People's United Financial, Inc.
Form 10-K
February 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007

People s United Financial, Inc.

(Exact name of registrant as specified in its charter)

001-33326

(Commission File Number)

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

850 Main Street

Bridgeport, Connecticut 06604

(Address of principal executive offices, including zip code)

(203) 338-7171

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share	**NASDAQ Global Select Market**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant, based upon the last reported sales price of its common stock as of the last business day of the registrant s most recently completed second quarter on the NASDAQ Global Select Market was $5,334,437,866.

As of February 11, 2008, there were 345,401,374 shares of the registrant s common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 17, 2008, are incorporated by reference into Part III.

Table of Contents

PEOPLE S UNITED FINANCIAL, INC.

2007 FORM 10-K

Table of Contents

Table of Contents

Part I

Item 1. Business

General

People s United Financial, Inc. (People s United Financial) is a savings and loan holding company and is incorporated under the state laws of Delaware. People s United Financial was formed for the purpose of effectuating the conversion of People s Bank and People s Mutual Holdings from the mutual holding company structure to the stock holding company structure. On April 16, 2007, People s United Financial, People s Bank and People s Mutual Holdings completed their second-step conversion from a mutual holding company structure to a fully-public stock holding company structure. People s Mutual Holdings merged with and into People s Bank, with People s Bank as the surviving entity, and People s Bank became a wholly-owned subsidiary of People s United Financial. See Note 2 to the Consolidated Financial Statements for a further discussion of the second-step conversion. On June 6, 2007, People s Bank changed its name to People s United Bank. The name People s United Bank is used to refer to the Bank both before and after the name change. People s United Bank is a federally-chartered stock savings bank headquartered in Bridgeport, Connecticut.

On January 1, 2008, People s United Financial completed its acquisition of the Chittenden Corporation, a multi-bank holding company headquartered in Burlington, Vermont. At December 31, 2007, Chittenden had total assets of $7.4 billion, total loans of $5.7 billion, total deposits of $6.2 billion and 140 branches. The six banks in the Chittenden group of banks (each a Subsidiary Bank and together the Subsidiary Banks) will continue to do business under their existing names as subsidiaries of People s United Bank: Chittenden Bank based in Burlington, Vermont; Flagship Bank and Trust Company based in Worcester, Massachusetts; Maine Bank & Trust based in Portland, Maine; Merrill Merchants Bank based in Bangor, Maine; Ocean Bank based in Portsmouth, New Hampshire; and The Bank of Western Massachusetts based in Springfield, Massachusetts. Each of the Subsidiary Banks became federally-chartered savings banks on January 1, 2008.

On a pro forma basis as of January 1, 2008, People s United Financial had $21 billion in total assets and more than 300 branches in Connecticut, Massachusetts, New Hampshire, Vermont, Maine and New York. The acquisition of Chittenden will be accounted for as a purchase and accordingly, Chittenden s results of operations will be included with People s United Financial s results of operations beginning in 2008. See Note 3 to the Consolidated Financial Statements on page F-17 for a further discussion of the acquisition of Chittenden. The discussion that follows primarily pertains to People s United Financial as of December 31, 2007.

The principal business of People s United Financial is to provide, through People s United Bank and its subsidiaries, 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 United Bank provides specialized services tailored to specific markets including: personal, institutional and employee benefit trust; cash management; and municipal banking and finance. Through its non-bank subsidiaries, People s United 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 79 traditional branches, 75 supermarket branches, seven 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, six commercial banking offices and over 250 ATMs. People s United 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.

Table of Contents

People s United 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 and industrial lending, commercial real estate 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, the Treasury area is responsible for managing People s United Financial s and People s United Bank s securities portfolio, short-term investments and wholesale funding activities.

Further discussion of People s United Financial s business and operations appears on pages 24 through 72.

Supervision and Regulation People s United Financial

General

Federal Holding Company Regulation

People s United Financial is a savings and loan holding company within the meaning of the Home Owners Loan Act. As such, People s United Financial is 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 has 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 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 are 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.

Table of Contents

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;
- 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.

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-subsidiary savings bank, a non-subsidiary holding company, or a non-subsidiary 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

Table of Contents

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 United Financial s securities are registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. People s United Financial is 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.

Supervision and Regulation People s United Bank

General

People s United 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 United 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. People s United Bank files reports with the Office of Thrift Supervision concerning its 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 Bank s compliance with various regulatory requirements. The Office of Thrift Supervision has primary enforcement responsibility over federally chartered savings banks and has substantial discretion to impose enforcement action on a savings bank 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 Bank and its operations.

People s United Bank s brokerage subsidiary, People s Securities, is regulated by the Securities and Exchange Commission, the Financial Industry Regulatory Authority and state securities regulators. RC Knox is subject to regulation by applicable state insurance regulators.

Federally Chartered Savings Bank Regulation

Activity Powers. People s United 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 United Bank, generally may invest in:

- real estate mortgages;
- consumer and commercial loans;
- certain types of debt securities; and
- certain other assets.

People s United Bank may also establish service corporations that may, subject to applicable limitations, engage in activities not otherwise permissible for People s United Bank, including certain real estate equity investments and securities and insurance brokerage activities. People s United 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 granted People s United 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.

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 United 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 United Bank s risk profile. At December 31, 2007, People s United Bank exceeded each of its capital requirements. See Capital on pages 68 through 70 for a further discussion regarding People s United Bank s capital requirements.

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

Table of Contents

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 United 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 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 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

Table of Contents

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 December 31, 2007, People s United 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 United 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 United 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, 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 United 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 0.0114% 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

Table of Contents

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 United Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Transactions with Affiliates of People s United Bank People s United 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 and principal stockholders, directors and executive officers of People s United 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 includes 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 United Bank, that are subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act.

Privacy Standards. People s United 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 United 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 United Bank is required to provide its customers with the ability to opt-out of having People s United 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 United 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.

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 United 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

Table of Contents

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 United 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 United 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 United 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 United 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 United Bank complies with the guidance on non-traditional mortgage products 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

Table of Contents

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) on a monthly basis during at least 9 out of every 12 months. The Office of Thrift Supervision granted People s United 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 United Bank directly or indirectly to its shareholder, including dividend payments. As the subsidiary of a savings and loan holding company, People s United 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 United Bank must file an application to receive the approval of the Office of Thrift Supervision for a proposed capital distribution.

People s United Bank may not pay dividends to its shareholder 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 United 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 United 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 United 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.

Liquidity. People s United 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

Table of Contents

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 United Bank is generally authorized to open branches within or beyond the State of Connecticut if People s United 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 United 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.

Anti-Money Laundering and Customer Identification. People s United 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 United 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 United 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 United 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

Table of Contents

to 0.35% of People s United 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 United 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 account balances 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 account balances in excess of $48.3 million. The first $7.8 million of otherwise reservable balances is exempt from the reserve requirements. People s United 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 United Bank s interest-earning assets.

Market Area and Competition

People s United 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. At December 31, 2007, approximately 2% of the People s Capital and Leasing portfolio consisted of loans to Connecticut-based businesses, while approximately 42% were loans to customers located in Texas, California, Florida, Illinois and New York. In addition, People s United 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. At December 31, 2007, approximately 93% of the shared national credits portfolio consisted of borrowers located outside of Connecticut, including approximately $346 million, or 47%, located in California, Florida and New York. In January 2008, People s United Financial announced its decision to unwind its shared national credits portfolio in an orderly manner over the next two to three years. People s United 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 3.6 million and a median household income of $68,430 as of June 30, 2007, ranking second in the United States and well above the U.S. median household income of $53,154, 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 United Bank is headquartered, is the wealthiest county in Connecticut, with a June 30, 2007 median household income of $84,825 according to estimates from SNL Securities.

Median household income has increased in all of the Connecticut counties since 2000, with Fairfield, Middlesex and Litchfield Counties recording the strongest growth in median household income. For the 2000 to 2007 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 2000-2007 period.

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 United Bank s retail operations. All of the Connecticut counties experienced increases in population and households from 2000 through 2007, with the strongest growth occurring in the less populated counties of

Table of Contents

Tolland, Windham and Middlesex. 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 United Bank, to compete in markets outside their traditional geographic boundaries.

