

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

**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 March 31, 2016**  
**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 April 30, 2016, there were 310,860,988 shares of the registrant's common stock outstanding.

**People's United Financial Inc.**

**Form 10-Q**

**Table of Contents**

	Page
<u>Part I Financial Information</u>	
Item 1. Financial Statements (Unaudited)	
<u>Consolidated Statements of Condition as of March 31, 2016 and December 31, 2015</u>	1
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2016 and 2015</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015</u>	3
<u>Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2016 and 2015</u>	3
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	82
Item 4. <u>Controls and Procedures</u>	82
<u>Part II Other Information</u>	
Item 1. <u>Legal Proceedings</u>	83
Item 1A. <u>Risk Factors</u>	83
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	83
Item 3. <u>Defaults Upon Senior Securities</u>	83
Item 4. <u>Mine Safety Disclosures</u>	83
Item 5. <u>Other Information</u>	83
Item 6. <u>Exhibits</u>	84
<u>Signatures</u>	85

## Part 1 - Financial Information

## Item 1 - Financial Statements

People's United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	March 31, 2016	December 31, 2015
<b>Assets</b>		
Cash and due from banks	\$ 302.7	\$ 334.8
Short-term investments (note 2)	251.0	380.5
Total cash and cash equivalents	553.7	715.3
Securities (note 2):		
Trading account securities, at fair value	6.8	6.7
Securities available for sale, at fair value	4,746.1	4,527.7
Securities held to maturity, at amortized cost (fair value of \$1.75 billion and \$1.66 billion)	1,678.8	1,609.6
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	299.9	305.4
Total securities	6,731.6	6,449.4
Loans held for sale	31.5	34.5
Loans (note 3):		
Commercial real estate	10,046.4	10,028.8
Commercial and industrial	7,707.1	7,748.7
Equipment financing	2,977.8	2,973.3
Total Commercial Portfolio	20,731.3	20,750.8
Residential mortgage	5,600.8	5,457.0
Consumer	2,178.6	2,203.1
Total Retail Portfolio	7,779.4	7,660.1
Total loans	28,510.7	28,410.9
Less allowance for loan losses	(215.5)	(211.0)
Total loans, net	28,295.2	28,199.9
Goodwill (note 6)	1,955.6	1,958.7
Bank-owned life insurance	346.7	346.5

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

Premises and equipment, net	252.1	257.8
Other acquisition-related intangible assets (note 6)	123.3	129.1
Other assets (notes 1, 3 and 11)	974.1	855.5
Total assets	\$ 39,263.8	\$ 38,946.7
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing	\$ 6,091.4	\$ 6,178.6
Savings, interest-bearing checking and money market	18,134.9	17,420.7
Time	4,879.2	4,818.1
Total deposits	29,105.5	28,417.4
Borrowings:		
Federal Home Loan Bank advances	3,063.1	3,463.8
Customer repurchase agreements	351.2	469.5
Federal funds purchased	303.0	374.0
Total borrowings	3,717.3	4,307.3
Notes and debentures (note 1)	1,050.4	1,033.1
Other liabilities (notes 1 and 11)	599.4	457.3
Total liabilities	34,472.6	34,215.1
Commitments and contingencies (notes 1 and 8)		
<b>Stockholders Equity</b>		
Common stock (\$0.01 par value; 1.95 billion shares authorized; 399.5 million shares and 399.2 million shares issued)	3.9	3.9
Additional paid-in capital	5,344.3	5,337.7
Retained earnings	889.6	880.8
Accumulated other comprehensive loss (note 4)	(134.7)	(177.2)
Unallocated common stock of Employee Stock Ownership Plan, at cost (7.2 million shares and 7.3 million shares) (note 7)	(150.0)	(151.8)
Treasury stock, at cost (89.0 million shares and 89.1 million shares) (note 4)	(1,161.9)	(1,161.8)
Total stockholders equity	4,791.2	4,731.6
Total liabilities and stockholders equity	\$ 39,263.8	\$ 38,946.7

See accompanying notes to consolidated financial statements.

People's United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

(in millions, except per share data)	Three Months Ended March 31,	
	2016	2015
<b>Interest and dividend income:</b>		
Commercial real estate	\$ 86.8	\$ 85.3
Commercial and industrial	60.3	57.2
Equipment financing	33.3	31.7
Residential mortgage	43.9	40.2
Consumer	18.6	18.1
<b>Total interest on loans</b>	<b>242.9</b>	<b>232.5</b>
Securities	34.5	27.5
Loans held for sale	0.2	0.2
Short-term investments	0.4	0.1
<b>Total interest and dividend income</b>	<b>278.0</b>	<b>260.3</b>
<b>Interest expense:</b>		
Deposits	25.2	22.2
Borrowings	5.0	2.6
Notes and debentures	7.7	7.4
<b>Total interest expense</b>	<b>37.9</b>	<b>32.2</b>
<b>Net interest income</b>	<b>240.1</b>	<b>228.1</b>
Provision for loan losses (note 3)	10.5	9.8
<b>Net interest income after provision for loan losses</b>	<b>229.6</b>	<b>218.3</b>
<b>Non-interest income:</b>		
Bank service charges	23.8	24.2
Investment management fees	11.1	10.8
Operating lease income	10.4	10.8
Insurance revenue	9.3	7.6
Commercial banking lending fees	8.1	13.3
Cash management fees	6.0	5.9
Brokerage commissions	3.0	3.2
Net gains on sales of residential mortgage loans	0.9	0.7
Other non-interest income	9.7	12.5
<b>Total non-interest income</b>	<b>82.3</b>	<b>89.0</b>

<b>Non-interest expense:</b>		
Compensation and benefits	114.1	114.8
Occupancy and equipment	37.5	38.7
Professional and outside services	17.4	15.8
Operating lease expense	9.2	9.3
Regulatory assessments	8.0	9.3
Amortization of other acquisition-related intangible assets (note 6)	5.8	5.9
Other non-interest expense	25.3	23.8
<b>Total non-interest expense</b>	<b>217.3</b>	<b>217.6</b>
Income before income tax expense	94.6	89.7
Income tax expense (note 1)	31.7	30.5
Net income	\$ 62.9	\$ 59.2
<b>Earnings per common share (note 5):</b>		
Basic	\$ 0.21	\$ 0.20
Diluted	0.21	0.20

See accompanying notes to consolidated financial statements.

People's United Financial, Inc.

Consolidated Statements of Comprehensive Income - (Unaudited)

(in millions)	Three Months Ended March 31,	
	2016	2015
Net income	\$ 62.9	\$ 59.2
<b>Other comprehensive income, net of tax:</b>		
Net actuarial loss and prior service credit related to pension and other postretirement plans	1.0	1.1
Net unrealized gains and losses on securities available for sale	41.0	26.2
Amortization of unrealized losses on securities transferred to held to maturity	0.5	0.5
Net unrealized gains and losses on derivatives accounted for as cash flow hedges		(0.2)
Total other comprehensive income, net of tax (note 4)	42.5	27.6
Total comprehensive income	\$ 105.4	\$ 86.8

See accompanying notes to consolidated financial statements.

People's United Financial, Inc.

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

Three months ended March 31, 2016 (in millions, except per share data)	Accumulated Unallocated						Total Stockholders Equity
	Common Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	ESOP Common Stock	Treasury Stock	
Balance at December 31, 2015	\$ 3.9	\$ 5,337.7	\$ 880.8	\$ (177.2)	\$ (151.8)	\$ (1,161.8)	\$ 4,731.6
Net income			62.9				62.9
Total other comprehensive income, net of tax (note 4)				42.5			42.5
Cash dividends on common stock (\$0.1675 per share)			(50.7)				(50.7)
Restricted stock and performance-based share awards		2.1				(0.1)	2.0
Employee Stock Ownership Plan common stock committed to be released (note 7)			(0.5)		1.8		1.3
			(2.9)				(2.9)



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

Common stock repurchased and retired upon vesting of restricted stock awards							
Stock options and related tax benefits		4.5					4.5
Balance at March 31, 2016	\$ 3.9	\$ 5,344.3	\$ 889.6	\$ (134.7)	\$ (150.0)	\$ (1,161.9)	\$ 4,791.2

Three months ended March 31, 2015 (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, 2014	\$ 3.9	\$ 5,291.2	\$ 826.7	\$ (168.2)	\$ (159.0)	\$ (1,161.5)	\$ 4,633.1
Net income			59.2				59.2
Total other comprehensive income, net of tax (note 4)				27.6			27.6
Cash dividends on common stock (\$0.165 per share)			(49.5)				(49.5)
Restricted stock awards		3.5				(0.1)	3.4
Employee Stock Ownership Plan common stock committed to be released (note 7)			(0.5)		1.8		1.3
Common stock repurchased and retired upon vesting of restricted stock awards			(2.7)				(2.7)
Stock options and related tax benefits		9.5					9.5
Balance at March 31, 2015	\$ 3.9	\$ 5,304.2	\$ 833.2	\$ (140.6)	\$ (157.2)	\$ (1,161.6)	\$ 4,681.9

See accompanying notes to consolidated financial statements.

People's United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

(in millions)	Three Months Ended March 31,	
	2016	2015
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 62.9	\$ 59.2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	10.5	9.8
Depreciation and amortization of premises and equipment	9.2	9.7
Expense related to operating leases	9.2	9.3
Expense related to restricted stock and performance-based share awards	3.6	5.0
Employee Stock Ownership Plan common stock committed to be released	1.3	1.3
Amortization of other acquisition-related intangible assets	5.8	5.9
Net security gains	(0.1)	
Net gains on sales of residential mortgage loans	(0.9)	(0.7)
Net gains on sales of acquired loans		(1.9)
Originations of loans held-for-sale	(67.4)	(91.3)
Proceeds from sales of loans held-for-sale	71.3	76.5
Net changes in other assets and liabilities	10.7	(86.9)
Net cash provided by (used in) operating activities	116.1	(4.1)
<b>Cash Flows from Investing Activities:</b>		
Net decrease in securities purchased under agreements to resell		100.0
Proceeds from principal repayments and maturities of securities available for sale	178.1	191.5
Proceeds from sales of securities available for sale	138.9	
Proceeds from principal repayments and maturities of securities held to maturity	22.0	1.5
Purchases of securities available for sale	(471.0)	(597.7)
Purchases of securities held to maturity	(90.0)	(70.9)
Net redemptions (purchases) of Federal Reserve Bank stock	0.6	(138.5)
Net redemptions of Federal Home Loan Bank stock	4.9	
Proceeds from sales of loans		20.8
Loan disbursements, net of principal collections	(105.1)	(367.5)
Purchases of premises and equipment	(3.5)	(5.6)
Purchases of leased equipment		(9.7)
Proceeds from sales of real estate owned	1.8	3.8
Net cash used in investing activities	(323.3)	(872.3)
<b>Cash Flows from Financing Activities:</b>		
Net increase in deposits	688.1	1,011.7
Net decrease in borrowings with terms of three months or less	(589.3)	(548.0)
Repayments of borrowings with terms of more than three months	(0.1)	(0.1)

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

Cash dividends paid on common stock	(50.7)	(49.5)
Common stock repurchases	(2.9)	(2.7)
Proceeds from stock options exercised, including excess income tax benefits	0.5	8.1
Net cash provided by financing activities	45.6	419.5
Net decrease in cash and cash equivalents	(161.6)	(456.9)
Cash and cash equivalents at beginning of period	715.3	1,013.7
Cash and cash equivalents at end of period	\$ 553.7	\$ 556.8

**Supplemental Information:**

Interest payments	\$ 37.4	\$ 32.1
Unsettled purchases of securities	6.3	1.1
Real estate properties acquired by foreclosure	3.8	6.7
Income tax payments	2.4	4.9

See accompanying notes to consolidated financial statements.

---

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

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

**NOTE 1. GENERAL**

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

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

Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses and asset impairment judgments, such as the recoverability of goodwill and other intangible assets. These accounting estimates are reviewed with the Audit Committee of the Board of Directors.

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

Note 1 to People's United's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2015, as supplemented by this Quarterly Report for the period ended March 31, 2016, provides disclosure of People's United's significant accounting policies.

People's United holds ownership interests in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout its franchise area. The underlying partnerships, which are considered variable interest entities (VIEs), are not consolidated into the Company's Consolidated Financial Statements. These investments have historically played a role in enabling People's United Bank, N. A. (the Bank) to meet its Community Reinvestment Act requirements while, at the same time, providing federal income tax credits.

Affordable housing investments, including all legally binding commitments to fund future investments, are included in other assets in the Consolidated Statements of Condition (\$170.3 million and \$158.4 million at March 31, 2016 and December 31, 2015, respectively). Included in other liabilities in the Consolidated Statements of Condition is a liability for all legally binding unfunded commitments to fund future investments (\$82.8 million and \$74.9 million at those dates). The cost of the Company's investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). Amortization expense, which is included as a component of income tax expense, totaled \$3.0 million and \$2.8 million for the three months ended March 31, 2016 and 2015, respectively.

As discussed in Note 13, effective January 1, 2016, the Company adopted, with retrospective application, amended standards with respect to the presentation of debt issuance costs by changing the required presentation of such costs from an asset on the statement of condition to a deduction from the related debt liability. The adoption of this new guidance did not impact the Company's results of operations or cash flows. In accordance with the amended standard,

debt issuance costs totaling \$5.6 million at December 31, 2015, previously included in other assets, are now included as a component of notes and debentures in the Consolidated Statement of Condition.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles ( GAAP ) have been omitted or condensed. As a result, the accompanying consolidated financial statements should be read in conjunction with People s United s Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

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

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

**NOTE 2. SECURITIES AND SHORT-TERM INVESTMENTS**

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

As of March 31, 2016 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale:</b>				
<b>Debt securities:</b>				
U.S. Treasury and agency	\$ 313.2	\$ 2.4	\$	\$ 315.6
GSE (1) residential mortgage-backed securities and CMOs (2)	4,395.7	45.8	(11.2)	4,430.3
<b>Total debt securities</b>	<b>4,708.9</b>	<b>48.2</b>	<b>(11.2)</b>	<b>4,745.9</b>
Equity securities	0.2			0.2
<b>Total securities available for sale</b>	<b>\$ 4,709.1</b>	<b>\$ 48.2</b>	<b>\$ (11.2)</b>	<b>\$ 4,746.1</b>
<b>Securities held to maturity:</b>				
<b>Debt securities:</b>				
State and municipal	\$ 1,093.7	\$ 68.4	\$ (0.1)	\$ 1,162.0
GSE residential mortgage-backed securities	583.6	5.6		589.2
Other	1.5			1.5
<b>Total securities held to maturity</b>	<b>\$ 1,678.8</b>	<b>\$ 74.0</b>	<b>\$ (0.1)</b>	<b>\$ 1,752.7</b>

(1) Government sponsored enterprise

(2) Collateralized mortgage obligations

As of December 31, 2015 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale:</b>				
<b>Debt securities:</b>				
U.S. Treasury and agency	\$ 363.7	\$ 0.2	\$ (1.1)	\$ 362.8
	4,191.3	22.3	(48.9)	4,164.7

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

GSE residential mortgage-backed securities and CMOs

Total debt securities	4,555.0	22.5	(50.0)	4,527.5
Equity securities	0.2			0.2

Total securities available for sale	\$ 4,555.2	\$ 22.5	\$ (50.0)	\$ 4,527.7
-------------------------------------	------------	---------	-----------	------------

Securities held to maturity:

Debt securities:

State and municipal	\$ 1,019.6	\$ 55.8	\$ (0.1)	\$ 1,075.3
GSE residential mortgage-backed securities	588.5		(2.8)	585.7
Other	1.5			1.5

Total securities held to maturity	\$ 1,609.6	\$ 55.8	\$ (2.9)	\$ 1,662.5
-----------------------------------	------------	---------	----------	------------

Securities available for sale with a fair value of \$1.86 billion and \$1.64 billion at March 31, 2016 and December 31, 2015, respectively, were pledged as collateral for public deposits and for other purposes.

**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 March 31, 2016, based on remaining period to contractual maturity. Information for GSE residential mortgage-backed securities and CMOs is based on the final contractual maturity dates without considering repayments and prepayments.

(in millions)	Available for Sale Amortized Cost	Fair Value	Held to Maturity Amortized Cost	Fair Value
<b>U.S. Treasury and agency:</b>				
Within 1 year	\$ 157.3	\$ 157.4	\$	\$
After 1 but within 5 years	155.9	158.2		
<b>Total</b>	<b>313.2</b>	<b>315.6</b>		
<b>GSE residential mortgage-backed securities and CMOs:</b>				
After 5 but within 10 years	967.8	996.6		
After 10 years	3,427.9	3,433.7	583.6	589.2
<b>Total</b>	<b>4,395.7</b>	<b>4,430.3</b>	<b>583.6</b>	<b>589.2</b>
<b>State and municipal:</b>				
Within 1 year			4.1	4.1
After 1 but within 5 years			21.7	22.1
After 5 but within 10 years			356.9	384.3
After 10 years			711.0	751.5
<b>Total</b>			<b>1,093.7</b>	<b>1,162.0</b>
<b>Other:</b>				
After 1 but within 5 years			1.5	1.5
<b>Total</b>			<b>1.5</b>	<b>1.5</b>
<b>Total:</b>				
Within 1 year	157.3	157.4	4.1	4.1
After 1 but within 5 years	155.9	158.2	23.2	23.6
After 5 but within 10 years	967.8	996.6	356.9	384.3
After 10 years	3,427.9	3,433.7	1,294.6	1,340.7
<b>Total</b>	<b>\$ 4,708.9</b>	<b>\$ 4,745.9</b>	<b>\$ 1,678.8</b>	<b>\$ 1,752.7</b>



Management conducts a periodic review and evaluation of the securities portfolio to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on debt securities when: (i) People's United has an intention to sell the security; (ii) it is more likely than not that People's United will be required to sell the security prior to recovery; or (iii) People's United does not expect to recover the entire amortized cost basis of the security.

Other-than-temporary impairment losses on debt securities are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time People's United expects to receive full value for the securities.

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

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

The following tables summarize debt securities with unrealized losses, segregated by the length of time the securities have been in a continuous unrealized loss position at the respective dates. Certain unrealized losses totaled less than \$0.1 million.

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of March 31, 2016 (in millions)						
Securities available for sale:						
GSE residential mortgage-backed securities and CMOs	\$ 196.7	\$ (0.2)	\$ 1,065.9	\$ (11.0)	\$ 1,262.6	\$ (11.2)
U.S. Treasury and agency	76.4				76.4	
Securities held to maturity:						
State and municipal	20.3	(0.1)			20.3	(0.1)
Total	\$ 293.4	\$ (0.3)	\$ 1,065.9	\$ (11.0)	\$ 1,359.3	\$ (11.3)

	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, 2015 (in millions)						
Securities available for sale:						
GSE residential mortgage-backed securities and CMOs	\$ 2,200.8	\$ (20.3)	\$ 933.9	\$ (28.6)	\$ 3,134.7	\$ (48.9)
U.S. Treasury and agency	346.3	(1.1)			346.3	(1.1)
Securities held to maturity:						
GSE residential mortgage-backed securities	585.7	(2.8)			585.7	(2.8)
State and municipal	22.3	(0.1)	3.7		26.0	(0.1)
Total	\$ 3,155.1	\$ (24.3)	\$ 937.6	\$ (28.6)	\$ 4,092.7	\$ (52.9)

At March 31, 2016, approximately 5% of the 1,407 securities owned by the Company, consisting of 38 securities classified as available for sale and 35 securities classified as held to maturity, had gross unrealized losses totaling \$11.2 million and \$0.1 million, respectively. All of the GSE residential mortgage-backed securities and CMOs had AAA credit ratings and an average maturity of 12 years. The state and municipal securities had an average credit rating of AA and an average maturity of 12 years. The cause of the temporary impairment with respect to all of these securities is directly related to changes in interest rates. Management believes that all gross unrealized losses within the securities portfolio at March 31, 2016 and December 31, 2015 are temporary impairments. Management does not

intend to sell such securities nor is it more likely than not that management will be required to sell such securities prior to recovery. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three months ended March 31, 2016 and 2015.

