

People's United Financial, Inc.  
Form 10-Q  
November 02, 2012  
[Table of Contents](#)

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

Commission File Number 001-33326

**PEOPLE S UNITED FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

20-8447891  
(I.R.S. Employer

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

incorporation or organization)

Identification No.)

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

**06604**  
(Zip Code)

**(203) 338-7171**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

As of October 19, 2012, there were 347,628,965 shares of the registrant's common stock outstanding.

**Table of Contents**

**Table of Contents**

	Page
<b><u>Part I Financial Information</u></b>	
Item 1. <b><u>Financial Statements (Unaudited)</u></b>	
<u>Consolidated Statements of Condition as of September 30, 2012 and December 31, 2011</u>	1
<u>Consolidated Statements of Income for the Three and Nine Months Ended</u>	
<u>September 30, 2012 and 2011</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u>	3
<u>Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2012 and 2011</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	56
Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	111
Item 4. <b><u>Controls and Procedures</u></b>	112
<b><u>Part II Other Information</u></b>	
Item 1. <b><u>Legal Proceedings</u></b>	112
Item 1A. <b><u>Risk Factors</u></b>	112
Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	112
Item 3. <b><u>Defaults Upon Senior Securities</u></b>	113
Item 4. <b><u>Mine Safety Disclosures</u></b>	113
Item 5. <b><u>Other Information</u></b>	113
Item 6. <b><u>Exhibits</u></b>	113
<b><u>Signatures</u></b>	114

## Table of Contents

### Item 1 Financial Statements

People's United Financial, Inc.

Consolidated Statements of Condition (Unaudited)

(in millions)	September 30, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 358.3	\$ 370.2
Short-term investments (note 3)	63.7	410.7
Total cash and cash equivalents	422.0	780.9
Securities (note 3):		
Trading account securities, at fair value	6.3	71.8
Securities available for sale, at fair value	3,651.0	2,725.5
Securities held to maturity, at amortized cost (fair value of \$60.9 million and \$62.5 million)	56.2	56.4
Federal Home Loan Bank stock, at cost	73.7	77.7
Total securities	3,787.2	2,931.4
Loans held for sale	60.0	101.9
Loans (note 4):		
Commercial	7,951.7	7,366.8
Commercial real estate	7,032.8	7,172.2
Residential mortgage	3,891.3	3,628.4
Consumer	2,164.2	2,217.4
Total loans	21,040.0	20,384.8
Less allowance for loan losses	(186.0)	(182.9)
Total loans, net	20,854.0	20,201.9
Goodwill (notes 2 and 7)	1,954.5	1,951.4
Other acquisition-related intangibles (note 7)	205.8	222.8
Premises and equipment	334.7	339.6
Bank-owned life insurance	335.5	332.7
Other assets (notes 4 and 12)	622.3	690.1
Total assets	\$ 28,576.0	\$ 27,552.7
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing	\$ 4,746.9	\$ 4,506.2
Savings, interest-bearing checking and money market	11,729.0	10,970.4
Time	4,886.7	5,339.2
Total deposits	21,362.6	20,815.8

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

## Borrowings:

Federal Home Loan Bank advances	629.3	332.4
Retail repurchase agreements	479.0	497.2
Federal funds purchased	415.0	
Other borrowings	1.0	27.1

Total borrowings	1,524.3	856.7
------------------	---------	-------

Subordinated notes and debentures	160.4	159.6
Other liabilities (note 12)	421.3	505.2

Total liabilities	23,468.6	22,337.3
-------------------	----------	----------

## Commitments and contingencies (note 9)

## Stockholders' Equity

Common stock (\$0.01 par value; 1.95 billion shares authorized; 395.9 million shares and 395.4 million shares issued)	3.9	3.9
Additional paid-in capital	5,263.9	5,247.0
Retained earnings	750.1	734.5
Treasury stock, at cost (48.3 million shares and 38.0 million shares) (note 5)	(656.2)	(493.5)
Accumulated other comprehensive loss (note 5)	(79.0)	(95.8)
Unallocated common stock of Employee Stock Ownership Plan, at cost (8.4 million shares and 8.7 million shares) (note 8)	(175.3)	(180.7)

Total stockholders' equity	5,107.4	5,215.4
----------------------------	---------	---------

Total liabilities and stockholders' equity	\$ 28,576.0	\$ 27,552.7
--	-------------	-------------

See accompanying notes to consolidated financial statements.

## Table of Contents

People's United Financial, Inc.

Consolidated Statements of Income (Unaudited)

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
<b>Interest and dividend income:</b>				
Commercial real estate	\$ 91.3	\$ 98.0	\$ 279.4	\$ 292.1
Commercial	91.3	95.1	275.2	254.3
Residential mortgage	37.1	34.5	109.1	93.5
Consumer	19.8	21.5	60.5	63.0
Total interest on loans	239.5	249.1	724.2	702.9
Securities	20.3	21.7	56.6	66.1
Loans held for sale	0.5	0.4	1.4	1.4
Short-term investments		0.5	0.7	1.6
Total interest and dividend income	260.3	271.7	782.9	772.0
<b>Interest expense:</b>				
Deposits	22.1	28.5	68.8	81.5
Borrowings	1.8	2.4	5.1	7.3
Subordinated notes and debentures	1.6	3.1	5.4	9.3
Total interest expense	25.5	34.0	79.3	98.1
Net interest income	234.8	237.7	703.6	673.9
Provision for loan losses (note 4)	15.1	14.4	37.2	43.0
Net interest income after provision for loan losses	219.7	223.3	666.4	630.9
<b>Non-interest income:</b>				
Bank service charges	33.0	35.8	95.8	99.7
Investment management fees	8.7	8.4	26.0	24.9
Insurance revenue	9.5	9.0	25.1	23.5
Brokerage commissions	2.8	2.8	9.3	9.3
Net gains on sales of residential mortgage loans	3.6	1.3	10.0	5.5
Net gains (losses) on sales of acquired loans		(4.8)	0.7	7.9
Net security gains		8.6		8.8
Other non-interest income	23.8	23.6	62.6	56.3
Total non-interest income	81.4	84.7	229.5	235.9
<b>Non-interest expense:</b>				
Compensation and benefits	106.7	110.1	321.5	318.0
Occupancy and equipment	36.5	34.9	104.0	98.9
Professional and outside service fees	15.8	18.6	48.6	51.9
Merger-related expenses		20.1		29.6
Other non-interest expense (note 7)	49.9	48.2	149.1	143.3

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

Total non-interest expense	208.9	231.9	623.2	641.7
Income before income tax expense	92.2	76.1	272.7	225.1
Income tax expense	30.0	24.6	88.6	74.1
Net income	\$ 62.2	\$ 51.5	\$ 184.1	\$ 151.0
<b>Earnings per common share</b> (note 6):				
Basic	\$ 0.18	\$ 0.14	\$ 0.54	\$ 0.43
Diluted	0.18	0.14	0.54	0.43

See accompanying notes to consolidated financial statements.

**Table of Contents**

People's United Financial, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net income</b>	\$ 62.2	\$ 51.5	\$ 184.1	\$ 151.0
<b>Other comprehensive income, net of tax:</b>				
Net actuarial loss, prior service cost and transition obligation related to pension and other postretirement benefit plans	0.9	12.4	3.1	16.1
Net unrealized gains and losses on securities available for sale	11.1	20.5	15.8	46.1
Net unrealized gains and losses on derivatives accounted for as cash flow hedges	(0.8)	0.5	(2.1)	
Total other comprehensive income, net of tax	11.2	33.4	16.8	62.2
Total comprehensive income	\$ 73.4	\$ 84.9	\$ 200.9	\$ 213.2

See accompanying notes to consolidated financial statements.

## Table of Contents

People's United Financial, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the nine months ended September 30, 2012	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Total Stockholders' Equity
(in millions, except per share data)							
Balance at December 31, 2011	\$ 3.9	\$ 5,247.0	\$ 734.5	\$ (493.5)	\$ (95.8)	\$ (180.7)	\$ 5,215.4
Net income			184.1				184.1
Other comprehensive income, net of tax					16.8		16.8
Cash dividends on common stock (\$0.4775 per share)			(164.3)				(164.3)
Restricted stock awards		10.9	(0.4)	1.0			11.5
ESOP common stock committed to be released (note 8)			(2.2)			5.4	3.2
Common stock repurchased (note 5)				(163.7)			(163.7)
Common stock repurchased and retired upon vesting of restricted stock awards			(1.6)				(1.6)
Stock options and related tax benefits		6.0					6.0
Balance at September 30, 2012	\$ 3.9	\$ 5,263.9	\$ 750.1	\$ (656.2)	\$ (79.0)	\$ (175.3)	\$ 5,107.4

  

For the nine months ended September 30, 2011	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Total Stockholders' Equity
(in millions, except per share data)							
Balance at December 31, 2010	\$ 3.7	\$ 4,978.8	\$ 769.4	\$ (248.9)	\$ (99.0)	\$ (187.9)	\$ 5,216.1
Net income			151.0				151.0
Other comprehensive income, net of tax					62.2		62.2
Common stock issued in the Danvers acquisition, net (note 2)	0.2	247.7					247.9
Cash dividends on common stock (\$0.4700 per share)			(166.1)				(166.1)
Restricted stock awards		10.3	(1.0)	1.8			11.1
ESOP common stock committed to be released (note 8)			(2.0)			5.4	3.4
Common stock repurchased (note 5)				(247.2)			(247.2)
Common stock repurchased and retired upon vesting of restricted stock awards			(1.6)				(1.6)
Stock options and related tax benefits		5.7					5.7
Balance at September 30, 2011	\$ 3.9	\$ 5,242.5	\$ 749.7	\$ (494.3)	\$ (36.8)	\$ (182.5)	\$ 5,282.5

See accompanying notes to consolidated financial statements.

## Table of Contents

People's United Financial, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(in millions)	Nine Months Ended September 30,	
	2012	2011
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 184.1	\$ 151.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	37.2	43.0
Depreciation and amortization of premises and equipment	29.1	28.8
Amortization of leased equipment	18.9	15.5
Amortization of other acquisition-related intangibles	20.1	18.9
Net security gains		(8.8)
Net gains on sales of residential mortgage loans	(10.0)	(5.5)
Net gains on sales of acquired loans	(0.7)	(7.9)
ESOP common stock committed to be released	3.2	3.4
Expense related to share-based awards	17.1	18.3
Originations of loans held-for-sale	(651.1)	(367.0)
Proceeds from sales of loans held-for-sale	703.0	423.5
Net decrease in trading account securities	65.5	13.6
Net changes in other assets and liabilities	14.5	(207.4)
Net cash provided by operating activities	430.9	119.4
<b>Cash Flows from Investing Activities:</b>		
Net decrease in securities purchased under agreements to resell		520.0
Proceeds from principal repayments and maturities of securities available for sale	662.6	664.9
Proceeds from sales of securities available for sale		969.4
Proceeds from principal repayments of securities held to maturity	0.2	0.1
Proceeds from redemption of FHLB stock	4.0	4.1
Purchases of securities available for sale	(1,560.1)	(858.7)
Purchases of securities held to maturity		(1.0)
Proceeds from sales of loans	9.9	130.1
Loan disbursements, net of principal collections	(741.0)	(1,166.7)
Purchases of premises and equipment	(14.2)	(24.4)
Purchases of leased equipment	(46.0)	(13.3)
Proceeds from sales of real estate owned	20.2	22.3
Return of premiums on bank-owned life insurance, net	1.4	0.7
Net cash received in branch transactions	298.2	
Net cash acquired in acquisition		146.8
Net cash (used in) provided by investing activities	(1,364.8)	394.3
<b>Cash Flows from Financing Activities:</b>		
Net increase in deposits	233.4	485.5
Net increase in borrowings with terms of three months or less	671.3	43.9
Repayments of borrowings with terms of more than three months	(0.4)	(389.9)
Repayments of subordinated notes and debentures		(43.7)
Cash dividends paid on common stock	(164.3)	(166.1)
Common stock repurchases	(165.3)	(248.8)

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

Proceeds from stock options exercised, including excess income tax benefits	0.3	0.9
Net cash provided by (used in) financing activities	575.0	(318.2)
Net (decrease) increase in cash and cash equivalents	(358.9)	195.5
Cash and cash equivalents at beginning of period	780.9	954.5
Cash and cash equivalents at end of period	\$ 422.0	\$ 1,150.0

### Supplemental Information:

Interest payments	\$ 85.7	\$ 106.6
Income tax payments	73.6	82.0
Real estate properties acquired by foreclosure	18.2	15.5
Assets acquired and liabilities assumed in acquisitions (note 2):		
Non-cash assets, excluding goodwill and other acquisition-related intangibles	12.4	2,243.7
Liabilities	325.4	2,355.4
Common stock issued in acquisitions		247.9
See accompanying notes to consolidated financial statements.		

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 1. GENERAL**

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

As discussed in Note 13, previously reported results have been revised to reflect a reduction in interest income on certain acquired loans, including results reported in this Form 10-Q for the three and nine months ended September 30, 2011.

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

Note 1 to People's United Financial's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011, as supplemented by the Quarterly Reports for the periods ended March 31, 2012 and June 30, 2012 and this Quarterly Report for the period ended September 30, 2012, provides disclosure of People's United Financial's significant accounting policies. Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses and asset impairment judgments, such as the recoverability of goodwill and other intangible assets, and other-than-temporary declines in the value of securities. These significant accounting policies and critical estimates are reviewed with the Audit Committee of the Board of Directors.

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

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles have been omitted or condensed. As a result, the accompanying consolidated financial statements should be read in conjunction with People's United Financial's Annual Report on Form 10-K for the year ended December 31, 2011. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 2. ACQUISITIONS**

***Acquisition of Branches Completed in 2012***

On June 22, 2012, People's United Bank acquired 57 branches from RBS Citizens, N.A. and assumed approximately \$324 million in deposits associated with these branches. Fifty-three of the branches are situated in Stop & Shop supermarkets and four are traditional branches. All of the branches are located in the state of New York, with 30 on Long Island, eight in Westchester County and six in the boroughs of New York City. People's United Bank paid a 1% premium on the assumed deposits of approximately \$3.24 million.

The assets acquired, which included cash, premises and equipment, and other assets totaling \$15.8 million, and liabilities assumed, which included deposits and other liabilities totaling \$324.6 million, were recorded by People's United Financial at their estimated fair values as of the acquisition date based on management's best estimate using the information available at that time. Fair value adjustments to assets acquired and liabilities assumed will be amortized on a straight-line basis over periods consistent with the average life, useful life and / or contractual term of the related assets and liabilities. The core deposit intangible (\$3.0 million) will be amortized over a six-year period using an accelerated amortization method reflective of the manner in which the related benefit attributable to the deposits will be recognized.

In the second quarter of 2012, People's United Bank sold one of its branches located in Massachusetts. Included in the sale was approximately \$11.6 million in deposits and \$0.7 million of other assets.

***Acquisition Completed in 2011***

After the close of business on June 30, 2011, People's United Financial acquired Danvers Bancorp, Inc. ( Danvers ) based in Danvers, Massachusetts. The transaction was effective July 1, 2011. Total consideration paid in the Danvers acquisition of approximately \$462 million consisted of approximately \$214 million in cash and 18.5 million shares of People's United Financial common stock with a fair value of approximately \$248 million. Cash consideration was paid at the rate of \$23.00 per share of Danvers common stock and stock consideration was paid at the rate of 1.624 shares of People's United Financial common stock per share of Danvers common stock. People's United Financial's results of operations include the results of Danvers beginning with the effective date.

Recent acquisitions have been undertaken with the objective of expanding the Company's business, both geographically and through product offerings, as well as realizing synergies and economies of scale by combining with the acquired entities. For these reasons, a market-based premium was paid for the acquired entities which, in turn, resulted in the recognition of goodwill, representing the excess of the respective purchase prices over the estimated fair value of the net assets acquired (see Note 7).

All of People's United Financial's tax deductible goodwill was created in transactions in which the Company purchased the assets of the target (as opposed to purchasing the issued and outstanding stock of the target). At September 30, 2012 and December 31, 2011, tax deductible goodwill totaled \$15.1 million and \$16.7 million, respectively, and related, almost entirely, to the Butler Bank acquisition completed in 2010.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

#### NOTE 3. SECURITIES AND SHORT-TERM INVESTMENTS

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

As of September 30, 2012 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	\$ 30.2	\$ 0.6	\$	\$ 30.8
GSE (1) residential mortgage-backed securities and CMOs (2)	3,100.9	75.1	(0.4)	3,175.6
State and municipal	366.2	15.5	(0.1)	381.6
Corporate	57.7	2.2		59.9
Other	2.6	0.3		2.9
Total debt securities	3,557.6	93.7	(0.5)	3,650.8
Equity securities	0.2			0.2
Total securities available for sale	\$ 3,557.8	\$ 93.7	\$ (0.5)	\$ 3,651.0
Securities held to maturity:				
Debt securities:				
Corporate	\$ 55.0	\$ 4.7	\$	\$ 59.7
Other	1.2			1.2
Total securities held to maturity	\$ 56.2	\$ 4.7	\$	\$ 60.9

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

As of December 31, 2011 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	\$ 80.5	\$ 0.5	\$	\$ 81.0
GSE residential mortgage-backed securities and CMOs	2,388.9	60.4	(1.5)	2,447.8
State and municipal	127.8	9.9		137.7
Corporate	57.4	0.3	(1.2)	56.5
Other	2.6		(0.3)	2.3

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

Total debt securities	2,657.2	71.1	(3.0)	2,725.3
Equity securities	0.2			0.2
Total securities available for sale	\$ 2,657.4	\$ 71.1	\$ (3.0)	\$ 2,725.5
Securities held to maturity:				
Debt securities:				
Corporate	\$ 55.0	\$ 6.1	\$	\$ 61.1
Other	1.4			1.4
Total securities held to maturity	\$ 56.4	\$ 6.1	\$	\$ 62.5

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

The following tables summarize debt securities available for sale with unrealized losses, segregated by the length of time the securities have been in a continuous unrealized loss position at the respective dates. Certain unrealized losses totaled less than \$50,000.

	Continuous Unrealized Loss Position				Total	
	Less Than 12 Months		12 Months Or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2012 (in millions)						
GSE residential mortgage-backed securities and CMOs	\$ 506.0	\$ (0.4)	\$	\$	\$ 506.0	\$ (0.4)
State and municipal	19.4	(0.1)	0.1		19.5	(0.1)
<b>Total</b>	<b>\$ 525.4</b>	<b>\$ (0.5)</b>	<b>\$ 0.1</b>	<b>\$</b>	<b>\$ 525.5</b>	<b>\$ (0.5)</b>

	Continuous Unrealized Loss Position				Total	
	Less Than 12 Months		12 Months Or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2011 (in millions)						
GSE residential mortgage-backed securities and CMOs	\$ 324.0	\$ (1.5)	\$	\$	\$ 324.0	\$ (1.5)
Corporate	42.3	(1.2)			42.3	(1.2)
Other	2.3	(0.3)			2.3	(0.3)
State and municipal	0.7				0.7	
<b>Total</b>	<b>\$ 369.3</b>	<b>\$ (3.0)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 369.3</b>	<b>\$ (3.0)</b>

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

Management believes that all gross unrealized losses within the securities portfolio at September 30, 2012 and December 31, 2011 are temporary impairments. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three or nine months ended September 30, 2012 and 2011.

People's United Financial records security transactions on the trade date and uses the specific identification method to determine the cost of securities sold.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

The following table is a summary of the amortized cost and fair value of debt securities at September 30, 2012, based on remaining period to contractual maturity. Information for GSE residential mortgage-backed securities and CMOs is based on the final contractual maturity dates without considering repayments and prepayments.

(in millions)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and agency:				
Within 1 year	\$ 24.9	\$ 25.0	\$	\$
After 5 but within 10 years	5.3	5.8		
Total	30.2	30.8		
GSE residential mortgage-backed securities and CMOs:				
After 5 but within 10 years	815.1	817.6		
After 10 years	2,285.8	2,358.0		
Total	3,100.9	3,175.6		
State and municipal:				
Within 1 year	1.5	1.6		
After 1 but within 5 years	14.9	15.6		
After 5 but within 10 years	96.1	100.6		
After 10 years	253.7	263.8		
Total	366.2	381.6		
Corporate:				
After 1 but within 5 years	57.7	59.9		
After 5 but within 10 years			55.0	59.7
Total	57.7	59.9	55.0	59.7
Other:				
Within 1 year			0.2	0.2
After 1 but within 5 years			1.0	1.0
After 10 years	2.6	2.9		
Total	2.6	2.9	1.2	1.2
Total:				
Within 1 year	26.4	26.6	0.2	0.2
After 1 but within 5 years	72.6	75.5	1.0	1.0
After 5 but within 10 years	916.5	924.0	55.0	59.7
After 10 years	2,542.1	2,624.7		
Total	\$ 3,557.6	\$ 3,650.8	\$ 56.2	\$ 60.9



---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

People's United Bank, as a member of the Federal Home Loan Bank (FHLB) of Boston, is currently required to purchase and hold shares of FHLB capital stock (total cost of \$59.9 million and \$63.9 million at September 30, 2012 and December 31, 2011, respectively) in an amount equal to its membership base investment plus an activity based investment determined according to People's United Bank's level of outstanding FHLB advances. FHLB stock is a non-marketable equity security and is, therefore, reported at cost, which equals par value (the amount at which shares have been redeemed in the past). As with other investment securities, the investment is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. As a result of operating losses and a decline in capital, in February 2009 the FHLB of Boston suspended paying dividends and placed a moratorium on certain stock repurchases. In the first quarter of 2011, the FHLB of Boston resumed dividend payments. Based on the current capital adequacy and liquidity position of the FHLB of Boston, management believes there is no impairment in the Company's investment at September 30, 2012 and the cost of the investment approximates fair value.

As a result of the Smithtown Bancorp, Inc. (Smithtown) acquisition completed in 2010, People's United Financial acquired shares of capital stock in the FHLB of New York (total cost of \$13.8 million at both September 30, 2012 and December 31, 2011), which also pays a dividend.

The balance of short-term investments at September 30, 2012 and December 31, 2011 principally consisted of \$40.9 million and \$378.6 million, respectively, of interest-earning deposits at the Federal Reserve Bank of New York. These deposits represent an alternative to overnight federal funds sold and had a yield of 0.25% at both September 30, 2012 and December 31, 2011.

**NOTE 4. LOANS**

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

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

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

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

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

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

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

Recognition of loan charge-offs.