Personnel

As of December 31, 2007, People s United Bank had 2,416 full-time and 440 part-time employees.

Access to Information

As a public company, People s United Financial is subject to the informational requirements of the Securities Exchange Act of 1934, as amended and, in accordance therewith, files reports, proxy and information statements and other information with the Securities and Exchange Commission. Such reports, proxy and information statements and other information can be inspected and copied at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street N.E., Mail Stop 5100, Washington, D.C. 20549 and are available on the Securities and Exchange Commission s EDGAR database on the internet at www.sec.gov. People s United Financial s common stock is listed on the NASDAQ Global Select Market under the symbol PBCT .

Copies of many of these reports are also available through People s United Financial s website at www.peoples.com.

People s United Financial currently provides website access to the following reports:

Form 10-K (most recent filing and any related amendments)

Form 10-Q (four most recent filings and any related amendments)

Form 8-K (all filings in most recent 12 months and any related amendments)

Annual Report to Shareholders (two most recent years)

Proxy Statement for Annual Meeting of Shareholders (two most recent years)

Item 1A. Risk Factors

Changes in Interest Rates Could Adversely Affect Our Results of Operations and Financial Condition

People s United Financial 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 United Financial earns interest on loans and to a much lesser extent on securities and short-term investments. These are called interest-earning assets. People s United Financial pays interest on some forms of deposits and on funds it borrows from other sources. These are called interest-bearing liabilities.

People s United Financial 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 United Financial s books. Other rate changes

Table of Contents

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 United Financial may not be able to make loans that meet its lending standards. People s United Financial interest spread may also change based on the mix of interest-earning assets and interest-bearing liabilities.

People s United Financial 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 United Financial will 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 United Financial 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 United Financial manages this risk using many different techniques. If it is not successful in managing this risk, People s United Financial 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

During 2007, People s United Financial opened one traditional branch and one Stop & Shop branch, both in Connecticut, and two traditional branches in Westchester County, New York. People s United Financial plans to continue its branch expansion by opening traditional and Stop & Shop branches in Connecticut and traditional branches in New York. 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 United Financial may have difficulty finding suitable sites for *de novo* branches. Our expansion plans may result in People s United Financial 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 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 United Financial supermarket banking initiative, pursuant to which, as of December 31, 2007, People s United Financial has established 75 full-service Stop & Shop branches that provide customers with the convenience of seven-day-a-week banking. At December 31, 2007, 47% of People s United Financial branches were located in Stop & Shop supermarkets.

People s United Financial 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 United Financial, which provides for the leasing of space to People s United Financial within Stop & Shop supermarkets for branch use. Under the terms of the license agreement, People s United Financial 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 United Financial has the exclusive right to branch in these supermarkets until 2012, provided that People s United Financial does not default on its obligations under the licensing agreement. People s United Financial 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 United Financial supermarket branches is dependent, in part, on the success of the Stop & Shop supermarkets in which they are located. A drop in Stop & Shop s market share, 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 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 United Financial Stop & Shop supermarket branches as convenient banking locations. Under the terms of the license agreement, People s United Financial 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 United Financial 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 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 United Financial 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. 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 December 31, 2007, approximately 72% of People s United Financial s loans by outstanding principal amount were to people and businesses located in the state of Connecticut, or involved property located here and all but two of its branches are located 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.

Last year, Connecticut residents, on average, earned more than the residents of any other state in the country. Our state unemployment rate for December 2007 was 5.0%, the same as the national rate. A very low unemployment rate usually means that businesses have a hard time finding qualified workers, and will have to pay them more if it can find them. Businesses that can not find 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.

Table of Contents

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

In addition, our ability to continue to originate real estate loans may be impaired by adverse changes in the local and regional economic conditions in these real estate markets. Decreases in real estate values could adversely affect the value of property used as collateral for our loans. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings. In addition, if poor economic conditions result in decreased demand for real estate loans, our profits may decrease because our alternative investments may earn less income for us than real estate loans.

During 2007, there has been a decline in the housing and real estate markets and in the general economy, both nationally and locally with some reports indicating that the national economy is bordering on a recession. Housing market conditions in the Northeast quadrant of the United States, where most of our lending activity occurs, have deteriorated during 2007 as evidenced by reduced levels of sales, increasing inventories of houses on the market, declining house prices and an increase in the length of time houses remain on the market. No assurance can be given that these conditions will improve or will not worsen or that such conditions will not result in a decrease in our interest income, an increase in our non-performing loans, an increase in our provision for loan losses or an adverse impact on our loan losses.

The second half of 2007 has been highlighted by significant disruption and volatility in the financial and capital marketplaces. This turbulence has been attributable to a variety of factors, including the fallout associated with the sub-prime mortgage market. One aspect of this fallout has been significant deterioration in the activity of the secondary residential mortgage market. The disruptions have been exacerbated by the acceleration of the decline of the real estate and housing market. No assurance can be given that these conditions will improve or will not worsen or that such conditions will not result in a decrease in our interest income or an adverse impact on our loan losses.

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 United Financial 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 United Financial 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

Table of Contents

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 United Financial 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 United Financial for some kinds of commercial loans.

Many of People s United Financial 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 United Financial 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 United Financial 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 United Financial business can also change the way they interpret these laws and rules, even if the rules themselves do not change. We need to 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 United Financial 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 United Bank s conversion from a Connecticut savings bank to a federal savings bank, granted People s United 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 its conversion to a federal charter. 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.

Table of Contents

If People s United Financial s Allowance for Loan Losses Is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease

People s United Financial 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 United Financial 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 United Financial 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, commercial and People s Capital and Leasing Company 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 United Financial seeks to use the best available information to make these evaluations, and at December 31, 2007, 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 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.

People s United Financial May Fail To Successfully Integrate Chittenden s Operations and Realize All of the Anticipated Benefits of the Acquisition.

On January 1, 2008, People s United Financial acquired the Chittenden Corporation and its six Subsidiary Banks. The ultimate success of the acquisition will depend, in part, on the ability of People s United Financial to realize the anticipated benefits from combining the businesses of People s United Financial and Chittenden. However, to realize these anticipated benefits, People s United Financial must successfully combine the businesses of People s United Financial and Chittenden. If People s United Financial is not able to achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

People s United Financial has not previously integrated an institution as large as Chittenden, and as a general matter has not been active as an acquirer of other financial institutions. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Integration efforts will also divert management attention and resources. These integration matters could have an adverse effect on the combined company going forward.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

People s United Financial s corporate headquarters is located at Bridgeport Center, in Bridgeport, Connecticut. The Bridgeport Center building had a net book value of $66.9 million at December 31, 2007 and People s United Financial occupies approximately 92% of the building; all other available office space has been

Table of Contents

leased to unrelated parties. At December 31, 2007, People s United Financial also conducted banking operations from its eight financial centers, 71 traditional branches, 75 supermarket branches and seven limited-service branches. At December 31, 2007, People s United Financial s branch network is primarily concentrated in Fairfield County, where it had 64 offices. At December 31, 2007, People s United Financial also had 34 offices in New Haven County, 33 offices in Hartford County, 11 offices in New London County, six offices in Litchfield County, five offices in Tolland County, four offices in Middlesex County, two offices in Windham County and two offices in Westchester County, New York. At December 31, 2007, People s United Financial owned 12 of its banking offices, which had an aggregate net book value of $10.5 million. People s United Financial s remaining banking operations are conducted in leased offices. Information regarding People s United Financial s operating leases for office space and related rent expense appears on page F-46.

In addition to branch offices, People s United Financial owned seven other banking facilities with an aggregate net book value of $10.9 million at December 31, 2007. These facilities are used for a variety of purposes. On February 22, 2008, People s United Financial announced that certain of these other facilities, all located in Bridgeport, Connecticut with an aggregate net book value of $8 million, are for sale.