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

The Bank, as a member of the Federal Home Loan Bank (the FHLB ) of Boston, is currently required to purchase and hold shares of capital stock in the FHLB of Boston (total cost of \$149.1 million and \$154.0 million at March 31, 2016 and December 31, 2015, respectively) in an amount equal to its membership base investment plus an activity based investment determined according to the Bank's level of outstanding FHLB advances. As a result of the Smithtown Bancorp, Inc. acquisition, the Bank acquired shares of capital stock in the FHLB of New York (total cost of \$11.3 million at both March 31, 2016 and December 31, 2015). Based on the current capital adequacy and liquidity position of both the FHLB of Boston and the FHLB of New York, management believes there is no impairment in the Company's investment at March 31, 2016 and the cost of the investment approximates fair value.

The Bank, as a member of the Federal Reserve Bank system, is currently required to purchase and hold shares of capital stock in the Federal Reserve Bank of New York (the FRB-NY ) (total cost of \$139.5 million and \$140.1 million at March 31, 2016 and December 31, 2015, respectively) in an amount equal to 6% of its capital and surplus. Based on the current capital adequacy and liquidity position of the FRB-NY, management believes there is no impairment in the Company's investment at March 31, 2016 and the cost of the investment approximates fair value.

Included in short-term investments are interest-bearing deposits at the FRB-NY totaling \$126.6 million at March 31, 2016 and \$333.7 million at December 31, 2015. These deposits represent an alternative to overnight federal funds sold and had a yield of 0.50% at both dates.

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

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

**NOTE 3. LOANS**

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

*Commercial Portfolio:* commercial real estate; commercial and industrial; and equipment financing.

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

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

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

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

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

Recognition of loan charge-offs.

The Company did not change its policies with respect to loans or its methodology for determining the allowance for loan losses during the three months ended March 31, 2016.

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

(in millions)	March 31, 2016			December 31, 2015		
	Originated	Acquired	Total	Originated	Acquired	Total
<b>Commercial:</b>						
Commercial real estate	\$ 9,723.4	\$ 323.0	\$ 10,046.4	\$ 9,696.9	\$ 331.9	\$ 10,028.8
Commercial and industrial	7,493.9	213.2	7,707.1	7,526.4	222.3	7,748.7

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

Equipment financing	2,963.0	14.8	2,977.8	2,957.6	15.7	2,973.3
<b>Total Commercial Portfolio</b>	<b>20,180.3</b>	<b>551.0</b>	<b>20,731.3</b>	<b>20,180.9</b>	<b>569.9</b>	<b>20,750.8</b>
<b>Retail:</b>						
<b>Residential mortgage:</b>						
Adjustable-rate	4,876.5	111.5	4,988.0	4,733.3	117.9	4,851.2
Fixed-rate	546.8	66.0	612.8	536.1	69.7	605.8
<b>Total residential mortgage</b>	<b>5,423.3</b>	<b>177.5</b>	<b>5,600.8</b>	<b>5,269.4</b>	<b>187.6</b>	<b>5,457.0</b>
<b>Consumer:</b>						
Home equity	2,095.1	35.1	2,130.2	2,115.5	38.2	2,153.7
Other consumer	47.6	0.8	48.4	48.5	0.9	49.4
<b>Total consumer</b>	<b>2,142.7</b>	<b>35.9</b>	<b>2,178.6</b>	<b>2,164.0</b>	<b>39.1</b>	<b>2,203.1</b>
<b>Total Retail Portfolio</b>	<b>7,566.0</b>	<b>213.4</b>	<b>7,779.4</b>	<b>7,433.4</b>	<b>226.7</b>	<b>7,660.1</b>
<b>Total loans</b>	<b>\$ 27,746.3</b>	<b>\$ 764.4</b>	<b>\$ 28,510.7</b>	<b>\$ 27,614.3</b>	<b>\$ 796.6</b>	<b>\$ 28,410.9</b>

Net deferred loan costs, which are included in loans by respective class and accounted for as interest yield adjustments, totaled \$63.0 million at March 31, 2016 and \$59.8 million at December 31, 2015.

**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 March 31, 2016 (in millions)	Commercial			Retail			Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Balance at beginning of period	\$ 181.8	\$ 7.9	\$ 189.7	\$ 21.1	\$ 0.2	\$ 21.3	\$ 211.0
Charge-offs	(4.6)	(0.3)	(4.9)	(2.8)		(2.8)	(7.7)
Recoveries	0.4		0.4	1.3		1.3	1.7
Net loan charge-offs	(4.2)	(0.3)	(4.5)	(1.5)		(1.5)	(6.0)
Provision for loan losses	7.3	0.1	7.4	3.1		3.1	10.5
Balance at end of period	\$ 184.9	\$ 7.7	\$ 192.6	\$ 22.7	\$ 0.2	\$ 22.9	\$ 215.5

Three months ended March 31, 2015 (in millions)	Commercial			Retail			Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Balance at beginning of period	\$ 169.6	\$ 9.8	\$ 179.4	\$ 18.5	\$ 0.4	\$ 18.9	\$ 198.3
Charge-offs	(6.6)		(6.6)	(1.5)		(1.5)	(8.1)
Recoveries	0.6		0.6	0.3		0.3	0.9
Net loan charge-offs	(6.0)		(6.0)	(1.2)		(1.2)	(7.2)
Provision for loan losses	9.5	(0.4)	9.1	0.7		0.7	9.8
Balance at end of period	\$ 173.1	\$ 9.4	\$ 182.5	\$ 18.0	\$ 0.4	\$ 18.4	\$ 200.9

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

As of March 31, 2016 (in millions)	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
	Portfolio Allowance		Portfolio Allowance		Portfolio Allowance		Portfolio Allowance	
Commercial	\$ 168.1	\$ 6.0	\$ 20,012.2	\$ 178.9	\$ 551.0	\$ 7.7	\$ 20,731.3	\$ 192.6
Retail	94.7	4.0	7,471.3	18.7	213.4	0.2	7,779.4	22.9

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

<b>Total</b>	<b>\$ 262.8</b>	<b>\$ 10.0</b>	<b>\$ 27,483.5</b>	<b>\$ 197.6</b>	<b>\$ 764.4</b>	<b>\$ 7.9</b>	<b>\$ 28,510.7</b>	<b>\$ 215.5</b>
<b>As of</b>	<b>Originated Loans Individually Evaluated</b>		<b>Originated Loans Collectively Evaluated</b>		<b>Acquired Loans (Discounts Related to Credit Quality)</b>		<b>Total</b>	
<b>December 31, 2015</b>	<b>for Impairment</b>		<b>for Impairment</b>		<b>for Impairment</b>		<b>Total</b>	
<b>(in millions)</b>	<b>Portfolio</b>	<b>Allowance</b>	<b>Portfolio</b>	<b>Allowance</b>	<b>Portfolio</b>	<b>Allowance</b>	<b>Portfolio</b>	<b>Allowance</b>
<b>Commercial</b>	<b>\$ 155.1</b>	<b>\$ 5.5</b>	<b>\$ 20,025.8</b>	<b>\$ 176.3</b>	<b>\$ 569.9</b>	<b>\$ 7.9</b>	<b>\$ 20,750.8</b>	<b>\$ 189.7</b>
<b>Retail</b>	<b>97.0</b>	<b>3.9</b>	<b>7,336.4</b>	<b>17.2</b>	<b>226.7</b>	<b>0.2</b>	<b>7,660.1</b>	<b>21.3</b>
<b>Total</b>	<b>\$ 252.1</b>	<b>\$ 9.4</b>	<b>\$ 27,362.2</b>	<b>\$ 193.5</b>	<b>\$ 796.6</b>	<b>\$ 8.1</b>	<b>\$ 28,410.9</b>	<b>\$ 211.0</b>

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

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

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

(in millions)	March 31, 2016	December 31, 2015
<b>Commercial:</b>		
Commercial and industrial	\$ 41.5	\$ 44.9
Commercial real estate	35.9	30.2
Equipment financing	41.1	27.5
<b>Total (1)</b>	<b>118.5</b>	<b>102.6</b>
<b>Retail:</b>		
Residential mortgage	31.1	37.2
Home equity	18.9	19.5
Other consumer		0.1
<b>Total (2)</b>	<b>50.0</b>	<b>56.8</b>
<b>Total</b>	<b>\$ 168.5</b>	<b>\$ 159.4</b>

- (1) Reported net of government guarantees totaling \$16.2 million and \$16.9 million at March 31, 2016 and December 31, 2015, respectively. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At March 31, 2016, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).
- (2) Includes \$14.3 million and \$19.9 million of loans in the process of foreclosure at March 31, 2016 and December 31, 2015, respectively.

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by a Federal Deposit Insurance Corporation ( FDIC ) loss-share agreement ( LSA ) totaling \$25.1 million and \$2.3 million, respectively, at March 31, 2016 and \$27.7 million and \$2.3 million, respectively, at December 31, 2015. Such loans otherwise meet People's United's definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

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 March 31, 2016 or December 31, 2015.

---

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impaired loans also include certain originated loans whose terms have been modified in such a way that they are considered troubled debt restructurings ( TDRs ). Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People's United, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan's original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest.

TDRs may either be accruing or placed on non-accrual status (and reported as non-performing loans) depending upon the loan's specific circumstances, including the nature and extent of the related modifications. TDRs on non-accrual status remain classified as such until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months in the case of a commercial loan or, in the case of a retail loan, when the loan is less than 90 days past due. Loans may continue to be reported as TDRs after they are returned to accrual status. In accordance with regulatory guidance, residential mortgage and home equity loans restructured in connection with the borrower's bankruptcy and meeting certain criteria are also required to be classified as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Acquired loans that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis.

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

People's United's recorded investment in originated loans classified as TDRs totaled \$193.2 million and \$195.7 million at March 31, 2016 and December 31, 2015, respectively. The related allowance for loan losses at March 31, 2016 and December 31, 2015 was \$7.2 million and \$5.9 million, respectively. Interest income recognized on TDRs totaled \$1.1 million for both the three months ended March 31, 2016 and 2015. Fundings under commitments to lend additional amounts to borrowers with loans classified as TDRs were immaterial for the three months ended March 31, 2016 and 2015. Originated loans that were modified and classified as TDRs during the three months ended March 31, 2016 and 2015 principally involve reduced payment and/or payment deferral, extension of term (generally no more than two years for commercial loans and nine years for retail loans) and/or a temporary reduction of interest rate (generally less than 200 basis points).

**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 months ended March 31, 2016 and 2015. 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 March 31, 2016	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>Commercial:</b>			
Commercial real estate (1)	3	\$ 1.1	\$ 1.1
Commercial and industrial (2)	13	5.2	5.2
Equipment financing (3)	10	6.1	6.1
<b>Total</b>	<b>26</b>	<b>12.4</b>	<b>12.4</b>
<b>Retail:</b>			
Residential mortgage (4)	19	5.3	5.3
Home equity (5)	19	1.6	1.6
Other consumer			
<b>Total</b>	<b>38</b>	<b>6.9</b>	<b>6.9</b>
<b>Total</b>	<b>64</b>	<b>\$ 19.3</b>	<b>\$ 19.3</b>

- (1) Represents the following concessions: extension of term (1 contract; recorded investment of \$0.2 million); reduced payment and/or payment deferral (1 contract; recorded investment of \$0.9 million); or a combination of concessions (1 contract; recorded investment of less than \$0.1 million).
- (2) Represents the following concessions: extension of term (7 contracts; recorded investment of \$4.4 million); reduced payment and/or payment deferral (3 contracts; recorded investment of \$0.4 million); or a combination of concessions (3 contracts; recorded investment of \$0.4 million).
- (3) Represents the following concessions: extension of term (2 contracts; recorded investment of \$0.4 million); reduced payment and/or payment deferral (5 contracts; recorded investment of \$4.3 million); or a combination of concessions (3 contracts; recorded investment of \$1.4 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (4 contracts; recorded investment of \$1.5 million); reduced payment and/or payment deferral (5 contracts; recorded investment of \$1.4 million); or a combination of concessions (10 contracts; recorded investment of \$2.4 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (14 contracts; recorded investment of \$1.3 million); reduced payment and/or payment deferral (1 contract; recorded investment of \$0.1 million); or a combination of concessions (4 contracts; recorded investment of \$0.2 million).



## People's United Financial, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

(dollars in millions)	Number of Contracts	Three Months Ended March 31, 2015	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>Commercial:</b>			
Commercial real estate (1)	8	\$ 4.9	\$ 4.9
Commercial and industrial (2)	8	10.1	10.1
Equipment financing (3)	5	7.6	7.6
<b>Total</b>	<b>21</b>	<b>22.6</b>	<b>22.6</b>
<b>Retail:</b>			
Residential mortgage (4)	20	5.7	5.7
Home equity (5)	33	2.0	2.0
Other consumer			
<b>Total</b>	<b>53</b>	<b>7.7</b>	<b>7.7</b>
<b>Total</b>	<b>74</b>	<b>\$ 30.3</b>	<b>\$ 30.3</b>

- (1) Represents the following concessions: extension of term (8 contracts; recorded investment of \$4.9 million).
- (2) Represents the following concessions: extension of term (4 contracts; recorded investment of \$8.7 million); reduced payment and/or payment deferral (3 contracts; recorded investment of \$0.6 million); or a combination of concessions (1 contract; recorded investment of \$0.8 million).
- (3) Represents the following concessions: reduced payment and/or payment deferral (3 contracts; recorded investment of \$5.7 million); or a combination of concessions (2 contracts; recorded investment of \$1.9 million).
- (4) Represents the following concessions: loans restructured through bankruptcy (6 contracts; recorded investment of \$2.4 million); reduced payment and/or payment deferral (4 contracts; recorded investment of \$1.5 million); temporary rate reduction (1 contract; recorded investment of \$0.2 million); or a combination of concessions (9 contracts; recorded investment of \$1.6 million).
- (5) Represents the following concessions: loans restructured through bankruptcy (25 contracts; recorded investment of \$1.0 million); reduced payment and/or payment deferral (2 contracts; recorded investment of \$0.2 million); or a combination of concessions (6 contracts; recorded investment of \$0.8 million).

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 months ended March 31, 2016 and 2015. For purposes of this disclosure, the previous 12 months is measured from April 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 months ended March 31, 2016 or 2015.

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

(dollars in millions)	Three Months Ended March 31,			
	2016		2015	
	Number	Recorded	Number	Recorded
	of Contracts	Investment as of	of Contracts	Investment as of
		Period End		Period End
<b>Commercial:</b>				
Commercial real estate		\$		\$
Commercial and industrial	2	0.6	2	0.1
Equipment financing	5	2.5	4	1.3
<b>Total</b>	<b>7</b>	<b>3.1</b>	<b>6</b>	<b>1.4</b>
<b>Retail:</b>				
Residential mortgage	6	1.3	17	7.4
Home equity	7	0.5	11	1.2
Other consumer				
<b>Total</b>	<b>13</b>	<b>1.8</b>	<b>28</b>	<b>8.6</b>
<b>Total</b>	<b>20</b>	<b>\$ 4.9</b>	<b>34</b>	<b>\$ 10.0</b>

## People's United Financial, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

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

(in millions)	As of March 31, 2016			As of December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses
Without a related allowance for loan losses:						
Commercial:						
Commercial real estate	\$ 50.3	\$ 49.2	\$	\$ 46.5	\$ 45.3	\$
Commercial and industrial	45.2	42.7		53.2	50.8	
Equipment financing	38.0	29.8		32.6	26.0	
Retail:						
Residential mortgage	63.0	57.2		67.2	60.4	
Home equity	24.1	20.9		23.3	20.5	
Other consumer						
Total	\$ 220.6	\$ 199.8	\$	\$ 222.8	\$ 203.0	\$
With a related allowance for loan losses:						
Commercial:						
Commercial real estate	\$ 17.7	\$ 13.4	\$ 1.4	\$ 18.8	\$ 14.7	\$ 1.9
Commercial and industrial	23.0	20.4	3.0	19.2	14.7	3.3
Equipment financing	12.9	12.6	1.6	3.8	3.6	0.3
Retail:						
Residential mortgage	14.7	14.6	3.2	14.1	14.0	2.9
Home equity	2.2	2.0	0.8	2.3	2.1	1.0
Other consumer						
Total	\$ 70.5	\$ 63.0	\$ 10.0	\$ 58.2	\$ 49.1	\$ 9.4
Total impaired loans:						
Commercial:						
Commercial real estate	\$ 68.0	\$ 62.6	\$ 1.4	\$ 65.3	\$ 60.0	\$ 1.9
Commercial and industrial	68.2	63.1	3.0	72.4	65.5	3.3
Equipment financing	50.9	42.4	1.6	36.4	29.6	0.3
Total	187.1	168.1	6.0	174.1	155.1	5.5

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

Retail:						
Residential mortgage	77.7	71.8	3.2	81.3	74.4	2.9
Home equity	26.3	22.9	0.8	25.6	22.6	1.0
Other consumer						
<b>Total</b>	<b>104.0</b>	<b>94.7</b>	<b>4.0</b>	<b>106.9</b>	<b>97.0</b>	<b>3.9</b>
<b>Total</b>	<b>\$ 291.1</b>	<b>\$ 262.8</b>	<b>\$ 10.0</b>	<b>\$ 281.0</b>	<b>\$ 252.1</b>	<b>\$ 9.4</b>



**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 March 31,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Commercial:</b>				
Commercial real estate	\$ 60.2	\$ 0.3	\$ 78.0	\$ 0.3
Commercial and industrial	63.0	0.4	59.5	0.4
Equipment financing	33.1	0.1	26.8	0.1
<b>Total</b>	<b>156.3</b>	<b>0.8</b>	<b>164.3</b>	<b>0.8</b>
<b>Retail:</b>				
Residential mortgage	72.2	0.4	75.6	0.4
Home equity	22.4	0.1	21.5	0.1
Other consumer				
<b>Total</b>	<b>94.6</b>	<b>0.5</b>	<b>97.1</b>	<b>0.5</b>
<b>Total</b>	<b>\$ 250.9</b>	<b>\$ 1.3</b>	<b>\$ 261.4</b>	<b>\$ 1.3</b>

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

As of March 31, 2016 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
<b>Commercial:</b>					
Commercial real estate	\$ 9,697.2	\$ 12.3	\$ 13.9	\$ 26.2	\$ 9,723.4
Commercial and industrial	7,436.2	14.5	43.2	57.7	7,493.9
Equipment financing	2,864.9	84.0	14.1	98.1	2,963.0
<b>Total</b>	<b>19,998.3</b>	<b>110.8</b>	<b>71.2</b>	<b>182.0</b>	<b>20,180.3</b>
<b>Retail:</b>					
Residential mortgage	5,378.2	26.1	19.0	45.1	5,423.3

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

Home equity	2,081.2	4.6	9.3	13.9	2,095.1
Other consumer	47.5	0.1		0.1	47.6
Total	7,506.9	30.8	28.3	59.1	7,566.0
Total originated loans	\$ 27,505.2	\$ 141.6	\$ 99.5	\$ 241.1	\$ 27,746.3

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 \$22.0 million, \$14.5 million and \$27.0 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.

