4	1,591.3	6,007.7
Total due after one year	4,505.4	2,905.1	7,410.5
<b>Total</b>	<b>\$ 4,791.0</b>	<b>\$ 3,808.1</b>	<b>\$ 8,599.1</b>
<b>Less:</b>			
Deferred loan fees			26.2
Allowance for loan losses			75.0
<b>Net loans</b>			<b>\$ 8,497.9</b>

The following table presents, as of December 31, 2005, the dollar amount of all loans, including deferred loan fees, due after December 31, 2006, and whether these loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2006		
	Fixed	Adjustable (In millions)	Total
Consumer Financial Services	\$ 288.3	\$ 4,191.5	\$ 4,479.8
Commercial Banking	1,375.0	1,529.5	2,904.5
<b>Total loans due after one year</b>	<b>\$ 1,663.3</b>	<b>\$ 5,721.0</b>	<b>\$ 7,384.3</b>

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The following table presents loan originations, purchases, sales and principal payments for the periods indicated.

	For the Nine Months Ended September 30,		For the Year Ended
	2006	2005 (In millions)	December 31, 2005
<b>Total loans:</b>			
Balance outstanding at beginning of period	\$ 8,572.9	\$ 7,933.4	\$ 7,933.4
<b>Originations:</b>			
Consumer Financial Services	1,455.4	1,663.6	2,155.1
Commercial Banking	2,658.2	2,438.3	3,355.3
Total originations	4,113.6	4,101.9	5,510.4
<b>Purchases:</b>			
Consumer Financial Services	169.9		
Commercial Banking	35.4	29.2	47.4
Total purchases	205.3	29.2	47.4
<b>Less:</b>			
Principal payments:			
Consumer Financial Services	1,062.2	1,102.4	1,473.3
Commercial Banking	2,487.1	2,320.2	3,102.9
Total principal payments	3,549.3	3,422.6	4,576.2
Sales	143.0	245.9	334.6
Premium amortization, discount accretion and other, net	11.7	12.1	6.1
Transfers to foreclosed real estate	2.9	1.3	1.4
Balance outstanding at end of period	\$ 9,184.9	\$ 8,382.6	\$ 8,572.9

**Consumer Financial Services.**

*Residential Mortgage Lending.* People's Bank offers its customers a wide range of residential mortgage loan products. These include conventional fixed rate loans, jumbo fixed rate loans (loans with principal balances greater than established Freddie Mac and Fannie Mae limits), adjustable rate loans, sometimes referred to as ARM loans, interest-only loans (loans where payments made by the borrower consist of only interest for a set period of time, before the payments change to principal and interest), as well as Federal Housing Authority insured loans and Connecticut Housing Finance Authority loans.

People's Bank originates these loans through its network of branches and calling officers, as well as in the wholesale market, which accounted for approximately 66%, 59% and 57% of People's Bank's mortgage loan originations for the first nine months of 2006 and the full years of 2005 and 2004, respectively.

At September 30, 2006 and December 31, 2005, 93% and 97%, respectively, of the residential mortgage portfolio was secured by properties located in Connecticut. Included in residential mortgage loans are construction loans totaling \$185 million, \$197 million and \$161 million at September 30, 2006, December 31, 2005 and 2004, respectively. For the first nine months of 2006, People's Bank's level of residential mortgage originations declined to \$800 million, compared to \$1.0 billion for the first nine months of 2005. In 2005, People's Bank's level of residential mortgage originations declined to \$1.4 billion, compared to \$1.6 billion in 2004 and \$3.2 billion in 2003, consistent with industry-wide trends

attributable to rising interest rates.

The mix and volume of residential mortgage loan originations vary in response to changes in market interest rates and customer preferences. Adjustable rate loans accounted for 83% of total residential mortgage originations in the first nine months of 2006, and 73%, 72% and 65% for the full years of 2005, 2004 and 2003, respectively. Overall, the volume of refinancings (approximately 40% and 46% of year-to-date 2006 and full-year 2005 originations, respectively) was less than the volume of purchase mortgages as the upward movement in interest rates continues to make the refinancing market relatively less attractive for consumers.

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At September 30, 2006, the adjustable rate loan portfolio included \$1.7 billion, or 44%, of interest-only loans, compared to \$1.6 billion, or 47%, at December 31, 2005. See *Regulation of People's Bank and People's United Financial Federally Chartered Savings Bank Regulation Nontraditional Mortgage Products*. People's Bank's underwriting practices and credit review standards for such loans are consistent with those applied to other types of residential mortgage products. People's Bank began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements are more restrictive for interest-only loans than for amortizing adjustable rate mortgages. Properties must be a single-family and owner-occupied primary residence, loan-to-value ratios are lower, higher credit scores are required, post closing reserves requirements are greater, and there are limits on cash-out refinances as compared to amortizing adjustable rate mortgages. Amortization of an interest-only loan begins after the initial interest rate change (e.g., after 5 years for a 5/1 adjustable rate mortgage).

Adjustable rate residential loans at September 30, 2006 increased \$376 million compared to year-end 2005, while fixed-rate mortgage loans decreased \$7 million. Total adjustable rate residential loans increased \$254 million in 2005 compared to year-end 2004, while fixed-rate mortgage loans decreased \$13 million. People's Bank may purchase or sell adjustable rate residential loans in the secondary market from time to time as conditions warrant. The continued growth and performance of the residential mortgage loan portfolio in 2006 and 2007 may be adversely impacted by the level and direction of interest rates, consumer preferences and the regional economy.

Historically, People's Bank has held virtually all of the adjustable-rate residential mortgage loans that it originates on its balance sheet and has sold virtually all of the fixed-rate residential mortgage loans that it originates into the secondary market.

People's Bank has recently reassessed its pricing with respect to adjustable-rate residential mortgage loans in light of the current interest rate environment. As a result, People's Bank believes the level of adjustable-rate residential mortgage loans it originates will be reduced significantly in the near term. People's Bank intends to continue to actively offer residential mortgage loans of all types through its extensive distribution system. However, if a reduction in originations occurs and continues for an extended period, the balance of People's Bank's residential mortgage loan portfolio will decline.

*Consumer Lending.* The following table summarizes People's Bank's consumer lending portfolio by product at the dates indicated.

	At September 30,	At December 31,	
	2006	2005	2004
	(In millions)		
Home equity credit lines	\$ 1,009.4	\$ 1,027.8	\$ 914.3
Second mortgages	267.2	184.5	145.7
Personal installment loans	15.6	25.8	60.9
Other loans	18.3	19.4	19.1
<b>Total consumer</b>	<b>\$ 1,310.5</b>	<b>\$ 1,257.5</b>	<b>\$ 1,140.0</b>

People's Bank offers Connecticut-based customers a full range of competitive products, such as home equity credit lines, second mortgage loans, and other forms of installment and revolving credit loans. In the first quarter of 2006, People's Bank began offering home equity credit lines and loans in Massachusetts and New York. Consumer loans also include unsecured personal installment loans that had been originated nationally in prior years and totaled \$2 million at September 30, 2006, compared to \$12 million and \$46 million at December 31, 2005 and 2004, respectively. Future growth of People's Bank's consumer loan portfolio is highly dependent upon economic conditions and competitors' strategies, as well as the success of People's Bank's marketing programs and information-based strategies.

At September 30, 2006 and December 31, 2005, approximately 99% and 98%, respectively, of the consumer loan portfolio was to customers located in Connecticut. The increase in consumer loans reflects growth in home equity lending, partially offset by continued declines in national unsecured personal installment loans, which continue to run off as a result of a management decision to discontinue this type of lending. Home equity credit lines decreased \$18 million, or 2% on an annualized basis, since year-end 2005, and increased \$114 million, or 12%, during 2005. The slower rate of portfolio growth in a rising interest rate environment reflects nationwide trends.





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**Commercial Banking.** The Commercial banking lending businesses include commercial real estate finance, commercial lending and equipment financing by People's Capital and Leasing. Shared national credits are included in the commercial real estate finance and commercial lending portfolios.

**Commercial Real Estate Finance.** People's Bank manages the commercial real estate finance portfolio by limiting the concentration in any loan type, term, industry, or to any individual borrower. People's Bank's primary strategy is to focus on lending in the state of Connecticut and adjacent states that represent its home market. In addition, People's Bank will purchase interests in out-of-state loan participations. Included in commercial real estate finance loans are shared national credits totaling \$204 million, \$143 million and \$105 million at September 30, 2006, December 31, 2005 and December 31, 2004, respectively. People's Bank's highest loan concentration was in the residential sector, which represented 29% of this loan portfolio at September 30, 2006, compared to 25% at December 31, 2005 and 17% at year-end 2004. Much of the growth in the residential sector was due to increases in shared national credits totaling \$78 million, or 97%, for the first nine months of 2006 and \$70 million, or 52% for 2005.

	At	At December 31,		
	September 30,	2006	2005	2004
		(In millions)		
Property Type:				
Residential	\$ 520.0	\$ 439.9	\$ 305.8	
Retail	396.8	435.0	494.0	
Office buildings	363.8	367.1	472.9	
Industrial/manufacturing	181.2	202.9	244.3	
Hospitality and entertainment	72.2	90.1	86.1	
Self storage/industrial	98.4	84.9	73.9	
Special use	48.2	52.3	54.2	
Health care	52.8	47.0	38.9	
Land	51.0	44.8	50.4	
Other properties	14.9	14.3	17.6	
Total commercial real estate finance	\$ 1,799.3	\$ 1,778.3	\$ 1,838.1	

At September 30, 2006, approximately 68% of People's Bank's commercial real estate finance portfolio was secured by properties located in Connecticut, compared to approximately 74% and 76% at December 31, 2005 and 2004, respectively. Included in this portfolio are construction loans totaling \$567 million, \$512 million and \$429 million at September 30, 2006, December 31, 2005 and December 31, 2004, respectively.

Commercial real estate finance is dependent on the successful operation of the related income-producing real estate. Accordingly, the income streams generated by this portfolio can be impacted by changes in the real estate market and, to a large extent, Connecticut's economy. The commercial real estate finance portfolio increased 2% annualized in the first nine months of 2006 and decreased 3% in 2005 after growing 8% in 2004. The decrease in 2005 and slow growth in 2006 reflects the high level of loan prepayments and People's Bank's focus on maintaining strong asset quality standards in a competitive market generally characterized by aggressive pricing and less attractive underwriting terms. The growth and performance of this portfolio is largely dependent on the economic environment in Connecticut and may be adversely impacted if the economy slows in 2006 and 2007.

**Commercial Lending.** People's Bank provides diversified products and services to its commercial customers, including short-term working capital credit facilities, term financing, asset-based loans, letters of credit, Internet-based cash management services and commercial deposit accounts.

Commercial products are generally packaged together to create a financing solution specifically tailored to the needs of the customer. Taking a total relationship-focused approach with commercial customers to meet their financing needs has resulted in substantial growth in non-interest-bearing deposits over time, as well as in opportunities to provide other banking services to principals and employees of these commercial customers.

## Edgar Filing: People's United Financial, Inc. - Form 424B3

The borrower's ability to repay a commercial loan is closely tied to the ongoing profitability and cash flow of the borrower's business. Consequently, a commercial loan tends to be more directly impacted by changes in economic cycles.

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that affect businesses generally and the borrower's business specifically. The availability of adequate collateral is a factor in commercial loan decisions, and loans are generally collateralized and/or guaranteed by third parties.

	At September 30,	At December 31,	
	2006	2005	2004
	(In millions)		
Industry:			
Manufacturing	\$ 428.2	\$ 414.7	\$ 323.3
Finance, insurance and real estate	302.7	330.4	235.8
Service	224.7	208.0	225.5
Wholesale distribution	114.6	127.0	126.9
Retail sales	111.7	103.6	114.0
Health services	109.5	91.9	87.9
Arts/entertainment/recreation	53.3	30.7	36.9
Transportation/utility	24.3	24.8	20.7
Other	76.5	63.4	64.9
<b>Total commercial lending</b>	<b>\$ 1,445.5</b>	<b>\$ 1,394.5</b>	<b>\$ 1,235.9</b>

In the first nine months of 2006, the commercial lending portfolio increased \$51 million, or 5% on an annualized basis, compared to increases of \$159 million, or 13%, in 2005 and \$201 million or 19% in 2004. The increase in the first nine months of 2006 includes a \$17 million, or 7% annualized, increase in shared national credits, compared to an increase of \$61 million, or 24%, for the full year of 2005. Included in commercial lending are shared national credits totaling \$338 million, \$321 million and \$260 million at September 30, 2006, December 31, 2005 and December 31, 2004, respectively. At September 30, 2006, approximately 67% of the commercial loan portfolio consisted of loans to Connecticut-based businesses, compared to approximately 69% and 72% at December 31, 2005 and 2004, respectively. The manufacturing sector remains People's Bank's highest commercial loan concentration. Growth in the finance, insurance and real estate sector in 2005 reflects an increase of \$88 million in loans to real estate investment trusts. While People's Bank continues to focus on asset quality, the performance of the commercial lending portfolio may be adversely impacted if the economy slows in 2006 or 2007.

*Shared National Credits.* At September 30, 2006, the shared national credits loan portfolio totaled \$542 million, compared to \$464 million and \$365 million at December 31, 2005 and 2004, respectively, and represented 14%, 12% and 10% of the total commercial banking loan portfolio at the respective dates. As discussed above, included in the shared national credits portfolio at September 30, 2006, December 31, 2005 and 2004 were commercial loans totaling \$338 million, \$321 million and \$260 million, respectively, and commercial real estate finance loans totaling \$204 million, \$143 million and \$105 million, respectively.

People's Bank will purchase, and to a lesser extent sell, interests in shared national credits from and to other financial institutions having comparable asset quality standards. At September 30, 2006, the shared national credits loan portfolio included \$524 million in loans purchased from other financial institutions and \$18 million in loans originated by People's Bank.

At September 30, 2006, approximately \$56 million, or 10%, of the shared national credits loan portfolio is to borrowers who are headquartered in Connecticut, while approximately \$232 million, or 43%, is to borrowers located in California, Florida and New York. Over time, People's Bank may grow this portfolio to represent approximately 15% of the overall commercial banking loan portfolio.

*People's Capital and Leasing Corp.* People's Capital and Leasing provides equipment financing for customers in 48 states, specializing in financing for the printing, transportation/utility, general manufacturing, and packaging industries. People's Capital and Leasing will buy or sell portions of financing transactions in the secondary market to manage the concentration risk of the overall portfolio. At September 30, 2006, approximately 3% of the portfolio consisted of Connecticut-based businesses, while approximately 40% were to customers located in California, Texas, Illinois and Florida. The People's Capital and Leasing portfolio grew \$117 million, or 25% on an annualized basis, in the first nine months of 2006, and grew \$182 million, or 40%, in 2005 and \$153 million, or 51%, in 2004, reflecting management's decision to grow this portfolio through higher loan originations. Operating on a national scale, People's Capital and Leasing represented 19%



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of the commercial banking loan portfolio at September 30, 2006, compared to 17% and 13% at year-end 2005 and 2004, respectively. Portfolio growth in 2007 may not continue at recent levels.

	At September 30,	At December 31,	
	2006	2005	2004
	(In millions)		
Industry:			
Printing	\$ 295.0	\$ 263.0	\$ 182.2
Transportation/utility	159.2	100.3	38.8
General manufacturing	117.2	118.0	82.5
Packaging	70.8	63.8	68.7
Retail sales	67.0	41.5	26.5
Service	23.1	26.1	24.5
Wholesale distribution	12.8	12.4	14.0
Health services	6.5	8.5	13.1
Finance, insurance and real estate	0.3	1.1	2.7
<b>Total People's Capital and Leasing</b>	<b>\$ 751.9</b>	<b>\$ 634.7</b>	<b>\$ 453.0</b>

**Loan Approval Procedures and Authority.** People's Bank has different loan approval procedures depending on the type of loan.

*Commercial Loan Approval Procedures and Authority.* Commercial loan approval authority is granted to People's Bank's loan officers by department (commercial loan, commercial real estate finance, small business lending, shared national credits and classified assets) and People's Bank's twelve lending authority levels.

No lending officer, regardless of lending classification, may approve a credit request on a single-signature basis. The management-level Credit Policy Committee approves commercial lending and commercial real estate finance credits rated "watch" or better up to and including \$10.0 million in total exposure (outstanding credit facilities plus new extensions of credit), and up to and including \$5.0 million for credits rated "special mention" or worse. Commercial lending and commercial real estate finance credits in excess of these amounts are submitted to the Loan Review Committee of the Board of Directors for approval.

The Credit Policy Committee may approve shared national credits of up to \$20.0 million which are rated "satisfactory" or better. In addition, each year the Credit Policy Committee may approve six new shared national credits commercial and industrial transactions and real estate investment trust transactions that exceed \$20.0 million but do not exceed \$25.0 million in total exposure and are rated "satisfactory" or better. Shared national credits in excess of these amounts must be submitted to the Loan Review Committee for approval. Any shared national credits approvals in excess of \$10.0 million must be reported to the Loan Review Committee at a subsequent meeting.

The in-house lending limit to one borrower, currently \$50.0 million, is set jointly by the Credit Policy Committee and the Loan Review Committee. The Loan Review Committee may increase this limit on a case-by-case basis based on the overall creditworthiness of the borrower, as well as geographic, property type and industry concentration criteria within a particular lending relationship.

The commercial loan origination and underwriting process begins when a borrower or prospect expresses an interest in a commercial loan product to a commercial loan officer. The loan officer is responsible for managing the underwriting process in conjunction with the region manager, market manager and department head, as appropriate. Each loan officer is responsible for developing, documenting and making loans in accordance with policy. The loan officer is also required to conform to applicable line of business procedural guidelines with respect to debt coverage ratios, loan-to-value ratios, completion of loan submissions and to ensure compliance with applicable laws and regulations. People's Bank also requires borrowers to obtain flood insurance, prior to closing, for all loans secured by real estate within a designated flood zone.

Real estate appraisers are engaged by the commercial appraisal department, and are generally selected from an approved appraiser list. All third-party appraisals of commercial properties where transactions are greater than \$250,000 are submitted in writing and are reviewed by the commercial appraisal department prior to closing to verify that the methods, assumptions and conclusions used in the appraisal are reasonable and appropriate for the transaction and the property.



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*Residential and Consumer Loan Approval Procedures and Authority.* Residential mortgage loan and consumer loan approval authority is delegated to individuals based on loan type, loan size, and where appropriate, occupancy of property securing the loan. Residential and consumer lending policies and delegation of lending authorities are reviewed and approved annually by the Loan Review Committee of the Board of Directors. Dual authorization is required for larger credits, as discussed in the following paragraph. Levels of approval authority, which include lending limit increases (recommended by senior department management), are reviewed quarterly and approved by the Executive Vice President for Consumer Financial Services. People's Bank has no in-house limit on loans to one borrower for residential and consumer loans, but is subject to such limitations under the Home Owners' Loan Act. See *Regulation of People's Bank and People's United Financial Federally Chartered Savings Bank Regulation - Loans to One Borrower.*

People's Bank's Senior Vice President of residential lending is authorized to approve residential mortgage loans up to and including \$2.0 million and home equity loans up to and including \$1.0 million. First Vice Presidents of residential lending may approve residential mortgage loans up to and including \$1.5 million, and two such officers may jointly approve loans up to and including \$1.75 million. First Vice Presidents may also approve home equity loans up to and including \$750,000.

All residential mortgage loans greater than \$2.0 million, up to and including \$5.0 million, and home equity loans greater than \$1.0 million, up to and including \$2.0 million, may be approved by People's Bank's Executive Vice President for Consumer Financial Services, acting alone; by the Senior Vice President of residential lending and one Executive Vice President other than the Executive Vice President for Consumer Financial Services; or by any two Executive Vice Presidents other than the Executive Vice President for Consumer Financial Services. All loans over \$3.0 million must be reported to the Loan Review Committee at the next meeting of the committee following approval of the loan. The Loan Review Committee must approve residential mortgage loans in excess of \$5.0 million and home equity loans in excess of \$2.0 million.

Authorized residential lenders are responsible for determining the total direct, indirect and contingent liabilities of borrowers and assuring compliance with People's Bank's residential and consumer lending underwriting policies.

The following describes People's Bank's residential and consumer lending procedures:

**Residential Lending.** People's Bank utilizes an automated underwriting system as a tool when making the loan decision. The automated underwriting system allows for the streamlining of document and appraisal requirements for certain loan products.

Retail loan processors obtain credit reports on all retail loan applications prior to loan approval. Wholesale loan application files contain a credit report when they are submitted by the broker. If a credit report is not available, industry standard alternative credit references are provided. The documentation required to support income and assets is based on information from the automated underwriting system, or a specific secondary market investor requirement. If necessary, direct verification of information such as employment data and deposits with institutions is performed by loan processors for retail loans, and provided by brokers for wholesale loans.

Standard FNMA/FHLMC appraisals are performed by appropriately licensed appraisers, and are obtained for all residential mortgages. Life-of-loan flood certifications are ordered from an outside vendor at the time the appraisal is ordered (for retail loans), or when the loan is approved (for wholesale loans). The type of appraisal report is dependent upon the automated underwriting system's response for the loan. The appraisal report is reviewed by the loan processor and/or underwriter. The appraisal department staff is consulted for property value questions.

**Consumer Lending.** The consumer loan credit department reviews and processes consumer loan applications. The authorized consumer lender is responsible for making the credit decision. Credit decisions are based on the applicant's ability, stability and willingness to pay as demonstrated by income, job stability and credit history. Credit reports, containing credit scores, are obtained on all loan applications. Approval by an authorized consumer lender is documented on the underwriter's summary contained in the loan file.

## **Asset Quality**

People's Bank actively manages asset quality through its underwriting practices and collection operations. Underwriting practices tend to focus on optimizing the return of a given risk classification while collection operations focus on minimizing losses once an account becomes delinquent.

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A loan is classified as non-accrual generally when it becomes 90 days past due as to interest or principal payments. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the current period. Interest payments received on non-accrual loans (including impaired loans) are generally recognized as income, although such interest payments may be applied as a reduction of principal if future collections are doubtful. A loan remains on non-accrual status until the factors that indicated doubtful collectibility no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses. The classification of a loan as non-performing does not necessarily indicate that loan principal and interest ultimately will not be collected.

People's Bank's historical experience suggests that a portion of these assets will eventually be recovered. All non-performing loans are in various stages of collection, workout, settlement or foreclosure. When loan workout efforts are exhausted and it is determined that the borrower is unable to repay the obligation, People's Bank will complete foreclosure procedures, if applicable. Restructured commercial and commercial real estate finance loans are those for which concessions to below market terms, such as below market interest rates or deferral of interest, have been granted due to the borrowers' financial condition.

