

People's United Financial, Inc.
Form 10-Q
November 10, 2014
[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, 2014

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

06604
(Zip Code)

(203) 338-7171

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 31, 2014, there were 307,969,670 shares of the registrant's common stock outstanding.

Table of Contents

People's United Financial Inc.

Form 10-Q

Table of Contents

	Page
<u>Part I – Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Condition as of September 30, 2014 and December 31, 2013</u>	1
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	3
<u>Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2014 and 2013</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	95
Item 4. <u>Controls and Procedures</u>	96
<u>Part II – Other Information</u>	
Item 1. <u>Legal Proceedings</u>	96
Item 1A. <u>Risk Factors</u>	96
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	96
Item 3. <u>Defaults Upon Senior Securities</u>	97
Item 4. <u>Mine Safety Disclosures</u>	97
Item 5. <u>Other Information</u>	97
Item 6. <u>Exhibits</u>	97
<u>Signatures</u>	98

Table of Contents

Item 1 - Financial Statements

People's United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 312.0	\$ 350.8
Short-term investments (note 2)	207.6	123.6
Total cash and cash equivalents	519.6	474.4
Securities purchased under agreements to resell (note 2)	300.0	
Securities (note 2):		
Trading account securities, at fair value	8.3	8.3
Securities available for sale, at fair value	3,873.0	4,208.2
Securities held to maturity, at amortized cost (fair value of \$670.6 million and \$642.5 million)	630.1	640.5
Federal Home Loan Bank stock, at cost	175.7	175.7
Total securities	4,687.1	5,032.7
Loans held for sale	33.4	23.3
Loans (note 3):		
Commercial	9,711.4	8,895.2
Commercial real estate	9,310.6	8,921.6
Residential mortgage	4,739.8	4,416.6
Consumer	2,192.5	2,156.9
Total loans	25,954.3	24,390.3
Less allowance for loan losses	(196.9)	(187.8)
Total loans, net	25,757.4	24,202.5
Goodwill (note 6)	1,954.5	1,954.5
Bank-owned life insurance	342.6	339.4
Premises and equipment	282.5	304.1
Other acquisition-related intangible assets (note 6)	154.2	172.8
Other assets (notes 1, 3 and 11)	743.6	710.0

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

Total assets	\$ 34,774.9	\$ 33,213.7
Liabilities		
Deposits:		
Non-interest-bearing	\$ 5,500.4	\$ 5,312.2
Savings, interest-bearing checking and money market	14,747.3	12,862.2
Time	5,013.6	4,382.9
Total deposits	25,261.3	22,557.3
Borrowings:		
Federal Home Loan Bank advances	2,467.5	3,719.8
Customer repurchase agreements	475.6	501.2
Federal funds purchased	469.0	825.0
Other borrowings	3.7	11.0
Total borrowings	3,415.8	5,057.0
Notes and debentures (note 1)	1,021.5	639.1
Other liabilities (note 11)	421.3	391.9
Total liabilities	30,119.9	28,645.3
Commitments and contingencies (notes 1 and 8)		
Stockholders Equity		
Common stock (\$0.01 par value; 1.95 billion shares authorized; 396.7 million shares and 396.5 million shares issued)	3.9	3.9
Additional paid-in capital	5,285.7	5,277.0
Retained earnings	812.1	779.0
Accumulated other comprehensive loss (note 4)	(124.5)	(155.1)
Unallocated common stock of Employee Stock Ownership Plan, at cost (7.8 million shares and 8.0 million shares) (note 7)	(160.8)	(166.2)
Treasury stock, at cost (89.0 million shares and 89.5 million shares) (note 4)	(1,161.4)	(1,170.2)
Total stockholders equity	4,655.0	4,568.4
Total liabilities and stockholders equity	\$ 34,774.9	\$ 33,213.7

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest and dividend income:				
Commercial real estate	\$ 89.2	\$ 90.0	\$ 266.5	\$ 262.7
Commercial	89.1	86.4	261.9	260.3
Residential mortgage	38.1	34.7	113.7	103.5
Consumer	18.5	18.6	55.2	56.1
Total interest on loans	234.9	229.7	697.3	682.6
Securities	23.6	22.0	72.8	66.9
Loans held for sale	0.3	0.5	0.6	1.3
Short-term investments	0.1		0.3	0.2
Total interest and dividend income	258.9	252.2	771.0	751.0
Interest expense:				
Deposits	20.2	20.1	59.2	61.4
Borrowings	2.8	2.7	8.7	7.6
Notes and debentures	7.4	5.9	19.3	18.3
Total interest expense	30.4	28.7	87.2	87.3
Net interest income	228.5	223.5	683.8	663.7
Provision for loan losses (note 3)	12.4	12.1	30.7	33.7
Net interest income after provision for loan losses	216.1	211.4	653.1	630.0
Non-interest income:				
Bank service charges	33.3	33.3	96.6	95.5
Operating lease income	10.2	8.7	31.4	25.1
Investment management fees	10.7	9.2	31.1	27.6
Commercial banking lending fees	8.6	9.2	24.8	29.7
Insurance revenue	8.8	9.1	23.3	24.5
Brokerage commissions	3.4	3.3	10.2	10.0
Net gains on sales of residential mortgage loans	1.1	3.9	1.9	13.8
Net (losses) gains on sales of acquired loans	(0.2)		(0.6)	5.8
Gain on merchant services joint venture, net of expenses (note 1)			20.6	
Other non-interest income	8.1	9.4	24.7	27.2

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

Total non-interest income (note 1)	84.0	86.1	264.0	259.2
Non-interest expense:				
Compensation and benefits	108.1	106.9	327.8	319.5
Occupancy and equipment	36.4	36.7	111.0	111.5
Professional and outside service fees	14.3	16.1	44.5	44.9
Operating lease expense	8.7	7.8	28.5	22.9
Regulatory assessments	8.5	8.6	26.2	25.4
Amortization of other acquisition-related intangible assets (note 6)	6.2	6.5	18.6	19.6
Other non-interest expense	26.6	29.9	77.2	86.5
Total non-interest expense	208.8	212.5	633.8	630.3
Income before income tax expense (note 1)	91.3	85.0	283.3	258.9
Income tax expense (note 1)	29.7	26.5	96.3	85.8
Net income	\$ 61.6	\$ 58.5	\$ 187.0	\$ 173.1
Earnings per common share (note 5):				
Basic	\$ 0.21	\$ 0.19	\$ 0.62	\$ 0.55
Diluted	0.21	0.19	0.62	0.55

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

Consolidated Statements of Comprehensive Income - (Unaudited)

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$ 61.6	\$ 58.5	\$ 187.0	\$ 173.1
Other comprehensive income (loss), net of tax:				
Net actuarial loss and prior service credit related to pension and other postretirement benefit plans	0.6	1.0	1.9	3.3
Net unrealized gains (losses) on securities available for sale	0.1	(24.4)	27.0	(110.0)
Amortization of unrealized losses on securities transferred to held to maturity	0.4		1.3	
Net unrealized gains (losses) on derivatives accounted for as cash flow hedges	0.6	(0.3)	0.4	1.1
Total other comprehensive income (loss), net of tax (note 4)	1.7	(23.7)	30.6	(105.6)
Total comprehensive income	\$ 63.3	\$ 34.8	\$ 217.6	\$ 67.5

See accompanying notes to consolidated financial statements.

Table of Contents

People's United Financial, Inc.

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

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

Nine months ended September 30, 2013 (in millions, except per share data)	Additional		Accumulated		Unallocated		Total Stockholders Equity
	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Loss	ESOP Common Stock	Treasury Stock	
Balance at December 31, 2012	\$ 3.9	\$ 5,261.3	\$ 756.2	\$ (96.9)	\$ (173.5)	\$ (712.2)	\$ 5,038.8
Net income			173.1				173.1
Total other comprehensive loss, net of tax (note 4)				(105.6)			(105.6)
Cash dividends on common stock (\$0.4850 per share)			(155.0)				(155.0)
Restricted stock awards		6.4	(0.1)			0.6	6.9
Employee Stock Ownership Plan common stock committed to be released (note 7)			(1.9)		5.5		3.6
Common stock repurchased (note 4)						(327.4)	(327.4)
Common stock repurchased and retired upon vesting of restricted stock awards			(1.8)				(1.8)
Stock options and related tax benefits		5.0					5.0

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

Balance at September 30, 2013	\$ 3.9	\$ 5,272.7	\$ 770.5	\$ (202.5)	\$ (168.0)	\$ (1,039.0)	\$ 4,637.6
-------------------------------	--------	------------	----------	------------	------------	--------------	------------

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,	
	2014	2013
Cash Flows from Operating Activities:		
Net income	\$ 187.0	\$ 173.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	30.7	33.7
Depreciation and amortization of premises and equipment	29.6	30.3
Expense related to operating leases	28.5	22.9
Amortization of other acquisition-related intangible assets	18.6	19.6
Gain on merchant services joint venture, net of expenses	(20.6)	
Net security gains	(0.3)	
Net gains on sales of residential mortgage loans	(1.9)	(13.8)
Net losses (gains) on sales of acquired loans	0.6	(5.8)
Employee Stock Ownership Plan common stock committed to be released	3.8	3.6
Expense related to share-based awards	11.2	10.2
Originations of loans held-for-sale	(218.9)	(635.8)
Proceeds from sales of loans held-for-sale	210.7	698.1
Net decrease in trading account securities		0.2
Net changes in other assets and liabilities	(41.5)	(46.4)
Net cash provided by operating activities	237.5	289.9
Cash Flows from Investing Activities:		
Net increase in securities purchased under agreements to resell	(300.0)	
Proceeds from principal repayments and maturities of securities available for sale	517.0	768.7
Proceeds from sales of securities available for sale	410.0	
Proceeds from principal repayments and maturities of securities held to maturity	63.5	0.2
Proceeds from redemption of Federal Home Loan Bank stock		0.9
Purchases of securities available for sale	(520.0)	(630.4)
Purchases of securities held to maturity	(48.4)	
Purchases of Federal Home Loan Bank stock		(49.2)
Proceeds from sales of loans	7.2	14.8
Loan disbursements, net of principal collections	(1,595.1)	(1,541.4)
Purchases of premises and equipment	(14.2)	(14.1)
Purchases of leased equipment	(16.3)	(32.5)
Proceeds from sales of real estate owned	9.3	12.8
Return of premiums on bank-owned life insurance, net	0.5	0.9
Net cash used in investing activities	(1,486.5)	(1,469.3)

Cash Flows from Financing Activities:

Net increase in deposits	2,704.0	439.1
Net (decrease) increase in borrowings with terms of three months or less	(1,638.9)	1,272.7
Repayments of borrowings with terms of more than three months	(0.4)	(35.4)
Repayments of notes and debentures	(19.0)	(20.6)
Net proceeds from issuance of subordinated notes	394.4	
Cash dividends paid on common stock	(147.4)	(155.0)
Common stock repurchases	(2.9)	(329.2)
Proceeds from stock options exercised, including excess income tax benefits	4.4	1.6
Net cash provided by financing activities	1,294.2	1,173.2
Net increase (decrease) in cash and cash equivalents	45.2	(6.2)
Cash and cash equivalents at beginning of period	474.4	601.4
Cash and cash equivalents at end of period	\$ 519.6	\$ 595.2

Supplemental Information:

Interest payments	\$ 77.8	\$ 85.7
Income tax payments	95.6	82.2
Real estate properties acquired by foreclosure	15.2	17.2

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 (see below).

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.

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 fair 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 economic conditions, which may result in changes to future financial results. For example, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect outstanding principal may result in increased loan losses.

Note 1 to People's United Financial's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013, as supplemented by the Quarterly Reports for the periods ended March 31, 2014 and June 30, 2014 and this Quarterly Report for the period ended September 30, 2014, provides disclosure of People's United Financial's significant accounting policies.

As discussed in Note 13, in the first quarter of 2014, the Company early adopted, with retrospective application, amended standards with respect to the accounting for investments in qualified affordable housing projects. People's United Financial holds ownership interests in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout its franchise area. The underlying partnerships, which are considered variable interest entities, are not consolidated into the Company's Consolidated Financial Statements. These investments have historically played a role in enabling People's United Bank (the Bank) to meet its Community Reinvestment Act requirements while, at the same time, providing federal income tax credits.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The balance of the Company's affordable housing investments reflected in the Consolidated Statement of Condition at September 30, 2014 totaled \$69.7 million (included in other assets). Future contingent commitments (capital calls) related to such investments, the timing of which cannot be reasonably estimated, totaled \$28.3 million at that date. The cost of the Company's investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). Amortization expense totaled \$2.6 million and \$2.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$7.5 million and \$6.2 million for the nine months ended September 30, 2014 and 2013, respectively. In accordance with the aforementioned amended standards, amortization of the Company's cost of such investments previously included in pre-tax income is now included as a component of income tax expense for all periods presented.

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, 2013. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

Recent Developments

During the quarter ended June 30, 2014, the Bank formed a joint venture with Vantiv, Inc. to provide a comprehensive suite of payment solutions to businesses throughout the Bank's footprint. The Bank retained a 49 percent minority interest in the joint venture and recognized a \$20.6 million gain, net of related expenses, resulting from the formation of the joint venture. The gain represented the fair value of the Bank's entire portfolio of merchant contracts that was contributed to the joint venture and which previously had a zero book basis. The investment in the joint venture is accounted for using the equity method of accounting.

In June 2014, the Bank issued \$400 million of 4.00% subordinated notes due 2024. The subordinated notes represent unsecured and subordinated obligations of the Bank with interest payable semi-annually. The Bank may redeem the notes, in whole or in part, on or after April 16, 2024 at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. The Bank may redeem the notes in whole, but not in part, at its option at a redemption price equal to 100% of the principal amount of the notes together with accrued but unpaid interest to, but excluding, the date fixed for redemption, within 90 days of the occurrence of a regulatory event (as defined). Pursuant to capital regulations of the Office of the Comptroller of the Currency (the OCC), effective January 1, 2015, the Bank may not redeem the notes prior to maturity without the prior approval of the OCC. For regulatory capital purposes, subordinated note issuances qualify, up to certain limits, as supplementary (Tier 2) capital for the Bank's total risk-based capital.

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

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

As of September 30, 2014 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	\$ 56.5	\$ 0.4	\$	\$ 56.9
GSE (1) residential mortgage-backed securities and CMOs (2)	3,785.6	31.5	(64.3)	3,752.8
Corporate	58.6	1.7		60.3
Other	2.7	0.1		2.8
Total debt securities	3,903.4	33.7	(64.3)	3,872.8
Equity securities	0.2			0.2
Total securities available for sale	\$ 3,903.6	\$ 33.7	\$ (64.3)	\$ 3,873.0
Securities held to maturity:				
Debt securities:				
State and municipal	\$ 628.6	\$ 40.5	\$	\$ 669.1
Other	1.5			1.5
Total securities held to maturity	\$ 630.1	\$ 40.5	\$	\$ 670.6

(1) Government sponsored enterprise

(2) Collateralized mortgage obligations

As of December 31, 2013 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				

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

Debt securities:

U.S. Treasury and agency	\$ 48.6	\$ 0.3	\$	\$ 48.9
GSE residential mortgage-backed securities and CMOs	4,172.2	30.6	(106.4)	4,096.4
Corporate	58.3	1.9		60.2
Other	2.6		(0.1)	2.5
Total debt securities	4,281.7	32.8	(106.5)	4,208.0
Equity securities	0.2			0.2
Total securities available for sale	\$ 4,281.9	\$ 32.8	\$ (106.5)	\$ 4,208.2

Securities held to maturity:

Debt securities:

State and municipal	\$ 584.5	\$	\$	\$ 584.5
Corporate	55.0	2.0		57.0
Other	1.0			1.0
Total securities held to maturity	\$ 640.5	\$ 2.0	\$	\$ 642.5

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

The following table is a summary of the amortized cost and fair value of debt securities as of September 30, 2014, 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	\$ 11.0	\$ 11.0	\$	\$
After 1 but within 5 years	45.5	45.9		
Total	56.5	56.9		
GSE residential mortgage-backed securities and CMOs:				
After 1 but within 5 years	23.5	23.7		
After 5 but within 10 years	742.9	747.3		
After 10 years	3,019.2	2,981.8		
Total	3,785.6	3,752.8		
State and municipal:				
Within 1 year			3.0	3.0
After 1 but within 5 years			21.1	21.4
After 5 but within 10 years			244.3	256.3
After 10 years			360.2	388.4
Total			628.6	669.1
Corporate:				
Within 1 year	6.1	6.2		
After 1 but within 5 years	52.5	54.1		
Total	58.6	60.3		
Other:				
After 1 but within 5 years			1.5	1.5
After 10 years	2.7	2.8		
Total	2.7	2.8	1.5	1.5

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

Total:

Within 1 year	17.1	17.2	3.0	3.0
After 1 but within 5 years	121.5	123.7	22.6	22.9
After 5 but within 10 years	742.9	747.3	244.3	256.3
After 10 years	3,021.9	2,984.6	360.2	388.4
Total	\$ 3,903.4	\$ 3,872.8	\$ 630.1	\$ 670.6

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.

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 \$0.1 million.

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2014 (in millions)						
GSE residential mortgage-backed securities and CMOs	\$ 764.4	\$ (1.7)	\$ 1,842.4	\$ (62.6)	\$ 2,606.8	\$ (64.3)
U.S. Treasury and agency	20.2				20.2	
Total	\$ 784.6	\$ (1.7)	\$ 1,842.4	\$ (62.6)	\$ 2,627.0	\$ (64.3)

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2013 (in millions)						
GSE residential mortgage-backed securities and CMOs	\$ 2,866.2	\$ (97.6)	\$ 152.0	\$ (8.8)	\$ 3,018.2	\$ (106.4)
U.S. Treasury and agency	18.1				18.1	
Other	2.5	(0.1)			2.5	(0.1)
Total	\$ 2,886.8	\$ (97.7)	\$ 152.0	\$ (8.8)	\$ 3,038.8	\$ (106.5)

At September 30, 2014, 60 securities classified as available for sale, or approximately 49% of the 123 securities owned by the Company, had gross unrealized losses totaling \$64.3 million. All of the GSE residential mortgage-backed securities and CMOs had AAA credit ratings and an average maturity of 12 years. The cause of the unrealized losses with respect to these securities is directly related to changes in interest rates. Management believes that all gross unrealized losses within the securities portfolio at September 30, 2014 and December 31, 2013 are temporary impairments. Management does not intend to sell such securities nor is it more likely than not that management will be required to sell such securities prior to recovery. Further, 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. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three or nine months ended September 30, 2014 and 2013.

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

Securities available for sale with a fair value of \$1.36 billion and \$1.31 billion at September 30, 2014 and December 31, 2013, respectively, were pledged as collateral for public deposits and for other purposes.

The Bank, as a member of the Federal Home Loan Bank (FHLB) of Boston, is currently required to purchase and hold shares of FHLB capital stock (total cost of \$164.4 million at both September 30, 2014 and December 31, 2013) in an amount equal to its membership base investment plus an activity based investment determined according to the Bank's level of outstanding FHLB advances. As a result of the Smithtown Bancorp, Inc. (Smithtown) acquisition completed in 2010, People's United Financial acquired shares of capital stock in the FHLB of New York (total cost of \$11.3 million at both September 30, 2014 and December 31, 2013). Based on the current capital adequacy and liquidity position of both the FHLB of Boston and the FHLB of New York, management believes there is no impairment in the Company's investment at September 30, 2014 and the cost of the investment approximates fair value.