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

The Company did not change its policies with respect to loans or its methodology for determining the allowance for loan losses during the nine months ended September 30, 2012.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

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

(in millions)	September 30, 2012			December 31, 2011		
	Originated	Acquired	Total	Originated	Acquired	Total
<b>Commercial Banking:</b>						
Commercial real estate	\$ 5,844.1	\$ 1,188.7	\$ 7,032.8	\$ 5,485.5	\$ 1,686.7	\$ 7,172.2
Commercial and industrial	4,958.3	795.9	5,754.2	4,351.9	1,000.7	5,352.6
Equipment financing	2,019.4	178.1	2,197.5	1,703.7	310.5	2,014.2
<b>Total commercial</b>	<b>6,977.7</b>	<b>974.0</b>	<b>7,951.7</b>	<b>6,055.6</b>	<b>1,311.2</b>	<b>7,366.8</b>
<b>Total Commercial Banking</b>	<b>12,821.8</b>	<b>2,162.7</b>	<b>14,984.5</b>	<b>11,541.1</b>	<b>2,997.9</b>	<b>14,539.0</b>
<b>Retail:</b>						
<b>Residential mortgage:</b>						
Adjustable-rate	3,089.0	214.4	3,303.4	2,704.1	243.6	2,947.7
Fixed-rate	420.4	167.5	587.9	448.2	232.5	680.7
<b>Total residential mortgage</b>	<b>3,509.4</b>	<b>381.9</b>	<b>3,891.3</b>	<b>3,152.3</b>	<b>476.1</b>	<b>3,628.4</b>
<b>Consumer:</b>						
Home equity	1,963.2	86.3	2,049.5	1,934.6	123.1	2,057.7
Other consumer	112.0	2.7	114.7	155.5	4.2	159.7
<b>Total consumer</b>	<b>2,075.2</b>	<b>89.0</b>	<b>2,164.2</b>	<b>2,090.1</b>	<b>127.3</b>	<b>2,217.4</b>
<b>Total Retail</b>	<b>5,584.6</b>	<b>470.9</b>	<b>6,055.5</b>	<b>5,242.4</b>	<b>603.4</b>	<b>5,845.8</b>
<b>Total loans</b>	<b>\$ 18,406.4</b>	<b>\$ 2,633.6</b>	<b>\$ 21,040.0</b>	<b>\$ 16,783.5</b>	<b>\$ 3,601.3</b>	<b>\$ 20,384.8</b>

Net deferred loan costs that are included in total loans and accounted for as interest yield adjustments totaled \$41.9 million and \$37.2 million at September 30, 2012 and December 31, 2011, respectively.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

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

For the three months ended September 30, 2012

	Commercial Banking			Retail	
(in millions)	Originated	Acquired	Total	Originated	Total
Balance at beginning of period	\$ 155.5	\$ 4.8	\$ 160.3	\$ 20.0	\$ 180.3
Charge-offs	(7.9)		(7.9)	(3.2)	(11.1)
Recoveries	0.7		0.7	1.0	1.7
Net loan charge-offs	(7.2)		(7.2)	(2.2)	(9.4)
Provision for loan losses	7.7	5.7	13.4	1.7	15.1
Balance at end of period	\$ 156.0	\$ 10.5	\$ 166.5	\$ 19.5	\$ 186.0

For the nine months ended September 30, 2012

	Commercial Banking			Retail	
(in millions)	Originated	Acquired	Total	Originated	Total
Balance at beginning of period	\$ 160.4	\$ 7.4	\$ 167.8	\$ 15.1	\$ 182.9
Charge-offs	(24.5)	(2.7)	(27.2)	(11.8)	(39.0)
Recoveries	2.4		2.4	2.5	4.9
Net loan charge-offs	(22.1)	(2.7)	(24.8)	(9.3)	(34.1)
Provision for loan losses	17.7	5.8	23.5	13.7	37.2
Balance at end of period	\$ 156.0	\$ 10.5	\$ 166.5	\$ 19.5	\$ 186.0

For the three months ended September 30, 2011

	Commercial Banking			Retail	
(in millions)	Originated	Acquired	Total	Originated	Total
Balance at beginning of period	\$ 163.9	\$	\$ 163.9	\$ 12.1	\$ 176.0
Charge-offs	(10.4)		(10.4)	(4.2)	(14.6)
Recoveries	0.6		0.6	0.6	1.2
Net loan charge-offs	(9.8)		(9.8)	(3.6)	(13.4)
Provision for loan losses	9.9		9.9	4.5	14.4
Balance at end of period	\$ 164.0	\$	\$ 164.0	\$ 13.0	\$ 177.0

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

For the nine months ended September 30, 2011

	Commercial Banking			Retail	
(in millions)	Originated	Acquired	Total	Originated	Total
Balance at beginning of period	\$ 161.5	\$	\$ 161.5	\$ 11.0	\$ 172.5
Charge-offs	(31.1)		(31.1)	(11.3)	(42.4)
Recoveries	1.2		1.2	2.7	3.9
Net loan charge-offs	(29.9)		(29.9)	(8.6)	(38.5)
Provision for loan losses	32.4		32.4	10.6	43.0
Balance at end of period	\$ 164.0	\$	\$ 164.0	\$ 13.0	\$ 177.0

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

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

As of September 30, 2012 (in millions)	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial Banking	\$ 207.7	\$ 18.9	\$ 12,614.1	\$ 137.1	\$ 2,162.7	\$ 10.5	\$ 14,984.5	\$ 166.5
Retail	45.9		5,538.7	19.5	470.9		6,055.5	19.5
<b>Total</b>	<b>\$ 253.6</b>	<b>\$ 18.9</b>	<b>\$ 18,152.8</b>	<b>\$ 156.6</b>	<b>\$ 2,633.6</b>	<b>\$ 10.5</b>	<b>\$ 21,040.0</b>	<b>\$ 186.0</b>

As of December 31, 2011 (in millions)	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial Banking	\$ 246.2	\$ 23.0	\$ 11,294.9	\$ 137.4	\$ 2,997.9	\$ 7.4	\$ 14,539.0	\$ 167.8
Retail	15.6		5,226.8	15.1	603.4		5,845.8	15.1
<b>Total</b>	<b>\$ 261.8</b>	<b>\$ 23.0</b>	<b>\$ 16,521.7</b>	<b>\$ 152.5</b>	<b>\$ 3,601.3</b>	<b>\$ 7.4</b>	<b>\$ 20,384.8</b>	<b>\$ 182.9</b>

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

(in millions)	September 30, 2012	December 31, 2011
<b>Commercial Banking:</b>		
Commercial real estate	\$ 88.5	\$ 106.7
Commercial and industrial	64.6	59.2
Equipment financing	37.4	42.9
<b>Total (1)</b>	<b>190.5</b>	<b>208.8</b>
<b>Retail:</b>		
Residential mortgage	60.6	68.9
Home equity	14.6	15.8
Other consumer	0.3	0.3
<b>Total</b>	<b>75.5</b>	<b>85.0</b>
<b>Total</b>	<b>\$ 266.0</b>	<b>\$ 293.8</b>

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

- (1) Reported net of government guarantees totaling \$14.1 million and \$12.1 million at September 30, 2012 and December 31, 2011, respectively. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At September 30, 2012, the principal loan classes to which these government guarantees relate are commercial and industrial loans (approximately 90%) and commercial real estate loans (approximately 10%).

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by a Federal Deposit Insurance Corporation (FDIC) loss-share agreement totaling \$191 million and \$11 million, respectively, at September 30, 2012 and \$235 million and \$14 million, respectively, at December 31, 2011. Such loans meet People's United Financial's definition of a non-performing loan but are excluded because the risk of credit loss was considered in the Company's estimate of acquisition-date fair value and/or credit losses are covered by an FDIC loss-share agreement. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectability of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection. There were no loans past due 90 days or more and still accruing interest at September 30, 2012 or December 31, 2011.

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

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

People's United Financial's recorded investment in originated loans classified as TDRs totaled \$151.8 million and \$112.9 million at September 30, 2012 and December 31, 2011, respectively. The related allowance for loan losses at September 30, 2012 and December 31, 2011 were \$6.3 million and \$7.5 million, respectively. Interest income recognized on TDRs totaled \$1.3 million and \$1.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$4.6 million and \$3.3 million for the nine months ended September 30, 2012 and 2011, respectively. Fundings under commitments to lend additional amounts to borrowers with loans classified as TDRs were immaterial for the nine months ended September 30, 2012.

Originated loans that were modified and classified as TDRs during the three and nine months ended September 30, 2012 and 2011 principally involve payment deferral, extension of term (generally no more than twenty four months) and/or a temporary reduction of interest rate (generally less than 200 basis points). In accordance with recent regulatory guidance, residential mortgage and home equity loans restructured in connection with the borrower's bankruptcy are required to be classified as TDRs. At September 30, 2012, the loan portfolio included 170 loans (91 residential mortgage and 79 home equity) totaling \$22.2 million (\$15.0 million residential mortgage and \$7.2 million home equity) meeting such criteria. Included in those totals are 113 loans (67 residential mortgage and 46 home equity) totaling \$12.6 million (\$8.3 million residential mortgage and \$4.3 million home equity) that were restructured prior to January 1, 2012. Loans restructured in bankruptcy during the nine months ended September 30, 2012 are included in the tables below.

The following tables summarize, by class of loan, the recorded investments in loans modified as TDRs during the three and nine months ended September 30, 2012 and 2011. For purposes of this disclosure, recorded investments represent amounts immediately prior to and subsequent to the restructuring.

For the three months ended September 30, 2012		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(dollars in millions)	Number of Contracts		
<b>Commercial Banking:</b>			
Commercial real estate (1)	7	\$ 25.0	\$ 25.0
Commercial and industrial (2)	8	19.6	19.6
Equipment financing (3)	7	9.8	9.8
<b>Total</b>	<b>22</b>	<b>54.4</b>	<b>54.4</b>
<b>Retail:</b>			
Residential mortgage (4)	24	7.2	7.2
Home equity (5)	17	1.4	1.4
Other consumer			
<b>Total</b>	<b>41</b>	<b>8.6</b>	<b>8.6</b>
<b>Total</b>	<b>63</b>	<b>\$ 63.0</b>	<b>\$ 63.0</b>

- (1) Represents the following concessions: extension of term (4 contracts; recorded investment of \$22.2 million); or a combination of concessions (3 contracts; recorded investment of \$2.8 million).
- (2) Represents the following concessions: extension of term (1 contract; recorded investment of \$0.1 million); payment deferral (2 contracts; recorded investment of \$16.3 million); or a combination of concessions (5 contracts; recorded investment of \$3.2 million).
- (3) Represents the following concessions: payment deferral (3 contracts; recorded investment of \$6.4 million) or a combination of concessions (4 contracts; recorded investment of \$3.4 million).

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

- (4) Represents the following concessions: loans restructured in bankruptcy (11 contracts; recorded investment of \$3.3 million); payment deferral (4 contracts; recorded investment of \$0.9 million); or a combination of concessions (9 contracts; recorded investment of \$3.0 million).
- (5) Represents the following concessions: loans restructured in bankruptcy (10 contracts; recorded investment of \$0.9 million); payment deferral (2 contracts; recorded investment of \$0.3 million); or a combination of concessions (5 contracts; recorded investment of \$0.2 million).

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

For the nine months ended September 30, 2012			
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>Commercial Banking:</b>			
Commercial real estate (1)	26	\$ 35.0	\$ 35.0
Commercial and industrial (2)	35	47.3	47.3
Equipment financing (3)	28	19.3	19.3
<b>Total</b>	<b>89</b>	<b>101.6</b>	<b>101.6</b>
<b>Retail:</b>			
Residential mortgage (4)	61	21.6	21.6
Home equity (5)	49	4.2	4.2
Other consumer			
<b>Total</b>	<b>110</b>	<b>25.8</b>	<b>25.8</b>
<b>Total</b>	<b>199</b>	<b>\$ 127.4</b>	<b>\$ 127.4</b>

- (1) Represents the following concessions: extension of term (8 contracts; recorded investment of \$24.8 million); payment deferral (3 contracts; recorded investment of \$3.2 million); or a combination of concessions (15 contracts; recorded investment of \$7.0 million).
- (2) Represents the following concessions: extension of term (3 contracts; recorded investment of \$0.4 million); payment deferral (10 contracts; recorded investment of \$36.2 million); temporary rate reduction (1 contract; recorded investment of \$0.3 million); or a combination of concessions (21 contracts; recorded investment of \$10.4 million).
- (3) Represents the following concessions: extension of term (4 contracts; recorded investment of \$2.9 million); payment deferral (5 contracts; recorded investment of \$8.5 million); or a combination of concessions (19 contracts; recorded investment of \$7.9 million).
- (4) Represents the following concessions: loans restructured in bankruptcy (24 contracts; recorded investment of \$6.9 million); payment deferral (9 contracts; recorded investment of \$2.9 million); temporary rate reduction (5 contracts; recorded investment of \$6.1 million); or a combination of concessions (23 contracts; recorded investment of \$5.7 million).
- (5) Represents the following concessions: loans restructured in bankruptcy (33 contracts; recorded investment of \$3.1 million); payment deferral (3 contracts; recorded investment of \$0.5 million); or a combination of concessions (13 contracts; recorded investment of \$0.6 million).

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

For the three months ended September 30, 2011			
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>Commercial Banking:</b>			
Commercial real estate (1)	3	\$ 0.5	\$ 0.5
Commercial and industrial (2)	7	18.4	18.4
Equipment financing (3)	8	9.1	9.1
<b>Total</b>	<b>18</b>	<b>28.0</b>	<b>28.0</b>
<b>Retail:</b>			
Residential mortgage (4)	1	0.5	0.5
Home equity			
Other consumer			
<b>Total</b>	<b>1</b>	<b>0.5</b>	<b>0.5</b>
<b>Total</b>	<b>19</b>	<b>\$ 28.5</b>	<b>\$ 28.5</b>

- (1) Represents the following concessions: extension of term (3 contracts; recorded investment of \$0.5 million).
- (2) Represents the following concessions: extension of term (4 contracts; recorded investment of \$18.0 million) or payment deferral (3 contracts; recorded investment of \$0.4 million).
- (3) Represents the following concessions: extension of term (1 contract; recorded investment of \$0.7 million); payment deferral (3 contracts; recorded investment of \$2.8 million); or a combination of concessions (4 contracts; recorded investment of \$5.6 million).
- (4) Represents the following concession: combination of concessions (1 contract; recorded investment of \$0.5 million).

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

For the nine months ended September 30, 2011		Pre-Modification	Post-Modification
	Number	Outstanding	Outstanding
(dollars in millions)	of Contracts	Recorded	Recorded
		Investment	Investment
<b>Commercial Banking:</b>			
Commercial real estate (1)	6	\$ 2.0	\$ 2.0
Commercial and industrial (2)	11	20.2	20.2
Equipment financing (3)	24	38.5	38.5
<b>Total</b>	<b>41</b>	<b>60.7</b>	<b>60.7</b>
<b>Retail:</b>			
Residential mortgage (4)	19	8.1	8.1
Home equity (5)	1	0.5	0.5
Other consumer			
<b>Total</b>	<b>20</b>	<b>8.6</b>	<b>8.6</b>
<b>Total</b>	<b>61</b>	<b>\$ 69.3</b>	<b>\$ 69.3</b>

- (1) Represents the following concessions: extension of term (3 contracts; recorded investment of \$0.5 million); payment deferral (2 contracts; recorded investment of \$0.5 million); or a combination of concessions (1 contract; recorded investment of \$1.0 million).
- (2) Represents the following concessions: extension of term (5 contracts; recorded investment of \$18.4 million); payment deferral (4 contracts; recorded investment of \$0.7 million); or a combination of concessions (2 contracts; recorded investment of \$1.1 million).
- (3) Represents the following concessions: extension of term (3 contracts; recorded investment of \$4.8 million); payment deferral (7 contracts; recorded investment of \$9.7 million); or a combination of concessions (14 contracts; recorded investment of \$24.0 million).
- (4) Represents the following concessions: payment deferral (7 contracts; recorded investment of \$3.7 million); temporary rate reduction (6 contracts; recorded investment of \$1.9 million); or a combination of concessions (6 contracts; recorded investment of \$2.5 million).
- (5) Represents the following concession: payment deferral (1 contract; recorded investment of \$0.5 million).

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

The following is a summary, by class of loan, of information related to TDRs of originated loans completed within the previous 12 months that subsequently defaulted during the three and nine months ended September 30, 2012 and 2011. For purposes of this disclosure, the previous 12 months is measured from October 1 of the prior year and a default represents a previously-modified loan that became past due 30 days or more during the three or nine months ended September 30, 2012 or 2011.

(dollars in millions)	Three Months Ended			
	September 30, 2012		September 30, 2011	
	Number of Contracts	Recorded Investment as of Period End	Number of Contracts	Recorded Investment as of Period End
<b>Commercial Banking:</b>				
Commercial real estate	3	\$ 1.7		\$
Commercial and industrial				
Equipment financing	1			
<b>Total</b>	<b>4</b>	<b>1.7</b>		
<b>Retail:</b>				
Residential mortgage	8	6.2	6	2.6
Home equity	7	0.4	1	0.5
Other consumer				
<b>Total</b>	<b>15</b>	<b>6.6</b>	<b>7</b>	<b>3.1</b>
<b>Total</b>	<b>19</b>	<b>\$ 8.3</b>	<b>7</b>	<b>\$ 3.1</b>

(dollars in millions)	Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Number of Contracts	Recorded Investment as of Period End	Number of Contracts	Recorded Investment as of Period End
<b>Commercial Banking:</b>				
Commercial real estate	4	\$ 1.8	1	\$ 0.5
Commercial and industrial	6	0.3	1	0.4
Equipment financing	13	1.5	4	3.1
<b>Total</b>	<b>23</b>	<b>3.6</b>	<b>6</b>	<b>4.0</b>
<b>Retail:</b>				
Residential mortgage	18	9.9	9	2.8
Home equity	13	0.9	1	0.5
Other consumer				
<b>Total</b>	<b>31</b>	<b>10.8</b>	<b>10</b>	<b>3.3</b>

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

Total	54	\$	14.4	16	\$	7.3
-------	----	----	------	----	----	-----

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

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

(in millions)	As of September 30, 2012			As of December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses
<b>Without a related allowance for loan losses:</b>						
Commercial Banking:						
Commercial real estate	\$ 51.4	\$ 47.8	\$	\$ 84.3	\$ 76.9	\$
Commercial and industrial	29.0	28.2		20.0	16.5	
Equipment financing	19.6	15.7		31.1	24.3	
Retail:						
Residential mortgage	38.4	37.0		15.4	15.0	
Home equity	9.6	8.9		0.6	0.6	
Other consumer						
Total	\$ 148.0	\$ 137.6	\$	\$ 151.4	\$ 133.3	\$
<b>With a related allowance for loan losses:</b>						
Commercial Banking:						
Commercial real estate	\$ 81.7	\$ 49.7	\$ 7.2	\$ 71.0	\$ 50.9	\$ 10.4
Commercial and industrial	42.9	39.8	7.0	52.6	43.5	5.7
Equipment financing	31.6	26.5	4.7	39.6	34.1	6.9
Retail:						
Residential mortgage						
Home equity						
Other consumer						
Total	\$ 156.2	\$ 116.0	\$ 18.9	\$ 163.2	\$ 128.5	\$ 23.0
<b>Total impaired loans:</b>						
Commercial Banking:						
Commercial real estate	\$ 133.1	\$ 97.5	\$ 7.2	\$ 155.3	\$ 127.8	\$ 10.4
Commercial and industrial	71.9	68.0	7.0	72.6	60.0	5.7
Equipment financing	51.2	42.2	4.7	70.7	58.4	6.9
Total	256.2	207.7	18.9	298.6	246.2	23.0
Retail:						
Residential mortgage	38.4	37.0		15.4	15.0	
Home equity	9.6	8.9		0.6	0.6	
Other consumer						
Total	48.0	45.9		16.0	15.6	

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

Total	\$ 304.2	\$ 253.6	\$ 18.9	\$ 314.6	\$ 261.8	\$ 23.0
-------	----------	----------	---------	----------	----------	---------

21

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended			
	September 30, 2012		September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(in millions)				
<b>Commercial Banking:</b>				
Commercial real estate	\$ 96.0	\$ 0.2	\$ 80.7	\$ 0.8
Commercial and industrial	64.3	0.5	35.3	0.7
Equipment financing	43.2	0.2	57.7	0.3
<b>Total</b>	<b>203.5</b>	<b>0.9</b>	<b>173.7</b>	<b>1.8</b>
<b>Retail:</b>				
Residential mortgage	24.9	0.3	14.5	0.2
Home equity	3.7	0.1	0.7	
Other consumer				
<b>Total</b>	<b>28.6</b>	<b>0.4</b>	<b>15.2</b>	<b>0.2</b>
<b>Total</b>	<b>\$ 232.1</b>	<b>\$ 1.3</b>	<b>\$ 188.9</b>	<b>\$ 2.0</b>

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(in millions)				
<b>Commercial Banking:</b>				
Commercial real estate	\$ 103.3	\$ 1.0	\$ 85.5	\$ 2.4
Commercial and industrial	62.9	1.7	29.2	2.0
Equipment financing	47.4	1.4	57.2	0.9
<b>Total</b>	<b>213.6</b>	<b>4.1</b>	<b>171.9</b>	<b>5.3</b>
<b>Retail:</b>				
Residential mortgage	19.0	0.7	11.2	0.4
Home equity	1.8	0.2	0.6	
Other consumer				
<b>Total</b>	<b>20.8</b>	<b>0.9</b>	<b>11.8</b>	<b>0.4</b>
<b>Total</b>	<b>\$ 234.4</b>	<b>\$ 5.0</b>	<b>\$ 183.7</b>	<b>\$ 5.7</b>



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

The following is a summary, by class of loan, of aging information for originated loans:

As of September 30, 2012 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total Past Due	Total Originated
<b>Commercial Banking:</b>					
Commercial real estate	\$ 5,743.9	\$ 27.4	\$ 72.8	\$ 100.2	\$ 5,844.1
Commercial and industrial	4,886.0	16.8	55.5	72.3	4,958.3
Equipment financing	1,967.5	41.0	10.9	51.9	2,019.4
<b>Total</b>	<b>12,597.4</b>	<b>85.2</b>	<b>139.2</b>	<b>224.4</b>	<b>12,821.8</b>
<b>Retail:</b>					
Residential mortgage	3,387.4	64.8	57.2	122.0	3,509.4
Home equity	1,935.8	13.6	13.8	27.4	1,963.2
Other consumer	109.4	2.3	0.3	2.6	112.0
<b>Total</b>	<b>5,432.6</b>	<b>80.7</b>	<b>71.3</b>	<b>152.0</b>	<b>5,584.6</b>
<b>Total originated loans</b>	<b>\$ 18,030.0</b>	<b>\$ 165.9</b>	<b>\$ 210.5</b>	<b>\$ 376.4</b>	<b>\$ 18,406.4</b>

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling \$16.8 million, \$22.1 million and \$26.5 million, respectively, and \$4.2 million of retail loans in foreclosure and bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectibility of interest and principal.

As of December 31, 2011 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total Past Due	Total Originated
<b>Commercial Banking:</b>					
Commercial real estate	\$ 5,365.1	\$ 27.2	\$ 93.2	\$ 120.4	\$ 5,485.5
Commercial and industrial	4,272.1	27.7	52.1	79.8	4,351.9
Equipment financing	1,630.9	56.2	16.6	72.8	1,703.7
<b>Total</b>	<b>11,268.1</b>	<b>111.1</b>	<b>161.9</b>	<b>273.0</b>	<b>11,541.1</b>
<b>Retail:</b>					
Residential mortgage	3,014.5	69.6	68.2	137.8	3,152.3
Home equity	1,899.7	19.4	15.5	34.9	1,934.6
Other consumer	151.6	3.6	0.3	3.9	155.5
<b>Total</b>	<b>5,065.8</b>	<b>92.6</b>	<b>84.0</b>	<b>176.6</b>	<b>5,242.4</b>

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

Total originated loans	\$ 16,333.9	\$ 203.7	\$ 245.9	\$ 449.6	\$ 16,783.5
------------------------	-------------	----------	----------	----------	-------------

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling \$15.0 million, \$17.5 million and \$26.3 million, respectively, and \$1.2 million of retail loans in foreclosure and bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectibility of interest and principal.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

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

As of September 30, 2012 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
<b>Commercial Banking:</b>				
<b>Originated loans:</b>				
Pass	\$ 5,516.1	\$ 4,527.0	\$ 1,773.5	\$ 11,816.6
Special mention	90.3	116.2	104.7	311.2
Substandard	234.3	312.3	141.2	687.8
Doubtful	3.4	2.8		6.2
<b>Total originated loans</b>	<b>5,844.1</b>	<b>4,958.3</b>	<b>2,019.4</b>	<b>12,821.8</b>
<b>Acquired loans:</b>				
Pass	737.3	573.4	66.9	1,377.6
Special mention	96.6	90.1	24.2	210.9
Substandard	334.1	131.9	87.0	553.0
Doubtful	20.7	0.5		21.2
<b>Total acquired loans</b>	<b>1,188.7</b>	<b>795.9</b>	<b>178.1</b>	<b>2,162.7</b>
<b>Total</b>	<b>\$ 7,032.8</b>	<b>\$ 5,754.2</b>	<b>\$ 2,197.5</b>	<b>\$ 14,984.5</b>

  

As of September 30, 2012 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
<b>Retail:</b>				
<b>Originated loans:</b>				
Low risk	\$ 2,647.1	\$ 1,244.1	\$ 81.2	\$ 3,972.4
Moderate risk	785.4	633.4	9.1	1,427.9
High risk	76.9	85.7	21.7	184.3
<b>Total originated loans</b>	<b>3,509.4</b>	<b>1,963.2</b>	<b>112.0</b>	<b>5,584.6</b>
<b>Acquired loans:</b>				
Low risk	229.9	58.7	0.3	288.9
Moderate risk	133.2	27.6	0.5	161.3
High risk	18.8		1.9	20.7
<b>Total acquired loans</b>	<b>381.9</b>	<b>86.3</b>	<b>2.7</b>	<b>470.9</b>
<b>Total</b>	<b>\$ 3,891.3</b>	<b>\$ 2,049.5</b>	<b>\$ 114.7</b>	<b>\$ 6,055.5</b>



## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2011 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
<b>Commercial Banking:</b>				
<b>Originated loans:</b>				
Pass	\$ 5,052.8	\$ 3,942.2	\$ 1,450.9	\$ 10,445.9
Special mention	90.8	115.9	102.7	309.4
Substandard	341.8	289.7	150.1	781.6
Doubtful	0.1	4.1		4.2
<b>Total originated loans</b>	<b>5,485.5</b>	<b>4,351.9</b>	<b>1,703.7</b>	<b>11,541.1</b>
<b>Acquired loans:</b>				
Pass	1,053.6	762.2	81.9	1,897.7
Special mention	162.1	103.5	69.6	335.2
Substandard	467.4	131.5	157.1	756.0
Doubtful	3.6	3.5	1.9	9.0
<b>Total acquired loans</b>	<b>1,686.7</b>	<b>1,000.7</b>	<b>310.5</b>	<b>2,997.9</b>
<b>Total</b>	<b>\$ 7,172.2</b>	<b>\$ 5,352.6</b>	<b>\$ 2,014.2</b>	<b>\$ 14,539.0</b>

As of December 31, 2011 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
<b>Retail:</b>				
<b>Originated loans:</b>				
Low risk	\$ 2,502.2	\$ 1,199.6	\$ 126.9	\$ 3,828.7
Moderate risk	625.7	624.4	8.0	1,258.1
High risk	24.4	110.6	20.6	155.6
<b>Total originated loans</b>	<b>3,152.3</b>	<b>1,934.6</b>	<b>155.5</b>	<b>5,242.4</b>
<b>Acquired loans:</b>				
Low risk	138.8	32.1	0.9	171.8
Moderate risk	335.7	91.0	0.6	427.3
High risk	1.6		2.7	4.3
<b>Total acquired loans</b>	<b>476.1</b>	<b>123.1</b>	<b>4.2</b>	<b>603.4</b>
<b>Total</b>	<b>\$ 3,628.4</b>	<b>\$ 2,057.7</b>	<b>\$ 159.7</b>	<b>\$ 5,845.8</b>

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

*Commercial Banking Credit Quality Indicators*

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

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

*Retail Credit Quality Indicators*

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

The risk characteristics considered include: (i) collateral values/loan-to-value ratios (above and below 70%); (ii) borrower credit scores under the FICO scoring system (above and below a score of 680); and (iii) other relevant portfolio risk elements such as income verification at the time of underwriting (stated income vs. non-stated income) and the property's intended use (owner occupied, non-owner occupied, second home, etc.). In classifying a loan as either High, Moderate or Low risk, the combination of each of the aforementioned risk characteristics is considered for that loan, resulting, effectively, in a matrix approach to its risk rating.