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

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

As of December 31, 2015 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
<b>Commercial:</b>					
Commercial real estate	\$ 9,667.7	\$ 15.0	\$ 14.2	\$ 29.2	\$ 9,696.9
Commercial and industrial	7,466.5	13.1	46.8	59.9	7,526.4
Equipment financing	2,886.7	63.9	7.0	70.9	2,957.6
<b>Total</b>	<b>20,020.9</b>	<b>92.0</b>	<b>68.0</b>	<b>160.0</b>	<b>20,180.9</b>
<b>Retail:</b>					
Residential mortgage	5,212.9	31.1	25.4	56.5	5,269.4
Home equity	2,098.9	7.1	9.5	16.6	2,115.5
Other consumer	48.2	0.2	0.1	0.3	48.5
<b>Total</b>	<b>7,360.0</b>	<b>38.4</b>	<b>35.0</b>	<b>73.4</b>	<b>7,433.4</b>
<b>Total originated loans</b>	<b>\$ 27,380.9</b>	<b>\$ 130.4</b>	<b>\$ 103.0</b>	<b>\$ 233.4</b>	<b>\$ 27,614.3</b>

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling \$16.0 million, \$15.0 million and \$20.5 million, respectively, and \$21.8 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

*Commercial Credit Quality Indicators*

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

Risk ratings on commercial loans are subject to ongoing monitoring by lending and credit personnel with such ratings updated annually or more frequently, if warranted. The Company's internal Loan Review function is responsible for

independently evaluating the appropriateness of those credit risk ratings in connection with its cyclical reviews, the approach to which is risk-based and determined by reference to underlying portfolio credit quality and the results of prior reviews. Differences in risk ratings noted in conjunction with such periodic portfolio loan reviews, if any, are reported to management each month.

*Retail Credit Quality Indicators*

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

---

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

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

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

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

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

Commercial and Retail loans are also evaluated to determine whether they are impaired loans, which are included in the tabular disclosures of credit quality indicators that follow.

*Acquired Loans Credit Quality Indicators*

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

Acquired loans are initially recorded at fair value, determined based upon an estimate of the amount and timing of both principal and interest cash flows expected to be collected and discounted using a market interest rate. The difference between contractually required principal and interest payments at the acquisition date and the undiscounted cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference , which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. A decrease in the

expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time. At March 31, 2016 and December 31, 2015, the allowance for loan losses on acquired loans was \$7.9 million and \$8.1 million, respectively.

**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 March 31, 2016 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
<b>Commercial:</b>				
<b>Originated loans:</b>				
Pass	\$ 9,454.8	\$ 7,068.6	\$ 2,555.6	\$ 19,079.0
Special mention	135.0	119.0	117.1	371.1
Substandard	133.6	304.4	290.3	728.3
Doubtful		1.9		1.9
<b>Total originated loans</b>	<b>9,723.4</b>	<b>7,493.9</b>	<b>2,963.0</b>	<b>20,180.3</b>
<b>Acquired loans:</b>				
Pass	256.9	169.4	6.9	433.2
Special mention	19.3	5.0	4.8	29.1
Substandard	45.0	38.8	3.1	86.9
Doubtful	1.8			1.8
<b>Total acquired loans</b>	<b>323.0</b>	<b>213.2</b>	<b>14.8</b>	<b>551.0</b>
<b>Total</b>	<b>\$ 10,046.4</b>	<b>\$ 7,707.1</b>	<b>\$ 2,977.8</b>	<b>\$ 20,731.3</b>
<b>Retail:</b>				
<b>Originated loans:</b>				
Low risk	\$ 2,647.5	\$ 924.0	\$ 26.7	\$ 3,598.2
Moderate risk	2,253.9	629.3	7.2	2,890.4
High risk	521.9	541.8	13.7	1,077.4
<b>Total originated loans</b>	<b>5,423.3</b>	<b>2,095.1</b>	<b>47.6</b>	<b>7,566.0</b>
<b>Acquired loans:</b>				
Low risk	91.4			91.4
Moderate risk	34.8			34.8
High risk	51.3	35.1	0.8	87.2
<b>Total acquired loans</b>	<b>177.5</b>	<b>35.1</b>	<b>0.8</b>	<b>213.4</b>

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

Total	\$ 5,600.8	\$ 2,130.2	\$ 48.4	\$ 7,779.4
-------	------------	------------	---------	------------



## People's United Financial, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2015 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
<b>Commercial:</b>				
<b>Originated loans:</b>				
Pass	\$ 9,438.6	\$ 7,153.4	\$ 2,550.0	\$ 19,142.0
Special mention	130.6	121.0	119.1	370.7
Substandard	127.7	250.5	288.5	666.7
Doubtful		1.5		1.5
<b>Total originated loans</b>	<b>9,696.9</b>	<b>7,526.4</b>	<b>2,957.6</b>	<b>20,180.9</b>
<b>Acquired loans:</b>				
Pass	260.9	175.9	6.1	442.9
Special mention	20.1	6.6	5.0	31.7
Substandard	49.1	39.8	4.6	93.5
Doubtful	1.8			1.8
<b>Total acquired loans</b>	<b>331.9</b>	<b>222.3</b>	<b>15.7</b>	<b>569.9</b>
<b>Total</b>	<b>\$ 10,028.8</b>	<b>\$ 7,748.7</b>	<b>\$ 2,973.3</b>	<b>\$ 20,750.8</b>
<b>Retail:</b>				
<b>Originated loans:</b>				
Low risk	\$ 2,579.3	\$ 959.2	\$ 25.8	\$ 3,564.3
Moderate risk	2,208.6	651.2	7.9	2,867.7
High risk	481.5	505.1	14.8	1,001.4
<b>Total originated loans</b>	<b>5,269.4</b>	<b>2,115.5</b>	<b>48.5</b>	<b>7,433.4</b>
<b>Acquired loans:</b>				
Low risk	97.7			97.7
Moderate risk	36.2			36.2
High risk	53.7	38.2	0.9	92.8
<b>Total acquired loans</b>	<b>187.6</b>	<b>38.2</b>	<b>0.9</b>	<b>226.7</b>
<b>Total</b>	<b>\$ 5,457.0</b>	<b>\$ 2,153.7</b>	<b>\$ 49.4</b>	<b>\$ 7,660.1</b>

*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.

---

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

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

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

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

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

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

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

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

An acquired loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within non-interest income based on the difference between the sales proceeds and the carrying amount of the loan. In other cases, individual loans are removed from the pool based on comparing the amount received from its resolution (fair value of the underlying collateral less costs to sell in the case of a foreclosure) with its outstanding balance. Any difference between these amounts is absorbed by the nonaccretable

difference established for the entire pool. For loans resolved by payment in full, there is no adjustment of the nonaccretable difference since there is no difference between the amount received at resolution and the outstanding balance of the loan. In these cases, the remaining accretable yield balance is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed in connection with the subsequent cash flow re-assessment for the pool. Acquired loans subject to modification are not removed from the pool even if those loans would otherwise be deemed TDRs as the pool, and not the individual loan, represents the unit of account.

At the respective acquisition dates in 2011 and 2010, on an aggregate basis, the acquired loan portfolio had contractually required principal and interest payments receivable of \$7.57 billion; expected cash flows of \$7.02 billion; and a fair value (initial carrying amount) of \$5.36 billion. The difference between the contractually required principal and interest payments receivable and the expected cash flows (\$550.9 million) represented the initial nonaccretable difference. The difference between the expected cash flows and fair value (\$1.66 billion) represented the initial accretable yield. Both the contractually required principal and interest payments receivable and the expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At March 31, 2016, the outstanding principal balance and carrying amount of the acquired loan portfolio were \$865.4 million and \$764.4 million, respectively (\$901.9 million and \$796.6 million, respectively, at December 31, 2015).

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

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

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

(in millions)	Three Months Ended March 31,	
	2016	2015
Balance at beginning of period	\$ 296.0	\$ 396.3
Accretion	(11.6)	(15.3)
Reclassification from nonaccretable difference for loans with improved cash flows (1)		0.3
Other changes in expected cash flows (2)	(3.6)	(19.7)
Balance at end of period	\$ 280.8	\$ 361.6

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

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

Other real estate owned ( REO ) was comprised of residential and commercial properties totaling \$8.2 million and \$5.4 million, respectively, at March 31, 2016, and \$7.1 million and \$5.5 million, respectively, at December 31, 2015. Repossessed assets totaled \$7.3 million and \$9.5 million at March 31, 2016 and December 31, 2015, respectively.

**NOTE 4. STOCKHOLDERS' EQUITY**

***Treasury Stock***

Treasury stock includes (i) common stock repurchased by People's United, either directly or through agents, in the open market at prices and terms satisfactory to management in connection with stock repurchases authorized by its Board of Directors (88.8 million shares at both March 31, 2016 and December 31, 2015) and (ii) common stock purchased in the open market by a trustee with funds provided by People's United and originally intended for awards under the People's United Financial, Inc. 2007 Recognition and Retention Plan (the RRP) (0.2 million shares at March 31, 2016 and 0.3 million shares at December 31, 2015). Following shareholder approval of the People's United Financial, Inc. 2014 Long-Term Incentive Plan in the second quarter of 2014, no new awards may be granted under the RRP.

***Comprehensive Income***

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including (on an after-tax basis): (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People's United pension and other postretirement plans; (ii) net unrealized gains and losses on securities available for sale; (iii) net unrealized gains and losses on securities transferred to held to maturity; and (iv) net unrealized gains and losses on derivatives accounted for as cash flow hedges. People's United's total comprehensive income for the three months ended March 31, 2016 and 2015 is reported in the Consolidated Statements of Comprehensive Income.

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

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

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

(in millions)	Pension and Other Postretirement Plans	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized Gains (Losses) on Securities Transferred to Held to Maturity	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2015	\$ (140.0)	\$ (17.7)	\$ (19.5)	\$	\$ (177.2)
Other comprehensive income (loss) before reclassifications		41.0		(0.2)	40.8
Amounts reclassified from AOCL (1)	1.0		0.5	0.2	1.7
Current period other comprehensive income	1.0	41.0	0.5		42.5
Balance at March 31, 2016	\$ (139.0)	\$ 23.3	\$ (19.0)	\$	\$ (134.7)

  

(in millions)	Pension and Other Postretirement Plans	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized Gains (Losses) on Securities Transferred to Held to Maturity	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2014	\$ (142.9)	\$ (3.7)	\$ (21.5)	\$ (0.1)	\$ (168.2)
Other comprehensive income (loss) before reclassifications		26.2		(0.4)	25.8
Amounts reclassified from AOCL (1)	1.1		0.5	0.2	1.8
Current period other comprehensive income (loss)	1.1	26.2	0.5	(0.2)	27.6

Balance at March 31, 2015	\$	(141.8)	\$	22.5	\$	(21.0)	\$	(0.3)	\$	(140.6)
---------------------------	----	---------	----	------	----	--------	----	-------	----	---------

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



**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 Three Months Ended March 31,		Affected Line Item in the Statement Where Net Income is Presented
	2016	2015	
<b>Details about components of AOCL:</b>			
Amortization of pension and other postretirement plans items:			
Net actuarial loss	\$ (1.5)	\$ (2.0)	(1)
Prior service credit	0.2	0.3	(1)
	(1.3)	(1.7)	Income before income tax expense
	0.3	0.6	Income tax expense
	(1.0)	(1.1)	Net income
Reclassification adjustment for net realized gains on securities available for sale (4)			
			Income before income tax expense (2)
			Income tax expense
			Net income
Amortization of unrealized losses on securities transferred to held to maturity			
	(0.8)	(0.8)	Income before income tax expense (3)
	0.3	0.3	Income tax expense
	(0.5)	(0.5)	Net income
Amortization of unrealized gains and losses on cash flow hedges:			
Interest rate swaps	(0.3)	(0.3)	(5)
Interest rate locks (4)			(5)
	(0.3)	(0.3)	Income before income tax expense
	0.1	0.1	Income tax expense
	(0.2)	(0.2)	Net income

Total reclassifications for the period        \$    (1.7)        \$    (1.8)

- (1) Included in the computation of net periodic benefit income (expense) reflected in compensation and benefits expense  
(see Note 7 for additional details).
- (2) Included in other non-interest income.
- (3) Included in interest and dividend income - securities.
- (4) Amount reclassified from AOCL totaled less than \$0.1 million for both periods.
- (5) Included in interest expense - notes and debentures.

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

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

**NOTE 5. EARNINGS PER COMMON SHARE**

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

(in millions, except per share data)	Three Months Ended March 31,	
	2016	2015
Net income	\$ 62.9	\$ 59.2
Dividends and undistributed earnings allocated to participating securities	(0.2)	(0.3)
<b>Income attributable to common shareholders</b>	<b>\$ 62.7</b>	<b>\$ 58.9</b>
Average common shares outstanding for basic EPS	301.9	299.1
Effect of dilutive equity-based awards		
Average common and common-equivalent shares for diluted EPS	301.9	299.1
<b>Basic EPS</b>	<b>\$ 0.21</b>	<b>\$ 0.20</b>
Diluted EPS	\$ 0.21	\$ 0.20

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

All unallocated Employee Stock Ownership Plan (ESOP) common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted EPS. Anti-dilutive equity-based awards totaling 22.4 million shares and 21.6 million shares for the three months ended March 31, 2016 and 2015, respectively, have been excluded from the calculation of diluted EPS.

**NOTE 6. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS**

Changes in the carrying amount of People's United's goodwill are summarized as follows for the three months ended March 31, 2016. There were no changes in goodwill during the three months ended March 31, 2015.

(in millions)	Commercial Banking	Operating Segment		Total
		Retail Banking	Wealth Management	
Balance at December 31, 2015	\$ 1,222.8	\$ 681.9	\$ 54.0	\$ 1,958.7
Adjustments	(0.7)	(2.3)	(0.1)	(3.1)
Balance at March 31, 2016	\$ 1,222.1	\$ 679.6	\$ 53.9	\$ 1,955.6

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.

---

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

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

All of People's United's tax deductible goodwill was created in transactions in which the Company purchased the assets of the target (as opposed to purchasing the issued and outstanding stock of the target). At March 31, 2016 and December 31, 2015, tax deductible goodwill totaled \$23.3 million and \$24.1 million, respectively, and related, almost entirely, to the Kesten-Brown Insurance, LLC and Butler Bank acquisitions.

People's United's other acquisition-related intangible assets totaled \$123.3 million and \$129.1 million at March 31, 2016 and December 31, 2015, respectively. At March 31, 2016, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible (\$78.0 million); core deposit intangible (\$20.8 million); trust relationship intangible (\$19.2 million); and insurance relationship intangible (\$5.3 million).

Amortization expense of other acquisition-related intangible assets totaled \$5.8 million and \$5.9 million for the three months ended March 31, 2016 and 2015, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2016 and each of the next five years is as follows: \$23.2 million in 2016; \$22.1 million in 2017; \$10.7 million in 2018; \$9.9 million in 2019; \$9.5 million in 2020; and \$9.2 million in 2021. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the three months ended March 31, 2016 and 2015.

**NOTE 7. EMPLOYEE BENEFIT PLANS**

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

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

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

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

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

Qualified Plan. During April 2010, participants who were in payment status as of April 1, 2010, or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010 based upon elections made by April 15, 2010, were transferred into the People's Qualified Plan.

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

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

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

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

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

Three months ended March 31 (in millions)	Pension Plans		Other Postretirement Plan	
	2016	2015	2016	2015
<b>Net periodic benefit (income) expense:</b>				
Service cost	\$	\$	\$ 0.1	\$ 0.1
Interest cost	4.7	5.3	0.1	0.1
Expected return on plan assets	(8.6)	(8.1)		
Recognized net actuarial loss	1.5	2.0	0.1	0.1
Recognized prior service credit	(0.2)	(0.3)		(0.1)
Settlements	0.3	0.2		
<b>Net periodic benefit (income) expense</b>	<b>(2.3)</b>	<b>(0.9)</b>	<b>0.3</b>	<b>0.2</b>
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income:</b>				
Net actuarial loss	(1.5)	(2.0)	(0.1)	(0.1)
Prior service credit	0.2	0.3		0.1
<b>Total pre-tax changes recognized in other comprehensive income</b>	<b>(1.3)</b>	<b>(1.7)</b>	<b>(0.1)</b>	
<b>Total recognized in net periodic benefit (income) expense and other comprehensive income</b>	<b>\$ (3.6)</b>	<b>\$ (2.6)</b>	<b>\$ 0.2</b>	<b>\$ 0.2</b>

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

***Employee Stock Ownership Plan***

In April 2007, People's United established an ESOP. At that time, People's United loaned the ESOP \$216.8 million to purchase 10,453,575 shares of People's United common stock in the open market. In order for the ESOP to repay the loan, People's United expects to make annual cash contributions of approximately \$18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares, which totaled \$1.2 million for

the three months ended March 31, 2016. At March 31, 2016, the loan balance totaled \$188.6 million.

Employee participation in this plan is restricted to those employees who (i) are at least 18 years of age and (ii) worked at least 1,000 hours within 12 months of their hire date or any plan year (January 1 to December 31) after their date of hire. Employees meeting the aforementioned eligibility criteria during the plan year must continue to be employed as of the last day of the plan year in order to receive an allocation of shares for that plan year.

Shares of People's United common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant's eligible compensation. Since the ESOP was established, a total of 3,223,186 shares of People's United common stock have been allocated or committed to be released to participants' accounts. At March 31, 2016, 7,230,389 shares of People's United common stock, with a fair value of \$115.2 million at that date, have not been allocated or committed to be released.



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

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

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants' accounts multiplied by the average fair value of People's United's common stock during the reporting period. The difference between the fair value of the shares of People's United's common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled \$1.3 million for both the three months ended March 31, 2016 and 2015.

**NOTE 8. LEGAL PROCEEDINGS**

In the normal course of business, People's United is subject to various legal proceedings. Management has discussed with legal counsel the nature of these legal proceedings and, based on the advice of counsel and the information currently available, believes that the eventual outcome of these legal proceedings will not have a material adverse effect on its financial condition, results of operations or liquidity.

**NOTE 9. SEGMENT INFORMATION**

See Segment Results included in Item 2 for segment information for the three months ended March 31, 2016 and 2015.

**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, Inc.**

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

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

***Recurring Fair Value Measurements***

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

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

Substantially all of the Company's available-for-sale securities represent GSE residential mortgage-backed securities and CMOs. The fair values of these securities are based on prices obtained from the independent pricing service. The pricing service uses various techniques to determine pricing for the Company's mortgage-backed securities, including option pricing and discounted cash flow analysis. The inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, monthly payment information and collateral performance. At both March 31, 2016 and December 31, 2015, the entire available-for-sale residential mortgage-backed securities portfolio was comprised of 10- and 15-year GSE securities. An active market exists for securities that are similar to the Company's GSE residential mortgage-backed securities and CMOs, making observable inputs readily available.

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

***Other Assets***

As discussed in Note 7, certain unfunded, nonqualified supplemental plans have been established to provide retirement benefits to certain senior officers. People's United has funded two trusts to provide benefit payments to the

extent such benefits are not paid directly by People's United, the assets of which are included in other assets in the Consolidated Statements of Condition. When available, People's United determines the fair value of the trust assets using quoted market prices for identical securities received from a third-party nationally recognized pricing service.