Included in short-term investments are interest-bearing deposits at the Federal Reserve Bank of New York totaling \$171.1 million at September 30, 2014 and \$102.5 million at December 31, 2013. These deposits represent an alternative to overnight federal funds sold and had a yield of 0.25% at both dates.

People's United Financial accounts for resale agreements as secured lending transactions. In connection with such agreements, securities are pledged by the transferor as collateral. The fair value of the collateral securing the agreements outstanding at September 30, 2014 was \$300.9 million.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 3. LOANS

For purposes of disclosures related to the credit quality of financing receivables and the allowance for loan losses, People's United 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.

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, 2014.

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

(in millions)	September 30, 2014			December 31, 2013		
	Originated	Acquired	Total	Originated	Acquired	Total
Commercial Banking:						

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

Commercial real estate	\$ 8,786.3	\$ 524.3	\$ 9,310.6	\$ 8,286.5	\$ 635.1	\$ 8,921.6
Commercial and industrial	6,612.6	327.8	6,940.4	5,818.5	483.6	6,302.1
Equipment financing	2,737.5	33.5	2,771.0	2,524.1	69.0	2,593.1
Total commercial	9,350.1	361.3	9,711.4	8,342.6	552.6	8,895.2
Total Commercial Banking	18,136.4	885.6	19,022.0	16,629.1	1,187.7	17,816.8
Retail:						
Residential mortgage:						
Adjustable-rate	4,061.4	144.1	4,205.5	3,734.7	160.6	3,895.3
Fixed-rate	437.2	97.1	534.3	407.4	113.9	521.3
Total residential mortgage	4,498.6	241.2	4,739.8	4,142.1	274.5	4,416.6
Consumer:						
Home equity	2,081.3	51.9	2,133.2	2,023.5	61.1	2,084.6
Other consumer	58.0	1.3	59.3	70.5	1.8	72.3
Total consumer	2,139.3	53.2	2,192.5	2,094.0	62.9	2,156.9
Total Retail	6,637.9	294.4	6,932.3	6,236.1	337.4	6,573.5
Total loans	\$ 24,774.3	\$ 1,180.0	\$ 25,954.3	\$ 22,865.2	\$ 1,525.1	\$ 24,390.3

Net deferred loan costs, which are included in total loans and accounted for as interest yield adjustments, totaled \$52.6 million at September 30, 2014 and \$47.9 million at December 31, 2013.

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

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

Three months ended	Commercial Banking			Retail			
	Originated	Acquired	Total	Originated	Acquired	Total	Total
September 30, 2014 (in millions)							
Balance at beginning of period	\$ 163.5	\$ 9.6	\$ 173.1	\$ 19.0	\$ 0.5	\$ 19.5	\$ 192.6
Charge-offs	(6.2)	(0.2)	(6.4)	(2.9)		(2.9)	(9.3)
Recoveries	0.5		0.5	0.7		0.7	1.2
Net loan charge-offs	(5.7)	(0.2)	(5.9)	(2.2)		(2.2)	(8.1)
Provision for loan losses	8.2	2.1	10.3	2.2	(0.1)	2.1	12.4
Balance at end of period	\$ 166.0	\$ 11.5	\$ 177.5	\$ 19.0	\$ 0.4	\$ 19.4	\$ 196.9

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

Three months ended	Commercial Banking			Retail			
	Originated	Acquired	Total	Originated	Acquired	Total	Total
September 30, 2013 (in millions)							
Balance at beginning of period	\$ 159.3	\$ 7.7	\$ 167.0	\$ 18.2	\$ 0.5	\$ 18.7	\$ 185.7
Charge-offs	(7.8)	(0.1)	(7.9)	(2.9)		(2.9)	(10.8)
Recoveries	0.7		0.7	0.5		0.5	1.2

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

Net loan charge-offs	(7.1)	(0.1)	(7.2)	(2.4)	(2.4)	(9.6)
Provision for loan losses	6.8	2.6	9.4	2.7	2.7	12.1

Balance at end of period	\$ 159.0	\$ 10.2	\$ 169.2	\$ 18.5	\$ 0.5	\$ 19.0	\$ 188.2
--------------------------	----------	---------	----------	---------	--------	---------	----------

Nine months ended	Commercial Banking			Retail			
	Originated	Acquired	Total	Originated	Acquired	Total	Total
September 30, 2013 (in millions)							
Balance at beginning of period	\$ 157.5	\$ 10.5	\$ 168.0	\$ 20.0	\$	\$ 20.0	\$ 188.0
Charge-offs	(22.6)	(3.8)	(26.4)	(11.3)	(0.3)	(11.6)	(38.0)
Recoveries	2.9		2.9	1.6		1.6	4.5
Net loan charge-offs	(19.7)	(3.8)	(23.5)	(9.7)	(0.3)	(10.0)	(33.5)
Provision for loan losses	21.2	3.5	24.7	8.2	0.8	9.0	33.7
Balance at end of period	\$ 159.0	\$ 10.2	\$ 169.2	\$ 18.5	\$ 0.5	\$ 19.0	\$ 188.2

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, 2014 (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	\$ 167.2	\$ 8.5	\$ 17,969.2	\$ 157.5	\$ 885.6	\$ 11.5	\$ 19,022.0	\$ 177.5
Retail	90.8		6,547.1	19.0	294.4	0.4	6,932.3	19.4
Total	\$ 258.0	\$ 8.5	\$ 24,516.3	\$ 176.5	\$ 1,180.0	\$ 11.9	\$ 25,954.3	\$ 196.9

As of December 31, 2013 (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	\$ 145.4	\$ 12.2	\$ 16,483.7	\$ 146.4	\$ 1,187.7	\$ 9.8	\$ 17,816.8	\$ 168.4
Retail	79.4		6,156.7	18.9	337.4	0.5	6,573.5	19.4
Total	\$ 224.8	\$ 12.2	\$ 22,640.4	\$ 165.3	\$ 1,525.1	\$ 10.3	\$ 24,390.3	\$ 187.8

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

(in millions)	September 30, 2014	December 31, 2013
Commercial Banking:		
Commercial real estate	\$ 56.0	\$ 70.8
Commercial and industrial	52.8	43.8
Equipment financing	29.3	23.2
Total (1)	138.1	137.8

Retail:

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

Residential mortgage	41.8	58.9
Home equity	16.6	19.8
Other consumer	0.1	0.1
Total (2)	58.5	78.8
Total	\$ 196.6	\$ 216.6

- (1) Reported net of government guarantees totaling \$18.1 million and \$19.4 million at September 30, 2014 and December 31, 2013, 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, 2014, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).
- (2) Includes \$19.2 million and \$28.7 million of loans in the process of foreclosure at September 30, 2014 and December 31, 2013, respectively.

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 an Federal Deposit Insurance Corporation (FDIC) loss-share agreement (LSA) totaling \$113.3 million and \$3.0 million, respectively, at September 30, 2014 and \$138.0 million and \$4.5 million, respectively, at December 31, 2013. Such loans otherwise meet People's United Financial's definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

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, 2014 or December 31, 2013.

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. In accordance with regulatory guidance, residential mortgage and home equity loans restructured in connection with the borrower's bankruptcy and meeting certain criteria are also required to be classified as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Acquired loans that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis.

People's United Financial's recorded investment in originated loans classified as TDRs totaled \$179.1 million and \$151.5 million at September 30, 2014 and December 31, 2013, respectively. The related allowance for loan losses at September 30, 2014 and December 31, 2013 was \$4.4 million and \$3.3 million, respectively. Interest income recognized on TDRs totaled \$1.1 million and \$0.8 million for the three months ended September 30, 2014 and 2013, respectively, and \$3.1 million and \$3.5 million for the nine months ended September 30, 2014 and 2013, respectively. Fundings under commitments to lend additional amounts to borrowers with loans classified as TDRs were immaterial for the three and nine months ended September 30, 2014 and 2013. Originated loans that were modified and classified as TDRs during the three and nine months ended September 30, 2014 and 2013 principally involve reduced payment

and/or payment deferral, extension of term (generally no more than two years for commercial loans and seven years for retail loans) and/or a temporary reduction of interest rate (generally less than 200 basis points).

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

The following tables summarize, by class of loan, the recorded investments in loans modified as TDRs during the three and nine months ended September 30, 2014 and 2013. For purposes of this disclosure, recorded investments represent amounts immediately prior to and subsequent to the restructuring.

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

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

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

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

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

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

(dollars in millions)	Three Months Ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Banking:			
Commercial real estate (1)	5	\$ 3.3	\$ 3.3
Commercial and industrial (2)	14	25.7	25.7
Equipment financing (3)	14	7.6	7.6
Total	33	36.6	36.6
Retail:			
Residential mortgage (4)	44	12.1	12.1
Home equity (5)	30	2.4	2.4
Other consumer			
Total	74	14.5	14.5
Total	107	\$ 51.1	\$ 51.1

- (1) Represents the following concession: extension of term (5 contracts; recorded investment of \$3.3 million).
- (2) Represents the following concessions: extension of term (3 contracts; recorded investment of \$17.0 million); reduced payment and/or payment deferral (6 contracts; recorded investment of \$6.4 million); or a combination of concessions (5 contracts; recorded investment of \$2.3 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (11 contracts; recorded investment of \$4.7 million); or a combination of concessions (3 contracts; recorded investment of \$2.9 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (11 contracts; recorded investment of \$1.5 million); reduced payment and/or payment deferral (10 contracts; recorded investment of \$3.2 million); temporary rate reduction (2 contracts; recorded investment of \$2.0 million); or a combination of concessions (21 contracts; recorded investment of \$5.4 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (17 contracts; recorded investment of \$1.4 million); extension of term (1 contract; recorded investment of \$0.1 million); reduced payment and/or payment deferral

(2 contracts; recorded investment of \$0.1 million); temporary rate reduction (1 contract; recorded investment of \$0.1 million); or a combination of concessions (9 contracts; recorded investment of \$0.7 million).

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

(dollars in millions)	Nine Months Ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Banking:			
Commercial real estate (1)	9	\$ 8.2	\$ 8.2
Commercial and industrial (2)	30	38.3	38.3
Equipment financing (3)	18	10.2	10.2
Total	57	56.7	56.7
Retail:			
Residential mortgage (4)	132	38.1	38.1
Home equity (5)	85	7.7	7.7
Other consumer			
Total	217	45.8	45.8
Total	274	\$ 102.5	\$ 102.5

- (1) Represents the following concessions: extension of term (6 contracts; recorded investment of \$4.3 million); or a combination of concessions (3 contracts; recorded investment of \$3.9 million).
- (2) Represents the following concessions: extension of term (7 contracts; recorded investment of \$20.0 million); reduced payment and/or payment deferral (13 contracts; recorded investment of \$14.0 million); or a combination of concessions (10 contracts; recorded investment of \$4.3 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (12 contracts; recorded investment of \$4.8 million); or a combination of concessions (6 contracts; recorded investment of \$5.4 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (40 contracts; recorded investment of \$7.5 million); reduced payment and/or payment deferral (19 contracts; recorded investment of \$5.5 million); temporary rate reduction (6 contracts; recorded investment of \$5.5 million); or a combination of concessions (67 contracts; recorded investment of \$19.6 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (48 contracts; recorded investment of \$3.4 million); extension of term (1 contract; recorded investment of \$0.1 million); reduced payment and/or payment deferral

(7 contracts; recorded investment of \$1.0 million); temporary rate reduction (4 contracts; recorded investment of \$0.6 million); or a combination of concessions (25 contracts; recorded investment of \$2.6 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, 2014 and 2013. For purposes of this disclosure, the previous 12 months is measured from October 1 of the respective prior year and a default represents a previously-modified loan that became past due 30 days or more during the three or nine months ended September 30, 2014 or 2013.

(dollars in millions)	Number of Contracts	Three Months Ended September 30,		
		2014 Recorded Investment as of Period End	2013 Recorded Investment as of Period End	
Commercial Banking:				
Commercial real estate	3	\$ 3.7	\$	
Commercial and industrial	1	0.7		
Equipment financing			2	2.0
Total	4	4.4	2	2.0
Retail:				
Residential mortgage	13	2.1	13	3.7
Home equity	6	0.3	4	0.2
Other consumer				
Total	19	2.4	17	3.9
Total	23	\$ 6.8	19	\$ 5.9

(dollars in millions)	Number of Contracts	Nine Months Ended September 30,		
		2014 Recorded Investment as of Period End	2013 Recorded Investment as of Period End	
Commercial Banking:				
Commercial real estate	5	\$ 4.1	\$	
Commercial and industrial	2	0.8	3	0.5
Equipment financing	8	1.0	5	3.2
Total	15	5.9	8	3.7

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

Retail:

Residential mortgage	39	12.7	27	6.5
Home equity	23	1.6	9	0.9
Other consumer				
Total	62	14.3	36	7.4
Total	77	\$ 20.2	44	\$ 11.1

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, 2014			As of December 31, 2013		
	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses
Without a related allowance for loan losses:						
Commercial Banking:						
Commercial real estate	\$ 53.4	\$ 50.9	\$	\$ 40.2	\$ 37.5	\$
Commercial and industrial	44.6	42.6		23.5	22.9	
Equipment financing	35.3	24.3		28.2	18.3	
Retail:						
Residential mortgage	77.7	71.3		69.2	64.6	
Home equity	22.1	19.5		17.2	14.8	
Other consumer						
Total	\$ 233.1	\$ 208.6	\$	\$ 178.3	\$ 158.1	\$
With a related allowance for loan losses:						
Commercial Banking:						
Commercial real estate	\$ 53.0	\$ 30.2	\$ 4.2	\$ 53.7	\$ 37.8	\$ 6.8
Commercial and industrial	16.7	14.1	4.1	17.7	16.0	4.5
Equipment financing	5.3	5.1	0.2	14.5	12.9	0.9
Retail:						
Residential mortgage						
Home equity						
Other consumer						
Total	\$ 75.0	\$ 49.4	\$ 8.5	\$ 85.9	\$ 66.7	\$ 12.2
Total impaired loans:						
Commercial Banking:						
Commercial real estate	\$ 106.4	\$ 81.1	\$ 4.2	\$ 93.9	\$ 75.3	\$ 6.8
Commercial and industrial	61.3	56.7	4.1	41.2	38.9	4.5
Equipment financing	40.6	29.4	0.2	42.7	31.2	0.9

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

Total	208.3	167.2	8.5	177.8	145.4	12.2
Retail:						
Residential mortgage	77.7	71.3		69.2	64.6	
Home equity	22.1	19.5		17.2	14.8	
Other consumer						
Total	99.8	90.8		86.4	79.4	
Total	\$ 308.1	\$ 258.0	\$ 8.5	\$ 264.2	\$ 224.8	\$ 12.2

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

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

(in millions)	Three Months Ended September 30,			
	2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial Banking:				
Commercial real estate	\$ 81.8	\$ 0.3	\$ 76.6	\$ 0.1
Commercial and industrial	51.0	0.2	52.0	0.4
Equipment financing	30.6	0.2	31.4	0.3
Total	163.4	0.7	160.0	0.8
Retail:				
Residential mortgage	72.3	0.4	56.7	0.3
Home equity	18.4	0.1	14.9	
Other consumer				
Total	90.7	0.5	71.6	0.3
Total	\$ 254.1	\$ 1.2	\$ 231.6	\$ 1.1

(in millions)	Nine Months Ended September 30,			
	2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial Banking:				
Commercial real estate	\$ 75.7	\$ 1.2	\$ 87.7	\$ 0.7
Commercial and industrial	42.9	0.8	65.4	1.6
Equipment financing	29.4	0.6	33.4	1.1
Total	148.0	2.6	186.5	3.4
Retail:				
Residential mortgage	71.4	1.0	52.6	0.8
Home equity	17.3	0.2	13.8	0.1

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

Other consumer				
Total	88.7	1.2	66.4	0.9
Total	\$ 236.7	\$ 3.8	\$ 252.9	\$ 4.3

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

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

As of September 30, 2014 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial Banking:					
Commercial real estate	\$ 8,738.3	\$ 11.6	\$ 36.4	\$ 48.0	\$ 8,786.3
Commercial and industrial	6,538.9	30.2	43.5	73.7	6,612.6
Equipment financing	2,671.8	60.4	5.3	65.7	2,737.5
Total	17,949.0	102.2	85.2	187.4	18,136.4
Retail:					
Residential mortgage	4,439.0	30.1	29.5	59.6	4,498.6
Home equity	2,067.4	6.7	7.2	13.9	2,081.3
Other consumer	57.3	0.6	0.1	0.7	58.0
Total	6,563.7	37.4	36.8	74.2	6,637.9
Total originated loans	\$ 24,512.7	\$ 139.6	\$ 122.0	\$ 261.6	\$ 24,774.3

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling \$19.9 million, \$27.1 million and \$24.0 million, respectively, and \$21.7 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

As of December 31, 2013 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial Banking:					
Commercial real estate	\$ 8,222.5	\$ 13.1	\$ 50.9	\$ 64.0	\$ 8,286.5
Commercial and industrial	5,751.4	21.7	45.4	67.1	5,818.5
Equipment financing	2,477.6	38.9	7.6	46.5	2,524.1
Total	16,451.5	73.7	103.9	177.6	16,629.1

Retail:

Residential mortgage	4,039.4	55.1	47.6	102.7	4,142.1
Home equity	2,000.2	11.3	12.0	23.3	2,023.5
Other consumer	68.7	1.7	0.1	1.8	70.5
Total	6,108.3	68.1	59.7	127.8	6,236.1
Total originated loans	\$ 22,559.8	\$ 141.8	\$ 163.6	\$ 305.4	\$ 22,865.2

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 \$20.4 million, \$17.3 million and \$15.6 million, respectively, and \$19.1 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

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

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

As of September 30, 2014 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial Banking:				
Originated loans:				
Pass	\$ 8,556.0	\$ 6,202.0	\$ 2,418.0	\$ 17,176.0
Special mention	88.4	126.6	90.5	305.5
Substandard	127.6	281.2	229.0	637.8
Doubtful	14.3	2.8		17.1
Total originated loans	8,786.3	6,612.6	2,737.5	18,136.4
Acquired loans:				
Pass	355.6	188.2	11.2	555.0
Special mention	20.5	19.5	1.1	41.1
Substandard	145.6	103.5	21.2	270.3
Doubtful	2.6	16.6		19.2
Total acquired loans	524.3	327.8	33.5	885.6
Total	\$ 9,310.6	\$ 6,940.4	\$ 2,771.0	\$ 19,022.0
As of September 30, 2014 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	\$ 2,211.0	\$ 921.5	\$ 30.3	\$ 3,162.8
Moderate risk	1,779.9	580.3	8.2	2,368.4
High risk	507.7	579.5	19.5	1,106.7
Total originated loans	4,498.6	2,081.3	58.0	6,637.9
Acquired loans:				
Low risk	111.9			111.9
Moderate risk	59.3			59.3
High risk	70.0	51.9	1.3	123.2

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

Total acquired loans	241.2	51.9	1.3	294.4
Total	\$ 4,739.8	\$ 2,133.2	\$ 59.3	\$ 6,932.3

23

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

As of December 31, 2013 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial Banking:				
Originated loans:				
Pass	\$ 8,000.7	\$ 5,519.2	\$ 2,262.3	\$ 15,782.2
Special mention	138.1	77.5	93.4	309.0
Substandard	147.6	220.1	168.4	536.1
Doubtful	0.1	1.7		1.8
Total originated loans	8,286.5	5,818.5	2,524.1	16,629.1
Acquired loans:				
Pass	395.6	331.0	31.4	758.0
Special mention	46.8	19.3	4.0	70.1
Substandard	186.6	131.5	33.6	351.7
Doubtful	6.1	1.8		7.9
Total acquired loans	635.1	483.6	69.0	1,187.7
Total	\$ 8,921.6	\$ 6,302.1	\$ 2,593.1	\$ 17,816.8
As of December 31, 2013 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	\$ 2,032.6	\$ 842.5	\$ 39.5	\$ 2,914.6
Moderate risk	1,619.1	520.7	8.3	2,148.1
High risk	490.4	660.3	22.7	1,173.4
Total originated loans	4,142.1	2,023.5	70.5	6,236.1
Acquired loans:				
Low risk	122.6			122.6
Moderate risk	71.2			71.2
High risk	80.7	61.1	1.8	143.6
Total acquired loans	274.5	61.1	1.8	337.4
Total	\$ 4,416.6	\$ 2,084.6	\$ 72.3	\$ 6,573.5

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.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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, Moderate or Low risk.