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

For example, to the extent loan-to-value ratios exceed 70% (reflecting a weaker collateral position for the Company) or borrower FICO scores are less than 680 (reflecting weaker financial standing and/or credit history of the customer), the loans are considered to have an increased level of inherent loss. As a result, a loan with a combination of these characteristics would generally be classified as High risk. Conversely, as loan-to-value ratios decline (reflecting a stronger collateral position for the Company) or borrower FICO scores exceed 680 (reflecting stronger financial standing and/or credit history of the customer), the loans are considered to have a decreased level of inherent loss. A loan with a combination of these characteristics would generally be classified as Low risk. This analysis also considers (i) the extent of underwriting that occurred at the time of origination (direct income verification provides further support for credit decisions) and (ii) the property's intended use (owner-occupied properties are less likely to default compared to investment-type non-owner occupied properties, second homes, etc.). Loans not otherwise deemed to be High or Low risk are classified as Moderate risk.

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

Commercial banking and retail loans, other than acquired loans, are also evaluated to determine whether they are impaired loans, which are included in the preceding tabular disclosures of credit quality indicators. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impaired loans also include certain loans whose terms have been modified in such a way that they are considered TDRs.

*Acquired Loans Credit Quality Indicators*

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

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

Acquired loans are initially recorded at fair value, determined based upon an estimate of the amount and timing of both principal and interest cash flows expected to be collected and discounted using a market interest rate. The difference between contractually required principal and interest payments at the acquisition date and the undiscounted cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference, which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time. At September 30, 2012, the allowance for loan losses on acquired loans was \$10.5 million (\$7.4 million at December 31, 2011).

*Acquired Loans*

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

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

## Table of Contents

### **People's United Financial, Inc.**

#### **Notes to Consolidated Financial Statements (Unaudited)**

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

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

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

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

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

An acquired loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within non-interest income based on the difference between the sales proceeds and the carrying amount of the loan. In other cases, individual loans are removed from the pool based on comparing the amount received from its resolution (fair value of the underlying collateral less costs to sell in the case of a foreclosure) with its outstanding balance. Any difference between these amounts is absorbed by the nonaccretable difference established for the entire pool. For loans resolved by payment in full, there is no adjustment of the nonaccretable difference since there is no difference between the amount received at resolution and the outstanding balance of the loan. In these cases, the remaining accretable yield balance is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed in connection with the subsequent cash flow re-assessment for the pool. Acquired loans subject to modification are not removed from the pool even if those loans would otherwise be deemed TDRs as the pool, and not the individual loan, represents the unit of account.

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

At the respective acquisition dates in 2011 and 2010, on an aggregate basis, the acquired loan portfolio had contractually required principal and interest payments receivable of \$7.57 billion; expected cash flows of \$7.02 billion; and a fair value (initial carrying amount) of \$5.36 billion. The difference between the contractually required principal and interest payments receivable and the expected cash flows (\$550.9 million) represented the initial nonaccretable difference. The difference between the expected cash flows and fair value (\$1.66 billion) represented the initial accretable yield. Both the contractually required principal and interest payments receivable and the expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At September 30, 2012, the outstanding balance and the carrying amount of the acquired loan portfolio were \$2.71 billion and \$2.63 billion, respectively (\$3.74 billion and \$3.60 billion, respectively, at December 31, 2011). At September 30, 2012, the aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans totaled \$176.3 million.

The following table summarizes activity in the accretable yield for the acquired loan portfolio:

For the three months ended September 30 (in millions)	2012	2011
Balance at beginning of period	\$ 1,149.7	\$ 902.0
Acquisition		629.0
Accretion	(48.7)	(72.0)
Reclassification from nonaccretable difference for loans with improved cash flows (1)		
Other changes in expected cash flows (2)	(184.0)	
Balance at end of period	\$ 917.0	\$ 1,459.0
For the nine months ended September 30 (in millions)	2012	2011
Balance at beginning of period	\$ 1,310.4	\$ 954.8
Acquisition		629.0
Accretion	(164.7)	(189.9)
Reclassification from nonaccretable difference for loans with improved cash flows (1)	22.4	55.3
Other changes in expected cash flows (2)	(251.1)	9.8
Balance at end of period	\$ 917.0	\$ 1,459.0

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

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

Other real estate owned ( REO ) was comprised of commercial and residential properties totaling \$12.6 million and \$7.2 million, respectively, at September 30, 2012, and \$15.9 million and \$10.9 million, respectively, at December 31, 2011. Repossessed assets totaled \$8.2 million and \$16.1 million at September 30, 2012 and December 31, 2011, respectively.



**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 5. STOCKHOLDERS' EQUITY**

***Treasury Stock***

Treasury stock includes (i) common stock repurchased in the open market by People's United Financial in connection with its stock repurchase programs authorized by its Board of Directors and (ii) common stock purchased for awards under the People's United Financial, Inc. 2007 Recognition and Retention Plan (the "RRP").

In April 2008, People's United Financial's Board of Directors authorized the repurchase of up to 5% of People's United Financial's then-outstanding common stock, or 17.3 million shares. In January 2011, People's United Financial's Board of Directors authorized an additional repurchase of common stock for up to 5% of the Company's then-outstanding common stock, or 17.5 million shares. Under both authorizations, such shares may be repurchased either directly or through agents, in the open market at prices and terms satisfactory to management. In February 2011 and September 2011, People's United Financial completed the repurchase of the maximum number of shares of common stock authorized in April 2008 and January 2011, respectively. During the nine months ended September 30, 2011, 20.4 million shares of People's United Financial common stock were repurchased under these stock repurchase programs at a total cost of \$247.2 million.

In October 2011, People's United Financial's Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of the Company's common stock outstanding, or 18.0 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. During the nine months ended September 30, 2012, 13.5 million shares of People's United Financial common stock were repurchased under this program at a total cost of \$163.7 million.

In conjunction with establishing the RRP in October 2007, a trustee purchased 7.0 million shares of People's United Financial common stock in the open market with funds provided by People's United Financial. At September 30, 2012, 3.0 million shares were available to be awarded in the form of restricted stock under the provisions of the RRP.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

#### Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including: (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People's United Financial's pension and other postretirement benefit plans; (ii) net unrealized gains or losses on securities available for sale; and (iii) net gains or losses on derivatives accounted for as cash flow hedges. People's United Financial's total comprehensive income for the three and nine months ended September 30, 2012 and 2011 is reported in the Consolidated Statements of Comprehensive Income.

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

	Pension and Other Postretirement Benefits	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
(in millions)				
Balance at December 31, 2011	\$ (138.8)	\$ 43.2	\$ (0.2)	\$ (95.8)
Current period other comprehensive income (loss)	3.1	15.8	(2.1)	16.8
Balance at September 30, 2012	\$ (135.7)	\$ 59.0	\$ (2.3)	\$ (79.0)

	Pension and Other Postretirement Benefits	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
(in millions)				
Balance at December 31, 2010	\$ (101.0)	\$ 1.5	\$ 0.5	\$ (99.0)
Current period other comprehensive income (loss)	16.1	46.1		62.2
Balance at September 30, 2011	\$ (84.9)	\$ 47.6	\$ 0.5	\$ (36.8)

**Table of Contents****People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****NOTE 6. EARNINGS PER COMMON SHARE**

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

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 62.2	\$ 51.5	\$ 184.1	\$ 151.0
Dividends and undistributed earnings allocated to participating securities	(0.3)	(0.3)	(1.0)	(1.0)
Income attributable to common shareholders	\$ 61.9	\$ 51.2	\$ 183.1	\$ 150.0
Average common shares outstanding for basic EPS	336.4	358.2	340.6	349.3
Effect of dilutive equity-based awards	0.1	0.1	0.1	0.1
Average common and common-equivalent shares for diluted EPS	336.5	358.3	340.7	349.4
Basic EPS	\$ 0.18	\$ 0.14	\$ 0.54	\$ 0.43
Diluted EPS	\$ 0.18	\$ 0.14	\$ 0.54	\$ 0.43

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

All unallocated ESOP common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted EPS. Anti-dilutive equity-based awards totaling 11.9 million and 11.7 million for the three and nine months ended September 30, 2012, respectively, and 11.6 million for both the three and nine months ended September 30, 2011 have been excluded from the calculation of diluted EPS.

## Table of Contents

### People's United Financial, Inc.

#### Notes to Consolidated Financial Statements (Unaudited)

#### NOTE 7. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are summarized as follows for the nine months ended September 30, 2012 and 2011:

(in millions)	Operating Segment			Total
	Commercial Banking	Retail and Business Banking	Wealth Management	
Balance at December 31, 2011	\$ 1,220.9	\$ 680.7	\$ 49.8	\$ 1,951.4
Acquisition of branches		0.7		0.7
Adjustments	1.9	0.5		2.4
Balance at September 30, 2012	\$ 1,222.8	\$ 681.9	\$ 49.8	\$ 1,954.5

(in millions)	Operating Segment			Total
	Commercial Banking	Retail and Business Banking	Wealth Management	
Balance at December 31, 2010	\$ 1,037.1	\$ 636.5	\$ 49.8	\$ 1,723.4
Acquisition of Danvers	162.3	40.6		202.9
Adjustments	(2.6)	(2.3)		(4.9)
Balance at September 30, 2011	\$ 1,196.8	\$ 674.8	\$ 49.8	\$ 1,921.4

People's United Financial's other acquisition-related intangible assets totaled \$205.8 million and \$222.8 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible (\$106.3 million); core deposit intangible (\$68.5 million); trust relationship intangible (\$29.2 million); and insurance relationship intangible (\$1.8 million).

Amortization expense of other acquisition-related intangible assets, which is included in other non-interest expense in the Consolidated Statements of Income, totaled \$6.7 million and \$7.0 million for the three months ended September 30, 2012 and 2011, respectively, and \$20.1 million and \$18.9 million for the nine months ended September 30, 2012 and 2011, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2012 and each of the next five years is as follows: \$26.8 million in 2012; \$26.2 million in 2013; \$24.8 million in 2014; \$23.8 million in 2015; \$22.7 million in 2016; and \$21.6 million in 2017. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the nine months ended September 30, 2012 or 2011.

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 8. EMPLOYEE BENEFIT PLANS**

***People's United Financial Employee Pension and Other Postretirement Benefit Plans***

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

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

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

People's United Financial's funding policy is to contribute the amounts required by applicable regulations, although additional amounts may be contributed from time to time.

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

# Table of Contents

## People's United Financial, Inc.

### Notes to Consolidated Financial Statements (Unaudited)

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

For the three months ended September 30 (in millions)	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Net periodic benefit (income) expense:				
Service cost	\$	\$ 1.8	\$	\$
Interest cost	4.4	4.6	0.2	0.2
Expected return on plan assets	(6.6)	(6.7)		
Amortization of unrecognized net transition obligation			0.1	0.1
Recognized net actuarial loss	1.1	2.0		
Recognized prior service credit			(0.1)	(0.1)
Settlements	0.2			
Curtailments (1)		(0.5)		
Net periodic benefit (income) expense	\$ (0.9)	\$ 1.2	\$ 0.2	\$ 0.2

For the nine months ended September 30 (in millions)	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Net periodic benefit (income) expense:				
Service cost	\$	\$ 6.7	\$ 0.1	\$ 0.1
Interest cost	13.2	13.9	0.5	0.5
Expected return on plan assets	(19.7)	(20.0)		
Amortization of unrecognized net transition obligation			0.2	0.3
Recognized net actuarial loss	3.3	7.2		
Recognized prior service credit		(0.1)	(0.2)	(0.2)
Settlements	0.6			
Curtailments (1)		(0.5)		
Net periodic benefit (income) expense	(2.6)	7.2	0.6	0.7
Other changes in plan assets and benefit obligations recognized in other comprehensive income or loss:				
Net actuarial loss	(3.3)	(25.5)		
Transition obligation			(0.2)	(0.3)
Prior service credit		0.1	0.2	0.2
Total pre-tax changes recognized in other comprehensive income or loss	(3.3)	(25.4)		(0.1)
Total recognized in net periodic benefit (income) expense and other comprehensive income or loss	\$ (5.9)	\$ (18.2)	\$ 0.6	\$ 0.6

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

- (1) Reflects the recognition of prior service credit associated with the decision in July 2011 to freeze , effective December 31, 2011, the accrual of pension benefits for Plan participants.

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

***Chittenden Pension Plan***

In addition to the plans described above, People's United Financial continues to maintain a fully-funded qualified defined benefit pension plan that covers former Chittenden Corporation (Chittenden) employees who meet certain eligibility requirements. Effective December 31, 2005, benefits accrued under this defined benefit plan were frozen based on participants' then current service and pay levels. During April 2010, participants in the Chittenden pension plan who were in payment status as of April 1, 2010 or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010 (based upon elections made by April 15, 2010) were transferred into the People's United Financial pension plan. Net periodic benefit expense (income) for the Chittenden pension plan totaled \$0.9 million and \$(0.3) million for the nine months ended September 30, 2012 and 2011, respectively.

***Employee Stock Ownership Plan***

In April 2007, People's United Financial established an Employee Stock Ownership Plan (the ESOP). At that time, People's United Financial loaned the ESOP \$216.8 million to purchase 10.5 million shares of People's United Financial common stock in the open market. In order for the ESOP to repay the loan, People's United Financial expects to make annual cash contributions to the ESOP of approximately \$18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares, which totaled \$4.2 million for the nine months ended September 30, 2012. At September 30, 2012, the loan balance totaled \$201.0 million.

Shares of People's United Financial common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant's eligible compensation. Since the ESOP was established, a total of 2,003,605 shares of People's United Financial common stock have been allocated or committed to be released to participants' accounts. At September 30, 2012, 8,449,970 shares of People's United Financial common stock, with a fair value of \$102.6 million at that date, have not been allocated or committed to be released.

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants' accounts multiplied by the average fair value of People's United Financial's common stock during the reporting period. The difference between the fair value of the shares of People's United Financial's common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled \$3.2 million and \$3.4 million for the nine months ended September 30, 2012 and 2011, respectively.

## **Table of Contents**

### **People's United Financial, Inc.**

#### **Notes to Consolidated Financial Statements (Unaudited)**

#### **NOTE 9. LEGAL PROCEEDINGS**

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

##### ***Litigation Relating to the Smithtown Bancorp, Inc. Transaction***

On February 25, 2010 and March 29, 2010, Smithtown and several of its officers and directors were named in two lawsuits commenced in United States District Court, Eastern District of New York (*Waterford Township Police & Fire Retirement v. Smithtown Bancorp, Inc., et al.* and *Yourgal v. Smithtown Bancorp, Inc. et al.*, respectively) on behalf of a putative class of all persons and entities who purchased Smithtown's common stock between March 13, 2008 and February 1, 2010, alleging claims under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934. The plaintiffs allege, among other things, that Smithtown's loan loss reserve, fair value of its assets, recognition of impaired assets and its internal and disclosure controls were materially false, misleading or incomplete. As a result of the merger of Smithtown with and into People's United Financial on November 30, 2010, People's United Financial has become the successor party to Smithtown in this matter.

On April 26, 2010, the named plaintiff in the *Waterford* action moved to consolidate its action with the *Yourgal* action, to have itself appointed lead plaintiff in the consolidated action and to obtain approval of its selection of lead counsel. The Court approved the consolidation of the two suits, with Waterford Township named the lead plaintiff. On December 23, 2011, People's United Financial filed a Motion to Dismiss the complaint and that motion is still pending.

##### ***Other***

People's United Bank has been named as a defendant in a lawsuit (*Marta Farb, on behalf of herself and all others similarly situated v. People's United Bank*) arising from its assessment and collection of overdraft fees on its checking account customers. The complaint was filed in the Superior Court of Connecticut, Judicial District of Waterbury, on April 22, 2011 and alleges that People's United Bank engaged in certain unfair practices in the posting of electronic debit card transactions from highest to lowest dollar amount. The complaint also alleges that such practices were inadequately disclosed to customers and were unfairly used by People's United Bank for the purpose of generating revenue by maximizing the number of overdrafts a customer is assessed. The complaint seeks certification of a class of checking account holders residing in Connecticut and who have incurred at least one overdraft fee, injunctive relief, compensatory, punitive and treble damages, disgorgement and restitution of overdraft fees paid, and attorneys' fees. On June 16, 2011, People's United Bank filed a motion to dismiss the complaint, and on December 7, 2011, that motion was denied by the court. On April 11, 2012, the plaintiff filed an amended complaint, and on May 15, 2012, People's United Bank filed a Motion to Strike the Amended Complaint. That motion remains pending. Expedited discovery in this case began in July 2012.

People's United Bank has been named as a defendant in a lawsuit (*Tracy Fracasse and K. Lee Brown, individually and on behalf of others similarly situated v. People's United Bank*) based on allegations that People's United Bank failed to pay overtime compensation required by (i) the federal Fair Labor Standards Act and (ii) the Connecticut Minimum Wage Act. The plaintiffs allege that they were employed as underwriters and were misclassified as exempt employees. The plaintiffs further allege that they worked in excess of 40 hours per week and were erroneously denied overtime compensation as required by federal and state wage and hour laws. The complaint was filed in the U.S. District Court of Connecticut on May 3, 2012. Since the complaint is brought under both federal and state law, the complaint seeks certification of two different but overlapping classes. The plaintiffs seek damages in the amount of their respective unpaid overtime and minimum wage compensation, liquidated damages and interest and attorneys' fees. On June 29, 2012, People's United Bank filed its Answer and Affirmative Defenses.

#### **NOTE 10. SEGMENT INFORMATION**

See Segment Results included in Item 2 for segment information for the nine months ended September 30, 2012 and 2011.

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 11. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

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

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

## **Table of Contents**

### **People's United Financial, Inc.**

#### **Notes to Consolidated Financial Statements (Unaudited)**

#### **Recurring Fair Value Measurements**

##### ***Trading Account Securities and Securities Available For Sale***

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

Substantially all of the Company's available-for-sale securities represent GSE residential mortgage-backed securities and CMOs. The fair values of these securities are based on prices obtained from the independent pricing service. The pricing service uses various techniques to determine pricing for the Company's mortgage-backed securities, including option pricing and discounted cash flow analysis. The inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, monthly payment information and collateral performance. At both September 30, 2012 and December 31, 2011, the entire available-for-sale residential mortgage-backed securities portfolio was comprised of 15-year GSE securities. An active market exists for securities that are similar to the Company's GSE residential mortgage-backed securities and CMOs, making observable inputs readily available.

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

##### ***Other Financial Assets***

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

##### ***Derivatives***

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

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

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

As of September 30, 2012 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Trading account securities:				
U.S. Treasury	\$ 6.3	\$	\$	\$ 6.3
Securities available for sale:				
U.S. Treasury and agency	30.8			30.8
GSE residential mortgage-backed securities and CMOs		3,175.6		3,175.6
State and municipal		381.6		381.6
Corporate		59.9		59.9
Other		2.9		2.9
Equity securities		0.2		0.2
Other financial assets:				
Fixed income securities		39.8		39.8
Equity mutual funds		0.5		0.5
Interest rate swaps		81.8		81.8
Forward commitments to sell residential mortgage loans		6.2		6.2
<b>Total</b>	<b>\$ 37.1</b>	<b>\$ 3,748.5</b>	<b>\$</b>	<b>\$ 3,785.6</b>
<b>Financial liabilities:</b>				
Interest rate swaps	\$	\$ 78.0	\$	\$ 78.0
Foreign exchange contracts		0.1		0.1
Interest rate-lock commitments on residential mortgage loans		7.6		7.6
<b>Total</b>	<b>\$</b>	<b>\$ 85.7</b>	<b>\$</b>	<b>\$ 85.7</b>

As of September 30, 2012, the fair value of the risk participation agreements totaled less than \$50,000.

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

As of December 31, 2011 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Trading account securities:				
U.S. Treasury	\$ 71.7	\$	\$	\$ 71.7
Equity securities		0.1		0.1
<b>Securities available for sale:</b>				
U.S. Treasury and agency	31.0	50.0		81.0
GSE residential mortgage-backed securities and CMOs		2,447.8		2,447.8
State and municipal		137.7		137.7
Corporate		56.5		56.5
Other		2.3		2.3
Equity securities		0.2		0.2
<b>Other financial assets:</b>				
Fixed income securities		39.6		39.6
Equity mutual funds		0.4		0.4
Interest rate swaps		61.3		61.3
Foreign exchange contracts		0.3		0.3
Forward commitments to sell residential mortgage loans		1.0		1.0
<b>Total</b>	<b>\$ 102.7</b>	<b>\$ 2,797.2</b>	<b>\$</b>	<b>\$ 2,899.9</b>
<b>Financial liabilities:</b>				
Interest rate swaps	\$	\$ 57.5	\$	\$ 57.5
Interest rate-lock commitments on residential mortgage loans		1.4		1.4
<b>Total</b>	<b>\$</b>	<b>\$ 58.9</b>	<b>\$</b>	<b>\$ 58.9</b>

As of December 31, 2011, the fair value of the risk participation agreement was less than \$50,000.

There were no transfers into or out of the Level 1 or Level 2 categories during the nine months ended September 30, 2012 and 2011.

**Non-Recurring Fair Value Measurements*****Loans Held for Sale***

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

***Impaired Loans***

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

(to reflect estimated cost to sell) that generally approximates 10%.

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

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

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

As of September 30, 2012 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Loans held for sale (1)	\$	\$ 60.0	\$	\$ 60.0
Impaired loans (2)			116.0	116.0
REO and repossessed assets (3)			28.0	28.0
Total	\$	\$ 60.0	\$ 144.0	\$ 204.0

As of December 31, 2011 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Loans held for sale (1)	\$	\$ 101.9	\$	\$ 101.9
Impaired loans (2)			128.5	128.5
REO and repossessed assets (3)			42.9	42.9
Total	\$	\$ 101.9	\$ 171.4	\$ 273.3

- (1) Consists of residential mortgage loans; no fair value adjustments were recorded for the nine months ended September 30, 2012 and 2011.
- (2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured based on the fair value of the underlying collateral less cost to sell. The total consists of \$49.7 million, \$39.8 million and \$26.5 million of commercial real estate loans, commercial and industrial loans, and equipment financing loans, respectively, at September 30, 2012. The provision for loan losses on collateral-dependent impaired loans totaled \$10.3 million and \$10.8 million for the nine months ended September 30, 2012 and 2011, respectively.
- (3) Represents: (i) \$8.2 million of repossessed assets; (ii) \$12.6 million of commercial REO; and (iii) \$7.2 million of residential REO at September 30, 2012. Charge-offs to the allowance for loan losses related to loans that were transferred to REO and repossessed assets totaled \$2.3 million and \$3.0 million for the nine months ended September 30, 2012 and 2011, respectively. Write downs and net loss on sale of foreclosed/repossessed assets charged to non-interest expense totaled \$0.6 million and \$4.0 million for the same periods.

**Financial Assets and Financial Liabilities Not Measured At Fair Value**

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

exit price approach to fair value).

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

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

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

***Cash and Short-Term Investments***

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

***Securities Held to Maturity***

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

***FHLB Stock***

FHLB stock is a non-marketable equity security and is, therefore, reported at cost (classified as Level 2), which equals par value (the amount at which shares have been redeemed in the past). No significant observable market data is available for this security.