*Derivatives*

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

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

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

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

As of March 31, 2016 (in millions)	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Trading account securities:				
U.S. Treasury	\$ 6.8	\$	\$	\$ 6.8
Securities available for sale:				
U.S. Treasury and agency	315.6			315.6
GSE residential mortgage-backed securities and CMOs		4,430.3		4,430.3
Equity securities		0.2		0.2
Other assets:				
Exchange-traded funds	29.2			29.2
Fixed income securities		4.9		4.9
Mutual funds	2.6			2.6
Interest rate swaps		288.3		288.3
Risk participation agreements		0.1		0.1
Foreign exchange contracts		0.3		0.3
Forward commitments to sell residential mortgage loans		0.7		0.7
<b>Total</b>	<b>\$ 354.2</b>	<b>\$ 4,724.8</b>	<b>\$</b>	<b>\$ 5,079.0</b>
<b>Financial liabilities:</b>				
Interest rate swaps	\$	\$ 220.8	\$	\$ 220.8
Foreign exchange contracts		1.3		1.3
Interest rate-lock commitments on residential mortgage loans		0.9		0.9
<b>Total</b>	<b>\$</b>	<b>\$ 223.0</b>	<b>\$</b>	<b>\$ 223.0</b>

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

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

GSE residential mortgage-backed securities and CMOs	4,164.7	4,164.7
Equity securities	0.2	0.2
Other assets:		
Exchange-traded funds	29.4	29.4
Fixed income securities	5.1	5.1
Mutual funds	2.0	2.0
Interest rate swaps	157.0	157.0
Foreign exchange contracts	0.6	0.6
Forward commitments to sell residential mortgage loans	0.6	0.6
<b>Total</b>	<b>\$ 400.9</b>	<b>\$ 4,328.2</b>

Financial liabilities:

Interest rate swaps	\$	\$ 108.5	\$	\$ 108.5
Foreign exchange contracts		0.2		0.2
Interest rate-lock commitments on residential mortgage loans		0.8		0.8
<b>Total</b>	<b>\$</b>	<b>\$ 109.5</b>	<b>\$</b>	<b>\$ 109.5</b>

As of December 31, 2015, the fair value of risk participation agreements totaled less than \$0.1 million (see Note 11).

There were no transfers into or out of the Level 1 or Level 2 categories during the three months ended March 31, 2016 and 2015.

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

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

*Non-Recurring Fair Value Measurements*

*Loans Held for Sale*

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

*Impaired Loans*

Loan impairment is deemed to exist when full repayment of principal and interest according to the contractual terms of the loan is no longer probable. Impaired loans are reported based on one of three measures: the present value of expected future cash flows discounted at the loan's original effective interest rate; the loan's observable market price; or the fair value of the collateral

(less estimated cost to sell) if the loan is collateral dependent. Accordingly, certain impaired loans may be subject to measurement at fair value on a non-recurring basis. People's United has estimated the fair values of these assets using Level 3 inputs, such as discounted cash flows based on inputs that are largely unobservable and, instead, reflect management's own estimates of the assumptions a market participant would use in pricing such loans and/or the fair value of collateral based on independent third-party appraisals for collateral-dependent loans. Such appraisals are based on the market and/or income approach to value and are subject to a discount (to reflect estimated cost to sell) that generally approximates 10%.

*REO and Repossessed Assets*

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

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

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

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

As of March 31, 2016 (in millions)	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	\$	\$ 31.5	\$	\$ 31.5
Impaired loans (2)			63.0	63.0
REO and repossessed assets (3)			20.9	20.9
Total	\$	\$ 31.5	\$ 83.9	\$ 115.4

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

- (1) Consists of residential mortgage loans; no fair value adjustments were recorded for the three months ended March 31, 2016 and 2015.
- (2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured in accordance with applicable accounting guidance. The total consists of \$46.4 million of Commercial loans and \$16.6 million of Retail loans at March 31, 2016. The provision for loan losses on impaired loans totaled \$2.2 million for both the three months ended March 31, 2016 and 2015.
- (3) Represents: (i) \$8.2 million of residential REO; (ii) \$5.4 million of commercial REO; and (iii) \$7.3 million of repossessed assets at March 31, 2016. Charge-offs to the allowance for loan losses related to loans that were transferred to REO or repossessed assets totaled \$0.9 million and \$0.6 million for the three months ended March 31, 2016 and 2015, respectively. Write downs and net loss on sale of foreclosed/repossessed assets charged to non-interest expense totaled \$1.0 million and \$0.4 million for the same periods.

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

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

Acceptable valuation techniques (when quoted market prices are not available) that might be used to estimate the fair value of financial instruments include discounted cash flow analyses and comparison to similar instruments. Such estimates are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these



judgments often have a material impact on the fair value estimates. In addition, since these estimates are made as of a specific point in time, they are susceptible to material near-term changes. Fair values estimated in this manner do not reflect any premium or discount that could result from the sale of a large volume of a particular financial instrument, nor do they reflect possible tax ramifications or estimated transaction costs.

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

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

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

---

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

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

*Securities Held to Maturity*

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

*FHLB and FRB-NY Stock*

Both FHLB and FRB-NY stock are non-marketable equity securities classified as Level 2 and reported at cost, which equals par value (the amount at which shares have been redeemed in the past). No significant observable market data is available for either of these securities.

*Loans*

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

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

*Deposit Liabilities*

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

Management believes that People's United's core deposit relationships provide a relatively stable, low-cost funding source that has a substantial intangible value separate from the deposit balances.

*Borrowings and Notes and Debentures*

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

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

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

*Lending-Related Financial Instruments*

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

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

As of March 31, 2016 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and due from banks	\$ 302.7	\$ 302.7	\$	\$	\$ 302.7
Short-term investments	251.0		251.0		251.0
Securities held to maturity	1,678.8		1,751.2	1.5	1,752.7
FHLB and FRB stock	299.9		299.9		299.9
Total loans, net (1)	28,232.2		5,493.6	22,936.3	28,429.9
<b>Financial liabilities:</b>					
Time deposits	4,879.2		4,908.7		4,908.7
Other deposits	24,226.3		24,226.3		24,226.3
FHLB advances	3,063.1		3,070.0		3,070.0
Customer repurchase agreements	351.2		351.2		351.2
Federal funds purchased	303.0		303.0		303.0
Notes and debentures	1,050.4		1,015.3		1,015.3

(1) Excludes impaired loans totaling \$63.0 million measured at fair value on a non-recurring basis.

As of December 31, 2015 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and due from banks	\$ 334.8	\$ 334.8	\$	\$	\$ 334.8
Short-term investments	380.5		380.5		380.5
Securities held to maturity	1,609.6		1,661.0	1.5	1,662.5

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

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

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

---

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

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

**NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

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

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

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

People's United formally documents at inception all relationships between the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities, or to specific firm commitments or forecasted transactions. People's United also formally assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of the hedged items. If it is determined that a derivative is not highly effective or has ceased to be a highly effective hedge, People's United would discontinue hedge accounting prospectively. Gains or losses resulting from the termination of a derivative accounted for as a cash flow hedge remain in AOCL and are amortized to earnings over the remaining period of the former hedging relationship, provided the hedged item continues to be outstanding or it is probable the forecasted transaction will occur.

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

Certain derivative financial instruments are offered to commercial customers to assist them in meeting their financing and investing objectives and for their risk management purposes. These derivative financial instruments consist primarily of interest rate swaps, but also include foreign exchange contracts. The interest rate and foreign exchange

risks associated with customer interest rate swaps and foreign exchange contracts are mitigated by entering into similar derivatives having essentially offsetting terms with institutional counterparties.

Interest rate-lock commitments extended to borrowers relate to the origination of residential mortgage loans. To mitigate the IRR inherent in these commitments, People's United enters into mandatory delivery and best efforts contracts to sell adjustable-rate and fixed-rate residential mortgage loans (servicing released). Forward commitments to sell and interest rate-lock commitments on residential mortgage loans are considered derivatives and their respective estimated fair values are adjusted based on changes in interest rates.

---

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

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

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

By using derivatives, People's United is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's counterparty credit risk is equal to the amount reported as a derivative asset in the Consolidated Statements of Condition. In accordance with the Company's balance sheet offsetting policy (see Note 12), amounts reported as derivative assets represent derivative contracts in a gain position, without consideration for derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People's United seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, execution of master netting arrangements and obtaining collateral, where appropriate. Counterparties to People's United's derivatives include major financial institutions and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company's external credit rating. If the Company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of master netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at March 31, 2016 was \$12.2 million, for which People's United had posted collateral of \$10.9 million in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$1.3 million in additional collateral would have been required.

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

*Interest Rate Swaps*

People's United may, from time to time, enter into interest rate swaps that are used to manage IRR associated with certain interest-earning assets and interest-bearing liabilities.

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



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

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

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

*Customer Derivatives*

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

*Risk Participation Agreements*

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

*Foreign Exchange Contracts*

Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People's United uses these instruments on a limited basis to (i) eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies and (ii) provide foreign exchange contracts on behalf of commercial customers within credit exposure limits. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

*Interest Rate Locks*

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

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

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

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

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

The table below provides a summary of the notional amounts and fair values (presented on a gross basis) of derivatives outstanding:

(in millions)	Type of Hedge	Notional Amounts		Fair Values (1)			
		March 31, 2016	Dec. 31, 2015	Assets		Liabilities	
				March 31, 2016	Dec. 31, 2015	March 31, 2016	Dec. 31, 2015
<b>Derivatives Not Designated as Hedging Instruments:</b>							
<b>Interest rate swaps:</b>							
Commercial customers	N/A	\$ 4,903.0	\$ 4,644.8	\$ 250.1	\$ 130.9	\$ 2.3	\$ 2.6
Institutional counterparties	N/A	4,903.0	4,644.8	2.3	7.2	217.8	105.3
Risk participation agreements (2)	N/A	241.6	244.4	0.1			
Foreign exchange contracts	N/A	47.8	56.7	0.3	0.6	1.3	0.2
Forward commitments to sell residential mortgage loans	N/A	47.4	44.7	0.7	0.6		
Interest rate-lock commitments on residential mortgage loans	N/A	67.0	65.4			0.9	0.8
<b>Total</b>				<b>253.5</b>	<b>139.3</b>	<b>222.3</b>	<b>108.9</b>
<b>Derivatives Designated as Hedging Instruments:</b>							
<b>Interest rate swaps:</b>							
Subordinated notes	Cash flow	125.0	125.0			0.7	0.6
Subordinated notes	Fair value	375.0	375.0	35.9	18.9		

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

Total	35.9	18.9	0.7	0.6
Total fair value of derivatives	\$ 289.4	\$ 158.2	\$ 223.0	\$ 109.5

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

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

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

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

Three months ended March 31 (in millions)	Type of Hedge	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1)		Amount of Pre-Tax Gain (Loss) Recognized in AOCL	
		2016	2015	2016	2015
<b>Derivatives Not Designated as Hedging Instruments:</b>					
<b>Interest rate swaps:</b>					
Commercial customers	N/A	\$ 136.1	\$ 67.7	\$	\$
Institutional counterparties	N/A	(132.9)	(62.5)		
Foreign exchange contracts	N/A	(1.4)	0.2		
Risk participation agreements (2)	N/A				
Forward commitments to sell residential mortgage loans	N/A		0.4		
Interest rate-lock commitments on residential mortgage loans	N/A	(0.1)	(0.5)		
<b>Total</b>		<b>1.7</b>	<b>5.3</b>		
<b>Derivatives Designated as Hedging Instruments:</b>					
Interest rate swaps	Cash flow	(0.3)	(0.3)	(0.3)	(0.6)
Interest rate locks (2)	Cash flow				
Interest rate swaps	Fair value	2.3	2.5		
<b>Total</b>		<b>2.0</b>	<b>2.2</b>	<b>(0.3)</b>	<b>(0.6)</b>
<b>Total</b>		<b>\$ 3.7</b>	<b>\$ 7.5</b>	<b>\$ (0.3)</b>	<b>\$ (0.6)</b>

(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.

(2) Income totaled less than \$0.1 million for both periods.

**NOTE 12. BALANCE SHEET OFFSETTING**

Assets and liabilities relating to certain financial instruments, including derivatives, may be eligible for offset in the Consolidated Statements of Condition and/or subject to enforceable master netting arrangements or similar agreements. People's United's derivative transactions with institutional counterparties are generally executed under International Swaps and Derivative Association (ISDA) master agreements, which include right of set-off provisions

that provide for a single net settlement of all interest rate swap positions, as well as collateral, in the event of default on, or the termination of, any one contract. Nonetheless, the Company does not offset asset and liabilities under such arrangements in the Consolidated Statements of Condition.

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

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

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

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

As of March 31, 2016 (in millions)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Gross Financial Instruments	Amounts Not Offset Collateral	Net Amount
<b>Financial assets:</b>						
<b>Interest rate swaps:</b>						
Counterparty A	\$	\$	\$	\$	\$	\$
Counterparty B	0.3		0.3	(0.3)		
Counterparty C						
Counterparty D	2.0		2.0	(2.0)		
Counterparty E	35.9		35.9	(35.9)		
<b>Other counterparties</b>						
Foreign exchange contracts	0.3		0.3			0.3
<b>Total</b>	<b>\$ 38.5</b>	<b>\$</b>	<b>\$ 38.5</b>	<b>\$ (38.2)</b>	<b>\$</b>	<b>\$ 0.3</b>
<b>Financial liabilities:</b>						
<b>Interest rate swaps:</b>						
Counterparty A	\$ 11.9	\$	\$ 11.9	\$	\$ (11.9)	\$
Counterparty B	16.2		16.2	(0.3)	(15.9)	
Counterparty C	10.7		10.7		(10.7)	
Counterparty D	13.6		13.6	(2.0)	(10.2)	1.4
Counterparty E	158.0		158.0	(35.9)	(122.1)	
Other counterparties	8.5		8.5		(8.2)	0.3
Foreign exchange contracts	1.3		1.3			1.3
<b>Total</b>	<b>\$ 220.2</b>	<b>\$</b>	<b>\$ 220.2</b>	<b>\$ (38.2)</b>	<b>\$ (179.0)</b>	<b>\$ 3.0</b>

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

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

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

**NOTE 13. NEW ACCOUNTING STANDARDS**

**Standards effective in 2016**

*Stock Compensation*

In June 2014, the Financial Accounting Standards Board (the "FASB") amended its standards with respect to stock compensation to require that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. The amendment further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to those periods for which the requisite service has already been rendered. This amendment, which is being applied prospectively, became effective for People's United on January 1, 2016 and did not have a significant impact on the Company's Consolidated Financial Statements.



*Consolidation*

In February 2015, the FASB amended its standards with respect to the analysis that a reporting entity must perform in determining whether certain types of legal entities should be consolidated. The amendment modifies the evaluation of whether limited partnerships or similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. This amendment, which is being applied retrospectively, became effective for People's United on January 1, 2016 and did not have a significant impact on the Company's Consolidated Financial Statements.

---

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

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

*Presentation of Debt Issuance Costs*

In April 2015, the FASB amended its standards with respect to the presentation of debt issuance costs by changing the required presentation of such costs from an asset on the statement of condition to a deduction from the related debt liability. This amendment, which is being applied retrospectively, became effective for People's United on January 1, 2016 and did not have a significant impact on the Company's Consolidated Financial Statements. See Note 1.

*Retirement Benefits*

In April 2015, the FASB amended its standards with respect to the accounting for retirement benefits by providing a practical expedient, for entities with fiscal year-ends that do not coincide with a month-end, permitting such entities to measure defined benefit plan assets and obligations using the month-end that is closest to its fiscal year-end. This practical expedient is to be applied consistently from year to year and to all plans if an entity has more than one plan. Further, in cases where a significant event caused by the entity (such as a plan amendment, curtailment or settlement) that requires the remeasurement of defined benefit plan assets and obligations does not coincide with a month-end, entities may elect to remeasure both plan assets and obligations using the month-end that is closest to the date of the significant event. This amendment, which is being applied prospectively, became effective for People's United on January 1, 2016 and did not have a significant impact on the Company's Consolidated Financial Statements.

*Business Combinations*

In September 2015, the FASB amended its standards with respect to business combinations to eliminate the requirement to restate prior period financial statements for measurement period adjustments. Instead, the amended guidance requires that, during the measurement period, an acquirer recognize adjustments of previously recorded provisional amounts in the reporting period in which such adjustments are determined. In doing so, the acquirer would be required to record the cumulative effect of measurement period adjustments on current and prior period earnings, including the prior period impact on depreciation, amortization or other income statement items. The amended standard also contains additional disclosure requirements with respect to measurement period adjustments. This amendment, which is being applied prospectively, became effective for People's United on January 1, 2016 and did not have a significant impact on the Company's Consolidated Financial Statements.

**Standards effective in 2017**

*Derivatives and Hedging*

In March 2016, the FASB amended its standards with respect to derivatives and hedging. The first amendment clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship and discontinuation of the application of hedge accounting. This amendment does not require additional disclosures beyond disclosure about a change in accounting principle in the period of adoption. The second amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence and no longer is required to assess whether the event that triggers the ability to exercise the option is related to interest rate or credit risk. For public business

entities, both of these new amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (January 1, 2017 for People's United) and may be applied either prospectively or on a modified retrospective basis. Earlier application is permitted as of the beginning of an interim or annual reporting period. The adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

---

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

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

*Investments – Equity Method and Joint Ventures*

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

*Stock Compensation*

In March 2016, the FASB amended its standards with respect to certain aspects of the accounting for share-based payment awards, including: (i) the related income tax consequences; (ii) the classification of awards as either equity or liabilities; and (iii) the classification in the statement of cash flows. For public business entities, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (January 1, 2017 for People's United) and should be applied prospectively. The Company is currently evaluating the impact of the amended guidance on the Company's Consolidated Financial Statements.

**Standards effective in 2018**

*Revenue Recognition*

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

In July 2015, the FASB approved a one-year deferral of the effective date (now January 1, 2018 for People's United) with early adoption, as of the original effective date, permitted. In March, April and May 2016, the FASB issued amendments to clarify the implementation guidance and add some practical expedients in certain areas, including: (i) principal versus agent considerations; (ii) the identification of performance obligations; and (iii) certain aspects of the accounting for licensing arrangements. These amendments do not change the core principle of the guidance and are effective for and follow the same transition requirements as the core principle. The Company is currently evaluating the impact of the amended guidance on the Company's Consolidated Financial Statements.