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

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

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

Commercial 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.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Acquired Loans Credit Quality Indicators

Upon acquiring a loan portfolio, the Company's internal Loan Review function undertakes the process of assigning risk ratings to all Commercial 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.

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, 2014 and December 31, 2013, the allowance for loan losses on acquired loans was \$11.9 million and \$10.3 million, respectively.

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.

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, 2014, the outstanding principal balance and carrying amount of the acquired loan portfolio were \$1.32 billion and \$1.18 billion, respectively (\$1.69 billion and \$1.53 billion, respectively, at December 31, 2013). At September 30, 2014, the aggregate remaining nonaccretable difference applicable to acquired loans totaled \$119.8 million.

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

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

(in millions)	Three Months Ended September 30,	
	2014	2013
Balance at beginning of period	\$ 447.7	\$ 684.4
Accretion	(18.9)	(29.5)
Reclassification from nonaccretable difference for loans with improved cash flows (1)	0.3	
Other changes in expected cash flows (2)	(15.7)	11.2
Balance at end of period	\$ 413.4	\$ 666.1

(in millions)	Nine Months Ended September 30,	
	2014	2013
Balance at beginning of period	\$ 639.7	\$ 890.2
Accretion	(63.9)	(100.7)
Reclassification from nonaccretable difference for loans with improved cash flows (1)	6.7	5.3
Other changes in expected cash flows (2)	(169.1)	(128.7)
Balance at end of period	\$ 413.4	\$ 666.1

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

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

Other real estate owned (REO) was comprised of residential and commercial properties totaling \$16.2 million and \$12.4 million, respectively, at September 30, 2014, and \$13.6 million and \$13.1 million, respectively, at December 31, 2013. Repossessed assets totaled \$3.5 million and \$4.5 million at September 30, 2014 and December 31, 2013, respectively.

NOTE 4. STOCKHOLDERS' EQUITY

Treasury Stock

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

In November 2012, People's United Financial's Board of Directors authorized the repurchase of up to 10% of the Company's common stock outstanding, or 33.6 million shares. During the nine months ended September 30, 2013, 24.5 million shares of People's United Financial common stock were repurchased under this authorization at a total cost of \$327.4 million. The Company completed the repurchase of shares authorized during the fourth quarter of 2013.

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 (on an after-tax basis): (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People's United Financial's pension and other postretirement benefit plans; (ii) net unrealized gains and losses on securities available for sale; (iii) net unrealized gains and losses on securities transferred to held to maturity; and (iv) net unrealized gains and losses on derivatives accounted for as cash flow hedges. People's United Financial's total comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013 is reported in the Consolidated Statements of Comprehensive Income.

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

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

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

		Available for Sale	Transferred to Held to Maturity	Accounted for as Cash Flow Hedges	
Balance at December 31, 2012	\$ (148.2)	\$ 52.8	\$	\$ (1.5)	\$ (96.9)
Other comprehensive income					
(loss) before reclassifications	0.2	(110.0)		0.5	(109.3)
Amounts reclassified from AOCL (1)	3.1			0.6	3.7
Current period other comprehensive income (loss)	3.3	(110.0)		1.1	(105.6)
Balance at September 30, 2013	\$ (144.9)	\$ (57.2)	\$	\$ (0.4)	\$ (202.5)

(1) See table below for details about these reclassifications.

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

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

(in millions)	Amounts Reclassified from AOCL				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013		
Details about components of AOCL:					
Amortization of pension and other postretirement benefits items:					
Net actuarial loss	\$ (1.2)	\$ (1.8)	\$ (3.9)	\$ (5.5)	(1)
Prior service credit	0.2	0.3	0.8	0.8	(1)
	(1.0)	(1.5)	(3.1)	(4.7)	Income before income tax expense
	0.4	0.5	1.2	1.6	Income tax expense
	(0.6)	(1.0)	(1.9)	(3.1)	Net income
Reclassification adjustment for net realized gains on securities available for sale					
	0.2		0.3		Income before income tax expense (2)
	(0.1)		(0.1)		Income tax expense
	0.1		0.2		Net income
Amortization of unrealized losses on securities transferred to held to maturity					
	(0.7)		(2.2)		Income before income tax expense (3)
	0.3		0.9		Income tax expense
	(0.4)		(1.3)		Net income
Amortization of unrealized gains and losses on cash flow hedges:					
Interest rate swaps	(0.3)	(0.4)	(1.0)	(1.0)	Interest expense - notes and debentures
Interest rate locks	0.1	0.1	0.1	0.1	Interest expense - notes and debentures
	(0.2)	(0.3)	(0.9)	(0.9)	Income before income tax expense
	0.1	0.1	0.3	0.3	Income tax expense
	(0.1)	(0.2)	(0.6)	(0.6)	Net income

Total reclassifications for the period \$ (1.0) \$ (1.2) \$ (3.6) \$ (3.7)

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

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****NOTE 5. EARNINGS PER COMMON SHARE**

The following is an analysis of People's United 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,	
	2014	2013	2014	2013
Net income	\$ 61.6	\$ 58.5	\$ 187.0	\$ 173.1
Dividends and undistributed earnings allocated to participating securities	(0.3)	(0.3)	(0.9)	(0.8)
Income attributable to common shareholders	\$ 61.3	\$ 58.2	\$ 186.1	\$ 172.3
Average common shares outstanding for basic EPS	298.4	307.5	298.1	315.3
Effect of dilutive equity-based awards		0.1		0.1
Average common and common-equivalent shares for diluted EPS	298.4	307.6	298.1	315.4
Basic EPS	\$ 0.21	\$ 0.19	\$ 0.62	\$ 0.55
Diluted EPS	\$ 0.21	\$ 0.19	\$ 0.62	\$ 0.55

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

All unallocated Employee Stock Ownership Plan (ESOP) common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted EPS. Anti-dilutive equity-based awards totaling 17.9 million shares for both the three and nine months ended September 30, 2014 and 14.2 million shares for

both the three and nine months ended

September 30, 2013 have been excluded from the calculation of diluted EPS.

NOTE 6. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

People's United Financial's goodwill totaled \$2.0 billion at both September 30, 2014 and December 31, 2013. At both dates, goodwill was allocated to People's United Financial's operating segments as follows: Commercial Banking (\$1.22 billion); Retail and Business Banking (\$681.9 million); and Wealth Management (\$49.8 million).

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 generally paid for the acquired entities which, in turn, resulted in the recognition of goodwill, representing the excess of the respective purchase prices over the estimated fair value of the net assets acquired.

All of People's United 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, 2014 and December 31, 2013, tax deductible goodwill totaled \$13.3 million and \$14.5 million, respectively, and related, almost entirely, to the Butler Bank acquisition completed in 2010.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

People's United Financial's other acquisition-related intangible assets totaled \$154.2 million and \$172.8 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible (\$89.8 million); core deposit intangible (\$39.8 million); trust relationship intangible (\$23.5 million); and insurance relationship intangible (\$1.1 million).

Amortization expense of other acquisition-related intangible assets totaled \$6.2 million and \$6.5 million for the three months ended September 30, 2014 and 2013, respectively, and \$18.6 million and \$19.6 million for the nine months ended

September 30, 2014 and 2013, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2014 and each of the next five years is as follows: \$24.8 million in 2014; \$23.8 million in 2015; \$22.7 million in 2016; \$21.6 million in 2017; \$10.2 million in 2018; and \$9.4 million in 2019. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the nine months ended September 30, 2014 or 2013.

NOTE 7. 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 "Qualified Plan") that covers substantially all full-time and part-time employees who (i) meet certain age and length of service requirements and (ii) were employed by the Bank prior to August 14, 2006. Benefits are based upon the employee's years of credited service and either the average compensation for the last five years or the average compensation for the five consecutive years of the last ten years that produce the highest average.

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

In July 2011, the Bank amended the Qualified Plan to "freeze", effective December 31, 2011, the accrual of pension benefits for Qualified Plan participants. As such, participants will not earn any additional benefits after that date. Instead, effective

January 1, 2012, the Bank began making contributions on behalf of these participants to a qualified defined contribution plan in an annual amount equal to 3% of the employee's eligible compensation.

People's United 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 (the other postretirement benefits plan). 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:

Three months ended September 30 (in millions)	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Net periodic benefit (income) expense:				
Service cost	\$	\$	\$ 0.1	\$ 0.1
Interest cost	4.8	4.4		
Expected return on plan assets	(7.1)	(6.6)		
Recognized net actuarial loss	1.0	1.5		
Settlements	0.4			
Net periodic benefit (income) expense	\$ (0.9)	\$ (0.7)	\$ 0.1	\$ 0.1

Nine months ended September 30 (in millions)	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Net periodic benefit (income) expense:				
Service cost	\$	\$	\$ 0.2	\$ 0.1
Interest cost	14.4	13.4	0.3	0.4
Expected return on plan assets	(21.3)	(19.9)		
Recognized net actuarial loss	3.0	4.5		
Recognized prior service credit			(0.2)	(0.2)
Settlements	1.4	0.4		
Net periodic benefit (income) expense	(2.5)	(1.6)	0.3	0.3
Other changes in plan assets and benefit obligations recognized in other comprehensive income or loss:				
Net actuarial loss	(3.0)	(4.5)		
Prior service credit			0.2	0.2
Total pre-tax changes recognized in other comprehensive income or loss	(3.0)	(4.5)	0.2	0.2
Total recognized in net periodic benefit (income) expense and other comprehensive income or loss	\$ (5.5)	\$ (6.1)	\$ 0.5	\$ 0.5

Chittenden Pension Plan

In addition to the benefit plans described above, People's United Financial continues to maintain a qualified defined benefit pension plan that covers former Chittenden Corporation employees who meet certain eligibility requirements (the Chittenden Plan). Effective December 31, 2005, accrued benefits were frozen based on participants' then-current service and pay levels. During April 2010, participants who were in payment status as of April 1, 2010, or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010, based upon elections made by April 15, 2010, were transferred into the Qualified Plan. Net periodic benefit income for the Chittenden Plan totaled \$0.2 million and \$0.1 million for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Employee Stock Ownership Plan

In April 2007, People's United Financial established an ESOP. At that time, People's United Financial loaned the ESOP \$216.8 million to purchase 10,453,575 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 of approximately \$18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares, which totaled \$3.9 million for the nine months ended September 30, 2014. At September 30, 2014, the loan balance totaled \$195.3 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 2,700,506 shares of People's United Financial common stock have been allocated or committed to be released to participants' accounts. At September 30, 2014, 7,753,069 shares of People's United Financial common stock, with a fair value of \$112.2 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 \$3.8 million and \$3.6 million for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 8. 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 Transaction

On February 25, 2010 and March 29, 2010, Smithtown and several of its officers and directors were named in lawsuits commenced in United States District Court, Eastern District of New York (*Waterford Township Police & Fire Retirement v. Smithtown Bancorp, Inc., et al.* and *Yourgal v. Smithtown Bancorp, Inc. et al.*, respectively) on behalf of a putative class of all persons and entities who purchased Smithtown's common stock between March 13, 2008 and February 1, 2010, alleging claims under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934. The plaintiffs allege, among other things, that Smithtown's loan loss reserve, fair value of its assets, recognition of impaired

assets and its internal and disclosure controls were materially false, misleading or incomplete. As a result of the merger of Smithtown with and into People's United 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 these suits, with Waterford Township named the lead plaintiff. Following extensive preliminary filings with the Court by both parties, an agreement in principle to settle this matter was reached on October 23, 2014, subject to completion of appropriate documentation and Court approval. The amount of the agreed-upon settlement has been adequately reserved.

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

The 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 the 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 the 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, the 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, the Bank filed a Motion to Strike the Amended Complaint. On April 10, 2013, the Bank renewed its Motion to Dismiss the Complaint. On June 6, 2013, the Court denied the Bank's Motion to Strike and its renewed Motion to Dismiss. On September 23, 2013, the Bank filed its Revised Answer, Special Defenses and Counterclaim to Plaintiff's Amended Class Action Complaint. A Court hearing on plaintiff's Motion to Strike certain of the Bank's Defenses and a Counterclaim was held on January 30, 2014. The Court postponed consideration of that Motion and, on April 28, 2014, held a hearing to consider whether it has jurisdiction to hear the case. On July 28, 2014, the Court dismissed the case in its entirety for lack of subject matter jurisdiction because all of the claims are preempted by federal law. On August 15, 2014, the plaintiff filed a Notice of Appeal with the Connecticut Appellate Court and, on September 25, 2014, filed a motion to transfer the Notice of Appeal to the Connecticut Supreme Court.

The Bank was 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 the Bank failed to pay overtime compensation required by (i) the federal Fair Labor Standards Act and (ii) the Connecticut Minimum Wage Act. The plaintiffs alleged that they were employed as underwriters and were misclassified as exempt employees. The plaintiffs further alleged 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 was brought under both federal and state law, the Complaint sought certification of two different but overlapping classes. The plaintiffs sought damages in the amount of their respective unpaid overtime and minimum wage compensation, liquidated damages, interest and attorneys' fees. On June 29, 2012, the Bank filed its Answer and Affirmative Defenses. On June 17, 2013, the Court granted the plaintiff's motion for conditional certification under the Fair Labor Standards Act and denied the plaintiff's motion for class certification for the plaintiff's state law claims. On April 25, 2014, the parties reached an agreement in principle to settle this matter. On June 20, 2014, the plaintiff's counsel filed a Withdrawal of the Constructive Discharge Complaint as to the state law claims. A hearing to consider the settlement was held and, on July 15, 2014, the Court approved the settlement, the amount of which had been adequately reserved. On August 1, 2014, all executed settlement agreements and payments were distributed in accordance with the terms of the Joint Stipulation of Settlement and Release, thus concluding this matter.

NOTE 9. SEGMENT INFORMATION

See Segment Results included in Item 2 for segment information for the nine months ended September 30, 2014 and 2013.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 10. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

estimates of the assumptions a market participant would use in pricing the asset or liability).

People's United 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.

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.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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, 2014 and December 31, 2013, the entire available-for-sale residential mortgage-backed securities portfolio was comprised of 10- and 15-year GSE securities. An active market exists for securities that are similar to the Company's GSE residential mortgage-backed securities and CMOs, making observable inputs readily available.

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

Other Assets

As discussed in Note 7, certain unfunded, nonqualified supplemental benefit plans have been established to provide retirement benefits to certain senior officers. People's United 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, forward commitments to sell residential mortgage loans and interest rate-lock commitments on residential mortgage loans.

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

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

As of September 30, 2014 (in millions)	Fair Value Measurements			Total
	Level 1	Using Level 2	Level 3	
Financial assets:				
Trading account securities:				
U.S. Treasury	\$ 8.3	\$	\$	\$ 8.3
Securities available for sale:				
U.S. Treasury and agency	56.9			56.9
GSE residential mortgage-backed securities and CMOs		3,752.8		3,752.8
Corporate		60.3		60.3
Other		2.8		2.8
Equity securities		0.2		0.2
Other assets:				
Exchange-traded funds	16.8			16.8
Mutual funds	16.0			16.0
Fixed income securities		6.1		6.1
Interest rate swaps		93.4		93.4
Foreign exchange contracts		0.7		0.7
Forward commitments to sell residential mortgage loans		0.3		0.3
Total	\$ 98.0	\$ 3,916.6	\$	\$ 4,014.6
Financial liabilities:				
Interest rate swaps	\$	\$ 72.1	\$	\$ 72.1
Foreign exchange contracts		0.3		0.3
Interest rate-lock commitments on residential mortgage loans		0.5		0.5
Total	\$	\$ 72.9	\$	\$ 72.9

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

As of December 31, 2013 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Trading account securities:				
U.S. Treasury	\$ 8.3	\$	\$	\$ 8.3
Securities available for sale:				
U.S. Treasury and agency	48.9			48.9
GSE residential mortgage-backed securities and CMOs		4,096.4		4,096.4
Corporate		60.2		60.2
Other		2.5		2.5
Equity securities		0.2		0.2
Other assets:				
U.S. Treasury	30.7			30.7
Fixed income securities		9.2		9.2
Equity mutual funds		0.3		0.3
Interest rate swaps		91.8		91.8
Forward commitments to sell residential mortgage loans		0.1		0.1
Total	\$ 87.9	\$ 4,260.7	\$	\$ 4,348.6
Financial liabilities:				
Interest rate swaps	\$	\$ 76.7	\$	\$ 76.7
Foreign exchange contracts		0.1		0.1
Interest rate-lock commitments on residential mortgage loans		0.2		0.2
Total	\$	\$ 77.0	\$	\$ 77.0

As of September 30, 2014 and December 31, 2013, the fair value of the risk participation agreements totaled less than \$0.1 million.

There were no transfers into or out of the Level 1 or Level 2 categories during the nine months ended September 30, 2014 and 2013.

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 discounted cash flows based on inputs that are largely unobservable and, instead, reflect management's own estimates of the assumptions a market participant would use in pricing such loans and/or the fair value of collateral based on independent third-party appraisals for collateral-dependent loans. Such appraisals are based on the market and/or income approach to value and are subject to a discount (to reflect estimated cost to sell) that generally approximates 10%.

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 that are measured at fair value on a non-recurring basis:

As of September 30, 2014 (in millions)	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	\$	\$ 33.4	\$	\$ 33.4
Impaired loans (2)			49.4	49.4
REO and repossessed assets (3)			32.1	32.1
Total	\$	\$ 33.4	\$ 81.5	\$ 114.9

As of December 31, 2013 (in millions)	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	\$	\$ 23.3	\$	\$ 23.3
Impaired loans (2)			66.7	66.7
REO and repossessed assets (3)			31.2	31.2
Total	\$	\$ 23.3	\$ 97.9	\$ 121.2

- (1) Consists of residential mortgage loans; no fair value adjustments were recorded for the nine months ended September 30, 2014 and 2013.
- (2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured in accordance with applicable accounting guidance. The total consists of \$30.2 million, \$14.1 million and \$5.1 million of commercial real estate loans, commercial and industrial loans, and equipment financing loans, respectively, at September 30, 2014. The provision for loan losses on impaired loans totaled \$6.7 million and

\$11.5 million for the nine months ended September 30, 2014 and 2013, respectively.