***Loans***

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

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

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

The fair value of home equity lines of credit was based on the outstanding loan balances, and therefore does not reflect the value associated with earnings from future loans to existing customers. Management believes that the fair value of these customer relationships has a substantial intangible value separate from the loan balances currently outstanding.

***Deposit Liabilities***

The fair values of time deposits represent contractual cash flows discounted at current rates determined by reference to observable inputs including a LIBOR/swap curve over the remaining period to maturity. As such, these fair values are classified as Level 2. The fair values of other deposit liabilities (those with no stated maturity, such as checking and savings accounts) are equal to the carrying amounts payable on demand. Deposit fair values do not include the intangible value of core deposit relationships that comprise a significant portion of People's United Financial's deposit base. Management believes that People's United Financial's core deposit relationships provide a relatively stable, low-cost funding source that has a substantial intangible value separate from the deposit balances.

***Borrowings and Subordinated Notes and Debentures***

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

***Off-Balance-Sheet Financial Instruments***

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

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

The following tables summarize the carrying amounts, estimated fair values and placement in the fair value hierarchy (as of September 30, 2012) of People's United Financial's financial instruments that are not measured at fair value either on a recurring or non-recurring basis:

As of September 30, 2012 (in millions)	Carrying Amount	Level 1	Estimated Fair Value Measurements Using Level 2	Level 3	Total
<b>Financial assets:</b>					
Cash and due from banks	\$ 358.3	\$ 358.3	\$	\$	\$ 358.3
Short-term investments	63.7		63.7		63.7
Securities held to maturity	56.2		59.7	1.2	60.9
FHLB stock	73.7		73.7		73.7
Total loans, net (1)	20,738.0		3,955.9	17,355.5	21,311.4
<b>Financial liabilities:</b>					
Time deposits	4,886.7		4,957.1		4,957.1
Other deposits	16,475.9		16,475.9		16,475.9
FHLB advances	629.3		646.9		646.9
Retail repurchase agreements	479.0		479.0		479.0
Federal funds purchased	415.0		415.0		415.0
Other borrowings	1.0		1.0		1.0
Subordinated notes and debentures	160.4		156.4		156.4

(1) Excludes impaired loans totaling \$116.0 million that have been measured at fair value on a non-recurring basis.

As of December 31, 2011 (in millions)	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>		
Cash and due from banks	\$ 370.2	\$ 370.2
Short-term investments	410.7	410.7
Securities held to maturity	56.4	62.5
FHLB stock	77.7	77.7
Total loans, net (1)	20,073.4	20,562.6
<b>Financial liabilities:</b>		
Time deposits	5,339.2	5,401.8
Other deposits	15,476.6	15,476.6
Retail repurchase agreements	497.2	497.2
FHLB advances	332.4	344.4
Other borrowings	27.1	26.5
Subordinated notes and debentures	159.6	164.0

(1) Excludes impaired loans totaling \$128.5 million that have been measured at fair value on a non-recurring basis.



**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

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

All derivatives are recognized as either assets or liabilities in the Consolidated Statements of Condition. Amounts reported represent the fair values of the derivative contracts, net of amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative contracts executed with the same counterparty under a master netting arrangement. Until 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. Amounts representing the fair value of the Company's derivative contracts have been presented on a gross basis in the tabular disclosure provided on page 51.

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

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

People's United Financial formally documents at inception all relationships between the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities, or to specific firm commitments or forecasted transactions. People's United 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. Gains or losses resulting from the termination of a derivative accounted for as a cash flow hedge remain in accumulated other comprehensive income or loss and are amortized to earnings over the remaining period of the former hedging relationship, provided the hedged item continues to be outstanding.

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

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.

By using derivatives, People's United Financial is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's counterparty credit risk is equal to the amount reported as a derivative asset in the Consolidated Statements of Condition. In accordance with the Company's offsetting policy noted earlier, amounts reported as derivative assets represent derivative contracts in a gain position, net of derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People's United Financial seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, execution of master netting arrangements and obtaining collateral, where appropriate. Counterparties to People's United Financial's derivatives include major financial institutions with investment grade credit ratings from the major rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

Certain of People's United Financial's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company's external credit rating. If the Company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of master netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2012 was \$8.5 million, for which People's United Financial had posted \$7.6 million collateral in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$0.9 million in additional collateral would have been required.

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

***Interest Rate Swaps***

People's United Financial may, from time to time, enter into pay fixed/receive floating interest rate swaps that are used to manage interest rate risk associated with certain interest-earning assets and interest-bearing liabilities.

Interest rate swaps associated with interest-earning assets, which matured in March 2012, were used to match more closely the repricing of certain commercial real estate loans and the funding associated with these loans. Specifically, People's United Financial agreed with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. As a result, the interest rate swaps effectively converted the fixed rate assets to a variable interest rate and consequently reduced People's United Financial's exposure to increases in interest rates. These interest rate swaps were accounted for as fair value hedges.

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

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

***Interest Rate Floors***

An interest rate floor is a type of option contract that is exercised when the underlying interest rate falls below a specified strike rate. Previously, People's United Financial purchased interest rate floors for the purpose of partially managing its exposure to decreases in the one-month LIBOR-index rate used to reprice certain long-term commercial loans. The interest rate floors were accounted for as cash flow hedges.

***Foreign Exchange Contracts***

Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People's United Financial uses these instruments on a limited basis to eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans. Effective in the first quarter of 2010, People's United Financial no longer designates foreign exchange contracts as hedging instruments.

***Risk Participation Agreements***

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

***Customer Derivatives***

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

***Forward Commitments to Sell Residential Mortgage Loans and Related Interest Rate-Lock Commitments***

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

# Table of Contents

## People's United Financial, Inc.

### Notes to Consolidated Financial Statements (Unaudited)

The table below provides a summary of the notional amounts and fair values of derivatives outstanding:

(in millions)	Type of Hedge	Notional Amounts		Fair Values (1)			
		Sept. 30, 2012	Dec. 31, 2011	Assets		Liabilities	
		Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2012	Dec. 31, 2011
<b>Derivatives Not Designated as Hedging Instruments:</b>							
Interest rate swaps:							
Commercial customers	N/A	\$ 1,078.1	\$ 878.2	\$ 81.8	\$ 61.3	\$	\$
Other counterparties	N/A	1,078.1	878.2			74.4	57.1
Foreign exchange contracts	N/A	6.5	8.1		0.3	0.1	
Risk participation agreements	N/A	15.7	10.0				
Forward commitments to sell residential mortgage loans	N/A	172.7	118.4	6.2	1.0		
Interest rate-lock commitments on residential mortgage loans	N/A	233.1	148.1			7.6	1.4
<b>Total</b>				<b>88.0</b>	<b>62.6</b>	<b>82.1</b>	<b>58.5</b>
<b>Derivatives Designated as Hedging Instruments:</b>							
Interest rate swaps:							
Loans	Fair value		4.1				
Subordinated notes	Cash flow	125.0	125.0			3.6	0.4
<b>Total</b>						<b>3.6</b>	<b>0.4</b>
<b>Total derivatives</b>				<b>\$ 88.0</b>	<b>\$ 62.6</b>	<b>\$ 85.7</b>	<b>\$ 58.9</b>

(1) Assets are recorded in other assets and liabilities are recorded in other liabilities.

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

The following table summarizes the impact of People's United Financial's derivatives on pre-tax income and accumulated other comprehensive loss (AOCL):

Nine months ended September 30 (in millions)	Type of Hedge	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1)		Amount of Pre-Tax Gain (Loss) Recognized in AOCL	
		2012	2011	2012	2011
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps:					
Commercial customers	N/A	\$ 35.6	\$ 55.4	\$	\$
Other counterparties	N/A	(33.7)	(54.1)		
Foreign exchange contracts	N/A	(0.4)	0.7		
Risk participation agreements (2)	N/A				
Forward commitments to sell residential mortgage loans	N/A	5.2	2.7		
Interest rate-lock commitments on residential mortgage loans	N/A	(6.0)	(3.1)		
Total		0.5	1.6		
Derivatives Designated as Hedging Instruments:					
Interest rate swaps	Cash flow			(3.2)	0.5
Interest rate floors (3)	Cash flow		0.7		
Interest rate swaps	Fair value		(0.2)		
Total			0.5	(3.2)	0.5
Total derivatives		\$ 0.5	\$ 2.1	\$ (3.2)	\$ 0.5

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

(2) Pre-tax gain (loss) recognized in earnings less than \$50,000.

(3) Reflects income relating to interest rate floors terminated during 2008 and 2009. See Interest Rate Floors.

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**NOTE 13. REVISED FINANCIAL RESULTS**

Previously reported results for the three and nine months ended September 30, 2011 have been revised to reflect a reduction in interest income on certain acquired loans relating to an unintentional overstatement of interest income. The unintentional overstatement also affected the fourth quarter of 2010, the other quarters in 2011 and the first two quarters of 2012. The effect of these revisions was immaterial to each period (no change in basic and diluted earnings per share for the first and second quarters of 2012 and the first and fourth quarters of 2011, and a one cent reduction in basic and diluted earnings per share for the second and third quarters of 2011 and the fourth quarter of 2010). Net income for the three months ended June 30, 2012, March 31, 2012, December 31, 2011, September 30, 2011, June 30, 2011, March 31, 2011 and December 31, 2010 was reduced by \$0.2 million, \$1.3 million, \$1.6 million, \$1.4 million, \$1.7 million, \$1.7 million and \$3.2 million, respectively, reflecting the after-tax decreases in total interest on loans and net interest income in each period. The revision of 2011 and 2010 results also decreased total loans and reduced retained earnings by \$15.2 million and \$9.6 million, respectively, at December 31, 2011, and by \$5.0 million and \$3.2 million, respectively, at December 31, 2010. The revisions also resulted in a \$7.6 million decrease in net cash provided by operating activities and a corresponding increase in net cash provided by investing activities as reported in the Consolidated Statements of Cash Flows for the nine months ended September 30, 2011.

**NOTE 14. NEW ACCOUNTING STANDARDS**

***Goodwill and Other Intangible Assets***

In September 2011, the Financial Accounting Standards Board (the "FASB") amended its standards to provide an option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity is not required to perform the two-step impairment test. This amendment became effective for People's United Financial on January 1, 2012 and did not have a significant impact on the Company's Consolidated Financial Statements.

In July 2012, the FASB amended its standards again to allow companies to perform a qualitative assessment in determining whether further impairment testing of indefinite-lived intangible assets is necessary, similar to the previous amendment which permits such an approach to the goodwill impairment test. This amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013 for People's United Financial) with early adoption permitted provided the entity has not yet performed its 2012 annual impairment test.

---

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

***Reconsideration of Effective Control for Repurchase Agreements***

In April 2011, the FASB amended its standards with respect to repurchase agreements. The amendment changes (i) the effective control assessment by removing the criterion that required the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. Instead, the transferor should assess effective control based on its rights and obligations with respect to the transferred financial assets and not based on whether it has the practical ability to perform in accordance with those rights or obligations. As a result, it is anticipated that most repurchase agreements will not qualify for derecognition of the financial assets from the transferor's financial statements. This amendment became effective for People's United Financial on January 1, 2012 and did not have a significant impact on the Company's Consolidated Financial Statements.

***Fair Value Measurements***

In May 2011, the FASB issued amendments to its standards on fair value with the objective of establishing (i) a consistent definition of fair value and (ii) common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments, which are generally consistent with existing fair value measurement principles contained in U.S. GAAP, serve to expand the related disclosure requirements for fair value measurements and provide necessary clarifications in order to align with IFRS.

Specifically, the amendments include provisions relating to: (i) application of the highest and best use and valuation premise concepts; (ii) application of premiums and discounts, including blockage factors, in a fair value measurement; (iii) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity; and (iv) additional disclosures about fair value measurements, including quantitative information (e.g. sensitivity analysis) about the unobservable inputs used for Level 3 items and the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value is required to be disclosed. These amendments, which were applied prospectively, became effective for People's United Financial on January 1, 2012 and did not have a significant impact on the Company's fair value measurements. The applicable required disclosures have been provided in Note 11.

**Table of Contents**

**People's United Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

***Comprehensive Income***

In June 2011, the FASB amended its standards relating to the presentation of comprehensive income to require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate consecutive statements. These amendments will make the financial statement presentation of other comprehensive income more prominent by eliminating the alternative to present comprehensive income within the statement of stockholders' equity. In December 2011, the FASB deferred indefinitely the portion of the new guidance requiring that items reclassified out of accumulated other comprehensive income (loss) be presented on the face of the financial statements together with the related components of net income and other comprehensive income.

The effective date of the deferral is consistent with the effective date of the June 2011 amendments. For public entities, these amendments, which are to be applied retrospectively, became effective January 1, 2012. The Company has presented separate Consolidated Statements of Comprehensive Income immediately following its Consolidated Statements of Income.

***Balance Sheet Offsetting Disclosures***

In December 2011, the FASB issued amendments to its standards to provide for certain additional disclosures about financial instruments and derivatives instruments that are subject to netting arrangements. Specifically, entities will be required to provide information about both net and gross amounts in the notes to the financial statements for relevant assets and liabilities that are offset. For People's United Financial, these new disclosures are required for interim and annual periods beginning on or after January 1, 2013 and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

***Accounting for Indemnification Assets***

In October 2012, the FASB amended its standards with respect to the subsequent accounting for an indemnification asset recognized in connection with a government-assisted acquisition of a financial institution. The amendment addresses diversity in practice with respect to how entities subsequently recognize decreases in expected cash flows from the indemnification asset resulting from an expected recovery in the indemnified asset(s) by requiring that a subsequent adjustment to the indemnification asset be measured on the same basis as the underlying asset(s), taking into consideration the term of the related loss share agreement (LSA). Accordingly, the loss on the indemnification asset would be amortized over the lesser of the remaining term of the LSA or the indemnified asset(s). This would be consistent with the recognition approach for the expected recovery over the term of the indemnified asset(s).

This amendment, which is to be applied prospectively to new indemnification agreements and to unamortized amounts existing at the date of adoption, is effective for fiscal years and interim periods beginning on or after December 15, 2012 (January 1, 2013 for People's United Financial) and is not expected to have a significant impact on the Company's Consolidated Financial Statements.

## **Table of Contents**

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

#### **Forward-Looking Statements**

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

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

All forward-looking statements are subject to risks and uncertainties that could cause People's United 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, international, national or regional economic conditions; (2) changes in interest rates; (3) changes in loan default and charge-off rates; (4) changes in deposit levels; (5) changes in levels of income and expense in non-interest income and expense related activities; (6) 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; (10) the successful integration of acquired companies; and (11) changes in regulation resulting from or relating to financial reform legislation.

All forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. People's United 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.

#### **Recent Market Developments**

In response to the unprecedented challenges affecting the banking system, the federal government began implementing several programs in late 2008 designed to address a variety of issues facing the financial sector. The most noteworthy of these initiatives was the Emergency Economic Stabilization Act of 2008 (the "EESA" ). The EESA led to the Troubled Asset Relief Program (the "TARP" ) and the TARP Capital Purchase Program, neither of which had a direct impact on People's United Financial as the Company did not participate in these programs. People's United Financial did, however, experience a number of changes with respect to deposit insurance coverage and related assessments.

#### ***FDIC Insurance Coverage / Assessments***

The Federal Deposit Insurance Corporation (the "FDIC" ) insures deposits at FDIC insured financial institutions up to certain limits, charging premiums to maintain the Deposit Insurance Fund (the "DIF" ) at specified levels. Such premiums may vary based on the risk profile of the insured institution and, until 2009, ranged 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.

Adverse economic conditions over the past several years has resulted in an increased number of bank failures and, consequently, greater use of DIF resources. In November 2009, the FDIC adopted a final rule that amended the assessment regulations to require insured financial institutions to prepay their estimated deposit insurance premiums for 2010, 2011 and 2012 on December 30, 2009. Under this rule, the prepayment was based on an assumed 5% annual growth rate in each institution's insured deposits (the assessment base) and an assumed increase of three basis points in each institution's premium assessment rate beginning in 2011. On December 30, 2009, People's United Bank prepaid its estimated deposit insurance premiums totaling \$69 million in accordance with FDIC regulations. The prepaid deposit insurance assessment at September 30, 2012 was \$8 million, which includes balances acquired in connection with recent business combinations.

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

The EESA increased the FDIC deposit insurance limit from \$100,000 to \$250,000 per depositor through December 31, 2009, and subsequent amendments extended the increased coverage through December 31, 2013.

## **Table of Contents**

In February 2011, the FDIC approved a final rule that: (i) changed the assessment base from adjusted domestic deposits to a bank's average consolidated total assets minus average tangible equity (defined as Tier 1 capital); (ii) adopted a new large-bank pricing assessment scheme; and (iii) set a target size for the DIF at 2% of insured deposits. The rule, which was effective beginning with the quarterly assessment period ended June 30, 2011, also (i) implemented a lower assessment rate schedule when the DIF reaches 1.15 percent and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2 percent and 2.5 percent and (ii) created a scorecard-based assessment system for financial institutions with more than \$10 billion in assets, including People's United Bank.

The actual amount of future assessments will be dependent on several factors, including: (i) People's United Bank's average total assets and average tangible equity; (ii) People's United Bank's risk profile; and (iii) whether additional special assessments are imposed in future periods and the manner in which such assessments are determined.

### ***Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010***

As previously disclosed in the risk factors included in People's United Financial's Annual Report on Form 10-K for the year ended December 31, 2011, our business is subject to risk as a result of changes in Federal and State regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA"), which was signed into law on July 21, 2010, implements significant changes in the financial regulatory landscape and will impact all financial institutions and their holding companies, including People's United Bank and People's United Financial.

Among the DFA's significant regulatory changes, it creates a new federal consumer protection agency, the Consumer Financial Protection Bureau (the "CFPB"), which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The CFPB has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws. The CFPB will also have exclusive supervision over our consumer compliance examinations. Moreover, the DFA permits states to adopt stricter consumer protection laws and authorizes state attorneys general to enforce consumer protection rules issued by the CFPB. The DFA restricts the authority of the federal banking regulators to preempt state consumer protection laws applicable to the Bank and limits the preemption of state laws as they affect subsidiaries and agents of federally-chartered banks.

---

**Table of Contents**

The DFA provides that the amount of interchange fee that an issuer of debit cards may charge or receive must be reasonable and proportional to the cost of the transaction. The DFA directs the Board of Governors of the Federal Reserve System (the FRB) to issue regulations to implement this requirement, and further provides that in determining whether a charge is reasonable and proportional the issuer may generally consider only costs that are specific to the individual transaction. Separately, the FRB is authorized to issue regulations that would allow an issuer to adjust interchange fees to reflect the costs associated with fraud mitigation related to debit card transactions, provided that the issuer must comply with fraud-related standards to be established by the FRB. The DFA further provides that a debit card issuer may not restrict the number of payment card networks on which a debit card transaction may be processed to a single network or limit the ability of a merchant to direct the routing of debit card payments for processing. The interchange fee provisions became effective in the fourth quarter of 2011 (see Non-Interest Income). It is anticipated that establishment of the CFPB and these other changes will significantly increase the Company's regulatory compliance burden and costs and may restrict the financial products and services People's United Financial offers to its customers.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the DFA. As a result, beginning on July 21, 2011, financial institutions could begin offering interest on demand deposits. As of September 30, 2012, People's United Bank's non-interest-bearing deposits totaled \$4.7 billion, or 22% of total deposits. The Company's interest expense may increase and its net interest margin may decrease if we begin to offer higher rates of interest than we currently offer on demand deposits.

The DFA also imposes stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on holding companies and prohibiting new trust preferred issuances from counting as Tier 1 capital. The DFA also increases regulation of derivatives and hedging transactions, which could limit the ability of People's United Financial to enter into, or increase the costs associated with, interest rate and other hedging transactions.

The actions noted above, together with additional actions announced by the U.S. Treasury and other regulatory agencies, continue to develop. It is not clear at this time what impact such actions will have on the capital markets and the financial services industry. The extreme levels of market volatility and limited credit availability currently being experienced could continue to adversely affect the U.S. banking industry and the broader U.S. and global economies for the foreseeable future, which will have an effect on all financial institutions, including People's United Financial.

The DFA transferred all supervisory functions, including ongoing supervision, examination and regulation, for savings and loan holding companies and their non-depository subsidiaries to the FRB, effective July 21, 2011, and on the same day, the Office of the Comptroller of the Currency (the OCC) assumed responsibility for the supervision, examination and regulation of all federally-chartered savings banks. In October 2011, People's United Bank filed an application with the OCC to convert to a national bank charter. In connection with this conversion, People's United Financial intends to submit an application to the Federal Reserve Bank of New York to convert to a bank holding company.

## Table of Contents

### Selected Consolidated Financial Data

	Sept. 30, 2012	Three Months Ended June 30, 2012 (1)	Sept. 30, 2011 (1)	Nine Months Ended Sept. 30, 2012	Sept. 30, 2011 (1)
(dollars in millions, except per share data)					
<b>Earnings Data:</b>					
Net interest income (fully taxable equivalent)	\$ 237.8	\$ 238.3	\$ 240.4	\$ 711.8	\$ 679.1
Provision for loan losses	15.1	10.6	14.4	37.2	43.0
Non-interest income (2)	81.4	75.7	84.7	229.5	235.9
Non-interest expense (3)	208.9	205.7	231.9	623.2	641.7
Income before income tax expense	92.2	95.0	76.1	272.7	225.1
Net income	62.2	64.6	51.5	184.1	151.0
Operating earnings (4)	64.4	67.0	65.9	190.7	173.6

### Selected Statistical Data:

Net interest margin (5)	3.89%	3.96%	4.07%	3.94%	4.09%
Operating net interest margin (4), (5)	3.82	3.88	4.07	3.89	4.02
Return on average assets (5)	0.88	0.93	0.75	0.88	0.79
Operating return on average assets (4), (5)	0.91	0.97	0.96	0.91	0.90
Return on average tangible assets (5)	0.95	1.01	0.82	0.96	0.85
Return on average stockholders' equity (5)	4.8	5.0	3.7	4.7	3.8
Return on average tangible stockholders' equity (5)	8.3	8.5	6.1	8.1	6.2
Operating return on average tangible stockholders' equity (4), (5)	8.6	8.9	7.8	8.4	7.1
Efficiency ratio (4)	61.4	61.5	62.4	62.2	64.5

### Common Share Data:

Basic and diluted earnings per share	\$ 0.18	\$ 0.19	\$ 0.14	\$ 0.54	\$ 0.43
Operating earnings per share (4)	0.18	0.20	0.18	0.57	0.49
Dividends paid per share	0.1600	0.1600	0.1575	0.4775	0.4700
Dividend payout ratio	87.3%	85.4%	111.5%	89.3%	110.0%
Operating dividend payout ratio (4)	84.3	82.2	87.1	86.2	95.7
Book value per share (end of period)	\$ 15.20	\$ 15.09	\$ 15.15	\$ 15.20	\$ 15.15
Tangible book value per share (end of period) (4)	8.77	8.72	8.98	8.77	8.98
Stock price:					
High	12.55	13.50	13.96	13.79	14.49
Low	11.20	11.25	10.50	11.20	10.50
Close (end of period)	12.14	11.61	11.40	12.14	11.40

- (1) Previously reported amounts for the three months ended June 30, 2012 and the three and nine months ended Sept. 30, 2011 have been revised to reflect a reduction in net interest income, which, after taxes, reduced net income by \$0.2 million, \$1.4 million and \$4.8 million, respectively. Basic and diluted earnings per share were reduced by \$0.01 and \$0.02 for the three and nine months ended Sept. 30, 2011, respectively (no change for the three months ended June 30, 2012). Certain statistical data and other per common share data have been revised accordingly. See Note 13 to the Consolidated Financial Statements.
- (2) Includes net security gains of \$8.6 million and \$8.8 million for the three and nine months ended Sept. 30, 2011, respectively.
- (3) Includes a total of \$3.2 million, \$3.6 million and \$21.5 million of merger-related expenses and one-time charges for the three months ended Sept. 30, 2012, June 30, 2012 and Sept. 30, 2011, respectively, and \$9.8 million and \$33.8 million for the nine months ended Sept. 30, 2012 and 2011, respectively.
- (4) See Non-GAAP Financial Measures and Reconciliation to GAAP.
- (5) Annualized.