Item 3. Legal Proceedings

In the normal course of business, People s United Financial is subject to various legal proceedings. Management has discussed the nature of these legal proceedings with legal counsel. In the opinion of management, the financial condition or results of operations of People s United Financial will not be affected materially as a result of the outcome of these legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

(a) People s United Financial held its Annual Meeting of Shareholders (the Annual Meeting) on October 18, 2007.

(b) Not applicable.

(c) Shareholders voted on the following matters at the Annual Meeting:

1. Election of two directors. The results of the election of the two nominees for director are indicated below. There were 300,882,967 shares of common stock entitled to vote at the Annual Meeting, of which 261,540,085 shares were present in person or by proxy.

Nominee	Votes For	Votes Withheld
Janet M. Hansen	256,281,821	5,258,264
Jeremiah J. Lowney, Jr.	256,174,545	5,365,540

There were no abstentions or broker non-votes with respect to the election of the two nominees for director.

2. Adoption of the People s United Financial, Inc. 2007 Recognition and Retention Plan. Of the 261,540,085 shares present at the Annual Meeting in person or by proxy, 202,693,662 votes were cast for the proposal; 22,592,954 votes were cast against the proposal; 907,486 shares abstained from voting on the proposal; and there were 35,345,983 broker non-votes with respect to the proposal.

3. Adoption of the People s United Financial, Inc. 2007 Stock Option Plan. Of the 261,540,085 shares present at the Annual Meeting in person or by proxy, 202,952,896 votes were cast for the proposal; 22,283,227 votes were cast against the proposal; 957,979 shares abstained from voting on the proposal; and there were 35,345,983 broker non-votes with respect to the proposal.

4. Ratification of Appointment of KPMG LLP as independent registered public accounting firm for 2007. Of the 261,540,085 shares present at the Annual Meeting in person or by proxy, 256,017,575 votes were cast for the proposal; 4,566,521 votes were cast against the proposal; and 955,989 shares abstained from voting on the proposal. There were no broker non-votes with respect to the proposal.

(d) Not applicable.

19

Table of Contents

Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of People s United Financial, Inc. is listed on the NASDAQ Global Select Market under the symbol PBCT. As of February 11, 2008, the closing price of People s United Financial, Inc. common stock was $17.02. As of that date, there were approximately 22,600 record holders of People s United Financial, Inc. common stock.

Five-Year Performance Comparison

The following graph compares total shareholder return on the common stock over the last five fiscal years with (a) the Russell Midcap Index, and (b) the SNL Thrift Index-Assets Greater than $5 Billion (the Large Thrift Index). Index values are as of December 31 of the indicated year.

The graph assumes $100 invested on December 31, 2002 in each of People s United Financial s common stock, the Russell Midcap Index, and the Large Thrift Index. The graph also assumes reinvestment of all dividends.

The Russell Midcap Index is a market-capitalization weighted index comprised of 800 publicly-traded companies which are among the 1,000 largest U.S. companies (by market capitalization) but not among the 200 largest such companies. People s United Financial is included as a component of the Russell Midcap Index. The Large Thrift Index is an index prepared by SNL Securities comprised of 24 thrift institutions (including People s United Financial) located throughout the United States and having assets in excess of $5 billion.

Additional information required by this item is incorporated by reference to Part III, Item 12 of this document and to pages F-29 and F-56.

Table of Contents

Item 6. Selected Financial Data

The information required by this item appears on page 22 and page 23.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item appears on pages 24 through 72.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item appears on pages 70 through 72.

Table of Contents

Item 6. Selected Financial Data

As of and for the years ended December 31 (dollars in millions, except per share data)	2007	2006	2005	2004	2003
Operating Data:					
Net interest income - FTE	$ 486.6	$ 382.4	$ 370.0	$ 327.4	$ 284.3
Provision for loan losses	8.0	3.4	8.6	13.3	16.7
Fee-based revenues	154.4	153.0	151.5	142.9	143.0
Net security gains (losses)	5.5	(27.2)	(0.1)	(4.7)	(0.6)
All other non-interest income (1)	25.5	21.6	21.9	13.5	23.9
Non-interest expense (2)	439.3	346.9	344.4	479.7	346.0
Income (loss) from continuing operations	149.2	121.7	125.9	(5.6)	62.7
Income from discontinued operations (3)	1.5	2.3	11.2	205.3	1.1
Net income	150.7	124.0	137.1	199.7	63.8
Selected Statistical Data:					
Net interest margin	4.12%	3.87%	3.68%	3.33%	2.89%
Return on average assets (4)	1.18	1.15	1.27	1.86	0.54
Return on average stockholders equity (4)	4.2	9.4	11.1	17.6	6.6
Efficiency ratio	56.1	61.3	62.8	69.2	76.4
Financial Condition Data:					
Total assets	$ 13,555	$ 10,687	$ 10,933	$ 10,718	$ 11,672
Loans	8,950	9,372	8,573	7,933	7,105
Securities, net	61	77	1,363	2,071	2,405
Short-term investments	3,516	225	57	24	72
Allowance for loan losses	73	74	75	73	71
Deposits	8,881	9,083	9,083	8,862	8,714
Core deposits	8,836	9,040	8,954	8,756	8,519
Borrowings		4	295	341	1,516
Purchased funds	45	47	424	447	1,711
Subordinated notes	65	65	109	122	253
Stockholders equity	4,445	1,340	1,289	1,200	1,002
Non-performing assets	26	23	22	29	34
Ratios:					
Non-performing assets to total loans, real estate owned and repossessed assets	0.29%	0.24%	0.26%	0.36%	0.48%
Net loan charge-offs to average loans	0.10	0.05	0.07	0.15	0.22
Allowance for loan losses to total loans	0.81	0.79	0.87	0.91	0.99
Average stockholders equity to average total assets	28.1	12.3	11.5	10.6	8.2
Stockholders equity to total assets	32.8	12.5	11.8	11.2	8.6
Tangible stockholders equity to tangible assets	32.3	11.7	10.9	10.3	7.7
Total risk-based capital (5)	33.4	16.1	16.4	16.7	13.1
Per Common Share Data: (6)					
Basic earnings per share	$ 0.52	$ 0.42	$ 0.46	$ 0.68	$ 0.22
Diluted earnings per share	0.52	0.41	0.46	0.68	0.22
Cash dividends paid per share (7)	0.52	0.46	0.40	0.36	0.32
Dividend payout ratio (7)	87.0%	48.3%	38.3%	22.9%	63.7%
Book value (end of period)	$ 15.43	$ 4.49	$ 4.33	$ 4.06	$ 3.42
Tangible book value (end of period)	15.07	4.13	3.98	3.69	3.03
Stock price:					
High	22.81	21.62	16.07	14.12	7.20
Low	14.78	14.29	11.42	6.88	5.13
Close (end of period)	17.80	21.25	14.79	12.35	6.89

Table of Contents

(1) Includes an $8.1 million gain on sale of branches in 2005.

(2) Includes a $60.0 million contribution to The People s United Community Foundation in 2007 and liability restructuring costs of $2.7 million, $133.4 million and $1.2 million in 2005, 2004 and 2003, respectively.

(3) Includes after-tax gains of $6.2 million in 2005 and $198.5 million in 2004 related to the sale of the credit card business in March 2004.

(4) Calculated based on net income for all years.

(5) Calculated for People s United Bank in accordance with Office of Thrift Supervision regulations for all periods since December 31, 2006 and Federal Deposit Insurance Corporation regulations for all prior periods.

(6) Common share data has been adjusted (except dividend payout ratio) to reflect the exchange of shares of People s United Bank common stock for 2.1 shares of People s United Financial, Inc. common stock upon completing the second-step conversion in April 2007.

(7) Reflects the waiver of dividends on the substantial majority of the common shares owned by People s Mutual Holdings prior to completing the second-step conversion in April 2007.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

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

In general, forward-looking statements usually use words such as may, believe, expect, anticipate, should, plan, estimate, predict, 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 People s United Financial s financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. Forward-looking statements represent management s beliefs, based upon information available at the time the statements are made, with regard to the matters addressed; they are not guarantees of future performance.