*Presentation of Deferred Taxes*

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

---

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

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

*Recognition and Measurement of Financial Instruments*

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

**Standards effective in 2019**

*Accounting for Leases*

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

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

**Forward-Looking Statements**

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

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

All forward-looking statements are subject to risks and uncertainties that could cause People's United's actual results or financial condition to differ materially from those expressed in or implied by such statements. Factors of particular importance to People's United include, but are not limited to: (1) changes in general, international, national or regional economic conditions; (2) changes in interest rates; (3) changes in loan default and charge-off rates; (4) changes in deposit levels; (5) changes in levels of income and expense in non-interest income and expense related activities; (6) changes in accounting and regulatory guidance applicable to banks; (7) price levels and conditions in the public securities markets generally; (8) competition and its effect on pricing, spending, third-party relationships and revenues; 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 does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Selected Consolidated Financial Information**

(dollars in millions, except per share data)	Three Months Ended		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
<b>Earnings Data:</b>			
Net interest income (fully taxable equivalent)	\$ 247.4	\$ 245.3	\$ 233.9
Net interest income	240.1	238.8	228.1
Provision for loan losses	10.5	9.7	9.8
Non-interest income (1)	82.3	93.3	89.0
Non-interest expense	217.3	217.0	217.6
Operating non-interest expense (2)	n/a	213.2	211.6
Income before income tax expense	94.6	105.4	89.7
Net income	62.9	70.8	59.2
Operating earnings (2)	n/a	67.2	63.2
<b>Selected Statistical Data:</b>			
Net interest margin (3)	2.83%	2.87%	2.91%
Return on average assets (3)	0.65	0.75	0.66
Operating return on average assets (2), (3)	n/a	0.71	0.71
Return on average tangible assets (3)	0.69	0.79	0.70
Return on average stockholders' equity (3)	5.3	6.0	5.1
Return on average tangible stockholders' equity (3)	9.4	10.7	9.2
Operating return on average tangible stockholders' equity (2), (3)	n/a	10.2	9.9
Efficiency ratio (2)	62.7	61.0	61.9
<b>Common Share Data:</b>			
Basic and diluted earnings per share	\$ 0.21	\$ 0.23	\$ 0.20
Operating earnings per share (2)	n/a	0.22	0.21
Dividends paid per share	0.1675	0.1675	0.165
Dividend payout ratio	80.6%	71.5%	83.7%
Operating dividend payout ratio (2)	n/a	75.3	78.3
Book value per share (end of period)	\$ 15.80	\$ 15.62	\$ 15.55
Tangible book value per share (end of period) (2)	8.94	8.73	8.58
Stock price:			
High	16.27	16.93	15.45
Low	13.62	15.00	13.97
Close (end of period)	15.93	16.15	15.20

- (1) Three months ended December 31, 2015 includes a \$9.2 million net gain resulting from the sale of the Bank's payroll services business.
- (2) Effective with the quarter ended March 31, 2016, certain expenses are no longer considered to be non-operating expenses. Accordingly, operating metrics are not applicable. See Non-GAAP Financial Measures and Reconciliation to GAAP.
- (3) Annualized.





(dollars in millions)	As of and for the Three Months Ended				
	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
<b>Financial Condition Data:</b>					
Total assets	\$ 39,264	\$ 38,947	\$ 37,507	\$ 37,208	\$ 36,437
Loans	28,511	28,411	27,672	27,562	26,929
Securities	6,732	6,449	5,921	5,756	5,577
Short-term investments (1)	251	380	245	196	250
Allowance for loan losses	216	211	208	205	201
Goodwill and other acquisition-related intangible assets	2,079	2,088	2,085	2,091	2,097
Deposits	29,105	28,417	28,280	27,435	27,150
Borrowings	3,717	4,307	2,997	3,563	3,143
Notes and debentures	1,050	1,033	1,039	1,024	1,036
Stockholders' equity	4,791	4,732	4,731	4,686	4,682
Total risk-weighted assets:					
People's United	29,832	29,646	28,990	28,688	28,100
People's United Bank, N.A.	29,826	29,621	28,953	28,648	28,084
Non-performing assets (2)	189	182	210	221	209
Net loan charge-offs	6.0	6.2	4.1	3.2	7.2
<b>Average Balances:</b>					
Loans	\$ 28,159	\$ 27,853	\$ 27,496	\$ 27,125	\$ 26,504
Securities (3)	6,498	6,133	5,880	5,577	5,325
Short-term investments (1)	348	247	245	223	276
Total earning assets	35,005	34,233	33,621	32,925	32,105
Total assets	38,773	37,955	37,284	36,645	35,796
Deposits	28,721	28,481	27,810	27,236	26,579
Borrowings	3,664	3,187	3,304	3,215	3,018
Notes and debentures	1,044	1,037	1,028	1,034	1,035
Total funding liabilities	33,429	32,705	32,142	31,485	30,632
Stockholders' equity	4,761	4,736	4,700	4,689	4,663
<b>Ratios:</b>					
Net loan charge-offs to average total loans (annualized)	0.09%	0.09%	0.06%	0.05%	0.11%
Non-performing assets to originated loans, real estate owned and repossessed assets (2)	0.68	0.66	0.78	0.83	0.80
Originated allowance for loan losses to:					
Originated loans (2)	0.75	0.73	0.74	0.73	0.74
Originated non-performing loans (2)	123.3	127.3	108.1	102.9	107.5
Average stockholders' equity to average total assets	12.3	12.5	12.6	12.8	13.0
Stockholders' equity to total assets	12.2	12.1	12.6	12.6	12.8
Tangible stockholders' equity to tangible assets (4)	7.3	7.2	7.5	7.4	7.5
Total risk-based capital:					
People's United	11.5	11.7	11.8	11.8	11.9
People's United Bank, N.A.	12.9	12.6	12.8	12.9	13.1

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

---

## Non-GAAP Financial Measures and Reconciliation to GAAP

In addition to evaluating People's United's results of operations in accordance with U.S. generally accepted accounting principles (GAAP), management routinely supplements its evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency and tangible equity ratios, tangible book value per share and operating earnings metrics. Management believes these non-GAAP financial measures provide information useful to investors in understanding People's United's underlying operating performance and trends, and facilitates comparisons with the performance of other financial institutions. Further, the efficiency ratio and operating earnings metrics are used by management in its assessment of financial performance, including non-interest expense control, while the tangible equity ratio and tangible book value per share are used to analyze the relative strength of People's United's capital position.

The efficiency ratio, which represents an approximate measure of the cost required by People's United to generate a dollar of revenue, is the ratio of (i) total non-interest expense (excluding goodwill impairment charges, amortization of other acquisition-related intangible assets, losses on real estate assets and non-recurring expenses, which are also excluded in arriving at operating non-interest expense) (the numerator) to (ii) net interest income on a fully taxable equivalent (FTE) basis plus total non-interest income (including the FTE adjustment on bank-owned life insurance (BOLI) income, and excluding gains and losses on sales of assets other than residential mortgage loans and acquired loans, and non-recurring income) (the denominator). In addition, operating lease expense is excluded from total non-interest expense and netted against operating lease income within non-interest income to conform with the reporting approach applied to fee-based businesses already presented on a net basis. People's United generally considers an item of income or expense to be non-recurring if it is not similar to an item of income or expense of a type incurred within the last two years and is not similar to an item of income or expense of a type reasonably expected to be incurred within the following two years.

Operating earnings exclude from net income those items that management considers to be of such a non-recurring or infrequent nature that, by excluding such items (net of income taxes), People's United's results can be measured and assessed on a more consistent basis from period to period. Items excluded from operating earnings, which include, but are not limited to: (i) non-recurring gains/losses; (ii) writedowns of banking house assets and related lease termination costs; (iii) severance-related costs; (iv) merger-related expenses, including acquisition integration and other costs; and (v) charges related to executive-level management separation costs, are generally also excluded when calculating the efficiency ratio. Effective with the quarter ended March 31, 2016, recurring writedowns of banking house assets and certain severance-related costs are no longer considered to be non-operating expenses. Operating earnings per share (EPS) is derived by determining the per share impact of the respective adjustments to arrive at operating earnings and adding (subtracting) such amounts to (from) GAAP EPS. Operating return on average assets is calculated by dividing operating earnings by average total assets. Operating return on average tangible stockholders' equity is calculated by dividing operating earnings by average tangible stockholders' equity. The operating dividend payout ratio is calculated by dividing dividends paid by operating earnings for the respective period.

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

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



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

(dollars in millions)	Three Months Ended		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
Total non-interest expense	\$ 217.3	\$ 217.0	\$ 217.6
Adjustments to arrive at operating non-interest expense:			
Writedowns of banking house assets		(2.5)	(5.3)
Severance-related costs		(1.3)	(0.7)
<b>Total</b>		<b>(3.8)</b>	<b>(6.0)</b>
<b>Operating non-interest expense</b>	n/a	213.2	211.6
Operating lease expense (1)	(9.2)	(9.4)	(9.3)
Amortization of other acquisition-related intangible assets	(5.8)	(6.1)	(5.9)
Other (2)	(1.5)	(2.2)	(2.0)
Total non-interest expense for efficiency ratio	\$ 200.8	\$ 195.5	\$ 194.4
Net interest income (FTE basis)	\$ 247.4	\$ 245.3	\$ 233.9
Total non-interest income	82.3	93.3	89.0
Total revenues	329.7	338.6	322.9
Adjustments:			
Operating lease expense (1)	(9.2)	(9.4)	(9.3)
BOLI FTE adjustment	0.5	0.5	0.6
Net security gains	(0.1)		
Gain on sale of business, net of expenses		(9.2)	
Other (3)	(0.7)		
Total revenues for efficiency ratio	\$ 320.2	\$ 320.5	\$ 314.2
<b>Efficiency ratio</b>	<b>62.7%</b>	<b>61.0%</b>	<b>61.9%</b>

- (1) Operating lease expense is excluded from total non-interest expense and netted against operating lease income within non-interest income to conform with the reporting approach applied to fee-based businesses already presented on a net basis.
- (2) Items classified as "other" and deducted from non-interest expense for purposes of calculating the efficiency ratio include, as applicable, certain franchise taxes, real estate owned expenses, contract termination costs and

non-recurring expenses.

- (3) Items classified as other and added to (deducted from) total revenues for purposes of calculating the efficiency ratio include, as applicable, asset write-offs and gains associated with the sale of branch locations.

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

(dollars in millions)	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
Total stockholders' equity	\$ 4,791	\$ 4,732	\$ 4,731	\$ 4,686	\$ 4,682
Less: Goodwill and other acquisition-related intangible assets	2,079	2,088	2,085	2,091	2,097
<b>Tangible stockholders' equity</b>	<b>\$ 2,712</b>	<b>\$ 2,644</b>	<b>\$ 2,646</b>	<b>\$ 2,595</b>	<b>\$ 2,585</b>
Total assets	\$ 39,264	\$ 38,947	\$ 37,507	\$ 37,208	\$ 36,437
Less: Goodwill and other acquisition-related intangible assets	2,079	2,088	2,085	2,091	2,097
Tangible assets	\$ 37,185	\$ 36,859	\$ 35,422	\$ 35,117	\$ 34,340
<b>Tangible equity ratio</b>	<b>7.3%</b>	<b>7.2%</b>	<b>7.5%</b>	<b>7.4%</b>	<b>7.5%</b>

  

(in millions, except per share data)	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
Tangible stockholders' equity	\$ 2,712	\$ 2,644	\$ 2,646	\$ 2,595	\$ 2,585
Common shares issued	399.54	399.24	398.84	398.66	397.81
Less: Common shares classified as treasury shares	89.04	89.06	89.05	89.06	89.05
Unallocated ESOP common shares	7.23	7.32	7.40	7.49	7.58
<b>Common shares</b>	<b>303.27</b>	<b>302.86</b>	<b>302.39</b>	<b>302.11</b>	<b>301.18</b>
<b>Tangible book value per share</b>	<b>\$ 8.94</b>	<b>\$ 8.73</b>	<b>\$ 8.75</b>	<b>\$ 8.59</b>	<b>\$ 8.58</b>

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

(dollars in millions, except per share data)	Three Months Ended	
	Dec. 31, 2015	March 31, 2015
Net income, as reported	\$ 70.8	\$ 59.2

Adjustments to arrive at operating earnings:



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

Writedowns of banking house assets	2.5	5.3
Severance-related costs	1.3	0.7
Gain on sale of business, net of expenses	(9.2)	
Total pre-tax adjustments	(5.4)	6.0
Tax effect	1.8	(2.0)
Total adjustments, net of tax	(3.6)	4.0
<b>Operating earnings</b>	<b>\$ 67.2</b>	<b>\$ 63.2</b>
EPS, as reported	\$ 0.23	\$ 0.20
Adjustments to arrive at operating EPS:		
Writedowns of banking house assets	0.01	0.01
Severance-related costs		
Gain on sale of business, net of expenses	(0.02)	
Total adjustments per share	(0.01)	0.01
<b>Operating EPS</b>	<b>\$ 0.22</b>	<b>\$ 0.21</b>
Average total assets	\$ 37,955	\$ 35,796
<b>Operating return on average assets (annualized)</b>	<b>0.71%</b>	<b>0.71%</b>

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

(dollars in millions)	Three Months Ended	
	Dec. 31, 2015	March 31, 2015
Operating earnings	\$ 67.2	\$ 63.2
Average stockholders' equity	\$ 4,736	\$ 4,663
Less: Average goodwill and average other acquisition-related intangible assets	2,092	2,100
Average tangible stockholders' equity	\$ 2,644	\$ 2,563
<b>Operating return on average tangible stockholders' equity (annualized)</b>	<b>10.2%</b>	<b>9.9%</b>

(dollars in millions)	Three Months Ended	
	Dec. 31, 2015	March 31, 2015
Dividends paid	\$ 50.6	\$ 49.5
Operating earnings	\$ 67.2	\$ 63.2
<b>Operating dividend payout ratio</b>	<b>75.3%</b>	<b>78.3%</b>

## Financial Overview

People's United reported net income of \$62.9 million, or \$0.21 per diluted share, for the three months ended March 31, 2016, compared to \$59.2 million, or \$0.20 per diluted share, for the year-ago period. Compared to the year-ago period, first quarter 2016 earnings reflect continued loan and deposit growth, meaningful cost control and the negative impact of the historically low interest rate environment. People's United's return on average assets was 0.65% for the three months ended March 31, 2016 compared to 0.66% for the year-ago period. Return on average tangible stockholders' equity was 9.4% for the three months ended March 31, 2016 compared to 9.2% for the year-ago period.

Compared to the first quarter of 2015, FTE net interest income increased \$13.5 million to \$247.4 million and the net interest margin decreased eight basis points to 2.83%. FTE net interest income increased \$2.1 million and the net interest margin decreased four basis points compared to the fourth quarter of 2015 (see Net Interest Income).

Average total earning assets increased \$2.9 billion compared to the first quarter of 2015, reflecting increases of \$1.7 billion in average total loans and \$1.2 billion in average securities. Average total funding liabilities increased \$2.8 billion compared to the year-ago quarter, reflecting increases of \$2.1 billion in average total deposits and \$646 million in average total borrowings.

Compared to the year-ago quarter, total non-interest income decreased \$6.7 million and total non-interest expense decreased \$0.3 million. The efficiency ratio was 62.7% for the first quarter of 2016 compared to 61.9% for the year-ago period (see Non-Interest Income and Non-Interest Expense).

The provision for loan losses in the first quarter of 2016 totaled \$10.5 million compared to \$9.8 million in the year-ago quarter. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.09% in the first quarter of 2016 compared to 0.11% in the year-ago quarter. The allowance for loan losses on originated loans was \$207.6 million at March 31, 2016, a \$4.7 million increase from December 31, 2015. The allowance for loan losses on acquired loans was \$7.9 million and \$8.1 million at March 31, 2016 and December 31, 2015, respectively. Non-performing assets (excluding acquired non-performing loans) totaled \$189.4 million at March 31, 2016, a \$7.9 million increase from December 31, 2015. At March 31, 2016, 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 123.3%, compared to 0.73% and 127.3%, respectively, at December 31, 2015 (see Asset Quality).

People's United's total stockholders' equity was \$4.8 billion at March 31, 2016 compared to \$4.7 billion at December 31, 2015. Stockholders' equity as a percentage of total assets was 12.2% at March 31, 2016 compared to 12.1% at December 31, 2015. Tangible stockholders' equity as a percentage of tangible assets was 7.3% at March 31, 2016 compared to 7.2% at December 31, 2015 (see Stockholders' Equity and Dividends). People's United's and People's United Bank, N. A. (the Bank) Total Risk-Based capital ratios were 11.5% and 12.9%, respectively, at March 31, 2016 compared to 11.7% and 12.6%, respectively, at December 31, 2015 (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's operations are divided into three primary operating segments that represent its core businesses: Commercial Banking; Retail Banking; and Wealth Management. In addition, the Treasury area manages People's United's securities portfolio, short-term investments, brokered deposits, wholesale borrowings and the funding center.

The Company's operating segments have been aggregated into two reportable segments: Commercial Banking and Retail Banking. These reportable segments have been identified and organized based on the nature of the underlying products and services applicable to each segment, the type of customers to whom those products and services are offered and the distribution channel through which those products and services are made available. With respect to Wealth Management, this presentation results in the allocation of the Company's insurance business and certain trust activities to the Commercial Banking segment, and the allocation of the Company's brokerage business and certain other trust activities to the Retail Banking segment.

People's United uses an internal profitability reporting system to generate information by operating segment, which is based on a series of management estimates and allocations regarding funds transfer pricing (FTP), the provision for loan losses, non-interest expense and income taxes. These estimates and allocations, some of which are subjective in nature, are subject to periodic review and refinement. Any changes in estimates and allocations that may affect the reported results of any segment will not affect the consolidated financial position or results of operations of People's United as a whole. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

FTP, which is used in the calculation of each operating segment's net interest income, measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income (see Treasury). For fixed-term assets and liabilities, the FTP rate is assigned at the time the asset or liability is originated by reference to the Company's FTP yield curve, which is updated daily. For non-maturity-term assets and liabilities, the FTP rate is determined based upon the underlying characteristics, or behavior, of each particular product and results in the use of a historical rolling average FTP rate determined over a period that is most representative of the average life of the particular asset or liability. While the Company's FTP methodology serves to remove interest rate risk (IRR) from the operating segments and better facilitate pricing decisions, thereby allowing management to more effectively assess the longer-term profitability of an operating segment, it may, in sustained periods of low and/or high interest rates, result in a measure of operating segment net interest income that is not reflective of current interest rates.

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

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

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

Entities have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity is not required to perform the two-step impairment test. In 2015, People's United elected to perform the two-step impairment test in its evaluation of goodwill impairment as of October 1<sup>st</sup> (the annual impairment evaluation date).

The first step ( Step 1 ) is used to identify potential impairment, and involves comparing each reporting unit's estimated fair value to its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is not deemed to be impaired. Should the carrying amount of the reporting unit exceed its estimated fair value, an indicator of potential impairment is deemed to exist and a second step is performed to measure the amount of such impairment, if any. At this time, none of the Company's identified reporting units are at risk of failing the Step 1 goodwill impairment test.