## Table of Contents

	As of and for the Three Months Ended				
(dollars in millions)	Sept. 30, 2012	June 30, 2012 (1)	March 31, 2012 (1)	Dec. 31, 2011 (1)	Sept. 30, 2011 (1)
<b>Financial Condition Data:</b>					
Total assets	\$ 28,576	\$ 28,137	\$ 27,791	\$ 27,553	\$ 27,200
Loans	21,040	20,588	20,472	20,385	20,136
Securities	3,787	3,702	2,895	2,931	2,540
Short-term investments (2)	64	73	767	411	779
Allowance for loan losses	186	180	183	183	177
Goodwill and other acquisition-related intangibles	2,160	2,166	2,169	2,174	2,151
Deposits	21,363	21,458	21,268	20,816	20,487
Borrowings	1,524	960	811	857	881
Subordinated notes and debentures	160	160	160	160	159
Stockholders' equity	5,107	5,135	5,170	5,215	5,282
Non-performing assets (3)	294	295	316	337	305
Net loan charge-offs	9.4	13.5	11.2	14.8	13.4

### Average Balances:

Loans	\$ 20,727	\$ 20,488	\$ 20,407	\$ 20,217	\$ 19,856
Securities	3,608	2,964	2,751	2,411	2,976
Short-term investments (2)	108	562	536	854	756
Loans held for sale	31	26	39	60	26
Total earning assets	24,474	24,040	23,733	23,542	23,614
Total assets	28,234	27,753	27,463	27,285	27,355
Deposits	21,372	21,190	20,843	20,597	20,259
Total funding liabilities	22,709	22,184	21,862	21,653	21,499
Stockholders' equity	5,161	5,188	5,217	5,302	5,515

### Ratios:

Net loan charge-offs to average loans (annualized)	0.18%	0.26%	0.22%	0.29%	0.27%
Non-performing assets to originated loans, real estate owned and repossessed assets (3)	1.59	1.67	1.85	2.00	1.88
Originated allowance for loan losses to:					
Originated loans (3)	0.95	1.00	1.03	1.05	1.09
Originated non-performing loans (3)	66.0	65.6	61.5	59.7	68.5
Average stockholders' equity to average total assets	18.3	18.7	19.0	19.4	20.2
Stockholders' equity to total assets	17.9	18.3	18.6	18.9	19.4
Tangible stockholders' equity to tangible assets (4)	11.2	11.4	11.7	12.0	12.5
Total risk-based capital (5)	15.6	15.6	16.0	16.2	16.7

- (1) Previously reported amounts as of June 30, 2012, March 31, 2012, Dec. 31, 2011 and Sept. 30, 2011 have been revised to reflect a reduction in loans of \$18 million, \$18 million, \$15 million and \$12 million, respectively, and in stockholders' equity of \$12 million, \$11 million, \$10 million and \$9 million, respectively. Certain statistical data has been revised accordingly. See Note 13 to the Consolidated Financial Statements.
- (2) Includes securities purchased under agreements to resell.
- (3) Excludes acquired loans. See Asset Quality.
- (4) See Non-GAAP Financial Measures and Reconciliation to GAAP.
- (5) Consolidated. See Regulatory Capital Requirements.

## **Table of Contents**

### **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 their evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency and tangible equity ratios, tangible book value per share and operating earnings metrics. Management believes these non-GAAP financial measures provide information useful to investors in understanding People's United Financial's underlying operating performance and trends, and facilitates comparisons with the performance of other banks and thrifts. Further, the efficiency ratio and operating earnings metrics are used by management in its assessment of financial performance, including non-interest expense control, while the tangible equity ratio and tangible book value per share are used to analyze the relative strength of People's United Financial's capital position.

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 (i) total non-interest expense (excluding goodwill impairment charges, amortization of other acquisition-related intangibles, losses on real estate assets and non-recurring expenses) (the numerator) to (ii) net interest income on a fully taxable equivalent (FTE) basis plus total non-interest income (including the FTE adjustment on bank-owned life insurance (BOLI) income, and excluding gains and losses on sales of assets other than residential mortgage loans, and non-recurring income) (the denominator). People's United Financial generally considers an item of income or expense to be non-recurring if it is not similar to an item of income or expense of a type incurred within the last two years and is not similar to an item of income or expense of a type reasonably expected to be incurred within the following two years.

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

Operating net interest margin excludes from the net interest margin those items that management considers to be of such a discrete nature that, by excluding such items, People's United Financial's net interest margin can be measured and assessed on a more consistent basis from period to period. Items excluded from operating net interest margin include cost recovery income on acquired loans and changes in the accretable yield on acquired loans stemming from periodic cash flow reassessments. Operating net interest margin is calculated by dividing operating net interest income (annualized) by average earning assets.

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

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

## Table of Contents

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

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Total non-interest expense	\$ 208.9	\$ 205.7	\$ 231.9	\$ 623.2	\$ 641.7
Adjustments:					
Amortization of other acquisition-related intangibles	(6.7)	(6.8)	(7.0)	(20.1)	(18.9)
Severance-related costs	(0.9)	(1.1)	(1.4)	(4.4)	(1.4)
Merger-related expenses			(20.1)		(29.6)
Executive-level separation costs					(2.8)
Other (1)	(5.0)	(4.6)	(2.3)	(12.6)	(6.3)
Total	\$ 196.3	\$ 193.2	\$ 201.1	\$ 586.1	\$ 582.7
Net interest income (FTE basis)	\$ 237.8	\$ 238.3	\$ 240.4	\$ 711.8	\$ 679.1
Total non-interest income	81.4	75.7	84.7	229.5	235.9
Total revenues	319.2	314.0	325.1	941.3	915.0
Adjustments:					
BOLI FTE adjustment	0.7	0.6	0.9	2.2	2.3
Net (gains) losses on sales of acquired loans		(0.7)	4.8	(0.7)	(7.9)
Net security gains			(8.6)		(8.8)
Other (2)			0.1		2.3
Total	\$ 319.9	\$ 313.9	\$ 322.3	\$ 942.8	\$ 902.9
Efficiency ratio	61.4%	61.5%	62.4%	62.2%	64.5%

- (1) Items classified as "other" and deducted from non-interest expense include, as applicable, certain franchise taxes, real estate owned expenses, contract termination costs and non-recurring expenses.
- (2) Items classified as "other" and added to (deducted from) total revenues include, as applicable, asset write-offs, gains associated with the sale of branch locations and mortgage servicing rights, and interest on an income tax refund.

## Table of Contents

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

(dollars in millions, except per share data)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net income, as reported	\$ 62.2	\$ 64.6	\$ 51.5	\$ 184.1	\$ 151.0
Adjustments to arrive at operating earnings:					
Severance-related costs	0.9	1.1	1.4	4.4	1.4
Merger-related expenses			20.1		29.6
Executive-level separation costs					2.8
Other non-operating expenses	2.3	2.5		5.4	
Total pre-tax adjustments	3.2	3.6	21.5	9.8	33.8
Tax effect	(1.0)	(1.2)	(7.1)	(3.2)	(11.2)
Total adjustments, net of tax	2.2	2.4	14.4	6.6	22.6
Operating earnings	\$ 64.4	\$ 67.0	\$ 65.9	\$ 190.7	\$ 173.6
Earnings per share, as reported	\$ 0.18	\$ 0.19	\$ 0.14	\$ 0.54	\$ 0.43
Adjustment to arrive at operating earnings per share:					
Severance-related costs				0.01	
Merger-related expenses			0.04		0.06
Executive-level separation costs					
Other non-operating expenses	0.01	0.01		0.02	
Total adjustments per share	0.01	0.01	0.04	0.03	0.06
Operating earnings per share	\$ 0.19	\$ 0.20	\$ 0.18	\$ 0.57	\$ 0.49
Average total assets	\$ 28,234	\$ 27,753	\$ 27,355	\$ 27,818	\$ 25,620
Operating return on average assets (annualized)	0.91%	0.97%	0.96%	0.91%	0.90%

## Table of Contents

The following table summarizes People's United Financial's operating net interest margin:

(dollars in millions, except per share data)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net interest income (FTE basis)	\$ 237.8	\$ 238.3	\$ 240.4	\$ 711.8	\$ 679.1
Adjustments to arrive at operating net interest income:					
Cost recovery income	(4.1)	(4.7)		(8.8)	
Changes in accretable yield					(11.2)
Total adjustments	(4.1)	(4.7)		(8.8)	(11.2)
Operating net interest income	\$ 233.7	\$ 233.6	\$ 240.4	\$ 703.0	\$ 667.9
Net interest margin, as reported (annualized)	3.89%	3.96%	4.07%	3.94%	4.09%
Adjustments to arrive at operating net interest margin (annualized):					
Cost recovery income	(0.07)	(0.08)		(0.05)	
Changes in accretable yield					(0.07)
Total adjustments	(0.07)	(0.08)		(0.05)	(0.07)
Operating net interest margin (annualized)	3.82%	3.88%	4.07%	3.89%	4.02%
Total earning assets	\$ 24,474	\$ 24,040	\$ 23,614	\$ 24,084	\$ 22,159

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

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Operating earnings	\$ 64.4	\$ 67.0	\$ 65.9	\$ 190.7	\$ 173.6
Average stockholders' equity	\$ 5,161	\$ 5,188	\$ 5,515	\$ 5,188	\$ 5,294
Less: Average goodwill and average other acquisition-related intangibles	2,164	2,166	2,154	2,167	2,021
Average tangible stockholders' equity	\$ 2,997	\$ 3,022	\$ 3,361	\$ 3,021	\$ 3,273
Operating return on average tangible stockholders' equity (annualized)	8.6%	8.9%	7.8%	8.4%	7.1%

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011

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

Dividends paid	\$ 54.3	\$ 55.1	\$ 57.4	\$ 164.3	\$ 166.1
Operating earnings	\$ 64.4	\$ 67.0	\$ 65.9	\$ 190.7	\$ 173.6
Operating dividend payout ratio	84.3%	82.2%	87.1%	86.2%	95.7%

## Table of Contents

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

(in millions, except per share data)	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011
Total stockholders' equity	\$ 5,107	\$ 5,135	\$ 5,170	\$ 5,215	\$ 5,282
Less: Goodwill and other acquisition-related intangibles	2,160	2,166	2,169	2,174	2,151
<b>Tangible stockholders' equity</b>	<b>\$ 2,947</b>	<b>\$ 2,969</b>	<b>\$ 3,001</b>	<b>\$ 3,041</b>	<b>\$ 3,131</b>
Total assets	\$ 28,576	\$ 28,137	\$ 27,791	\$ 27,553	\$ 27,200
Less: Goodwill and other acquisition-related intangibles	2,160	2,166	2,169	2,174	2,151
<b>Tangible assets</b>	<b>\$ 26,416</b>	<b>\$ 25,971</b>	<b>\$ 25,622</b>	<b>\$ 25,379</b>	<b>\$ 25,049</b>
<b>Tangible equity ratio</b>	<b>11.2%</b>	<b>11.4%</b>	<b>11.7%</b>	<b>12.0%</b>	<b>12.5%</b>

(in millions, except per share data)	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011
<b>Tangible stockholders' equity</b>	<b>\$ 2,947</b>	<b>\$ 2,969</b>	<b>\$ 3,001</b>	<b>\$ 3,041</b>	<b>\$ 3,131</b>
Common shares issued	395.88	395.87	395.84	395.42	395.46
Less: Common shares classified as treasury shares	51.48	47.00	42.49	38.03	38.07
Unallocated ESOP common shares	8.45	8.54	8.62	8.71	8.80
<b>Common shares</b>	<b>335.95</b>	<b>340.33</b>	<b>344.73</b>	<b>348.68</b>	<b>348.59</b>
<b>Tangible book value per share</b>	<b>\$ 8.77</b>	<b>\$ 8.72</b>	<b>\$ 8.71</b>	<b>\$ 8.72</b>	<b>\$ 8.98</b>

## Acquisition of Branches Completed in 2012

On June 22, 2012, People's United Bank acquired 57 branches from RBS Citizens, N.A. and assumed approximately \$324 million in deposits associated with these branches. Fifty-three of the branches are situated in Stop & Shop supermarkets and four are traditional branches. All of the branches are located in the state of New York, with 30 on Long Island, eight in Westchester County and six in the boroughs of New York City. People's United Bank paid a 1% premium on the assumed deposits of approximately \$3.24 million. See Note 2 to the Consolidated Financial Statements.

In the second quarter of 2012, People's United Bank sold one of its branches located in Massachusetts. Included in the sale was approximately \$11.6 million in deposits and \$0.7 million of other assets.

## Acquisition Completed in 2011

After the close of business on June 30, 2011, People's United Financial acquired Danvers Bancorp, Inc. (Danvers) based in Danvers, Massachusetts. The transaction was effective July 1, 2011. Total consideration paid in the Danvers acquisition of approximately \$462 million

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

consisted of approximately \$214 million in cash and 18.5 million shares of People's United Financial common stock with a fair value of approximately \$248 million. Cash consideration was paid at the rate of \$23.00 per share of Danvers common stock and stock consideration was paid at the rate of 1.624 shares of People's United Financial common stock per share of Danvers common stock. See Note 2 to the Consolidated Financial Statements.

### Financial Overview

As previously discussed, People's United Financial completed its acquisition of Danvers on June 30, 2011, effective July 1, 2011. Accordingly, People's United Financial's results of operations include the results of Danvers beginning with the effective date, and prior period results have not been restated to include Danvers. Previously reported results for: (i) the first two quarters of 2012; (ii) all four quarters of 2011; and (iii) the fourth quarter of 2010 have been revised to reflect a reduction in interest income on certain acquired loans relating to an unintentional overstatement of interest income. See Note 13 to the Consolidated Financial Statements.

People's United Financial reported net income of \$62.2 million, or \$0.18 per diluted share, for the three months ended September 30, 2012, compared to \$51.5 million, or \$0.14 per diluted share, for the year-ago period. Operating earnings were \$64.4 million, or \$0.19 per share, and \$65.9 million, or \$0.18 per share, for the respective periods. Compared to the year-ago period, third quarter 2012 earnings reflect continued loan and deposit growth, ongoing strength in fee income businesses and meaningful cost control.

## **Table of Contents**

For the nine months ended September 30, 2012, net income totaled \$184.1 million, or \$0.54 per diluted share, compared to \$151.0 million, or \$0.43 per diluted share, for the year-ago period. Operating earnings were \$190.7 million, or \$0.57 per share, and \$173.6 million, or \$0.49 per share, for the respective periods.

People's United Financial's operating return on average assets was 0.91% for the three months ended September 30, 2012 compared to 0.96% for the year-ago period. Operating return on average tangible stockholders' equity was 8.6% for the three months ended September 30, 2012 compared to 7.8% for the year-ago period.

FTE net interest income totaled \$237.8 million for the third quarter of 2012, a \$2.6 million decrease from the year-ago quarter, reflecting continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at lower yields, partially offset by cost recovery income on acquired loans in the third quarter of 2012 (representing cash receipts in excess of carrying amount) and a reduction in funding costs. The operating net interest margin decreased 25 basis points from the third quarter of 2011 to 3.82%, primarily reflecting the overall reduction in interest rates.

Compared to the second quarter of 2012, FTE net interest income decreased \$0.5 million while the operating net interest margin declined by 6 basis points, primarily reflecting lower yields on loans.

Average earning assets increased \$860 million compared to the third quarter of 2011, reflecting increases of \$871 million in average loans and \$631 million in average securities partially offset by a \$648 million decrease in average short-term investments. Average funding liabilities increased \$1.2 billion in the third quarter of 2012 compared to the year-ago quarter, reflecting a \$1.1 billion increase in average deposits.

Compared to the year-ago quarter, total non-interest income decreased \$3.3 million and total non-interest expense decreased \$23.0 million (see Non-Interest Income and Non-Interest Expense). The efficiency ratio was 61.4% for the third quarter of 2012 compared to 62.4% for the year-ago period.

The provision for loan losses in the third quarter of 2012 totaled \$15.1 million compared to \$14.4 million in the year-ago quarter. The provision for loan losses in the third quarter of 2012 reflected: (i) net loan charge-offs of \$9.4 million, of which \$4.8 million carried previously-established specific reserves; (ii) a \$4.8 million increase in the allowance for loan losses due to growth in both the commercial and residential mortgage loan portfolios; and (iii) \$5.7 million of impairment associated with the acquired loan portfolio (see Asset Quality). The provision for loan losses in the third quarter of 2011 reflected net loan charge-offs of \$13.4 million, of which \$4.7 million carried previously-established specific reserves, and a \$5.7 million increase in the allowance for loan losses. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.18% in the third quarter of 2012 compared to 0.27% in the year-ago quarter.

The allowance for loan losses on originated loans was \$175.5 million at both September 30, 2012 and December 31, 2011. The allowance for loan losses on acquired loans was \$10.5 million at September 30, 2012, a \$3.1 million increase from December 31, 2011. Non-performing assets totaled \$294.0 million at September 30, 2012, a \$42.7 million decrease from December 31, 2011. At September 30, 2012, the originated allowance for loan losses as a percentage of originated loans was 0.95% and as a percentage of originated non-performing loans was 66.0% (see Asset Quality).

People's United Financial's total stockholders' equity was \$5.1 billion at September 30, 2012 compared to \$5.2 billion at December 31, 2011 and as a percentage of total assets, stockholders' equity was 17.9% and 18.9%, respectively. Tangible stockholders' equity as a percentage of tangible assets was 11.2% at September 30, 2012 compared to 12.0% at December 31, 2011.

People's United Bank's and People's United Financial's (consolidated) total risk-based capital ratios were 14.1% and 15.6%, respectively, at September 30, 2012 compared to 13.9% and 16.2%, respectively, at December 31, 2011 (see Regulatory Capital Requirements).

## **Table of Contents**

### **Segment Results**

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

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

The Company's operating segments have been aggregated into two reportable segments: Commercial Banking; and Retail and Business Banking. These reportable segments have been identified and organized based on the nature of the underlying products and services applicable to each segment, the type of customers to whom those products and services are offered and the distribution channel through which those products and services are made available. With respect to Wealth Management, this presentation results in the Company's insurance business and certain trust activities being allocated to the Commercial Banking segment, while the Company's brokerage business and certain other trust activities are allocated to the Retail and Business Banking segment. Segment results for 2011, which previously included Wealth Management as a separate reportable segment, have been revised to reflect the aforementioned two reportable segment approach.

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 (FTP), 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 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 (see Treasury).

## **Table of Contents**

Beginning in the third quarter of 2011, the Company modified its FTP methodology relating to certain deposit products, which resulted in the allocation of a larger credit to net interest income within Commercial Banking and Retail and Business Banking, with the offset allocated to Treasury. Prior period segment results continue to reflect the previous FTP methodology.

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

People's United Financial allocates a majority of non-interest expenses to each operating segment using a full-absorption costing process (i.e. all expenses are fully-allocated to the segments). Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate operating segment and corporate overhead costs are allocated to the operating segments. Income tax expense is allocated to each operating segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the year. Total average assets and total average liabilities are presented for each reportable segment due to management's reliance, in part, on such average balances for purposes of assessing segment performance.

The average assets of each reportable segment include allocated goodwill and intangible assets, both of which are reviewed for impairment at least annually. Goodwill is tested for impairment at the reporting unit level (i.e. the operating segment or one level below, as applicable) and involves a two-step test. The first step ( Step 1 ) is used to identify potential impairment, and involves comparing each reporting unit's estimated fair value to its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is not deemed to be impaired. Should the carrying amount of the reporting unit exceed its estimated fair value, an indicator of potential impairment is deemed to exist and a second step is performed to measure the amount of such impairment, if any. None of the Company's identified reporting units are at risk of failing the Step 1 goodwill impairment test at this time.

In September 2011, the Financial Accounting Standards Board amended its standards to provide an option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity is not required to perform the two-step impairment test.

## Table of Contents

### Segment Performance Summary

Three months ended

September 30, 2012

(in millions)	Commercial Banking	Retail and Business Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 119.0	\$ 126.6	\$ 245.6	\$ (18.5)	\$ 7.7	\$ 234.8
Provision for loan losses	10.9	3.5	14.4		0.7	15.1
Total non-interest income	32.5	45.6	78.1	2.7	0.6	81.4
Total non-interest expense	59.3	139.3	198.6	(1.7)	12.0	208.9
Income (loss) before income tax expense (benefit)	81.3	29.4	110.7	(14.1)	(4.4)	92.2
Income tax expense (benefit)	26.4	9.5	35.9	(4.5)	(1.4)	30.0
Net income (loss)	\$ 54.9	\$ 19.9	\$ 74.8	\$ (9.6)	\$ (3.0)	\$ 62.2
Total average assets	\$ 15,056.9	\$ 8,334.7	\$ 23,391.6	\$ 4,240.1	\$ 602.6	\$ 28,234.3
Total average liabilities	3,031.6	18,769.1	21,800.7	942.8	330.0	23,073.5

Nine months ended

September 30, 2012

(in millions)	Commercial Banking	Retail and Business Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 350.4	\$ 386.7	\$ 737.1	\$ (54.2)	\$ 20.7	\$ 703.6
Provision for loan losses	31.9	10.5	42.4		(5.2)	37.2
Total non-interest income	87.2	132.4	219.6	7.8	2.1	229.5
Total non-interest expense	177.0	409.7	586.7	(1.4)	37.9	623.2
Income (loss) before income tax expense (benefit)	228.7	98.9	327.6	(45.0)	(9.9)	272.7
Income tax expense (benefit)	74.3	32.2	106.5	(14.6)	(3.3)	88.6
Net income (loss)	\$ 154.4	\$ 66.7	\$ 221.1	\$ (30.4)	\$ (6.6)	\$ 184.1
Total average assets	\$ 14,931.0	\$ 8,283.9	\$ 23,214.9	\$ 3,993.3	\$ 610.0	\$ 27,818.2
Total average liabilities	2,938.4	18,645.3	21,583.7	712.6	333.4	22,629.7

## Table of Contents

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

(in millions)	Three Months Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net interest income	\$ 119.0	\$ 118.6	\$ 350.4	\$ 318.2
Provision for loan losses	10.9	10.2	31.9	28.1
Total non-interest income	32.5	26.5	87.2	87.1
Total non-interest expense	59.3	66.2	177.0	182.7
Income before income tax expense	81.3	68.7	228.7	194.5
Income tax expense	26.4	23.4	74.3	65.3
Net income	\$ 54.9	\$ 45.3	\$ 154.4	\$ 129.2
Total average assets	\$ 15,056.9	\$ 14,638.8	\$ 14,931.0	\$ 13,433.6
Total average liabilities	3,031.6	2,987.6	2,938.4	2,669.4

Commercial Banking net income increased \$9.6 million in the third quarter of 2012 compared to the third quarter of 2011. The \$0.4 million increase in net interest income reflects continued loan growth and improved spreads on commercial real estate loans and certain commercial deposits, essentially offset by the continued negative impact of the low interest rate environment.

Included in non-interest income in the third quarter of 2011 is a \$4.8 million loss on sale of acquired loans. Excluding the loss on sale of acquired loans, non-interest income in the third quarter of 2012 increased \$1.2 million from the year-ago quarter, primarily reflecting an increase in operating lease income resulting from a higher level of equipment leased to PCLC customers. The \$6.9 million decrease in non-interest expense reflects a lower level of allocated expenses in the third quarter of 2012 partially offset by an increase in direct expenses.

Average assets increased \$418 million and average liabilities increased \$44 million in the third quarter of 2012 compared to the third quarter of 2011, reflecting loan and deposit growth.

**Table of Contents**

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

(in millions)	Three Months Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net interest income	\$ 126.6	\$ 127.6	\$ 386.7	\$ 340.4
Provision for loan losses	3.5	2.9	10.5	8.0
Total non-interest income	45.6	48.1	132.4	139.8
Total non-interest expense	139.3	145.4	409.7	412.0
Income before income tax expense	29.4	27.4	98.9	60.2
Income tax expense	9.5	9.0	32.2	19.9
Net income	\$ 19.9	\$ 18.4	\$ 66.7	\$ 40.3
Total average assets	\$ 8,334.7	\$ 7,488.2	\$ 8,283.9	\$ 6,986.2
Total average liabilities	18,769.1	18,047.6	18,645.3	16,861.5

Retail and Business Banking net income increased \$1.5 million in the third quarter of 2012 compared to the third quarter of 2011. The \$1.0 million decrease in net interest income primarily reflects narrower spreads on certain deposit products resulting from the continued negative impact of the low interest rate environment partially offset by continued growth in deposits and loans.

The decrease in non-interest income primarily reflects lower retail bank service charges (reflecting the impact of certain provisions of the DFA relating to interchange fees that became effective October 1, 2011) partially offset by an increase in gains on sales of residential mortgages. The decrease in non-interest expense reflects lower direct expenses and a lower level of allocated expenses in the third quarter of 2012.

Average assets increased \$847 million and average liabilities increased \$722 million in the third quarter of 2012 compared to the third quarter of 2011, reflecting loan and deposit growth as well as the assumption of approximately \$324 million in deposits in connection with the acquisition of 57 branches late in the second quarter of 2012.

**Table of Contents**

**Treasury** encompasses the securities portfolio, short-term investments and securities purchased under agreements to resell, wholesale borrowings, and the funding center, which includes the impact of derivative financial instruments used for risk management purposes.

The income or loss for the funding center represents the interest rate risk component of People's United Financial's net interest income as calculated by its FTP model in deriving each 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.