All forward-looking statements are subject to risks and uncertainties that could cause People s United Financial s actual results or financial condition to differ materially from those expressed in or implied by such statements. Factors of particular importance to People s United Financial include, but are not limited to: (1) changes in general, national or regional economic conditions; (2) changes in interest rates; (3) changes in loan default and charge-off rates; (4) changes in deposit levels; (5) changes in levels of income and expense in non-interest income and expense related activities; (6) residential mortgage and secondary market activity; (7) changes in accounting and regulatory guidance applicable to banks; (8) price levels and conditions in the public securities markets generally; (9) competition and its effect on pricing, spending, third-party relationships and revenues; and (10) the successful integration of Chittenden Corporation.

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

General

People s United Financial, Inc. (People s United Financial) is a savings and loan holding company incorporated under the state laws of Delaware and the holding company for People s United Bank. On April 16, 2007, People s United Financial, People s Bank and People s Mutual Holdings completed their second-step conversion from a mutual holding company structure to a fully-public stock holding company structure. See Note 2 to the Consolidated Financial Statements for a further discussion of the second-step conversion. People s United Financial had not engaged in any business through March 31, 2007; accordingly, the financial information for periods prior to March 31, 2007 is that of People s Bank. On June 6, 2007, People s Bank changed its name to People s United Bank. The name People s United Bank is used to refer to the Bank both before and after the name change.

People s United Financial is registered with the Office of Thrift Supervision (the OTS) and subject to OTS regulation, examination, supervision and reporting requirements. People s United Bank is a federally-chartered stock savings bank headquartered in Bridgeport, Connecticut with $12.1 billion in total assets as of December 31, 2007. People s United Bank was organized in 1842 as a mutual savings bank and converted to stock form in 1988. In August 2006, People s United Bank converted from a Connecticut-chartered stock savings bank to a federally-chartered stock savings bank.

Table of Contents

Deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC). People s United Bank s regulator is the OTS.

The principal business of People s United Financial is to provide, through People s United Bank and its subsidiaries, 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 United Bank provides specialized services tailored to specific markets including: personal, institutional and employee benefit trust; cash management; and municipal banking and finance. Through its non-bank subsidiaries, People s United Bank offers: brokerage, financial advisory services, investment management services and life insurance through People s Securities, Inc. (PSI); equipment financing through People s Capital and Leasing Corp. (PCLC); and other insurance services through R.C. Knox and Company, Inc. (RC Knox).

This full range of financial services is delivered through a network of 79 traditional branches, 75 full-service Stop & Shop supermarket branches that provide customers with seven-day-a-week banking, seven limited-service branches, 23 investment and brokerage offices (22 of which are located within branch offices), five wealth management and trust offices, nine PCLC offices and six commercial banking offices. People s United 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 United Bank has expanded its residential mortgage and home equity lending activities in the contiguous markets of New York and Massachusetts. In addition, PCLC maintains a sales presence in six states to support its equipment financing operations outside of Connecticut. Within the Commercial Banking division, People s United Bank maintains a national credits group, which seeks to participate in commercial loans and commercial real estate loans to borrowers in various industries on a national scale.

People s United Financial 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 United Financial s two primary business segments representing its core businesses, Commercial Banking and Consumer Financial Services, and to a lesser extent, Treasury. People s United Financial 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 United Financial 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.

Acquisition of Chittenden Corporation

On January 1, 2008, People s United Financial completed its acquisition of the Chittenden Corporation, a multi-bank holding company located in Burlington, Vermont for total consideration of approximately $1.7 billion. Chittenden had total assets of $7.4 billion as of December 31, 2007 and its six banks are located in Vermont, New Hampshire, Massachusetts and Maine. The acquisition of Chittenden will be accounted for as a purchase and accordingly, Chittenden s results of operations will be included with People s United Financial s results of operations beginning in 2008. See Note 3 to the Consolidated Financial Statements.

Critical Accounting Policies

In preparing the Consolidated Financial Statements, People s United Financial 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 United Financial 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

Table of Contents

allowance for loan losses, the valuation of derivative financial instruments, and asset impairment judgments including the recoverability of goodwill and other intangible assets, and other-than-temporary declines in the value of securities. People s United Financial 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 United Financial s historical loan loss experience and recent trends in that experience; risk ratings assigned by lending personnel to commercial real estate finance, commercial and PCLC loans, and the results of ongoing reviews of those ratings by People s United Financial 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, commercial and PCLC 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 United Financial will be unable to collect all principal and interest due according to the contractual terms of the loan. People s United Financial 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 United Financial uses derivatives for market risk management purposes (principally interest rate risk) and not for trading or speculative purposes.

In accordance with SFAS No. 133, all derivatives are recognized as either assets or liabilities and are measured at fair value. Until such time that a derivative is settled, favorable changes in fair values result in unrealized gains that are recognized as assets, while unfavorable changes result in unrealized losses that are recognized as liabilities. People s United Financial 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. Changes in the fair value of effective fair value hedges are recognized in current earnings. 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 United Financial 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

Table of Contents

specific firm commitments or forecasted transactions. People s United Financial also formally assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of the hedged items. If it is determined that a derivative is not highly effective or has ceased to be a highly effective hedge, People s United Financial 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 United Financial enters into mandatory delivery and best efforts contracts to sell adjustable-rate and fixed-rate residential mortgage loans (servicing released). Forward commitments to sell and interest rate-lock commitments on residential mortgage loans are considered derivatives and their respective estimated fair values are adjusted based on changes in interest rates 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.

People s United Financial uses a discounted cash flow model to estimate the fair value of its reporting units. This model requires the use of long-term planning forecasts and assumptions regarding industry-specific economic conditions that are outside our control.

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 PSI (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 United Financial 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.

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 United Financial s intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value.

Non-GAAP Financial Measures and Reconciliation to GAAP

In addition to evaluating People s United Financial 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 the efficiency ratio, core deposits and purchased funds. Management believes such non-GAAP financial measures provide information useful to investors in understanding People s United Financial s underlying operating performance and trends, and facilitates comparisons with the performance of other banks and thrifts.

Management utilizes core deposits and purchased funds as non-GAAP financial measures to supplement its analysis of People s United Financial 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 escrow funds from People s United Financial s stock offering (applicable only for 2007 average core deposits). 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 United Financial 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:

As of December 31 (in millions)	**2007**	**2006**	**2005**	**2004**	**2003**
Deposits	$ 8,881	$ 9,083	$ 9,083	$ 8,862	$ 8,714
Less:					
Municipal deposits	45	43	129	106	125
Brokered certificates of deposit					70
Core deposits	$ 8,836	$ 9,040	$ 8,954	$ 8,756	$ 8,519

As of December 31 (in millions)	**2007**	**2006**	**2005**	**2004**	**2003**
Borrowings	$	$ 4	$ 295	$ 341	$ 1,516
Plus:					
Municipal deposits	45	43	129	106	125
Brokered certificates of deposit					70
Purchased funds	$ 45	$ 47	$ 424	$ 447	$ 1,711

Table of Contents

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 United Financial to generate a dollar of revenue, is the ratio of total non-interest expense (excluding goodwill impairment charges, amortization of goodwill and acquisition-related intangibles, losses on real estate assets and nonrecurring expenses) (the numerator) to net interest income plus total non-interest income (including the fully taxable equivalent adjustment on bank-owned life insurance income and excluding gains and losses on sales of assets, other than residential mortgage loans, and nonrecurring income) (the denominator). People s United Financial 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 United Financial s ongoing operating efficiency, as the excluded items are generally related to external market conditions and non-routine transactions.