### Segment Performance Summary

Three months ended

March 31, 2016 (in millions)	Commercial Banking	Retail Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 139.7	\$ 86.2	\$ 225.9	\$ 19.4	\$ (5.2)	\$ 240.1
Provision for loan losses	9.6	3.2	12.8		(2.3)	10.5
Total non-interest income	39.0	39.9	78.9	1.7	1.7	82.3
Total non-interest expense	79.7	126.2	205.9	2.1	9.3	217.3
Income (loss) before income tax expense (benefit)	89.4	(3.3)	86.1	19.0	(10.5)	94.6
Income tax expense (benefit)	29.9	(1.1)	28.8	6.4	(3.5)	31.7
Net income (loss)	\$ 59.5	\$ (2.2)	\$ 57.3	\$ 12.6	\$ (7.0)	\$ 62.9

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

Average total assets	\$ 22,254.3	\$ 8,697.4	\$ 30,951.7	\$ 7,138.7	\$ 682.7	\$ 38,773.1
Average total liabilities	6,402.8	19,150.1	25,552.9	8,109.5	349.9	34,012.3

Three months ended

March 31, 2015

(in millions)	Commercial Banking	Retail Banking	Total Reportable Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	\$ 134.3	\$ 86.6	\$ 220.9	\$ 14.0	\$ (6.8)	\$ 228.1
Provision for loan losses	11.5	3.8	15.3		(5.5)	9.8
Total non-interest income	46.0	39.9	85.9	2.6	0.5	89.0
Total non-interest expense	76.3	132.0	208.3	2.5	6.8	217.6
Income (loss) before income tax expense (benefit)	92.5	(9.3)	83.2	14.1	(7.6)	89.7
Income tax expense (benefit)	31.4	(3.1)	28.3	4.7	(2.5)	30.5
Net income (loss)	\$ 61.1	\$ (6.2)	\$ 54.9	\$ 9.4	\$ (5.1)	\$ 59.2

Average total assets	\$ 20,891.9	\$ 8,327.6	\$ 29,219.5	\$ 5,942.7	\$ 633.4	\$ 35,795.6
Average total liabilities	5,036.2	19,069.2	24,105.4	6,673.0	354.1	31,132.5

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

(in millions)	Three Months Ended March 31,	
	2016	2015
Net interest income	\$ 139.7	\$ 134.3
Provision for loan losses	9.6	11.5
Total non-interest income	39.0	46.0
Total non-interest expense	79.7	76.3
Income before income tax expense	89.4	92.5
Income tax expense	29.9	31.4
Net income	\$ 59.5	\$ 61.1
Average total assets	\$ 22,254.3	\$ 20,891.9
Average total liabilities	6,402.8	5,036.2

Commercial Banking net income decreased \$1.6 million in the first quarter of 2016 compared to the first quarter of 2015. The \$5.4 million increase in net interest income primarily reflects the benefit from an increase in average commercial loans, partially offset by increases in interest expense and net FTP funding charges, continued pricing pressure within the loan portfolio, which includes the pay-off of higher-yielding loans, partially mitigated by new originations at rates higher than the existing portfolio, and declining interest income on acquired loans. Included in non-interest income in 2015 are net gains on sales of acquired loans totaling \$1.9 million. Excluding these gains, non-interest income decreased \$5.1 million compared to the year-ago period, primarily reflecting decreases in commercial banking lending fees and customer interest rate swap income, partially offset by an increase in insurance revenue. The \$3.4 million increase in non-interest expense in the first quarter of 2016 compared to the first quarter of 2015 primarily reflects a higher level of direct and allocated expenses. Both average total assets and average total liabilities increased \$1.4 billion compared to the first quarter of 2015, primarily reflecting loan and deposit growth.

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

(in millions)	Three Months Ended March 31,	
	2016	2015
Net interest income	\$ 86.2	\$ 86.6
Provision for loan losses	3.2	3.8



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

Total non-interest income	39.9	39.9
Total non-interest expense	126.2	132.0
Loss before income tax benefit	(3.3)	(9.3)
Income tax benefit	(1.1)	(3.1)
Net loss	\$ (2.2)	\$ (6.2)
Average total assets	\$ 8,697.4	\$ 8,327.6
Average total liabilities	19,150.1	19,069.2

Retail Banking's net loss decreased \$4.0 million in the first quarter of 2016 compared to the first quarter of 2015. The \$0.4 million decrease in net interest income primarily reflects continued repricing pressure within the loan portfolio, which includes the pay-off of higher-yielding loans, partially mitigated by new originations at rates higher than the existing portfolio, declining interest income on acquired loans and lower FTP funding credits, partially offset by an increase in average residential mortgage loans. The \$5.8 million decrease in non-interest expense primarily reflects a lower level of direct and allocated expenses. Average total assets increased \$370 million and average total liabilities increased \$81 million compared to the first quarter of 2015, primarily reflecting loan and deposit growth.

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

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

(in millions)	Three Months Ended	
	March 31,	
	2016	2015
Net interest income	\$ 19.4	\$ 14.0
Total non-interest income	1.7	2.6
Total non-interest expense	2.1	2.5
Income before income tax expense	19.0	14.1
Income tax expense	6.4	4.7
Net income	\$ 12.6	\$ 9.4
Average total assets	\$ 7,138.7	\$ 5,942.7
Average total liabilities	8,109.5	6,673.0

Treasury's net income increased \$3.2 million in the first quarter of 2016 compared to the first quarter of 2015. The \$5.4 million increase in net interest income primarily reflects an increase in securities income and lower FTP funding costs, partially offset by an increase in interest expense. The decrease in non-interest expense primarily reflects a decrease in direct and allocated expenses. Average total assets increased \$1.2 billion compared to the first quarter of 2015, primarily reflecting an increase in average securities. The \$1.4 billion increase in average total liabilities compared to the first quarter of 2015 primarily reflects increases in average deposits and average borrowings.

**Other** includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment; assets and liabilities not attributable to a particular segment; reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis; and the FTP impact from excess capital. Total non-interest expense for the three months ended March 31, 2015 includes \$6.0 million of severance-related costs and charges related to writedowns of certain banking house assets.

Three Months

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

(in millions)	Ended	
	2016	2015
Net interest loss	\$ (5.2)	\$ (6.8)
Provision for loan losses	(2.3)	(5.5)
Total non-interest income	1.7	0.5
Total non-interest expense	9.3	6.8
Loss before income tax benefit	(10.5)	(7.6)
Income tax benefit	(3.5)	(2.5)
Net loss	\$ (7.0)	\$ (5.1)
Average total assets	\$ 682.7	\$ 633.4
Average total liabilities	349.9	354.1

---

## Net Interest Income

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

In December 2015, the Board of Governors of the Federal Reserve System (the FRB) raised the targeted range for the federal funds rate by 25 basis points to 0.25% to 0.50%. Until then, the FRB had not changed the targeted range of 0% to 0.25% since December 2008. For the first quarter of 2016, the average effective federal funds rate was 0.36%.

The net interest margin was 2.83% in the first quarter of 2016 compared to 2.87% in the fourth quarter of 2015 and 2.91% in the first quarter of 2015. The decline in the net interest margin from the fourth quarter of 2015 primarily reflects one less calendar day in the first quarter of 2016, a decline in the yield on the securities portfolio and higher deposits and borrowing costs, partially offset by new loan originations at rates higher than the existing portfolio. The lower yield on the securities portfolio was driven in large part by a reduction in the dividend rate paid on Federal Reserve Bank stock resulting from the a reduction in the dividend rate paid on Federal Reserve Bank capital stock from an annual fixed-rate of 6% to the lesser of 6% or a rate based on 10-year Treasury notes, for those banks with total assets greater than \$10 billion, including the Bank. The Company estimates that dividend income from the Federal Reserve Bank of New York (the FRB-NY) capital stock may be reduced by approximately \$5 million on an annual basis. The net interest margin continues to be negatively impacted by the historically low interest rate environment where loan repricings are outpacing the Company's ability to lower deposit costs as well as the continued investment of a portion of the Company's capital in low-yielding short-term investments.

### First Quarter 2016 Compared to First Quarter 2015

FTE net interest income increased \$13.5 million compared to the first quarter of 2015, reflecting a \$19.2 million increase in total interest and dividend income partially offset by a \$5.7 million increase in total interest expense, and the net interest margin decreased eight basis points to 2.83%. The decline in the net interest margin primarily reflects increases in average deposit and borrowing balances (a total of six basis points).

Average total earning assets were \$35.0 billion in the first quarter of 2016, a \$2.9 billion increase from the first quarter of 2015, primarily reflecting increases of \$1.7 billion in average total loans and \$1.2 billion in average securities. Average total loans, average securities and average short-term investments comprised 80%, 19% and 1%, respectively, of average total earning assets in the first quarter of 2016, compared to 82%, 17% and 1%, respectively, in the year-ago quarter. In the current quarter, the yield earned on the total loan portfolio was 3.50% and the yield earned on securities and short-term investments was 2.28%, compared to 3.55% and 2.20%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, 50% of the loan portfolio had floating interest rates at March 31, 2016, compared to 49% at December 31, 2015.

The average total commercial and residential mortgage loan portfolios increased \$1.1 billion and \$530 million, respectively, compared to the year-ago quarter, reflecting growth. Average consumer loans decreased \$5 million compared to the year-ago quarter, reflecting a \$5 million decrease in average indirect auto loans.

Average total funding liabilities were \$33.4 billion in the first quarter of 2016, a \$2.8 billion increase from the year-ago period, reflecting increases of \$2.1 billion in average total deposits and \$646 million in average total borrowings. The increase in average total deposits reflects organic growth and a \$44 million increase in average brokered deposits. Excluding brokered deposits, average savings and money market deposits and average non-interest-bearing deposits increased \$1.9 billion and \$389 million, respectively, and average time deposits decreased \$49 million. Average total deposits comprised 86% and 87% of average total funding liabilities in the first quarter of 2016 and the year-ago period, respectively.

The three basis point increase to 0.45% in the rate paid on average total funding liabilities primarily reflects increases in the costs of total deposit and total borrowings. The rate paid on average deposits increased two basis points from the first quarter of 2015, primarily reflecting increases of 11 basis points in time deposits and three basis points in savings and money market deposits. Average savings and money market deposits and average time deposits comprised 62% and 17%, respectively, of average total deposits in the first quarter of 2016 compared to 59% and 20%, respectively, in the comparable 2015 period.

### **First Quarter 2016 Compared to Fourth Quarter 2015**

FTE net interest income increased \$2.1 million compared to the fourth quarter of 2015, reflecting a \$4.6 million increase in total interest and dividend income partially offset by a \$2.5 million increase in total interest expense, and the net interest margin decreased four basis points to 2.83%. The decline in the net interest margin reflects increases in average investment, deposit and borrowing balances (which reduced the net interest margin by a total of five basis points) and one less calendar day (which reduced the net interest margin by two basis points), partially offset by new loan volume at rates higher than the existing portfolio (which benefited the net interest margin by three basis points).

Average total earning assets increased \$772 million, primarily reflecting increases of \$306 million in average total loans and \$365 million in average securities. The average total commercial and residential mortgage loan portfolios increased \$216 million and \$100 million, respectively, compared to the fourth quarter of 2015.

Average total funding liabilities increased \$724 million, reflecting increases of \$241 million in average total deposits and \$476 million in average total borrowings. The increase in average total deposits reflects organic growth. The increase in average total borrowings reflects the additional funding used to support loan growth and securities purchases.

The following table presents average balance sheets, FTE-basis interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended March 31, 2016, December 31, 2015 and March 31, 2015. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People's United has ceased to accrue interest. Premium amortization and discount accretion (including amounts attributable to purchase accounting adjustments) are also included in the respective interest income and interest expense amounts. The impact of People's United's use of derivative instruments in managing IRR is also reflected in the table, classified according to the instrument hedged and the related risk management objective.

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

Three months ended (dollars in millions)	March 31, 2016			December 31, 2015			March 31, 2015		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Assets:</b>									
<b>Short-term</b>									
investments (2)	\$ 347.8	\$ 0.4	0.47%	\$ 247.1	\$ 0.2	0.21%	\$ 275.9	\$ 0.1	0.20%
Securities (3)	6,498.0	38.7	2.38	6,133.1	37.7	2.46	5,325.0	30.7	2.31
<b>Loans:</b>									
Commercial real estate	9,997.6	86.8	3.47	9,911.1	86.1	3.48	9,401.6	85.3	3.63
Commercial and industrial	7,478.1	63.4	3.39	7,426.5	62.2	3.35	7,063.1	59.8	3.38
Equipment financing	2,951.9	33.3	4.52	2,874.3	33.1	4.62	2,832.9	31.7	4.48
Residential mortgage	5,540.3	44.1	3.18	5,440.6	43.3	3.17	5,010.1	40.4	3.23
Consumer	2,191.7	18.6	3.40	2,200.7	18.1	3.31	2,196.4	18.1	3.30
Total loans	28,159.6	246.2	3.50	27,853.2	242.8	3.49	26,504.1	235.3	3.55
Total earning assets	35,005.4	\$ 285.3	3.26%	34,233.4	\$ 280.7	3.28%	32,105.0	\$ 266.1	3.32%
Other assets	3,767.7			3,721.8			3,690.6		
Total assets	\$ 38,773.1			\$ 37,955.2			\$ 35,795.6		
<b>Liabilities and stockholders equity:</b>									
<b>Deposits:</b>									
Non-interest-bearing	\$ 5,992.3	\$	%	\$ 6,049.3	\$	%	\$ 5,603.2	\$	%
Savings, interest-bearing									
checking and money market	17,905.6	12.7	0.29	17,453.7	11.6	0.27	15,692.0	10.0	0.26
Time	4,823.6	12.5	1.03	4,977.6	13.0	1.05	5,284.1	12.2	0.92
Total deposits	28,721.5	25.2	0.35	28,480.6	24.6	0.35	26,579.3	22.2	0.33
<b>Borrowings:</b>									
Federal Home Loan Bank advances	2,880.0	4.4	0.61	2,353.8	2.8	0.47	2,058.0	2.2	0.42
Customer repurchase agreements	389.6	0.2	0.19	434.9	0.2	0.20	486.6	0.2	0.18
	394.0	0.4	0.44	398.5	0.3	0.23	472.5	0.2	0.17

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

Federal funds purchased									
Other borrowings							1.0		1.78
<b>Total borrowings</b>	<b>3,663.6</b>	<b>5.0</b>	<b>0.54</b>	<b>3,187.2</b>	<b>3.3</b>	<b>0.40</b>	<b>3,018.1</b>	<b>2.6</b>	<b>0.34</b>
Notes and debentures	1,043.8	7.7	2.96	1,037.6	7.5	2.90	1,034.5	7.4	2.85
<b>Total funding liabilities</b>	<b>33,428.9</b>	<b>\$ 37.9</b>	<b>0.45%</b>	<b>32,705.4</b>	<b>\$ 35.4</b>	<b>0.43%</b>	<b>30,631.9</b>	<b>\$ 32.2</b>	<b>0.42%</b>
Other liabilities	583.4			513.8			500.6		
<b>Total liabilities</b>	<b>34,012.3</b>			<b>33,219.2</b>			<b>31,132.5</b>		
Stockholders equity	4,760.8			4,736.0			4,663.1		
<b>Total liabilities and stockholders equity</b>	<b>\$ 38,773.1</b>			<b>\$ 37,955.2</b>			<b>\$ 35,795.6</b>		
Net interest income/spread (4)		\$ 247.4	2.81%		\$ 245.3	2.85%		\$ 233.9	2.90%
<b>Net interest margin</b>			<b>2.83%</b>			<b>2.87%</b>			<b>2.91%</b>

(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) The FTE adjustment was \$7.3 million, \$6.5 million and \$5.8 million for the three months ended March 31, 2016, December 31, 2015 and March 31, 2015, respectively.

## 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'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 March 31, 2016 Compared To					
	March 31, 2015			December 31, 2015		
	Increase (Decrease)			Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest and dividend income:</b>						
Short-term investments	\$	\$ 0.3	\$ 0.3	\$	\$ 0.2	\$ 0.2
Securities	7.0	1.0	8.0	2.2	(1.2)	1.0
<b>Loans:</b>						
Commercial real estate	5.3	(3.8)	1.5	0.8	(0.1)	0.7
Commercial and industrial	3.5	0.1	3.6	0.4	0.8	1.2
Equipment financing	1.3	0.3	1.6	0.9	(0.7)	0.2
Residential mortgage	4.2	(0.5)	3.7	0.8		0.8
Consumer		0.5	0.5	(0.1)	0.6	0.5
<b>Total loans</b>	<b>14.3</b>	<b>(3.4)</b>	<b>10.9</b>	<b>2.8</b>	<b>0.6</b>	<b>3.4</b>
<b>Total change in interest and dividend income</b>	<b>21.3</b>	<b>(2.1)</b>	<b>19.2</b>	<b>5.0</b>	<b>(0.4)</b>	<b>4.6</b>
<b>Interest expense:</b>						
<b>Deposits:</b>						
Savings, interest-bearing checking and money market	1.5	1.2	2.7	0.3	0.8	1.1
Time	(1.1)	1.4	0.3	(0.4)	(0.1)	(0.5)
<b>Total deposits</b>	<b>0.4</b>	<b>2.6</b>	<b>3.0</b>	<b>(0.1)</b>	<b>0.7</b>	<b>0.6</b>
<b>Borrowings:</b>						
Federal Home Loan Bank advances	1.0	1.2	2.2	0.7	0.9	1.6
Customer repurchase agreements						
Federal funds purchased	(0.1)	0.3	0.2		0.1	0.1
Other borrowings						
<b>Total borrowings</b>	<b>0.9</b>	<b>1.5</b>	<b>2.4</b>	<b>0.7</b>	<b>1.0</b>	<b>1.7</b>
<b>Notes and debentures</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>		<b>0.2</b>	<b>0.2</b>
<b>Total change in interest expense</b>	<b>1.4</b>	<b>4.3</b>	<b>5.7</b>	<b>0.6</b>	<b>1.9</b>	<b>2.5</b>



Change in net interest income	\$ 19.9	\$ (6.4)	\$ 13.5	\$ 4.4	\$ (2.3)	\$ 2.1
-------------------------------	---------	----------	---------	--------	----------	--------

**Non-Interest Income**

(in millions)	Three Months Ended		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
Bank service charges	\$ 23.8	\$ 25.0	\$ 24.2
Investment management fees	11.1	10.8	10.8
Operating lease income	10.4	10.5	10.8
Insurance revenue	9.3	7.5	7.6
Commercial banking lending fees	8.1	9.2	13.3
Cash management fees	6.0	6.1	5.9
Brokerage commissions	3.0	3.1	3.2
Net gains on sales of residential mortgage loans	0.9	1.3	0.7
Gain on sale of business, net of expenses		9.2	
Other non-interest income:			
Customer interest rate swap income, net	3.3	3.6	5.3
BOLI	1.0	1.0	1.1
Net gains on sales of acquired loans			1.9
Net security gains	0.1		
Other	5.3	6.0	4.2
<b>Total other non-interest income</b>	<b>9.7</b>	<b>10.6</b>	<b>12.5</b>
<b>Total non-interest income</b>	<b>\$ 82.3</b>	<b>\$ 93.3</b>	<b>\$ 89.0</b>

Total non-interest income decreased \$11.0 million compared to the fourth quarter of 2015 and \$6.7 million compared to the first quarter of 2015. The decrease in non-interest income compared to the fourth quarter of 2015 primarily reflects the effects of the gain on sale of business in the fourth quarter of 2015, lower bank service charges and volume-driven commercial banking lending fees, partially offset by an increase in insurance revenue. The decrease compared to the first quarter of 2015 primarily reflects decreases in commercial banking lending fees, customer interest rate swap income and net gains on sales of acquired loans, partially offset by an increase in insurance revenue.

Bank service charges continue to be impacted as a result of certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as lower overdraft fees. The increase in insurance revenue from the fourth quarter of 2015 reflects the seasonal nature of insurance renewals as well as the benefit from the acquisition of Kesten-Brown Insurance, LLC, in October 2015.

Assets under administration and those under full discretionary management, neither of which are reported as assets of People's United, totaled \$10.4 billion and \$5.6 billion, respectively, at March 31, 2016, compared to \$9.9 billion and \$5.6 billion, respectively, at December 31, 2015.

The decrease in commercial banking lending fees compared to both the first and fourth quarters of 2015 primarily reflects lower prepayment fees in the first quarter of 2016. The decrease in net gains on sales of residential mortgage loans compared to the fourth quarter of 2015 primarily reflects a 29% decrease in the volume of residential mortgage loan sales. The increase compared to the first quarter of 2015 primarily reflects an improvement in spreads on pricing

partially offset by a 7% decrease in the volume of residential mortgage loan sales.

On an FTE basis, BOLI income totaled \$1.5 million in the first quarter of 2016, compared to \$1.5 million in the fourth quarter of 2015 and \$1.7 million in the year-ago quarter.