- (3) Represents: (i) \$16.2 million of residential REO; (ii) \$12.4 million of commercial REO; and (iii) \$3.5 million of repossessed assets at September 30, 2014. Charge-offs to the allowance for loan losses related to loans that were transferred to REO and repossessed assets totaled \$1.0 million and \$1.5 million for the nine months ended September 30, 2014 and 2013, respectively. Write downs and net loss on sale of foreclosed/repossessed assets charged to non-interest expense totaled \$3.7 million and \$5.3 million for the same periods.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Financial Assets and Financial Liabilities Not Measured At Fair Value

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

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

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

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

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

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 classified as Level 2 and reported at cost, which equals par value (the amount at which shares have been redeemed in the past). No significant observable market data is available for 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.

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 Notes and Debentures

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

Lending-Related Financial Instruments

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

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 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, 2014 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 312.0	\$ 312.0	\$	\$	\$ 312.0
Short-term investments	207.6		207.6		207.6
Securities purchased under agreements to resell	300.0		300.0		300.0
Securities held to maturity	630.1		669.1	1.5	670.6
FHLB stock	175.7		175.7		175.7
Total loans, net (1)	25,708.0		4,750.9	20,737.4	25,488.3
Financial liabilities:					
Time deposits	5,013.6		5,048.2		5,048.2
Other deposits	20,247.7		20,247.7		20,247.7
FHLB advances	2,467.5		2,473.4		2,473.4
Customer repurchase agreements	475.6		475.6		475.6
Federal funds purchased	469.0		469.0		469.0
Repurchase agreements	1.0		1.0		1.0
Other borrowings	2.7		2.7		2.7
Notes and debentures	1,021.5		1,026.7		1,026.7

(1) Excludes impaired loans totaling \$49.4 million measured at fair value on a non-recurring basis.

As of December 31, 2013 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 350.8	\$ 350.8	\$	\$	\$ 350.8
Short-term investments	123.6		123.6		123.6
Securities held to maturity	640.5		641.5	1.0	642.5
FHLB stock	175.7		175.7		175.7
Total loans, net (1)	24,135.8		4,402.0	19,498.7	23,900.7
Financial liabilities:					
Time deposits	4,382.9		4,434.9		4,434.9
Other deposits	18,174.4		18,174.4		18,174.4

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

FHLB advances	3,719.8	3,728.2	3,728.2
Federal funds purchased	825.0	825.0	825.0
Customer repurchase agreements	501.2	501.2	501.2
Repurchase agreements	1.0	1.0	1.0
Other borrowings	10.0	10.0	10.0
Notes and debentures	639.1	613.2	613.2

(1) Excludes impaired loans totaling \$66.7 million measured at fair value on a non-recurring basis.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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 (loss) until earnings are affected by the variability in cash flows of the designated hedged item. Ineffective portions of hedge results are recognized in current earnings. Changes in the fair value of derivatives for which hedge accounting is not applied are recognized in current earnings.

People's United 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 (loss) and are amortized to earnings over the remaining period of the former hedging relationship, provided the hedged item continues to be outstanding or it is probable the forecasted transaction will occur.

People's United 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.

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

Interest rate-lock commitments extended to borrowers relate to the origination of residential mortgage loans. To mitigate the IRR inherent in these commitments, People's United 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.

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

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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 balance sheet offsetting policy (see Note 12), amounts reported as derivative assets represent derivative contracts in a gain position, without consideration for derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People's United 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 and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United 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, 2014 was \$2.9 million, for which People's United Financial had posted collateral of \$2.3 million in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$0.6 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 interest rate swaps that are used to manage IRR associated with certain interest-earning assets and interest-bearing liabilities.

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

The Bank has entered into a pay floating/receive fixed interest rate swap to hedge the change in fair value of the Bank's \$400 million subordinated notes (see Note 1) due to changes in interest rates. The Bank has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated based on a notional amount of \$375 million. The fixed-rate interest payments received on the swap will essentially offset the fixed-rate interest payments made on these notes, notwithstanding the notional difference between these notes and the swap. The floating-rate interest amounts paid under the swap are calculated based on three-month LIBOR plus 126.5 basis points. The swap effectively converts the fixed-rate subordinated notes to a floating-rate liability. This swap is accounted for as a fair value hedge.

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Interest Rate Locks

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

Foreign Exchange Contracts

Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People's United Financial uses these instruments on a limited basis to (i) eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies and (ii) provide foreign exchange contracts on behalf of commercial banking customers within credit exposure limits. 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 it may either assume or sell credit risk associated with a borrower's performance under certain interest rate derivative contracts. In those instances in which People's United Financial has assumed credit risk, it is not a party to the derivative contract and has entered into the risk participation agreement because it is also a party to the related loan agreement with the borrower. In those instances in which People's United Financial has sold credit risk, it is a party to the derivative contract and has entered into the risk participation agreement because it sold a portion of the related loan. People's United Financial 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 swaps) have been offset with essentially matching interest rate swaps with People's United Financial's institutional counterparties (pay fixed/receive floating swaps). Hedge accounting has not been applied for these derivatives. Accordingly, changes in the fair value of all such swaps are recognized in current earnings.

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 the time of application, or anytime thereafter. The risks associated with these interest rate-lock commitments arise if market interest rates change prior to the closing of these loans. Both forward sales commitments and interest rate-lock commitments made to borrowers on held-for-sale loans are accounted for as derivatives, with changes in fair value recognized in current earnings.

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 (presented on a gross basis) of derivatives outstanding:

(in millions)	Type of Hedge	Notional Amounts		Fair Values (1)			
		Sept. 30, 2014	Dec. 31, 2013	Assets		Liabilities	
		Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013
Derivatives Not Designated as Hedging Instruments:							
Interest rate swaps:							
Commercial customers	N/A	\$ 2,945.6	\$ 2,514.7	\$ 65.1	\$ 32.8	\$ 19.5	\$ 47.3
Institutional counterparties	N/A	2,945.6	2,514.7	25.4	59.0	51.7	27.9
Foreign exchange contracts	N/A	27.0	10.3	0.7		0.3	0.1
Risk participation agreements (2)	N/A	115.4	62.4				
Forward commitments to sell residential mortgage loans	N/A	32.3	31.3	0.3	0.1		
Interest rate-lock commitments on residential mortgage loans	N/A	54.8	39.7			0.5	0.2
Total				91.5	91.9	72.0	75.5
Derivatives Designated as Hedging Instruments:							
Interest rate swaps:							
Subordinated notes	Cash flow	125.0	125.0			0.9	1.5
Subordinated notes	Fair value	375.0		2.9			
Total				2.9		0.9	1.5
Total derivatives				\$ 94.4	\$ 91.9	\$ 72.9	\$ 77.0

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

(2) Fair value totaled less than \$0.1 million at both dates.

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

Nine months ended September 30 (in millions)	Type of Hedge	Amount of Pre-Tax Gain (Loss) Recognized in Earnings		Amount of Pre-Tax Gain (Loss) Recognized in AOCL	
		2014	2013	2014	2013
Derivatives Not Designated as Hedging Instruments:					

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

Interest rate swaps:

Commercial customers	N/A	\$ 100.1	\$ (34.2)	\$	\$
Institutional counterparties	N/A	(94.6)	40.7		
Foreign exchange contracts	N/A	0.4			
Risk participation agreements	N/A	(0.1)	0.2		
Forward commitments to sell residential mortgage loans	N/A	0.2	(2.0)		
Interest rate-lock commitments on residential mortgage loans	N/A	(0.3)	2.5		
Total		5.7	7.2		

Derivatives Designated as Hedging Instruments:

Interest rate swaps	Cash flow	(1.0)	(1.0)	(0.4)	0.8
Interest rate locks	Cash flow	0.1	0.1		
Interest rate swaps	Fair value	2.3			
Total		1.4	(0.9)	(0.4)	0.8
Total derivatives		\$ 7.1	\$ 6.3	\$ (0.4)	\$ 0.8

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

Table of Contents**People's United Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****NOTE 12. BALANCE SHEET OFFSETTING**

Assets and liabilities relating to certain financial instruments, including derivatives, may be eligible for offset in the Consolidated Statements of Condition and/or subject to enforceable master netting arrangements or similar agreements. People's United Financial's derivative transactions with institutional counterparties are generally executed under International Swaps and Derivative Association (ISDA) master agreements, which include right of set-off provisions that provide for a single net settlement of all interest rate swap positions, as well as collateral, in the event of default on, or the termination of, any one contract. Nonetheless, the Company does not offset asset and liabilities under such arrangements in the Consolidated Statements of Condition.

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

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

As of September 30, 2014 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented
Financial assets:			
Interest rate swaps:			
Institutional counterparties	\$ 28.3	\$	\$ 28.3
Securities purchased under agreements to resell	300.0		300.0
Foreign exchange contracts	0.7		0.7
Total	\$ 329.0	\$	\$ 329.0
Financial liabilities:			
Interest rate swaps:			
Institutional counterparties	\$ 52.6	\$	\$ 52.6
Repurchase agreements (1)	1.0		1.0

Foreign exchange contracts	0.3	0.3
Total	\$ 53.9	\$ 53.9

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

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

As of September 30, 2014 (in millions)	Net Amount Presented	Gross Amounts Not Offset		Net Amount
		Financial Instruments	Collateral	
Financial assets:				
Interest rate swaps:				
Counterparty A	\$ 3.7	\$ (3.7)	\$	\$
Counterparty B	3.6	(3.6)		
Counterparty C	6.2	(3.3)	(2.7)	0.2
Counterparty D	7.2	(0.2)	(7.0)	
Counterparty E	4.7	(4.7)		
Other counterparties	2.9	(2.9)		
Securities purchased under agreements to resell	300.0		(300.0)	
Foreign exchange contracts	0.7			0.7
Total	\$ 329.0	\$ (18.4)	\$ (309.7)	\$ 0.9
Financial liabilities:				
Interest rate swaps:				
Counterparty A	\$ 10.8	\$ (3.7)	\$ (7.1)	\$
Counterparty B	9.5	(3.6)	(5.9)	
Counterparty C	3.3	(3.3)		
Counterparty D	0.2	(0.2)		
Counterparty E	20.7	(4.7)	(16.0)	
Other counterparties	8.1	(2.9)	(4.3)	0.9
Repurchase agreements	1.0		(1.0)	
Foreign exchange contracts	0.3			0.3
Total	\$ 53.9	\$ (18.4)	\$ (34.3)	\$ 1.2

As of December 31, 2013 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented
Interest rate swaps:			
Institutional counterparties	\$ 59.0	\$	\$ 59.0
Total	\$ 59.0	\$	\$ 59.0
Financial liabilities:			
Interest rate swaps:			

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

Institutional counterparties	\$ 29.4	\$	\$ 29.4
Repurchase agreements (1)	1.0		1.0
Foreign exchange contracts	0.1		0.1
Total	\$ 30.5	\$	\$ 30.5

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

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

As of December 31, 2013 (in millions)	Net Amount Presented	Gross Amounts Not Offset		Net Amount
		Financial Instruments	Collateral	
Financial assets:				
Interest rate swaps:				
Counterparty A	\$ 7.6	\$ (7.6)	\$	\$
Counterparty B	8.4	(8.2)		0.2
Counterparty C	13.3	(2.4)	(10.0)	0.9
Counterparty D	14.1		(14.1)	
Counterparty E	9.5	(1.8)		7.7
Other counterparties	6.1	(2.8)	(1.9)	1.4
Total	\$ 59.0	\$ (22.8)	\$ (26.0)	\$ 10.2
Financial liabilities:				
Interest rate swaps:				
Counterparty A	\$ 11.4	\$ (7.6)	\$ (3.8)	\$
Counterparty B	8.2	(8.2)		
Counterparty C	2.4	(2.4)		
Counterparty D				
Counterparty E	1.8	(1.8)		
Other counterparties	5.6	(2.8)	(2.8)	
Foreign exchange contracts	0.1			0.1
Repurchase agreements	1.0		(1.0)	
Total	\$ 30.5	\$ (22.8)	\$ (7.6)	\$ 0.1

NOTE 13. NEW ACCOUNTING STANDARDS***Accounting for Income Taxes***

In July 2013, the Financial Accounting Standards Board (the FASB) amended its standards with respect to income taxes to clarify that an unrecognized tax benefit (or a portion of an unrecognized tax benefit) should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This amendment, which is being applied prospectively, became effective for People's United Financial on January 1, 2014.

and did not have a significant impact on the Company's Consolidated Financial Statements.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB amended its standards with respect to the accounting for investments in qualified affordable housing projects to allow an investor that meets certain conditions to amortize the cost of its investment, in proportion to the tax credits and other tax benefits it receives, and present the amortization as a component of income tax expense. This method replaces the current effective yield method, which allows for amortization to be presented as income tax expense but is limited in its application because of certain criteria that are required to be met. This amendment is effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 (January 1, 2015 for People's United Financial) with retrospective application and early adoption permitted. This amendment, which People's United Financial early adopted on January 1, 2014, did not have a significant impact on the Company's Consolidated Financial Statements as the amortization previously included in pre-tax income is now included as a component of income tax expense (see Note 1).

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure

In January 2014, the FASB amended its standards with respect to the accounting for consumer mortgage loans collateralized by residential real estate to clarify that such loans should, upon foreclosure, be reclassified by a creditor as REO when either (i) the creditor obtains legal title to the real estate collateral or (ii) a deed in lieu of foreclosure, conveying all interest in the real estate to the creditor, is completed. In addition, the amendment requires a creditor to provide additional disclosures with respect to (i) the amount of residential real estate meeting the conditions set forth above and (ii) the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure. This amendment, which can be applied prospectively or through the use of the modified retrospective method, is effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 (January 1, 2015 for People's United Financial) and early adoption is permitted. The adoption of this amendment is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Revenue Recognition

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

Stock Compensation

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

Table of Contents

People's United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Repurchase Agreements

In June 2014, the FASB amended its standards with respect to repurchase agreements to (i) require that repurchase-to-maturity transactions be accounted for as secured borrowings, thereby eliminating the possibility of such transactions qualifying for sale accounting treatment, and (ii) eliminate existing guidance for repurchase financings. The amendment also requires enhanced disclosures for certain transactions accounted for as secured borrowings and transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. This new guidance is required to be adopted for fiscal years, and interim periods within those years, beginning on or after December 15, 2014 (January 1, 2015 for People's United Financial). However, for repurchase and securities lending transactions reported as secured borrowings, the enhanced disclosures required by the new guidance are effective for annual periods beginning after December 15, 2014 (January 1, 2015 for People's United Financial) and interim periods beginning after March 15, 2015

(April 1, 2015 for People's United Financial). Early adoption is not permitted for public business entities. In adopting this new guidance, all entities must report changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. As of September 30, 2014, none of the Company's repurchase agreements represented repurchase-to-maturity transactions or repurchase financings and all repurchase agreements have been accounted for as secured borrowings. As such, the adoption of this amendment is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure

In August 2014, the FASB amended its standards with respect to the classification of certain government-guaranteed residential mortgage loans to clarify that upon foreclosure of mortgage loans within the scope of the standard, a creditor will be required to reclassify the previously existing mortgage loan to a separate receivable from the guarantor, measured at the amount of the guarantee that it expects to collect. This amendment, which can be applied prospectively or through the use of the modified retrospective method, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 (January 1, 2015 for People's United Financial). However, the transition method selected must be consistent with the method applied in adopting the Auditing Standards Update (ASU) 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Early adoption is permitted only if ASU 2014-04 has been adopted. The adoption of this amendment is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

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

Forward-Looking Statements

Periodic and other filings made by People's United Financial, Inc. (People's United 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) changes in accounting and regulatory guidance applicable to banks; (7) price levels and conditions in the public securities markets generally; (8) competition and its effect on pricing, spending, third-party relationships and revenues; and (9) changes in regulation resulting from or relating to financial reform legislation.

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

Table of Contents**Selected Consolidated Financial Information**

(dollars in millions, except per share data)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Earnings Data:					
Net interest income (fully taxable equivalent)	\$ 233.3	\$ 232.8	\$ 227.8	\$ 697.9	\$ 676.3
Net interest income	228.5	228.2	223.5	683.8	663.7
Provision for loan losses	12.4	8.8	12.1	30.7	33.7
Non-interest income (1)	84.0	100.1	86.1	264.0	259.2
Non-interest expense	208.8	208.3	212.5	633.8	630.3
Operating non-interest expense (2)	206.7	206.7	209.2	624.9	618.6
Income before income tax expense (1)	91.3	111.2	85.0	283.3	258.9
Net income	61.6	72.3	58.5	187.0	173.1
Operating earnings (2)	63.0	59.9	60.8	179.4	181.1
Selected Statistical Data:					
Net interest margin (3)	3.05%	3.13%	3.30%	3.12%	3.33%
Return on average assets (3)	0.72	0.87	0.75	0.75	0.75
Operating return on average assets (2), (3)	0.74	0.72	0.78	0.72	0.79
Return on average tangible assets (3)	0.77	0.93	0.80	0.80	0.81
Return on average stockholders' equity (3)	5.3	6.3	5.1	5.4	4.8
Return on average tangible stockholders' equity (3)	9.7	11.6	9.4	10.0	8.6
Operating return on average tangible stockholders' equity (2), (3)	9.9	9.6	9.8	9.6	9.0
Efficiency ratio (2)	61.4	61.8	62.2	62.4	62.1
Common Share Data:					
Basic and diluted earnings per share	\$ 0.21	\$ 0.24	\$ 0.19	\$ 0.62	\$ 0.55
Operating earnings per share (2)	0.21	0.20	0.20	0.60	0.58
Dividends paid per share	0.165	0.165	0.1625	0.4925	0.4850
Dividend payout ratio	80.2%	68.4%	86.0%	78.8%	89.5%
Operating dividend payout ratio (2)	78.4	82.5	82.7	82.2	85.6
Book value per share (end of period)	\$ 15.52	\$ 15.46	\$ 15.07	\$ 15.52	\$ 15.07
Tangible book value per share (end of period) (2)	8.49	8.41	8.14	8.49	8.14
Stock price:					
High	15.32	15.23	15.67	15.70	15.67
Low	14.24	14.00	14.07	13.73	12.22
Close (end of period)	14.47	15.17	14.38	14.47	14.38

(1) Three months ended June 30, 2014 and nine months ended September 30, 2014 include a \$20.6 million net gain (pre-tax) resulting from the formation of a merchant services joint venture. Previously reported amounts for the three and nine months ended September 30, 2013 have been restated to reflect the change in accounting for

investments in qualified affordable housing projects. See Notes 1 and 13 to the Consolidated Financial Statements.