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

Years ended December 31 (dollars in millions)	**2007**	**2006**	**2005**	**2004**	**2003**
Total non-interest expense	$ 439.3	$ 346.9	$ 344.4	$ 479.7	$ 346.0
Less:					
Contribution to The People s United Community Foundation	60.0				
Amortization of goodwill and other acquisition-related intangibles	1.0	1.1	1.8	3.4	3.5
Loss on sale of reverse repurchase agreements		0.3			
Severance-related charges		1.2			
RC Knox settlement		0.9			
Goodwill impairment charge			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	1.0	0.3	0.1	1.6	0.2
Total	$ 377.3	$ 343.1	$ 337.1	$ 334.6	$ 341.1
Net interest income (1)	$ 486.6	$ 382.4	$ 370.0	$ 327.4	$ 284.3
Total non-interest income	185.4	147.4	173.3	151.7	166.3
Add:					
BOLI FTE adjustment (1)	5.7	4.6	1.8		
Net security losses		27.2	0.1	4.7	0.6
Less:					
Net security gains	5.5				
Interest from completed IRS audit		0.6			4.3
Gain on sale of assets		0.7	8.1		
MasterCard common stock redemption		0.7			
Other			0.3	0.1	0.3
Total	$ 672.2	$ 559.6	$ 536.8	$ 483.7	$ 446.6
Efficiency ratio	56.1%	61.3%	62.8%	69.2%	76.4%

(1) Fully taxable equivalent.

Table of Contents

Economic Environment

People s United Financial s results are subject to fluctuations based on economic conditions. Economic activity in the United States showed signs of slowing in 2007. Real gross domestic product increased at a rate of 2.5% for the year, a decrease from 2.9% in 2006. The national unemployment rate was 5.0% as of December 31, 2007, up from 4.4% at the end of 2006. The national economy continued to grow despite widening federal budget and trade deficits, significant volatility in the financial and capital markets, lower short-term interest rates, elevated energy costs, a weak housing market, and geopolitical uncertainties.

In response to a contracting U.S. economy and the significant disruptions in the capital markets primarily caused by the sub-prime mortgage crisis, the Federal Reserve Board lowered the targeted federal funds rate five times from September 2007 to January 2008, by a total of 225 basis points, bringing the rate to 3.00% as of January 30, 2008. The Federal Reserve had not increased the targeted federal funds rates since the June 29, 2006 Federal Open Market Committee (FOMC) meeting.

People s United Financial s primary market area, Connecticut, is one of the most attractive markets in the United States with a total population of approximately 3.6 million and a median household income of $68,430 as of June 30, 2007, ranking second in the United States and well above the U.S. median income of $53,154, according to estimates from SNL Securities. Fairfield County, where People s United Financial is headquartered, is the wealthiest county in Connecticut, with a June 30, 2007 median household income of $84,825 according to estimates from SNL Securities. The state s unemployment rate increased to 5.0% as of December 31, 2007 compared to 4.1% at the end of 2006, and was the same as the national rate. The Connecticut economy experienced moderate job growth in 2007, with total employment increasing by 16,600 jobs, or approximately 1.0% from December 31, 2006 to December 31, 2007. The outlook for the Connecticut economy in 2008 is cautiously optimistic, with the expectation that the state will experience further job growth as the economy continues to expand moderately.

Financial Overview

Comparison of Financial Condition at December 31, 2007 and December 31, 2006. Total assets at December 31, 2007 were $13.6 billion, an increase of $2.9 billion, or 27%, from December 31, 2006, primarily due to a $3.3 billion increase in short-term investments, partially offset by a decrease of $422 million in total loans.

The increase in short-term investments reflects the net proceeds from the second-step conversion completed on April 16, 2007. The decrease in total loans reflects a decline of $758 million, or 15%, in Consumer Financial Services, partially offset by an increase of $336 million, or 8%, in Commercial Banking. The decline in Consumer Financial Services was driven by decreases of $687 million, or 18%, in residential mortgage loans and $71 million, or 5%, in consumer loans. The decrease in residential mortgage loans reflects People s United Bank s decision in the fourth quarter of 2006 to sell essentially all of its newly-originated residential mortgage loans due to the low spreads on such loans. The growth in Commercial Banking reflects increases of $175 million, or 29%, in our national credits portfolio, $112 million, or 13%, in loans originated by PCLC, our equipment financing subsidiary, $34 million, or 3%, in commercial lending, and $15 million, or 1%, in commercial real estate loans.

Non-performing assets totaled $26.1 million at December 31, 2007, a $3.4 million increase from December 31, 2006. Increases in non-performing commercial real estate loans of $3.5 million, real estate owned (REO) and repossessed assets of $5.7 million, non-performing PCLC loans of $1.0 million and non-performing residential mortgage loans of $2.2 million, were partially offset by a decrease of $10.6 million in non-performing commercial loans. The decrease in non-performing commercial loans primarily reflects the $5.9 million charge-off relating to one commercial banking loan and the subsequent transfer to real estate owned of the real estate securing the remaining loan balance. The allowance for loan losses decreased $1.3 million to $72.7 million

Table of Contents

at December 31, 2007 compared to December 31, 2006, reflecting reductions in the allowance for loan losses allocated to the consumer loan portfolios and by net reductions to the commercial banking loan portfolios. At December 31, 2007, the allowance for loan losses as a percentage of total loans was 0.81% and as a percentage of non-performing loans was 358%, compared to 0.79% and 328%, respectively, at December 31, 2006.

At December 31, 2007, liabilities totaled $9.1 billion, a $238 million, or 3%, decrease from December 31, 2006, primarily reflecting a $202 million reduction in total deposits. Core deposits decreased $204 million, or 2%, in 2007 compared to 2006, reflecting People s United Financial s strategy to fund loan growth with proceeds from maturities, sales and repayments of securities rather than core deposits.

People s United Financial s total stockholders equity was $4.4 billion at December 31, 2007, a $3.1 billion net increase from December 31, 2006, reflecting the net proceeds of $3.3 billion from the second-step conversion and net income of $150.7 million, partially offset by the purchases of People s United Financial common stock for the Employee Stock Ownership Plan (the ESOP) of $216.8 million and the 2007 Recognition and Retention Plan of $127.1 million, and dividends paid of $131.1 million. As a percentage of total assets, stockholders equity was 32.8% at December 31, 2007 compared to 12.5% at December 31, 2006.

People s United Bank s leverage, tier 1 and total risk-based capital ratios were 24.1%, 32.3% and 33.4%, respectively, at December 31, 2007, compared to 12.0%, 14.8% and 16.1%, respectively, at December 31, 2006. The improvements in the capital ratios from December 31, 2006 primarily reflect the $1.7 billion capital contribution from People s United Financial with a portion of the net proceeds from the second-step conversion.

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.

The increase in total loans 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 and $64 million, or 5%, in consumer loans. 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 growth in Commercial Banking reflects increases of $235 million, or 37%, in loans originated by PCLC, $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 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, to better position People s United Financial s balance sheet for the prevailing interest rate environment at the time. People s United Financial also funded an additional $50 million of bank-owned life insurance in 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 and to significantly reduce pension plan expense in future years. 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. The slight increase in 2006 reflects a $10.6 million increase in non-performing commercial loans, essentially offset by decreases in non-performing commercial real estate loans and non-performing PCLC loans of $5.6 million and $4.1 million, respectively. 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 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.

Table of Contents

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 a modest $86 million, or 1%, in 2006 compared to 2005, reflecting People s United Financial s strategy to fund loan growth with proceeds from maturities, sales and repayments of securities rather than core deposits.

People s United Financial 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 adoption of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006 and a $4 million increase in the after-tax unrealized loss on derivatives accounted for as cash flow hedges, 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.

Comparison of Results of Operations for the Year Ended December 31, 2007 and December 31, 2006. People s United Financial reported net income of $150.7 million, or $0.52 per diluted share, for the year ended December 31, 2007, compared to $124.0 million, or $0.41 per diluted share, for the year-ago period. Income from continuing operations totaled $149.2 million, or $0.52 per diluted share, for the year ended December 31, 2007, compared to $121.7 million, or $0.40 per diluted share, for the year-ago period. In 2007, People s United Financial s return on average assets was 1.18% and return on average stockholders equity was 4.2%.

Results for 2007 include a $60 million contribution to The People s United Community Foundation (included in non-interest expense), which had the effect of reducing net income by $39.6 million, or $0.13 per diluted share.

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.

Net interest income increased $104.2 million, or 27%, from 2006 and the net interest margin improved 25 basis points to 4.12%. These improvements reflect the investment of $3.3 billion in net proceeds from the second-step conversion (completed on April 16, 2007) in short-term investments, as well as the benefits from balance sheet restructuring activities completed during 2006.