**Non-Interest Expense**

(dollars in millions)	Three Months Ended		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
Compensation and benefits	\$ 114.1	\$ 112.0	\$ 114.8
Occupancy and equipment	37.5	37.0	38.7
Professional and outside service fees	17.4	17.9	15.8
Operating lease expense	9.2	9.4	9.3
Regulatory assessments	8.0	7.1	9.3
Amortization of other acquisition-related intangibles	5.8	6.1	5.9
Other non-interest expense:			
Stationery, printing, postage and telephone	4.5	4.9	4.8
Advertising and promotion	2.3	3.0	2.3
Other	18.5	19.6	16.7
<b>Total other non-interest expense</b>	<b>25.3</b>	<b>27.5</b>	<b>23.8</b>
<b>Total non-interest expense</b>	<b>\$ 217.3</b>	<b>\$ 217.0</b>	<b>\$ 217.6</b>
<b>Efficiency ratio</b>	<b>62.7%</b>	<b>61.0%</b>	<b>61.9%</b>

Total non-interest expense increased \$0.3 million compared to the fourth quarter of 2015 and decreased \$0.3 million compared to the first quarter of 2015. Included in total non-interest expense in the fourth quarter of 2015 and the first quarter of 2015 are costs associated with severance and the writedowns of certain banking house assets totaling \$3.8 million and \$6.0 million, respectively.

As compared to the fourth quarter of 2015, the increase in the efficiency ratio primarily reflects an increase in adjusted total expenses and a slight decrease in adjusted total revenues. The increase in the efficiency ratio compared to the first quarter of 2015 reflects an increase in adjusted total expenses partially offset by an increase in adjusted total revenues (see Non-GAAP Financial Measures and Reconciliation to GAAP).

Compensation and benefits increased \$2.1 million compared to the fourth quarter of 2015 and decreased \$0.7 million compared to the year-ago quarter. Compensation and benefits includes severance-related costs totaling \$1.3 million in the fourth quarter of 2015 and \$0.7 million in the first quarter of 2015. The increase from the fourth quarter of 2015 (\$3.4 million excluding severance-related costs) primarily reflects higher payroll and benefit-related costs in the first quarter of 2016. Effective January 1, 2016, People's United changed the method used to estimate the interest cost component of net periodic benefit income for its pension and other postretirement plans. For the first quarter of 2016, pension-related expense declined by approximately \$0.8 million as a result of this change in accounting estimate (see Note 7 to the Consolidated Financial Statements).

The increase in professional and outside service fees compared to the first quarter of 2015 is primarily related to costs associated with a number of initiatives focused on enhancing the Company's product offerings and processes. The decrease in advertising and promotion compared to the fourth quarter of 2015 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 increase in regulatory assessments compared to fourth quarter of 2015 primarily reflects an increase in the Bank 's average total assets. Regulatory assessment expense in the fourth quarter of 2015 reflects a \$2.4 million benefit resulting from the overpayment of FDIC assessments in prior periods.

In March 2016, the FDIC issued a final rule that will serve to implement a Dodd-Frank Wall Street Reform and Consumer Protection Act provision requiring banks with over \$10 billion in assets to be responsible for recapitalizing the Deposit Insurance Fund (the DIF ) to 1.35% of insured deposits after it reaches a 1.15% reserve ratio. The rule will become effective on July 1, 2016. For banks with over \$10 billion in assets, the rule will impose a 4.5 basis point surcharge to bring the DIF 's reserve ratio to 1.35% by the end of 2018. For the surcharge only, the assessment base would be reduced by \$10 billion. The Company is currently evaluating the impact of the proposed surcharge on the Company 's Consolidated Financial Statements.

Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2016 and each of the next five years is as follows: \$23.2 million in 2016; \$22.1 million in 2017; \$10.7 million in 2018; \$9.9 million in 2019; \$9.5 million in 2020; and \$9.2 million in 2021.

Included in other non-interest expense in both the fourth and first quarters of 2015 are \$2.5 million and \$5.3 million, respectively, of charges associated with the writedowns of certain banking house assets.

## Income Taxes

People's United's effective income tax rate was 33.5% for the three months ended March 31, 2016, which approximates the expected income tax rate for the full-year of 2016, compared to 33.4% for the full-year of 2015. Differences, if any, arising between People's United'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 March 31, 2016 were \$39.3 billion, a \$317 million increase from December 31, 2015, reflecting increases of \$282 million in total securities and \$100 million in total loans, partially offset by a \$162 million decrease in cash and cash equivalents. The increase in total securities primarily reflects purchases of residential mortgage-backed securities. The increase in total loans from December 31, 2015 to March 31, 2016 reflects a \$144 million increase in residential mortgage loans partially offset by a \$20 million decrease in commercial loans. Originated loans increased \$132 million from December 31, 2015 to \$27.7 billion (retail loans increased \$132 million) and acquired loans decreased \$32 million. At March 31, 2016, the carrying amount of the acquired loan portfolio totaled \$764 million. The decrease in cash and cash equivalents primarily reflects a \$207 million decrease in interest-bearing deposits at the FRB-NY.

Non-performing assets (excluding acquired non-performing loans) totaled \$189.4 million at March 31, 2016, a \$7.9 million increase from December 31, 2015, primarily reflecting increases in non-performing equipment financing loans of \$13.6 million and non-performing commercial real estate loans of \$5.7 million, partially offset by decreases in non-performing residential mortgage loans of \$6.1 million and non-performing commercial and industrial loans of \$3.4 million. The allowance for loan losses totaled \$215.5 million (\$207.6 million on originated loans and \$7.9 million on acquired loans) at March 31, 2016, compared to \$211.0 million (\$202.9 million on originated loans and \$8.1 million on acquired loans) at December 31, 2015. At March 31, 2016, 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 123.3%, compared to 0.73% and 127.3%, respectively, at December 31, 2015.

At March 31, 2016, total liabilities were \$34.5 billion, a \$258 million increase from December 31, 2015, primarily reflecting a \$688 million increase in total deposits, including a \$33 million decrease in brokered deposits, partially offset by a \$590 million decrease in total borrowings.

People's United's total stockholders' equity was \$4.8 billion at March 31, 2016, a \$59.6 million increase from December 31, 2015. This increase primarily reflects net income of \$62.9 million for the three months ended March 31, 2016 and a \$42.5 million decrease in accumulated other comprehensive loss (AOCL) since December 31,

2015, partially offset by dividends paid of \$50.7 million in the three months ended March 31, 2016. As a percentage of total assets, stockholders' equity was 12.2% and 12.1% at March 31, 2016 and December 31, 2015, respectively. Tangible stockholders' equity equaled 7.3% of tangible assets at March 31, 2016 compared to 7.2% at December 31, 2015.

People's United's Tier 1 Leverage, Common Equity Tier 1 ( CET1 ), and Tier 1 and Total Risk-Based capital ratios were 7.9%, 9.7%, 9.7% and 11.5%, respectively, at March 31, 2016, compared to 8.0%, 9.8%, 9.8% and 11.7%, respectively, at December 31, 2015. The Bank's Tier 1 Leverage, CET1, and Tier 1 and Total Risk-Based capital ratios were 8.8%, 10.9%, 10.9% and 12.9%, respectively, at March 31, 2016, compared to 8.4%, 10.2%, 10.2% and 12.6%, respectively, at December 31, 2015 (see Regulatory Capital Requirements).

## Loans

People's United'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's loan portfolios:

### *Commercial Real Estate*

(in millions)	March 31, 2016	December 31, 2015
<b>Property Type:</b>		
Residential (multi-family)	\$ 3,800.1	\$ 3,807.2
Retail	2,498.0	2,450.5
Office buildings	2,149.3	2,137.3
Industrial/manufacturing	573.3	578.4
Hospitality/entertainment	483.7	490.2
Mixed/special use	229.7	259.2
Self storage	136.8	136.7
Health care	73.0	63.9
Land	59.0	56.7
Other	43.5	48.7
<b>Total commercial real estate</b>	<b>\$ 10,046.4</b>	<b>\$ 10,028.8</b>

### *Commercial and Industrial*

(in millions)	March 31, 2016	December 31, 2015
<b>Industry:</b>		
Service	\$ 1,384.2	\$ 1,390.1
Finance and insurance	1,360.9	1,374.9
Manufacturing	1,016.9	1,004.2
Wholesale distribution	859.3	880.6
Health services	846.4	849.4
Real estate, rental and leasing	814.4	797.7
Retail sales	636.8	633.0
Transportation/utility	232.0	225.6
Construction	173.9	182.0
Arts/entertainment/recreation	140.7	146.1
Information/media	126.0	125.2
Public administration	53.7	61.8
Mining, oil and gas	15.5	31.7



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

Other	46.4	46.4
Total commercial and industrial	\$ 7,707.1	\$ 7,748.7

*Equipment Financing*

(in millions)	March 31, 2016	December 31, 2015
<b>Industry:</b>		
Transportation/utility	\$ 1,075.0	\$ 1,076.2
Construction	401.3	407.3
Finance, insurance and real estate	391.5	370.8
Waste	196.8	204.0
Printing	180.5	182.0
Manufacturing	157.5	155.1
Wholesale distribution	157.2	162.6
Packaging	130.7	137.5
Service	71.5	72.1
Mining, oil and gas	69.8	66.5
Health services	55.9	56.2
Other	90.1	83.0
<b>Total equipment financing</b>	<b>\$ 2,977.8</b>	<b>\$ 2,973.3</b>

*Residential Mortgage*

(in millions)	March 31, 2016	December 31, 2015
Adjustable-rate	\$ 4,988.0	\$ 4,851.2
Fixed-rate	612.8	605.8
<b>Total residential mortgage</b>	<b>\$ 5,600.8</b>	<b>\$ 5,457.0</b>

*Consumer*

(in millions)	March 31, 2016	December 31, 2015
Home equity lines of credit	\$ 1,939.0	\$ 1,964.8
Home equity loans	191.2	188.9
Other	48.4	49.4
<b>Total consumer</b>	<b>\$ 2,178.6</b>	<b>\$ 2,203.1</b>

## Asset Quality

### *Recent Trends*

While People's United 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 as was experienced for much of the period from 2008 to 2012. 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 interest income and adversely impact loan loss experience, resulting in an increased provision and allowance for loan losses.

People's United 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 attempts to minimize losses associated with commercial 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 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, 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.

The Office of the Comptroller of the Currency guidance requires that loans subject to a borrower's discharge from personal liability following a Chapter 7 bankruptcy 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 March 31, 2016 are \$26.7 million of such loans. Of this amount, \$18.1 million, or 68%, were less than 90 days past due on their payments as of that date.

TDRs may either be accruing or placed on non-accrual status (and reported as non-performing loans) depending upon the loan's specific circumstances, including the nature and extent of the related modifications. TDRs on non-accrual status remain classified as such until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months in the case of a commercial loan or, in the case of a retail loan, when the loan is less than 90 days past due. Loans may continue to be reported as TDRs after they are returned to accrual status.

During the three months ended March 31, 2016, we performed 29 loan modifications that were not classified as TDRs. The balances of the loans at the time of the respective modifications totaled \$58.0 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 3 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

---

*Portfolio Risk Elements Residential Mortgage Lending*

People's United does not actively engage in subprime mortgage lending which has, historically, been the riskiest sector of the residential housing market. People's United 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 March 31, 2016, the loan portfolio included \$1.1 billion of interest-only residential mortgage loans, none of which are stated income loans. People's United 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. People's United 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). In general, People's United'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.

Updated estimates of property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At March 31, 2016, non-performing residential mortgage loans totaling \$0.4 million had current LTV ratios of more than 100%. At March 31, 2016, the weighted average LTV ratio and FICO score for the residential mortgage loan portfolio were 63% and 754, respectively.

The Company continues to monitor its foreclosure policies and procedures to ensure ongoing compliance with applicable industry standards. We believe that our established procedures for reviewing foreclosure affidavits and validating information contained in related loan documentation are sound and consistently applied, and that our foreclosure affidavits are accurate. As a result, People's United 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 Company to any material loss.

During the three months ended March 31, 2016, the Company repurchased one residential mortgage loan from government sponsored enterprises (GSEs) and other parties that we had previously sold to the GSEs and other parties. The balances of the loans at the time of the repurchase totaled \$0.4 million and related fees and expenses incurred totaled less than \$0.1 million. During that same time period, the Company issued two investor refunds, totaling less than \$0.1 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 March 31, 2016.

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.



*Portfolio Risk Elements Home Equity Lending*

The majority of our home equity lines of credit ( HELOCs ) have an initial draw period of 10 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, including a condominium, and 70% on a two-family property. 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 March 31, 2016, the committed amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2016	\$ 129.8
2017	287.1
2018	296.2
2019	133.7
2020	230.1
2021	375.3
Later years	2,244.1
<b>Total</b>	<b>\$ 3,696.3</b>

Approximately 90% of our HELOCs 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 March 31, 2016 are as follows:

(dollars in millions)	Portfolio Balance	Delinquencies Amount	Percent
<b>HELOC status:</b>			
Still in draw period	\$ 1,735.1	\$ 10.7	0.62%
Amortizing payment	203.9	10.5	5.15

For the three months ended March 31, 2016, 37% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

The majority of home equity loans fully amortize over terms ranging from 5 to 20 years. Home equity loans are limited to first or second liens on a borrower's primary residence. The maximum LTV ratio is 80% on a single-family property, including a condominium, and 70% on a two-family property. Lower LTV ratios are required on larger line amounts.



We are not able, at this time, to develop statistics for the entire home equity portfolio (both HELOCs and home equity loans) 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 March 31, 2016, full and complete first lien position data was not readily available for 37% 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 March 31, 2016, the portion of the home equity portfolio more than 90 days past due with a CLTV greater than 80% was \$6.1 million.

As of March 31, 2016, full and complete first lien position data was readily available for 63%, or \$1.3 billion, of the home equity portfolio. Of that total, 38%, or \$513.2 million, are in a junior lien position. We estimate that of those junior liens, 35%, or \$179.6 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 March 31, 2016, there were 37 loans totaling \$2.4 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 28 of the loans (totaling \$1.8 million), our second lien position was performing at the time such foreclosure action was commenced. The total estimated loss related to those 28 loans was less than \$0.1 million as of March 31, 2016. 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 March 31, 2016.

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 March 31, 2016, 92% 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 March 31, 2016, the weighted average CLTV ratio and FICO score for the home equity portfolio were 56% and 759, respectively.



*Portfolio Risk Elements Commercial Real Estate Lending*

In general, construction loans originated by People's United 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's construction loan portfolio totaled \$654.5 million (2% of total loans) at March 31, 2016. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, was \$946.4 million. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At March 31, 2016, construction loans totaling \$407.8 million had remaining available interest reserves of \$36.2 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 similar to those discussed previously. People's United had \$9.1 million of restructured construction loans at March 31, 2016.

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 evaluates the financial condition of guarantors based on the most current financial information available. Most often, such information takes the form of (i) personal financial statements of net worth, cash flow statements and tax returns (for individual guarantors) and (ii) financial and operating statements, tax returns and financial projections (for legal entity guarantors). The Company's evaluation is primarily focused on various key

financial metrics, including net worth, leverage ratios and liquidity. It is the Company's policy to update such information annually, or more frequently as warranted, over the life of the loan.

While People's United 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 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'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'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 loans deemed to be impaired, including originated loans classified as TDRs.

***Larger-balance, Non-homogeneous Loans.*** The Company establishes a loan loss allowance for its larger-balance, non-homogeneous loans using a methodology that incorporates (i) the probability of default for a given loan risk rating and (ii) historical default data over a multi-year period. In accordance with the Company's loan risk rating system, each loan, with the exception of those included in large groups of smaller-balance homogeneous loans, is assigned a risk rating (using a nine-grade scale) by the originating loan officer, credit management, internal loan review or loan committee. Loans rated One represent those loans least likely to default while loans rated Nine represent a loss. The probability of loans defaulting for each risk rating, referred to as default factors, are estimated based on the historical pattern of loans migrating from one risk rating to another and to default status over time as well as the length of time that it takes losses to emerge. Estimated loan default factors, which are updated annually (or more frequently, if necessary), are multiplied by loan balances within each risk-rating category and again multiplied by a 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 also 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 estimates. 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 evaluates the qualitative factors on a quarterly basis in order to conclude that they continue to be appropriate. There were no significant changes in our approach to determining the qualitative component of the related allowance for loan losses during the three months ended March 31, 2016.



***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, and the establishment of the related allowance for loan losses, is based upon a consideration of (i) recent historical loss experience and (ii) certain qualitative factors.

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.

The qualitative component of the allowance for loan losses for smaller-balance, homogenous loans is intended to incorporate risks inherent in the portfolio, economic uncertainties, regulatory requirements and other subjective factors such as changes in underwriting standards. Accordingly, consideration is given to: (i) present and forecasted economic conditions, including unemployment rates; (ii) changes in industry trends, including the impact of new regulations, (iii) trends in property values; (iv) broader portfolio indicators, including delinquencies, non-performing loans, portfolio concentrations, and trends in the volume and terms of loans; and (v) portfolio-specific risk characteristics.

The portfolio-specific 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.), the combination of which results in a loan being classified as either High, Moderate or Low risk. These risk classifications are reviewed quarterly to ensure that changes within the portfolio, as well as economic indicators and industry developments, have been appropriately considered in establishing the related allowance for loan losses.

In establishing the allowance for loan losses for smaller-balance, homogeneous loans, the amount reflecting the Company's consideration of qualitative factors is added to the amount attributable to historical portfolio loss experience. 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 our approach to determining the qualitative component of the related allowance for loan losses during the three months ended March 31, 2016.

***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 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 loans secured by residential real estate 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 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 and home equity portfolios 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 did not change its methodologies with respect to determining the allowance for loan losses during the first three months of 2016. As part of its ongoing assessment of the allowance for loan losses, People's United regularly makes refinements to certain underlying assumptions used in its methodologies. However, such refinements did not have a material impact on the allowance for loan losses or the provision for loan losses as of or for the three months ended March 31, 2016.

#### *Acquired Loans*

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

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

Selected asset quality metrics presented below distinguish between the *originated* portfolio and the *acquired* portfolio. All loans acquired in connection with acquisitions 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		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
<b>Allowance for loan losses on originated loans:</b>			
Balance at beginning of period	\$ 202.9	\$ 198.1	\$ 188.1
Charge-offs	(7.4)	(7.8)	(8.1)
Recoveries	1.7	1.6	0.9
<b>Net loan charge-offs</b>	<b>(5.7)</b>	<b>(6.2)</b>	<b>(7.2)</b>
Provision for loan losses	10.4	11.0	10.2
<b>Balance at end of period</b>	<b>\$ 207.6</b>	<b>\$ 202.9</b>	<b>\$ 191.1</b>
<b>Allowance for loan losses on acquired loans:</b>			
Balance at beginning of period	\$ 8.1	\$ 9.4	\$ 10.2
Charge-offs	(0.3)		
Provision for loan losses	0.1	(1.3)	(0.4)
<b>Balance at end of period</b>	<b>\$ 7.9</b>	<b>\$ 8.1</b>	<b>\$ 9.8</b>
<b>Commercial originated allowance for loan losses as a percentage of originated commercial loans</b>	<b>0.92%</b>	<b>0.90%</b>	<b>0.91%</b>
<b>Retail originated allowance for loan losses as a percentage of originated retail loans</b>	<b>0.30</b>	<b>0.28</b>	<b>0.26</b>
<b>Total originated allowance for loan losses as a percentage of:</b>			
Originated loans	0.75	0.73	0.74
Originated non-performing loans	123.3	127.3	107.5

The provision for loan losses on originated loans totaled \$10.4 million for the three months ended March 31, 2016, reflecting \$5.7 million in net loan charge-offs (including \$1.6 million against previously-established specific reserves) and a \$6.3 million increase in the originated allowance for loan losses in response to portfolio-specific risk factors and loan growth. The provision for loan losses on originated loans totaled \$10.2 million in the year-ago period, reflecting \$7.2 million in net loan charge-offs (including \$3.2 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 acquired loans for the three months ended March 31, 2016 reflects loan impairment while the provision for loan losses on acquired loans in the year-ago period reflects an allowance reversal.