(in millions)	Three Months Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net interest loss	\$ (18.5)	\$ (14.7)	\$ (54.2)	\$ (4.7)
Total non-interest income	2.7	10.6	7.8	12.4
Total non-interest expense	(1.7)	(4.0)	(1.4)	(2.4)
Income (loss) before income tax expense	(14.1)	(0.1)	(45.0)	10.1
Income tax expense (benefit)	(4.5)		(14.6)	3.4
Net income (loss)	\$ (9.6)	\$ (0.1)	\$ (30.4)	\$ 6.7
Total average assets	\$ 4,240.1	\$ 3,947.2	\$ 3,993.3	\$ 3,989.2
Total average liabilities	942.8	759.5	712.6	736.3

The increase in Treasury's net loss in the third quarter of 2012 compared to the third quarter of 2011 primarily reflects an increase in net interest loss and \$9.1 million of gross security gains in the year-ago period resulting from the sale of mortgage-backed securities with a book value of \$507 million. The increase in average assets in the third quarter of 2012 primarily reflects an increase in average securities partially offset by a decline in average short-term investments. The increase in average liabilities in the third quarter of 2012 primarily reflects an increase in average total borrowings.

## Table of Contents

**Other** includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment; reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis; and the FTP impact from excess capital. This category also includes certain non-recurring items, including merger-related expenses and one-time charges totaling \$3.2 million and \$9.8 million for the three and nine months ended September 30, 2012, respectively, and \$21.5 million and \$33.8 million for the three and nine months ended September 30, 2011, respectively (included in total non-interest-expense). Included in **Other** are assets such as cash, premises and equipment, and other assets, including pension assets.

(in millions)	Three Months Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net interest income	\$ 7.7	\$ 6.2	\$ 20.7	\$ 20.0
Provision for loan losses	0.7	1.3	(5.2)	6.9
Total non-interest income	0.6	(0.5)	2.1	(3.4)
Total non-interest expense	12.0	24.3	37.9	49.4
Loss before income tax benefit	(4.4)	(19.9)	(9.9)	(39.7)
Income tax benefit	(1.4)	(7.8)	(3.3)	(14.5)
Net loss	\$ (3.0)	\$ (12.1)	\$ (6.6)	\$ (25.2)
Total average assets	\$ 602.6	\$ 1,280.5	\$ 610.0	\$ 1,211.0
Total average liabilities	330.0	44.8	333.4	59.0

## **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.

Since December 2008, the Federal Reserve Board has not changed its targeted range for the federal funds rate of 0 to 0.25%. The operating net interest margin was 3.82% in the third quarter of 2012 compared to 3.88% in the second quarter of 2012 and 4.07% in the third quarter of 2011. The decline in the operating net interest margin from the second quarter of 2012 reflects continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at lower yields, partially offset by lower funding costs. The net interest margin continues to be impacted by the historically low interest rate environment where loan repricings are outpacing the Company's ability to lower deposit costs as well as the continued investment of a portion of the Company's excess capital in relatively low-yielding short-term investments.

### **Third Quarter 2012 Compared to Third Quarter 2011**

FTE net interest income decreased \$2.6 million compared to the third quarter of 2011, reflecting an \$11.1 million decrease in total interest and dividend income partially offset by an \$8.5 million decrease in total interest expense, and the net interest margin decreased 18 basis points to 3.89%. Included in the third quarter of 2012 is \$4.1 million of cost recovery income on acquired loans (representing cash receipts in excess of carrying amount). Excluding this item, FTE operating net interest income decreased \$6.7 million and the operating net interest margin declined 25 basis points to 3.82% in the third quarter of 2012.

Average earning assets totaled \$24.5 billion in the third quarter of 2012, an \$860 million increase from the third quarter of 2011, reflecting increases of \$871 million in average loans and \$631 million in average securities, partially offset by a \$648 million decrease in average short-term investments. Average loans, average securities, and average short-term investments comprised 85%, 14% and 1%, respectively, of average earning assets in the third quarter of 2012 compared to 84%, 13% and 3%, respectively, in the 2011 period. In the current quarter, the yield earned on the total loan portfolio was 4.66% and the yield earned on securities and short-term investments was 2.31%, compared to 5.06% and 2.44%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 47% of the loan portfolio had floating interest rates at September 30, 2012 compared to approximately 48% at December 31, 2011.

## **Table of Contents**

The average residential mortgage and total commercial banking loan portfolios increased \$518 million and \$431 million, respectively, compared to the year-ago quarter, reflecting growth. Average consumer loans decreased \$78 million compared to the year-ago quarter, reflecting decreases of \$68 million in average indirect auto loans and \$11 million in average home equity loans.

Average funding liabilities totaled \$22.7 billion in the third quarter of 2012, a \$1.2 billion increase from the year-ago period, reflecting increases of \$1.1 billion in average total deposits and \$113 million in average total borrowings. The increase in average total deposits reflects deposits (approximately \$324 million) assumed in the acquisition of 57 branches late in the second quarter of 2012 and organic deposit growth. Average savings and money market deposits and average non-interest-bearing deposits increased \$1.0 billion and \$630 million, respectively, while average time deposits decreased \$536 million. Average deposits comprised 94% of average funding liabilities in both the third quarter of 2012 and the year-ago period.

The 18 basis point decrease to 0.45% from 0.63% in the rate paid on average funding liabilities primarily reflects the decrease in market interest rates and the shift in deposit mix as well as continued repricing of higher-yielding deposits assumed in acquisitions. The rate paid on average deposits decreased 17 basis points from the third quarter of 2011, primarily reflecting a decrease of 22 basis points in savings and money market deposits offset by an increase of 1 basis point in time deposits. Average savings and money market deposits and average time deposits comprised 55% and 23%, respectively, of average total deposits in the third quarter of 2012 compared to 53% and 27%, respectively, in the comparable 2011 period.

### **Third Quarter 2012 Compared to Second Quarter 2012**

FTE net interest income decreased \$0.5 million compared to the second quarter of 2012, reflecting a \$1.8 million decrease in total interest and dividend income partially offset by a \$1.3 million decrease in total interest expense, and the net interest margin decreased 18 basis points to 3.89%. Included in the third and second quarters of 2012 are \$4.1 million and \$4.7 million, respectively, of cost recovery income on acquired loans. Excluding these items, FTE operating net interest income increased \$0.1 million in the third quarter of 2012. The operating net interest margin declined 6 basis points to 3.82% from 3.88% in the second quarter of 2012, reflecting the effects of lower loan yields (which reduced the net interest margin by nine basis points) partially offset by lower funding costs (a three basis point benefit in the net interest margin).

Average earning assets increased \$435 million, reflecting increases of \$643 million in average securities and \$240 million in average loans, partially offset by a \$454 million decrease in average short-term investments. The increase in average securities reflects, in part, purchases early in the second quarter in anticipation of the receipt of the proceeds from the branch acquisition (including approximately \$324 million in deposits) late in the quarter. Average funding liabilities increased \$525 million, reflecting increases of \$183 million in average deposits and \$342 million in average borrowings.

The following tables present average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended September 30, 2012, June 30, 2012 and September 30, 2011, and the nine months ended September 30, 2012 and 2011. 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. Premium amortization and discount accretion (including amounts attributable to purchase accounting adjustments) are also included in the respective interest income and interest expense amounts. The impact of People's United 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 related risk management objective.

## Table of Contents

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

Three months ended (dollars in millions)	September 30, 2012			June 30, 2012 (2)			September 30, 2011 (2)		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
<b>Assets:</b>									
Short-term investments	\$ 107.7	\$	0.17%	\$ 561.6	\$ 0.4	0.25%	\$ 755.9	\$ 0.5	0.29%
Securities (3)	3,607.7	21.5	2.38	2,964.4	19.1	2.58	2,976.3	22.2	2.99
Loans held for sale	31.4	0.5	6.05	25.9	0.4	6.63	25.6	0.4	5.80
<b>Loans:</b>									
Commercial (4)	7,737.6	93.1	4.81	7,493.5	93.0	4.97	7,102.3	97.3	5.48
Commercial real estate (5)	6,952.2	91.3	5.25	7,011.9	96.4	5.50	7,157.0	98.0	5.48
Residential mortgage (6)	3,874.6	37.1	3.83	3,806.6	35.8	3.76	3,356.4	34.5	4.10
Consumer	2,163.2	19.8	3.67	2,176.0	20.0	3.68	2,240.7	21.5	3.84
Total loans	20,727.6	241.3	4.66	20,488.0	245.2	4.79	19,856.4	251.3	5.06
Total earning assets	24,474.4	\$ 263.3	4.30%	24,039.9	\$ 265.1	4.41%	23,614.2	\$ 274.4	4.65%
Other assets	3,759.9			3,713.2			3,740.5		
Total assets	\$ 28,234.3			\$ 27,753.1			\$ 27,354.7		
<b>Liabilities and stockholders' equity:</b>									
<b>Deposits:</b>									
Non-interest-bearing	\$ 4,724.6	\$	%	\$ 4,596.5	\$	%	\$ 4,094.5	\$	%
Savings, interest-bearing checking and money market	11,661.7	9.0	0.31	11,511.4	10.1	0.35	10,642.9	14.1	0.53
Time	4,985.9	13.1	1.05	5,081.8	13.5	1.06	5,522.0	14.4	1.04
Total deposits	21,372.2	22.1	0.41	21,189.7	23.6	0.45	20,259.4	28.5	0.58
<b>Borrowings:</b>									
Retail repurchase agreements	478.4	0.2	0.23	465.9	0.3	0.27	520.6	0.5	0.43
FHLB advances	390.7	1.3	1.31	330.8	1.2	1.48	514.6	1.8	1.39
Federal funds purchased	295.9	0.2	0.23	10.5		0.21			
Other borrowings	11.1	0.1	1.03	26.8	0.1	0.98	27.9	0.1	0.95
Total borrowings	1,176.1	1.8	0.54	834.0	1.6	0.77	1,063.1	2.4	0.91
Subordinated notes and debentures	160.3	1.6	4.07	160.0	1.6	4.05	176.0	3.1	6.86
Total funding liabilities	22,708.6	\$ 25.5	0.45%	22,183.7	\$ 26.8	0.48%	21,498.5	\$ 34.0	0.63%
Other liabilities	364.9			381.4			341.0		
Total liabilities	23,073.5			22,565.1			21,839.5		
Stockholders' equity	5,160.8			5,188.0			5,515.2		
Total liabilities and stockholders' equity	\$ 28,234.3			\$ 27,753.1			\$ 27,354.7		

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

Net interest income/spread (7)	\$ 237.8	3.85%	\$ 238.3	3.93%	\$ 240.4	4.02%
Net interest margin		3.89%		3.96%		4.07%
Operating net interest margin (8)		3.82%		3.88%		4.07%

- (1) Average yields earned and rates paid are annualized.
- (2) Previously reported amounts have been revised to reflect a reduction in both commercial loan interest income and net interest income by \$0.4 million for the three months ended June 30, 2012 and by \$2.3 million for the three months ended September 30, 2011. As a result, the yield on commercial loans and the net interest margin were reduced by 2 basis points and 1 basis point, respectively, for the three months ended June 30, 2012 and by 13 basis points and 4 basis points, respectively, for the three months ended September 30, 2011.
- (3) Average balances and yields for securities available for sale are based on amortized cost.
- (4) Includes commercial and industrial loans and equipment financing loans.
- (5) Interest income for the three months ended September 30, 2012 and June 30, 2012 includes \$3.3 million and \$4.7 million, respectively, of cost recovery income; yield of 5.06% and 5.23%, respectively, without cost recovery income.
- (6) Interest income for the three months ended September 30, 2012 includes \$0.8 million of cost recovery income; yield of 3.75% without cost recovery income.
- (7) The fully taxable equivalent adjustment was \$3.0 million, \$2.7 million and \$2.7 million for the three months ended September 30, 2012, June 30, 2012 and September 30, 2011, respectively.
- (8) See Non-GAAP financial measures and reconciliation to GAAP.

## Table of Contents

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

Nine months ended (dollars in millions)	September 30, 2012			September 30, 2011 (2)		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
<b>Assets:</b>						
Short-term investments	\$ 400.7	\$ 0.7	0.24%	\$ 705.8	\$ 1.5	0.29%
Securities purchased under agreements to resell				36.4	0.1	0.17
Securities (3)	3,109.4	59.3	2.54	3,109.3	67.2	2.88
Loans held for sale	32.1	1.4	5.77	31.5	1.4	5.96
<b>Loans:</b>						
Commercial (4)	7,535.6	280.7	4.97	6,199.1	258.4	5.56
Commercial real estate (5)	7,027.3	279.4	5.30	6,923.5	292.1	5.63
Residential mortgage	3,798.4	109.1	3.83	2,976.9	93.5	4.19
Consumer	2,180.2	60.5	3.71	2,176.6	63.0	3.86
<b>Total loans</b>	<b>20,541.5</b>	<b>729.7</b>	<b>4.74</b>	<b>18,276.1</b>	<b>707.0</b>	<b>5.16</b>
<b>Total earning assets</b>	<b>24,083.7</b>	<b>\$ 791.1</b>	<b>4.38%</b>	<b>22,159.1</b>	<b>\$ 777.2</b>	<b>4.68%</b>
<b>Other assets</b>	<b>3,734.5</b>			<b>3,460.9</b>		
<b>Total assets</b>	<b>\$ 27,818.2</b>			<b>\$ 25,620.0</b>		
<b>Liabilities and stockholders' equity:</b>						
<b>Deposits:</b>						
Non-interest-bearing	\$ 4,576.5	\$	%	\$ 3,915.0	\$	%
Savings, interest-bearing checking and money market	11,454.0	30.1	0.35	9,676.5	38.6	0.53
Time	5,105.5	38.7	1.01	5,226.6	42.9	1.09
<b>Total deposits</b>	<b>21,136.0</b>	<b>68.8</b>	<b>0.43</b>	<b>18,818.1</b>	<b>81.5</b>	<b>0.58</b>
<b>Borrowings:</b>						
Retail repurchase agreements	479.6	1.0	0.27	472.8	1.5	0.43
FHLB advances	351.3	3.7	1.42	497.7	5.5	1.48
Federal funds purchased	104.6	0.2	0.23	8.5		0.11
Other borrowings	21.6	0.2	0.99	28.3	0.3	0.93
<b>Total borrowings</b>	<b>957.1</b>	<b>5.1</b>	<b>0.70</b>	<b>1,007.3</b>	<b>7.3</b>	<b>0.96</b>
<b>Subordinated notes and debentures</b>	<b>160.0</b>	<b>5.4</b>	<b>4.53</b>	<b>174.0</b>	<b>9.3</b>	<b>7.09</b>
<b>Total funding liabilities</b>	<b>22,253.1</b>	<b>\$ 79.3</b>	<b>0.48%</b>	<b>19,999.4</b>	<b>\$ 98.1</b>	<b>0.65%</b>
<b>Other liabilities</b>	<b>376.6</b>			<b>326.8</b>		
<b>Total liabilities</b>	<b>22,629.7</b>			<b>20,326.2</b>		
<b>Stockholders' equity</b>	<b>5,188.5</b>			<b>5,293.8</b>		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 27,818.2</b>			<b>\$ 25,620.0</b>		

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

Net interest income/spread (6)	\$ 711.8	3.90%	\$ 679.1	4.03%
Net interest margin		3.94%		4.09%
Operating net interest margin (7)		3.89%		4.02%

- (1) Average yields earned and rates paid are annualized.
- (2) Previously reported amounts for the nine months ended September 30, 2011 have been revised to reflect a \$7.6 million reduction in both commercial loan interest income and net interest income. As a result, the yield on commercial loans and the net interest margin were reduced by 7 basis points and 4 basis points, respectively.
- (3) Average balances and yields for securities available for sale are based on amortized cost.
- (4) Includes commercial and industrial loans and equipment financing loans.
- (5) Interest income for the nine months ended September 30, 2012 includes \$8.0 million of cost recovery income; yield of 5.15% without cost recovery income.
- (6) The fully taxable equivalent adjustment was \$8.2 million and \$5.2 million for the nine months ended September 30, 2012 and 2011, respectively.
- (7) See Non-GAAP financial measures and reconciliation to GAAP.

**Table of Contents****Volume and Rate Analysis**

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

(in millions)	Three Months Ended September 30, 2012 Compared To					
	September 30, 2011			June 30, 2012		
	Increase (Decrease)			Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest and dividend income:</b>						
Short-term investments	\$ (0.3)	\$ (0.2)	\$ (0.5)	\$ (0.2)	\$ (0.2)	\$ (0.4)
Securities	4.2	(4.9)	(0.7)	3.9	(1.5)	2.4
Loans held for sale	0.1		0.1	0.1		0.1
<b>Loans:</b>						
Commercial	8.3	(12.5)	(4.2)	3.0	(2.9)	0.1
Commercial real estate	(2.8)	(3.9)	(6.7)	(0.8)	(4.3)	(5.1)
Residential mortgage	5.1	(2.5)	2.6	0.6	0.7	1.3
Consumer	(0.7)	(1.0)	(1.7)	(0.1)	(0.1)	(0.2)
<b>Total loans</b>	<b>9.9</b>	<b>(19.9)</b>	<b>(10.0)</b>	<b>2.7</b>	<b>(6.6)</b>	<b>(3.9)</b>
<b>Total change in interest and dividend income</b>	<b>13.9</b>	<b>(25.0)</b>	<b>(11.1)</b>	<b>6.5</b>	<b>(8.3)</b>	<b>(1.8)</b>
<b>Interest expense:</b>						
<b>Deposits:</b>						
Savings, interest-bearing checking and money market	1.2	(6.3)	(5.1)	0.1	(1.2)	(1.1)
Time	(1.4)	0.1	(1.3)	(0.3)	(0.1)	(0.4)
<b>Total deposits</b>	<b>(0.2)</b>	<b>(6.2)</b>	<b>(6.4)</b>	<b>(0.2)</b>	<b>(1.3)</b>	<b>(1.5)</b>
<b>Borrowings:</b>						
Retail repurchase agreements		(0.3)	(0.3)		(0.1)	(0.1)
FHLB advances	(0.4)	(0.1)	(0.5)	0.2	(0.1)	0.1
Federal funds purchased	0.2		0.2	0.2		0.2
<b>Other borrowings</b>						
<b>Total borrowings</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>0.4</b>	<b>(0.2)</b>	<b>0.2</b>
<b>Subordinated notes and debentures</b>	<b>(0.3)</b>	<b>(1.2)</b>	<b>(1.5)</b>			
<b>Total change in interest expense</b>	<b>(0.7)</b>	<b>(7.8)</b>	<b>(8.5)</b>	<b>0.2</b>	<b>(1.5)</b>	<b>(1.3)</b>
<b>Change in net interest income</b>	<b>\$ 14.6</b>	<b>\$ (17.2)</b>	<b>\$ (2.6)</b>	<b>\$ 6.3</b>	<b>\$ (6.8)</b>	<b>\$ (0.5)</b>

**Table of Contents****Volume and Rate Analysis**

(in millions)	Nine Months Ended September 30, 2012 Compared To September 30, 2011 Increase (Decrease)		
	Volume	Rate	Total
Interest and dividend income:			
Short-term investments	\$ (0.6)	\$ (0.2)	\$ (0.8)
Securities purchased under agreements to resell		(0.1)	(0.1)
Securities		(7.9)	(7.9)
Loans held for sale			
Loans:			
Commercial	51.8	(29.5)	22.3
Commercial real estate	4.3	(17.0)	(12.7)
Residential mortgage	24.1	(8.5)	15.6
Consumer	0.1	(2.6)	(2.5)
Total loans	80.3	(57.6)	22.7
Total change in interest and dividend income	79.7	(65.8)	13.9
Interest expense:			
Deposits:			
Savings, interest-bearing checking and money market	6.3	(14.8)	(8.5)
Time	(1.0)	(3.2)	(4.2)
Total deposits	5.3	(18.0)	(12.7)
Borrowings:			
Retail repurchase agreements		(0.5)	(0.5)
FHLB advances	(1.6)	(0.2)	(1.8)
Federal funds purchased	0.2		0.2
Other borrowings		(0.1)	(0.1)
Total borrowings	(1.4)	(0.8)	(2.2)
Subordinated notes and debentures	(0.7)	(3.2)	(3.9)
Total change in interest expense	3.2	(22.0)	(18.8)
Change in net interest income	\$ 76.5	\$ (43.8)	\$ 32.7

**Table of Contents****Non-Interest Income**

(in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Bank service charges	\$ 33.0	\$ 32.5	\$ 35.8	\$ 95.8	\$ 99.7
Investment management fees	8.7	8.7	8.4	26.0	24.9
Insurance revenue	9.5	7.2	9.0	25.1	23.5
Brokerage commissions	2.8	3.4	2.8	9.3	9.3
Net gains on sales of residential mortgage loans	3.6	2.8	1.3	10.0	5.5
Net gains (losses) on sales of acquired loans		0.7	(4.8)	0.7	7.9
Net security gains			8.6		8.8
Other non-interest income:					
Commercial banking fees	9.5	6.7	9.8	21.0	19.3
Operating lease income	8.3	7.7	6.4	22.7	18.7
Bank-owned life insurance	1.3	1.2	2.0	4.3	4.6
Merchant services income, net	1.2	1.3	1.1	3.6	3.2
Other	3.5	3.5	4.3	11.0	10.5
Total other non-interest income	23.8	20.4	23.6	62.6	56.3
Total non-interest income	\$ 81.4	\$ 75.7	\$ 84.7	\$ 229.5	\$ 235.9

Total non-interest income decreased \$3.3 million compared to the third quarter of 2011 and increased \$5.7 million compared to the second quarter of 2012. Included in the third quarter of 2011 are net security gains of \$8.6 million and net losses on sales of acquired loans of \$4.8 million. The increase in non-interest income compared to the second quarter of 2012 reflects ongoing improvement in most fee-based businesses, the seasonal increase in insurance revenue and higher commercial banking fees.

The improvement in bank service charges from the second quarter of 2012 primarily reflects increases in cash management fees and seasonally higher interchange and other fees. Bank service charges continue to be impacted as a result of certain provisions of the DFA (see Recent Market Developments). The increase in insurance revenue reflects the seasonal nature of insurance renewals.

The increase in net gains on sales of residential mortgage loans from the second quarter of 2012 and the third quarter of 2011 reflects the higher level of residential mortgage loan sales (a 15% increase in volume in the third quarter of 2012 from the second quarter and an 85% increase in volume from the year-ago quarter) due to the higher level of refinancing activity in the third quarter of 2012. Net gains on sales of residential mortgage loans in 2012 continue to reflect improved pricing on residential mortgage loans sold.

BOLI income totaled \$1.3 million (\$2.0 million on a taxable-equivalent basis) in the third quarter of 2012, compared to \$2.0 million (\$2.9 million on a taxable-equivalent basis) in the year-ago quarter and \$1.2 million (\$1.8 million on a taxable-equivalent basis) in the second quarter of 2012. The decrease in BOLI income primarily reflects a lower crediting rating in 2012.

The increase in operating lease income reflects higher levels of equipment leased to PCLC customers while the increase in commercial banking fees primarily reflects higher prepayment fees.

Assets under administration and those under full discretionary management, neither of which are reported as assets of People's United Financial, totaled \$12.0 billion and \$4.5 billion, respectively, at September 30, 2012 compared to \$12.5 billion and \$4.3 billion, respectively, at December 31, 2011.

In June 2005, a group of U.S. merchants filed a class action lawsuit against VISA and MasterCard claiming that the way VISA and MasterCard set interchange rates was a violation of anti-trust laws. In July 2012, the parties announced a settlement to the lawsuit in which VISA and MasterCard proposed to pay \$7.25 billion to the merchants (\$6.05 billion in cash and \$1.2 billion from an eight month reduction in credit card

interchange). The settlement is not expected to have a significant impact on the Company's financial results.

**Table of Contents****Non-Interest Expense**

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Compensation and benefits	\$ 106.7	\$ 104.5	\$ 110.1	\$ 321.5	\$ 318.0
Occupancy and equipment	36.5	34.1	34.9	104.0	98.9
Professional and outside service fees	15.8	17.5	18.6	48.6	51.9
Other non-interest expense:					
Regulatory	7.2	7.6	6.9	22.6	21.7
Amortization of leased equipment	6.8	6.4	5.3	18.8	15.5
Amortization of other acquisition-related intangibles	6.7	6.8	7.0	20.1	18.9
Stationery, printing, postage and telephone	5.9	5.4	5.8	17.0	16.3
Advertising and promotion	3.9	5.1	4.0	13.4	11.8
Other	19.4	18.3	19.2	57.2	59.1
Total other non-interest expense	49.9	49.6	48.2	149.1	143.3
Total	208.9	205.7	211.8	623.2	612.1
Merger-related expenses			20.1		29.6
Total non-interest expense	\$ 208.9	\$ 205.7	\$ 231.9	\$ 623.2	\$ 641.7
Efficiency ratio	61.4%	61.5%	62.4%	62.2%	64.5%

Excluding the effect of merger-related expenses, total non-interest expense in the third quarter of 2012 decreased \$2.9 million compared to the third quarter of 2011 and increased \$3.2 million compared to the second quarter of 2012. Merger-related expenses consist of: (i) fees for investment advisory, legal, accounting and valuation services; (ii) debt prepayment costs; (iii) compensatory charges; and (iv) regulatory filings. Total non-interest expense in the third quarter of 2012 includes a full quarter of expenses relating to the purchase of 57 branches late in the second quarter (approximately a \$6.9 million increase from the second quarter).