Compared to 2006, average earning assets increased $1.9 billion, or 20%, reflecting increases of $2.5 billion in average short-term investments and $120 million in average loans, partially offset by a decrease of $735 million in average securities, reflecting the sale of $1.1 billion of debt securities in 2006 (described above).

Compared to 2006, total non-interest income increased $38 million. Included in total non-interest income are net security gains of $5.5 million in 2007 and net security losses of $23.2 million in 2006. Total non-interest expense in 2007 increased $32.4 million, or 9%, compared to 2006, excluding the $60 million contribution to the People s United Community Foundation. The efficiency ratio improved to 56.1% from 61.3%.

The provision for loan losses was $8.0 million compared to $3.4 million in 2006. The provision for loan losses in 2007 reflects net loan charge-offs of $9.3 million, partially offset by a $1.3 million decrease in the allowance for loan losses. The provision for loan losses in 2006 reflects net loan charge-offs of $4.4 million and a $1.0 million reduction in the allowance for loan losses. Net loan charge-offs increased $4.9 million in 2007 compared to 2006. Net loan charge-offs as a percentage of average loans equaled 0.10% in 2007, up from 0.05% in 2006.

Table of Contents

Comparison of Results of Operations for 2006 and 2005. People s United Financial reported net income in 2006 of $124.0 million, or $0.41 per diluted share, compared to $137.1 million, or $0.46 per diluted share, in 2005. Income from continuing operations totaled $121.7 million, or $0.40 per diluted share, for the year ended December 31, 2006, compared to $125.9 million, or $0.42 per diluted share, for the year-ago period.

Results for 2006 include net security losses totaling $27.4 million from the sale of debt securities and 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 $0.5 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 $0.03 per share. In 2005, People s United Financial s return on average assets was 1.27% and return on average stockholders equity was 11.1%.

Net interest income increased $12.7 million, or 3%, from 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, 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 our 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 average home equity loans, all as compared to 2005. 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 United Financial 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 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 2005. The provision for loan losses for 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 reflects 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%, in 2006 compared to 2005. Net loan charge-offs as a percentage of average loans equaled 0.05%, down from 0.07% in 2005.

Business Segment Results

People s United Financial 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 United Financial s securities portfolio, short-term investments, wholesale funding activities, such as borrowings, and the funding center. The income or loss for the funding center, which includes the impact of derivative financial instruments used for risk management purposes, represents the interest rate risk component of People s United Financial s net interest income as calculated by People s United Financial s funds transfer pricing model (FTP), to derive each operating segment s net interest income.

Table of Contents

Business Segment Performance Summary

Years ended December 31 (in millions)	Net Income 2007	2006	2005
Commercial Banking	$ 37.6	$ 41.9	$ 45.7
Consumer Financial Services	66.8	85.8	94.2
Treasury	(8.6)	(26.0)	(25.0)
Total reportable segments	95.8	101.7	114.9
Other	54.9	22.3	22.2
Total Consolidated	$ 150.7	$ 124.0	$ 137.1

People s United Financial uses an internal profitability reporting system to generate information by operating segment, which is based on a series of management estimates and allocations regarding funds transfer pricing, 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 United Financial as a whole.

FTP is used in the calculation of each operating segment s net interest income, and measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income. 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. People s United Financial 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 and corporate overhead costs are allocated to the business segments. 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 year. For a more detailed description of the estimates and allocations used to measure business segment performance, see Note 23 to the Consolidated Financial Statements.

Commercial Banking consists principally of commercial lending, commercial real estate lending and commercial deposit gathering activities. This segment also includes the equipment financing operations of PCLC, as well as cash management, correspondent banking and municipal banking.

Years ended December 31 (in millions)	2007	2006	2005
Net interest income	$ 131.7	$ 130.5	$ 129.7
Provision for loan losses	10.9	10.5	9.4
Non-interest income:			
Fee-based revenues	19.8	17.8	21.7
Other non-interest income	8.3	5.0	2.0
Total non-interest income	28.1	22.8	23.7
Non-interest expense	91.1	78.3	73.7
Income before income tax expense	57.8	64.5	70.3
Income tax expense	20.2	22.6	24.6
Income from continuing operations	$ 37.6	$ 41.9	$ 45.7
Average earning assets	$ 4,253.5	$ 3,904.9	$ 3,620.9
Average liabilities	1,016.2	1,172.7	1,270.5
Year end assets	4,490.8	4,155.0	3,812.2

Commercial Banking income from continuing operations declined $4.3 million, or 10%, in 2007 compared to 2006, reflecting an increase in non-interest expense, partially offset by increases in net interest income,

Table of Contents

fee-based revenues and other non-interest income. Net interest income increased $1.2 million, or 1%, reflecting a $349 million, or 9%, increase in average earning assets, partially offset by narrower net spreads and a decline in commercial non-interest-bearing deposits. The $2.0 million increase in fee-based revenues reflects higher lending-related charges and fees. The increase in other non-interest income primarily reflects a $3.8 million increase in rental income on leased equipment. The $12.8 million, or 16%, increase in non-interest expense reflects increases in direct expenses due to continued growth in Commercial Banking and a $2.8 million increase in amortization expense for leased equipment, as well as allocated expenses primarily related to costs associated with ongoing infrastructure upgrades.

The increase in average earning assets compared to 2006 reflects increases of $210 million, or 30%, in PCLC loans, $96 million, or 7%, in commercial loans and $42 million, or 2%, in commercial real estate loans. Average commercial non-interest-bearing deposits totaled $883 million for 2007, a $56 million, or 6%, decrease compared to 2006, reflecting the current higher interest rate environment.

Commercial Banking income from continuing operations declined $3.8 million, or 8%, in 2006 compared to 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 increased $0.8 million, or 1%, reflecting a $284 million, or 8%, increase in average earning assets, partially offset by narrower net spreads. The $3.9 million decrease in fee-based revenues reflects lower lending-related charges and fees, primarily lower commercial real estate loan prepayment penalties. The increase in other non-interest income primarily reflects a $2.7 million increase in rental income on leased equipment. The $4.6 million, or 6%, increase in non-interest expense reflects an increase in direct expenses due to the continued growth in Commercial Banking, including a $2.0 million increase in the amortization expense of equipment leased to commercial customers.

The increase in average earning assets compared to 2005 reflects increases of $183 million, or 35%, in PCLC loans, and $127 million, or 10%, in commercial loans, partially offset by a $25 million, or 1%, decrease in commercial real estate finance loans. Average commercial non-interest-bearing deposits totaled $939 million for 2006, a $43 million, or 4%, decrease compared to 2005, reflecting the current higher interest rate environment.

Consumer Financial Services includes, as its principal business lines, consumer deposit gathering activities, and 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 PSI, and other insurance services provided through RC Knox.

Years ended December 31 (in millions)	**2007**	**2006**	**2005**
Net interest income	$ 247.7	$ 256.4	$ 266.4
Provision for loan losses	3.0	3.0	3.5
Non-interest income:			
Fee-based revenues	134.6	135.1	129.0
Net gains on sales of residential mortgage loans	3.0	2.0	4.0
Gain on sale of branches			8.1
Other non-interest income	2.4	3.4	2.4
Total non-interest income	140.0	140.5	143.5
Non-interest expense	281.4	261.3	259.4
Income before income tax expense	103.3	132.6	147.0
Income tax expense	36.5	46.8	52.8
Income from continuing operations	$ 66.8	$ 85.8	$ 94.2
Average earning assets	$ 4,863.1	$ 5,086.6	$ 4,634.9
Average liabilities	7,843.6	7,807.8	7,762.4
Year end assets	4,606.2	5,366.4	4,900.7

Consumer Financial Services income from continuing operations decreased $19.0 million, or 22%, in 2007 compared to 2006, reflecting an increase in non-interest expense and a decline in net interest income. The decrease in net interest income reflects a reduction in residential mortgage loan net spread interest income, and a shift from wider net spread deposits to time deposits with narrower net spreads, partially offset by the widening net spreads on money market accounts. During 2007, average earning assets decreased $224 million, or 4%, including decreases of $208 million, or 6%, in average residential mortgage loans and $9 million, or 1%, in average home equity loans. The decrease in average residential mortgage loans reflects People s United Financial s decision in the fourth quarter of 2006 to sell essentially all of its newly-originated residential mortgage loans. As a result, residential mortgage loan balances are expected to decline in the future until People s United Financial resumes adding such loans to its portfolio to an extent that more than offsets repayments. Average consumer deposits totaled $7.7 billion, a less than 1% increase compared to 2006. The increase in non-interest expense reflects increases in allocated expenses primarily due to the costs associated with ongoing infrastructure upgrades relating to deposit gathering activities.