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

Table of Contents

(dollars in millions)	As of and for the Three Months Ended				
	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
Financial Condition Data:					
Total assets	\$ 34,775	\$ 33,921	\$ 33,112	\$ 33,214	\$ 31,511
Loans	25,954	25,455	24,629	24,390	23,227
Securities	4,687	4,580	4,690	5,033	4,379
Short-term investments (1)	508	99	73	124	148
Allowance for loan losses	197	193	190	188	188
Goodwill and other acquisition-related intangible assets	2,109	2,115	2,121	2,127	2,134
Deposits	25,261	24,089	23,666	22,557	22,190
Borrowings	3,416	3,773	3,887	5,057	3,621
Notes and debentures	1,022	1,040	639	639	639
Stockholders' equity	4,655	4,636	4,596	4,568	4,638
Total risk-weighted assets (2)	26,967	26,591	25,749	25,386	23,731
Non-performing assets (3)	229	233	231	248	271
Net loan charge-offs	8.1	6.5	7.0	10.4	9.6
Average Balances:					
Loans	\$ 25,611	\$ 24,856	\$ 24,248	\$ 23,598	\$ 22,916
Securities (4)	4,691	4,674	4,908	4,550	4,529
Short-term investments (1)	254	206	121	146	179
Total earning assets	30,556	29,736	29,277	28,294	27,624
Total assets	34,150	33,273	32,799	31,822	31,216
Deposits	24,660	23,851	22,863	22,379	22,066
Total funding liabilities	29,125	28,305	27,850	26,817	26,168
Stockholders' equity	4,648	4,609	4,564	4,574	4,622
Ratios:					
Net loan charge-offs to average total loans (annualized)	0.13%	0.10%	0.12%	0.18%	0.17%
Non-performing assets to originated loans, real estate owned and repossessed assets (3)	0.92	0.96	1.00	1.08	1.26
Originated allowance for loan losses to:					
Originated loans (3)	0.75	0.75	0.78	0.78	0.82
Originated non-performing loans (3)	94.1	91.7	92.7	81.9	74.8
Average stockholders' equity to average total assets	13.6	13.9	13.9	14.4	14.8
Stockholders' equity to total assets	13.4	13.7	13.9	13.8	14.7
Tangible stockholders' equity to tangible assets (5)	7.8	7.9	8.0	7.9	8.5
Total risk-based capital (2)	12.3	12.5	11.2	12.4	12.6

(1) Includes securities purchased under agreements to resell.

(2) Consolidated. See Regulatory Capital Requirements.

(3) Excludes acquired loans.

- (4) Average balances for securities are based on amortized cost.
- (5) See Non-GAAP Financial Measures and Reconciliation to GAAP.

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

In addition to evaluating People's United 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 intangible assets, 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 acquired loans, and non-recurring income) (the denominator). In addition, operating lease expense is excluded from total non-interest expense and netted against operating lease income within non-interest income to conform with the reporting approach applied to our other fee-based businesses that are already presented on a net basis. 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: (i) non-recurring gains/losses; (ii) merger-related expenses, including acquisition integration and other costs; (iii) charges related to executive-level management separation costs; (iv) severance-related costs; and (v) writedowns 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 total 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.

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

In light of diversity in presentation among financial institutions, the methodologies used by People's United 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 operating non-interest expense and efficiency ratio, as derived from amounts reported in the Consolidated Statements of Income:

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Total non-interest expense	\$ 208.8	\$ 208.3	\$ 212.5	\$ 633.8	\$ 630.3
Adjustments to arrive at operating non-interest expense:					
Writedowns of banking house assets	(1.8)		(2.8)	(6.2)	(9.0)
Severance-related costs	(0.3)	(1.6)	(0.5)	(2.7)	(2.4)
Acquisition integration and other costs					(0.3)
Total	(2.1)	(1.6)	(3.3)	(8.9)	(11.7)
Operating non-interest expense	206.7	206.7	209.2	624.9	618.6
Operating lease expense (1)	(8.7)	(8.7)	(7.8)	(28.5)	(22.9)
Amortization of other acquisition-related intangible assets	(6.2)	(6.2)	(6.5)	(18.6)	(19.6)
Other (2)	(2.2)	(3.7)	(4.0)	(7.9)	(8.9)
Total non-interest expense for efficiency ratio	\$ 189.6	\$ 188.1	\$ 190.9	\$ 569.9	\$ 567.2
Net interest income (FTE basis)	\$ 233.3	\$ 232.8	\$ 227.8	\$ 697.9	\$ 676.3
Total non-interest income	84.0	100.1	86.1	264.0	259.2
Total revenues	317.3	332.9	313.9	961.9	935.5
Adjustments:					
Gain on merchant services joint venture, net of expenses		(20.6)		(20.6)	
Operating lease expense (1)	(8.7)	(8.7)	(7.8)	(28.5)	(22.9)
BOLI FTE adjustment	0.7	0.6	0.6	1.9	1.4
Net security gains	(0.2)			(0.3)	
Other (3)	(0.5)			(0.6)	(0.9)
Total revenues for efficiency ratio	\$ 308.6	\$ 304.2	\$ 306.7	\$ 913.8	\$ 913.1
Efficiency ratio	61.4%	61.8%	62.2%	62.4%	62.1%

(1) Operating lease expense is excluded from total non-interest expense and netted against operating lease income within non-interest income to conform with the reporting approach applied to our other fee-based businesses that

are already presented on a net basis.

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

Table of Contents

The following table summarizes People's United 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, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Net income, as reported	\$ 61.6	\$ 72.3	\$ 58.5	\$ 187.0	\$ 173.1
Adjustments to arrive at operating earnings:					
Gain on merchant services joint venture, net of expenses		(20.6)		(20.6)	
Writedowns of banking house assets	1.8		2.8	6.2	9.0
Severance-related costs	0.3	1.6	0.5	2.7	2.4
Acquisition integration and other costs					0.3
Total pre-tax adjustments	2.1	(19.0)	3.3	(11.7)	11.7
Tax effect	(0.7)	6.6	(1.0)	4.1	(3.7)
Total adjustments, net of tax	1.4	(12.4)	2.3	(7.6)	8.0
Operating earnings	\$ 63.0	\$ 59.9	\$ 60.8	\$ 179.4	\$ 181.1
Earnings per share, as reported	\$ 0.21	\$ 0.24	\$ 0.19	\$ 0.62	\$ 0.55
Adjustments to arrive at operating earnings per share:					
Gain on merchant services joint venture, net of expenses		(0.04)		(0.04)	
Writedowns of banking house assets			0.01	0.01	0.03
Severance-related costs				0.01	
Acquisition integration and other costs					
Total adjustments per share		(0.04)	0.01	(0.02)	0.03
Operating earnings per share	\$ 0.21	\$ 0.20	\$ 0.20	\$ 0.60	\$ 0.58
Average total assets	\$ 34,150	\$ 33,273	\$ 31,216	\$ 33,412	\$ 30,735
Operating return on average assets (annualized)	0.74%	0.72%	0.78%	0.72%	0.79%

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

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

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Operating earnings	\$ 63.0	\$ 59.9	\$ 60.8	\$ 179.4	\$ 181.1
Average stockholders' equity	\$ 4,648	\$ 4,609	\$ 4,622	\$ 4,607	\$ 4,816
Less: Average goodwill and average other acquisition-related intangible assets	2,112	2,118	2,137	2,118	2,144
Average tangible stockholders' equity	\$ 2,536	\$ 2,491	\$ 2,485	\$ 2,489	\$ 2,672
Operating return on average tangible stockholders' equity (annualized)	9.9%	9.6%	9.8%	9.6%	9.0%

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Dividends paid	\$ 49.4	\$ 49.4	\$ 50.3	\$ 147.4	\$ 155.0
Operating earnings	\$ 63.0	\$ 59.9	\$ 60.8	\$ 179.4	\$ 181.1
Operating dividend payout ratio	78.4%	82.5%	82.7%	82.2%	85.6%

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, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
Total stockholders' equity	\$ 4,655	\$ 4,636	\$ 4,596	\$ 4,568	\$ 4,638
Less: Goodwill and other acquisition-related intangible assets	2,109	2,115	2,121	2,127	2,134
Tangible stockholders' equity	\$ 2,546	\$ 2,521	\$ 2,475	\$ 2,441	\$ 2,504
Total assets	\$ 34,775	\$ 33,921	\$ 33,112	\$ 33,214	\$ 31,511
Less: Goodwill and other acquisition-related intangible assets	2,109	2,115	2,121	2,127	2,134
Tangible assets	\$ 32,666	\$ 31,806	\$ 30,991	\$ 31,087	\$ 29,377
Tangible equity ratio	7.8%	7.9%	8.0%	7.9%	8.5%

(in millions, except per share data)	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
Tangible stockholders' equity	\$ 2,546	\$ 2,521	\$ 2,475	\$ 2,441	\$ 2,504
Common shares issued	396.71	396.66	396.45	396.45	396.44
Less: Common shares classified as treasury shares	89.04	89.03	89.03	89.54	80.62
Unallocated ESOP common shares	7.75	7.84	7.93	8.01	8.10
Common shares	299.92	299.79	299.49	298.90	307.72
Tangible book value per share	\$ 8.49	\$ 8.41	\$ 8.26	\$ 8.17	\$ 8.14

Recent Developments

In October 2014, People's United Bank (the "Bank") filed an application with the Office of the Comptroller of the Currency (the "OCC") to convert to a national bank charter from its current federal savings bank charter. Concurrently, People's United Financial submitted an application with the Federal Reserve Bank of New York (the "FRB-NY") to convert to a bank holding company.

Financial Overview

People's United Financial reported net income of \$61.6 million, or \$0.21 per diluted share, for the three months ended September 30, 2014, compared to \$58.5 million, or \$0.19 per diluted share, for the year-ago period. Operating earnings were \$63.0 million, or \$0.21 per share, and \$60.8 million, or \$0.20 per share, for the respective periods. Compared to the year-ago period, third quarter 2014 earnings reflect continued loan and deposit growth, and the negative impact of the historically low interest rate environment. People's United Financial's operating return on average assets was 0.74% for the three months ended September 30, 2014 compared to 0.78% for the year-ago period. Operating return on average tangible stockholders' equity was 9.9% for the three months ended September 30, 2014 compared to 9.8% for the year-ago period.

People's United Financial reported net income of \$187.0 million, or \$0.62 per diluted share, for the nine months ended September 30, 2014, compared to \$173.1 million, or \$0.55 per diluted share, for the year-ago period. Included in the results for the nine months ended September 30, 2014 is a net after-tax gain of \$13.4 million (\$0.04 per share) resulting from the formation of a merchant services joint venture (see Note 1 to the Consolidated Financial Statements). Operating earnings were \$179.4 million, or \$0.60 per share, and \$181.1 million, or \$0.58 per share, for the respective periods. FTE net interest income totaled \$697.9 million for the nine months ended September 30, 2014, a \$21.6 million increase from the year-ago period and the net interest margin decreased 21 basis points to 3.12%. People's United Financial's operating return on average assets was 0.72% for the nine months ended September 30, 2014 compared to 0.79% for the year-ago period. Operating return on average tangible stockholders' equity was 9.6% for the nine months ended September 30, 2014 compared to 9.0% for the year-ago period.

Compared to the third quarter of 2013, FTE net interest income increased \$5.5 million to \$233.3 million and the net interest margin decreased 25 basis points to 3.05%. FTE net interest income increased \$0.5 million and the net interest margin decreased eight basis points compared to the second quarter of 2014 (see Net Interest Income).

Table of Contents

Average total earning assets increased \$2.9 billion compared to the third quarter of 2013, primarily reflecting a \$2.7 billion increase in average total loans. Average total funding liabilities increased \$3.0 billion compared to the year-ago quarter, reflecting increases of \$2.6 billion in average total deposits and \$383 million in average notes and debentures.

Compared to the year-ago quarter, total non-interest income decreased \$2.1 million and total non-interest expense decreased \$3.7 million. The efficiency ratio was 61.4% for the third quarter of 2014 compared to 62.2% for the year-ago period (see Non-Interest Income and Non-Interest Expense).

The provision for loan losses in the third quarter of 2014 totaled \$12.4 million compared to \$12.1 million in the year-ago quarter. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.13% in the third quarter of 2014 compared to 0.17% in the year-ago quarter. The allowance for loan losses on originated loans was \$185.0 million at September 30, 2014, a \$7.5 million increase from December 31, 2013. The allowance for loan losses on acquired loans was \$11.9 million and \$10.3 million at September 30, 2014 and December 31, 2013, respectively. Non-performing assets (excluding acquired non-performing loans) totaled \$228.7 million at September 30, 2014, a \$19.1 million decrease from December 31, 2013. At September 30, 2014, the originated allowance for loan losses as a percentage of originated loans was 0.75% and as a percentage of originated non-performing loans was 94.1% (see Asset Quality).

People's United Financial's total stockholders' equity was \$4.7 billion at September 30, 2014 compared to \$4.6 billion at December 31, 2013 and as a percentage of total assets, stockholders' equity was 13.4% and 13.8%, respectively. Tangible stockholders' equity as a percentage of tangible assets was 7.8% at September 30, 2014 compared to 7.9% at December 31, 2013 (see Stockholders' Equity and Dividends).

The Bank's and People's United Financial's (consolidated) Total risk-based capital ratios were 13.2% and 12.3%, respectively, at September 30, 2014 compared to 12.4% and 11.3%, respectively, at December 31, 2013 (see Regulatory Capital Requirements).

Segment Results

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

People's United 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, 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.

Table of Contents

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).

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. Average total assets and average total liabilities are presented for each reportable segment due to management's reliance, in part, on such average balances for purposes of assessing segment performance.

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

Since 2012, entities have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity is not required to perform the two-step impairment test. People's United Financial elected to perform this optional qualitative assessment in its evaluation of goodwill impairment as of October 1, 2013 (the annual impairment evaluation date) and concluded that performance of the two-step test (described below) was not required.

Table of Contents

When performed, the goodwill impairment analysis is 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. At this time, management believes that none of the Company's identified reporting units are at risk of failing the Step 1 goodwill impairment test.

Segment Performance Summary

Three months ended September 30, 2014 (in millions)	Commercial Banking	Retail and Business Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 127.2	\$ 105.7	\$ 232.9	\$ 1.7	\$ (6.1)	\$ 228.5
Provision for loan losses	11.9	4.6	16.5		(4.1)	12.4
Total non-interest income	36.4	43.5	79.9	2.5	1.6	84.0
Total non-interest expense	67.6	132.5	200.1	1.2	7.5	208.8
Income (loss) before income tax expense (benefit)	84.1	12.1	96.2	3.0	(7.9)	91.3
Income tax expense (benefit)	27.4	3.9	31.3	1.0	(2.6)	29.7
Net income (loss)	\$ 56.7	\$ 8.2	\$ 64.9	\$ 2.0	\$ (5.3)	\$ 61.6

Average total assets	\$ 19,354.0	\$ 8,907.4	\$ 28,261.4	\$ 5,247.9	\$ 641.1	\$ 34,150.4
Average total liabilities	4,241.6	19,173.7	23,415.3	5,778.8	308.2	29,502.3

Nine months ended September 30, 2014 (in millions)	Commercial Banking	Retail and Business Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 372.7	\$ 321.6	\$ 694.3	\$ 6.2	\$ (16.7)	\$ 683.8
Provision for loan losses	34.0	13.7	47.7		(17.0)	30.7
Total non-interest income	105.2	126.4	231.6	6.0	26.4	264.0
Total non-interest expense	197.7	404.2	601.9	5.7	26.2	633.8
Income before income tax expense	246.2	30.1	276.3	6.5	0.5	283.3
Income tax expense	83.5	10.2	93.7	2.3	0.3	96.3
Net income	\$ 162.7	\$ 19.9	\$ 182.6	\$ 4.2	\$ 0.2	\$ 187.0

Average total assets	\$ 18,709.6	\$ 8,833.4	\$ 27,543.0	\$ 5,246.9	\$ 622.4	\$ 33,412.3
Average total liabilities	4,061.8	19,200.1	23,261.9	5,229.0	314.2	28,805.1

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net interest income	\$ 127.2	\$ 123.8	\$ 372.7	\$ 362.0
Provision for loan losses	11.9	12.0	34.0	34.7
Total non-interest income	36.4	35.6	105.2	107.9
Total non-interest expense	67.6	59.4	197.7	179.5
Income before income tax expense	84.1	88.0	246.2	255.7
Income tax expense	27.4	27.4	83.5	84.6
Net income	\$ 56.7	\$ 60.6	\$ 162.7	\$ 171.1
Average total assets	\$ 19,354.0	\$ 17,116.8	\$ 18,709.6	\$ 16,626.0
Average total liabilities	4,241.6	3,450.1	4,061.8	3,318.0

Commercial Banking net income decreased \$3.9 million compared to the third quarter of 2013, as an increase in net interest income was more than offset by an increase in non-interest expense. The \$3.4 million increase in net interest income primarily reflects continued loan growth and lower net FTP funding charges, partially offset by continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new originations at rates lower than the existing portfolio and declining interest income on acquired loans. The increase in non-interest income in the third quarter of 2014 from the year-ago quarter primarily reflects an increase in operating lease income resulting from a higher level of equipment leased to PCLC customers, partially offset by a decrease in commercial banking lending fees. The \$8.2 million increase in non-interest expense in the third quarter of 2014 compared to the third quarter of 2013 reflects both a higher level of direct (including operating lease expense) and allocated expenses. Average total assets increased \$2.2 billion and average total liabilities increased \$0.8 billion compared to the third quarter of 2013, reflecting loan and deposit growth.

Retail and Business Banking includes, as its principal business lines, business lending, consumer and business deposit gathering activities and consumer lending (including residential mortgage and home equity lending). 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013

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

Net interest income	\$ 105.7	\$ 113.6	\$ 321.6	\$ 349.0
Provision for loan losses	4.6	3.9	13.7	11.4
Total non-interest income	43.5	46.7	126.4	138.1
Total non-interest expense	132.5	139.5	404.2	414.7
Income before income tax expense	12.1	16.9	30.1	61.0
Income tax expense	3.9	5.3	10.2	20.3
Net income	\$ 8.2	\$ 11.6	\$ 19.9	\$ 40.7
Average total assets	\$ 8,907.4	\$ 8,547.7	\$ 8,833.4	\$ 8,445.5
Average total liabilities	19,173.7	19,206.3	19,200.1	19,064.0

Retail and Business Banking net income decreased \$3.4 million compared to the third quarter of 2013. The \$7.9 million decrease in net interest income primarily reflects continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new originations at rates lower than the existing portfolio and declining interest income on acquired loans, and lower FTP funding credits, partially offset by continued loan growth. The \$3.2 million decrease in non-interest income primarily reflects a \$2.8 million decrease in net gains on sales of residential mortgages. The \$7.0 million decrease in non-interest expense primarily reflects a lower level of direct and allocated expenses. Average total assets increased \$360 million compared to the third quarter of 2013, reflecting loan growth. The \$33 million decrease in average total liabilities reflects a decrease in customer repurchase agreements partially offset by deposit growth.

Table of Contents

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

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

(in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net interest income (loss)	\$ 1.7	\$ (10.5)	\$ 6.2	\$ (43.3)
Total non-interest income	2.5	1.5	6.0	4.8
Total non-interest expense	1.2	1.9	5.7	(0.2)
Income (loss) before income tax expense (benefit)	3.0	(10.9)	6.5	(38.3)
Income tax expense (benefit)	1.0	(3.4)	2.3	(12.7)
Net income (loss)	\$ 2.0	\$ (7.5)	\$ 4.2	\$ (25.6)
Average total assets	\$ 5,247.9	\$ 4,936.0	\$ 5,246.9	\$ 5,047.1
Average total liabilities	5,778.8	3,556.2	5,229.0	3,143.5

Treasury's net income in the third quarter of 2014 compared to a loss in the third quarter of 2013 reflects a \$12.2 million increase in net interest income. The improvement in net interest income primarily reflects lower FTP funding costs and an increase in securities income, partially offset by an increase in interest expense. The increase in non-interest income primarily reflects increases in BOLI income and net security gains. The decrease in non-interest expense primarily reflects a decrease in allocated expenses partially offset by an increase in direct expenses. Average total assets increased \$312 million compared to the third quarter of 2013, primarily reflecting an increase in average securities. The \$2.2 billion increase in average total liabilities compared to the third quarter of 2013 primarily reflects increases in average brokered deposits and notes and debentures.

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. The

Other category also includes certain non-recurring items, such as: the gain on the merchant services joint venture totaling \$20.6 million for the nine months ended September 30, 2014 (included in total non-interest income); and one-time charges (included in total non-interest expense) totaling \$2.1 million and \$8.9 million for the three and nine

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

months ended September 30, 2014, respectively, and \$3.3 million and \$11.7 million for the three and nine months ended September 30, 2013, respectively. Included in Other are assets such as cash, premises and equipment, and other assets.

(in millions)	Three Months Ended		Nine Months	
	September 30,		Ended	
	2014	2013	2014	2013
Net interest loss	\$ (6.1)	\$ (3.4)	\$ (16.7)	\$ (4.0)
Provision for loan losses	(4.1)	(3.8)	(17.0)	(12.4)
Total non-interest income	1.6	2.3	26.4	8.4
Total non-interest expense	7.5	11.7	26.2	36.3
Income (loss) before income tax expense (benefit)	(7.9)	(9.0)	0.5	(19.5)
Income tax expense (benefit)	(2.6)	(2.8)	0.3	(6.4)
Net income (loss)	\$ (5.3)	\$ (6.2)	\$ 0.2	\$ (13.1)
Average total assets	\$ 641.1	\$ 615.7	\$ 622.4	\$ 616.2
Average total liabilities	308.2	381.5	314.2	393.5

Table of Contents**Net Interest Income**

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

Since December 2008, the Federal Reserve Board has not changed its targeted range for the federal funds rate of 0% to 0.25% and, for the third quarter of 2014, the average effective federal funds rate was 0.09%. The net interest margin was 3.05% in the third quarter of 2014 compared to 3.13% in the second quarter of 2014 and 3.30% in the third quarter of 2013. The decline in the net interest margin from the second quarter of 2014 primarily reflects continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new loan originations at rates lower than the existing portfolio, and declining interest income on acquired loans. The net interest margin continues to be negatively impacted by the historically low interest rate environment where loan repricings are outpacing the Company's ability to lower deposit costs as well as the continued investment of a portion of the Company's capital in lower-yielding short-term investments.

Third Quarter 2014 Compared to Third Quarter 2013

FTE net interest income increased \$5.5 million compared to the third quarter of 2013, reflecting a \$7.2 million increase in total interest and dividend income partially offset by a \$1.7 million increase in total interest expense, and the net interest margin decreased 25 basis points to 3.05%. The decline in the net interest margin primarily reflects new loan volume at rates lower than the existing portfolio (24 basis points).

Average total earning assets were \$30.6 billion in the third quarter of 2014, a \$2.9 billion increase from the third quarter of 2013, primarily reflecting increases of \$2.7 billion in average total loans and \$161 million in average securities. Average total loans, average securities and average short-term investments comprised 84%, 15% and 1%, respectively, of average total earning assets in the third quarter of 2014 compared to 83%, 16% and 1%, respectively, in the 2013 period. In the current quarter, the yield earned on the total loan portfolio was 3.71% and the yield earned on securities and short-term investments was 2.11%, compared to 4.06% and 2.04%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 46% of the loan portfolio had floating interest rates at September 30, 2014 compared to approximately 45% at December 31, 2013.

The average total commercial banking loan and residential mortgage portfolios increased \$2.2 billion and \$480 million, respectively, compared to the year-ago quarter, reflecting growth. Average consumer loans increased \$39 million compared to the year-ago quarter, reflecting a \$58 million increase in average home equity loans partially offset by a \$21 million decrease in average indirect auto loans.

Average total funding liabilities were \$29.1 billion in the third quarter of 2014, a \$3.0 billion increase from the year-ago period, reflecting increases of \$2.6 billion in average total deposits and \$383 million in average notes and debentures. The increase in average total deposits reflects organic growth and a \$1.8 billion increase in average brokered deposits. Excluding brokered deposits, average savings and money market deposits, and average non-interest-bearing deposits increased \$693 million and \$415 million, respectively, while average time deposits decreased \$304 million. Average total deposits comprised 85% and 84% of average total funding liabilities in the third

quarter of 2014 and the year-ago period, respectively. The increase in average notes and debentures reflects the issuance of \$400 million of subordinated notes in June 2014.

Table of Contents

The two basis point decrease to 0.42% in the rate paid on average total funding liabilities primarily reflects a 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 three basis points from the third quarter of 2013, primarily reflecting a 12 basis point decrease in time deposits. Average savings and money market deposits and average time deposits comprised 59% and 19%, respectively, of average total deposits in the third quarter of 2014 compared to 57% and 20%, respectively, in the comparable 2013 period.

Third Quarter 2014 Compared to Second Quarter 2014

FTE net interest income increased \$0.5 million compared to the second quarter of 2014, reflecting a \$2.4 million increase in total interest and dividend income partially offset by a \$1.9 million increase in total interest expense, and the net interest margin decreased eight basis points to 3.05%. The decline in the net interest margin primarily reflects new loan volume at rates lower than the existing portfolio (six basis points) and the impact from a full quarter of interest expense on the subordinated notes (two basis points), partially offset by the benefit from one more calendar day in the third quarter of 2014 (two basis points).

Average total earning assets increased \$820 million, primarily reflecting increases of \$755 million in average total loans and \$48 million in average short-term investments. The average total commercial banking loan and residential mortgage portfolios increased \$636 million and \$94 million, respectively, compared to the second quarter.

Average total funding liabilities increased \$820 million, reflecting increases of \$809 million in average total deposits and \$361 million in average notes and debentures, partially offset by a \$350 million decrease in average total borrowings. The increase in average total deposits reflects organic growth and a \$752 million increase in average brokered deposits. The increase in average notes and debentures reflects the issuance of \$400 million of subordinated notes in June 2014.

The following tables present average balance sheets, FTE-basis interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended September 30, 2014, June 30, 2014 and September 30, 2013, and the nine months ended September 30, 2014 and 2013. 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 IRR is also reflected in the table, classified according to the instrument hedged and the related risk management objective.

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

Three months ended (dollars in millions)	September 30, 2014			June 30, 2014			September 30, 2013		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets:									
Short-term investments (2)	\$ 254.3	\$ 0.1	0.20%	\$ 206.3	\$ 0.1	0.21%	\$ 179.4	\$	0.21%
Securities (3)	4,690.3	26.0	2.22	4,673.5	26.4	2.26	4,528.9	24.0	2.12
Loans:									
Commercial (4)	9,566.4	91.5	3.83	9,087.1	89.8	3.95	8,470.2	88.7	4.19
Commercial real estate	9,228.6	89.2	3.86	9,072.3	88.6	3.91	8,148.3	90.0	4.42
Residential mortgage	4,636.5	38.4	3.31	4,539.5	38.0	3.35	4,156.2	35.2	3.38
Consumer	2,179.6	18.5	3.40	2,157.1	18.4	3.41	2,140.9	18.6	3.48
Other loans	25,611.1	237.6	3.71	24,856.0	234.8	3.78	22,915.6	232.5	4.06
Other earning assets	30,555.7	\$ 263.7	3.45%	29,735.8	\$ 261.3	3.52%	27,623.9	\$ 256.5	3.71%
Other assets	3,594.7			3,537.0			3,592.3		
Total assets	\$ 34,150.4			\$ 33,272.8			\$ 31,216.2		
Liabilities and stockholders' equity:									
Deposits:									
Non-interest-bearing	\$ 5,492.0	\$		\$ 5,299.7	\$		\$ 5,077.0	\$	
Savings, interest-bearing checking and money market	14,481.8	9.3	0.26	14,138.0	9.1	0.26	12,482.3	8.2	0.26
Time	4,685.8	10.9	0.93	4,413.3	10.6	0.96	4,507.1	11.9	1.05
Total deposits	24,659.6	20.2	0.33	23,851.0	19.7	0.33	22,066.4	20.1	0.36
Borrowings:									
Federal Home Loan Bank advances	2,454.8	2.3	0.38	2,770.6	2.3	0.33	2,387.8	2.2	0.37
Customer repurchase agreements	486.8	0.2	0.20	472.8	0.2	0.20	548.7	0.3	0.20
Federal funds purchased	425.6	0.2	0.17	405.9	0.2	0.19	520.5	0.2	0.17
Repurchase agreements	73.0	0.1	0.26	138.8	0.1	0.24	1.0		1.75
Other borrowings	2.5		0.32	4.2			4.9		0.08
Total borrowings	3,442.7	2.8	0.32	3,792.3	2.8	0.30	3,462.9	2.7	0.31
Notes and debentures	1,022.3	7.4	2.89	661.2	6.0	3.64	639.0	5.9	3.69
Total funding liabilities	29,124.6	\$ 30.4	0.42%	28,304.5	\$ 28.5	0.40%	26,168.3	\$ 28.7	0.44%
Other liabilities	377.7			359.8			425.8		

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

al liabilities	29,502.3		28,664.3		26,594.1	
ckholders equity	4,648.1		4,608.5		4,622.1	
al liabilities and stockholders equity	\$ 34,150.4		\$ 33,272.8		\$ 31,216.2	
t interest income/spread (5)	\$ 233.3	3.03%	\$ 232.8	3.12%	\$ 227.8	3.27%
t interest margin		3.05%		3.13%		3.30%

- (1) Average yields earned and rates paid are annualized.
- (2) Includes securities purchased under agreements to resell.
- (3) Average balances and yields for securities are based on amortized cost.
- (4) Includes commercial and industrial loans and equipment financing loans.
- (5) The FTE adjustment was \$4.8 million, \$4.6 million and \$4.3 million for the three months ended September 30, 2014, June 30, 2014 and September 30, 2013, respectively.

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

Nine months ended (dollars in millions)	September 30, 2014			September 30, 2013		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets:						
Short-term investments (2)	\$ 194.3	\$ 0.3	0.20%	\$ 159.5	\$ 0.2	0.20%
Securities (3)	4,756.4	79.7	2.23	4,544.5	72.8	2.13
Loans:						
Commercial (4)	9,121.9	269.1	3.93	8,380.5	267.0	4.25
Commercial real estate	9,069.6	266.5	3.92	7,771.2	262.7	4.51
Residential mortgage	4,553.3	114.3	3.35	4,047.2	104.8	3.45
Consumer	2,165.2	55.2	3.40	2,142.5	56.1	3.49
Total loans	24,910.0	705.1	3.77	22,341.4	690.6	4.12
Total earning assets	29,860.7	\$ 785.1	3.51%	27,045.4	\$ 763.6	3.76%
Other assets	3,551.6			3,689.4		
Total assets	\$ 33,412.3			\$ 30,734.8		
Liabilities and stockholders equity:						
Deposits:						
Non-interest-bearing	\$ 5,327.5	\$	%	\$ 4,973.0	\$	%
Savings, interest-bearing checking and money market	13,970.5	27.0	0.26	12,281.9	24.5	0.27
Time	4,499.9	32.2	0.95	4,567.0	36.9	1.08
Total deposits	23,797.9	59.2	0.33	21,821.9	61.4	0.37
Borrowings:						
Federal Home Loan Bank advances	2,812.9	7.2	0.34	1,840.5	5.9	0.43
Customer repurchase agreements	489.0	0.7	0.20	533.5	0.8	0.20
Federal funds purchased	479.9	0.7	0.17	637.0	0.9	0.19
Repurchase agreements	71.2	0.1	0.25	1.0		1.75
Other borrowings	4.7		0.08	1.7		0.08
Total borrowings	3,857.7	8.7	0.30	3,013.7	7.6	0.34
Notes and debentures	775.7	19.3	3.32	650.3	18.3	3.75
Total funding liabilities	28,431.3	\$ 87.2	0.41%	25,485.9	\$ 87.3	0.46%
Other liabilities	373.8			433.1		

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

Total liabilities	28,805.1		25,919.0	
Stockholders' equity	4,607.2		4,815.8	
Total liabilities and stockholders' equity	\$ 33,412.3		\$ 30,734.8	
Net interest income/spread (5)		\$ 697.9	3.10%	\$ 676.3 3.30%
Net interest margin			3.12%	3.33%

- (1) Average yields earned and rates paid are annualized.
- (2) Includes securities purchased under agreements to resell.
- (3) Average balances and yields for securities are based on amortized cost.
- (4) Includes commercial and industrial loans and equipment financing loans.
- (5) The FTE adjustment was \$14.1 million and \$12.6 million for the nine months ended September 30, 2014 and 2013, respectively.

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 total 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, 2014 Compared To					
	September 30, 2013			June 30, 2014		
	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	\$	\$ 0.1	\$ 0.1	\$	\$	\$
Securities	0.9	1.1	2.0	0.1	(0.5)	(0.4)
Loans:						
Commercial	10.9	(8.1)	2.8	4.6	(2.9)	1.7
Commercial real estate	11.2	(12.0)	(0.8)	1.5	(0.9)	0.6
Residential mortgage	4.0	(0.8)	3.2	0.8	(0.4)	0.4
Consumer	0.3	(0.4)	(0.1)	0.2	(0.1)	0.1
Total loans	26.4	(21.3)	5.1	7.1	(4.3)	2.8
Total change in interest and dividend income	27.3	(20.1)	7.2	7.2	(4.8)	2.4
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	1.3	(0.2)	1.1	0.2		0.2
Time	0.4	(1.4)	(1.0)	0.6	(0.3)	0.3
Total deposits	1.7	(1.6)	0.1	0.8	(0.3)	0.5
Borrowings:						
Federal Home Loan Bank advances	0.1		0.1	(0.3)	0.3	
Customer repurchase agreements		(0.1)	(0.1)			
Federal funds purchased						
Repurchase agreements		0.1	0.1			
Other borrowings						
Total borrowings	0.1		0.1	(0.3)	0.3	
Notes and debentures	3.0	(1.5)	1.5	2.8	(1.4)	1.4
Total change in interest expense	4.8	(3.1)	1.7	3.3	(1.4)	1.9

Change in net interest income	\$ 22.5	\$ (17.0)	\$ 5.5	\$ 3.9	\$ (3.4)	\$ 0.5
-------------------------------	---------	-----------	--------	--------	----------	--------

Table of Contents**Volume and Rate Analysis**

(in millions)	Nine Months Ended September 30, 2014 Compared To September 30, 2013		
	Volume	Rate	Total
Interest and dividend income:			
Short-term investments	\$ 0.1	\$	\$ 0.1
Securities	3.5	3.4	6.9
Loans:			
Commercial	40.6	(36.8)	3.8
Commercial real estate	22.7	(20.6)	2.1
Residential mortgage	12.8	(3.3)	9.5
Consumer	0.6	(1.5)	(0.9)
Total loans	76.7	(62.2)	14.5
Total change in interest and dividend income	80.3	(58.8)	21.5
Interest expense:			
Deposits:			
Savings, interest-bearing checking and money market	3.3	(0.8)	2.5
Time	(0.5)	(4.2)	(4.7)
Total deposits	2.8	(5.0)	(2.2)
Borrowings:			
Federal Home Loan Bank advances	2.7	(1.4)	1.3
Customer repurchase agreements	(0.1)		(0.1)
Federal funds purchased	(0.2)		(0.2)
Repurchase agreements	0.1		0.1
Other borrowings			
Total borrowings	2.5	(1.4)	1.1
Notes and debentures	3.3	(2.3)	1.0
Total change in interest expense	8.6	(8.7)	(0.1)
Change in net interest income	\$ 71.7	\$ (50.1)	\$ 21.6

Table of Contents**Non-Interest Income**

(in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Bank service charges	\$ 33.3	\$ 32.8	\$ 33.3	\$ 96.6	\$ 95.5
Operating lease income	10.2	9.9	8.7	31.4	25.1
Investment management fees	10.7	10.6	9.2	31.1	27.6
Commercial banking lending fees	8.6	7.4	9.2	24.8	29.7
Insurance revenue	8.8	6.8	9.1	23.3	24.5
Brokerage commissions	3.4	3.6	3.3	10.2	10.0
Net gains on sales of residential mortgage loans	1.1		3.9	1.9	13.8
Net (losses) gains on sales of acquired loans	(0.2)	(0.4)		(0.6)	5.8
Gain on merchant services joint venture, net of expenses		20.6		20.6	
Other non-interest income:					
Customer interest rate swap income, net	1.8	2.2	3.2	5.4	6.9
BOLI	1.4	1.4	1.2	4.1	3.0
Net security gains	0.2			0.3	
Other	4.7	5.2	5.0	14.9	17.3
Total other non-interest income	8.1	8.8	9.4	24.7	27.2
Total non-interest income	\$ 84.0	\$ 100.1	\$ 86.1	\$ 264.0	\$ 259.2

Total non-interest income decreased \$2.1 million compared to the third quarter of 2013 and, excluding the effect of the gain on the merchant services joint venture discussed below, increased \$4.5 million compared to the second quarter of 2014. The decrease in non-interest income compared to the third quarter of 2013 primarily reflects decreases in customer interest rate swap income and net gains on sales of residential mortgage loans, partially offset by higher operating lease income and investment management fees. The increase compared to the second quarter of 2014 primarily reflects higher insurance revenue, commercial banking lending fees and net gains on sales of residential mortgage loans.

Bank service charges continue to be impacted as a result of certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA") (see below). The increase in insurance revenue from the second quarter of 2014 reflects the seasonal nature of insurance renewals.

Assets under administration and those under full discretionary management, neither of which are reported as assets of People's United Financial, totaled \$10.7 billion and \$5.5 billion, respectively, at September 30, 2014, compared to \$10.8 billion and \$5.2 billion, respectively, at December 31, 2013.

The decrease in net gains on sales of residential mortgage loans from the third quarter of 2013 primarily reflects a 59% decrease in the volume of residential mortgage loan sales, while the increase from the second quarter of 2014 primarily reflects a 45% increase in the volume of residential mortgage loan sales. On an FTE basis, BOLI income

totaled \$2.1 million in the third quarter of 2014, compared to \$1.8 million in the year-ago quarter and \$2.0 million in the second quarter of 2014. The increase in BOLI income compared to the year-ago period reflects a slightly higher crediting rate. Compared to both the third quarter of 2013 and the second quarter of 2014, the increase in operating lease income reflects higher levels of equipment leased to PCLC customers. The decrease in commercial banking lending fees compared to the third quarter of 2013 primarily reflects lower prepayment fees in the third quarter of 2014 while the increase compared to the second quarter of 2014 primarily reflects higher prepayment fees in the third quarter of 2014.

As discussed in Notes 1 and 13 to the Consolidated Financial Statements, in the first quarter of 2014, the Company early adopted, with retrospective application, amended standards with respect to the accounting for investments in qualified affordable housing projects. Accordingly, amortization of the Company's cost of such investments previously included in total non-interest income is now included as a component of income tax expense for all periods presented.

Table of Contents

During the quarter ended June 30, 2014, the Bank formed a joint venture with Vantiv, Inc. to provide a comprehensive suite of payment solutions to businesses throughout the Bank's footprint. The Bank retained a 49 percent minority interest in the joint venture and recognized a \$20.6 million gain, net of related expenses, resulting from the formation of the joint venture. The gain represented the fair value of the Bank's entire portfolio of merchant contracts that was contributed to the joint venture and which previously had a zero book basis. The investment in the joint venture is accounted for using the equity method of accounting.

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

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

On July 31, 2013, the U.S. District Court for the District of Columbia issued an Order vacating portions of the Board of Governors of the Federal Reserve System's (the FRB) Debit Card Interchange Fee and Routing regulations related to the calculation of interchange transaction fees and network non-exclusivity. The Order would have required the FRB to revise its Debit Card Interchange Fee regulations, which serve to limit the fees that issuers can charge for debit card interchange transactions, as well as its regulations relating to routing of debit card interchange transactions. The FRB appealed the District Court's ruling and on March 21, 2014, the U.S. Court of Appeals for the District of Columbia issued a judgment reversing the District Court's ruling and overturning the Order to vacate. The merchant plaintiffs in the original action filed a petition for writ of certiorari with the U. S. Supreme Court, seeking its review of the Appeals Court's decision. The Supreme Court has not yet indicated whether it will grant the merchants' petition. If the Supreme Court reviews the decision and overturns the Appeals Court, bank service charge revenue derived from interchange transaction fees could be reduced further.

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

Table of Contents**Non-Interest Expense**

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Compensation and benefits	\$ 108.1	\$ 109.3	\$ 106.9	\$ 327.8	\$ 319.5
Occupancy and equipment	36.4	36.6	36.7	111.0	111.5
Professional and outside service fees	14.3	14.9	16.1	44.5	44.9
Operating lease expense	8.7	8.7	7.8	28.5	22.9
Regulatory assessments	8.5	9.0	8.6	26.2	25.4
Amortization of other acquisition-related intangibles	6.2	6.2	6.5	18.6	19.6
Other non-interest expense:					
Stationery, printing, postage and telephone	4.8	5.0	5.3	15.2	15.9
Advertising and promotion	3.6	3.2	4.6	9.3	11.8
Other	18.2	15.4	20.0	52.7	58.8
Total other non-interest expense	26.6	23.6	29.9	77.2	86.5
Total non-interest expense	\$ 208.8	\$ 208.3	\$ 212.5	\$ 633.8	\$ 630.3
Efficiency ratio	61.4%	61.8%	62.2%	62.4%	62.1%

Total non-interest expense decreased \$3.7 million compared to the third quarter of 2013 and increased \$0.5 million compared to the second quarter of 2014. Included in total non-interest expense are non-operating expenses (see below) totaling \$2.1 million in the third quarter of 2014, \$1.6 million in the second quarter of 2014 and \$3.3 million in the third quarter of 2013.

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

Compensation and benefits increased \$1.2 million compared to the year-ago quarter and decreased \$1.2 million compared to the second quarter of 2014. Compensation and benefits includes severance-related costs (non-operating expenses) totaling \$0.3 million in the third quarter of 2014, \$1.6 million in the second quarter of 2014 and \$0.5 million in the third quarter of 2013. The year-over-year increase (\$1.4 million excluding non-operating expenses) primarily reflects normal merit increases and compensation and benefit costs for additional employees primarily within commercial banking, wealth management and regulatory compliance.

The increase in operating lease expense compared to the third quarter of 2013 relates to the higher level of equipment leased to PCLC customers. The increase in advertising and promotion compared to the second quarter of 2014 reflects the timing of certain advertising campaigns.

Regulatory assessments include Federal Deposit Insurance Corporation (FDIC) insurance premiums that are primarily based on the Bank's average total assets and average tangible equity, and FDIC-defined risk factors. The actual amount

of future regulatory assessments will be dependent on several factors, including: (i) the Bank's average total assets and average tangible equity; (ii) the Bank's risk profile; and (iii) whether additional special assessments are imposed in future periods and the manner in which such assessments are determined. The decrease in regulatory assessments compared to the second quarter of 2014 primarily reflects the benefit from the Bank's issuance of subordinated notes in June 2014, which, for FDIC assessment purposes, serves to lower the overall assessment rate.

Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2014 and each of the next five years is as follows: \$24.8 million in 2014; \$23.8 million in 2015; \$22.7 million in 2016; \$21.6 million in 2017; \$10.2 million in 2018; and \$9.4 million in 2019.

Other non-interest expense in the third quarter of 2014 and third quarter of 2013 includes charges associated with the writedowns of certain banking house assets (non-operating) totaling \$1.8 million and \$2.8 million, respectively.

Table of Contents**Income Taxes**

In the third quarter of 2014, People's United Financial revised its estimate of the full-year effective income tax rate, resulting in an effective income tax rate of 32.5% for the third quarter of 2014. People's United Financial's effective income tax rate was 34.0% for the nine months ended September 30, 2014, approximating the expected effective income tax rate for the full-year of 2014. The effective income tax rate for the nine months ended September 30, 2014 represents a 250 basis point increase over the previously reported full-year 2013 effective income tax rate of 31.5%, primarily due to the early adoption of amended standards with respect to the accounting for investments in qualified affordable housing projects. The revised effective income tax rate was 33.1% for the full-year of 2013. See Notes 1 and 13 to the Consolidated Financial Statements. Differences, if any, arising between People's United Financial's effective income tax rate and the U.S. federal statutory rate of 35% are generally attributable to: (i) tax-exempt interest earned on certain investments; (ii) tax-exempt income from BOLI; and (iii) state income taxes.

FINANCIAL CONDITION**General**

Total assets at September 30, 2014 were \$34.8 billion, a \$1.6 billion increase from December 31, 2013, reflecting a \$1.6 billion increase in total loans partially offset by a \$346 million decrease in total securities. The increase in total loans from December 31, 2013 to September 30, 2014 reflects increases of \$1.2 billion in commercial banking loans and \$323 million in residential mortgage loans. Originated loans increased \$1.9 billion from December 31, 2013 to \$24.8 billion (commercial banking loans increased \$1.5 billion and retail loans increased \$402 million) and acquired loans decreased \$345 million. At September 30, 2014, the carrying amount of the acquired loan portfolio totaled \$1.2 billion. The decrease in total securities primarily reflects sales and paydowns of agency-backed collateralized mortgage obligations.

Non-performing assets (excluding acquired non-performing loans) totaled \$228.7 million at September 30, 2014, a \$19.1 million decrease from December 31, 2013, primarily reflecting decreases in non-performing residential mortgage loans of \$17.1 million and non-performing commercial real estate loans of \$14.8 million, partially offset by increases in non-performing commercial and industrial loans of \$9.0 million and non-performing equipment financing loans of \$6.1 million. The allowance for loan losses was \$196.9 million (\$185.0 million on originated loans and \$11.9 million on acquired loans) at September 30, 2014 compared to \$187.8 million (\$177.5 million on originated loans and \$10.3 million on acquired loans) at December 31, 2013. At September 30, 2014, the originated allowance for loan losses as a percentage of originated loans was 0.75% and as a percentage of originated non-performing loans was 94.1%, compared to 0.78% and 81.9%, respectively, at December 31, 2013.

At September 30, 2014, total liabilities were \$30.1 billion, a \$1.5 billion increase from December 31, 2013, reflecting increases of \$2.7 billion in total deposits, including a \$2.1 billion increase in brokered deposits, and \$382 million in notes and debentures, partially offset by a \$1.6 billion decrease in total borrowings. In June 2014, the Bank issued \$400 million of 4.00% subordinated notes due 2024. For regulatory capital purposes, subordinated note issuances qualify, up to certain limits, as supplementary (Tier 2) capital for the Bank's total risk-based capital.

People's United Financial's total stockholders' equity was \$4.7 billion at September 30, 2014, an \$86.6 million increase from December 31, 2013. This increase primarily reflects net income of \$187.0 million and a \$30.6 million decrease

in accumulated other comprehensive loss (AOCL) since December 31, 2013, partially offset by dividends paid of \$147.4 million. As a percentage of total assets, stockholders' equity was 13.4% at September 30, 2014 compared to 13.8% at December 31, 2013. Tangible stockholders' equity as a percentage of tangible assets was 7.8% at September 30, 2014 compared to 7.9% at December 31, 2013.

People's United Financial's (consolidated) Tier 1 common equity, and Tier 1 and Total risk-based capital ratios were 9.9%, 9.9% and 12.3%, respectively, at September 30, 2014, compared to 10.2%, 10.2% and 11.3%, respectively, at December 31, 2013. The Bank's leverage (core) capital ratio, and Tier 1 and Total risk-based capital ratios were 8.8%, 10.7% and 13.2%, respectively, at September 30, 2014, compared to 9.1%, 11.1% and 12.4%, respectively, at December 31, 2013 (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, 2014	December 31, 2013
Property Type:		
Residential (multi-family)	\$ 3,205.3	\$ 2,733.3
Retail	2,443.6	2,389.6
Office buildings	2,230.3	2,258.7
Industrial/manufacturing	519.3	542.2
Hospitality/entertainment	412.0	419.1
Mixed/special use	211.9	232.8
Self storage	149.7	160.9
Land	66.3	92.3
Health care	20.1	48.1
Other	52.1	44.6
 Total commercial real estate	 \$ 9,310.6	 \$ 8,921.6

Commercial and Industrial

(in millions)	September 30, 2014	December 31, 2013 (1)
Industry:		
Finance, insurance and real estate	\$ 1,859.0	\$ 1,704.4
Service	1,311.7	1,240.2
Manufacturing	1,008.4	817.0
Health services	731.8	735.1
Wholesale distribution	725.9	614.7
Retail sales	557.6	535.0
Construction	202.0	173.2
Transportation/utility	179.1	155.6
Arts/entertainment/recreation	133.7	141.1
Information/media	88.3	40.1
Public administration	67.5	72.4
Mining, oil and gas	46.9	41.1

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

Other	28.5	32.2
Total commercial and industrial	\$ 6,940.4	\$ 6,302.1

(1) Certain reclassifications of prior period amounts have been made to conform to the current period presentation.

Table of Contents*Equipment Financing*

(in millions)	September 30, 2014	December 31, 2013
Industry:		
Transportation/utility	\$ 977.4	\$ 864.5
Construction	359.6	348.4
Finance, insurance and real estate	309.2	292.5
Printing	207.8	226.4
Waste	204.1	187.9
Manufacturing	165.9	159.4
Wholesale distribution	135.5	117.1
Packaging	133.3	151.2
Mining, oil and gas	98.1	70.6
Service	62.3	64.1
Health services	43.0	43.8
Other	74.8	67.2
Total equipment financing	\$ 2,771.0	\$ 2,593.1

Residential Mortgage

(in millions)	September 30, 2014	December 31, 2013
Adjustable-rate	\$ 4,205.5	\$ 3,895.3
Fixed-rate	534.3	521.3
Total residential mortgage	\$ 4,739.8	\$ 4,416.6

Consumer

(in millions)	September 30, 2014	December 31, 2013
Home equity lines of credit	\$ 1,934.6	\$ 1,881.1
Home equity loans	198.6	203.4
Indirect auto	12.8	25.7
Other	46.5	46.7
Total consumer	\$ 2,192.5	\$ 2,156.9

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 were 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 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.

Over the past few years, People's United Financial 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, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Included in TDRs at September 30, 2014 are \$26.5 million of such loans. Of this amount, \$17.9 million, or 67%, were less than 90 days past due on their payments as of that date.

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, 2014, we performed 37 loan modifications that were not classified as TDRs. The balances of the loans at the time of the respective modifications totaled \$75.3 million. In each case, we concluded that the modification did not result in the granting of a concession based on one or more of the following considerations: (i) the receipt of additional collateral (the nature and amount of which was deemed to serve as adequate compensation for other terms of the restructuring) and/or guarantees; (ii) the borrower having access to funds at a market rate for debt with similar risk characteristics as the restructured debt; and (iii) the restructuring resulting in a delay in payment that is insignificant in relation to the other terms of the obligation. See Note 4 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

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

Table of Contents*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" 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, 2014, the loan portfolio included \$934 million of interest-only residential mortgage loans, of which \$1 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.

Updated estimates of property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At September 30, 2014, non-performing residential mortgage loans totaling \$2.2 million had current LTV ratios of more than 100%. At September 30, 2014, the weighted average LTV ratio and FICO score for the residential mortgage loan portfolio were approximately 63% and 750, 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, the 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 the Bank to any material loss.

During the nine months ended September 30, 2014, the Company repurchased from government sponsored enterprises (GSEs) and other parties a total of six 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 \$1.2 million and related fees and expenses incurred totaled less than \$0.1 million. During that same time period, the Company issued 20 investor refunds, totaling \$0.3 million, under contractual recourse agreements. Based on the limited number of repurchase requests the Company has historically received, the immaterial cost associated with such repurchase requests and management's view that this past experience is consistent with our current and near-term estimate of such exposure,

the Company has established a reserve for such repurchase requests, which totaled \$0.5 million as of September 30, 2014.

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

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 5 years followed by a 20-year repayment phase. During the initial draw period, interest-only payments are required, after which the disbursed balance is fully amortized over a 20-year repayment term. HELOCs carry variable rates indexed to the Prime Rate with a lifetime interest rate ceiling and floor, and are secured by first or second liens on the borrower's primary residence. The rate used to qualify borrowers is the Prime Rate plus 3.00%, even though the initial rate may be substantially lower. The maximum LTV ratio is 80% on a single-family property, 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, 2014, the committed amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2014	\$ 51.9
2015	240.8
2016	274.7
2017	350.8
2018	357.8
2019	167.1
Later years	2,244.2
Total	\$ 3,687.3

Essentially all of our HELOCs (93%) are presently in their draw period. Although converted amortizing payment loans represent only a small portion of the portfolio, our default and delinquency statistics indicate a higher level of occurrence for such loans when compared to HELOCs that are still in the draw period.

Delinquency statistics for the HELOC portfolio as of September 30, 2014 are as follows:

(dollars in millions)	Portfolio Balance	Delinquencies Amount	Delinquencies Percent
HELOC status:			
Still in draw period	\$ 1,802.9	\$ 15.7	0.87%
Amortizing payment	131.7	6.1	4.64

For the three months ended September 30, 2014, approximately 36% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

The majority of the 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.

Table of Contents

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, 2014, full and complete first lien position data was not readily available for approximately 51% 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, 2014, the portion of the home equity portfolio more than 90 days past due with a CLTV greater than 80% was \$6.8 million.

As of September 30, 2014, full and complete first lien position data was readily available for approximately 49%, or \$1.0 billion, of the home equity portfolio. Of that total, approximately 38%, or \$395 million, are in a junior lien position. We estimate that of those junior liens, 35%, or \$138 million, are held or serviced by others.

When the first lien is held by a third party, we can, in some cases, obtain an indication that a first lien is in default through information reported to credit bureaus. However, because more than one mortgage may be reported in a borrower's credit report and there may not be a corresponding property address associated with reported mortgages, we are often unable to associate a specific first lien with our junior lien. As of September 30, 2014, there were 43 loans totaling \$4.3 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 33 of the loans (totaling \$2.8 million), our second lien position was performing at the time such foreclosure action was commenced. The total estimated loss related to those 33 loans was \$0.4 million as of September 30, 2014. 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 65% as of September 30, 2014.

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, 2014, approximately 87% of the portfolio balance relates to originations that occurred since 2005, which is generally recognized as the peak of the recent housing bubble. We believe these factors are a primary reason for the portfolio's relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average total loans.

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

As of September 30, 2014, the weighted average CLTV ratio and FICO score for the home equity portfolio were approximately 56% and 756, 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 \$577 million (approximately 2% of total loans) at September 30, 2014. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, was \$967 million. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At September 30, 2014, construction loans totaling \$357 million had remaining available interest reserves totaling \$47 million. At that date, the Company had no construction loans with interest reserves that were on non-accrual status and included in non-performing loans.

Recent economic conditions have resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which have related repayment guarantees. Modifications of originated commercial real estate loans involving maturity extensions are evaluated according to the Company's normal underwriting standards and are classified as TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United Financial similar to those discussed previously. People's United Financial had approximately \$15 million of restructured construction loans as of September 30, 2014.

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.

Table of Contents

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, is 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.

In developing the allowance for loan losses for larger-balance, non-homogeneous loans, the Company also gives consideration to certain qualitative factors, including the macroeconomic environment and any potential imprecision

inherent in its loan loss model that may result from having limited historical loan loss data which, in turn, may result in inaccurate probability of default and loss-given-default 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 reviews this data annually to determine that such a correlation continues to exist. Additionally, at interim dates between annual reviews, these factors are evaluated in order to conclude that they continue to be appropriate based on current economic conditions. There were no significant changes in the qualitative factor component of the related allowance for loan losses during the nine months ended September 30, 2014.

Table of Contents

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 , Moderate 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. These risk classifications are reviewed periodically to ensure that they continue to be appropriate in light of changes within the portfolio and/or economic indicators as well as other industry developments.

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.

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, 2014.

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 estimates of property values upon the loan being classified as non-performing (typically upon becoming 90 days past due).

In determining the allowance for loan losses, People's United 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.

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 2014. 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.

Table of Contents

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, 2014 and December 31, 2013, the allowance for loan losses on acquired loans was \$11.9 million and \$10.3 million, respectively.

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

Provision and Allowance for Loan Losses

(dollars in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Allowance for loan losses on originated loans:					
Balance at beginning of period	\$ 182.5	\$ 180.0	\$ 177.5	\$ 177.5	\$ 177.5
Charge-offs	(9.1)	(8.1)	(10.7)	(23.6)	(34.0)
Recoveries	1.2	2.6	1.2	4.7	4.6
Net loan charge-offs	(7.9)	(5.5)	(9.5)	(18.9)	(29.4)
Provision for loan losses	10.4	8.0	9.5	26.4	29.4
Balance at end of period	\$ 185.0	\$ 182.5	\$ 177.5	\$ 185.0	\$ 177.5
Allowance for loan losses on acquired loans:					
Balance at beginning of period	\$ 10.1	\$ 10.3	\$ 8.2	\$ 10.3	\$ 10.5
Charge-offs	(0.2)	(1.0)	(0.1)	(2.7)	(4.1)
Provision for loan losses	2.0	0.8	2.6	4.3	4.3
Balance at end of period	\$ 11.9	\$ 10.1	\$ 10.7	\$ 11.9	\$ 10.7
	0.92%	0.92%	1.02%	0.92%	1.02%

Commercial originated allowance for loan losses as a percentage of originated commercial banking loans					
Retail originated allowance for loan losses as a percentage of originated retail loans	0.29	0.30	0.31	0.29	0.31
Total originated allowance for loan losses as a percentage of:					
Originated loans	0.75	0.75	0.82	0.75	0.82
Originated non-performing loans	94.1	91.7	74.8	94.1	74.8

The provision for loan losses on originated loans totaled \$10.4 million in the third quarter of 2014, reflecting \$7.9 million in net loan charge-offs (including \$3.7 million against previously-established specific reserves) and a \$6.2 million increase in the originated allowance for loan losses in response to growth in both the commercial and residential mortgage loan portfolios. The provision for loan losses on originated loans totaled \$9.5 million in the third quarter of 2013, reflecting \$9.5 million in net loan charge-offs (including \$6.3 million against previously-established specific reserves) and a \$6.3 million increase in the originated allowance for loan losses in response to growth in both the commercial and residential mortgage loan portfolios. The provision for loan losses on acquired loans in the third quarter of 2014 and 2013 reflects loan impairment primarily attributable to single credits in both periods.

Management believes that the level of the allowance for loan losses at September 30, 2014 is appropriate to cover probable losses.