At September 30, 2006 and December 31, 2005, 2004 and 2003, loans delinquent 60 days to 89 days and 90 days or more were as follows:

	At September 30, 2006			
	60-89 Days		90 Days or More	
	No. of Loans	Principal Balance (Dollars in millions)	No. of Loans	Principal Balance of Loans
Consumer Financial Services	128	\$ 4.9	173	\$ 9.0
Commercial Banking	36	14.3	98	10.1
Total delinquent loans (60 days and over)	164	\$ 19.2	271	\$ 19.1
Delinquent loans (60 days and over) to total loans		0.21%		0.21%

	2005		At December 31, 2004				2003					
	60-89 Days		90 Days or More		60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	No. of Loans	Principal Balance of Loans	No. of Loans	Principal Balance of Loans	No. of Loans	Principal Balance of Loans	No. of Loans	Principal Balance of Loans	No. of Loans	Principal Balance of Loans	No. of Loans	Principal Balance of Loans
Consumer Financial Services	213	\$ 4.0	202	\$ 7.9	232	\$ 5.6	245	\$ 8.0	397	\$ 9.9	614	\$ 13.6
Commercial Banking	23	6.2	101	10.1	24	5.4	79	12.3	32	2.5	68	15.8
Total delinquent loans (60 days and over)	236	\$ 10.2	303	\$ 18.0	256	\$ 11.0	324	\$ 20.3	429	\$ 12.4	682	\$ 29.4
Delinquent loans (60 days and over) to total loans		0.12%		0.21%		0.14%		0.26%		0.17%		0.41%

**Non-Performing Assets.** Non-performing assets totaled \$22.9 million at September 30, 2006, an increase of \$0.9 million, or 4%, compared to December 31, 2005 and improved 1 basis point to 0.25% of total loans, real estate owned and repossessed assets at September 30, 2006. Total non-performing assets at December 31, 2005 represented a decrease of \$6.6 million, or 23%, from December 31, 2004 and an improvement of 10 basis points to 0.26% of total loans, real estate owned and repossessed assets at December 31, 2005. For the September 30, 2006 to year-end 2005 comparison, the slight increase in non-performing assets reflects increases in non-performing commercial loans, non-performing residential mortgage loans and non-performing commercial real estate finance loans of \$1.7 million, \$1.1 million and \$0.8 million, respectively, and a \$1.4 million increase in repossessed equipment financed by People's Capital and Leasing, partially offset by a \$4.1 million reduction in



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People's Capital and Leasing non-performing loans. The net change in non-performing commercial real estate finance loans since December 31, 2005 reflects one loan totaling \$12.1 million that was classified as non-performing in the first quarter of 2006, a \$5.5 million partial payment on that loan received in the third quarter of 2006, and one

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non-performing loan totaling \$5.5 million that was favorably resolved in the first quarter of 2006 and generated a \$2.3 million cash recovery. For the year-end 2005 to year-end 2004 comparison, reductions of \$3.9 million and \$2.9 million in non-performing commercial and commercial real estate finance loans, respectively, were partially offset by an increase of \$1.1 million in non-performing People's Capital and Leasing loans.

The level of non-performing assets is expected to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with management's degree of success in resolving problem assets.

The following table presents information regarding non-accrual loans, restructured loans, real estate owned and repossessed assets as of the dates indicated.

	At September 30,		At December 31,			
	2006	2005	2004	2003	2002	2001
	(Dollars in millions)					
Non-accrual loans:						
Residential mortgage	\$ 7.8	\$ 6.7	\$ 7.5	\$ 11.4	\$ 13.2	\$ 14.7
People's Capital and Leasing	2.1	6.2	5.1	4.2	3.3	1.7
Commercial real estate finance	6.6	5.8	8.7	11.4	10.2	5.9
Commercial	3.0	1.3	5.2	3.3	4.8	2.8
Consumer	1.3	1.3	0.9	2.5	3.4	4.0
Total non-accrual loans	20.8	21.3	27.4	32.8	34.9	29.1
Restructured loans				1.0		
Total non-performing loans	20.8	21.3	27.4	33.8	34.9	29.1
Real estate owned and repossessed assets, net	2.1	0.7	1.2	0.5	0.7	1.4
Total non-performing assets	\$ 22.9	\$ 22.0	\$ 28.6	\$ 34.3	\$ 35.6	\$ 30.5
Non-performing loans as a percentage of total loans	0.23%	0.25%	0.35%	0.48%	0.52%	0.46%
Non-performing assets as a percentage of total loans, real estate owned and repossessed assets	0.25	0.26	0.36	0.48	0.53	0.48
Non-performing assets as a percentage of stockholders' equity and allowance for loan losses	1.61	1.62	2.25	3.20	3.53	3.02

At September 30, 2006 and at December 31, 2005, 2004, 2003, 2002 and 2001, People's Bank's portfolio did not include any loans, not included in the table above, which are troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings.

As of September 30, 2006, if all non-accruing loans had been current in accordance with their terms and had been outstanding throughout the nine month period ended September 30, 2006, or since origination if held for part of the period, the gross interest income that would have been recorded in that period on such loans would have amounted to approximately \$2.4 million. The amount of interest income on the non-accruing loans included in net income for the nine month period ended September 30, 2006 was \$0.9 million.

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*Allowance for Loan Losses.* The following table presents the activity in the allowance for loan losses and other ratios at or for the periods indicated.

	At or for the Nine Months Ended September 30, 2006	At or for the Year Ended December 31,				
		2005	2004	2003	2002	2001
(Dollars in millions)						
Beginning allowance for loan losses	\$ 75.0	\$ 72.5	\$ 70.5	\$ 69.2	\$ 73.7	\$ 66.7
Charge-offs:						
Consumer Financial Services:						
Residential mortgage	(0.1)	(0.1)	(0.2)	(0.1)		(0.9)
Consumer	(2.4)	(4.9)	(9.7)	(16.8)	(25.3)	(29.4)
Commercial Banking:						
Commercial real estate finance		(0.1)	(3.2)			(0.1)
Commercial lending	(4.4)	(0.9)	(0.6)	(1.2)	(3.4)	(11.2)
People's Capital and Leasing	(0.4)	(3.1)	(1.5)	(2.0)	(2.4)	(0.9)
Total charge-offs	(7.3)	(9.1)	(15.2)	(20.1)	(31.1)	(42.5)
Recoveries:						
Consumer Financial Services:						
Residential mortgage	0.1	0.2	0.2	0.1	0.4	0.4
Consumer	1.2	2.0	2.8	2.9	2.6	1.8
Commercial Banking:						
Commercial real estate finance	2.5	0.1	0.1	0.2	0.6	1.6
Commercial lending	0.3	0.4	0.3	1.4	0.7	0.4
People's Capital and Leasing.	0.2	0.3	0.5	0.1	0.1	
Total recoveries	4.3	3.0	3.9	4.7	4.4	4.2
Net loan charge-offs	(3.0)	(6.1)	(11.3)	(15.4)	(26.7)	(38.3)
Provision for loan losses	2.0	8.6	13.3	16.7	22.2	45.3
Ending allowance for loan losses	\$ 74.0	\$ 75.0	\$ 72.5	\$ 70.5	\$ 69.2	\$ 73.7
Allowance for loan losses as a percentage of total loans	0.81%	0.87%	0.91%	0.99%	1.04%	1.16%
Allowance for loan losses as a percentage of non-performing loans	354.9	352.5	264.6	208.4	198.2	253.3
Net loan charge-offs as a percentage of average loans outstanding (annualized for September 30, 2006)	0.05	0.07	0.15	0.22	0.42	0.62

The allowance for loan losses is established through provisions for loan losses charged to income. Losses on loans, including impaired loans, are charged to the allowance for loan losses when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance for loan losses when realized. People's Bank maintains the allowance for loan losses at a level that is believed to be adequate to absorb probable losses inherent in the existing loan portfolio, based on a quarterly evaluation of a variety of factors. These factors include, but are not limited to: People's Bank's historical loan loss experience and recent trends in that experience; risk ratings assigned by lending personnel to commercial real estate finance, commercial and People's Capital and Leasing loans, and the results of ongoing reviews of those ratings by People's Bank's independent loan review function; an evaluation of non-performing loans and related collateral values; the probability of loss in view of geographic and industry concentrations and other portfolio risk characteristics; the present financial condition of borrowers; and current economic conditions. While People's Bank seeks to use the best available information to make these evaluations, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations,

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further information obtained regarding known problem loans, the identification of additional problem loans and other factors.

***Allowance for Loan Losses Allocated by Type of Loan.*** Based on a review of trends in key factors used in determining the adequacy of the allowance for loan losses allocated by type of loan, including portfolio growth and changes in risk classifications, People's Bank increased the allowance for loan losses and the provision for loan losses by \$2.0 million for the commercial loan portfolio and by \$1.0 million for the People's Capital and Leasing loan portfolio in the first nine months of

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2006. These increases were offset by a reduction to the allowance for loan losses and a corresponding reduction to the provision for loan losses for the commercial real estate finance loan portfolio totaling \$2.0 million, the consumer loan portfolio totaling \$1.0 million and the residential mortgage loan portfolio totaling \$1.0 million. In 2005, People's Bank increased the allowance for loan losses and the provision for loan losses by \$2.5 million for the People's Capital and Leasing loan portfolio and by \$2.0 million in the commercial loan portfolio. These increases were partially offset by a reduction to the allowance for loan losses and a corresponding reduction to the provision for loan losses in the consumer loan portfolio totaling \$2.0 million, reflecting a \$34 million, or 74%, decline in the national consumer loan portfolio since December 31, 2004. As a result of these changes, the total allowance for loan losses declined \$1.0 million in the first nine months of 2006 and increased \$2.5 million for the full-year of 2005.

*See Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Provision for Loan Losses and Net Charge-Offs.*

The following tables present our allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans at September 30, 2006 and at December 31, 2005, 2004, 2003, 2002 and 2001.

	At September 30, 2006	
	Amount	Percent of Loans to Total Loans
	(Dollars in millions)	
<b>Consumer Financial Services:</b>		
Residential mortgage	\$ 2.0	42.2%
Consumer	2.0	14.3
<b>Commercial Banking:</b>		
Commercial real estate finance	28.5	19.6
Commercial lending	27.5	15.7
People's Capital and Leasing	14.0	8.2
Total allowance for loan losses	\$ 74.0	100.0%

	At December 31,									
	2005		2004		2003		2002		2001	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in millions)									
<b>Consumer Financial Services:</b>										
Residential mortgage	\$ 3.0	40.9%	\$ 3.0	41.2%	\$ 3.0	43.5%	\$ 3.0	43.0%	\$ 8.0	42.8%
Consumer	3.0	14.7	5.0	14.4	9.5	13.8	11.5	14.5	14.0	14.6
<b>Commercial Banking:</b>										
Commercial real estate finance	30.5	20.7	30.5	23.1	28.0	23.9	28.2	24.1	26.4	24.2
Commercial lending	25.5	16.3	23.5	15.6	21.5	14.6	21.7	15.0	22.0	14.9
People's Capital and Leasing	13.0	7.4	10.5	5.7	8.5	4.2	4.8	3.4	3.3	3.5
Total allowance for loan losses	\$ 75.0	100.0%	\$ 72.5	100.0%	\$ 70.5	100.0%	\$ 69.2	100.0%	\$ 73.7	100.0%



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	For the Nine Months Ended		For the Year Ended December 31,			
	September 30,					
	2006 (annualized)	2005	2004	2003	2002	2001
People's Capital and Leasing	0.05%	0.54%	0.27%	0.77%	1.04%	0.39%
Consumer	0.13	0.24	0.66	1.48	2.44	3.15
Commercial lending	0.38	0.04	0.03	(0.02)	0.30	1.18
Commercial real estate finance	(0.19)		0.18	(0.02)	(0.04)	(0.10)
Residential mortgage					(0.02)	0.02
Total portfolio	0.05%	0.07%	0.15%	0.22%	0.42%	0.62%

**Investment Activities**

People's Bank has historically utilized the securities portfolio for earnings generation (in the form of interest and dividend income), liquidity, interest rate risk management, asset diversification and tax planning. Securities available for sale are used as part of People's Bank's asset/liability management strategy and may be sold in response to, or in anticipation of, factors such as changes in market conditions and interest rates, changes in security prepayment rates, liquidity considerations and regulatory capital requirements. People's Bank primarily invests in debt securities rated in the four highest categories assigned by a nationally recognized statistical ratings organization. Management has internal guidelines for the credit quality and duration of People's Bank's debt securities portfolio and monitors these on a regular basis.

People's Bank strives to maintain an appropriate balance between loan portfolio growth and core deposit funding. People's Bank's management currently believes that, other than for transitional deployment of excess core deposits or excess equity, a large securities portfolio funded with wholesale borrowings provides limited economic value. As part of this focus, People's Bank has reduced its securities portfolio by \$3.0 billion since December 31, 2002 and increased its loans by \$2.5 billion over the same period. People's Bank has also reduced borrowings by \$2.4 billion since year-end 2002. During the third quarter of 2006, People's Bank sold \$810 million of debt securities as part of restructuring activities to better position its balance sheet for the then current interest rate environment. At September 30, 2006, People's Bank had a securities portfolio of \$202 million, or 2% of total assets, and wholesale borrowings of \$14 million, or less than 1% of total assets, which represent ratios well below industry averages.

At December 31, 2005, People's Bank's securities portfolio totaled \$1.4 billion, a \$708 million, or 34%, decline from year-end 2004. In addition, the securities portfolio declined \$334 million, or 14%, in 2004 compared to year-end 2003. The reduction in the securities portfolio reflects the substitution of higher-yielding loans for lower-yielding securities as securities pay down and mature. The securities portfolio represented 14% of earning assets at December 31, 2005, compared to 21% at year-end 2004 and 25% at year-end 2003, consistent with management's goal of reducing the percentage of securities to earning assets.

In 2005, People's Bank decreased and continued realigning the types of securities within the debt securities portfolio. Of the securities that remained in the portfolio at December 31, 2005, the mortgage-backed securities and collateralized mortgage obligations (CMOs) portfolio represented 78% of the debt securities portfolio at December 31, 2005, compared to 75% at year-end 2004 and 62% at December 31, 2003. In addition, the U.S. Treasury and Agency portfolio was further reduced in 2005 and represented 22% of the debt securities portfolio at year end, compared to 24% and 29% at December 31, 2004 and 2003, respectively.

At September 30, 2006, the book value and the market value of the securities available for sale portfolio were approximately equivalent compared to net unrealized losses of \$28.9 million, \$14.1 million and \$14.3 million at year-end 2005, 2004 and 2003, respectively. The significant improvement in the unrealized loss in 2006 is due to the sale of securities during 2006 and the resulting significantly smaller securities portfolio. All unrealized gains and those unrealized losses representing temporary declines in value are recorded in stockholders equity, net of income taxes. As a result, management anticipates continued fluctuations in stockholders' equity due to changes in the fair value of these securities. For a discussion of the regulatory capital treatment of unrealized gains and losses, see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital*.





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The duration of the debt securities portfolio was approximately 0.09 years at September 30, 2006, compared to 1.7 years at year-end 2005.

The following table presents securities activity for the periods indicated.

	For the Nine Months Ended September 30,	For the Year Ended December 31,		
	2006	2005	2004	2003
(In millions)				
<b>Securities:</b>				
Carrying value at beginning of period	\$ 1,335.7	\$ 2,059.5	\$ 2,386.9	\$ 3,230.3
<b>Purchases:</b>				
Held to maturity				
Available for sale debt securities	288.7	41.9	1,300.8	2,303.9
Equity securities	4.6	175.0	102.5	66.1
<b>Calls:</b>				
Held to maturity				
Available for sale debt securities		(193.5)	(522.6)	(945.4)
Equity securities				
<b>Maturities:</b>				
Held to maturity	(0.3)			
Available for sale debt securities	(375.3)	(549.7)	(554.4)	(1,765.6)
Equity securities				
<b>Sales:</b>				
Held to maturity				
Available for sale debt securities	(1,097.8)		(442.3)	(212.9)
Equity securities	(10.1)	(175.0)	(198.5)	(268.6)
Premium amortization, discount accretion, net and other	(2.2)	(7.7)	(13.1)	(45.8)
Change in unrealized gain or loss	29.1	(14.8)	0.2	24.9
<b>Net decrease in securities</b>	<b>(1,163.3)</b>	<b>(723.8)</b>	<b>(327.4)</b>	<b>(843.4)</b>
Carrying value at end of period	\$ 172.4	\$ 1,335.7	\$ 2,059.5	\$ 2,386.9

The following table presents mortgage-backed securities activity for the periods indicated.

	For the Nine Months Ended September 30,	For the Year Ended December 31,		
	2006	2005	2004	2003
(In millions)				
<b>Mortgage-backed securities:</b>				
Carrying value at beginning of period	\$ 1,014.9	\$ 1,514.0	\$ 1,406.2	\$ 1,899.0
<b>Purchases:</b>				
Held to maturity				

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Available for sale		38.7	823.9	1,253.1
Principal Payments:				
Held to maturity				
Available for sale	(222.0)	(519.5)	(475.0)	(1,653.3)
Sales:				
Available for sale	(812.3)		(220.6)	(50.1)
Premium amortization, discount accretion, net and other	(2.4)	(7.5)	(12.2)	(29.4)
Change in unrealized gain or loss	21.8	(10.8)	(8.3)	(13.1)
Net (decrease) increase in securities	(1,014.9)	(499.1)	107.8	(492.8)
Carrying value at end of period	\$	\$ 1,014.9	\$ 1,514.0	\$ 1,406.2

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The following tables present the composition of the securities portfolio in dollar amount and in percentage of each investment type at the dates indicated.

	Carrying Value	At September 30, 2006 Percent of Total (1)	Fair Value
	(Dollars in millions)		
Trading account securities	\$ 29.5	14.6%	\$ 29.5
Securities held to maturity:			
Mortgage-backed securities	1.1	0.5	1.1
Total securities held to maturity	1.1	0.5	1.1
Securities available for sale:			
Debt securities:			
US Treasury and agency	145.4	72.0	145.4
Total debt securities	145.4	72.0	145.4
Equity securities:			
Federal Home Loan Bank stock	25.2	12.5	25.2
Other	0.5	0.3	0.7
Total equity securities	25.7	12.8	25.9
Total securities available for sale	171.1	84.8	171.3
Net unrealized gain on securities available for sale	0.2	0.1	
Total securities available for sale, at fair value	171.3	84.9	171.3
Total securities	\$ 201.9	100.0%	\$ 201.9

(1) Based on carrying value for each investment type.

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	2005		At December 31, 2004		2003				
	Carrying Value	Percent of Total (1)	Fair Value	Carrying Value	Percent of Total (1)	Fair Value	Carrying Value	Percent of Total (1)	Fair Value
Trading account securities	\$ 27.3	2.0%	\$ 27.3	\$ 11.7	0.6%	\$ 11.7	\$ 18.1	0.7%	\$ 18.1
Securities held to maturity:									
Corporate and other	1.3	0.1	1.3	1.3	0.1	1.3	1.3	0.1	1.3
Mortgage-backed securities	0.1		0.1	0.1		0.1	0.1		0.1
Total securities held to maturity	1.4	0.1	1.4	1.4	0.1	1.4	1.4	0.1	1.4
Securities available for sale:									
Debt securities:									
Mortgage-backed securities and collateralized mortgage obligations (CMOs)									
	1,036.7	76.1	1,014.9	1,525.0	73.6	1,514.0	1,408.9	58.6	1,406.2
US Treasury and agency	295.0	21.6	287.7	488.8	23.6	485.1	666.1	27.7	663.3
Corporate and other				26.2	1.3	26.7	195.2	8.1	188.2
State and municipal				0.7		0.7	1.6	0.1	1.6
Total debt securities	1,331.7	97.7	1,302.6	2,040.7	98.5	2,026.5	2,271.8	94.5	2,259.3
Equity securities:									
Federal Home Loan Bank stock	30.6	2.2	30.6	30.6	1.5	30.6	93.8	3.9	93.8
Preferred stocks							18.7	0.8	18.4
Common stocks							1.1		1.1
Other	0.9	0.1	1.1	0.9		1.0	14.4	0.6	12.9
Total equity securities	31.5	2.3	31.7	31.5	1.5	31.6	128.0	5.3	126.2
Total securities available for sale	1,363.2	100.0	1,334.3	2,072.2	100.0	2,058.1	2,399.8	99.8	2,385.5
Net unrealized loss on securities available for sale									
	(28.9)	(2.1)		(14.1)	(0.7)		(14.3)	(0.6)	
Total securities available for sale, at fair value	1,334.3	97.9	1,334.3	2,058.1	99.3	2,058.1	2,385.5	99.2	2,385.5
Total securities	\$ 1,363.0	100.0%	\$ 1,363.0	\$ 2,071.2	100.0%	\$ 2,071.2	\$ 2,405.0	100.0%	\$ 2,405.0

(1) Based on carrying value for each investment type.

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**Carrying Values, Rates and Maturities.** The table below presents information regarding the carrying values, weighted average rates and contractual maturities of the securities portfolio at September 30, 2006.

	At September 30, 2006									
	One Year or Less		More Than One Year		More Than Five Years		More Than Ten Years		Total	
	Weighted		to Five Years		to Ten Years		Years		Weighted	
	Carrying	Average	Carrying	Average	Carrying	Average	Carrying	Average	Carrying	Average
Value	Rate	Value	Rate	Value	Rate	Value	Rate	Value	Rate	
(Dollars in millions)										
Trading account securities	\$ 11.9	4.68%	\$ 15.7	5.02%	\$	%	\$ 1.9	3.54%	\$ 29.5	4.79%
Securities held to maturity:										
Corporate and other			1.1	5.92					1.1	5.92
Mortgage-backed securities										
Total securities held to maturity			1.1	5.92					1.1	5.92
Securities available for sale:										
Debt securities:										
US Treasury and agency	145.4	5.12							145.4	5.12
Total debt securities	145.4	5.12							145.4	5.12
Equity securities:										
Federal Home Loan Bank stock							25.2	5.50	25.2	5.50
Other							0.5	3.86	0.5	3.86
Total equity securities							25.7	5.48	25.7	5.48
Total securities available for sale	145.4	5.12					25.7	5.48	171.1	5.17
Net unrealized gain on securities available for sale							0.2		0.2	
Total securities available for sale, at fair value	145.4	5.12					25.9	5.48	171.3	5.17
Total securities	\$ 157.3	5.09%	\$ 16.8	5.07%	\$	%	\$ 27.8	5.35%	\$ 201.9	5.12%

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**Sources of Funds**

At the current time, People's Bank's primary funding sources are deposits and stockholders' equity, representing 97% of total assets. Borrowings, while less than 1% of total assets at September 30, 2006, are an available source of funding with a borrowing limit of \$2.8 billion based on the level of qualifying collateral available for these sources. People's Bank also had unsecured borrowing capacity of \$825 million.