Consumer Financial Services income from continuing operations decreased $8.4 million, or 9%, in 2006 compared to 2005, primarily due to decreases in net interest income and net gains on sales of residential mortgage loans, partially offset by higher fee-based revenues. Additionally, results for 2005 included the $8.1 million gain on sale of branches. 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 an unfavorable shift from savings and money market deposits to higher-rate time 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 2006, average earning assets increased $452 million, or 10%, including increases of $345 million, or 10%, in average residential mortgage loans and $106 million, or 9%, in average home equity loans. People s United Financial purchased $170 million of adjustable-rate residential mortgage loans towards the end of the first quarter of 2006. Average consumer deposits totaled $7.7 billion, a 1% increase compared to 2005.

The increase in fee-based revenues in 2006 compared to 2005 primarily reflects an increase in service charges on deposit accounts related to changes in People s United Financial s fee structure. The increase in other non-interest income reflects a $0.7 million net gain from the sale of a corporate insurance account by RC Knox. 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 $3.8 million increase in allocated expenses in 2006, partially offset by a $2.0 million goodwill impairment charge in 2005.

Treasury encompasses the securities portfolio, short-term investments, wholesale funding activities, such as borrowings, and the funding center. The income or loss for the funding center, which includes the impact of derivative financial instruments used for risk management purposes, represents the interest rate risk component of People s United Financial s net interest income as calculated by People s United Financial s funds transfer pricing model (FTP), to derive each operating segment s net interest income. 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 United Financial s treasury group and is based on the wholesale cost to People s United Financial 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.

Table of Contents

Years ended December 31 (in millions)	2007	2006	2005
Net interest loss	$ (29.8)	$ (26.2)	$ (43.0)
Non-interest income:			
Fee-based revenues			0.5
Net security losses		(27.4)	
Bank-owned life insurance	10.5	9.1	3.3
Other non-interest income	0.1	0.1	0.3
Total non-interest income	10.6	(18.2)	4.1
Non-interest expense	(0.3)	0.5	1.4
Loss before income tax expense	(18.9)	(44.9)	(40.3)
Income tax benefit	(10.3)	(18.9)	(15.3)
Loss from continuing operations	$ (8.6)	$ (26.0)	$ (25.0)
Average earning assets	$ 2,689.0	$ 878.5	$ 1,765.9
Average liabilities	81.0	234.1	282.5
Year end assets	3,756.6	469.0	1,553.2

The reduction in Treasury s loss from continuing operations in 2007 compared to 2006 reflects $27.4 million of net security losses in 2006 and a $1.4 million increase in bank-owned life insurance (BOLI), partially offset by a $3.6 million increase in net interest loss.

The increase in net interest loss reflects an increase of $7.1 million in treasury s net spread loss, partially offset by a $3.5 million decline in the funding center s net spread loss. The increase in treasury s net spread loss reflects a $735 million decline in average securities and virtually no net spread benefit from the increase in average short-term investments. The benefit from the increase in average short-term investments is included in Other as interest income from excess capital. The improvement in the funding center s net spread loss reflects the rising interest rate environment prevalent for most of 2007 and the asset sensitive position of People s United Financial s balance sheet.

Average earning assets increased $1.8 billion from 2006. Average short-term investments increased $2.5 billion, reflecting the investment of net proceeds from the second-step conversion, while average securities declined $735 million resulting from the sale of $1.1 billion of securities in 2006. The debt securities portfolio totaled $23 million at December 31, 2007, compared to $27 million at December 31, 2006. Average securities comprised 1% of average earning assets in 2007, compared to 8% in 2006.

Treasury s loss from continuing operations in 2006 compared to 2005 reflects $27.4 million of net security losses, partially offset by a $16.8 million improvement in net interest income and BOLI income of $9.1 million ($13.7 million on a taxable-equivalent basis).

The improvement in net interest income reflects the funding center s net spread loss declining by $31.8 million, partially offset by a $15.0 million decline in treasury s net spread income. The reduction in treasury s net spread income reflects a $934 million decline in average securities and an increase in the FTP charge for funding the BOLI investment (with no offsetting interest income as BOLI 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 United Financial s balance sheet.

Average earning assets decreased $887 million, or 50%, reflecting a $934 million, or 54%, decline in average securities from 2005 given People s United Financial s sale of its debt securities portfolio during 2006 as part of restructuring activities to better position People s United Financial s balance sheet for the prevailing interest rate environment. The debt securities portfolio totaled $27 million at December 31, 2006, compared to $1.3 billion at December 31, 2005, reflecting the sale of approximately $1.1 billion of securities and the

Table of Contents

substitution of securities with higher-yielding loans. Average securities comprised 8% of average earning assets in 2006, compared to 17% in 2005.

Other includes the residual financial impact from the allocation of revenues and expenses and certain revenues and expenses not attributable to a particular segment, and the FTP impact attributable to excess capital. This category also includes: revenues and expenses relating to the national consumer loan portfolio; certain nonrecurring items, including security gains of $5.4 million from the sale of People s United Financial s entire holdings of MasterCard Incorporated Class B Common Stock (included in non-interest income for the year ended December 31, 2007) and the $60 million contribution to The People s United Community Foundation (included in non-interest expense for the year December 31, 2007); income from discontinued operations; and income tax benefits. The increase in net interest income in 2007 compared to 2006 reflects the FTP credit resulting from the significant increase in excess capital from the second-step conversion. Included in period-end assets are cash, national consumer loans, premises and equipment, and other assets.

Years ended December 31 (in millions)	**2007**	**2006**	**2005**
Net interest income	$ 137.0	$ 21.7	$ 16.6
Provision for loan losses	(5.9)	(10.1)	(4.3)
Non-interest income	6.7	2.3	2.0
Liability restructuring costs			2.7
Other non-interest expense	67.1	6.8	7.2
Income before income tax expense	82.5	27.3	13.0
Income tax expense	29.1	7.3	2.0
Income from continuing operations	53.4	20.0	11.0
Income from discontinued operations, net of tax	1.5	2.3	5.0
Gain on sale of discontinued operations, net of tax			6.2
Income from discontinued operations	1.5	2.3	11.2
Net income	$ 54.9	$ 22.3	$ 22.2
Average liabilities	$ 233.5	$ 246.9	$ 264.5
Year end assets	701.2	696.5	666.4

Table of Contents

Net Interest Income

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

Net Interest Margin

Years ended December 31 (percent)

Net Interest Income

Years ended December 31 (dollars in millions)

In response to the disruptions in the capital markets caused by the sub-prime mortgage crisis and the potential for a contracting U.S. economy, since September 2007 the Federal Reserve Board lowered the targeted federal funds rate five times by a total of 225 basis points, bringing the rate to 3.00% as of January 30, 2008. Given the asset sensitive position of the balance sheet, the net interest margin may compress in 2008.

2007 Compared to 2006

Net interest income increased $105 million, or 27%, and the net interest margin improved 25 basis points to 4.12% for 2007 compared to 2006. The increase in net interest income reflects a $125 million increase in total interest and dividend income, partially offset by a $20 million increase in total interest expense. The increase in net interest margin reflects the investment of $3.3 billion in net proceeds from the second-step conversion in short-term investments, as well as the benefits from the balance sheet restructuring activities completed during 2006.

Average earning assets totaled $11.8 billion in 2007, a $1.9 billion, or 20%, increase from 2006, while the asset mix continued to shift. Average short-term investments increased $2.5 billion, reflecting the investment of $3.3 billion in net proceeds from the second-step conversion in April 2007; average loans increased $120 million, or 1%; and average securities declined $735 million, reflecting the sale of $1.1 billion of debt securities in 2006. As a result, average loans, average securities and average short-term investments comprised 77%, 1% and 22%, respectively, of average earning assets in 2007 compared to 91%, 8% and 1%, respectively, in 2006. The yield earned on the total loan portfolio was 6.27% in 2007 while the yield earned on securities was 5.62%, compared to 6.10% and 3.74%, respectively, in 2006. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 31% of the loan portfolio has floating interest rates at December 31, 2007 compared to approximately 29% at the end of 2006.

Growth in loans reflects an increase of $348 million, or 9%, in average commercial banking loans, partially offset by decreases of $209 million, or 6%, in average residential mortgage loans and $19 million, or 2%, in average consumer loans for 2007 compared to 2006.

The growth in average commercial banking loans in 2007 compared to 2006 reflects increases of $210 million, or 30%, in average PCLC loans, $96 million, or 7%, in average commercial loans and $42 million, or 2%, in average commercial real estate loans. Included in average commercial loans and average commercial real estate loans were increases of $64 million, or 20%, and $78 million, or 38%, in the respective national credits portfolios.

The decrease in average residential mortgage loans in 2007 compared to 2006 reflects People s United Financial s decision in the fourth quarter of 2006 to sell essentially all of its newly-originated residential mortgage loans. As a result, residential mortgage loan balances are expected to continue to decline in the future until People s United Financial resumes adding such loans to its portfolio to an extent that more than offsets repayments. The decrease in average consumer loans primarily reflects a $9 million, or 1%, decline in average home equity loans following a nationwide pattern.

The overall 9 basis point improvement in the yield on average earning assets in 2007 primarily reflects the investment of the net proceeds from the second-step conversion discussed above, increases in market interest rates and the ongoing shift in asset mix, including the impact of the security sales.

Average funding liabilities totaled $9.0 billion in 2007, down $287 million or 3% compared with 2006. Average core deposits decreased $83 million, or 1%, to $8.9 billion and comprised 98% of average funding liabilities, compared to 96% in 2006. Average non-interest-bearing core deposits decreased $57 million, or 3%, and average interest-bearing core deposits decreased $26 million, or less than 1%, reflective of People s United Financial s strategy of funding loan growth with proceeds from maturities, sales and repayments of securities rather than core deposits.

The 30 basis point increase to 2.45% from 2.15% in the rate paid on average funding liabilities in 2007 compared to 2006 primarily reflects increases in market interest rates prevalent in most of 2007 and the ongoing shift in deposit mix. The rates paid on average core deposits increased 41 basis points in 2007, reflecting increases of 67 basis points in time deposits and 8 basis points in savings and money market deposits in response to rising market interest rates prevalent in most of 2007. The change in the mix of average interest-bearing core deposits reflects a $323 million, or 10%, increase in higher-rate time deposits, partially offset by a $349 million, or 10%, decline in savings and money market deposits, reflecting customers preferences for deposit products with higher interest rates. Average time deposits comprised 41% of average total core deposits, compared to 37% for 2006.

Average purchased funds decreased $227 million, or 92%, and average subordinated notes decreased $40 million, or 38%, in 2007 compared to 2006.

2006 Compared to 2005

Net interest income increased $13 million, or 3%, and the net interest margin improved 19 basis points to 3.87% in 2006 compared to 2005. The increase in net interest income reflects a $74 million increase in total interest and dividend income, partially offset by a $61 million increase in total interest expense.

Average earning assets totaled $9.8 billion in 2006, a $173 million, or 2%, decrease from 2005, while the asset mix continued to shift. The shift in asset mix from securities to higher yielding loans continued to benefit the net interest margin. Average loans increased $715 million, or 9%, while average securities declined $934 million, or 54%, in 2006 compared to 2005. As a result, average loans and average securities comprised 91% and 8%, respectively, of average earning assets in 2006 compared to 82% and 17%, respectively, in 2005. The yield earned on the total loan portfolio was 6.10% in 2006 while the yield earned on securities was 3.74%, compared to 5.41% and 3.47%, respectively, in 2005.

Loan growth reflects increases of $345 million, or 10%, in average residential mortgage loans, $285 million, or 8%, in average commercial banking loans and $85 million, or 7%, in average consumer loans in 2006 compared to 2005. 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 in 2006 compared to 2005 reflects a $183 million, or 35%, increase in average PCLC loans and a $127 million, or 10%, increase in average commercial loans, partially offset by a $25 million, or 1%, decrease in average commercial real estate loans. Included in average commercial loans and average commercial real estate loans were increases of $44 million, or 15%, and $59 million, or 40%, in the respective national credits portfolios.

The growth in average consumer loans in 2006 compared to 2005 continues to reflect a shift in mix as an increase of $108 million, or 9%, in home equity loans was partially offset by a $21 million, or 81%, 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.

The significant decrease in the average securities portfolio in 2006 compared to 2005 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 to better position People s United Financial s balance sheet for the prevailing interest rate environment. People s United Financial 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. In addition to funding loan growth, People s United Financial 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 84 basis point improvement in the yield on average earning assets in 2006 compared to 2005 primarily reflects increases in market interest rates since June 2004 and the ongoing shift in asset mix.

Average funding liabilities totaled $9.3 billion in 2006, down $113 million or 1% compared with 2005. Average core deposits increased $38 million, or less than 1%, to $8.9 billion and comprised 96% of average funding liabilities, compared to 95% in 2005. Average interest-bearing core deposits increased $101 million, or 2%, and average non-interest-bearing core deposits decreased $63 million, or 3%, reflective of People s United Financial s strategy of funding loan growth with proceeds from maturities, sales and repayments of securities rather than core deposits.

Table of Contents

The 68 basis point increase to 2.15% from 1.47% in the rate paid on average funding liabilities in 2006 compared to 2005 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 70 basis points in 2006, reflecting increases of 115 basis points in time deposits and 36 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 $660 million, or 25%, increase in higher-rate time deposits, partially offset by a $559 million, or 14%, 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 37% of average total core deposits, compared to 30% in 2005.

Average purchased funds decreased $134 million, or 35%, and average subordinated notes decreased $16 million, or 13%, in 2006 compared to 2005.

Average Balance, Interest and Yield/Rate Analysis

The table on the following page presents average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2007, 2006 and 2005. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People s United Financial has ceased to accrue interest. The impact of People s United Financial 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.

Average Balance, Interest and Yield/Rate Analysis

Years ended December 31	2007			2006			2005		
(dollars in millions)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning assets:									
Short-term investments	$ 1,709.4	$ 86.7	5.07%	$ 106.6	$ 5.3	4.97%	$ 54.5	$ 1.5	2.86%
Securities purchased under agreements to resell	959.1	48.3	5.03	16.6	0.8	4.98	22.8	1.0	4.22
Securities (1)	69.2	3.9	5.62	803.8	30.0	3.74	1,737.8	60.3	3.47
Loans:									
Residential mortgage	3,550.3	183.9	5.18	3,758.8	185.2	4.93	3,413.3	154.7	4.53
Commercial	2,441.5	167.6	6.86	2,135.7	146.5	6.86	1,825.5	108.7	5.95
Commercial real estate	1,807.3	127.7	7.07	1,765.1	126.0	7.14	1,790.5	116.2	6.49
Consumer	1,268.9	88.9	7.01	1,288.3	88.3	6.85	1,203.3	65.8	5.47
Total loans	9,068.0	568.1	6.27	8,947.9	546.0	6.10	8,232.6	445.4	5.41
Total earning assets	$ 11,805.7	$ 707.0	5.99%	$ 9,874.9	$ 582.1	5.90%	$ 10,047.7	$ 508.2	5.06%
Funding liabilities:									
Deposits:									
Non-interest-bearing deposits	$ 2,111.4	$	%	$ 2,168.6	$	%	$ 2,231.7	$	%
Savings, interest-bearing checking and money market	3,114.9	46.8	1.50	3,464.4					