Table of Contents*Loan Charge-Offs*

The Company's charge-off policies, which comply with standards established by banking regulators, are consistently applied from period to period. Charge-offs are recorded on a monthly basis. Partially charged-off loans continue to be evaluated on a monthly basis and additional charge-offs or loan loss provisions may be recorded on the remaining loan balance based on the same criteria. For unsecured consumer loans, charge-offs are generally recorded when the loan is deemed to be uncollectible or 120 days past due, whichever occurs first. For consumer loans secured by real estate, including residential mortgage loans, charge-offs are generally recorded when the loan is deemed to be uncollectible or 180 days past due, whichever occurs first, unless it can be clearly demonstrated that repayment will occur regardless of the delinquency status. Factors that demonstrate an ability to repay may include: (i) a loan that is secured by adequate collateral and is in the process of collection; (ii) a loan supported by a valid guarantee or insurance; or (iii) a loan supported by a valid claim against a solvent estate. For commercial 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 that aids in determining the loan's net realizable value. Typically this involves consideration of both (i) the fair value of any collateral securing the loan, including whether the estimate of fair value has been derived from an appraisal or other market information and (ii) other factors affecting the likelihood of repayment, including the existence of guarantees and insurance. If the amount by which the Company's recorded investment in the loan exceeds its net realizable value is deemed to be a confirmed loss, a charge-off is recorded. Otherwise, a specific or general reserve is established, as applicable.

Net Loan Charge-Offs (Recoveries)

(in millions)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Commercial:					
Commercial real estate	\$ 4.2	\$ 3.0	\$ (0.1)	\$ 10.1	\$ 10.7
Commercial and industrial	1.8	1.8	6.4	4.2	11.6
Equipment financing	(0.1)	0.1	0.9	0.5	1.2
Total	5.9	4.9	7.2	14.8	23.5
Retail:					
Residential mortgage	0.7	0.5	0.4	2.2	4.6
Home equity	1.2	0.8	1.6	3.7	4.5
Other consumer	0.3	0.3	0.4	0.9	0.9
Total	2.2	1.6	2.4	6.8	10.0
Total	\$ 8.1	\$ 6.5	\$ 9.6	\$ 21.6	\$ 33.5

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

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Commercial:					
Commercial real estate	0.18%	0.13%	(0.01)%	0.15%	0.18%
Commercial and industrial	0.10	0.11	0.42	0.09	0.26
Equipment financing		0.01	0.15	0.03	0.07
Retail:					
Residential mortgage	0.06	0.05	0.04	0.06	0.15
Home equity	0.24	0.14	0.30	0.24	0.29
Other consumer	1.74	1.51	1.81	1.56	1.29
Total portfolio	0.13%	0.10%	0.17%	0.12%	0.20%

Net loan charge-offs in the third quarter of 2014 include a \$3.3 million charge-off relating to a single commercial real estate loan. Excluding this charge-off, net loan charge-offs as a percentage of average total loans (annualized) were 0.08%. The comparatively low level of net loan charge-offs in recent periods, in terms of absolute dollars and as a percentage of average total loans, may not be sustainable in the future.

Table of Contents*Non-Performing Assets*

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

All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the period in which the accrual of interest is discontinued. Interest payments received on non-accrual loans (including impaired loans) are generally applied as a reduction of principal if future collections are doubtful, although such interest payments may be recognized as income. A loan remains on non-accrual status until the factors that indicated doubtful collectability no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses. There were no loans past due 90 days or more and still accruing interest at September 30, 2014 or December 31, 2013.

Non-Performing Assets

(dollars in millions)	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
Originated non-performing loans:					
Commercial:					
Commercial real estate	\$ 56.0	\$ 59.7	\$ 60.1	\$ 70.8	\$ 69.8
Commercial and industrial	52.8	45.8	41.7	43.8	66.7
Equipment financing	29.3	30.7	22.0	23.2	21.2
Total	138.1	136.2	123.8	137.8	157.7
Retail:					
Residential mortgage	41.8	44.8	51.3	58.9	59.5
Home equity	16.6	18.0	19.0	19.8	19.9
Other consumer	0.1	0.1	0.2	0.1	0.1
Total	58.5	62.9	70.5	78.8	79.5
Total originated non-performing loans (1)	196.6	199.1	194.3	216.6	237.2
REO:					
Residential	16.2	14.9	17.0	13.6	14.6
Commercial	12.4	13.9	16.5	13.1	13.3
Total REO	28.6	28.8	33.5	26.7	27.9
Repossessed assets	3.5	4.8	3.7	4.5	6.1

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

Total non-performing assets	\$ 228.7	\$ 232.7	\$ 231.5	\$ 247.8	\$ 271.2
-----------------------------	----------	----------	----------	----------	----------

Originated non-performing loans as a percentage of originated loans	0.79%	0.82%	0.84%	0.95%	1.10%
Non-performing assets as a percentage of:					
Originated loans, REO and repossessed assets	0.92	0.96	1.00	1.08	1.26
Tangible stockholders' equity and originated allowance for loan losses	8.37	8.61	8.72	9.47	10.12

- (1) Reported net of government guarantees totaling: \$18.1 million at September 30, 2014; \$18.4 million at June 30, 2014; \$19.2 million at March 31, 2014; \$19.4 million at December 31, 2013; and \$19.8 million at September 30, 2013. 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, 2014, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).

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 (LSA) totaling: \$113 million and \$3 million, respectively, at September 30, 2014; \$114 million and \$4 million, respectively, at June 30, 2014; \$142 million and \$4 million, respectively, at March 31, 2014; \$138 million and \$4 million, respectively, at December 31, 2013; and \$148 million and \$6 million, respectively, at September 30, 2013. Such loans otherwise meet People's United Financial's definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretible 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 \$19.1 million from December 31, 2013 and equaled 0.92% of originated loans, real estate owned (REO) and repossessed assets at September 30, 2014. The decrease in total non-performing assets from December 31, 2013 primarily reflects decreases in non-performing residential mortgage loans of \$17.1 million, non-performing commercial real estate loans of \$14.8 million and home equity loans of \$3.2 million, partially offset by increases in non-performing commercial and industrial loans of \$9.0 million, non-performing equipment financing loans of \$6.1 million and REO of \$1.9 million.

All loans and REO acquired in the Butler Bank acquisition (completed in 2010) are subject to an FDIC LSA, which provides for coverage by the FDIC, up to certain limits, on all such covered assets. The FDIC is obligated to reimburse the Company for 80% of any future losses on covered assets up to \$34.0 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 \$523 million in originated potential problem loans at September 30, 2014. 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, 2014, originated potential problem loans consisted of: \$237 million of commercial and industrial loans; \$200 million of equipment financing loans; and \$86 million of commercial real estate 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 the future.

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 the Bank's ability to fund new loans and investments as opportunities arise, to meet customer deposit withdrawals, and to repay borrowings and subordinated notes as they mature. People's United Financial's, as well as the Bank's, liquidity positions are monitored daily by management. The Asset and Liability Management Committee (ALCO) of the Bank has been authorized by the Board of Directors of People's United Financial to set guidelines to ensure maintenance of prudent levels of liquidity for People's United Financial as well as for the 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, 2014, People's United Financial (parent company) liquid assets included \$292 million in intercompany short-term advances to the Bank while the Bank's liquid assets included \$520 million in cash and cash equivalents, \$300 million in securities purchased under agreements to resell, \$3.9 billion in debt securities available for sale and \$8 million in trading account securities. Securities available for sale with a fair value of \$1.36 billion at September 30, 2014 were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by People's United Financial's and the Bank's ability to obtain deposits and borrowings at cost-effective rates that are diversified with respect to markets and maturities. Deposits, which are considered the most stable source of liability liquidity, totaled \$25.3 billion at September 30, 2014 and represented 74% of total funding (the sum of total deposits, total borrowings, 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 notes and debentures totaled \$3.4 billion and \$1.0 billion, respectively, at September 30, 2014, representing 10% and 3%, respectively, of total funding at that date.

The Bank's current available sources of borrowings include: federal funds purchased, advances from the Federal Home Loan Bank (FHLB) of Boston and the FRB-NY, and repurchase agreements. At September 30, 2014, the Bank's total borrowing capacity from (i) the FHLB of Boston and the FRB-NY for advances and (ii) repurchase agreements was \$8.3 billion based on the level of qualifying collateral available for these borrowings. In addition, the Bank had unsecured borrowing capacity of \$1.2 billion at that date. FHLB advances are secured by the Bank's investment in FHLB stock and by a security agreement that requires the Bank to maintain, as collateral, sufficient qualifying assets not otherwise pledged (principally single-family residential mortgage loans, HELOCs, HELs and commercial real estate loans).

At September 30, 2014, the Bank had outstanding commitments to originate loans totaling \$1.3 billion and approved, but unused, lines of credit extended to customers totaling \$5.7 billion (including \$2.0 billion of HELOCs).

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

Stockholders' Equity and Dividends

People's United Financial's total stockholders' equity was \$4.66 billion at September 30, 2014, an \$86.6 million increase from December 31, 2013. This increase primarily reflects net income of \$187.0 million and a \$30.6 million decrease in AOCL since December 31, 2013, partially offset by dividends paid of \$147.4 million. The decrease in AOCL, net of tax, primarily reflects a decrease in the net unrealized loss on securities available for sale. Stockholders' equity equaled 13.4% of total assets at September 30, 2014 compared to 13.8% at December 31, 2013. Tangible stockholders' equity equaled 7.8% of tangible assets at September 30, 2014 compared to 7.9% at December 31, 2013.

In October 2014, People's United Financial's Board of Directors declared a quarterly dividend on its common stock of \$0.165 per share. The dividend is payable on November 15, 2014 to shareholders of record on November 1, 2014. In the third quarter of 2014, the Bank paid a cash dividend of \$69 million to People's United Financial.

Table of Contents**Regulatory Capital Requirements**

The Bank's tangible capital ratio was 8.8% at September 30, 2014, compared to the minimum ratio of 1.5% generally required by its regulator, the OCC. The 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. The Bank satisfied these requirements at September 30, 2014 with ratios of 8.8% and 13.2%, respectively, compared to 9.1% and 12.4%, respectively, at December 31, 2013. The decrease in the leverage capital ratio primarily reflects an increase in the Bank's adjusted total assets since December 31, 2013, while the increase in the total risk-based capital ratio primarily reflects the issuance of \$400 million in subordinated notes in June 2014, which qualify as Tier 2 capital, partially offset by an increase in the Bank's total risk-weighted assets since December 31, 2013. The Bank's regulatory capital ratios exceeded the OCC's numeric criteria for classification as a well-capitalized institution at September 30, 2014.

The following summary compares the Bank's regulatory capital amounts and ratios as of September 30, 2014 to the OCC's requirements. At September 30, 2014, the Bank's adjusted total assets, as defined, were \$32.7 billion and its total risk-weighted assets, as defined, were \$26.9 billion. At September 30, 2014, the Bank exceeded each of its regulatory capital requirements.

As of September 30, 2014 (dollars in millions)	People's United Bank		OCC Requirements			
	Amount	Ratio	Classification as Well-Capitalized		Minimum Capital Adequacy	
			Amount	Ratio	Amount	Ratio
Tangible capital	\$ 2,868.8 (1)	8.8%	n/a	n/a	\$ 491.2	1.5%
Leverage (core) capital	2,868.8 (1)	8.8	\$ 1,637.2	5.0%	1,309.8	4.0
Risk-based capital:						
Tier 1	2,868.8 (1)	10.7	1,615.9	6.0	1,077.2	4.0
Total	3,568.2 (2)	13.2	2,693.1	10.0	2,154.5	8.0

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

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

	September 30, 2014	December 31, 2013
Tangible equity to tangible assets	7.8%	7.9%
Leverage (Tier 1 capital to adjusted total assets)	8.1	8.3

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

Tier 1 common equity to total risk-weighted assets (1)	9.9	10.2
Tier 1 risk-based capital to total risk-weighted assets	9.9	10.2
Total risk-based capital to total risk-weighted assets	12.3	11.3

- (1) Tier 1 common equity represents common equity Tier 1 capital (calculated in accordance with the Basel III Final Rule issued in July 2013) divided by total risk-weighted assets.

Table of Contents

In July 2013, the U.S. banking agencies published final rules to address implementation of its framework for capital requirements (the Basel framework or Basel III) for U.S. financial institutions which, when fully phased-in, will: (i) set forth changes in the calculation of risk-weighted assets; (ii) introduce limitations on what is permissible for inclusion in Tier 1 capital; and (iii) require savings and loan holding companies and their savings 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 on January 1, 2015 for both the Company and the Bank.

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) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average total assets.

Management currently estimates that, as of September 30, 2014, the Company's and the Bank's risk-based capital ratios could be negatively impacted by as much as 25-35 basis points on a fully phased-in basis. Management will continue to monitor the impact of these and future regulations.

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 IRR, which is a result of the Company's core business activities of making loans and accepting deposits.

Interest Rate Risk

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

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

Table of Contents

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

The following tables set forth the estimated percentage change in the Company's net interest income at risk over one-year simulation periods beginning September 30, 2014 and December 31, 2013. Given the interest rate environment at those dates, simulations for interest rate declines of more than 25 basis points were not deemed to be meaningful.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	September 30, 2014	December 31, 2013
+300	14.5%	10.7%
+200	10.0	7.3
+100	4.7	3.1
-25	(1.2)	(1.2)

Yield Curve Twist Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	September 30, 2014	December 31, 2013
Short End -25	(0.5)%	(0.4)%
Short End +100	2.8	0.7
Short End +200	6.4	2.7
Long End -100	(3.1)	(3.7)
Long End +100	2.1	2.3
Long End +200	4.0	4.7

The net interest income at risk simulation results indicate that at both September 30, 2014 and December 31, 2013, the Company is asset sensitive over the twelve-month forecast horizon (i.e. net interest income will increase if market rates rise). This is primarily due to (i) approximately 90% of the Company's loan portfolio being funded by less rate-sensitive core deposits and (ii) approximately 37% of the Company's loan portfolio being comprised of Prime and one-month Libor-based floating-rate loans. The increase in asset sensitivity from December 31, 2013 reflects a decrease in fixed-rate securities and increases in one-month Libor-based floating-rate loans and core deposits.

The Company is more asset sensitive when the short-end rises as a result of the decline in the securities portfolio and increases in one-month Libor-based floating-rate loans and core deposits since December 31, 2013. Based on the Company's interest rate position at September 30, 2014, an immediate 100 basis point increase in interest rates translates to an approximate \$44 million increase in net interest income on an annualized basis.

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

Table of Contents

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 instantaneous parallel shocks in interest rates. Given the interest rate environment at both September 30, 2014 and December 31, 2013, simulations for interest rate declines of more than 25 basis points were not deemed to be meaningful.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Economic Value of Equity	
	September 30, 2014	December 31, 2013
+300	(7.3)%	(6.5)%
+200	(2.7)	(2.6)
+100	(0.3)	(0.5)
-25	0.3	0.4

The Company's economic value of equity at risk profile indicates that at both September 30, 2014 and December 31, 2013, the Company is moderately liability sensitive in a rising interest rate environment. This liability sensitive profile is the result of slightly longer asset duration compared to the duration of liabilities. Deposit duration declined slightly due to changes in market rates. The unfavorable impact to the Company's economic value of equity due to a shorter deposit duration is offset by a favorable impact from a decrease in the securities portfolio and an increase in one-month Libor-based floating-rate loans, resulting in a slight change in the sensitivity of the economic value of equity since December 31, 2013.

People's United Financial's IRR position at September 30, 2014, 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 moderately liability sensitive economic value of equity at risk position. From a net interest income perspective, asset sensitivity over the next 12 months is primarily attributable to the effect of the substantial Prime and Libor-based loan balances that are primarily funded by less interest rate sensitive deposits. From an economic value of equity perspective, the increased value of these deposits in a rising interest rate environment is less than the decline in value of fixed-rate assets, which serves to create a moderately liability sensitive risk position. 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, 2014, there were no breaches of the Company's internal policy limits with respect to either IRR measure. Management utilizes both interest rate measures in the normal course of measuring and managing IRR and believes that each measure is valuable in understanding the Company's IRR position.

People's United Financial uses derivative financial instruments, including interest rate swaps, primarily for market risk management purposes (principally IRR). Certain other derivatives are entered into in connection with transactions

with commercial customers. Derivatives are not used for speculative purposes. At September 30, 2014, People's United Financial used interest rate swaps to manage IRR associated with certain interest-bearing liabilities.

People's United Financial has entered into an interest rate swap to hedge the LIBOR-based floating interest rate payments on the Company's \$125 million subordinated notes (such payments began in February 2012). The subordinated notes had a fixed interest rate of 5.80% until February 2012, at which time the interest rate converted to three month LIBOR plus 68.5 basis points. People's United 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 swap are calculated using the same floating rate paid on the subordinated notes. The 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 swap is accounted for as a cash flow hedge.

Table of Contents

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

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.

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 balance sheet offsetting policy (see Note 12 to the Consolidated Financial Statements), amounts reported as derivative assets represent derivative contracts in a gain position, without consideration for derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People's United 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 and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United 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, 2014 was \$2.9 million, for which People's United Financial had posted collateral of \$2.3 million in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$0.6 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 (i) eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies and (ii) provide foreign exchange contracts on behalf of commercial banking customers within credit exposure limits. 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, 2014 (dollars in millions)	Interest Rate Swaps		Foreign Exchange Contracts
	Cash Flow Hedge	Fair Value Hedge	
Notional principal amounts	\$ 125.0	\$ 375.0	\$ 27.0
Weighted average interest rates:			
Pay floating (receive fixed)	N/A	Libor +1.265% (4.00%)	N/A
Pay fixed (receive floating)	1.99% (Libor + 0.685%)	N/A	N/A
Weighted average remaining term to maturity (in months)	29	118	2
Fair value:			
Recognized as an asset	\$	\$	\$ 2.9
Recognized as a liability		0.9	0.3

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 swaps) have been offset with essentially matching interest rate swaps with People's United Financial's institutional counterparties (pay fixed/receive floating swaps). Hedge accounting has not been applied for these derivatives. Accordingly, changes in the fair value of all such swaps are recognized in current earnings.

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

As of September 30, 2014 (dollars in millions)	Interest Rate Swaps	
	Commercial Customers	Institutional Counterparties
Notional principal amounts	\$ 2,945.6	\$ 2,945.6
Weighted average interest rates:		
Pay floating (receive fixed)	0.28% (2.27%)	
Pay fixed (receive floating)		2.16% (0.28%)
Weighted average remaining term to maturity (in months)	92	92
Fair value:		
Recognized as an asset	\$ 65.1	\$ 25.4
Recognized as a liability	19.5	51.7

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The information required by this item appears on pages 91 through 95 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, 2014, 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, 2014, 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 8 to the Consolidated Financial Statements for a further discussion of legal proceedings.

Item 1A Risk Factors

There have been no material changes in risk factors since December 31, 2013.

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, 2014:

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, 2014:				
Tendered by employees (1)	5,672	\$ 14.89		

August 1 - 31, 2014:		
Tendered by employees (1)		\$
September 1 - 30, 2014:		
Tendered by employees (1)	10,659	\$ 14.92
Total:		
Tendered by employees (1)	16,331	\$ 14.91

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

Table of Contents

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

None.

Item 5 Other Information

None.

Item 6 Exhibits

The following Exhibits are filed herewith:

Designation	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.1	The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2014 and December 31, 2013; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2014 and 2013; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013; 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 10, 2014

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

Date: November 10, 2014

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

Date: November 10, 2014

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, 2014 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2014 and December 31, 2013; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2014 and 2013; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013; and (vi) Notes to Consolidated Financial Statements.