The lower efficiency ratio in the third quarter of 2012 compared to the third quarter of 2011 reflects a 2% decrease in operating expenses partially offset by a 1% decrease in operating revenues. As compared to the second quarter of 2012, the improvement in the efficiency ratio reflects revenue growth and lower operating expenses as a result of cost-saving initiatives, which more than offset the increase in the level of operating expense in the third quarter attributable to the recent purchase of 57 branches (see Non-GAAP Financial Measures and Reconciliation to GAAP).

Compensation and benefits decreased \$3.4 million compared to the year-ago quarter and increased \$2.2 million compared to the second quarter of 2012. The year-over-year decrease primarily reflects the benefit from cost-saving initiatives and lower benefit-related costs, partially offset by normal merit increases. The increase from the second quarter of 2012 reflects additional compensation and benefit costs resulting from the acquisition of 57 branches late in the second quarter of 2012, partially offset by lower benefit-related costs and payroll tax expense as a result of more employees having reached the maximum payroll tax limit.

## **Table of Contents**

In July 2011, People's United Bank amended its defined benefit pension plan (the "Plan") to freeze, effective December 31, 2011, the accrual of pension benefits for Plan participants. As such, Plan participants will not earn any additional benefits after that date. Instead, effective January 1, 2012, People's United Bank began making a contribution on behalf of these participants to a qualified defined contribution plan in an annual amount equal to 3% of the employee's eligible compensation. Also in July 2011, other cost-saving initiatives were announced, including the elimination of selected positions primarily within corporate functions, non-core lending businesses and the former Bank of Smithtown. The annual cost savings expected to be realized as a result of these initiatives is approximately \$20 million beginning in 2012.

The increase in occupancy and equipment compared to the third quarter of 2011 primarily reflects the incremental costs associated with the continued geographic expansion of the Company's franchise. The increase in amortization expense of leased equipment relates to the higher level of equipment leased to PCLC customers.

Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2012 and each of the next five years is as follows: \$26.8 million in 2012; \$26.2 million in 2013; \$24.8 million in 2014; \$23.8 million in 2015; \$22.7 million in 2016; and \$21.6 million in 2017.

## **Income Taxes**

People's United Financial's effective income tax rate was 32.5% for the nine months ended September 30, 2012, which approximates the expected income tax rate for the remainder of 2012, compared to 32.7% for the full-year of 2011. The difference between People's United Financial's effective income tax rate for the nine months ended September 30, 2012 and the U.S. federal statutory rate of 35% is primarily attributable to: (i) federal income tax credits associated with the Company's investment in affordable housing limited partnerships; (ii) tax exempt interest earned on certain investments; (iii) tax exempt income from bank-owned life insurance; and (iv) state income taxes.

## **Table of Contents**

### **FINANCIAL CONDITION**

#### **General**

Total assets at September 30, 2012 were \$28.6 billion, a \$1.0 billion increase from December 31, 2011, reflecting increases of \$856 million in total securities and \$655 million in total loans, partially offset by decreases of \$347 million in short-term investments, \$68 million in other assets and \$42 million in loans held for sale.

At September 30, 2012, liabilities totaled \$23.5 billion, a \$1.1 billion increase from December 31, 2011, reflecting increases of \$547 million in total deposits and \$668 million in total borrowings, partially offset by an \$84 million decrease in other liabilities. On June 22, 2012, People's United Bank acquired 57 branches and assumed approximately \$324 million in deposits associated with these branches. See Note 2 to the Consolidated Financial Statements.

The increase in total loans from December 31, 2011 to September 30, 2012 reflects increases of \$402 million in commercial and industrial loans, \$263 million in residential mortgage loans and \$183 million in equipment financing loans, partially offset by decreases of \$139 million in commercial real estate loans and \$53 million in consumer loans. Originated loans increased \$1.6 billion from December 31, 2011 (commercial banking loans increased \$1.3 billion and retail loans increased \$342 million) and acquired loans decreased \$968 million.

Non-performing assets (excluding acquired non-performing loans) totaled \$294 million at September 30, 2012, a \$43 million decrease from year-end 2011, primarily reflecting decreases in non-performing commercial real estate loans of \$18.0 million, non-performing residential mortgage loans of \$8.3 million, repossessed assets of \$7.9 million, real estate owned (REO) of \$7.0 million and non-performing equipment financing loans of \$5.5 million. The allowance for loan losses was \$186.0 million (\$175.5 million on originated loans and \$10.5 million on acquired loans) at September 30, 2012 compared to \$182.9 million (\$175.5 million on originated loans and \$7.4 million on acquired loans) at December 31, 2011. At September 30, 2012, the originated allowance for loan losses as a percent of originated loans was 0.95% and as a percent of originated non-performing loans was 66.0%, compared to 1.05% and 59.7%, respectively, at December 31, 2011.

People's United Financial's total stockholders' equity was \$5.1 billion at September 30, 2012, a \$108 million decrease from December 31, 2011. This decrease primarily reflects dividends paid of \$164.3 million and open market repurchases of 13.5 million shares of common stock at a total cost of \$163.7 million, partially offset by net income of \$184.1 million. As a percentage of total assets, stockholders' equity was 17.9% at September 30, 2012 compared to 18.9% at December 31, 2011. Tangible stockholders' equity as a percentage of tangible assets was 11.2% at September 30, 2012 compared to 12.0% at December 31, 2011.

People's United Financial's (consolidated) tier 1 and total risk-based capital ratios were 14.1% and 15.6%, respectively, at September 30, 2012, compared to 14.8% and 16.2%, respectively, at December 31, 2011. People's United Bank's leverage (core) capital ratio, and tier 1 and total risk-based capital ratios were 10.8%, 13.2% and 14.1%, respectively, at September 30, 2012, compared to 11.1%, 13.1% and 13.9%, respectively, at December 31, 2011 (see Regulatory Capital Requirements).

**Table of Contents****Loans**

People's United Financial's lending activities consist of originating loans secured by commercial and residential properties, and extending secured and unsecured loans to commercial and consumer customers. The following tables summarize People's United Financial's loan portfolios.

*Commercial Real Estate*

(in millions)	September 30, 2012	December 31, 2011
<b>Property Type:</b>		
Office buildings	\$ 2,186.4	\$ 2,130.1
Retail	1,776.5	1,730.2
Residential (multi-family)	1,663.2	1,796.7
Industrial/manufacturing	524.3	499.8
Hospitality and entertainment	346.9	404.9
Mixed/Special use	213.6	237.9
Land	118.4	139.3
Self storage	101.1	129.2
Health care	58.2	40.0
Other properties	44.2	64.1
<b>Total commercial real estate</b>	<b>\$ 7,032.8</b>	<b>\$ 7,172.2</b>

*Commercial and Industrial*

(in millions)	September 30, 2012	December 31, 2011
<b>Industry:</b>		
Finance, insurance and real estate	\$ 1,627.2	\$ 1,300.0
Service	1,075.2	1,087.6
Manufacturing	829.2	765.2
Wholesale distribution	524.0	522.6
Retail sales	500.4	527.4
Health services	493.8	448.1
Construction	190.6	209.3
Transportation/utility	150.3	112.8
Arts/entertainment/recreation	135.6	147.1
Public administration	79.6	86.0
Agriculture	22.0	24.4
Other	126.3	122.1
<b>Total commercial and industrial</b>	<b>\$ 5,754.2</b>	<b>\$ 5,352.6</b>

## Table of Contents

### Equipment Financing

(in millions)	September 30, 2012	December 31, 2011
Industry:		
Transportation/utility	\$ 698.5	\$ 599.5
Construction	412.8	412.2
Printing	278.1	331.7
General manufacturing	167.5	134.0
Waste	162.1	136.6
Retail sales	142.4	114.3
Packaging	109.6	92.1
Wholesale distribution	56.3	49.3
Service	54.9	47.9
Health services	54.3	41.6
Food services	28.4	32.3
Other	32.6	22.7
Total equipment financing	\$ 2,197.5	\$ 2,014.2

### Residential Mortgage

(in millions)	September 30, 2012	December 31, 2011
Adjustable-rate	\$ 3,303.4	\$ 2,947.7
Fixed-rate	587.9	680.7
Total residential mortgage	\$ 3,891.3	\$ 3,628.4

### Consumer

(in millions)	September 30, 2012	December 31, 2011
Home equity lines of credit	\$ 1,863.0	\$ 1,862.3
Home equity loans	186.5	195.4
Indirect auto	70.0	117.0
Other	44.7	42.7
Total consumer	\$ 2,164.2	\$ 2,217.4

## **Table of Contents**

### **Asset Quality**

#### *Recent Trends*

The past several years have been marked by significant volatility in the financial and capital markets initially brought about by the fallout associated with the subprime mortgage market. This disruption led to significant credit and liquidity concerns, which resulted in government intervention within the banking sector and a substantial decline in activity within the secondary mortgage market. All of these issues have been further exacerbated by an accelerated softening of the real estate market, a worsening recessionary economic environment and, in turn, weakness within the commercial sector.

While People's United Financial continues to adhere to prudent underwriting standards, the loan portfolio is geographically diverse and, therefore, is not immune to potential negative consequences arising as a result of general economic weakness and, in particular, a prolonged downturn in the housing market on a national scale. Decreases in real estate values could adversely affect the value of property used as collateral for loans. In addition, adverse changes in the economy could have a negative effect on the ability of borrowers to make scheduled loan payments, which would likely have an adverse impact on earnings. Further, an increase in loan delinquencies may serve to decrease net interest income and adversely impact loan loss experience, resulting in an increased provision and allowance for loan losses.

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

During the recent credit cycle, People's United Financial has experienced an increase in the number of loan modification requests. Certain originated loans whose terms have been modified are considered troubled debt restructurings (TDRs). Acquired loans that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis. Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United Financial, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan's original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest. In June 2012, the OCC issued clarifying regulatory guidance requiring loans subject to a borrower's discharge from personal liability following a Chapter 7 bankruptcy to be treated as TDRs. Application of this clarifying guidance resulted in an increase of \$22.2 million in the Company's reported TDRs as of September 30, 2012.

## **Table of Contents**

Generally, TDRs are placed on non-accrual status (and reported as non-performing loans) until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Loans may continue to be reported as TDRs after they are returned to accrual status.

During the nine months ended September 30, 2012, we performed 45 loan modifications that were not classified as TDRs. In each case, we concluded that the modification did not result in the granting of a concession based on one or more of the following considerations: (i) the receipt of additional collateral (the nature and amount of which was deemed to serve as adequate compensation for other terms of the restructuring) and/or guarantees; (ii) the borrower having access to funds at a market rate for debt with similar risk characteristics as the restructured debt; and (iii) the restructuring resulting in a delay in payment that is insignificant in relation to the other terms of the obligation. See Note 4 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

### *Portfolio Risk Elements Residential Mortgage Lending*

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

At September 30, 2012, the loan portfolio included \$740 million of interest-only residential mortgage loans, of which \$14 million are stated income loans. People's United Financial began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. In general, People's United Financial's underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value (LTV) ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post closing reserves. People's United Financial has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 adjustable-rate mortgage).

Stated income loans, which People's United Financial has not offered since mid-2007, represent a form of reduced documentation loan that requires a potential borrower to complete a standard mortgage application with full verification of the borrower's asset information as contained in the loan application, but no verification of the provided income information. As with interest-only loans, underwriting guidelines for stated income loans require properties to be single-family and owner-occupied primary residences with lower LTV ratios and higher credit scores. In addition, stated income loans require the receipt of an appraisal for the real estate used as collateral and a credit report on the prospective borrower.

## **Table of Contents**

Updated property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At September 30, 2012, non-performing residential mortgage loans totaling \$5.3 million had current LTV ratios of more than 100%. At September 30, 2012, the weighted average LTV ratio and FICO score for our residential mortgage loan portfolio were approximately 62% and 740, respectively.

The Company continues to review its foreclosure policies and procedures and has found no systemic concerns or instances of robo-signing (signing foreclosure affidavits without an appropriate review) with respect to its loan servicing activities. We believe that our established procedures for reviewing foreclosure affidavits and validating information contained in related loan documentation are sound and consistently applied, and that our foreclosure affidavits are accurate. As a result, People's United Bank has not found it necessary to interrupt or suspend foreclosure proceedings. We have also considered the effect of representations and warranties that we made to third-party investors in connection with whole loan sales, and believe our representations and warranties were true and correct and do not expose People's United Bank to any material loss.

During the first nine months of 2012, the Company repurchased from government sponsored enterprises ( GSEs ) and other parties a total of 11 residential mortgage loans that we had previously sold to the GSEs and other parties. The balances of the loans at the time of the respective repurchases totaled \$1.8 million and related fees and expenses incurred totaled \$0.1 million. During that same time period, the Company issued 10 investor refunds under contractual obligations as a result of early payoffs, make whole payments, and sales and settlement differences on 10 loans that totaled \$0.2 million. Based on the limited number of repurchase requests the Company has historically received, the immaterial cost associated with such repurchase requests and management's view that this past experience is consistent with our current and near-term estimate of such exposure, the Company has established a reserve for such repurchase requests, which totaled \$0.6 million as of September 30, 2012.

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

**Table of Contents***Portfolio Risk Elements Home Equity Lending*

The majority of our home equity lines of credit ( HELOCs ) have an initial draw period of 9 1/2 years followed by a 20-year repayment phase. During the initial draw period, interest-only payments are required, after which the disbursed balance is fully amortized over a 20-year repayment term. HELOCs carry variable rates indexed to the Prime Rate with a lifetime interest rate ceiling and floor, and are secured by first or second liens on the borrower's primary residence. The rate used to qualify borrowers is the Prime Rate plus 5.00%, even though the initial rate may be substantially lower. The maximum LTV ratio is 80% on a single-family property, 70% on a two-family property and 65% on a condominium. Lower LTV ratios are required on larger line amounts. The minimum FICO credit score is 680. The borrower has the ability to convert the entire balance or a portion of the balance to a fixed-rate term loan during the draw period. There is a limit of three term loans that must be fully amortized over a term not to exceed the original HELOC maturity date.

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

The following table sets forth, as of September 30, 2012, the amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2012	\$ 37.8
2013	220.8
2014	315.1
2015	347.5
2016	351.6
2017	460.2
Later years	1,886.2
Total	\$ 3,619.2

Essentially all of our HELOCs (97%) are presently in their draw period. Our default and delinquency statistics indicate a higher level of occurrence for converted amortizing payment loans when compared to HELOCs that are still in the draw period.

**Table of Contents**

Delinquency statistics for the HELOC portfolio at September 30, 2012 are as follows:

(dollars in millions)	Portfolio Balance	Delinquencies	
		Amount	Percent
HELOC status:			
Still in draw period	\$ 1,815.8	\$ 27.2	1.50%
Amortizing payment	47.2	1.7	3.70

For the nine months ended September 30, 2012, approximately 33% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

The majority of our home equity loan ( HEL ) portfolio fully amortizes over terms ranging from 5 to 20 years. HELs are limited to first or second liens on a borrower's primary residence. The maximum LTV ratio is 80% on a single-family property, 70% on a two-family property and 65% on a condominium. Lower LTV ratios are required on larger line amounts.

We are not able, at this time, to develop statistics for the entire home equity portfolio (both HELOCs and HELs) with respect to first liens serviced by third parties that have priority over our junior liens, as lien position data has not historically been captured on our loan servicing systems. As of September 30, 2012, full and complete first lien position data was not readily available for approximately 78% of the home equity portfolio. Effective January 2011, we began tracking lien position data for all new originations and our collections department continues to add lien position data once a loan reaches 75 days past due in connection with our updated assessment of combined loan-to-value ( CLTV ) exposure, which takes place for loans 90 days past due. In addition, when we are notified that the holder of a superior lien has commenced a foreclosure action, our home equity account is identified in the collections system for ongoing monitoring of the legal action. As of September 30, 2012, the portion of the home equity portfolio greater than 90 days past due with a CLTV greater than 80% was \$6.0 million.

As of September 30, 2012, full and complete first lien position data was readily available for approximately 22%, or \$457 million, of the home equity portfolio. Of that total, approximately 38%, or \$173 million, are in a junior lien position. We estimate that of those junior liens, 45%, or \$78 million, are held or serviced by others.

## **Table of Contents**

When the first lien is held by a third party, we can, in some cases, obtain an indication that a first lien is in default through information reported to credit bureaus. However, because more than one mortgage may be reported in a borrower's credit report and there may not be a corresponding property address associated with reported mortgages, we are often unable to associate a specific first lien with our junior lien. As of September 30, 2012, there were 56 loans totaling \$4.9 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 32 of the loans (totaling \$1.7 million), our second lien position was performing at the time such foreclosure action was commenced. The total estimated loss related to those 32 loans was \$0.9 million as of September 30, 2012. It is important to note that the percentage of new home equity originations for which we hold the first lien has increased steadily from approximately 40% in 2009 to approximately 55% as of September 30, 2012.

We believe there are several factors that serve to mitigate the potential risk associated with the limitations on available first lien data. Most importantly, our underwriting guidelines for home equity loans, which have been, and continue to be, consistently applied, generally require the following: (i) properties located within our geographic footprint; (ii) lower LTV ratios; and (iii) higher credit scores. Notwithstanding the maximum LTV ratios and minimum FICO scores discussed previously, actual LTV ratios at origination were less than 60% on average and current FICO scores of our borrowers are greater than 750 on average. In addition, as of September 30, 2012, approximately 76% of the portfolio balance relates to originations that occurred since 2005, which is generally recognized as the peak of the recent housing bubble. We believe these factors are a primary reason for the portfolio's relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average loans.

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

At September 30, 2012, the weighted average CLTV ratio and FICO score for our home equity portfolio were approximately 55% and 749, respectively.

## **Table of Contents**

### *Portfolio Risk Elements   Commercial Real Estate Lending*

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

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

People's United Financial's construction loan portfolio totaled \$568 million (approximately 3% of total loans) at

September 30, 2012. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, totaled \$846 million. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At September 30, 2012, construction loans totaling \$156 million had remaining available interest reserves totaling \$20 million. At that date, the Company had construction loans with interest reserves totaling \$0.2 million that were on non-accrual status and included in non-performing loans.

The recent economic downturn has resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which have related repayment guarantees. Modifications of originated commercial real estate loans involving maturity extensions are evaluated according to the Company's normal underwriting standards and are classified as TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United Financial similar to those discussed previously. People's United Financial had approximately \$11 million of restructured construction loans as of September 30, 2012.

## **Table of Contents**

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

People's United Financial evaluates the financial condition of guarantors based on the most current financial information available. Most often, such information takes the form of (i) personal financial statements of net worth, cash flow statements and tax returns (for individual guarantors) and (ii) financial and operating statements, tax returns and financial projections (for legal entity guarantors). The Company's evaluation is primarily focused on various key financial metrics, including net worth, leverage ratios and liquidity. It is the Company's policy to update such information annually, or more frequently as warranted, over the life of the loan.

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

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

### *Allowance and Provision for Loan Losses*

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

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

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

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



## **Table of Contents**

In developing the allowance for loan losses for larger-balance, non-homogeneous loans, the Company also gives consideration to certain qualitative factors, including the macroeconomic environment and any potential imprecision inherent in its loan loss model which may result from having limited historical loan loss data which, in turn, may result in inaccurate probability of default and loss-given-default factors. In consideration of these factors, the Company may adjust the allowance for loan losses upward or downward based on current economic conditions and portfolio trends. In determining the extent of any such adjustment, the Company considers both economic and portfolio-specific data that correlates with loan losses. The Company annually reviews this data to determine that such a correlation continues to exist. Additionally, at interim dates between annual reviews, the Company evaluates the factors in order to conclude that they continue to be adequate based on current economic conditions.

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

The allowance for loan losses for these smaller-balance, homogeneous portfolios is developed using a build-up approach that includes components attributable to: (i) historical portfolio loss experience; (ii) portfolio-specific risk elements; and (iii) other qualitative factors.

The risk characteristics considered include (i) collateral values/LTV ratios (above and below 70%); (ii) borrower credit scores under the FICO scoring system (above and below a score of 680); and (iii) other relevant portfolio risk elements such as income verification at the time of underwriting (stated income vs. non-stated income) and the property's intended use (owner-occupied, non-owner occupied, second home, etc.). In classifying a loan as either High, Moderate or Low risk, the combination of each of the aforementioned risk characteristics is considered for that loan, resulting, effectively, in a matrix approach to its risk classification.

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

## **Table of Contents**

With respect to portfolio stratification based on the aforementioned portfolio-specific risk characteristics, each risk category is currently assigned an applicable reserve factor. For residential mortgage loans, the Moderate (or baseline) reserve factor represents the portfolio's net charge-off rate for the preceding fiscal year. For home equity loans, the Moderate (or baseline) reserve factor represents an average of the portfolio's monthly net charge-off rates for the preceding three months. This component of the allowance employs a shorter look-back period as it is intended to identify emerging portfolio trends in credit quality as determined by reference to a loan's initial underwriting as well as subsequent changes in property values and borrower credit scores. Accordingly, the shorter look-back period is deemed to provide a better basis on which to analyze such trends.

Within each respective portfolio, the loan population deemed to be High risk is subject to a reserve factor equal to two times that of the applicable baseline factor, while the loan population deemed to be Low risk is subject to a reserve factor equal to one-third of the applicable baseline factor. These adjustments around the baseline factor are intended to reflect the higher or lower probability of loss inherent in the corresponding portfolio stratification. The reserve factor multiples for the High and Low risk categories were determined by reference to actual historical portfolio loss experience and are generally reflective of the range of losses incurred over each portfolio's respective look-back period. As such, management believes that these multiples, which are reassessed annually (or more frequently, if necessary), provide a reasonable basis for estimating the inherent probable losses within each risk classification category.

In addition to the portfolio-specific quantitative measures described above, the Company considers a variety of qualitative factors in establishing its allowance for loan losses that, generally, are based on management's assessment of economic, market and industry conditions. Such qualitative factors include, but are not limited to: (i) present and forecasted economic conditions, including unemployment rates, new jobs creation and consumer confidence levels; (ii) changes in industry trends, including the impact of new regulations, the origination market, the U.S. homeownership rate and potential homebuyer levels; and (iii) trends in property values, including housing market indicators, foreclosure activity, housing inventory and distressed sale levels, and median sales prices/average market time.

In completing the build-up approach to the allowance for loan losses for smaller-balance, homogeneous loans, the amount reflecting the Company's consideration of these various qualitative factors is added to the amounts attributable to historical portfolio loss experience and portfolio-specific risk elements. In this manner, historical charge-off data (whether periods or amounts) is not adjusted and the allowance for loan losses always includes a component attributable to qualitative factors, the degree of which may change from period to period as such qualitative factors indicate improving or worsening trends. There were no significant changes in the qualitative factor component of the related allowance for loan losses during the nine months ended September 30, 2012.

## **Table of Contents**

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

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

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

## **Table of Contents**

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

People's United Financial did not change its methodologies with respect to determining the allowance for loan losses during the first nine months of 2012. While People's United Financial seeks to use the best available information to make these determinations, 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.

### *Acquired Loans*

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

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the *accretable yield*, is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, acquired loans are not subject to classification as non-accrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the *nonaccretable difference*, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses. At September 30, 2012, the allowance for loan losses on acquired loans was \$10.5 million.

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

## Table of Contents

### Provision and Allowance for Loan Losses

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Allowance for loan losses on originated loans:					
Balance at beginning of period	\$ 175.5	\$ 175.5	\$ 176.0	\$ 175.5	\$ 172.5
Charge-offs	(11.1)	(12.3)	(14.6)	(36.3)	(42.4)
Recoveries	1.7	1.5	1.2	4.9	3.9
Net loan charge-offs	(9.4)	(10.8)	(13.4)	(31.4)	(38.5)
Provision for loan losses	9.4	10.8	14.4	31.4	43.0
Balance at end of period	\$ 175.5	\$ 175.5	\$ 177.0	\$ 175.5	\$ 177.0
Allowance for loan losses on acquired loans:					
Balance at beginning of period	\$ 4.8	\$ 7.7	\$	\$ 7.4	\$
Charge-offs		(2.7)		(2.7)	
Provision for loan losses	5.7	(0.2)		5.8	
Balance at end of period	\$ 10.5	\$ 4.8	\$	\$ 10.5	\$
Originated allowance for loan losses as a percentage of:					
Originated loans	0.95%	1.00%	1.09%	0.95%	1.09%
Originated non-performing loans	66.0	65.6	68.5	66.0	68.5
Commercial banking originated allowance for loan losses as a percentage of originated commercial banking loans	1.22	1.29	1.48	1.22	1.48
Retail originated allowance for loan losses as a percentage of originated retail loans	0.35	0.37	0.26	0.35	0.26

The provision for loan losses in the third quarter of 2012 totaled \$15.1 million, reflecting \$9.4 million in net loan charge-offs (including \$4.8 million against previously-established specific reserves), a \$4.8 million increase in the originated allowance for loan losses due to loan growth in both the commercial and residential mortgage loan portfolios, and a \$5.7 million increase in the acquired allowance for loan losses due to impairment on certain acquired loans. The provision for loan losses totaled \$14.4 million in the third quarter of 2011, reflecting \$13.4 million in net loan charge-offs (including \$4.7 million against previously-established specific reserves) and a \$5.7 million increase in the allowance for loan losses. Management believes that the level of the allowance for loan losses at September 30, 2012 is appropriate to cover probable losses.

#### Loan Charge-Offs

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

## Table of Contents

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

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

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

### Net Loan Charge-Offs

(in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
<b>Commercial Banking:</b>					
Commercial real estate	\$ 3.5	\$ 6.1	\$ 4.6	\$ 14.6	\$ 17.2
Commercial and industrial	2.6	3.1	4.4	7.3	8.3
Equipment financing	1.1	1.2	0.8	2.9	4.3
<b>Total</b>	<b>7.2</b>	<b>10.4</b>	<b>9.8</b>	<b>24.8</b>	<b>29.8</b>
<b>Retail:</b>					
Residential mortgage	1.3	1.4	2.1	4.7	4.9
Home equity	0.6	1.4	1.1	3.7	2.7
Other consumer	0.3	0.3	0.4	0.9	1.1
<b>Total</b>	<b>2.2</b>	<b>3.1</b>	<b>3.6</b>	<b>9.3</b>	<b>8.7</b>
<b>Total</b>	<b>\$ 9.4</b>	<b>\$ 13.5</b>	<b>\$ 13.4</b>	<b>\$ 34.1</b>	<b>\$ 38.5</b>

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

	Sept. 30, 2012	Three Months Ended June 30, 2012	Sept. 30, 2011	Nine Months Ended Sept. 30, 2012	Sept. 30, 2011
<b>Commercial Banking:</b>					
Commercial real estate	0.20%	0.35%	0.26%	0.28%	0.33%
Commercial and industrial	0.19	0.23	0.34	0.18	0.26
Equipment financing	0.21	0.22	0.16	0.19	0.28
<b>Retail:</b>					
Residential mortgage	0.13	0.14	0.25	0.16	0.21
Home equity	0.13	0.28	0.21	0.25	0.18
Other consumer	1.00	0.67	0.97	0.78	0.78
<b>Total portfolio</b>	<b>0.18%</b>	<b>0.26%</b>	<b>0.27%</b>	<b>0.22%</b>	<b>0.28%</b>

The comparatively low level of net loan charge-offs in recent periods, in terms of absolute dollars and as a percentage of average loans, may not be sustainable in the future.

*Non-Performing Assets*

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectibility of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection. There were no loans past due 90 days or more and still accruing interest at September 30, 2012 or December 31, 2011.

All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the period in which the accrual of interest is discontinued. Interest payments received on non-accrual loans (including impaired loans) are generally applied as a reduction of principal if future collections are doubtful, although such interest payments may be recognized as income. A loan remains on non-accrual status until the factors that indicated doubtful collectibility no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses.

**Table of Contents****Non-Performing Assets**

(dollars in millions)	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011
Originated non-performing loans:					
Commercial Banking:					
Commercial real estate	\$ 88.5	\$ 90.5	\$ 97.3	\$ 106.7	\$ 91.0
Commercial and industrial	64.6	62.2	63.0	59.2	49.2
Equipment financing	37.4	37.3	39.6	42.9	37.9
Total	190.5	190.0	199.9	208.8	178.1
Retail:					
Residential mortgage	60.6	63.7	70.0	68.9	65.5
Home equity	14.6	13.7	15.3	15.8	14.2
Other consumer	0.3	0.2	0.2	0.3	0.5
Total	75.5	77.6	85.5	85.0	80.2
Total originated non-performing loans (1)	266.0	267.6	285.4	293.8	258.3
REO	19.8	19.7	21.9	26.8	27.7
Reposessed assets	8.2	7.2	9.1	16.1	19.2
Total non-performing assets	\$ 294.0	\$ 294.5	\$ 316.4	\$ 336.7	\$ 305.2
Originated non-performing loans as a percentage of originated loans	1.45%	1.52%	1.67%	1.75%	1.60%
Non-performing assets as a percentage of:					
Originated loans, REO and reposessed assets	1.59	1.67	1.85	2.00	1.88
Tangible stockholders equity and originated allowance for loan losses	9.41	9.37	9.96	10.47	9.22

- (1) Reported net of government guarantees totaling \$14.1 million at Sept. 30, 2012, \$14.8 million at June 30, 2012, \$15.6 million at March 31, 2012, \$12.1 million at Dec. 31, 2011 and \$11.3 million at Sept. 30, 2011. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At September 30, 2012, the principal loan classes to which these government guarantees relate are commercial and industrial loans (approximately 90%) and commercial real estate loans (approximately 10%).

## **Table of Contents**

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by an FDIC loss-share agreement totaling \$191 million and \$11 million, respectively, at September 30, 2012 and \$235 million and \$14 million, respectively, at December 31, 2011. Such loans meet People's United Financial's definition of a non-performing loan but are excluded because the risk of credit loss was considered in the Company's estimate of acquisition-date fair value and/or credit losses are covered by an FDIC loss-share agreement. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

Total non-performing assets decreased \$42.8 million from December 31, 2011 and equaled 1.59% of originated loans, REO and repossessed assets at September 30, 2012. The decrease in total non-performing assets from December 31, 2011 reflects decreases in non-performing commercial real estate loans of \$18.1 million, non-performing residential mortgage loans of \$8.3 million, repossessed assets of \$7.9 million, REO of \$7.1 million, non-performing equipment financing loans of \$5.5 million and non-performing consumer loans of \$1.2 million, partially offset by increases in non-performing commercial and industrial loans of \$5.3 million.

All loans and REO acquired in the Butler Bank acquisition are subject to an FDIC loss-share agreement. The loss-share agreement provides for coverage by the FDIC, up to certain limits, on all such covered assets. The FDIC is obligated to reimburse the Company for 80% of any future losses on covered assets up to \$34.0 million. The Company will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Company 80% reimbursement under the loss-sharing coverage.

In addition to the originated non-performing loans discussed above, People's United Financial has also identified approximately \$523 million in originated potential problem loans at September 30, 2012. Originated potential problem loans represent loans that are currently performing, but for which known information about possible credit deterioration on the part of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms and which may result in the disclosure of such loans as non-performing at some time in the future. The originated potential problem loans are generally loans that, although performing, have been classified as substandard in accordance with People's United Financial's loan rating system, which is consistent with guidelines established by banking regulators.

At September 30, 2012, originated potential problem loans consisted of \$267 million of commercial and industrial loans, \$151 million of commercial real estate loans and \$105 million of equipment financing loans. Such loans are closely monitored by management and have remained in performing status for a variety of reasons including, but not limited to, delinquency status, borrower payment history and fair value of the underlying collateral. Management cannot predict the extent to which economic conditions may worsen or whether other factors may adversely impact the ability of these borrowers to make payments. Accordingly, there can be no assurance that originated potential problem loans will not become 90 days or more past due, be placed on non-accrual status, be restructured, or require additional provisions for loan losses.

The levels of non-performing assets and potential problem loans are expected to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with management's degree of success in resolving problem assets. Management takes a proactive approach with respect to the identification and resolution of problem loans. However, given the current state of the U.S. economy and, more specifically, the real estate market, the level of non-performing assets may increase in 2012.

## **Table of Contents**

### **Liquidity**

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

Asset liquidity is provided by: cash; short-term investments and securities purchased under agreements to resell; proceeds from security sales, maturities and principal repayments; and proceeds from scheduled principal collections, prepayments and sales of loans. In addition, certain securities may be used to collateralize borrowings under repurchase agreements. The Consolidated Statements of Cash Flows present data on cash provided by and used in People's United Financial's operating, investing and financing activities. At September 30, 2012, People's United Financial (parent company) liquid assets included \$3 million in debt securities available for sale. People's United Bank's liquid assets included \$422 million in cash and cash equivalents, \$3.7 billion in debt securities available for sale and \$6 million in trading account securities. Securities available for sale with a fair value of

\$1.41 billion at September 30, 2012 were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by People's United Financial's and People's United Bank's ability to obtain deposits and borrowings at cost-effective rates that are diversified with respect to markets and maturities. Deposits, which are considered the most stable source of liability liquidity, totaled \$21.4 billion at September 30, 2012 and represented 76% of total funding (the sum of total deposits, total borrowings, subordinated notes and debentures, and stockholders' equity). Borrowings are used to diversify People's United Financial's funding mix and to support asset growth. Borrowings and subordinated notes and debentures totaled \$1.5 billion and \$160 million, respectively, at September 30, 2012, representing 5.4% and 0.6%, respectively, of total funding at that date.

People's United Bank's current sources of borrowings include: federal funds purchased, advances from the FHLB of Boston and the Federal Reserve Bank of New York, and repurchase agreements. At September 30, 2012, People's United Bank's total borrowing limit from the FHLB of Boston and Federal Reserve Bank of New York for advances, and repurchase agreements, was \$4.8 billion, based on the level of qualifying collateral available for these borrowings. In addition, People's United Bank had unsecured borrowing capacity of \$0.8 billion at that date.

At September 30, 2012, People's United Bank had outstanding commitments to originate loans totaling \$1.4 billion and approved, but unused, lines of credit extended to customers totaling \$4.7 billion (including \$1.8 billion of home equity lines of credit).

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

## Table of Contents

### Stockholders' Equity and Dividends

People's United Financial's total stockholders' equity was \$5.11 billion at September 30, 2012, a \$108 million decrease from December 31, 2011. This decrease primarily reflects dividends paid of \$164.3 million and open market repurchases of 13.5 million shares of common stock at a total cost of \$163.7 million, partially offset by net income of \$184.1 million.

Stockholders' equity equaled 17.9% of total assets at September 30, 2012 compared to 18.9% at December 31, 2011. Tangible stockholders' equity equaled 11.2% of tangible assets at September 30, 2012 compared to 12.0% at December 31, 2011.

In October 2011, People's United Financial's Board of Directors authorized the repurchase of common stock. Under the repurchase authorization, up to 5% of the Company's common stock outstanding, or 18.0 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. During the nine months ended September 30, 2012, 13.5 million shares of People's United Financial common stock were repurchased under this program at a total cost of \$163.7 million. Through October 26, 2012, an additional 1.2 million shares were repurchased at a total cost of \$14.6 million.

In October 2012, People's United Financial's Board of Directors declared a quarterly dividend on its common stock of \$0.16 per share. The dividend is payable on November 15, 2012 to shareholders of record on November 1, 2012.

In September 2012, People's United Bank paid a cash dividend of \$65 million to People's United Financial.

### Regulatory Capital Requirements

People's United Bank's tangible capital ratio was 10.8% at September 30, 2012, compared to the minimum ratio of 1.5% generally required by its regulator, the OCC.

People's United Bank is also subject to the OCC's risk-based capital regulations, which require minimum ratios of leverage capital and total risk-based capital of 4.0% and 8.0%, respectively. People's United Bank satisfied these requirements at September 30, 2012 with ratios of 10.8% and 14.1%, respectively, compared to 11.1% and 13.9%, respectively, at

December 31, 2011. People's United Bank's regulatory capital ratios exceeded the OCC's numeric criteria for classification as a well capitalized institution at September 30, 2012.

The following summary compares People's United Bank's regulatory capital amounts and ratios as of September 30, 2012 to the OCC's requirements. At September 30, 2012, People's United Bank's adjusted total assets, as defined, were \$26.4 billion and its total risk-weighted assets, as defined, were \$21.7 billion. At September 30, 2012, People's United Bank exceeded each of its regulatory capital requirements.

As of September 30, 2012 (dollars in millions)	People's United Bank		OCC Requirements			
	Amount	Ratio	Classification as Well-Capitalized		Minimum Capital Adequacy	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	\$ 2,857.6 (1)	10.8%	n/a	n/a	\$ 396.7	1.5%
Leverage (core) capital	2,857.6 (1)	10.8	\$ 1,322.4	5.0%	1,057.9	4.0
Total risk-based capital	3,064.9 (2)	14.1	2,167.2	10.0	1,733.7	8.0

- (1) Tier 1 capital represents People's United Bank's total equity, excluding: (i) after-tax net unrealized gains (losses) on certain securities classified as available for sale; (ii) after-tax net gains on derivatives qualifying as cash flow hedges; (iii) certain assets

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

not recognized in Tier 1 capital (principally goodwill and other acquisition-related intangibles); and (iv) the amount recorded in accumulated other comprehensive income (loss) relating to pension and other postretirement benefits.

- (2) Represents Tier 1 capital plus subordinated notes and debentures, up to certain limits, and the allowance for loan losses up to 1.25% of total risk-weighted assets.

**Table of Contents**

The following table summarizes People's United Financial's capital ratios on a consolidated basis:

	September 30, 2012	December 31, 2011
Tangible equity to tangible assets	11.2%	12.0%
Leverage (Tier 1 capital to adjusted total assets)	11.5	12.5
Tier 1 common equity to total risk-weighted assets (1)	13.6	14.2
Tier 1 risk-based capital to total risk-weighted assets	14.1	14.8
Total risk-based capital to total risk-weighted assets	15.6	16.2

(1) Tier 1 common equity represents total stockholders' equity, excluding goodwill and other acquisition-related intangibles.

In December 2010, the Basel Committee on Banking Supervision released its final framework for capital requirements, which are referred to as Basel III. When implemented by the U.S. banking agencies and fully phased-in, Basel III will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The implementation of the Basel III final framework is scheduled to commence January 1, 2013.

The Basel III final capital framework, among other things: (i) introduces as a new capital measure Common Equity Tier 1 (CET1); (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 Capital instruments meeting specified requirements; (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, Basel III requires financial institutions to maintain: (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (iv) as a newly adopted international standard, a minimum leverage ratio of 3.0%, calculated as the ratio of Tier 1 capital balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

In June 2012, the U.S. banking agencies issued proposed rules to address implementation of the Basel III framework for U.S. financial institutions. The proposed rules, which set forth changes in the calculation of risk-weighted assets and introduce limitations on what is permissible for inclusion as Tier 1 capital, would become effective according to a phase-in approach over several years beginning in 2013. In August 2012, the comment period for the proposed rules, which was originally scheduled to end in early September 2012, was extended to late October 2012.

While the regulations ultimately applicable to U.S. financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012, management currently estimates that the Company's and the Bank's risk-based capital ratios could be negatively impacted by as much as 50-100 basis points on an as proposed and fully phased-in basis. Management will continue to monitor these and future proposed regulations.

## **Table of Contents**

### **Market Risk Management**

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

### **Interest Rate Risk**

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

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

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

**Table of Contents**

The following tables set forth the estimated percentage change in the Company's net interest income at risk over one-year simulation periods beginning September 30, 2012 and December 31, 2011. Given the interest rate environment at those dates, simulations for interest rate declines of more than 25 basis points were not deemed to be meaningful.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	As of September 31, 2012	As of December 31, 2011
+300	23.7%	18.4%
+200	15.3	12.1
+100	7.0	5.5
-25	(1.6)	(1.1)

Yield Curve Twist Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	As of September 30, 2012	As of December 31, 2011
Long End +100	3.1%	2.9%
Long End +50	1.6	1.5
Long End -50	(1.6)	(1.5)
Long End -100	(2.5)	(2.8)
Short End +100	3.9	2.6
Short End +50	1.7	1.0
Short End -25	(0.8)	(0.3)

The above net interest income at risk simulation results indicate that as of September 30, 2012, the Company is asset sensitive over the twelve-month forecast horizon (i.e., the Company's net interest income will increase if market rates rise). This is primarily due to approximately one-third of its loan portfolio being comprised of Prime and one-month Libor-based loans that are primarily funded by less rate-sensitive core deposits.

In 2012, the Company modified its volume assumption methodology for net interest income simulation. This change resulted in increased asset sensitivity that was partially offset by the purchase of investment securities during the first nine months of 2012. The mix of one-month Libor-based loans as a percentage of total loans has increased during the first nine months of 2012 and as a result, the Company is more asset sensitive when the short-end rises. Overall, asset sensitivity increased slightly from December 31, 2011. Based on the Company's interest rate position at September 30, 2012, an immediate 100 basis point increase in interest rates translates to an approximate \$60 million increase in net interest income on an annualized basis.

**Table of Contents**

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

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

The following table sets forth the estimated percentage change in the Company's economic value of equity at risk, assuming various shifts in interest rates. Given the interest rate environment at both September 30, 2012 and December 31, 2011, simulations for interest rate declines of more than 25 basis points were not deemed to be meaningful.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Economic Value of Equity	
	As of September 31, 2012	As of December 31, 2011
+300	0.6%	%
+200	1.6	0.4
+100	1.3	(0.7)
-25	(0.3)	0.3

The Company has maintained a long-term neutral interest rate risk position during the first nine months of 2012 and has not made material changes to either its assumptions or methodologies used in the economic value of equity simulations during that period.

## **Table of Contents**

People's United Financial's interest rate risk position at September 30, 2012, as set forth in the net interest income at risk and economic value of equity at risk tables above, reflects an asset sensitive net interest income at risk position and a neutral economic value of equity at risk position at that date. Asset sensitivity over the next twelve months is primarily attributable to the effect of the substantial Prime and Libor-based loan balances that are primarily funded by less rate sensitive core deposits. From a longer-term perspective, these core deposits are supporting longer duration loan assets serving to create a neutral risk position. Given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by the Company's models.

Management has established procedures to be followed in the event of a breach in policy limits, or if those limits are approached. As of September 30, 2012, there were no breaches of the Company's internal policy limits with respect to either interest rate risk measure.

Management utilizes both interest rate measures in the normal course of measuring and managing interest rate risk and believes that each measure is valuable in understanding the Company's interest rate risk position.

People's United Financial uses derivative financial instruments, including interest rate swaps, primarily for market risk management purposes (principally interest rate risk). Certain other derivatives are entered into in connection with transactions with commercial customers. Derivatives are not used for speculative purposes.

At September 30, 2012, People's United Financial used interest rate swaps on a limited basis to manage IRR associated with the Company's \$125 million subordinated notes. People's United Financial has entered into an interest rate swap to hedge the LIBOR-based floating interest rate payments on these subordinated notes (such payments began in February 2012). The subordinated notes had a fixed interest rate of 5.80% until February 2012, at which time the interest rate converted to the three month LIBOR plus 68.5 basis points. People's United Financial has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate (1.99%) and floating-rate interest amounts calculated based on a notional amount of \$125 million. The floating rate interest amounts received under the interest rate swap are calculated using the same floating rate paid on the subordinated notes. The interest rate swap effectively converts the variable rate subordinated notes to a fixed interest rate and consequently reduces People's United Financial's exposure to increases in interest rates. This interest rate swap is accounted for as a cash flow hedge.

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

## **Table of Contents**

By using derivatives, People's United Financial is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's counterparty credit risk is equal to the amount reported as a derivative asset in the Consolidated Statements of Condition, less any posted collateral. Amounts reported as derivative assets represent derivative contracts in a gain position, net of derivatives in a loss position with the same counterparty (to the extent subject to master netting arrangements). People's United Financial seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, execution of master netting arrangements and obtaining collateral, where appropriate. Counterparties to People's United Financial's derivatives include major financial institutions with investment grade credit ratings from the major rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United Financial's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company's external credit rating. If the Company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of master netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2012 was \$8.5 million, for which People's United Financial had posted \$7.6 million of collateral in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$0.9 million in additional collateral would have been required.

## **Foreign Currency Risk**

Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People's United Financial uses these instruments on a limited basis to eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans. Effective in the first quarter of 2010, People's United Financial no longer designates foreign exchange contracts as hedging instruments.

**Table of Contents****Derivative Financial Instruments**

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

As of September 30, 2012 (dollars in millions)	Interest Rate Swaps	Foreign Exchange Contracts
Notional principal amounts	\$ 125.0	\$ 6.5
Weighted average interest rates:		
Pay fixed	1.99%	N/A
(Receive floating)	(Libor + 0.685%)	N/A
Weighted average remaining term to maturity (in months)	53	2
Fair value:		
Recognized as a liability	\$ 3.6	\$ 0.1

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

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

As of September 30, 2012 (dollars in millions)	Interest Rate Swaps	
	Commercial Customers	Other Counterparties
Notional principal amounts	\$ 1,078.1	\$ 1,078.1
Weighted average interest rates:		
Pay floating (receive fixed)	0.24%(2.33%)	
Pay fixed (receive floating)		2.21%(0.24%)
Weighted average remaining term to maturity (in months)	86	86
Fair value:		
Recognized as an asset	\$ 81.8	\$
Recognized as a liability		74.4

See Note 12 to the Consolidated Financial Statements for further information relating to derivatives.

**Item 3 Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item appears on pages 106 through 111 of this report.

## Table of Contents

### Item 4 Controls and Procedures

People's United Financial's management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of People's United Financial's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that People's United Financial's disclosure controls and procedures are effective, as of September 30, 2012, to ensure that information relating to People's United Financial, which is required to be disclosed in the reports People's United Financial files with the Securities and Exchange Commission under the Exchange Act, is (i) recorded, processed, summarized and reported as and when required, and (ii) accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

During the quarter ended September 30, 2012, there has not been any change in People's United Financial's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, People's United Financial's internal control over financial reporting.

### Part II Other Information

#### Item 1 Legal Proceedings

In the normal course of business, People's United Financial is subject to various legal proceedings. Management has discussed with legal counsel the nature of these legal proceedings. In the opinion of management, People's United Financial's financial condition, results of operations or liquidity will not be affected materially as a result of the eventual outcome of these legal proceedings. See Note 9 to the Consolidated Financial Statements for a further discussion of legal proceedings.

#### Item 1A Risk Factors

There have been no material changes in risk factors since December 31, 2011.

#### Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information with respect to purchases made by People's United Financial of its common stock during the three months ended September 30, 2012.

#### Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1 - 31, 2012:				
Tendered by employees (1)	4,292	\$ 11.83		
Publicly announced program (2)	851,081	\$ 11.40	851,081	8,148,919
August 1 - 31, 2012:				
Tendered by employees (1)		\$		
Publicly announced program (2)	2,241,633	\$ 11.91	2,241,633	5,907,286
September 1 - 30, 2012:				
Tendered by employees (1)	9,403	\$ 12.41		
Publicly announced program (2)	1,407,286	\$ 12.17	1,407,286	4,500,000
Total:				
Tendered by employees (1)	13,695	\$ 12.23		

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

Publicly announced program (2)	4,500,000	\$ 11.90	4,500,000	4,500,000
--------------------------------	-----------	----------	-----------	-----------

## **Table of Contents**

- (1) All shares listed were tendered by employees of People's United Financial in satisfaction of their related minimum tax withholding obligations upon the vesting of restricted stock awards granted in prior periods. The average price paid per share is equal to the average of the high and low trading price of People's United Financial's common stock on The NASDAQ Stock Market on the vesting date or, if no trades took place on that date, the most recent day for which trading data was available. There is no limit on the number of shares that may be tendered by employees of People's United Financial in the future to satisfy their related minimum tax withholding obligations. Shares acquired in satisfaction of minimum tax withholding obligations are not eligible for reissuance in connection with any subsequent grants made pursuant to equity compensation plans maintained by People's United Financial. All shares acquired in this manner are retired by People's United Financial, resuming the status of authorized but unissued shares of People's United Financial's common stock.
- (2) In October 2011, People's United Financial's Board of Directors authorized the repurchase of up to 5% of the Company's outstanding common stock, or 18.0 million shares. Such shares may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management.

Through September 30, 2012, 13.5 million shares of People's United Financial's common stock had been repurchased under this program at a total cost of \$163.7 million. Shares acquired in this manner have not been retired by People's United Financial and, as a result, remain available for issuance in the future.

### **Item 3 Defaults Upon Senior Securities**

None.

### **Item 4 Mine Safety Disclosures**

None.

### **Item 5 Other Information**

None.

### **Item 6 Exhibits**

The following Exhibits are filed herewith:

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.1	The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011; (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.

**Table of Contents**

SIGNATURES

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

PEOPLE'S UNITED FINANCIAL, INC.

Date: November 2, 2012

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

Date: November 2, 2012

By: /s/ Kirk W. Walters  
Kirk W. Walters  
Senior Executive Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

Date: November 2, 2012

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

**Table of Contents**

INDEX TO EXHIBITS

Designation	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.1	The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011; (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.