People's Bank's strategy is to focus on increasing deposits by providing a wide range of convenient services to individuals, corporations and municipalities. People's Bank provides customers access to their deposits through 75 traditional branches, 73 Stop & Shop supermarket branches, eight limited-service branches, over 250 ATMs, telephone banking and an Internet banking site that is fully integrated with People's Bank's brokerage subsidiary, People's Securities. Core deposits equaled 83% of total assets at September 30, 2006 and 81% of total assets at both December 31, 2005 and 2004. Core deposits and stockholders' equity constituted over 97% of People's Bank's funding base at September 30, 2006 and over 94% at December 31, 2005.

The expansion of People's Bank's branch network and its commitment to developing full-service relationships with its customers are integral components of People's Bank's strategy to leverage the success of its supermarket banking initiative, expand market share and continue growing deposits. At September 30, 2006, People's Bank's statewide network of Super Stop & Shop branches held deposits totaling \$2.1 billion and deposits in supermarket branches open for more than one year averaged \$30.4 million per store.

Non-interest-bearing deposits are an important source of low-cost funding and fee income for People's Bank. In addition, People's Bank believes that checking accounts represent one of the core relationships between a financial institution and its customers, and it is from these relationships that cross-selling of other financial services can be achieved. At September 30, 2006, December 31, 2005 and 2004, non-interest-bearing core deposits equaled 23%, 25% and 24% of core deposits, respectively.

Time deposits of \$100,000 or more totaled \$859 million and \$698 million at September 30, 2006 and December 31, 2005, respectively, of which \$280 million and \$240 million mature within three months of the respective dates, \$146 million and \$141 million mature after three months but within six months of the respective dates, \$391 million and \$212 million mature after six months but within one year of the respective dates and \$42 million and \$105 million mature after one year of the respective dates. There were no brokered certificates of deposit at September 30, 2006, December 31, 2005 and 2004.

Commercial deposits fund a significant portion of the loan portfolio. Average non-interest-bearing commercial deposits decreased \$40 million in the first nine months of 2006 after increasing \$43 million, or 5%, in 2005 and \$64 million, or 7%, in 2004. The decrease in 2006 is reflective of the current interest rate environment.

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The following table presents our deposit activity for the periods indicated:

	<b>For the Nine Months Ended September 30, 2006                      2005</b>	
	<b>(Dollars in millions)</b>	
Total deposits at beginning of period	\$ 9,082.6	\$ 8,862.0
Net (decrease) increase in deposits	(232.0)	141.3
Interest credited, net of penalties	128.0	82.7
 Total deposits at end of period	 \$ 8,978.6	 \$ 9,086.0
Net (decrease) increase	\$ (104.0)	\$ 224.0
 Percent (decrease) increase	 (1.1)%	 2.5%

	<b>For the Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(Dollars in millions)</b>		
Total deposits at beginning of period	\$ 8,862.0	\$ 8,714.0	\$ 8,426.1
Net increase in deposits	103.1	61.3	185.4
Interest credited, net of penalties	117.5	86.7	102.5
 Total deposits at end of period	 \$ 9,082.6	 \$ 8,862.0	 \$ 8,714.0
Net increase	\$ 220.6	\$ 148.0	\$ 287.9
 Percent increase	 2.5%	 1.7%	 3.4%

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The following table presents the distribution of deposit accounts for the periods indicated by dollar amount and percent of portfolio, and the weighted average nominal interest rate on each category of deposits.

	At September 30, 2006			2005			At December 31, 2004			2003		
	Amount	Percent of total deposits	Weighted average nominal rate	Amount	Percent of total deposits	Weighted average nominal rate	Amount	Percent of total deposits	Weighted average nominal rate	Amount	Percent of total deposits	Weighted average nominal rate
Core deposits:												
Non-interest-bearing	\$ 2,056.6	22.9%		2,218.4	24.4%		2,105.4	23.8%		1,950.6	22.4%	
Savings, interest-bearing checking and money market	3,270.6	36.4	1.37	3,749.8	41.3	1.29	4,217.5	47.6	0.82	4,135.5	47.5	0.79
Time	3,515.9	39.2	4.30	2,904.5	32.0	3.23	2,358.5	26.6	2.33	2,347.1	26.9	2.34
Total core deposits	8,843.1	98.5	2.22	8,872.7	97.7	1.60	8,681.4	98.0	1.03	8,433.2	96.8	1.04
Non-core deposits	135.5	1.5	0.32	209.9	2.3	1.27	180.6	2.0	0.62	280.8	3.2	1.21
Total deposits	\$ 8,978.6	100.0%	2.18%	\$ 9,082.6	100.0%	1.59%	\$ 8,862.0	100.0%	1.02%	\$ 8,714.0	100.0%	1.04%
Time deposits of \$100,000 or more maturing:												
Within 3 months	\$ 280.3	3.1%	4.34%	\$ 239.7	2.6%	3.50%	\$ 120.1	1.3%	1.93%	\$ 106.9	1.2%	1.48%
After 3 months but within 6 months	146.4	1.6	4.18	141.2	1.6	3.34	53.0	0.6	1.86	51.7	0.6	1.76
After 6 months but within 1 year	391.1	4.4	4.91	211.5	2.3	3.65	155.8	1.8	2.71	64.7	0.8	1.85
After 1 year	41.5	0.5	3.83	105.7	1.2	3.70	114.2	1.3	3.18	142.6	1.6	3.42
Total	\$ 859.3	9.6%	4.55%	\$ 698.1	7.7%	3.54%	\$ 443.1	5.0%	2.52%	\$ 365.9	4.2%	2.34%



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The following table presents, by rate category, the amount of time deposit accounts outstanding at September 30, 2006 and December 31, 2005, 2004 and 2003.

	At		At December 31,	
	September 30, 2006	2005	2004 (In millions)	2003
<b>Time deposit accounts:</b>				
1.50% or less	\$ 0.6	\$ 180.8	\$ 770.7	\$ 1,005.0
1.51% to 2.00%	173.0	390.3	419.9	342.3
2.01% to 2.50%	122.4	143.8	407.6	88.8
2.51% to 3.00%	166.6	261.8	233.8	237.1
3.01% to 3.50%	242.7	817.7	114.7	138.6
3.51% and over	2,814.8	1,167.7	455.5	644.5
Total	\$ 3,520.1	\$ 2,962.1	\$ 2,402.2	\$ 2,456.3

The following table presents, by rate category, the remaining period to maturity of time deposit accounts outstanding as of September 30, 2006.

	Period to Maturity from September 30, 2006						Total
	Within three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three years	
<b>Time deposit accounts:</b>							
1.50% or less	\$ 0.5	\$	\$ 0.1	\$	\$	\$	\$ 0.6
1.51% to 2.00%	75.7	61.6	24.2	11.5			173.0
2.01% to 2.50%	45.1	31.0	16.1	13.6	16.6		122.4
2.51% to 3.00%	31.0	19.0	59.7	27.0	23.7	6.2	166.6
3.01% to 3.50%	88.3	48.8	31.3	56.7	8.8	8.8	242.7
3.51% and over	658.8	453.7	1,528.6	128.7	7.1	37.9	2,814.8
Total	\$ 899.4	\$ 614.1	\$ 1,660.0	\$ 237.5	\$ 56.2	\$ 52.9	\$ 3,520.1

**Borrowings.** Total borrowings equaled less than 1% of total assets at September 30, 2006 compared to 3% at both December 31, 2005 and 2004. People's Bank uses federal funds purchased as a source of funds, which are typically unsecured overnight loans among banks. Sources include three of the twelve regional Federal Home Loan Banks and several money center and large regional banks. Federal funds purchased represented less than 1% of total assets at September 30, 2006 and 2% of total assets at both December 31, 2005 and 2004.

In previous years, People's Bank's primary source for borrowings was advances from the Federal Home Loan Bank of Boston, which provides credit for member institutions within its assigned region. People's Bank's outstanding Federal Home Loan Bank advances at December 31, 2005 represented less than one-half of one percent of total assets compared to 1% of total assets at December 31, 2004. At September 30, 2006, there were no outstanding Federal Home Loan Bank advances. In 2004, People's Bank prepaid \$799 million of Federal Home Loan Bank advances and \$110 million of long-term repurchase agreements as part of a balance sheet restructuring.

Another source of funds in previous years has been repurchase agreements. These transactions involve the sale of securities to broker/dealers under agreements to repurchase the same (or substantially the same) securities. Repurchase agreements with broker/dealers are limited to Reporting Federal Reserve Dealers in government securities that have been approved by People's Bank's Board of Directors.



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Federal Home Loan Bank advances at the periods indicated are summarized as follows:

	At September 30, 2006		2005		At December 31, 2004		2003				
	Maximum Amount Outstanding at Any Month-End	Weighted Average Principal Rate	Maximum Amount Outstanding at Any Month-End	Weighted Average Principal Rate	Maximum Amount Outstanding at Any Month-End	Weighted Average Principal Rate	Maximum Amount Outstanding at Any Month-End	Weighted Average Principal Rate			
(Dollars in millions)											
Federal Home Loan Bank advances maturing:											
Within 1 year			\$ 25.0	4.00%	\$ 100.0	2.17%	\$ 165.1	0.94%			
After 1 but within 2 years							303.6	4.87			
After 2 but within 3 years							1.8	6.91			
After 3 but within 4 years							25.6	6.26			
After 4 but within 5 years							1.3	6.74			
After 5 years							466.9	4.79			
Total Federal Home Loan Bank advances	\$	\$ 155.0	\$ 25.0	4.00%	\$ 190.0	\$ 100.0	2.17%	\$ 849.3	\$ 964.3	4.20%	\$ 1,702.6

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Average borrowed funds for the periods indicated are summarized as follows:

	Nine Months Ended				Year Ended December 31,			
	September 30,							
	2006		2005		2004		2003	
Average Amount Outstanding	Weighted Average Rate	Average Amount Outstanding	Weighted Average Rate	Average Amount Outstanding	Weighted Average Rate	Average Amount Outstanding	Weighted Average Rate	
(Dollars in millions)								
Federal funds purchased maturing within 3 months:	\$ 207.2	4.76%	\$ 250.5	3.19%	\$ 249.6	1.25%	\$ 517.9	1.80%
FHLB advances	63.2	5.13	50.3	2.73	176.1	5.32	1,059.5	5.08
Repurchase agreements maturing:								
Within 3 months			1.7	2.41	15.6	0.86	91.7	0.98
After 2 years but within 3 years					11.2	4.82	60.0	4.81
After 5 years					9.3	3.99	50.0	3.99
Total repurchase agreements			1.7	2.41	36.1	2.91	201.7	2.87
Total borrowings	\$ 270.4	4.84%	\$ 302.5	3.11%	\$ 461.8	2.94%	\$ 1,779.1	3.88%

At September 30, 2006, all borrowed funds were overnight federal funds.

The amortized cost and fair value of the underlying securities used as collateral for securities sold under agreements to repurchase, the average balances and the maximum outstanding at any month-end at or for the nine months ended September 30, 2006 and the years ended December 31, 2005 and 2004 are as follows:

	At or For the Nine Months Ended September 30, 2006	At or For the Year Ended December 31,	
		2005	2004
(Dollars in millions)			
Amortized cost of collateral:			
United States government-sponsored agency securities	\$	\$	\$
Mortgage-backed securities			
Total amortized cost of collateral	\$	\$	\$
Fair value of collateral:			
United States government-sponsored agency securities	\$	\$	\$
Mortgage-backed securities			
Total fair value of collateral	\$	\$	\$
Average balance of outstanding repurchase agreements during the period	\$	\$ 1.7	\$ 36.1
Maximum balance of outstanding repurchase agreements at any month-end during the period	\$	\$	\$ 205.5

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Average cost of securities sold under agreements to repurchase	%	2.41%	2.91%
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The average balances of People's Bank's advances from the Federal Home Loan Bank of Boston during 2006, 2005 and 2004 were \$63.2 million, \$50.3 million and \$176.1 million, respectively, and the maximum Federal Home Loan Bank advances outstanding during 2006, 2005 and 2004 were \$155.0 million, \$190.0 million and \$849.3 million, respectively.

### Subordinated Notes

At September 30, 2006, People's Bank had \$65 million of 9.875% subordinated notes and \$44 million of 7.20% subordinated notes outstanding. Subordinated notes totaled \$109 million at both September 30, 2006 and December 31, 2005 and \$122 million at December 31, 2004. People's Bank repurchased \$14 million and \$71 million of its 9.875% subordinated notes in 2005 and 2004, respectively, and \$62 million of its 7.20% subordinated notes in 2004. The repurchases in 2004 were part of a balance sheet restructuring. Costs relating to these repurchases are included in liability restructuring costs in the

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Consolidated Statements of Income. The 7.20% subordinated notes matured on December 1, 2006 and have been repaid. The 9.875% subordinated notes are due in 2010. The 9.875% subordinated notes are unsecured general obligations of People's Bank with interest payable semi-annually, are subordinated to the claims of depositors and People's Bank's other creditors and are not redeemable prior to maturity. They qualify, up to certain limits, as supplementary (tier 2) capital for risk-based capital purposes. The 7.20% subordinated notes did not qualify as supplementary capital at September 30, 2006 and December 31, 2005 since they were to mature in less than one year.

## **Subsidiaries**

People's Bank has three wholly-owned and consolidated subsidiaries which provide a variety of financial services to customers: People's Securities, Inc., R.C. Knox and Company, Inc. and People's Capital and Leasing Corp.

People's Securities provides brokerage services, financial advisory services, investment management services and life insurance.

R.C. Knox provides insurance services.

People's Capital and Leasing, which provides equipment financing services, operates in 48 states and has a sales force in Connecticut, California, Georgia, Kansas, Minnesota, New Hampshire and Texas. People's Capital and Leasing's concentration is in niche industries, such as printing, packaging and transportation. People's Capital and Leasing contributed \$164 million to People's Bank's commercial banking loan portfolio average growth for 2005, a 46% increase from 2004. At September 30, 2006, People's Capital and Leasing comprised 19% of the total commercial banking loan portfolio.

In addition, People's Bank has a fourth consolidated subsidiary, People's Mortgage Investment Company, that is a passive investment subsidiary. This subsidiary was formed as a result of Connecticut tax legislation that allows for the transfer of mortgage loans to a passive investment subsidiary. The related earnings of the subsidiary, and any dividends it pays to the parent, are not subject to Connecticut income tax.

## **Personnel**

As of September 30, 2006, People's Bank had 2,320 full-time and 492 part-time employees. The employees are not represented by a collective bargaining unit, and People's Bank considers its relationship with its employees to be excellent.

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**BUSINESS OF PEOPLE S UNITED FINANCIAL**

People s United Financial has not engaged in any business to date; accordingly, there are no financial statements for People s United Financial at this time. People s United Financial is a newly-formed Delaware corporation and currently a wholly-owned subsidiary of People s Bank. People s United Financial was formed for the purpose of effectuating the conversion and offering described in this prospectus. People s United Financial is registering its common stock with the Securities and Exchange Commission. As described in this prospectus, People s United Financial will be selling shares of its common stock in the offering and will be issuing shares of its common stock to the existing stockholders of People s Bank in exchange for their shares of People s Bank common stock. The sale and share exchange will be part of the conversion and offering, which will result in the termination of existence of People s Mutual Holdings and People s United Financial becoming the savings and loan holding company for People s Bank. Upon completion of the conversion and offering, People s Bank will be wholly-owned by People s United Financial. People s United Financial intends to retain approximately 50% of the net proceeds from the offering. People s United Financial will invest its initial capital as discussed in *How We Intend to Use the Proceeds from the Offering*.

Immediately after completion of the conversion and offering, it is expected that People s United Financial s only business activities will be to hold all of the outstanding common stock of People s Bank, to hold a loan to the employee stock ownership plan, to contribute 2,000,000 shares of its common stock and \$20.0 million in cash from the offering proceeds to The People s Community Foundation and to contribute approximately 50% of the net proceeds from the offering to People s Bank as additional capital. People s United Financial may use the net proceeds it retains to purchase investment securities, finance the acquisition of other financial institutions or other businesses that are related to banking or for other general corporate purposes, including repurchases of common stock and payment of cash dividends. In the future, as the holding company of People s Bank, People s United Financial may pursue other business activities permitted by applicable laws and regulations for such holding companies, which may include the issuance of additional shares of common stock to raise capital or to support mergers or acquisitions and borrowing funds for reinvestment in People s Bank. There are no specific plans for any additional capital issuance, merger or acquisition, or other diversification of People s United Financial s activities at the present time.

People s United Financial s cash flows will depend upon earnings from the investment of the portion of net proceeds retained from the offering and any dividends received from People s Bank. Initially, People s United Financial will neither own nor lease any property, but will instead use the premises, equipment, and furniture of People s Bank. At the present time, People s United Financial intends to employ only persons who are officers of People s Bank to serve as its officers and will use the support staff of People s Bank from time to time. These persons will not be separately compensated by People s United Financial. People s United Financial may hire its own employees, as appropriate, in the future. See *How We Intend To Use The Proceeds From The Offering*.

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People's Bank has been a federally chartered savings bank since August 18, 2006 when it converted from a Connecticut chartered savings bank. Its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation under the Deposit Insurance Fund. Under its charter, People's Bank is subject to extensive regulation, examination and supervision by the Office of Thrift Supervision as its chartering agency, and by the Federal Deposit Insurance Corporation as the deposit insurer. Following completion of the conversion and offering, People's United Financial will be a unitary savings and loan holding company regulated, examined and supervised by the Office of Thrift Supervision. Both People's United Financial and People's Bank must file reports with the Office of Thrift Supervision concerning their activities and financial condition, and must obtain regulatory approval from the Office of Thrift Supervision prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The Office of Thrift Supervision will conduct periodic examinations to assess People's United Financial's and People's Bank's compliance with various regulatory requirements. The Office of Thrift Supervision has primary enforcement responsibility over federally chartered savings banks and savings and loan holding companies and has substantial discretion to impose enforcement action on a savings bank or holding company that fails to comply with applicable regulatory requirements, particularly with respect to capital requirements imposed on savings banks. In addition, the Federal Deposit Insurance Corporation has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular federally chartered savings bank and, if action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances.

This regulation and supervision establishes a comprehensive framework of activities in which a federal savings bank can engage and is intended primarily for the protection of the Deposit Insurance Fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such laws and regulations or interpretations thereof, whether by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or through legislation, could have a material adverse impact on People's United Financial and People's Bank and their operations and stockholders.

**Federally Chartered Savings Bank Regulation**

**Activity Powers.** People's Bank derives its lending, investment and other activity powers primarily from the Home Owners' Loan Act, as amended, and the regulations of the Office of Thrift Supervision thereunder. Under these laws and regulations, federal savings banks, including People's Bank, generally may invest in:

real estate mortgages;

consumer and commercial loans;

certain types of debt securities; and

certain other assets.

People's Bank may also establish service corporations that may, subject to applicable limitations, engage in activities not otherwise permissible for People's Bank, including certain real estate equity investments and securities and insurance brokerage activities. People's Bank's investment powers are subject to various limitations, including (1) a prohibition against the acquisition of any corporate debt security that is not rated in one of the four highest rating categories; (2) a limit of 400% of a savings bank's capital on the aggregate amount of loans secured by non-residential real estate property; (3) a limit of 20% of a savings bank's assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (4) a limit of 35% of a savings bank's assets on the aggregate amount of consumer loans and acquisitions of certain debt securities, with amounts in excess of 30% of assets being limited to loans made directly to the original obligor and where no third-party finder or referral fees were paid; (5) a limit of 5% of assets on non-conforming loans (residential and farm loans in excess of the specific limitations of the Home Owners' Loan Act); and (6) a limit of the greater of 5% of assets or a savings bank's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property. The Office of Thrift Supervision



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granted People's Bank a phase-in period of three years from the date of its conversion to a federal savings bank, August 18, 2006, to comply with the Home Owners' Loan Act's commercial loan limits, with the ability to seek an additional one-year extension if necessary.

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**Capital Requirements.** The Office of Thrift Supervision capital regulations require federally chartered savings banks to meet three minimum capital ratios:

*Tangible Capital Ratio* - A 1.5% tangible capital ratio, calculated as tangible capital to adjusted total assets.

*Leverage (Core) Capital Ratio* - A 4% leverage (core) capital ratio, calculated as core capital to adjusted total assets. The minimum leverage (core) capital ratio is reduced to 3% if the savings bank received the highest rating on its most recent safety and soundness examination.

*Risk-Based Capital Ratio* - An 8% total risk-based capital ratio, calculated as total capital to risk-weighted assets. For purposes of this calculation, total capital includes core and supplementary capital, provided that supplementary capital may not exceed 100% of core capital.

In assessing an institution's capital adequacy, the Office of Thrift Supervision takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary. People's Bank, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with People's Bank's risk profile. At September 30, 2006, People's Bank exceeded each of its capital requirements as shown in the following table:

	People's Bank		Office of Thrift Supervision Requirements		For Classification as	
	Actual Amount	Ratio	Adequacy Amount	Ratio	Well-Capitalized Amount	Ratio
<b>As of September 30, 2006</b>						
Tangible capital	\$ 1,248.5	11.80%	\$ 158.7	1.50%	n/a	n/a
Leverage (core) capital	1,248.5	11.80	423.1	4.00	\$ 528.9	5.00%
Total-risk-based capital	1,347.7	16.19	679.2	8.00	849.0	10.00

The Federal Deposit Insurance Corporation Improvement Act requires that the Office of Thrift Supervision and other federal banking agencies revise their risk-based capital standards, with appropriate transition rules, to ensure that they take into account interest rate risk, concentration risk and the risks of non-traditional activities. The Office of Thrift Supervision monitors the interest rate risk of individual institutions through the Office of Thrift Supervision requirements for interest rate risk management, the ability of the Office of Thrift Supervision to impose individual minimum capital requirements on institutions that exhibit a high degree of interest rate risk, and the requirements of Thrift Bulletin 13a, which provides guidance on the management of interest rate risk and the responsibility of boards of directors in that area.

The Office of Thrift Supervision continues to monitor the interest rate risk of individual institutions through analysis of the change in net portfolio value. Net portfolio value is defined as the net present value of the expected future cash flows of an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The Office of Thrift Supervision has also used this net portfolio value analysis as part of its evaluation of certain applications or notices submitted by savings banks. The Office of Thrift Supervision, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent the institution is not in compliance with certain written guidelines established by the Office of Thrift Supervision regarding net portfolio value analysis. The Office of Thrift Supervision has not imposed any such requirements on People's Bank.

**Safety and Soundness Standards.** Pursuant to the requirements of the Federal Deposit Insurance Corporation Improvement Act, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, each federal banking agency, including the Office of Thrift Supervision, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the

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amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder.

In addition, the Office of Thrift Supervision adopted regulations to require a savings bank that is given notice by the Office of Thrift Supervision that it is not satisfying any of such safety and soundness standards to submit a compliance plan

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to the Office of Thrift Supervision. If, after being so notified, a savings bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the Office of Thrift Supervision may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution is subject under the prompt corrective action provisions of the Federal Deposit Insurance Corporation Improvement Act. If a savings bank fails to comply with such an order, the Office of Thrift Supervision may seek to enforce the order in judicial proceedings and to impose civil monetary penalties.

**Prompt Corrective Action.** The Federal Deposit Insurance Corporation Improvement Act also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal bank regulators, including the Office of Thrift Supervision, are required to take certain and authorized to take other, supervisory actions against undercapitalized institutions, based upon five categories of capitalization which the Federal Deposit Insurance Corporation Improvement Act created: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank's capital decreases within the three undercapitalized categories. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. The Office of Thrift Supervision is required to monitor closely the condition of an undercapitalized savings bank and to restrict the growth of its assets. An undercapitalized bank is required to file a capital restoration plan within 45 days of the date the bank receives notice or is deemed to have notice that it is within any of the three undercapitalized categories, and the plan must be guaranteed by any parent holding company. The aggregate liability of a parent holding company is limited to the lesser of:

an amount equal to 5% of the bank's total assets at the time it became undercapitalized ; and

the amount that is necessary (or would have been necessary) to bring the bank into compliance with all capital standards applicable with respect to such bank as of the time it fails to comply with a capital restoration plan.

If a bank fails to submit an acceptable plan, it is treated as if it were significantly undercapitalized. Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions. Under Office of Thrift Supervision regulations, generally, a federal savings bank is treated as well-capitalized if its total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 6% or greater, and its leverage ratio is 5% or greater, and it is not subject to any order or directive by the Office of Thrift Supervision to meet a specific capital level. As of September 30, 2006, People's Bank's regulatory capital ratios exceeded the Office of Thrift Supervision's numeric criteria for classification as a well-capitalized institution.

**Insurance Activities.** People's Bank is generally permitted to engage in certain insurance and annuity activities through its subsidiaries. However, federal banking laws prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity from an entity affiliated with the depository institution or an agreement by the consumer not to purchase an insurance product or annuity from an entity that is not affiliated with the depository institution. Applicable regulations also require prior disclosure of this prohibition to potential insurance product or annuity customers.

Federal banking agencies, including the Office of Thrift Supervision, also require depository institutions that offer non-deposit investment products, such as certain annuity and related insurance products, to disclose to the consumer that the products are not federally insured, are not guaranteed by the institution and are subject to investment risk including possible loss of principal. These disclosure requirements apply if the institution offers the non-deposit investment products directly or through affiliates or subsidiaries.

**Deposit Insurance.** The Federal Deposit Insurance Corporation merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund on March 31, 2006. People's Bank is a member of the Deposit Insurance Fund and pays its deposit insurance assessments to the Deposit Insurance Fund.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act, the Federal Deposit Insurance Corporation established a system for setting deposit insurance premiums based upon the risks a particular bank or savings association posed to its deposit insurance fund. Effective January 1, 2007, the Federal Deposit Insurance Corporation established a risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under the assessment system, the Federal Deposit Insurance Corporation assigns an institution to one of four risk categories, with the first category having two sub-categories based on the institution's most recent supervisory and capital evaluations,



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designed to measure risk. Assessment rates currently range from 0.05% of deposits for an institution in the highest sub-category of the highest category to 0.43% of deposits for an institution in the lowest category. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates as necessary to maintain the required reserve ratio of 1.25%. The Federal Deposit Insurance Corporation allows the use of credits for assessments previously paid, and People's Bank believes that it has credits that will offset certain assessments.

In addition, all Federal Deposit Insurance Corporation-insured institutions are required to pay assessments to the Federal Deposit Insurance Corporation at an annual rate of approximately 0.0124% of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Under the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation may terminate the insurance of an institution's deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. The management of People's Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

**Transactions with Affiliates of People's Bank.** People's Bank is subject to the affiliate and insider transaction rules set forth in Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act, as well as additional limitations as adopted by the Director of the Office of Thrift Supervision. Office of Thrift Supervision regulations regarding transactions with affiliates and insider transactions generally conform to Regulation W and Regulation O, respectively, issued by the Federal Reserve Board. Affiliated transactions provisions, among other things, prohibit or limit a savings bank from extending credit to, or entering into certain transactions with, its affiliates (which for People's Bank would include People's United Financial) and principal stockholders, directors and executive officers of People's Bank.

In addition, Section 11 of the Home Owners' Loan Act prohibits a savings bank from making a loan to an affiliate that is engaged in non-bank holding company activities and prohibits a savings bank from purchasing or investing in securities issued by an affiliate that is not a subsidiary. Office of Thrift Supervision regulations also include certain specific exemptions from these prohibitions. The Federal Reserve Board and the Office of Thrift Supervision require each depository institution that is subject to the affiliate transaction restrictions of Sections 23A and 23B of the Federal Reserve Act to implement policies and procedures to ensure compliance with Regulation W and the Office of Thrift Supervision regulations regarding transactions with affiliates.

In addition to the insider transaction limitations of Sections 22(g) and 22(h) of the Federal Reserve Act, Section 402 of the Sarbanes-Oxley Act of 2002 prohibits the extension of personal loans to directors and executive officers of issuers (as defined in the Sarbanes-Oxley Act). The prohibition, however, does not apply to mortgage loans advanced by an insured depository institution, such as People's Bank, that are subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act.

**Privacy Standards.** People's Bank is subject to Office of Thrift Supervision regulations implementing the privacy protection provisions of the Gramm-Leach-Bliley Act. These regulations require People's Bank to disclose its privacy policy, including identifying with whom it shares non-public personal information, to customers at the time of establishing the customer relationship and annually thereafter. In addition, People's Bank is required to provide its customers with the ability to opt-out of having People's Bank share their non-public personal information with unaffiliated third parties before the bank can disclose such information, subject to certain exceptions.

In addition to certain state laws governing protection of customer information, People's Bank is subject to federal regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of the Gramm-Leach-Bliley Act. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. Federal guidelines also impose certain customer disclosures and other actions in the event of unauthorized access to customer information.

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**Community Reinvestment Act.** Under the Community Reinvestment Act, as implemented by the Office of Thrift Supervision regulations, any federally chartered savings bank, including People's Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The Community Reinvestment Act requires the Office of Thrift Supervision, in connection with its examination of a federally chartered savings bank, to assess the depository institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution.

Current Community Reinvestment Act regulations rate an institution based on its actual performance in meeting community needs. In particular, the evaluation system focuses on three tests:

a lending test, to evaluate the institution's record of making loans in its service areas;

an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and

a service test, to evaluate the institution's delivery of services through its branches, ATMs and other offices.

The Community Reinvestment Act also requires all institutions to make public disclosure of their Community Reinvestment Act ratings. People's Bank has received an outstanding rating in its most recent Community Reinvestment Act examination performed by the Federal Deposit Insurance Corporation and the Connecticut Department of Banking in 2006. The federal banking agencies adopted regulations implementing the requirements under the Gramm-Leach-Bliley Act that insured depository institutions publicly disclose certain agreements that are in fulfillment of the Community Reinvestment Act. People's Bank has no such agreements in place at this time.

**Loans to One Borrower.** Under the Home Owners' Loan Act, savings banks are generally subject to the national bank limits on loans to one borrower. Generally, savings banks may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of the institution's unimpaired capital and surplus. Additional amounts may be loaned, not in excess of 10% of unimpaired capital and surplus, if such loans or extensions of credit are secured by readily-marketable collateral. People's Bank is in compliance with applicable loans to one borrower limitations.

**Nontraditional Mortgage Products.** The federal banking agencies recently published final guidance for institutions that originate or service nontraditional or alternative mortgage products, defined to include all residential mortgage loan products that allow borrowers to defer repayment on principal or interest, such as interest-only mortgages and payment option adjustable-rate mortgages. A significant portion of People's Bank's adjustable-rate residential mortgage loans are alternative mortgage loans.

Recognizing that alternative mortgage products expose institutions to increased risks as compared to traditional loans where payments amortize or reduce the principal amount, the guidance required increased scrutiny for alternative mortgage products. Institutions that originate or service alternative mortgages should have (1) strong risk management practices that include maintenance of capital levels and allowance for loan losses commensurate with the risk; (2) prudent lending policies and underwriting standards that address a borrower's repayment capacity; and (3) programs and practices designed to ensure that consumers receive clear and balanced information to assist in making informed decisions about mortgage products. The guidance also recommends heightened controls and safeguards when an institution combines an alternative mortgage product with features that compound risk, such as a simultaneous second-lien or the use of reduced documentation to evaluate a loan application.

People's Bank is required to and intends to comply with the guidance as it is interpreted and applied by the Office of Thrift Supervision.

**Qualified Thrift Lender Test.** The Home Owners' Loan Act requires federal savings banks to meet a Qualified Thrift Lender test. Under the Qualified Thrift Lender test, a savings bank is required to maintain at least 65% of its portfolio assets (total assets less (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed securities, credit card loans, student loans, and small business loans)





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on a monthly basis during at least 9 out of every 12 months. The Office of Thrift Supervision letter dated July 3, 2006 approving, among other things, People's Bank's conversion from a Connecticut savings bank to a federal savings bank granted the bank an exception from the Qualified Thrift Lender test for a period of four years from the date of its conversion to a federal charter.

A savings bank that fails the Qualified Thrift Lender test and does not convert to a bank charter generally will be prohibited from: (1) engaging in any new activity not permissible for a national bank; (2) paying dividends not permissible under national bank regulations; and (3) establishing any new branch office in a location not permissible for a national bank in the institution's home state. In addition, if the institution does not requalify under the Qualified Thrift Lender test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and may have to repay any outstanding advances from the Federal Home Loan Bank as promptly as possible.

**Limitation on Capital Distributions.** The Office of Thrift Supervision regulations impose limitations upon certain capital distributions by federal savings banks, such as certain cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash out merger and other distributions charged against capital.

The Office of Thrift Supervision regulates all capital distributions by People's Bank directly or indirectly to People's United Financial, including dividend payments. As the subsidiary of a savings and loan holding company, People's Bank currently must file a notice with the Office of Thrift Supervision at least 30 days prior to each capital distribution. However, if the total amount of all capital distributions (including any proposed capital distribution) for the applicable calendar year exceeds net income for that year to date plus the retained net income for the preceding two years, then People's Bank must file an application to receive the approval of the Office of Thrift Supervision for a proposed capital distribution.

People's Bank may not pay dividends to People's United Financial if, after paying those dividends, it would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements or if the Office of Thrift Supervision notified People's Bank that it was in need of more than normal supervision. Under the Federal Deposit Insurance Act, an insured depository institution such as People's Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized (as such term is used in the Federal Deposit Insurance Act). Payment of dividends by People's Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. In addition, People's Bank may not declare or pay cash dividends on its capital stock if such dividend would reduce People's Bank's regulatory capital below the amount then required for the liquidation account. See *The Conversion and Offering Liquidation Rights* for a discussion of the liquidation account.

**Liquidity.** People's Bank maintains sufficient liquidity to ensure its safe and sound operation, in accordance with Office of Thrift Supervision regulations.

**Assessments.** The Office of Thrift Supervision charges assessments to recover the cost of examining federal savings banks and their affiliates. These assessments are based on three components: (1) the size of the institution on which the basic assessment is based; (2) the institution's supervisory condition, which results in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and (3) the complexity of the institution's operations, which results in an additional assessment based on a percentage of the basic assessment for any savings institution that managed over \$1 billion in trust assets, serviced for others loans aggregating more than \$1 billion, or had certain off-balance sheet assets aggregating more than \$1 billion.

The Office of Thrift Supervision also assesses fees against savings and loan holding companies, such as People's United Financial. The Office of Thrift Supervision semi-annual assessment for savings and loan holding companies includes a \$3,000 base assessment with an additional assessment based on the holding company's risk or complexity, organizational form and condition.

**Branching.** Under Office of Thrift Supervision branching regulations, People's Bank is generally authorized to open branches within or beyond the State of Connecticut if People's Bank (1) continues to meet the requirements of a highly-rated federal savings bank, and (2) publishes public notice at least 35 days before opening a branch and no one opposes the branch. If a comment in opposition to a branch opening is filed and the Office of Thrift Supervision determines the comment to be relevant to the approval process standards, and to require action in response, the Office of Thrift Supervision may, among other things, require a branch application or elect to hold a meeting with People's Bank and the person who submitted the comment. Office of Thrift Supervision authority preempts any state law purporting to regulate branching by federal savings banks.

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**Anti-Money Laundering and Customer Identification.** People's Bank is subject to Office of Thrift Supervision and Financial Crimes Enforcement Network regulations implementing the Bank Secrecy Act, as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among banks, regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including savings banks like People's Bank.

The USA PATRIOT Act and the related Office of Thrift Supervision regulations impose the following requirements with respect to financial institutions:

establishment of anti-money laundering programs, including adoption of written procedures, designation of a compliance officer and auditing of the program;

establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;

establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering;

prohibitions on correspondent accounts for foreign shell banks and compliance with record keeping obligations with respect to correspondent accounts of foreign banks; and

requirements that bank regulators consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

**Federal Home Loan Bank System.** People's Bank is a member of the Federal Home Loan Bank system, which consists of twelve regional Federal Home Loan Banks, each subject to supervision and regulation by the Federal Housing Finance Board. The Federal Home Loan Bank provides a central credit facility primarily for member thrift institutions as well as other entities involved in home mortgage lending. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Banks. It makes loans or advances to members in accordance with policies and procedures, including collateral requirements, established by the respective boards of directors of the Federal Home Loan Banks. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. All long-term advances are required to provide funds for residential home financing. The Federal Housing Finance Board has also established standards of community or investment service that members must meet to maintain access to such long-term advances. People's Bank, as a member of the Federal Home Loan Bank of Boston, is currently required to purchase and hold shares of capital stock in the Federal Home Loan Bank of Boston in amount equal to 0.35% of People's Bank Membership Stock Investment Base plus an Activity Based Stock Investment Requirement. The Activity Based Stock Requirement is equal to 3.0% of any outstanding principal for overnight advances, 4.0% of any outstanding principal for term advances with an original term of two days to three months and 4.5% of any outstanding principal for term advances with an original term greater than three months. People's Bank is in compliance with these requirements.

**Federal Reserve System.** Federal Reserve Board regulations require federally chartered savings banks to maintain non-interest-earning cash reserves against their transaction accounts (primarily negotiable order of withdrawal and demand deposit accounts). Institutions must maintain a reserve of 3% against aggregate transaction accounts between \$7.8 million and \$48.3 million (subject to adjustment by the Federal Reserve Board) plus a reserve of 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of \$48.3 million. The first \$7.8 million of otherwise reservable balances is exempt from the reserve requirements. People's Bank is in compliance with the foregoing requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce People's Bank's interest-earning assets.



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### **Federal Holding Company Regulation**

Upon completion of the conversion, People's United Financial will become a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act. As such, People's United Financial will be registered with the Office of Thrift Supervision and subject to Office of Thrift Supervision regulation, examination, supervision and reporting requirements. In addition, the Office of Thrift Supervision will have enforcement authority over People's United Financial and its savings bank subsidiary. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings bank.

**Activities Restrictions Applicable to Savings and Loan Holding Companies.** Under the Gramm-Leach-Bliley Act, the activities of all unitary savings and loan holding companies formed after May 4, 1999, such as People's United Financial, must be financially related activities permissible for bank holding companies, as defined under the Gramm-Leach-Bliley Act. Accordingly, People's United Financial's activities will be restricted to:

furnishing or performing management services for a savings institution subsidiary of such holding company;

conducting an insurance agency or escrow business;

holding, managing, or liquidating assets owned or acquired from a savings institution subsidiary of such company;

holding or managing properties used or occupied by a savings institution subsidiary of such company;

acting as trustee under a deed of trust;

any other activity (1) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director of the Office of Thrift Supervision, by regulation, prohibits or limits any such activity for savings and loan holding companies, or (2) that multiple savings and loan holding companies were authorized by regulation to directly engage in on March 5, 1987;

purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such holding company is approved by the Director of the Office of Thrift Supervision; and

any activity permissible for financial holding companies under section 4(k) of the Bank Holding Company Act.

Permissible activities that are deemed to be financial in nature or incidental thereto under section 4(k) of the Bank Holding Company Act include:

lending, exchanging, transferring, investing for others, or safeguarding money or securities;

insurance activities or providing and issuing annuities, and acting as principal, agent, or broker;

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financial, investment, or economic advisory services;

issuing or selling instruments representing interests in pools of assets that a bank is permitted to hold directly;

underwriting, dealing in, or making a market in securities;

activities previously determined by the Federal Reserve Board to be closely related to banking;

activities that bank holding companies are permitted to engage in outside of the United States; and

portfolio investments made by an insurance company.

In addition, People's United Financial cannot be acquired or acquire a company unless the acquirer or target, as applicable, is engaged solely in financial activities.

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***Restrictions Applicable to All Savings and Loan Holding Companies.*** Federal law prohibits a savings and loan holding company, including People's United Financial, directly or indirectly, from acquiring:

control (as defined under the Home Owners' Loan Act) of another savings bank (or a holding company parent) without prior Office of Thrift Supervision approval;

through merger, consolidation or purchase of assets, another savings bank or a holding company thereof, or acquiring all or substantially all of the assets of such institution or holding company without prior Office of Thrift Supervision approval; or

control of any depository institution not insured by the Federal Deposit Insurance Corporation (except through a merger with and into the holding company's savings bank subsidiary that is approved by the Office of Thrift Supervision).

A savings and loan holding company may not acquire as a separate subsidiary an insured institution that has a principal office outside of the state where the principal office of its federal savings bank subsidiary is located, except:

in the case of certain emergency acquisitions approved by the Federal Deposit Insurance Corporation;

if such holding company controls a savings association subsidiary that operated a home or branch office in such additional state as of March 5, 1987; or

if the laws of the state in which the target savings association is located specifically authorize a savings association chartered by that state to be acquired by a savings association chartered by the state where the acquiring savings association or savings and loan holding company is located or by a holding company that controls such a state chartered association.

The Home Owners' Loan Act prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring another savings bank or holding company thereof without prior written approval of the Office of Thrift Supervision; acquiring or retaining, with certain exceptions, more than 5% of a non-subsiary savings bank, a non-subsiary holding company, or a non-subsiary company engaged in activities other than those permitted by the Home Owners' Loan Act; or acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by holding companies to acquire savings banks, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and needs of the community and competitive factors.

**Federal Securities Law**

People's Bank's securities are currently registered with the Office of Thrift Supervision under the Securities Exchange Act of 1934, as amended. Following the conversion, People's United Financial's securities will be registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. As such, People's Bank currently is, and following the conversion People's United Financial will be, subject to the information, proxy solicitation, insider trading, and other requirements and restrictions of the Securities Exchange Act of 1934.

**Delaware Corporation Law**

People's United Financial is incorporated under the laws of the State of Delaware, and is therefore subject to regulation by the state of Delaware. The rights of People's United Financial's stockholders are governed by the Delaware General Corporation Law.

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**General.** The following discussion is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to People's Bank, People's Mutual Holdings or People's United Financial. For federal income tax purposes, People's Bank reports its income on the basis of a taxable year ending December 31, using the accrual method of accounting, and is generally subject to federal income taxation in the same manner as other corporations. Because People's Bank and People's United Financial constitute an affiliated group of corporations, they are eligible to report their income on a consolidated basis. However, because People's Mutual Holdings has owned less than 80% of the common stock of People's Bank, it has not been a member of such affiliated group and has reported its income on a separate return. People's Bank is not currently under audit by the Internal Revenue Service, and has been audited by the Internal Revenue Service through the tax year ended December 31, 2003.

**Corporate Alternative Minimum Tax.** In addition to the regular corporate income tax, corporations generally are subject to an alternative minimum tax in an amount equal to 20% of alternative minimum taxable income, to the extent the alternative minimum tax exceeds the corporation's regular income tax. The alternative minimum tax is available as a credit against future regular income tax. We do not expect to be subject to the alternative minimum tax.

**Exclusion of Dividends; Dividends Received Deduction.** People's United Financial may exclude from its income 100% of dividends received from People's Bank because People's Bank is a member of the affiliated group of corporations of which People's United Financial is the parent. Because People's Mutual Holdings has not been a member of such affiliated group, it has not qualified for such 100% dividends received exclusion, but it has been entitled to deduct 80% of the dividends it has received from People's Bank because it has owned more than 20% of the common stock of People's Bank.

**State**

**Connecticut State Taxation.** For Connecticut income tax purposes, People's Bank reports its income on the basis of a taxable year ending December 31 and is subject to Connecticut state income taxation in the same manner as other corporations. Because People's Bank and People's United Financial constitute an affiliated group of corporations, they are eligible to file a Connecticut Combined Corporation Business Tax Return. People's Bank is not currently under audit with respect to its Connecticut income tax returns.

In 1998, People's Bank formed a passive investment company subsidiary, People's Mortgage Investment Company, in accordance with Connecticut tax laws, which permit transfers of mortgage loans to such subsidiaries on or after January 1, 1999. The related earnings of the subsidiary, and any dividends it pays to the parent, are not subject to Connecticut income tax. As a result of the exclusion of such earnings and dividends from Connecticut taxable income beginning in 1999, People's Bank has established a valuation allowance for the full amount of its Connecticut deferred tax asset attributable to net temporary differences and state net operating loss carryforwards. Connecticut tax net operating loss carryforwards totaled \$681.4 million at December 31, 2005 and expire between 2020 and 2025.

**New York State Taxation.** People's Bank will be required to file a New York Banking Corporation Franchise Tax Return as a result of hiring mortgage calling officers in New York State during 2006, and its plan to open 15 branches in Westchester County over the next three years (seven by the end of 2007). Accordingly, People's Bank will be subject to tax in an amount equal to the greater of (1) 7.5% of its income allocable to New York State; (2) 3% of alternative net income allocated to New York State; (3) .01% of the average value of assets allocable to New York State; or (4) a nominal minimum tax. Entire net income is similar to federal taxable income with certain modifications and alternative net income is equal to entire net income without certain deductions.

In addition, New York State imposes a Metropolitan Transportation Business Tax Surcharge equal to 17% of the New York State franchise tax allocable to business activities carried on in the metropolitan district. The Metropolitan Transportation Business Tax district includes Westchester County.

**Massachusetts Taxation.** People's Bank is required to file a Massachusetts Financial Excise Tax and pay Massachusetts excise tax because People's Bank maintains a commercial loan production office in Massachusetts. People's Bank's Massachusetts tax liability is equal to the greater of 10.5% of net income allocated to Massachusetts or a minimum tax.

**Delaware State Taxation.** As a Delaware holding company not earning income in Delaware, People's United Financial is exempt from Delaware corporate income tax but is required to file annual returns and pay annual fees and a franchise tax to the state of Delaware.





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**PROPERTIES**

People's Bank's corporate headquarters is located at Bridgeport Center, in Bridgeport, Connecticut. The Bridgeport Center building, which is owned by People's Bank, had a net book value of \$71.9 million at December 31, 2005 and People's Bank occupies approximately 92% of the building; all other available office space has been leased to unrelated parties. At December 31, 2005, People's Bank also conducted banking operations from its 75 traditional branches, 70 supermarket branches and 8 limited-service branches. People's Bank's branch network is primarily concentrated in Fairfield County, where it has 60 branches. People's Bank also has 33 branches in Hartford County, 32 branches in New Haven County, 12 branches in New London County, five branches in both Tolland County and Litchfield County, four branches in Middlesex County and two branches in Windham County. People's Bank owns 11 of its banking offices, which had an aggregate net book value of \$8.4 million at December 31, 2005. People's Bank's remaining banking operations are conducted in leased offices.

At December 31, 2005, People's Bank was obligated under various noncancelable operating leases for office space, which expire on various dates through 2027. Certain leases contain renewal options and provide for increased rental based principally on the consumer price index and fair market rental value provisions. The future minimum rental commitments under operating leases in excess of one year at December 31, 2005 were: \$18.1 million in 2006; \$18.3 million in 2007; \$15.9 million in 2008; \$15.1 million in 2009; \$13.7 million in 2010; and an aggregate of \$34.1 million in 2011 through 2027. Rent expense under operating leases was \$17.5 million, \$16.8 million and \$16.3 million for 2005, 2004 and 2003, respectively.

In addition to its corporate headquarters and branch offices, People's Bank owns six other banking facilities with an aggregate net book value of \$12.6 million at December 31, 2005. These facilities are used for a variety of purposes.

**LEGAL PROCEEDINGS**

In the normal course of business, People's Bank is subject to various legal proceedings. In the opinion of management, People's financial condition or results of operations will not be affected materially as a result of the outcome of these legal proceedings.

**Table of Contents****MANAGEMENT OF PEOPLE S UNITED FINANCIAL****Directors**

**Composition of the Board.** The Certificate of Incorporation and Bylaws of People s United Financial provide for the election of directors by the stockholders of People s United Financial and for the division of the Board of Directors into three classes of directors as nearly equal in number as reasonably possible. The terms of office of the members of one class will expire and successors will be elected for a three-year term at each annual meeting of the stockholders of People s United Financial, beginning at the 2007 annual meeting of the stockholders of People s United Financial. People s United Financial s Bylaws provide that there will be between 5 and 15 members of the Board of Directors, as fixed by resolution of the Board of Directors. People s United Financial currently has a ten-member Board.

**Who Our Directors Are.** The table below states our directors names, their ages as of December 31, 2006, their positions with People s United Financial and the years their terms expire. Information concerning the principal occupations, employment and compensation of the directors of People s United Financial in their capacity as directors of People s Bank during the past five years is set forth under *Management of People s Bank*.

Name	Age	Term		Positions Held
		Expires		
Collin P. Baron	59	2008		Director
George P. Carter	69	2009		Vice Chairman of the Board and Lead Director
Jerry Franklin	59	2009		Director
Eunice S. Groark	68	2009		Director
Janet M. Hansen	64	2007		Director
Richard M. Hoyt	64	2008		Director
John A. Klein	57	2008		President, Chief Executive Officer and Chairman of the Board
Jeremiah J. Lowney, Jr.	70	2007		Director
Jack E. McGregor	72	2007		Director
James A. Thomas	67	2009		Director

**Committees of the Board of Directors.** People s United Financial expects to establish three standing committees: the Audit Committee, the Compensation and Nominating Committee and the Executive Committee.

**Audit Committee.** The Audit Committee, which is expected to meet jointly with the People s Bank Audit Committee described under *Management of People s Bank Board of Directors Committees* below, will be established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Each member of the Audit Committee will be independent as that term is defined in Rule 4200(a) (15) of the listing standards of the Nasdaq Stock Market. Each member of the Audit Committee will also satisfy the more stringent definition of independence required for members of audit committees generally, as set forth in Rule 4350(d)(2)(A) of the listing standards of the Nasdaq Stock Market. It is expected that the members of People s Bank s Audit Committee, George P. Carter (Chairman), Jerry Franklin, Janet M. Hansen, Richard M. Hoyt, and Jeremiah J. Lowney, Jr., will also be members of the People s United Financial Audit Committee. The Audit Committee will be responsible for monitoring the accounting practices and internal controls of People s United Financial, including the supervision of an annual independent audit of People s United Financial s financial statements by independent registered public accountants. The Audit Committee will adopt a charter that will provide details concerning the operations of the committee and will be made available on People s Bank s website at [www.peoples.com](http://www.peoples.com). It is expected that this charter will be substantially similar to the People s Bank Audit Committee charter, which was attached as Exhibit A to People s Bank s Proxy Statement for the 2006 Annual Meeting and is also available on People s Bank s website at [www.peoples.com](http://www.peoples.com).

**Compensation and Nominating Committee.** People s United Financial plans to establish a Compensation and Nominating Committee, whose members are expected to be James A. Thomas (Chairman), George Carter and Jerry Franklin. Messrs. Thomas, Carter and Franklin are also members of the People s Bank Human Resources Committee. It is anticipated that meetings of the Compensation and Nominating Committee will be held jointly with those of the People s Bank Human Resources Committee. Each member of the Compensation and Nominating Committee will be independent, as that term is defined in Rule 4200(a)(15) of the listing standards of the Nasdaq Stock Market. The Compensation and Nominating Committee will be responsible for oversight of the executive and employee compensation programs of People s Bank and People s United Financial, including conducting performance reviews of the executive officers of People s Bank and



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People's United Financial and approval of policies with respect to executive compensation. The Compensation and Nominating Committee will adopt a charter, which will provide details concerning the operations of the committee and will be made available on People's Bank's website at [www.peoples.com](http://www.peoples.com). It is expected that this charter will be substantially similar to the People's Bank Human Resources Committee charter, which is available on People's Bank's website at [www.peoples.com](http://www.peoples.com).

*Executive Committee.* People's United Financial intends to establish an Executive Committee, whose members are expected to be the same as the members of People's Bank's existing Executive Committee: George P. Carter (Chairman), Collin P. Baron, Jerry Franklin, Eunice S. Groark, John A. Klein, Jack E. McGregor and James A. Thomas. To the extent not inconsistent with law or People's United Financial's Certificate of Incorporation or Bylaws, the Executive Committee will exercise all the powers and authority of the Board in the management of the business and affairs of People's United Financial during intervals between meetings of the Board. The Executive Committee will adopt a charter which will provide details concerning the operations of the committee and will be made available on People's Bank's website at [www.peoples.com](http://www.peoples.com). It is expected that this charter will be substantially similar to the People's Bank Executive Committee charter, which is available on People's Bank's website at [www.peoples.com](http://www.peoples.com).

**Executive Officers**

People's United Financial's executive officers will be appointed annually by the Board of Directors of People's United Financial and serve at the Board's discretion. However, one of our officers does have an employment agreement with People's Bank, as further described under *Management of People's Bank - Potential Payments upon Termination or Change in Control - Employment Agreement* below. We expect to appoint all of the executive officers of People's Bank as the executive officers of People's United Financial. Based on that expectation, the table below states our executive officers' names, their ages as of December 31, 2006, and their positions with People's United Financial. Information concerning the principal occupations, employment and compensation of the executive officers of People's United Financial during the past five years is set forth under *Management of People's Bank*.

Name	Age	Positions Held
Jacinta A. Coleman	58	Executive Vice President and Chief Information Officer
Robert R. D'Amore	53	Executive Vice President, Marketing and Regional Banking
Brian F. Dreyer	60	Executive Vice President, Commercial Banking
Bryan J. Huebner	56	Executive Vice President, Consumer Financial Services
John A. Klein	57	President, Chief Executive Officer and Chairman of the Board
William T. Kosturko	57	Executive Vice President and General Counsel
Henry R. Mandel	62	Executive Vice President, Organization Effectiveness
Philip R. Sherringham	53	Executive Vice President and Chief Financial Officer
Mark K. Vitelli	44	Executive Vice President, Direct Banking and Operations

**Table of Contents****Director and Executive Officer Compensation**

Since the formation of People's United Financial, none of its directors, executive officers or other personnel have received remuneration from People's United Financial. It is currently expected that no separate compensation will be paid to the executive officers or other personnel of People's United Financial. However, directors of People's United Financial who are not employees of People's United Financial or of People's Bank or any of their subsidiaries (outside directors) will be compensated for service as directors of People's United Financial. No separate compensation will be paid to a director of People's Bank who attends a board or committee meeting that is held jointly with a board or committee meeting of People's United Financial and who is compensated for that meeting by People's United Financial. Compensation will be paid to outside directors of People's United Financial according to the following table:

<b>Annual Fees:</b>		<b>Per-Meeting Attendance Fees:</b>	
Cash retainer (all members)	\$ 24,000	Board meetings (all members)	\$ 950
Equity compensation (all members) <sup>(1)</sup>	95,000	Committee meetings:	
Vice Chairman of the Board/Lead Director	65,000	Audit Committee:	
Committee Chairman:		Chairman	1,450
Audit Committee	10,500	Other Audit Committee members	1,200
Compensation and Nominating		Members of all Committees (except Audit)	950
	4,000		
Executive	4,000		

(1) Paid pursuant to the People's United Financial Directors' Equity Compensation Plan, discussed below.

A director who, by invitation, attends a meeting of a committee of which he or she is not a regular member will be paid the same attendance fee as is payable to members of that committee. From time to time, the Chairman of the Audit Committee may perform certain additional services in his capacity as Chairman without a meeting of the Audit Committee (e.g., meetings with representatives of People's United Financial's independent registered public accountants). In such cases, he will receive an amount equal to the Chairman's regular Audit Committee meeting attendance fee. On occasion, one or more other members of the Audit Committee may participate in the review of regulatory filings to be made by People's United Financial, and will receive an amount equal to the regular Audit Committee attendance fee for their participation in such review.

As part of the conversion, People's United Financial will assume the People's Bank Directors' Equity Compensation Plan, which will cease to exist as a plan maintained by People's Bank and will be renamed the People's United Financial Directors' Equity Compensation Plan. Awards will be made in People's United Financial common stock rather than People's Bank common stock. Non-employee directors will receive compensation under the People's United Financial Directors' Equity Compensation Plan. Under the People's United Financial Directors' Equity Compensation Plan, each director who is not an employee will be granted an annual award of shares of common stock based on a target dollar value of \$95,000 immediately following each annual meeting of stockholders. A person appointed as a director between annual meetings is eligible for a full or partial grant of an annual award at the time of his or her appointment, in the discretion of the Compensation and Nominating Committee.

Cash dividends payable with respect to shares of common stock issued to directors pursuant to the People's United Financial Directors' Equity Compensation Plan will be paid in the same amount and at the same time as dividends are paid to stockholders generally. Stock dividends, stock splits and similar transactions will have the same effect on shares of common stock issued pursuant to the People's United Financial Directors' Equity Compensation Plan as on all other shares of common stock outstanding.

Shares of common stock issued pursuant to the People's United Financial Directors' Equity Compensation Plan will generally not be transferable by a director until the third anniversary of the grant date or, if earlier, at his or her cessation of service as a People's United Financial director. In the event of a director's death, shares of common stock held in his or her name will be issued to his or her beneficiary. All transfer restrictions will lapse upon a change in control, as such term is defined in the plan.

Directors of People's United Financial may also be entitled to participate in certain stock benefit plans established by People's United Financial. See *Management of People's Bank Future Benefit Plans*.

**Table of Contents****MANAGEMENT OF PEOPLE'S BANK****Directors**

**Composition of the Board.** The Charter and Bylaws of People's Bank provide for the election of directors by the stockholders of People's Bank and for the division of the Board of Directors into three classes of directors as nearly equal in number as reasonably possible. The terms of office of the members of one class expire and successors are elected for a three-year term at each annual meeting of stockholders. Following the conversion, beginning at the 2007 annual meeting of the stockholders of People's Bank, People's United Financial, as People's Bank's sole stockholder, will elect all of People's Bank's directors. People's Bank's Bylaws provide that there will be between five and 15 members of the Board of Directors, as fixed by resolution of the Board of Directors. The Board of Directors has resolved that there will be ten members of the Board.

**Who People's Bank's Directors Are.** The following table states People's Bank's directors' names, their ages as of December 31, 2006, their positions and the years when they began serving as directors:

Name	Age	Director		Positions Held
		Since	Term Expires	
Collin P. Baron	59	2001	2008	Director
George P. Carter	69	1976	2009	Vice Chairman of the Board and Lead Director
Jerry Franklin	60	1997	2009	Director
Eunice S. Groark	68	1995	2009	Director
Janet M. Hansen	64	2004	2007	Director
Richard M. Hoyt	64	2002	2008	Director
John A. Klein	57	1999	2008	President, Chief Executive Officer and Chairman of the Board
Jeremiah J. Lowney, Jr.	70	1998	2007	Director
Jack E. McGregor	72	1989	2007	Director
James A. Thomas	67	1997	2009	Director

**Directors' Backgrounds.** The business experience of each of People's Bank's directors is as follows:

*Collin P. Baron* is a member of the law firm of Pullman & Comley, LLC. He has been affiliated with the firm since 1973. Mr. Baron became a director of People's Bank in 2001 and is a Trustee of People's Mutual Holdings. He is Chairman of the Treasury and Finance Committee and serves as a member of the Executive and Loan Review Committees.

*George P. Carter* is the President of Connecticut Foods, Inc. Mr. Carter was first elected to the Board in 1976 and is a Trustee of People's Mutual Holdings. He is Vice Chairman and Lead Director of the Board and serves as Chairman of People's Audit and Executive Committees and as a member of People's Bank's Operational Risk, Human Resources and Loan Review Committees. Mr. Carter also serves as a director of Bridgeport Hospital.

*Jerry Franklin* is the President and Chief Executive Officer of Connecticut Public Broadcasting Inc., a position he has held since 1985. Mr. Franklin was elected to the Board of Directors in 1997 and is a member of People's Bank's Audit, Executive, and Human Resources Committees. Mr. Franklin also serves as Chairman of the Loan Review Committee. He also serves as a Trustee of People's Mutual Holdings.

*Eunice S. Groark*, attorney, served as Lieutenant Governor of the State of Connecticut from 1991 until January 1995. She currently serves as a Trustee of the Phoenix Edge Series Funds. Mrs. Groark was first elected to the Board of Directors in 1995. She is Chairman of the Trust Committee and is a member of the Executive, Treasury and Finance, and Operational Risk Committees.

*Janet M. Hansen* was employed as Executive Vice President of Aquarion Company, a diversified water management company, from 1995 until her retirement in March 2005. Mrs. Hansen served as Aquarion Company's Chief Financial Officer from 1992 through 1999. She was President and Chief Executive Officer of Aquarion Company's principal operating subsidiary, Aquarion Water Company from 2000 to 2003. Ms. Hansen continues to serve as a director of Aquarion Water Company of Connecticut. Mrs. Hansen became a member of People's Bank's Board of Directors in February 2004. She is a member of the Audit, Operational Risk and Trust Committees. She also serves on the Board of Directors of Bridgeport Hospital and of the University of Connecticut Foundation.



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*Richard M. Hoyt* is President and Chief Executive Officer of Chapin & Bangs Co., a steel service center, and is Chairman and Chief Executive Officer of Lindquist Steels, Inc., a distributor of tool steel. He has occupied each of these positions for more than five years. Mr. Hoyt also serves as a director of Bridgeport Hospital. Mr. Hoyt, who is also a Trustee of People's Mutual Holdings, was first elected as a director of People's Bank in 2002. Mr. Hoyt is a member of the Audit, Treasury and Finance, and Trust Committees.

*John A. Klein* became President of People's Bank on June 1, 1999, Chief Executive Officer on October 1, 1999 and Chairman of the Board of Directors on January 1, 2000. Mr. Klein has served in a variety of capacities since beginning his career at People's Bank in 1971. Mr. Klein first became a member of People's Bank's Board in 1999. He is a member of the Executive, Treasury and Finance, and Operational Risk Committees. Mr. Klein also serves as a Trustee of People's Mutual Holdings.

*Jeremiah J. Lowney, Jr.*, D.D.S. is an orthodontist whose practice has been based in the Norwich, Connecticut area for more than 30 years. Dr. Lowney has also served since 1982 as the President of the Haitian Health Foundation, a health care facility that provides humanitarian health services in Haiti. Dr. Lowney served as a director of Norwich Financial Corp. and The Norwich Savings Society until the merger of those companies into People's Bank in February 1998, when he became a director of People's Bank. Dr. Lowney is a member of the Audit, Loan Review, and Operational Risk Committees.

*Jack E. McGregor* is co-Chairman of the Board of Get Hooked! LLC, an investor group that owns the Bridgeport Bluefish minor league baseball team. Mr. McGregor is also a managing member of the investment firms of Westchester Baseball, LLC and Black Rock Investors, LLC, and is of counsel to the law firm of Cohen and Wolf, P.C. Mr. McGregor was Chairman of the Board of Aquarion Company until October 1, 1996. Mr. McGregor served as Aquarion Company's President from 1987 through 1995 and Chief Executive Officer from 1990 to 1995. Mr. McGregor retired as a director of Aquarion Company on January 10, 2000. He continues to serve as a director of Aquarion Water Company of Connecticut, and CDG Technology, Inc., and as a member of the Advisory Board of the St. Lawrence Seaway Development Corporation. Mr. McGregor has been a director of People's Bank since 1989. He is Chairman of the Operational Risk Committee, and serves as a member of the Executive, Treasury and Finance, and Loan Review Committees.

*James A. Thomas* served as Associate Dean at Yale Law School from 1969 until his retirement in 2004, and served as Master of Saybrook College of Yale University from 1990 to 1996. Mr. Thomas, who serves as Chairman of the Board of Trustees of People's Mutual Holdings, was elected to the Board of Directors of People's Bank in 1997. He serves as Chairman of the Human Resources Committee and is a member of the Executive, Loan Review and Trust Committees. Mr. Thomas is also a director of UIL Holdings Corporation, the holding company for the United Illuminating Company.

**Executive Officers**

People's Bank's executive officers serve at the discretion of the Board of Directors of People's Bank. However, one of People's Bank's officers does have an employment agreement, as further described under *Potential Payments Upon Termination or Change in Control Employment Agreement* below. The name, principal occupation and business experience for at least the last five years of each executive officer of People's Bank is set forth in the table below as of December 31, 2006. For purposes of this table, People's Bank includes the present stock-form bank as well as its predecessor mutual-form bank prior to its reorganization in 1988.

Name	Age	Held Current Position Since	With People's Bank Since	Positions Held
Jacinta A. Coleman	58	2000	2000	Executive Vice President and Chief Information Officer
Robert R. D'Amore	53	2000	1981	Executive Vice President, Marketing and Regional Banking
Brian F. Dreyer	60	2001	1991	Executive Vice President, Commercial Banking
Bryan J. Huebner	56	1996	1975	Executive Vice President, Consumer Financial Services
John A. Klein	57	2000	1971	President, Chief Executive Officer and Chairman of the Board
William T. Kosturko	57	1994	1991	Executive Vice President and General Counsel
Henry R. Mandel	62	2001	1998	Executive Vice President, Organization Effectiveness
Philip R. Sherringham	53	2003	2003	Executive Vice President and Chief Financial Officer
Mark K. Vitelli	44	1999	1984	Executive Vice President, Direct Banking and Operations



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**Executive Officers Backgrounds.** The business experience of each of People's Bank's executive officers is set forth below. Except as otherwise indicated, each executive officer has held his or her current position for the past five years.

*Jacinta A. Coleman* has been an Executive Vice President and Chief Information Officer since 2000.

*Robert R. D. Amore* has been an Executive Vice President (Marketing and Regional Banking) since 2000. Mr. D. Amore has served in various capacities for People's Bank since 1981.

*Brian F. Dreyer* has been an Executive Vice President (Commercial Banking) since 2001. Mr. Dreyer has served in various capacities for People's Bank since 1991.

*Bryan J. Huebner* has been an Executive Vice President (Consumer Financial Services) since 1996. Mr. Huebner has served in various capacities for People's Bank since 1975.

*John A. Klein* became President of People's Bank on June 1, 1999, Chief Executive Officer on October 1, 1999 and Chairman of the Board of Directors on January 1, 2000. Mr. Klein has served in a variety of capacities since beginning his career at People's Bank in 1971. Mr. Klein first became a member of People's Bank's Board in 1999. He is a member of the Executive, Treasury and Finance, and Operational Risk Committees. Mr. Klein also serves as a Trustee of People's Mutual Holdings.

*William T. Kosturko* has been an Executive Vice President since 1994 and has been General Counsel since 1991.

*Henry R. Mandel* has been an Executive Vice President (Organization Effectiveness) since 2001. Mr. Mandel has served in various capacities for People's since 1998.

*Philip R. Sherringham* has been an Executive Vice President and Chief Financial Officer since 2003. Prior to joining People's Bank, Mr. Sherringham was an Executive Vice President and Chief Financial Officer at United California Bank in Los Angeles. He joined United California Bank's predecessor, Sanwa Bank California in 1993.

*Mark K. Vitelli* has been an Executive Vice President (Direct Banking and Operations) since 1999. Mr. Vitelli has served in various capacities for People's Bank since 1984.

## **Meetings of the Board of Directors and its Committees**

During 2006, People's Bank's Board of Directors held 21 meetings. No director attended fewer than 75% of the aggregate of (a) the total number of meetings of the Board of Directors held while he or she was a director and (b) the total number of meetings held by all committees of the Board on which he or she served. The Board of Directors encourages all Board members to attend the Annual Meeting of Stockholders. All ten individuals serving as directors at the time of the 2006 Annual Meeting attended that meeting.

## **Board of Directors Committees**

People's Bank has seven standing committees: the Audit Committee, the Executive Committee, the Human Resources Committee (which performs the functions of a nominating committee and a compensation committee), the Loan Review Committee, the Operational Risk Committee, the Treasury and Finance Committee and the Trust Committee.

**Audit Committee.** The Audit Committee met 12 times during 2006. The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Each member of the Audit Committee is independent, as that term is defined in Rule 4200(a)(15) of the listing standards of the Nasdaq Stock Market. Each member of the Audit Committee also satisfies the more stringent definition of independence required for members of audit committees generally, as set forth in Rule 4350(d)(2)(A) of the listing standards of the Nasdaq Stock Market. The members of the Audit Committee are George P. Carter (Chairman), Jerry Franklin, Janet M. Hansen, Richard M. Hoyt and Jeremiah J. Lowney, Jr. The Audit Committee is responsible for monitoring the accounting practices and internal controls of People's Bank, including the supervision of an annual audit of People's Bank's financial statements by independent registered public accountants. People's Bank's Board of Directors has adopted a written charter for the Audit Committee, including provisions recognizing the specific audit committee responsibilities imposed by the Sarbanes-Oxley Act of 2002, Securities and



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Exchange Commission rules implementing that Act, and the listing standards of the Nasdaq Stock Market. A copy of the charter was attached as Exhibit A to People's Bank's Proxy Statement for the 2006 Annual Meeting and is also available on People's Bank's website at [www.peoples.com](http://www.peoples.com).

**Executive Committee.** The members of People's Bank's Executive Committee are George P. Carter (Chairman), Collin P. Baron, Jerry Franklin, Eunice S. Groark, John A. Klein, Jack E. McGregor and James A. Thomas. The Executive Committee may formulate and recommend to the Board of Directors for approval general policies regarding the management and affairs of People's Bank, and may perform such other functions as are provided in the Bylaws of People's Bank or as directed by the Board of Directors. The Executive Committee did not meet during 2006.

**Human Resources Committee.** The Human Resources Committee, which is comprised of James A. Thomas (Chairman), George P. Carter, and Jerry Franklin, met 26 times during 2006. Each member of the Committee is independent, as that term is defined in Rule 4200(a)(15) of the listing standards of the Nasdaq Stock Market. The Human Resources Committee is responsible for making policy decisions concerning the compensation and benefit programs maintained by People's Bank, and conducts periodic performance reviews of the senior and executive officers of People's Bank. The Human Resources Committee also recommends nominees for election as directors to the full Board of Directors. A current copy of the Human Resources Committee charter is available on People's Bank's website at [www.peoples.com](http://www.peoples.com).

**Loan Review Committee.** The members of People's Bank's Loan Review Committee are Jerry Franklin (Chairman), Collin P. Baron, George P. Carter, Jeremiah J. Lowney, Jr., Jack E. McGregor and James A. Thomas. The Loan Review Committee, which met 23 times during 2006, is charged with reviewing and approving strategies, planning and procedures concerning People's Bank's commercial, commercial real estate, consumer and community lending activities, reviewing lending activities of People's Bank and, where appropriate, approving loans brought before the Committee for approval.

**Operational Risk Committee.** The Operational Risk Committee is responsible for formulating a bank-wide framework to manage operational risk as a distinct type of potential risk to the safety and soundness of People's Bank. The Operational Risk Committee receives and evaluates information from both internal and external sources relating to perceived operational risks and to People's Bank's ongoing efforts to manage such risks, and makes reports and recommendations to the full Board as appropriate with respect to operational risk issues. The Operational Risk Committee, which is comprised of Jack E. McGregor (Chairman), George P. Carter, Eunice S. Groark, Janet M. Hansen, John A. Klein and Jeremiah J. Lowney, Jr., met six times in 2006.

**Treasury and Finance Committee.** People's Bank's Treasury and Finance Committee is responsible for approving policies and strategies for, and reviewing the investments and financial activities of, People's Bank's Investments and Treasury group. The Treasury and Finance Committee is also charged with reviewing and approving People's Bank's asset/liability strategies, including wholesale funding, and interest rate risk management activities. In addition, the Treasury and Finance Committee is responsible for monitoring People's Bank's bank-owned life insurance program, including oversight of the program's investment performance, risk management and internal controls. The Treasury and Finance Committee met eight times during 2006. Collin P. Baron is the Chairman of the Treasury and Finance Committee; its other members are Eunice S. Groark, Richard M. Hoyt, John A. Klein, and Jack E. McGregor.

**Trust Committee.** Eunice S. Groark is the Chairman of People's Bank's Trust Committee. Janet M. Hansen, Richard M. Hoyt and James A. Thomas are also members of the Trust Committee, which met four times during 2006. The Trust Committee is responsible for making policy for, and reviewing the financial and fiduciary status of, People's Bank's Trust Department.

## **Compensation of Directors and Executive Officers**

This section includes information about the director compensation and executive compensation practices of People's Bank. To date, People's United Financial has not paid any separate compensation to its directors or executive officers. We do not presently expect to pay separate compensation to our executive officers (who are also officers of People's Bank) in the future. We do expect to pay separate compensation to our directors in the future, as discussed under the heading *Management of People's United Financial - Director and Executive Officer Compensation*.

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### **Compensation Discussion and Analysis**

To date, People's Bank has compensated its executive officers for their services. People's Bank expects to continue this practice. People's United Financial will not pay any additional or separate compensation until we have a business reason to establish separate compensation programs; however, equity-based awards made as part of People's Bank executive compensation will be made in People's United Financial common stock rather than People's Bank common stock.

This discussion is focused specifically on the compensation of the five executive officers named in the Summary Compensation Table which appears later in this section. These five executives are referred to in this discussion as the named executive officers, or NEOs.

**Overview.** The Human Resources Committee of the People's Bank Board of Directors is responsible for overseeing and making recommendations to the independent members of the Board of Directors with respect to the compensation of the named executive officers, including the Chief Executive Officer. As part of these duties, the Committee conducts an annual performance review of the Chief Executive Officer and, in consultation with the Chief Executive Officer, reviews the performance of each other named executive officer. The independent members of the Board of Directors have ultimate authority to approve the compensation of all named executive officers, including the Chief Executive Officer.

The Human Resources Committee also reviews, oversees and approves the management and implementation of People's Bank's human resources policies and its principal employee benefit plans. The Committee may undertake other duties that are related to People's Bank's human resources function. The Committee has a formal charter, which is available on-line under the heading Investor Relations Corporate Governance Board and Committee Structure Human Resources Committee at [www.peoples.com](http://www.peoples.com). The charter describes the Committee's scope of authority and its duties.

The Human Resources Committee consists of three directors, all of whom are independent within the meaning of Rule 4200 of the Nasdaq Stock Market. The Board of Directors evaluates the independence of Committee members annually, using the standards contained in Rule 4200. This evaluation, and the determination that each member of the Committee is independent, was most recently made in February 2006.

**Executive Participation in Committee Discussions.** The executive officers who participate in the Human Resources Committee's compensation-setting process are the Chief Executive Officer and the Executive Vice President for the Organization Effectiveness Division. The Executive Vice President and General Counsel acts as Secretary to the Committee. The Chief Financial Officer also participates to a limited extent in connection with the establishment of financially-driven performance goals. Executive participation is meant to provide the Human Resources Committee with input regarding People's Bank's compensation philosophy, process and decisions. In addition to providing factual information such as company-wide performance on relevant measures, these executives articulate management's views on current compensation programs and processes, recommend relevant performance measures to be used for future awards, and otherwise supply information to assist the Human Resources Committee. The Chief Executive Officer also provides information about individual performance assessments for the other named executive officers, and expresses to the Human Resources Committee his view on the appropriate levels of compensation for the other named executive officers for the ensuing year.

Executives participate in Committee discussions purely in an informational and advisory capacity, but have no vote in the Committee's decision-making process. The Chief Executive Officer does not attend those portions of Human Resources Committee meetings during which his performance is evaluated or his compensation is being determined. No executive officer other than the Chief Executive Officer attends those portions of Human Resources Committee meetings during which the performance of the other named executive officers is evaluated or their compensation is being determined.

**Use of Consultants.** The Human Resources Committee engages an independent compensation consultant to assist it in the annual compensation process for named executive officers. The consultant, which is retained by and reports to the Human Resources Committee, works extensively with the Chief Executive Officer and management in performing its duties for the Committee. The consultant provides expertise and information about competitive trends in the employment marketplace, including established and emerging compensation practices at other companies. The consultant also provides survey data, and assists in assembling relevant comparison groups for various purposes and establishing benchmarks for particular components of core compensation from the survey and comparison group data. The Committee engaged the firm of Towers Perrin to serve as its independent compensation consultant during 2006.

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Management also engages one or more consultants to provide additional information, advice, and professional services related to other aspects of the compensation function. These consultants work primarily with management but may also communicate directly with the Human Resources Committee. The consultant engaged to assist the Human Resources Committee in the annual compensation process may also be engaged to perform some of these additional services.

**Compensation Objectives.** Broadly speaking, the overall goals of People's Bank's executive compensation programs are to attract, motivate, retain, and pay key executives (including the NEOs) for performance. The methods used to achieve these goals are strongly influenced by the compensation and employment practices of People's Bank's competitors within the financial services industry, and elsewhere in the marketplace, for executive talent. Other considerations include each named executive officer's individual performance as well as the encouragement of behaviors directed towards attainment of corporate goals, not all of which are financial in nature or capable of being quantified.

The compensation program is designed to reward the named executive officers based on their level of assigned management responsibilities, individual performance levels, and individual value in the job marketplace. At-risk components of compensation reward the NEOs, including the Chief Executive Officer, based primarily on company-wide performance while also considering their performance against individually-set performance objectives. The Chief Executive Officer's individual performance objectives are the same as the strategic and financial performance objectives of People's Bank as a whole. For the other named executive officers, individual performance objectives are set by the Chief Executive Officer and are reviewed by the Human Resources Committee. Equity-based components of compensation provide an incentive for executive behaviors that are aligned with the interests of stockholders. The retirement component of the compensation program rewards the named executive officers for their long-term contributions to the organization.

**Components of Compensation.** People's Bank uses many different building blocks as part of its overall executive compensation program. Some are paid in cash, while others are based on People's Bank common stock. The principal components of executive compensation packages consist of:

Base salary

Annual cash bonus (also referred to as the Short-Term Incentive Plan (STIP) Bonus)

Long-term incentives

Long-term incentives are awarded under the People's Bank 1998 Long-Term Incentive Plan, or LTIP. Awards under the LTIP are made in one of three forms:

Long-term cash bonus (also referred to as the LTIP Bonus)

Stock options

Restricted stock grants

LTIP Bonuses are paid out at the end of a three-year performance cycle. Equity-based awards under the LTIP (stock options and restricted stock grants) vest incrementally over time, and in the case of stock options have value only if the market price of People's Bank common stock increases after the awards are made.

NEOs receive a variety of fringe benefits as compensation. Some of these are available to a broad range of employees. Others are limited to senior and executive officers. Fringe benefits for the named executive officers are:

Broad-based fringe benefits:

Medical, dental and vision coverage (employee shares cost)

Pre-tax health and dependent care spending accounts

Adoption assistance

Employee referral services

Group life insurance coverage (capped at \$50,000 for NEOs)

Long-term disability insurance coverage equal to 50% of base salary

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Senior and executive officers only:

Tax preparation services

Financial planning services

Annual \$500 reimbursement for health club membership

Company-supplied automobile (includes operating expenses)

Supplemental long-term disability insurance coverage

Home security services

People's Bank also bears the expense of other club memberships for named executive officers, if the membership is used primarily for business-related purposes.

Retirement benefits also represent an important source of compensation to the named executive officers. As with fringe benefits, some forms of retirement benefits are available to a broad range of employees, while others are limited to senior and executive officers. Retirement benefits are provided through these programs (tax-qualified plans are marked with an asterisk):

Broad-based retirement programs:

People's Bank Employees' Retirement Plan\*

People's Bank 401(k) Employee Savings Plan\*

Retiree health benefits (retiree shares cost)

Senior and executive officers only:

The People's Bank Cap Excess Plan

People's Bank Enhanced Senior Pension Plan

People's Bank Supplemental Savings Plan

Certain executive officers only:

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People's Bank Deferred Compensation Plan for Certain Executive Officers

Additional information about the Long-Term Incentive Plan can be found later in this section under the heading *1988 Long-Term Incentive Plan* ; for the Deferred Compensation Plan for Certain Executive Officers under the heading *Deferred Compensation Plan* , and for the Employees Retirement Plan, the 401(k) Employee Savings Plan, the Cap Excess Plan, the Enhanced Senior Pension Plan, and the Supplemental Savings Plan, in the discussion following the table headed *Pension Benefits*.

In addition to the components of executive compensation described above, Mr. Klein is a party to an employment agreement with People's Bank. If Mr. Klein's employment with People's Bank continues through December 31, 2014, he will not be entitled to any payments or benefits other than those provided through the various executive compensation plans and programs described above. If Mr. Klein's employment with People's Bank terminates before that date, he may become entitled to a variety of additional payments and benefits depending on when and for what reason his employment was terminated. These include payments designed to equal Mr. Klein's projected base salary and annual cash bonus for a specified period, as well as matching contributions that would have been made on Mr. Klein's behalf in the 401(k) Employee Savings Plan and the Supplemental Savings Plan during that same period. In addition, Mr. Klein may become entitled to extra retirement benefits in an amount which, when added to the benefits he will actually receive under the Employees' Retirement Plan, the Cap Excess Plan and the Enhanced Senior Pension Plan, will cause him to receive a total benefit equal to what he would have received if he had remained employed by People's Bank for a specified period of time. See *Potential Payments Upon Termination or Change in Control* for information about potential payments to Mr. Klein upon termination of his employment with People's Bank.



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The term of Mr. Klein's employment agreement was designed to give People's Bank the ability to retain Mr. Klein's services until the end of the year in which he reaches age 65, which is considered his normal retirement age. Contract provisions requiring payment of additional post-employment benefits under certain conditions were considered to be appropriate in view of Mr. Klein's position with People's Bank, his prospects for securing near-term re-employment in a comparable position should his employment with People's Bank be terminated, and common practices in the marketplace for executive talent at the time he entered into the agreement.

**Assembling the Components.** The Human Resources Committee analyzes the level and relative mix of each of the principal components of the compensation packages for named executive officers on an annual basis. The Chief Executive Officer also makes recommendations to the Committee relating to compensation to be paid to the named executive officers other than himself. Based on this analysis and (where appropriate) the Chief Executive Officer's recommendations, the Human Resources Committee makes annual recommendations to the independent members of the Board of Directors about each named executive officer's compensation package to the extent derived from base salary, STIP Bonus and long-term incentives. This portion of executive compensation is also called core compensation.

Decisions about core compensation are made without reference to other elements of compensation (i.e., fringe benefits and retirement benefits). With one exception, fringe benefits and retirement benefits are not specifically tailored for the named executive officers, and are provided under programs that provide similar benefits to non-executive employees of People's Bank. The Deferred Compensation Plan for Certain Executive Officers is an exception to this general rule. As noted in the section entitled *Deferred Compensation Plan*, this plan was created after enactment of the Sarbanes-Oxley Act of 2002 and the resulting termination of named executive officers' participation in the split-dollar life insurance program.

The Human Resources Committee reviews the other components of executive compensation (fringe benefits and retirement benefits), but does not necessarily consider changes to those components on an annual basis. Changes to the level or types of benefits within these categories, including considerations relating to the addition or elimination of benefits and plan design changes, are made by the Human Resources Committee on an aggregate basis with respect to the group of employees entitled to those benefits, and not with reference to a particular named executive officer's compensation package. Decisions about these components of compensation are made without reference to the named executive officers' core compensation packages, as they involve issues of more general application and often include consideration of trends in the industry or in the employment marketplace.

The Human Resources Committee seeks to create what it believes is the best mix of the principal components of core compensation (base salary; STIP Bonus; long-term incentives) in delivering the named executive officers' core compensation. These components are evaluated in relation to benchmark data derived from information reported in publicly-available proxy statements or from market survey data. The companies which are the source of the benchmark data may be different for the Chief Executive Officer and for the other named executive officers, due to differences in the availability of reliable data for comparable executive positions below the Chief Executive Officer level. As discussed below under the heading *Committee Actions Affecting 2006 Compensation*, the Committee uses the benchmark data as a primary reference point when setting the Chief Executive Officer's compensation, but as a secondary reference point when setting the compensation for the other named executive officers.

For each named executive officer, a significant percentage of core compensation is at-risk, meaning that it will generally be earned or increase in value when People's Bank or the named executive officer is successful in ways that are aligned with and support shareholder interests. At-risk elements of compensation may have no value or may be worth less than the target value if applicable performance goals are not fully attained or the price of People's Bank common stock declines or remains flat after the date the at-risk compensation was awarded. At-risk compensation includes all components of core compensation other than base salary.

Assembly of the core compensation package for each named executive officer begins with the establishment of target ranges for the separate elements making up each named executive officer's core compensation package. The Human Resources Committee establishes these target ranges in consultation with members of executive management.

The Human Resources Committee next determines the base salary component for each named executive officer, including the Chief Executive Officer. The Human Resources Committee reviews base salary information compiled by management from the sources described above, then formulates a recommendation for the base salary component of each named executive officer's compensation in relation to that information. The target base salary for the Chief Executive Officer

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is determined using the percentile target range established for the elements of his core compensation and for each other named executive officer based on target ranges for each element of core compensation. The target base salary for each named executive officer may then be adjusted on an individual basis to reflect a variety of factors. Deviations from the targets typically reflect each executive's length of service, experience, value to the organization, and expertise in his or her field of responsibility. A number of these factors are subjective in nature.

The Human Resources Committee follows a similar process for each other element of core compensation (i.e., STIP Bonus and long-term incentives) using the target ranges established for the elements of core compensation.

The target amount of the STIP Bonus award and the target amount of the LTIP Bonus award are each expressed as a percentage of the executive's base salary for the ensuing year. The assumed value of stock options for purposes of assembling the compensation package is determined using the Black-Scholes option valuation model, and the assumed value of restricted stock grants is the market value of People's Bank stock, in each case determined several months before the date of grant due to the extended lead times involved in the annual compensation setting process. For planning purposes, the market value of People's Bank stock may be an average value over a period of several months rather than a point-in-time value. The relative weighting of stock options, restricted stock grants and targeted LTIP Bonus awards is determined with reference to the competitive data made available to the Human Resources Committee. In each case, the Committee may decide to depart from the target levels so established, for the same reasons as discussed with respect to base salary or because of significant changes in the value of People's Bank stock since the valuation dates used to develop recommendations for equity-based awards.

The annual process of assembling target compensation packages for the named executive officers is forward-looking in nature. All at-risk components are based on the expectation that target levels of performance will be achieved over the time horizon that is relevant to each at-risk component. Actual performance over the applicable measurement period may exceed or fall short of the targets, and People's Bank's stock may be worth more or less in the future compared to valuations used in formulating equity-based awards. This means that when at-risk compensation is actually received by a named executive officer, it may be worth more or less to the executive than was expected at the time the award was initially made. This applies to forms of at-risk compensation paid out in cash (STIP Bonus and LTIP Bonus) or realized in the stock market from the exercise of stock options or sale of shares of restricted stock after vesting.

The value (or lack of value) realized by named executive officers from at-risk awards granted in prior years is not taken into account by the Human Resources Committee in the process of setting compensation for the current year. The Committee believes that doing so would be inconsistent with the underlying reasons for the use of at-risk compensation. If current year awards were increased to make up for below-target performance in prior years or decreased to account for above-target performance in prior years, the Committee would be diluting or eliminating the link between performance and reward. Named executive officers would have little incentive to improve performance if it meant decreased target awards in the future, or if the negative consequences for poor performance would be cushioned by increases in the target value of future awards. In addition, the value realized by a named executive officer from equity-based awards granted in prior periods depends in large measure on when the executive decides to realize that value by exercising options or by selling vested shares of restricted stock. The Committee does not believe it would be appropriate to adjust future grants in light of these types of individual decisions.

The objective of the annual compensation-setting process is to establish the appropriate level and mix of compensation for each named executive officer, in reference to the factors discussed above. Therefore, the Human Resources Committee believes that the accounting treatment of any given element of core compensation is not a relevant consideration in the design and compensation-setting process.

For the same reasons, the Human Resources Committee considers, but does not give undue weight to, the tax treatment of each component of compensation. Under Section 162(m) of the Internal Revenue Code, annual compensation paid to a named executive officer is not deductible if it exceeds \$1 million unless it qualifies as performance-based compensation as defined in the tax code and related tax regulations. Base salary and compensation derived from restricted stock awards are not forms of performance-based compensation. Many fringe benefits also do not qualify as performance-based compensation. Stock options are treated as a form of performance-based compensation because their value is entirely dependent on the performance of People's Bank's stock in the market after the date the option is granted. Short-term bonus and long-term cash bonus awards may qualify as forms of performance-based compensation under the income tax regulations.

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The Human Resources Committee understands that People's Bank will not be able to deduct a certain portion of the compensation paid to the named executive officers if it does not qualify as performance-based compensation for tax purposes and exceeds the Section 162(m) limit. The Committee further understands that the absence of this deduction will increase the effective cost of such compensation. The Committee believes this represents an additional cost of doing business that should be borne by the organization as a result of non-tax decisions regarding the appropriate level and mix of compensation for each named executive officer.

***Linking Company Performance to Incentive Plan Funding.*** Each year, the Human Resources Committee establishes one or more prospective company-wide performance targets for use in making funding determinations that affect payment of STIP Bonuses and LTIP Bonuses. Actual performance is evaluated against the target performance measures after the close of the year to which the measures apply. The results of that comparison are used to calculate the level of funding available to pay STIP Bonuses and to allocate funding for future payouts of LTIP Bonuses awarded for periods including that year.

For purposes of the STIP Bonus, each named executive officer other than the Chief Executive Officer is also evaluated on several individual performance measures which are set at the beginning of the year and relate to the strategic business objectives for the ensuing year. Each named executive officer has a unique set of individual performance measures. The degree to which a named executive officer satisfies these individualized measures is taken into account in determining the amount to be paid out to that executive as a STIP Bonus. No individual performance measures are set for the Chief Executive Officer; his performance is measured by the attainment of People's Bank's performance, strategic and financial objectives for the year.

The organization's target performance measures are objective measures that reflect People's Bank's operating results for the year for which the target is established. The Committee has historically sought to ensure that attainment of the target performance measure is challenging yet achievable. The Human Resources Committee has historically established a single performance target in relation to earnings per share, or EPS. The Committee seeks to establish a target based on earnings from sources that are reasonably predictable and stable. Therefore, the Committee often specifies a target EPS measure that is based on earnings from continuing operations. After the conclusion of the fiscal year, the Chief Executive Officer may suggest that the Committee consider additional adjustments to earnings from continuing operations which are designed to eliminate the effects of extraordinary or unusual events. Some events for which these kinds of adjustments are made do recur from time to time, but are nevertheless considered to be extraneous to the conduct of normal day-to-day banking business. The Committee is not required to adopt the Chief Executive Officer's recommendations. For any given year, the Human Resources Committee may decide to establish performance measures in addition to or in place of an EPS-based measure.

For purposes of determining the level of funding available to pay STIP Bonuses, actual performance for the relevant year is compared to the target performance measure(s) without reference to any external factors. If actual performance falls below the targeted level but is at least 80% of the targeted level, STIP Bonuses may be paid based on a reduced level of available funding.

The process is somewhat different for the LTIP Bonus. The actual amount paid out pursuant to an LTIP Bonus award is determined over a three-year performance cycle. A new performance cycle begins at the start of each calendar year. Thus, People's Bank's performance for a given year will affect three LTIP Bonus awards: one which was made at the beginning of the year for which performance is being evaluated, one which was made at the beginning of the year before that, and one which was made at the beginning of the second year before that. Amounts allocated for payout with respect to each year in a given three-year performance cycle will be paid out to the executive after the end of the third year. For example, after 2006 results have been determined, amounts will be allocated for eventual payout as LTIP Bonus for the 2006 portion of the three-year performance cycles covering the periods of 2006-2008; 2005-2007; and 2004-2006. In early 2007, the named executive officer will receive a payout of all LTIP Bonus amounts allocated to him over the entire 2004-2006 performance cycle. LTIP Bonus amounts allocated to the named executive officer for the two performance cycles ending in later years will not be paid out until all years in the cycle have been completed.

Half of the amount allocated in a given year for each named executive officer's LTIP Bonus awards depends on actual performance compared to the target performance measure(s) for that year, without regard to external factors. This process is similar to that which is followed for the STIP Bonus funding determination.

The other half of the amount allocated for each named executive officer's LTIP Bonus award in a given year is determined by reference to the target performance measure compared to the performance of a peer group of financial

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institutions on the same performance measure. The peer group is designated by the Human Resources Committee at the beginning of the year for which the target performance measure is set. The composition of the peer group is determined by the Committee with input from executive management and the Committee's compensation consultant, and may be updated from time to time as necessary to reflect changes (such as mergers) affecting the companies included in the group at the time the group was identified. When EPS is used as the performance measure, the Committee has typically compared the compounded annual growth rate of the target EPS measure for the year in question to the compounded annual growth rate in the median EPS for the peer group.

As is the case for the STIP Bonus, if actual performance on either measure falls below the targeted level but is at least 80% of the targeted level, amounts may be allocated for payment of LTIP Bonuses based on a reduced level of available funding.

The Human Resources Committee has historically used the same target performance measure both for purposes of calculating the STIP Bonus funding levels, and for purposes of calculating the LTIP Bonus allocation for the applicable year. The Committee is not required to use the same performance measure(s) for both of these purposes.

**Timing of Equity Grants.** Stock option grants and restricted stock grants are effective as of the grant date, and options are priced at fair market value on the date of grant. The grant date is the date the equity awards are approved for issuance by the independent members of the Board of Directors, acting on recommendations made to them by the Human Resources Committee. The Long-Term Incentive Plan defines fair market value as the average of the high and low price of People's Bank stock on the grant date or, if the grant date is not a day when the stock market is open, on the most recent day for which trading data is reported by the market. Equity grants are only made to named executive officers during the normal annual compensation-setting cycle except under circumstances discussed under the heading *Exceptions to Usual Procedures*.

**Stock Ownership Guidelines.** People's Bank has not established any formal policies or guidelines addressing expected levels of stock ownership by the named executive officers.

**Exceptions to Usual Procedures.** The Human Resources Committee may from time to time recommend to the independent members of the Board of Directors that they approve the payment of special cash compensation or the grant of special equity-based awards to one or more named executive officers in addition to payments and grants approved during the normal annual compensation-setting cycle. The Committee might make such a recommendation if it believes it would be appropriate to reward one or more named executive officers in recognition of contributions to a particular project, or in response to competitive and other factors that were not addressed during the normal annual compensation-setting cycle. On occasion, special payments are contingent on some period of future service by the named executive officer. All equity grants are subject to future vesting contingencies, which may be different from and shorter than the vesting periods that apply to grants made during the normal annual compensation-setting cycle.

The Committee will make off-cycle compensation decisions and recommendations whenever a current employee is promoted to executive officer status, or an executive officer is hired. The Committee may depart from the compensation guidelines it would normally follow for executives in the case of outside hires.

When the Human Resources Committee is expected to consider recommending approval of equity-based grants outside the normal annual compensation-setting cycle, the Chief Executive Officer in consultation with the General Counsel may request the independent members of the Board of Directors to defer approval of those grants if the Board of Directors or one or more executives are aware of favorable or unfavorable material information regarding People's Bank that has not been disclosed to the public. Once such information has been appropriately disclosed, the Chief Executive Officer notifies the Committee and the independent members of the Board of Directors, who then take appropriate action with respect to any grants for which action was deferred.

**Rating Past Performance; Payout Decisions.** The preceding discussion primarily reflects the Human Resources Committee's actions with respect to target compensation to be paid in or on account of services rendered in future periods. The Committee also is responsible for reviewing the actual performance of People's Bank against performance targets established in prior periods. The evaluation of People's Bank's performance in relation to those targets is essential to determining the extent to which cash bonuses are paid or allocated for the benefit of named executive officers. For more information about these performance targets and how they are used, see *Linking Company Performance to Incentive Plan Funding* above.

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The amount actually paid out to each named executive officer (including the Chief Executive Officer) pursuant to a STIP Bonus award depends on four factors: the extent to which the overall STIP Bonus pool is funded for the year; whether the Committee decides to apply an overall funding adjustment factor applicable to all employees who may be eligible to receive a STIP Bonus; the named executive officer's performance with respect to his individual performance measures; and possible upward or downward adjustment of the named executive officer's payout based on an evaluation of his leadership behaviors in a given year. The Chief Executive Officer evaluates the performance and leadership behaviors of all named executive officers other than himself. The Human Resources Committee evaluates the performance and leadership behaviors of the Chief Executive Officer.

As discussed earlier, the Committee often specifies a target performance measure intended to fairly represent the results of continuing operations of People's Bank during the ensuing year. Events may occur during the course of the year which cause management to conclude that the measure as so established does not in fact achieve its intended goal. In that case, the Chief Executive Officer may ask the Human Resources Committee to exercise discretion in deciding whether or to what degree the applicable performance measure has been attained or exceeded. The Committee may, but is not required to, exercise that discretion.

The extent to which the overall STIP Bonus pool for all eligible employees (including named executive officers) is funded is determined by the performance of People's Bank measured against the target performance metrics specified by the Human Resources Committee. The bonus pool is not funded unless People's Bank attains at least 80% of the target performance measures for the year. Maximum funding of the bonus pool will occur if People's Bank achieves 120% of the target performance measures.

Once the funding level has been determined, the Committee then decides whether to apply an overall funding adjustment factor. Application of this factor, which may be positive or negative, results in an automatic adjustment of equal magnitude to the target payout amounts for each named executive officer's STIP Bonus for the preceding year in alignment with overall results for People's Bank. The Human Resources Committee will consider applying an overall funding adjustment factor when the actual financial performance of People's Bank for the preceding year was extraordinarily different from expected performance, and when the Committee believes that actual performance was not primarily attributable to any particular operating unit or units within the organization.

Each named executive officer other than the Chief Executive Officer is also evaluated on several performance measures that were set at the beginning of the previous year and which relate to the strategic business objectives of the organization for that year. Each named executive officer has a unique set of individual performance measures. The degree to which a named executive officer satisfies these individualized measures is taken into account in determining the amount to be paid out to that executive as a STIP Bonus. In general, no named executive officer could receive a STIP Bonus payout in excess of 200% of the target short-term cash bonus amount. However, in making recommendations to the independent members of the Board of Directors with respect to the named executive officers, the Human Resources Committee has the discretion to disregard this cap in circumstances it deems appropriate.

As discussed above under the heading *Linking Company Performance to Incentive Plan Funding*, the actual payout for the LTIP Bonus award is determined over a three-year period. Target LTIP Bonus awards are made to each named executive officer on an annual basis. As a result, in any given year there are three overlapping LTIP Bonus cycles in effect (one with respect to the first year of the cycle, one with respect to the second year of the cycle, and the third with respect to the final year of the cycle). Annual funding decisions are made for each active cycle based on People's Bank's performance against the target performance measure(s) established in the preceding year for each cycle.

The funding for each active cycle is divided into two separate but related parts. If applicable minimum performance metrics are met in a given year for a given portion of the LTIP Bonus award, an allocation is made for that portion of the award for each active cycle. Amounts allocated in a given year are not paid out until after the end of the full three-year performance cycle. The maximum amount that may be paid out pursuant to an LTIP Bonus award upon expiration of a three-year bonus cycle is 150% of the target amount of the LTIP Bonus award that was established at the beginning of the three-year cycle.

Fifty percent of the annual LTIP Bonus allocation is based solely on the performance of People's Bank against the applicable target performance measure(s). The remaining fifty percent of the annual LTIP Bonus allocation is based on the relative performance of People's Bank on the target performance measure(s) as compared to the median performance of a

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peer group of financial institutions on the same measure(s) for the same year. The composition of the peer group may change from year to year. See the discussion under the heading *Linking Company Performance to Incentive Plan Funding*.

**Committee Actions Affecting 2006 Compensation.** The Human Resources Committee took a variety of actions during 2006 that affected executive compensation for the year. During the first quarter of 2007, the Human Resources Committee will evaluate the performance of People's Bank against the target performance measures established in early 2006 and take other actions relating to calculation of actual payments and allocations for the STIP Bonus and LTIP Bonus based on 2006 performance. Actions taken by the Committee in 2006 with reference to performance measures established for 2005 are not included in the following discussion.

**Annual Compensation-Setting Process - Chief Executive Officer.** In February 2006, the Human Resources Committee recommended, and the independent members of the Board of Directors approved, the various components of Mr. Klein's annual compensation package. Details regarding base salary, stock options, and restricted stock grants are included in the detailed compensation tables following this section. Information about the STIP Bonus and LTIP Bonus target amounts established by the Committee for Mr. Klein are included in this discussion.

For 2006, the Committee selected the following companies for use in benchmarking Mr. Klein's compensation package:

BancorpSouth, Inc.	Bank of Hawaii Corporation
City National Corporation	Commerce Bancshares, Inc.
Commercial Federal Corporation	Downey Financial Corp.
First Citizens Bancshares, Inc.	FirstMerit Corporation
Hudson United Bancorp	TCF Financial Corporation
Trustmark Corporation	Valley National Bancorp
Whitney Holding Corporation	

The companies in this group are all in the financial services industry. They were selected primarily on the basis of asset size, being roughly comparable in asset size to People's Bank at the time the group was selected. Compensation information for companies included in the peer group was obtained by reviewing publicly available proxy statements and other relevant filings made with securities regulatory authorities.

For 2006, the Committee established the target value of Mr. Klein's core compensation package at approximately \$2.7 million. This would have placed Mr. Klein in the third quartile for core compensation paid to chief executive officers of the companies included in the peer group. This target was established based on the recent financial performance of People's Bank, Mr. Klein's estimated value in the marketplace, and the Committee's view of Mr. Klein's critical role in the future success of People's Bank.

After establishing the target value for Mr. Klein's overall core compensation package, the Committee made detailed determinations for each element of that package in order to arrive at the desired overall result:

**Base Salary:** The Committee set Mr. Klein's base salary at \$775,215 representing a 3.5% increase from his base salary in 2005. This placed Mr. Klein's base salary in the third quartile of the base salaries for chief executive officers of the companies included in the peer group. At this level, Mr. Klein's base salary represented approximately 29% of the target value of his core compensation package, consistent with the Committee's philosophy of emphasizing the at-risk components of core compensation for executive officers.

**STIP Bonus:** Mr. Klein's STIP Bonus target for 2006 was established at 75% of his base salary for 2006. The actual amount to be paid out to Mr. Klein will be determined based on the financial performance of People's Bank for the year. The amount paid out will not exceed 200% of the target amount (representing a maximum of 150% of Mr. Klein's base salary for 2006), unless the Human Resources Committee exercises its discretion to exceed that limit. See *Rating Past Performance* for a discussion of the amount paid out to Mr. Klein pursuant to this award.

The Committee established Mr. Klein's STIP Bonus target at this level in part based on market practice and trends, and in part to achieve the desired mix between base compensation and at-risk compensation.

**Long-Term Incentives:** To arrive at the desired total target value of Mr. Klein's core compensation package for 2006, and in light of the levels of base salary and STIP Bonus award already determined, the Committee established the target value of the long-term incentive portion of Mr. Klein's compensation package for 2006 at approximately \$1.37 million.



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The target value of the long-term incentive portion of Mr. Klein's compensation package is made up of the target value of the LTIP Bonus award, the value of stock options using the Black-Scholes methodology, and the assumed value of restricted stock grants. Option values and assumed restricted stock grant values were based on stock price data several months prior to the actual grant date. In addition, the Committee recommended a special grant of 9,000 shares of restricted stock to Mr. Klein as a leadership bonus. As a result, Mr. Klein's total core compensation as finally established was at approximately the 75th percentile for chief executive officers of companies included in the peer group.

The relative mix of the three components of Mr. Klein's long-term incentive compensation package (including the leadership grant) was designed so that approximately two-thirds of the target value would be attributable to equity-based forms of compensation. The Committee considered this weighting to be an appropriate means of aligning Mr. Klein's compensation with the long-term interests of People's Bank stockholders.

Mr. Klein's LTIP Bonus target for the three-year performance cycle beginning with 2006 was established at 72% of his base salary for 2006. The actual amount to be paid out to Mr. Klein will be determined based on the financial performance of People's Bank during 2006, 2007 and 2008. The amount paid out will not exceed 150% of the target amount (representing a maximum of 108% of Mr. Klein's base salary for 2006).

The Human Resources Committee recommended the award to Mr. Klein of options to purchase 42,192 shares of People's Bank common stock. Additional information about these options is contained in the Summary Compensation Table and the table headed *Grants of Plan-Based Awards* and accompanying discussion, all of which appear below. These options will have no value unless the market value of People's Bank common stock is higher than the exercise price of the options. The actual value realized by Mr. Klein upon his exercise of these options will depend on the market value of People's Bank stock at the time of exercise. The target value of these stock options represented approximately 17% of Mr. Klein's long-term compensation for 2006, reflecting the Committee's decision to weight equity-based awards towards stock grants rather than towards options.

The Human Resources Committee also recommended the award to Mr. Klein of 24,000 shares of People's Bank common stock, subject to vesting restrictions. As previously discussed, a portion of this award (9,000 shares) was made to Mr. Klein as a leadership bonus. Additional information about these restricted shares is contained in the Summary Compensation Table and the table headed *Grants of Plan-Based Awards* and accompanying discussion, all of which appear below. The actual value realized by Mr. Klein from these shares will depend on the market value of People's Bank stock at the time he chooses to sell the shares. The target value of these shares represented approximately 48% of Mr. Klein's compensation package for 2006, and 74% of all equity-based forms of compensation awarded to Mr. Klein.

All Human Resources Committee actions taken with respect to Mr. Klein's compensation were presented as recommendations for approval by the independent members of the Board of Directors. All of the Committee's recommendations regarding Mr. Klein's compensation were approved by the independent members of the Board of Directors in February 2006.

***Annual Compensation-Setting Process - Other Named Executive Officers.*** In February 2006, the Human Resources Committee recommended, and the independent members of the Board of Directors approved, the various components of the annual compensation packages for all other named executive officers. Details regarding base salary, stock options, and restricted stock grants made to the named executive officers are included in the detailed compensation tables following this section. Information about the STIP Bonus and LTIP Bonus target amounts established by the Committee for the named executive officers are included in this discussion.

The Human Resources Committee began the compensation-setting process for these named executive officers by referring to internally developed broad guidelines which specify target dollar ranges for executive compensation. These guidelines are based in large part on competitive trends in the employment marketplace, including established and emerging compensation practices at other companies. The Committee initially established the overall level of core compensation for each named executive officer (other than the Chief Executive Officer) within the guideline ranges after considering the recent performance of People's Bank and the contribution of each named executive officer to those results, the value of each executive's job in the marketplace, and the criticality of each named executive officer to the future success of People's Bank in attaining its goals.

The Committee next evaluated these preliminary compensation decisions in comparison to the compensation of executives having comparable responsibilities at companies in a peer group designated by the Committee. This peer group



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was different from, and larger than, the peer group used to establish the Chief Executive Officer's compensation, due to the limited amount of data available for comparable executive positions in the first peer group.

For 2006, the companies making up the peer group used as a comparison reference for the compensation packages for the other named executive officers were:

AmSouth Bancorporation	BancWest Corporation
Taylor Capital Group, Inc.	Commerce Bancshares, Inc.
Commercial Federal Corporation	Compass Bancshares, Inc.
F.N.B. Corporation	Harris Financial Corp.
Hibernia Corp.	Huntington Bancshares Incorporated
IndyMac Bancorp, Inc.	Irwin Financial Corporation
Marshall & Isley Corporation	The South Financial Group
Southern Bancorp, Inc.	SVB Financial Group
Texas Capital Bancshares, Inc.	UnionBanCal Corporation
Webster Financial Corporation	

The companies in this group all participate in relevant executive compensation surveys sponsored by the Committee's compensation consultant.

The Committee compared its preliminary compensation decisions for the named executive officers with the peer group data to ensure that those preliminary decisions did not deviate significantly from market practice.

The target value of the named executive officers' core compensation packages, as established by the Committee for 2006 following the steps outlined above and based on equity valuation assumptions as of a date several months prior to the Committee's action, each fell within the third quartile for core compensation paid to executive officers performing similar duties with the companies included in the peer group.

After establishing the target value for each named executive officer's overall core compensation package, the Committee made detailed determinations for each element of that package in order to arrive at the desired overall result:

*Base Salary:* The Committee first set the 2006 base salary for each named executive officer, within target dollar ranges contemplated by the internal guidelines. Salary increases for the named executive officers represented increases of from 5% to 9% compared to base salaries for 2005. At these levels, base salaries represented between 26% and 39% of the target value of each named executive officer's core compensation package, consistent with the Committee's philosophy of emphasizing the at-risk components of core compensation for executive officers.

*STIP Bonus:* The named executive officers' STIP Bonus targets for 2006 were established within a range of 60% to 65% of each executive's base salary for 2006. The actual amount to be paid out to each named executive officer will be determined in part based on the financial performance of People's Bank for the year and in part based on the other factors discussed under the heading *Rating Past Performance; Payout Decisions*. The amount paid out will not exceed 200% of the target amount (representing a maximum of 120 - 130% of each named executive officer's base salary for 2006), unless the Human Resources Committee exercises its discretion to exceed that limit. See *Rating Past Performance* for a discussion of the amounts paid out to the named executive officers pursuant to these awards.

The Committee established the named executive officers' STIP Bonus targets at these levels in part based on market practice and trends, and in part to achieve the desired mix between base compensation and at-risk compensation.

*Long-Term Incentives:* To arrive at the desired total target value of each named executive officer's core compensation package for 2006, and in light of the levels of base salary and STIP Bonus awards already determined, the Committee established the target value of the long-term incentive portion of the named executive officers' core compensation packages for 2006 in a range from approximately \$327,000 to \$865,000. The target value of the long-term portion of each named executive officer's compensation package reflects the target value of the LTIP Bonus award, the value of stock options using the Black-Scholes method, and the assumed value of restricted stock grants. Option values and assumed restricted stock grant values were based on stock price data several months prior to the actual grant date.

With one exception, the relative mix of the three components of each executive's long-term compensation package was designed so that approximately two-thirds of the target value would be attributable to equity-based forms of



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compensation. The Committee considered this weighting to be an appropriate means of aligning executive compensation with the long-term interests of People's Bank stockholders. The Chief Financial Officer's long-term incentive package was designed so that more than 80% of the target value would be attributable to equity-based forms of compensation. This difference reflected the Committee's and Chief Executive Officer's view that the Chief Financial Officer's compensation should be more strongly tied to the long-term value of People's Bank stock as an incentive for performance.

The LTIP Bonus targets for the three-year performance cycle beginning with 2006 were established for the named executive officers in a range between 33% - 41% of each executive's base salary for 2006. The actual amount to be paid out to each named executive officer will be determined based on the financial performance of People's Bank during 2006, 2007 and 2008. The amount paid out will not exceed 150% of the target amount (representing between 49.5% - 61.5% of each executive's base salary for 2006).

The Human Resources Committee recommended the award to the named executive officers of options to purchase between 15,165 and 46,960 shares of People's Bank common stock. Additional information about these options is contained in the Summary Compensation Table and the table headed *Grants of Plan-Based Awards* and accompanying discussion, all of which appear below. These options will have no value unless the market value of People's Bank common stock is higher than the exercise price of the options. The actual value realized by each named executive officer upon his exercise of these options will depend on the market value of People's Bank stock at the time of exercise. The target value of these stock options represented between approximately 20% and 24% of each named executive officer's long-term compensation for 2006, reflecting the Committee's decision to weight equity-based awards towards stock grants rather than towards options.

The Human Resources Committee also recommended the award to the named executive officers of between 5,565 and 17,300 shares of People's Bank common stock, subject to vesting restrictions. Additional information about these restricted shares is contained in the table headed *Grant of Plan-Based Awards* below. The actual value realized by each named executive officer from these shares will depend on the market value of People's Bank stock at the time he chooses to sell such shares. The target value of these shares represented between 27% and 44% of each named executive officer's total compensation package for 2006 based on estimated values for stock options and shares of restricted stock at the time compensation recommendations were formulated. The target value of these shares represented 70% of all equity-based forms of compensation awarded to the named executive officers, based on the same estimates.

As a result of increases in the market value of People's Bank's common stock subsequent to the date used for estimating the values of stock options and shares of restricted stock, the grant-date value of options and restricted stock grants was higher than the values used in establishing core compensation packages for the named executive officers. The Committee did not choose to reduce the number of options or shares of restricted stock awarded to each named executive officers to reflect this increase. Therefore, the target values of the named executive officer's core compensation packages at the grant date were in the fourth quartile for core compensation paid to executive officers performing similar duties with the companies included in the peer group.

All Human Resources Committee actions taken with respect to the named executive officers (other than the Chief Executive Officer) were presented as recommendations for approval by the independent members of the Board of Directors. The Chief Executive Officer participated in the development of these recommendations but did not vote on the adoption of these recommendations by the Committee. All of the Committee's recommendations regarding the compensation of the named executive officers were approved by the independent members of the Board of Directors in February 2006.

***Establishing Performance Targets.*** In December 2005, the Human Resources Committee established the performance target for purposes of determining actual payouts and allocations for the STIP Bonus and all current cycles of outstanding LTIP Bonus awards. The Committee specified a target based on EPS from continuing operations. This measure differs from EPS as reported under generally accepted accounting principles because it excludes income or loss from discontinued activities. The performance target was approximately equal to People's Bank's then-anticipated earnings per share from continuing operations for 2005. Management advised the Committee that it considered this target to be challenging given the expected interest rate and competitive environment for 2006. The Committee thus viewed the performance target to be a challenging yet achievable goal based on this information.

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The Committee also identified the group of institutions against which People's Bank's 2006 financial performance will be measured for purposes of calculating allocations under all current long-term cash bonus cycles. The companies in this group are:

Associated Banc-Corp	Astoria Financial Corporation
BancorpSouth, Inc.	Bank of Hawaii Corporation
City National Corporation	Colonial BancGroup, Inc.
Commerce Bancshares, Inc.	Downey Financial Corp.
First Citizens BancShares, Inc.	FirstMerit Corporation
TCF Financial Corporation	Trustmark Corporation
Valley National Bancorp	Webster Financial Corporation
Whitney Holding Corporation	

This peer group was identical to the peer group used to measure 2005 performance, with the exception of three institutions that were acquired in late 2005 or scheduled to be acquired in early 2006. It was substantially similar to the peer group used in setting the Chief Executive Officer's compensation for 2006, with the addition of five institutions that were considered inappropriate for use in analyzing compensation primarily due to asset size, but which have certain characteristics that make them useful for performance comparisons.

**Rating Past Performance.** In January 2007, the Human Resources Committee evaluated People's Bank's actual performance during 2006 against the STIP and LTIP performance targets established in February 2006. The Committee noted that People's Bank had restructured its balance sheet significantly during 2006. This was done for strategic reasons and with the full knowledge and approval of the Board of Directors, but had not been contemplated at the time the performance targets for 2006 were established. Therefore, the Committee decided that for purposes of making funding decisions for the STIP Bonus and the LTIP Bonus, it would be appropriate to use an adjusted EPS result that would disregard the securities losses resulting from the restructuring of the balance sheet. On that basis, People's Bank's EPS from continuing operations for 2006, net of adjustments for securities losses, was \$0.98 which exceeded the performance target established at the beginning of the year. This compared favorably to People's Bank's reported EPS from continuing operations of \$0.85.

The Committee approved funding for the overall STIP Bonus pool for all STIP participants, including the named executive officers, on the basis of these results. The Committee did not apply an automatic bank-wide funding adjustment factor to the STIP Bonus pool for 2006 with respect to the named executive officers.

The Human Resources Committee also applied this adjusted EPS result to determine the level of allocations to be made with respect to the three outstanding LTIP Bonus cycles that included 2006. The adjusted EPS result was compared to the internally-established target in order to calculate 50% of the allocation for each cycle. In determining the other 50% of the LTIP Bonus allocation, the Committee compared People's Bank's EPS growth rate (as adjusted) during 2006 against the median EPS growth rate of the banks in the peer group selected for 2006. Peer results available through September 30, 2006 were used for this purpose. Based on the third quarter comparison with the results of the peer group and upon the financial performance of People's Bank in the fourth quarter of 2006, the Committee decided it was reasonable to conclude that People's Bank's 2006 results on this measure would significantly exceed the median EPS growth rate for the peer institutions for the full year. Therefore, the Committee approved LTIP Bonus allocations on this measure at the maximum level for all named executive officers including the Chief Executive Officer.

On the basis of People's Bank's strong performance results for 2006, and Mr. Klein's outstanding personal leadership in driving several key strategic long term initiatives, the Committee recommended, and the independent members of the Board of Directors approved, a 2006 STIP Bonus payout to Mr. Klein of \$1,053,808. This was higher than the target amount of his STIP Bonus for the year but less than the maximum amount payable, as described in the table entitled "Grant of Plan-Based Awards" appearing below. In addition, a total of \$720,174 was allocated to the three outstanding LTIP Bonus cycles for Mr. Klein based on People's Bank's financial performance during 2006. Allocated amounts will be paid out for a given LTIP Bonus cycle after the end of the third year in the applicable three-year cycle. More detailed information on the amounts allocated to each LTIP Bonus cycle is provided following the Summary Compensation Table below.

In determining the 2006 STIP Bonus payouts for the other four named executive officers, the Human Resources Committee considered Mr. Klein's evaluation of each named executive officer's performance against the individual set of previously-established key performance measures for each officer. Based on each individual's level of achievement and the

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level of funding available in the STIP Bonus pool, the Committee recommended, and the independent members of the Board of Directors approved, payouts of STIP Bonuses in amounts higher than the target amount of each named executive officer's 2006 STIP Bonus, as described in the table entitled "Grant of Plan-Based Awards" appearing below. Mr. Klein also recommended to the Committee that an upward leadership adjustment of 15% be applied in calculating the amount to be paid out to Mr. Sherringham to acknowledge the extraordinary organizational impact his personal contributions had on People's Bank's 2006 results and positioning for future success. The Committee adopted this recommendation, which was approved by the independent members of the Board of Directors. As a result, Mr. Sherringham's STIP Bonus payout represented a higher percentage of his 2006 STIP Bonus target amount than was the case for the other named executive officers. See the table entitled "Grant of Plan-Based Awards" appearing below for more information.

Amounts ranging from \$129,530 to \$199,495 were allocated to all outstanding three-year LTIP Bonus cycles for the named executive officers based on People's Bank's financial performance during 2006. Allocated amounts will be paid out for a given LTIP Bonus cycle after the end of the third year in the applicable three-year cycle. More detailed information on the amounts allocated for each LTIP Bonus cycle is provided following the Summary Compensation Table below.

**Other Committee Actions.** In July 2006, the Human Resources Committee recommended, and the independent members of the Board of Directors approved, supplemental grants of restricted stock to the Chief Executive Officer and the other named executive officers. Mr. Klein was awarded 6,000 shares and the other named executive officers were each awarded between 7,500 and 12,700 shares of People's Bank stock, subject to incremental vesting over the course of four years. In addition, these shares remain subject to additional restrictions on transfer for two years after the final vesting date.

The Committee took this action following a series of discussions with the Chief Executive Officer and others, in which management shared with the Human Resources Committee information about current levels of stock ownership by People's Bank executives in comparison with other institutions.

Management presented the Committee with information prepared by Pearl Meyer & Partners (a special consultant engaged by management to assist in the analysis), illustrating the percentage of equity owned by the Chief Executive Officer, Chief Financial Officer, and other executive officers of a group of financial institutions, compared to equity ownership of People's Bank stock by its executive officers. The companies in the comparison group were:

Associated Banc-Corp.	Astoria Financial Corporation
BancorpSouth, Inc.	Bank United Financial Corp.
City National Corporation	Colonial BancGroup, Inc.
Commerce Bancshares, Inc.	Cullen/Frost Bankers, Inc.
First Federal Financial Services, Inc.	Fremont General Corporation
Hudson City Bancorp, Inc.	International Bancshares Corp.
MAF Bancorp, Inc.	Mercantile Bankshares Corporation
New Alliance Bancshares, Inc.	New York Community Bancorp, Inc.
Sovereign Bancorp, Inc.	TCF Financial Corporation
TD Banknorth, Inc.	Valley National Bancorp
Webster Financial Corporation	

The Human Resources Committee considered the information presented by management and was persuaded that supplemental grants of restricted stock, coupled with additional post-vesting transfer restrictions, were appropriate under the circumstances. The Committee noted that although the supplemental grants constituted additional compensation to each of the grant recipients, the decision to make the grants was not made for compensation-related reasons. For this reason, the supplemental grants were not analyzed within the context of the Committee's normal compensation philosophy or standards, and represented an intentional departure from those guidelines.

All grants were made in compliance with the terms of the People's Bank 1998 Long-Term Incentive Plan. Under that plan, the aggregate number of restricted shares issuable to any single person during a calendar year is capped at 30,000. Thus, in determining the number of shares awarded as a supplemental grant to each named executive officer, the Committee took into consideration the number of shares of restricted stock previously granted to each such executive in February 2006.

The Committee and the independent members of the Board of Directors also carefully considered the timing of the supplemental grants with reference to the public availability of material information concerning People's Bank. The Committee and the independent members of the Board of Directors, with input from the Chief Executive Officer and the



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General Counsel of People's Bank, concluded that at the grant date there was no material, non-public information concerning People's Bank and that it was therefore appropriate to make the supplemental grants at that time.

**Prospective Changes to Compensation Programs.** The Board of Directors approved changes to the People's Bank Employees' Retirement Plan which became effective during 2006. New employees hired on or after August 14, 2006 are not eligible to participate in this plan. Instead, People's Bank is providing a new benefit to that group of employees under the People's Bank 401(k) Employee Savings Plan. The new benefit consists of an employer retirement contribution made on behalf of each covered employee to the Employee Savings Plan, in an annual amount equal to 3% of the employee's eligible earnings. This new benefit is not available to anyone who remains eligible to participate in the Employees Retirement Plan. All of the named executive officers, including the Chief Executive Officer, remain eligible to participate in the Employees Retirement Plan and are not affected by this change.

Employees who are not eligible to participate in the Employees' Retirement Plan are also not eligible to participate in the People's Bank Cap Excess Plan or the People's Bank Enhanced Senior Pension Plan. Management is currently considering whether to seek Board approval for one or more non-tax qualified plans which would provide additional benefits to persons who would otherwise have been eligible to participate in the Cap Excess Plan and/or the Enhanced Senior Pension Plan if they had been employed prior to August 14, 2006. The establishment of any such plan would not affect any of the named executive officers, including the Chief Executive Officer.

The Board of Directors has approved the establishment of an employee stock ownership plan, or ESOP, in connection with the proposed conversion of People's Bank and its parent, People's Mutual Holdings, from the mutual holding company form to a fully public stock holding company form. The ESOP will be a tax-qualified, broad-based employee benefit program. All named executive officers, including the Chief Executive Officer, will be eligible to receive benefits under this program.

Additional equity-based benefit plans may be adopted no earlier than six months following the effective date of the proposed conversion. While it is likely that the named executive officers, including the Chief Executive Officer, will be eligible to receive benefits under those plans, no decisions have been made as to the content or structure of such plans, or as to the manner in which awards under such plans (if adopted) would be made.

See *Future Benefit Plans* for additional information about the ESOP and the additional equity-based benefit plans.

**Summary Compensation Table**

The following table sets forth a summary for the last fiscal year of the cash and non-cash compensation paid or awarded by People's Bank to its Chief Executive Officer and to its four most highly compensated executive officers, other than the Chief Executive Officer, who were serving as executive officers at the end of the 2006 fiscal year, whose total compensation for 2006 was at least \$100,000 (the named executive officers).

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
						Pension Value and			
John A. Klein <sup>(1)</sup>	2006	772,190	486,939	62,462	1,773,982		456,200	261,149	3,812,922
Philip R. Sherringham <sup>(2)</sup>	2006	420,961	274,259	69,520	676,026		130,300	61,288	1,632,354
Robert R. D. Amoré <sup>(3)</sup>	2006	307,692	188,578	34,760	384,099		126,400	82,937	1,124,466
Brian F. Dreyer <sup>(4)</sup>	2006	307,780	167,019	34,760	374,261		313,500	113,614	1,310,934
William T. Kosturko <sup>(5)</sup>	2006	315,515	133,530	22,451	367,465		202,900	117,565	1,159,426

(1) Mr. Klein does not receive any additional compensation for serving as a director of People's Bank. Mr. Klein is the President, Chief Executive Officer and Chairman of the Board. Mr. Klein is the principal executive officer of People's Bank.

(2) Mr. Sherringham's position is Executive Vice President and Chief Financial Officer. Mr. Sherringham is the principal financial officer of People's Bank.

(3) Mr. D. Amoré's position is Executive Vice President, Marketing and Regional Banking.

(4) Mr. Dreyer's position is Executive Vice President, Commercial Banking.

(5) Mr. Kosturko's position is Executive Vice President and General Counsel.



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The Bonus column has been omitted from the Summary Compensation Table because no named executive officer earned any compensation during 2006 of a type required to be disclosed in that column.

The amounts shown in the Stock Awards column equal the amount recognized by People's Bank during 2006 as compensation expense for financial statement reporting purposes as a result of stock awards made in 2006 and in prior years. Stock awards are valued at the average of the high and low stock price on the grant date. A portion of that grant-date value is recorded as expense over the vesting period applicable to the grant. For more information on stock awards made to the named executive officers during 2006, see the table in this section entitled *Grants of Plan-Based Awards*.

The amounts shown in the Option Awards column equal the amount recognized by People's Bank during 2006 as compensation expense for financial reporting purposes as a result of options granted in 2006. No expense was recognized for options granted in prior years, as a result of the accelerated vesting of all such options in December 2005, prior to the effective date of FAS 123R. Stock options issued in 2006 were valued at \$6.46 per option, using the Black-Scholes option valuation model with the following assumptions: exercise price equal to fair market value of stock (\$31.31) on grant date; dividend yield of 2.81%; expected volatility rate of 22.75%; risk-free interest rate of 4.64%; and expected term of 4.99 years. A portion of that value is recorded as expense over the vesting period applicable to the grant. For more information on option grants made to the named executive officers during 2006, see the table entitled *Grants of Plan-Based Awards*.

The amounts shown in the Non-Equity Incentive Plan Compensation column reflect short-term incentive bonus payments made to the named executive officers with respect to performance in 2006, and amounts designated for payment as long-term incentive bonuses to the named executive officers based on People's Bank's performance in 2006. Details of these amounts are as follows:

	Short-Term Incentive Bonus (STIP Bonus) <sup>(1)</sup>	Long-Term Incentive Bonus (LTIP Bonus)		
		2004 - 2006 Performance Cycle <sup>(1)</sup>	2005 - 2007 Performance Cycle <sup>(2)</sup>	2006 - 2008 Performance Cycle <sup>(3)</sup>
John A. Klein	\$ 1,053,808	\$ 228,157	\$ 241,777	\$ 250,239
Philip R. Sherringham	\$ 476,531	\$ 58,427	\$ 62,946	\$ 78,122
Robert R. D'Amore	\$ 241,800	\$ 44,069	\$ 46,806	\$ 51,424
Brian F. Dreyer	\$ 231,791	\$ 44,211	\$ 46,820	\$ 51,439
William T. Kosturko	\$ 237,935	\$ 40,587	\$ 42,007	\$ 46,936

(1) Payable in 2007.

(2) Payable in 2008.

(3) Payable in 2009.

The total amount payable to each named executive officer as a long-term incentive bonus for the 2004-2006 performance cycle is as follows: Mr. Klein, \$722,638; Mr. Sherringham, \$185,054; Mr. D'Amore, \$139,580; Mr. Dreyer, \$140,031; and Mr. Kosturko, \$128,549. These amounts, which for each individual include the amounts shown in the column headed 2004-2006 Performance Cycle in the table above, are based on the performance of People's Bank for each of the three years included in that performance cycle.

Amounts shown in the column headed Change in Pension Value and Nonqualified Deferred Compensation Earnings are for the twelve months ended September 30, 2006 which is the pension plan measurement date used by People's Bank for financial reporting purposes. This column does not include any earnings on compensation deferred by any named executive officer under the Supplemental Savings Plan. Information about these earnings and how they are calculated is shown in the table headed *Non-Qualified Deferred Compensation* and accompanying text.

Amounts shown as All Other Compensation are attributable to perquisites and other personal benefits, and to other items of compensation that are not reported elsewhere in the Summary Compensation Table. Perquisites and other personal benefits consist of a company-supplied automobile, tax preparation and financial planning services, reimbursement for up to \$500 for health club membership, reimbursement for the executive's cost of enhanced long-term disability insurance, and home security services. Some of the named executive officers have elected to forego one or more of these perquisites. For Messrs. Klein, D'Amore, and Dreyer, perquisites also include the cost of club memberships which are used primarily, but not exclusively, for business purposes. Additional items shown as All Other Compensation include: employer matching



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contributions to the 401(k) Employee Savings Plan and the Supplemental Savings Plan (Mr. Klein, \$77,360; Mr. Sherringham, \$36,178; Mr. D Amore, \$25,701; Mr. Dreyer, \$25,716; and Mr. Kosturko, \$24,620); annual accruals under the Deferred Compensation Plan for Certain Executive Officers (Mr. Klein, \$138,052; Mr. D Amore, \$34,857; Mr. Dreyer, \$54,391; and Mr. Kosturko, \$61,752 (no accruals for Mr. Sherringham under this plan)); and a tax gross-up payment with respect to the reimbursement paid to each executive for the cost of enhanced long-term disability insurance (Mr. Klein, \$4,503; Mr. Sherringham, \$1,704; Mr. D Amore, \$1,008; Mr. Dreyer, \$816; and Mr. Kosturko, \$1,304).

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**Grant of Plan-Based Awards.** The following table sets forth information concerning grants of plan-based awards granted in 2006 to the Named Executive Officers under the 1998 Long-Term Incentive Plan.

**Grant of Plan-Based Awards**

Name	Grant Date(1)	Estimated Future Payouts Under Non-Equity Incentive			All Other Stock Awards; Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh) <sup>(3)</sup>	Closing Market Price on Grant Date (\$) <sup>(3)</sup>	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Plan Awards(2) Target (\$)	Maximum (\$)					
John A. Klein	Feb. 16, 2006 <sup>(4)</sup>	\$290,706	\$581,411	\$1,162,822					
	Feb. 16, 2006 <sup>(5)</sup>	46,513	558,155	837,232					
	Feb. 16, 2006							\$31.37	\$751,680
	Jul. 27, 2006				24,000			36.23	218,040
	Feb. 16, 2006				6,000	42,192	\$31.31	31.37	272,560
	Total:	\$337,219	\$1,139,566	\$2,000,054	30,000	42,192			\$1,242,280
Philip R. Sherringham	Feb. 16, 2006 <sup>(4)</sup>	\$138,125	\$276,250	\$552,500					
	Feb. 16, 2006 <sup>(5)</sup>	14,521	174,250	261,375					
	Feb. 16, 2006							\$31.37	\$541,836
	Jul. 27, 2006				17,300			36.23	461,518
	Feb. 16, 2006				12,700	46,960	\$31.31	31.37	303,362
	Total:	\$152,646	\$450,500	\$813,875	30,000	46,960			\$1,306,716
Robert R. D Amore	Feb. 16, 2006 <sup>(4)</sup>	\$ 100,750	\$201,500	\$403,000					
	Feb. 16, 2006 <sup>(5)</sup>	9,558	114,700	172,050					
	Feb. 16, 2006							\$31.37	\$269,978
	Jul. 27, 2006				8,620			36.23	454,250
	Feb. 16, 2006				12,500	23,480	\$31.31	31.37	151,681
	Total:	\$ 110,308	\$316,200	\$575,050	21,120	23,480			\$875,909
Brian F. Dreyer	Feb. 16, 2006 <sup>(4)</sup>	\$ 100,779	\$201,557	\$403,114					
	Feb. 16, 2006 <sup>(5)</sup>	9,561	114,733	172,100					
	Feb. 16, 2006							\$31.37	\$269,978
	Jul. 27, 2006				8,620			36.23	272,550
	Feb. 16, 2006				7,500	23,480	\$31.31	31.37	151,681
	Total:	\$110,340	\$316,290	\$575,214	16,120	23,480			\$694,209
William T. Kosturko	Feb. 16, 2006 <sup>(4)</sup>	\$ 95,174	\$190,348	\$380,695					
	Feb. 16, 2006 <sup>(5)</sup>	8,724	104,691	157,037					
	Feb. 16, 2006							\$31.37	\$174,296
	Jul. 27, 2006				5,565			36.23	272,550
	Feb. 16, 2006				7,500	15,165	\$31.31	31.37	97,966
	Total:	\$ 103,898	\$295,039	\$537,732	13,065	15,165			\$544,812

(1) For equity grants, this is the date grants are approved by the independent members of the Board of Directors.

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- (2) The threshold payment for a STIP Bonus is shown as 50% of the target amount, and for an LTIP Bonus is shown as 8.33% of the target amount. Zero payouts are also possible. The maximum payout with respect to a STIP Bonus award is shown as 200% of the target amount, which is the limit generally applicable to such awards. However, the Human Resources Committee has discretion to authorize a payout in excess of this limit.
- (3) Exercise price is equal to fair market value which is defined in the 1998 Long-Term Incentive Plan as the average of the high and low stock price on the grant date. This will usually differ from the closing price on the grant date.
- (4) STIP Bonus award for 2006, payable in 2007.
- (5) LTIP Bonus award for 2006, payable at the end of the 2006-2008 performance cycle.

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The columns disclosing estimated future payouts under equity incentive compensation plans have been omitted from the table because no named executive officer earned any compensation during 2006 of a type required to be disclosed in those columns.

All stock and option awards shown in this table were made pursuant to the People's Bank 1998 Long-Term Incentive Plan. That plan defines "fair market value" as the average of the high and low trading price of People's Bank common stock on the Nasdaq Stock Market on the date of grant or, if no trades take place on that date, the most recent day for which trading data is available.

Cash dividends paid with respect to shares of restricted stock are accumulated for the benefit of the grantee in a non-interest bearing account, and will be paid to the grantee as soon as practicable after the end of the applicable restriction period.

Stock and option awards made in February 2006 will vest 50% on February 1, 2008, 25% on February 1, 2009 and 25% on February 1, 2010. Stock awards made in July 2006 will vest 50% on the second anniversary of the grant date, 25% on the third anniversary of the grant date, and 25% on the fourth anniversary of the grant date. Unless otherwise permitted by the Human Resources Committee and under other limited circumstances, none of the shares awarded in July 2006 may be transferred by the recipient until the sixth anniversary of the grant date. This transfer restriction does not apply if the recipient ceases to be employed by People's Bank.

For purposes of SFAS No. 123-R and this table, the grant date fair value of stock awards is equal to the number of shares awarded multiplied by the "fair market value" of the shares as determined pursuant to the 1998 Long-Term Incentive Plan. Similarly, the grant date fair value of options is determined using the Black-Scholes option valuation model with the following assumptions: exercise price equal to fair market value of stock (\$31.31) on grant date; dividend yield of 2.81%; expected volatility rate of 22.75%; risk-free interest rate of 4.64%; and expected option term of 4.99 years.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards			Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
John A. Klein	67,500		\$ 13.75	May 20, 2009	5,625 <sup>(2)</sup>	\$ 250,988
	162,000		11.78		12,375 <sup>(3)</sup>	552,173
	22,500		10.04	Mar. 1, 2011	15,180 <sup>(4)</sup>	677,332
	67,500		11.16		24,000 <sup>(1)</sup>	1,070,880
	67,500		19.84	Feb. 21, 2012	6,000 <sup>(5)</sup>	267,720
	46,935		25.25	Feb. 20, 2013		
			31.31	Feb. 19, 2014		
				Feb. 17, 2015		
			Feb. 16, 2016			
		42,192 <sup>(1)</sup>				
	Total: 433,935	Total: 42,192			Total: 63,180	Total: \$ 2,819,092
Philip R. Sherringham	15,132		\$ 11.45	Apr. 10, 2013	2,082 <sup>(2)</sup>	\$ 92,899
	10,125		19.84		3,375 <sup>(3)</sup>	150,593
	15,300		25.25	Feb. 19, 2014	5,400 <sup>(4)</sup>	240,948
			31.31		17,300 <sup>(1)</sup>	771,926
				Feb. 17, 2015	12,700 <sup>(5)</sup>	566,674
				Feb. 16, 2016		
		46,960 <sup>(1)</sup>				
	Total: 40,557	Total: 46,960			Total: 40,857	Total: \$ 1,823,039
Robert R. D Amore	5,963		\$ 11.78	Mar. 1, 2011	1,308 <sup>(2)</sup>	\$58,363
	3,037		10.04		2,610 <sup>(3)</sup>	116,458
	14,175		11.16	Feb. 21, 2012	4,200 <sup>(4)</sup>	187,404
	20,250		19.84		8,620 <sup>(1)</sup>	384,624
	15,300		25.25	Feb. 20, 2013	12,500 <sup>(5)</sup>	557,750
			31.31	Feb. 19, 2014		
				Feb. 17, 2015		
				Feb. 16, 2016		
		23,480 <sup>(1)</sup>				
	Total: 58,725	Total: 23,480				