Management believes that the level of the allowance for loan losses at March 31, 2016 is appropriate to cover probable losses.

*Loan Charge-Offs*

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

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 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		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
<b>Commercial:</b>			
Commercial real estate	\$ 0.7	\$ (0.1)	\$ 2.8
Commercial and industrial	2.2	3.5	2.1
Equipment financing	1.6	1.4	1.1
<b>Total</b>	<b>4.5</b>	<b>4.8</b>	<b>6.0</b>
<b>Retail:</b>			
Residential mortgage		0.1	0.4
Home equity	1.4	1.1	0.5
Other consumer	0.1	0.2	0.3
<b>Total</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>
<b>Total net loan charge-offs</b>	<b>\$ 6.0</b>	<b>\$ 6.2</b>	<b>\$ 7.2</b>

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

	Three Months Ended		
	March 31, 2016	Dec. 31, 2015	March 31, 2015
<b>Commercial:</b>			
Commercial real estate	0.03%	(0.01)%	0.12%
Commercial and industrial	0.12	0.19	0.12
Equipment financing	0.06	0.05	0.04
<b>Retail:</b>			
Residential mortgage			0.03

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

Home equity	0.26	0.22	0.10
Other consumer	0.87	1.13	1.62
Total portfolio	0.09%	0.09%	0.11%

Net loan charge-offs as a percentage of average total loans (annualized) were 0.09% for the three months ended March 31, 2016. The comparatively low level of net loan charge-offs in recent years, in terms of absolute dollars and as a percentage of average total loans, may not be sustainable in the future.

*Non-Performing Assets*

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the 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 March 31, 2016 or December 31, 2015.

**Non-Performing Assets**

(dollars in millions)	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
Originated non-performing loans:					
Commercial:					
Commercial and industrial	\$ 41.5	\$ 44.9	\$ 62.9	\$ 52.4	\$ 42.6
Equipment financing	41.1	27.5	29.4	38.3	34.9
Commercial real estate	35.9	30.2	31.8	36.5	43.3
Total	118.5	102.6	124.1	127.2	120.8
Retail:					
Residential mortgage	31.1	37.2	38.2	40.9	37.5
Home equity	18.9	19.5	21.0	21.4	19.4
Other consumer		0.1		0.1	0.1
Total	50.0	56.8	59.2	62.4	57.0
Total originated non-performing loans (1)	168.5	159.4	183.3	189.6	177.8
REO:					
Residential	8.2	7.1	10.8	14.8	16.5
Commercial	5.4	5.5	8.2	10.6	10.2
Total REO	13.6	12.6	19.0	25.4	26.7
Repossessed assets	7.3	9.5	7.3	5.5	4.3

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

Total non-performing assets	\$ 189.4	\$ 181.5	\$ 209.6	\$ 220.5	\$ 208.8
-----------------------------	----------	----------	----------	----------	----------

Originated non-performing loans as a percentage of originated loans	0.61%	0.58%	0.68%	0.71%	0.68%
Non-performing assets as a percentage of:					
Originated loans, REO and repossessed assets	0.68	0.66	0.78	0.83	0.80
Tangible stockholders' equity and originated allowance for loan losses	6.49	6.38	7.37	7.91	7.52

- (1) Reported net of government guarantees totaling: \$16.2 million at March 31, 2016; \$16.9 million at December 31, 2015; \$17.3 million at September 30, 2015; \$16.6 million at June 30, 2015; and \$17.5 million at March 31, 2015. 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 March 31, 2016, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).

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: \$25.1 million and \$2.3 million, respectively, at March 31, 2016; \$27.7 million and \$2.3 million at December 31, 2015; \$36.6 million and \$1.8 million, respectively, at September 30, 2015; \$39.8 million and \$1.7 million, respectively, at June 30, 2015; and \$72.2 million and \$2.6 million, respectively, at March 31, 2015. Such loans otherwise meet People s United s definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

Total non-performing assets increased \$7.9 million from December 31, 2015 and equaled 0.68% of originated loans, real estate owned ( REO ) and repossessed assets at March 31, 2016. The increase in total non-performing assets from December 31, 2015 primarily reflects increases in non-performing equipment financing loans of \$13.6 million and non-performing commercial real estate loans of \$5.7 million, partially offset by decreases in non-performing residential mortgage loans of \$6.1 million, non-performing commercial and industrial loans of \$3.4 million and repossessed assets of \$2.2 million.

All loans and REO acquired in the Butler Bank acquisition 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 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 has also identified \$622.8 million in originated potential problem loans at March 31, 2016. 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 s loan rating system, which is consistent with guidelines established by banking regulators.

At March 31, 2016, originated potential problem loans consisted of commercial and industrial loans (\$275.5 million), equipment financing loans (\$249.3 million) and commercial real estate loans (\$98.0 million). 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. While management takes a proactive approach with respect to the identification and resolution of problem loans, the level of non-performing assets may increase in the future.

## 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 both People's United'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'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 to set guidelines to ensure maintenance of prudent levels of liquidity for People's United as well as for the Bank. ALCO reports to the Treasury and Finance Committee of the Board of Directors of People's United.

Asset liquidity is provided by: cash; short-term investments and securities purchased under agreements to resell; proceeds from maturities, principal repayments and sales of securities; 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's operating, investing and financing activities. At March 31, 2016, People's United (parent company) liquid assets included \$152 million in debt securities available for sale and \$96 million in cash while the Bank's liquid assets included \$4.6 billion in debt securities available for sale and \$554 million in cash and cash equivalents. Securities available for sale with a fair value of \$1.86 billion at March 31, 2016 were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by both People's United'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 \$29.1 billion at March 31, 2016 and represented 75% of total funding (the sum of total deposits, total borrowings, notes and debentures, and stockholders' equity). Borrowings are used to diversify People's United's funding mix and to support asset growth. Borrowings and notes and debentures totaled \$3.7 billion and \$1.1 billion, respectively, at March 31, 2016, 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 (the FHLB) of Boston and the FRB-NY, and repurchase agreements. At March 31, 2016, the Bank's total borrowing capacity from (i) the FHLB of Boston and the FRB-NY for advances and (ii) repurchase agreements was \$10.7 billion based on the level of qualifying collateral available for these borrowings. In addition, the Bank had unsecured borrowing capacity of \$0.8 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, home equity loans and commercial real estate loans).

At March 31, 2016, the Bank had outstanding commitments to originate loans totaling \$1.4 billion and approved, but unused, lines of credit extended to customers totaling \$6.1 billion (including \$2.1 billion of HELOCs).

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

### **Stockholders' Equity and Dividends**

People's United's total stockholders' equity was \$4.79 billion at March 31, 2016, a \$59.6 million increase from December 31, 2015. This increase primarily reflects net income of \$62.9 million for the three months ended March 31, 2016 and a \$42.5 million decrease in AOCL since December 31, 2015, partially offset by dividends paid of \$50.7 million in the three months ended March 31, 2016. The decrease in AOCL, net of tax, primarily reflects a \$41.1 million decrease in the net unrealized loss on securities available for sale. Stockholders' equity equaled 12.2% of total assets at March 31, 2016 compared to 12.1% at December 31, 2015. Tangible stockholders' equity equaled 7.3% of tangible assets at March 31, 2016 compared to 7.2% at December 31, 2015.

In April 2016, People's United's Board of Directors voted to increase the dividend on common stock to an annual rate of \$0.68 per share. The quarterly dividend of \$0.17 per share is payable on May 15, 2016 to shareholders of record on May 1, 2016. In February 2016, the Bank paid a cash dividend of \$68 million to People's United (parent company).



## Regulatory Capital Requirements

People's United and the Bank are both subject to new capital rules (the Basel III capital rules) issued by U.S. banking agencies that became effective on January 1, 2015. When fully phased-in on January 1, 2019, the Basel III capital rules will require U.S. financial institutions to maintain: (i) a minimum ratio of CET1 capital to total risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 capital ratio as that buffer is phased-in beginning in 2016, effectively resulting in a minimum ratio of CET1 capital to total risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to total 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 beginning in 2016, 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 total 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 beginning in 2016, 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, as defined. In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments, a financial institution must hold a capital conservation buffer above its minimum risk-based capital requirements. For 2016, the capital conservation buffer is 0.625%.

The following summary compares People's United's and the Bank's regulatory capital amounts and ratios under the Basel III capital rules. The improvement in the Bank's capital ratios since December 31, 2015 reflects an equity contribution from People's United (parent company). The minimum capital required amounts as of March 31, 2016 and December 31, 2015 are based on the capital conservation buffer phase-in provisions of the Basel III capital rules. In connection with the adoption of the Basel III capital rules, both the Company and the Bank elected to opt-out of the requirement to include most components of AOCL in CET1 capital. At March 31, 2016, both People's United's and the Bank's total risk-weighted assets, as defined, were \$29.8 billion compared to \$29.6 billion at December 31, 2015.

(dollars in millions)	As of March 31, 2016		Minimum Capital Required Basel III Phase-In (2016)		Classification as Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Tier 1 Leverage Capital (1):</b>						
People's United	\$ 2,896.3	7.9%	\$ 1,474.7	4.0%	\$ 1,843.4	5.0%
Bank	3,244.6	8.8	1,468.0	4.0	1,834.9	5.0
<b>CET1 Risk-Based Capital (2):</b>						
People's United	2,896.3	9.7	1,889.5	5.125	2,396.4	6.5
Bank	3,244.6	10.9	1,880.8	5.125	2,385.4	6.5
<b>Tier 1 Risk-Based Capital (3):</b>						
People's United	2,896.3	9.7	1,976.4	6.625	2,386.6	8.0
Bank	3,244.6	10.9	1,976.0	6.625	2,386.1	8.0
<b>Total Risk-Based Capital (4):</b>						
People's United	3,438.1	11.5	2,573.1	8.625	2,983.2	10.0
Bank	3,862.1	12.9	2,572.5	8.625	2,982.6	10.0

(dollars in millions)	As of December 31, 2015		Minimum Capital Required Basel III Phase-In (2015)		Classification as Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Tier 1 Leverage Capital (1):</b>						
People's United	\$ 2,898.1	8.0%	\$ 1,440.6	4.0%	\$ 1,800.8	5.0%
Bank	3,012.7	8.4	1,431.9	4.0	1,789.8	5.0
<b>CET1 Risk-Based Capital (2):</b>						
People's United	2,898.1	9.8	1,620.7	4.5	2,341.0	6.5
Bank	3,012.7	10.2	1,610.9	4.5	2,326.8	6.5
<b>Tier 1 Risk-Based Capital (3):</b>						
People's United	2,898.1	9.8	1,778.8	6.0	2,371.7	8.0
Bank	3,012.7	10.2	1,777.3	6.0	2,369.7	8.0
<b>Total Risk-Based Capital (4):</b>						
People's United	3,470.5	11.7	2,371.7	8.0	2,964.6	10.0
Bank	3,726.3	12.6	2,369.7	8.0	2,962.1	10.0

- (1) Tier 1 Leverage Capital ratio represents Tier 1 Capital divided by Average Total Assets (less goodwill, other acquisition-related intangibles and other deductions from CET1 Capital).
- (2) CET1 Capital ratio represents equity capital, as defined, less: (i) after-tax net unrealized gains (losses) on certain securities classified as available for sale; (ii) after-tax net unrealized gains (losses) on securities transferred to held to maturity; (iii) goodwill and other acquisition-related intangible assets; and (iv) the amount recorded in AOCL relating to pension and other postretirement benefits divided by Total Risk-Weighted Assets.
- (3) Tier 1 Risk-Based Capital ratio represents CET1 Capital plus Additional Tier 1 Capital instruments (together, Tier 1 Capital) divided by Total Risk-Weighted Assets.
- (4) Total Risk-Based Capital ratio represents Tier 1 Capital plus subordinated notes and debentures, up to certain limits, and the allowance for loan losses, up to 1.25% of Total Risk-Weighted Assets, divided by Total Risk-Weighted Assets.

Management currently estimates that, as of March 31, 2016, the Company's and the Bank's risk-based capital ratios could be negatively impacted by as much as 10-20 basis points on a fully phased-in basis.

## 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 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.

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 on 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 interest 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 percent change in the Company's net interest income at risk over one-year simulation periods beginning March 31, 2016 and December 31, 2015. Given the interest rate environment at those dates, simulations for interest rate declines of more than 25 basis points were not modeled but were considered by the Company as part of its overall management of IRR.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	March 31, 2016	December 31, 2015
+300	9.7%	9.6%
+200	7.4	6.9
+100	4.0	3.7
-25	(1.5)	(1.3)

Yield Curve Twist Rate Change (basis points)	Estimated Percent Change in Net Interest Income	
	March 31, 2016	December 31, 2015
Short End -25	(0.4)%	(0.6)%
Short End +100	1.2	1.8
Short End +200	2.6	3.6
Long End -100	(5.7)	(4.0)
Long End +100	2.9	2.0
Long End +200	5.0	3.5

The net interest income at risk simulation results indicate that at both March 31, 2016 and December 31, 2015, 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 89% of the Company's loan portfolio being funded by less rate-sensitive core deposits and (ii) approximately 42% of the Company's loan portfolio being comprised of Prime and one-month Libor-based floating-rate loans.

The increase in the Company's asset sensitivity since December 31, 2015 primarily reflects the increase in core deposits. The Company is less asset sensitive when the short-end rises and more asset sensitive when the long-end rises. This risk migration was due primarily to faster residential mortgage-backed security prepayment speeds given lower long-term interest rates. Based on the Company's IRR position at March 31, 2016, an immediate 100 basis point parallel increase in interest rates translates to an approximate \$41 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 core deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to periodic review.

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

The following table sets forth the estimated percent 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 March 31, 2016 and December 31, 2015, simulations for interest rate declines of more than 25 basis points were not modeled but were considered by the Company as part of its overall management of IRR.

Parallel Shock Rate Change (basis points)	Estimated Percent Change in Economic Value of Equity	
	March 31, 2016	December 31, 2015
+300	(1.7)%	(6.4)%
+200	2.2	(2.0)
+100	3.4	0.5
-25	(1.9)	(0.7)

The Company's economic value of equity at risk profile indicates that at March 31, 2016, the Company has effectively no economic value of equity risk within a +200 basis points shock but becomes moderately liability sensitive for rate shocks greater than +200 basis points. The Company's economic value of equity risk declined at March 31, 2016 as compared to December 31, 2015, reflecting increases in core deposits as well as shorter residential mortgage-backed security duration and longer weighted average life of non-maturity deposits driven by lower long-term interest rates.

People's United's IRR position at March 31, 2016, 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 moderately asset sensitive economic value of equity position within a 200 basis point rate shock and moderately liability sensitive economic value of equity at risk position for rate shocks greater than +200 basis points. 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 for rate shocks greater than +200 basis points. 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 an anticipated or actual breach in policy limits. As of March 31, 2016, 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 uses derivative financial instruments, including interest rate swaps, 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. At March 31, 2016, People's United used interest rate swaps to manage IRR associated with certain interest-bearing liabilities.

People's United has entered into a pay fixed/receive floating 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). These 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 has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate (1.99%) and floating-rate interest amounts calculated based on a notional amount of \$125 million. The floating-rate interest amounts received under the swap are calculated using the same floating-rate paid on these notes. The swap effectively converts the variable-rate subordinated notes to a fixed-rate liability and consequently reduces People's United's exposure to increases in interest rates. This swap is accounted for as a cash flow hedge.

The Bank has entered into a pay floating/receive fixed interest rate swap to hedge the change in fair value due to changes in interest rates of the Bank's \$400 million subordinated notes. 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 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 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 seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, execution of master netting arrangements and obtaining collateral, where appropriate. Counterparties to People's United's derivatives include major financial institutions and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit rating agencies. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial.

Certain of People's United's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company's external credit rating. If the Company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of master netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at March 31, 2016 was \$12.2 million, for which People's United had posted collateral of \$10.9 million in the normal course of business. If the Company's senior unsecured debt rating had fallen below investment grade as of that date, \$2.3 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 uses these instruments on a limited basis to eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

## Derivative Financial Instruments

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

As of March 31, 2016 (dollars in millions)	Interest Rate Swaps		Foreign Exchange Contracts
	Cash Flow Hedge	Fair Value Hedge	
Notional principal amounts	\$ 125.0	\$ 375.0	\$ 47.8
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)	11	100	2
Fair value:			
Recognized as an asset	\$	\$ 35.9	\$ 0.3
Recognized as a liability	0.7		1.3

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

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

As of March 31, 2016 (dollars in millions)	Interest Rate Swaps	
	Commercial Customers	Institutional Counterparties
Notional principal amounts	\$ 4,903.0	\$ 4,903.0
Weighted average interest rates:		
Pay floating (receive fixed)	0.78% (1.92%)	
Pay fixed (receive floating)		1.82% (0.78%)
Weighted average remaining term to maturity (in months)	82	82
Fair value:		
Recognized as an asset	\$ 250.1	\$ 2.3
Recognized as a liability	2.3	217.8

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 78 through 82 of this report.

### Item 4 Controls and Procedures

People's United's management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of People's United'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's disclosure controls and procedures are effective, as of March 31, 2016, to ensure that information relating to People's United, which is required to be disclosed in the reports People's United 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 March 31, 2016, there has not been any change in People's United's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, People's United's internal control over financial reporting.

## Part II Other Information

## Item 1 Legal Proceedings

In the normal course of business, People's United is subject to various legal proceedings. Management has discussed with legal counsel the nature of these legal proceedings. In the opinion of management, People's United'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, 2015.

## 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 of its common stock during the three months ended March 31, 2016:

## 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
<b>January 1 - 31, 2016:</b>				
Tendered by employees (1)	911	\$ 16.25		
<b>February 1 - 29, 2016:</b>				
Tendered by employees (1)	5,936	\$ 14.67		
<b>March 1 - 31, 2016:</b>				
Tendered by employees (1)	207,613	\$ 14.99		
<b>Total:</b>				
Tendered by employees (1)	214,460	\$ 14.98		

- (1) All shares listed were tendered by employees of People's United 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'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 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. All shares acquired in this manner are retired by People's United, resuming the status of authorized but unissued shares of People's United's common stock.

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
3.1(a)	Certificate of Amendment of Third Amended and Restated Certificate of Incorporation of People's United Financial, Inc.
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 March 31, 2016 formatted in XBRL: (i) Consolidated Statements of Condition as of March 31, 2016 and December 31, 2015; (ii) Consolidated Statements of Income for the three months ended March 31, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2016 and 2015; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements.

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: May 10, 2016

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

Date: May 10, 2016

By: /s/ R. David Rosato  
R. David Rosato  
Senior Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 10, 2016

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

---

INDEX TO EXHIBITS

Designation	Description
3.1(a)	Certificate of Amendment of Third Amended and Restated Certificate of Incorporation of People's United Financial, Inc.
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 March 31, 2016 formatted in XBRL: (i) Consolidated Statements of Condition as of March 31, 2016 and December 31, 2015; (ii) Consolidated Statements of Income for the three months ended March 31, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2016 and 2015; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements.