People's United Financial, Inc.
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-8447891**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	Identification No.)
850 Main Street, Bridgeport, Connecticut	**06604**
(Address of principal executive offices)	**(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 x 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 x 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 x	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 x

As of October 31, 2011, there were 360,639,638 shares of the registrant s common stock outstanding.

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Item 1 - Financial Statements

People s United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 370.9	$ 354.7
Short-term investments (note 3)	779.1	599.8
Total cash and cash equivalents	1,150.0	954.5
Securities purchased under agreements to resell		520.0
Securities (note 3):		
Trading account securities, at fair value	69.9	83.5
Securities available for sale, at fair value	2,336.0	2,831.1
Securities held to maturity, at amortized cost (fair value of $62.5 million and $55.1 million)	56.4	55.1
Federal Home Loan Bank stock, at cost	77.7	63.6
Total securities	2,540.0	3,033.3
Residential mortgage loans held for sale	45.4	88.5
Loans (note 4):		
Commercial	7,262.5	5,196.0
Commercial real estate	7,142.9	7,306.3
Residential mortgage	3,502.0	2,647.5
Consumer	2,240.8	2,177.9
Total loans	20,148.2	17,327.7
Less allowance for loan losses	(177.0)	(172.5)
Total loans, net	19,971.2	17,155.2
Goodwill (notes 2 and 7)	1,921.4	1,723.4
Other acquisition-related intangibles (notes 2 and 7)	229.8	238.6
Premises and equipment	363.1	325.1
Bank-owned life insurance	330.7	291.8
Other assets (notes 2, 4 and 12)	661.4	706.7
Total assets	$ 27,213.0	$ 25,037.1
Liabilities		
Deposits:		
Non-interest-bearing	$ 4,217.5	$ 3,872.6
Savings, interest-bearing checking and money market	10,789.5	8,897.8
Time	5,479.7	5,162.7
Total deposits	20,486.7	17,933.1

Borrowings:		
Retail repurchase agreements	519.8	472.2
Federal Home Loan Bank advances	333.4	509.3
Federal funds purchased and other borrowings	27.3	29.1
Total borrowings	880.5	1,010.6
Subordinated notes and debentures	159.4	182.2
Other liabilities (note 12)	395.9	691.9
Total liabilities	21,922.5	19,817.8
Commitments and contingencies (note 9)		
Stockholders Equity		
Common stock ($0.01 par value; 1.95 billion shares authorized; 395.5 million shares and 376.6 million shares issued)	3.9	3.7
Additional paid-in capital	5,242.5	4,978.8
Retained earnings	757.7	772.6
Treasury stock, at cost (38.1 million shares and 17.5 million shares) (note 5)	(494.3)	(248.9)
Accumulated other comprehensive loss (note 5)	(36.8)	(99.0)
Unallocated common stock of Employee Stock Ownership Plan, at cost (8.8 million shares and 9.1 million shares) (note 8)	(182.5)	(187.9)
Total stockholders equity	5,290.5	5,219.3
Total liabilities and stockholders equity	$ 27,213.0	$ 25,037.1

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

(in millions, except per share data)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Interest and dividend income:				
Commercial real estate	$ 98.0	$ 76.3	$ 292.1	$ 226.2
Commercial	97.4	68.1	261.9	195.8
Residential mortgage	34.5	26.5	93.5	82.3
Consumer	21.5	22.2	63.0	67.5
Total interest on loans	251.4	193.1	710.5	571.8
Securities	21.7	12.6	66.1	29.9
Residential mortgage loans held for sale	0.4	0.6	1.4	1.7
Short-term investments	0.5	0.8	1.5	4.0
Securities purchased under agreements to resell		0.4	0.1	0.6
Total interest and dividend income	274.0	207.5	779.6	608.0
Interest expense:				
Deposits	28.5	27.6	81.5	86.3
Borrowings	2.4	0.3	7.3	1.1
Subordinated notes and debentures	3.1	3.8	9.3	11.4
Total interest expense	34.0	31.7	98.1	98.8
Net interest income	240.0	175.8	681.5	509.2
Provision for loan losses (note 4)	14.4	21.8	43.0	49.1
Net interest income after provision for loan losses	225.6	154.0	638.5	460.1
Non-interest income:				
Bank service charges	35.8	31.5	99.7	95.6
Investment management fees	8.4	7.6	24.9	24.1
Insurance revenue	9.0	8.3	23.5	21.9
Brokerage commissions	2.8	2.8	9.3	8.4
Net (losses) gains on sales of loans	(3.5)	2.4	13.4	7.9
Bank-owned life insurance	2.0	1.4	4.6	5.8
Merchant services income, net	1.1	1.1	3.2	3.2
Net security gains (note 3)	8.6		8.8	
Other non-interest income	20.5	12.9	48.5	35.0
Total non-interest income	84.7	68.0	235.9	201.9
Non-interest expense:				
Compensation and benefits	110.1	93.2	318.0	282.1
Occupancy and equipment	34.9	28.0	98.9	86.3
Professional and outside service fees	18.6	18.5	51.9	52.9
Merger-related expenses (note 2)	20.1	1.0	29.6	18.5
Other non-interest expense (note 7)	48.2	45.6	143.3	143.1

Total non-interest expense	231.9	186.3	641.7	582.9
Income before income tax expense	78.4	35.7	232.7	79.1
Income tax expense	25.5	11.6	76.9	25.4
Net income	$ 52.9	$ 24.1	$ 155.8	$ 53.7
Earnings per common share (note 6):				
Basic	$ 0.15	$ 0.07	$ 0.45	$ 0.15
Diluted	0.15	0.07	0.45	0.15

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Changes in Stockholders Equity - (Unaudited)

For the nine months ended September 30, 2011

(in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Total Stockholders Equity
Balance at December 31, 2010	$ 3.7	$ 4,978.8	$ 772.6	$ (248.9)	$ (99.0)	$ (187.9)	$ 5,219.3
Comprehensive income:							
Net income			155.8				155.8
Other comprehensive income, net of tax (note 5)					62.2		62.2
Total comprehensive income							218.0
Common stock issued in the Danvers acquisition, net (note 2)	0.2	247.7					247.9
Cash dividends on common stock ($0.4700 per share)			(166.1)				(166.1)
Restricted stock awards		10.3	(1.0)	1.8			11.1
ESOP common stock committed to be released (note 8)			(2.0)			5.4	3.4
Common stock repurchased (note 5)				(247.2)			(247.2)
Common stock repurchased and retired upon vesting of restricted stock awards			(1.6)				(1.6)
Stock options and related tax benefits		5.7					5.7
Balance at September 30, 2011	$ 3.9	$ 5,242.5	$ 757.7	$ (494.3)	$ (36.8)	$ (182.5)	$ 5,290.5

For the nine months ended September 30, 2010

(in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Total Stockholders Equity
Balance at December 31, 2009	$ 3.5	$ 4,511.3	$ 914.5	$ (58.6)	$ (74.8)	$ (195.2)	$ 5,100.7
Comprehensive income:							
Net income			53.7				53.7
Other comprehensive income, net of tax					15.4		15.4
Total comprehensive income							69.1
Common stock issued in the Financial Federal acquisition, net (note 2)	0.3	405.1					405.4
Cash dividends on common stock ($0.4625 per share)			(162.9)				(162.9)
Restricted stock awards		21.5	(0.1)	0.8			22.2
ESOP common stock committed to be released (note 8)			(1.7)			5.5	3.8
Common stock repurchased	(0.1)			(76.8)			(76.9)

Common stock repurchased and retired upon vesting of restricted stock awards			(5.0)				(5.0)
Stock options and related tax benefits		8.1					8.1
Balance at September 30, 2010	$ 3.7	$ 4,946.0	$ 798.5	$ (134.6)	$ (59.4)	$ (189.7)	$ 5,364.5

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

(in millions)	Nine Months Ended September 30, 2011	2010
Cash Flows from Operating Activities:		
Net income	$ 155.8	$ 53.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	43.0	49.1
Depreciation and amortization of premises and equipment	28.8	27.1
Amortization of leased equipment	15.5	11.3
Amortization of other acquisition-related intangibles	18.9	15.5
Net security gains	(8.8)	
Net gains on sales of loans	(13.4)	(7.9)
ESOP common stock committed to be released	3.4	3.8
Expense related to share-based awards	18.3	19.8
Originations of residential mortgage loans held-for-sale	(367.0)	(648.3)
Proceeds from sales of residential mortgage loans held-for-sale	423.5	657.3
Net decrease (increase) in trading account securities	13.6	(7.8)
Net changes in other assets and liabilities	(204.6)	27.7
Net cash provided by operating activities	127.0	201.3
Cash Flows from Investing Activities:		
Net decrease (increase) in securities purchased under agreements to resell	520.0	(340.0)
Proceeds from sales of securities available for sale	664.9	1.0
Proceeds from principal repayments of securities available for sale	969.4	606.5
Proceeds from principal repayments of securities held to maturity	0.1	0.2
Proceeds from redemption of FHLB stock	4.1	
Purchases of securities available for sale	(858.7)	(2,138.3)
Purchases of securities held to maturity	(1.0)	
Proceeds from sales of loans	130.1	1.5
Net loan principal (disbursements) collections	(1,174.3)	304.3
Purchases of premises and equipment	(24.4)	(15.1)
Purchases of leased equipment	(13.3)	(31.1)
Proceeds from sales of real estate owned	22.3	12.1
Return of premiums on bank-owned life insurance, net	0.7	1.7
Net cash acquired (paid) in acquisitions	146.8	(260.2)
Net cash provided by (used in) investing activities	386.7	(1,857.4)
Cash Flows from Financing Activities:		
Net increase in deposits	485.5	1.8
Net increase in borrowings with terms of three months or less	43.9	100.1
Repayments of borrowings with terms of more than three months	(389.9)	(823.5)
Proceeds from borrowings with terms of more than three months		2.7
Repayments of subordinated notes and debentures	(43.7)	
Cash dividends paid on common stock	(166.1)	(162.9)
Common stock repurchases	(248.8)	(81.9)
Proceeds from stock options exercised, including excess income tax benefits	0.9	0.2
Net cash used in financing activities	(318.2)	(963.5)

Net increase (decrease) in cash and cash equivalents	195.5	(2,619.6)
Cash and cash equivalents at beginning of period	954.5	3,418.0
Cash and cash equivalents at end of period	$ 1,150.0	$ 798.4
Supplemental Information:		
Interest payments	$ 106.6	$ 101.3
Income tax payments	82.0	36.6
Real estate properties acquired by foreclosure	15.5	13.6
Assets acquired and liabilities assumed in acquisitions (note 2):		
Non-cash assets, excluding goodwill and other acquisition-related intangibles	2,243.7	1,458.9
Liabilities	2,355.4	1,068.8
Common stock issued in acquisitions	247.9	405.4

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. GENERAL

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

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. With regard to the Consolidated Statements of Condition, such reclassifications include the presentation of (i) loans held for sale as a separate line item (rather than as a component of total loans) and (ii) loans in process as a component of other assets (rather than as a component of total loans). In addition to these reclassifications, expenses related to the Company s merchant services business and customer derivative activities have been presented on a net basis, along with the respective revenues, within non-interest income in the Consolidated Statements of Income for all periods presented.

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

Note 1 to People s United Financial s audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2010, as supplemented by the Quarterly Report for the periods ended March 31, 2011 and June 30, 2011 and this Quarterly Report for the period ended September 30, 2011, provides disclosure of People s United Financial s significant accounting policies. Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses, the valuation of derivative financial instruments, and asset impairment judgments, such as the recoverability of goodwill and other intangible assets, and other-than-temporary declines in the value of securities. These significant accounting policies and critical estimates are reviewed with the Audit Committee of the Board of Directors.

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

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Notes to Consolidated Financial Statements (Unaudited)

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles have been omitted or condensed. As a result, the accompanying consolidated financial statements should be read in conjunction with People s United Financial s Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

NOTE 2. ACQUISITIONS

Acquisition Completed in 2011

After the close of business on June 30, 2011, People s United Financial acquired Danvers Bancorp, Inc. (Danvers) based in Danvers, Massachusetts. The transaction was effective July 1, 2011. Total consideration paid in the Danvers acquisition of approximately $462 million consisted of approximately $214 million in cash and 18.5 million shares of People s United Financial common stock with a fair value of approximately $248 million. Cash consideration was paid at the rate of $23.00 per share of Danvers common stock and stock consideration was paid at the rate of 1.624 shares of People s United Financial common stock per share of Danvers common stock. At the acquisition date, Danvers operated 28 branches in the greater Boston area.

The assets acquired and liabilities assumed were recorded by People s United Financial at their estimated fair values as of the effective date and People s United Financial s results of operations for the three and nine months ended September 30, 2011 include the results of Danvers beginning with the effective date. Merger-related expenses recorded in the first nine months of 2011 totaled $16.2 million, including: (i) fees for investment advisory, legal, accounting and valuation services; (ii) debt prepayment costs; and (iii) compensatory charges.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The acquisition-date estimated fair values of the assets acquired and liabilities assumed in the acquisition of Danvers are summarized as follows:

(in millions)	
Assets:	
Cash and cash equivalents	$ 361.3
Securities	220.5
Loans	1,868.0
Goodwill	202.9
Core deposit intangible	10.0
Premises and equipment	42.4
Real estate owned	1.3
Other assets	111.5
Total assets	$ 2,817.9
Liabilities:	
Deposits	$ 2,068.1
Borrowings	232.8
Subordinated debentures	20.5
Other liabilities	34.0
Total liabilities	$ 2,355.4
Total purchase price	$ 462.5

Net deferred tax assets totaling $10.2 million were established in connection with recording the related purchase accounting adjustments (other than goodwill). Approximately $155.0 million of borrowings and all subordinated debentures assumed by People s United Financial were repaid prior to September 30, 2011. Merger-related expenses for the three and nine months ended September 30, 2011 include debt prepayment costs of $4.3 million relating to the repayment of FHLB advances. Fair value adjustments to assets acquired and liabilities assumed will be amortized on a straight-line basis over periods consistent with the average life, useful life and / or contractual term of the related assets and liabilities. The core deposit intangible will be amortized over a 6-year period using an accelerated amortization method reflective of the manner in which the related benefit attributable to the deposits will be recognized.

The above summary includes adjustments to record the acquired assets and assumed liabilities at their respective fair values based on management s best estimate using the information available at this time. While there may be changes in the respective acquisition-date fair values of certain balance sheet amounts and other items, management does not expect that such changes, if any, will be material.

The loans acquired in the Danvers acquisition have been recorded at fair value without a carryover of Danvers allowance for loan losses. Fair value of the loans entails estimating the amount and timing of both principal and interest cash flows expected to be collected on such loans and then discounting those cash flows at market interest rates. The discount on the loans acquired in this transaction was due, in part, to credit quality (see Note 4). Included in the Consolidated Statements of Income for the three and nine months ended September 30, 2011 is approximately $24 million of interest income attributable to Danvers since the acquisition date.

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Notes to Consolidated Financial Statements (Unaudited)

The following table presents selected pro forma financial information of the Company reflecting the acquisition of Danvers assuming the acquisition was completed as of the beginning of the respective periods:

(in millions, except per share data)	Nine Months Ended September 30, 2011	2010
Selected Financial Results:		
Net interest income	$ 726.9	$ 571.9
Provision for loan losses	43.0	49.1
Non-interest income	242.3	211.4
Non-interest expense	679.8	635.2
Net income	$ 164.7	$ 66.6
Basic and diluted earnings per share	$ 0.45	$ 0.18

The selected pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period. There are no material, non-recurring pro forma adjustments directly attributable to the Danvers acquisition included in the pro forma financial information. Pro forma basic and diluted earnings per common share were calculated using People s United Financial s actual weighted-average shares outstanding for the periods presented, plus the incremental shares issued, assuming the acquisition occurred at the beginning of the periods presented.

Acquisitions Completed in 2010

On November 30, 2010, People s United Financial acquired Smithtown Bancorp, Inc. (Smithtown) based in Hauppauge, New York and LSB Corporation (LSB) based in North Andover, Massachusetts. Total consideration paid in the Smithtown acquisition of approximately $56 million consisted of approximately $30 million in cash and 2.1 million shares of People s United Financial common stock with a fair value of approximately $26 million. Cash consideration was paid at the rate of $3.77 per share of Smithtown common stock and stock consideration was paid at the rate of 0.304 shares of People s United Financial common stock per share of Smithtown common stock. Total consideration paid in the LSB acquisition consisted of approximately $95 million in cash. Merger-related expenses recorded in the first nine months of 2011 and 2010 totaled $12.8 million and $1.0 million, respectively.

On April 16, 2010, People s United Bank entered into a definitive purchase and assumption agreement (the Agreement) with the Federal Deposit Insurance Corporation (the FDIC) pursuant to which People s United Bank assumed all of the deposits, certain assets and the banking operations of Butler Bank, located in Lowell, Massachusetts. Merger-related expenses recorded in the first nine months of 2011 and 2010 totaled $0.6 million and $0.4 million, respectively.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The Agreement also provides for loss-share coverage by the FDIC, up to certain limits, on all covered assets (loans and real estate owned). The FDIC is obligated to reimburse People s United Bank for 80% of any future losses on covered assets up to $34.0 million. People s United Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under the loss-sharing coverage.

The asset arising from the loss-sharing coverage, referred to as the FDIC loss-share receivable, is included in other assets ($19.5 million at September 30, 2011 and $26.2 million at December 31, 2010) in the Consolidated Statements of Condition. The FDIC loss-share receivable is measured separately from the covered loans because the coverage is not contractually embedded in the loans and is not transferable should People s United Bank choose to dispose of the covered loans. The FDIC loss-share receivable will be reduced as losses are realized on covered assets and as loss-sharing payments are received from the FDIC. Realized losses in excess of the acquisition date estimates will result in an increase in the FDIC loss-share receivable. Conversely, the FDIC loss-share receivable will be reduced if realized losses are less than the estimates at acquisition. The amount ultimately collected for the FDIC loss-share receivable is dependent upon the performance of the underlying covered assets over time and claims submitted to the FDIC. In the event that losses under the loss-share coverage do not reach expected levels, People s United Bank has agreed to make a cash payment to the FDIC on approximately the tenth anniversary of the Agreement.

On February 19, 2010, People s United Financial acquired Financial Federal Corporation (Financial Federal), a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses. Total consideration paid in the Financial Federal acquisition of approximately $699 million consisted of approximately $293 million in cash and 26.0 million shares of People s United Financial common stock with a fair value of approximately $406 million. Cash consideration was paid at the rate of $11.27 per share of Financial Federal common stock and stock consideration was paid at the rate of one share of People s United Financial common stock per share of Financial Federal common stock. Merger-related expenses recorded in the first nine months of 2010 totaled $17.1 million.

Recent acquisitions have been undertaken with the objective of expanding the Company s business, both geographically and through the products we offer, as well as realizing synergies and economies of scale by combining with the acquired entities. For these reasons, we paid a market-based premium for the acquired entities which, in turn, resulted in the recognition of goodwill, representing the excess of the respective purchase prices over the estimated fair value of the net assets acquired (see Note 7). All of People s United Financial s tax deductible goodwill was created in transactions in which the Company purchased the assets of the target (as opposed to purchasing the issued and outstanding stock of the target). At September 30, 2011, tax deductible goodwill totaled $19.7 million and related, almost entirely, to the Butler Bank acquisition. People s United Financial s results of operations include the results of the acquired entities beginning with the respective closing dates.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 3. SECURITIES AND SHORT-TERM INVESTMENTS

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

As of September 30, 2011 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	$ 83.6	$ 0.6	$	$ 84.2
GSE (1) residential mortgage-backed securities and CMOs (2)	2,028.0	67.9		2,095.9
State and municipal	109.8	7.2		117.0
Corporate	37.0		(0.4)	36.6
Other	2.6		(0.4)	2.2
Total debt securities	2,261.0	75.7	(0.8)	2,335.9
Equity securities	0.1			0.1
Total securities available for sale	$ 2,261.1	$ 75.7	$ (0.8)	$ 2,336.0
Securities held to maturity:				
Debt securities:				
Corporate	$ 55.0	$ 6.1	$	$ 61.1
Other	1.4			1.4
Total securities held to maturity	$ 56.4	$ 6.1	$	$ 62.5

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

As of December 31, 2010 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	$ 476.2	$ 0.3	$ (0.2)	$ 476.3
GSE residential mortgage-backed securities and CMOs	2,289.0	14.5	(12.9)	2,290.6
State and municipal	57.6	0.6		58.2
Other	4.5			4.5

Total debt securities	2,827.3	15.4	(13.1)	2,829.6
Equity securities	1.5			1.5
Total securities available for sale	$ 2,828.8	$ 15.4	$ (13.1)	$ 2,831.1
Securities held to maturity:				
Debt securities:				
Corporate	$ 55.0	$	$	$ 55.0
Other	0.1			0.1
Total securities held to maturity	$ 55.1	$	$	$ 55.1

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize debt securities available for sale with unrealized losses, segregated by the length of time the securities have been in a continuous unrealized loss position at the respective dates:

As of September 30, 2011	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate	$ 36.6	$ (0.4)	$	$	$ 36.6	$ (0.4)
Other	2.2	(0.4)			2.2	(0.4)
GSE residential mortgage-backed securities and CMOs (1)	1.5				1.5	
State and municipal (1)			0.1		0.1	
Total	$ 40.3	$ (0.8)	$ 0.1	$	$ 40.4	$ (0.8)

(1) Unrealized losses totaled less than $50,000.

As of December 31, 2010	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
GSE residential mortgage-backed securities and CMOs	$ 1,125.7	$ (12.9)	$	$	$ 1,125.7	$ (12.9)
U.S. Treasury and agency	198.0	(0.2)			198.0	(0.2)
State and municipal (1)	4.6		0.3		4.9	
Total	$ 1,328.3	$ (13.1)	$ 0.3	$	$ 1,328.6	$ (13.1)

(1) Unrealized losses totaled less than $50,000.

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) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary losses are recognized in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to non-credit factors is recognized in other comprehensive income. Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time People s United Financial expects to receive all amounts contractually due. As of September 30, 2011, management believes that all impairments within the securities portfolio are temporary in nature. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three and nine month periods ended September 30, 2011 and 2010.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following table is a summary of the amortized cost and fair value of debt securities at September 30, 2011, based on remaining period to contractual maturity:

	Available for Sale		Held to Maturity	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and agency:				
Within 1 year	$ 10.7	$ 10.8	$	$
After 1 but within 5 years	67.6	67.7		
After 5 but within 10 years	5.3	5.7		
Total	83.6	84.2		
GSE residential mortgage-backed securities and CMOs:				
Within 1 year	1.5	1.5		
After 5 but within 10 years	198.2	200.2		
After 10 years	1,828.3	1,894.2		
Total	2,028.0	2,095.9		
State and municipal:				
Within 1 year	2.1	2.1		
After 1 but within 5 years	12.2	12.7		
After 5 but within 10 years	28.9	31.1		
After 10 years	66.6	71.1		
Total	109.8	117.0		
Corporate:				
After 5 but within 10 years	37.0	36.6	55.0	61.1
Total	37.0	36.6	55.0	61.1
Other:				
After 1 but within 5 years			0.2	0.2
After 5 but within 10 years			1.2	1.2
After 10 years	2.6	2.2		
Total	2.6	2.2	1.4	1.4
Total:				
Within 1 year	14.3	14.4		
After 1 but within 5 years	79.8	80.4	0.2	0.2
After 5 but within 10 years	269.4	273.6	56.2	62.3
After 10 years	1,897.5	1,967.5		
Total	$ 2,261.0	$ 2,335.9	$ 56.4	$ 62.5

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

People s United Bank, as a member of the Federal Home Loan Bank (FHLB) of Boston, is currently required to purchase and hold shares of FHLB capital stock (total cost of $63.9 million at September 30, 2011) in an amount equal to its membership base investment plus an activity based investment determined according to People s United Bank s level of outstanding FHLB advances. FHLB stock is a non-marketable equity security and is, therefore, reported at cost, which equals par value (the amount at which shares have been redeemed in the past). As with other investment securities, the investment is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. As a result of operating losses and a decline in capital, in February 2009 the FHLB of Boston suspended paying dividends and placed a moratorium on certain stock repurchases. In the first quarter of 2011, the FHLB of Boston resumed dividend payments. Based on the current capital adequacy and liquidity position of the FHLB of Boston, management believes there is no impairment in the Company s investment at September 30, 2011 and the cost of the investment approximates fair value. As a result of the Smithtown acquisition, People s United Financial acquired shares of capital stock in the FHLB of New York (total cost of $13.8 million at September 30, 2011), which also pays a dividend.

In the third quarter of 2011, People s United Financial sold residential mortgage-backed securities with an amortized cost of $507 million and recorded $9.1 million of gross realized gains. People s United Financial records security transactions on the trade date and uses the specific identification method to determine the cost of securities sold.

In connection with the sale of its remaining Class B Visa, Inc. shares in 2009, People s United Financial and the buyer entered into a derivative contract providing for cash settlements that will depend, in part, on the ultimate resolution of certain litigation involving Visa. The amounts recorded for the derivative contract were insignificant through September 30, 2011.

The balance of short-term investments at September 30, 2011 and December 31, 2010 principally consisted of $746.2 million and $570.3 million, respectively, of interest-earning deposits at the Federal Reserve Bank of New York. These deposits are an alternative to overnight federal funds sold and had a yield of 0.25% at both September 30, 2011 and December 31, 2010.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 4. LOANS

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

- Establishment of the allowance for loan losses (including the identification of impaired loans and related impairment measurement considerations);
- Income recognition (including the classification of a loan as non-accrual and the treatment of loan origination costs); and
- Recognition of loan charge-offs.

The Company did not change its policies with respect to loans or its methodology for determining the allowance for loan losses during the nine months ended September 30, 2011.

For purposes of disclosures related to the credit quality of financing receivables and the allowance for loan losses, People s United Financial has identified two loan portfolio segments: Commercial Banking and Retail. The classes of loans within the loan portfolio segments are: commercial real estate, commercial and industrial, and equipment financing for Commercial Banking; and residential mortgage, home equity and other consumer for Retail. Loans acquired in connection with acquisitions beginning in 2010 (see Note 2) are referred to as acquired loans as a result of the manner in which they are accounted for (see further discussion under Acquired Loans below). All other loans are referred to as originated loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	September 30, 2011			December 31, 2010		
(in millions)	Originated	Acquired	Total	Originated	Acquired	Total
Commercial Banking:						
Commercial real estate (1)	$ 5,303.8	$ 1,839.1	$ 7,142.9	$ 5,605.1	$ 1,701.2	$ 7,306.3
Commercial and industrial (1)	4,180.3	1,089.2	5,269.5	3,016.0	79.6	3,095.6
Equipment financing	1,602.7	390.3	1,993.0	1,419.4	681.0	2,100.4
Total commercial	5,783.0	1,479.5	7,262.5	4,435.4	760.6	5,196.0
Total Commercial Banking	11,086.8	3,318.6	14,405.4	10,040.5	2,461.8	12,502.3
Retail:						
Residential mortgage:						
Adjustable-rate	2,539.6	377.1	2,916.7	1,927.5	190.4	2,117.9
Fixed-rate	444.5	140.8	585.3	366.5	163.1	529.6
Total residential mortgage	2,984.1	517.9	3,502.0	2,294.0	353.5	2,647.5
Consumer:						
Home equity	1,933.4	129.3	2,062.7	1,919.0	57.8	1,976.8
Other consumer	174.2	3.9	178.1	196.7	4.4	201.1
Total consumer	2,107.6	133.2	2,240.8	2,115.7	62.2	2,177.9
Total Retail	5,091.7	651.1	5,742.8	4,409.7	415.7	4,825.4
Total loans	$ 16,178.5	$ 3,969.7	$ 20,148.2	$ 14,450.2	$ 2,877.5	$ 17,327.7

(1) Following the Company s 2010 acquisitions and core system conversion, the Company undertook a portfolio review to ensure consistent classification of commercial loans in an effort to align policy across the Company s expanded franchise and better conform to industry practice for such loans. As a result, approximately $875 million of loans secured, in part, by owner-occupied commercial properties were reclassified from commercial real estate loans to commercial and industrial loans as of March 31, 2011. The primary collateral for these loans generally consists of the borrower s general business assets (i.e. non-real estate collateral) and the loans were underwritten principally on the basis of the adequacy of business cash flows. This reclassification is being applied prospectively as it was deemed impracticable to do so for prior periods due to the fact that the underlying loan information is no longer available as it previously resided on legacy loan systems that are no longer utilized or supported following the Company s core system conversion.

Net deferred loan costs that are included in total loans and accounted for as interest yield adjustments totaled $34.4 million and $26.5 million at September 30, 2011 and December 31, 2010, respectively.

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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. Allocation of a portion of the allowance to one segment does not preclude its availability to absorb losses in another segment.

For the three months ended September 30, 2011

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

For the nine months ended September 30, 2011

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

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

	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3
As of September 30, 2011	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
(in millions)	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial Banking	$ 185.2	$ 27.7	$ 10,901.6	$ 136.3	$ 3,318.6	$	$ 14,405.4	$ 164.0
Retail	15.0		5,076.7	13.0	651.1		5,742.8	13.0
Total	$ 200.2	$ 27.7	$ 15,978.3	$ 149.3	$ 3,969.7	$	$ 20,148.2	$ 177.0

	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3	$12,502.3
As of December 31, 2010 (in millions)	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial Banking	$ 174.4	$ 27.6	$ 9,866.1	$ 133.9	$ 2,461.8	$	$ 12,502.3	$ 161.5
Retail	8.2		4,401.5	11.0	415.7		4,825.4	11.0
Total	$ 182.6	$ 27.6	$ 14,267.6	$ 144.9	$ 2,877.5	$	$ 17,327.7	$ 172.5

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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)	September 30, 2011	December 31, 2010
Commercial Banking:		
Commercial real estate	$ 91.0	$ 82.5
Commercial and industrial	49.2	38.2
Equipment financing	37.8	36.0
Total (1)	178.0	156.7
Retail:		
Residential mortgage	65.5	78.8
Home equity	14.2	9.1
Other consumer	0.6	0.6
Total	80.3	88.5
Total	$ 258.3	$ 245.2

(1) Reported net of government guarantees totaling $11.3 million and $9.4 million at September 30, 2011 and December 31, 2010, 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. The principal loan classes to which these government guarantees relate are commercial and industrial loans (approximately 85%) and commercial real estate loans (approximately 15%).

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by an FDIC loss-share agreement totaling $226 million and $16 million, respectively, at September 30, 2011 and $342 million and $18 million, respectively, at December 31, 2010. Such loans meet People s United Financial s definition of a non-performing loan but are excluded given that the risk of credit loss has been considered by virtue of our estimate of acquisition-date fair value and/or the existence of an FDIC loss-share agreement. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

A loan is generally 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. Loans past due 90 days or more and still accruing interest totaled $1.2 million at December 31, 2010 (none at September 30, 2011).

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 because they are evaluated for impairment on a pool basis. Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People s United Financial, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan s original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest. Generally, TDRs are placed on non-accrual status (and reported as non-performing loans) until the

loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Loans may continue to be reported as TDRs after they are returned to accrual status.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As discussed in Note 13, in the third quarter of 2011, the Company adopted new accounting guidance concerning the identification of TDRs, which applies retrospectively to restructurings occurring on or after January 1, 2011. The application of this guidance did not result in the identification of additional TDRs.

People s United Financial s recorded investment in originated loans classified as TDRs totaled $94.4 million and $62.6 million at September 30, 2011 and December 31, 2010, respectively. The related allowance for loan losses at September 30, 2011 and December 31, 2010 was $8.8 million and $8.4 million, respectively. Interest income recognized on these loans totaled $1.4 million and $0.1 million for the three months ended September 30, 2011 and 2010, respectively, and $3.3 million and $0.4 million for the nine months ended September 30, 2011 and 2010, respectively. Generally, to the extent commitments to lend additional amounts to borrowers with loans classified as TDRs exist, fundings under such commitments were immaterial for the three and nine months ended September 30, 2011.

Originated loans that were modified and classified as TDRs during the three and nine months ended September 30, 2011 principally involve payment deferrals and/or extension of terms (generally ranging from four to twelve months). On occasion, a temporary reduction of interest rates may have been provided (generally less than 200 basis points). The following is a summary of the recorded investments in these TDRs, by class of loan. For purposes of this disclosure, recorded investments represent amounts immediately prior to and subsequent to the restructuring.

For the three months ended September 30, 2011 (dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Banking:			
Commercial real estate	3	$ 0.5	$ 0.5
Commercial and industrial	7	18.4	18.4
Equipment financing	10	9.6	9.6
Total	20	28.5	28.5
Retail:			
Residential mortgage	1	0.5	0.5
Home equity			
Other consumer			
Total	1	0.5	0.5
Total	21	$ 29.0	$ 29.0

For the nine months ended September 30, 2011 (dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Banking:			
Commercial real estate	7	$ 2.4	$ 2.4
Commercial and industrial	11	20.2	20.2
Equipment financing	26	39.0	39.0
Total	44	61.6	61.6

Retail:			
Residential mortgage	19	8.2	8.2
Home equity	1	0.5	0.5
Other consumer			
Total	20	8.7	8.7
Total	64	$ 70.3	$ 70.3

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following is a summary, by class of loan, of information related to TDRs of originated loans completed within the previous 12 months that subsequently defaulted during the three and nine months ended September 30, 2011. For purposes of this disclosure, the previous 12 months is measured from October 1, 2010 and a default represents a previously-modified loan that became past due 30 days or more during the respective periods.

For the three months ended September 30, 2011 (dollars in millions)	Number of Contracts	Recorded Investment at September 30, 2011
Commercial Banking		
Commercial real estate		$
Commercial and industrial	1	0.1
Equipment financing	4	7.8
Total	5	7.9
Retail:		
Residential mortgage	4	1.1
Home equity		
Other consumer		
Total	4	1.1
Total	9	$ 9.0

For the nine months ended September 30, 2011 (dollars in millions)	Number of Contracts	Recorded Investment at September 30, 2011
Commercial Banking		
Commercial real estate	1	$ 0.5
Commercial and industrial	5	1.4
Equipment financing	4	7.8
Total	10	9.7
Retail:		
Residential mortgage	6	1.1
Home equity		
Other consumer		
Total	6	1.1
Total	16	$ 10.8

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

People s United Financial s impaired loans consist of certain originated Commercial Banking and Retail loans, including all TDRs. The following is a summary, by class of loan, of information related to individually-evaluated impaired loans within the originated portfolio. The average recorded investment amounts are based on month-end balances.

	As of September 30, 2011			Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
(in millions)	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance for loan losses:							
Commercial Banking:							
Commercial real estate	$ 41.0	$ 35.2	$	$ 32.1	$ 0.2	$ 26.8	$ 0.7
Commercial and industrial	45.4	34.9		19.8	1.1	16.1	1.3
Equipment financing	19.6	16.4		20.1	0.1	23.7	0.5
Retail:							
Residential mortgage	14.7	14.3		14.5	0.1	11.2	0.4
Home equity	0.7	0.7		0.7		0.6	
Other consumer							
Total	$ 121.4	$ 101.5	$	$ 87.2	$ 1.5	$ 78.4	$ 2.9
With a related allowance for loan losses:							
Commercial Banking:							
Commercial real estate	$ 68.0	$ 49.2	$ 13.3	$ 48.6	$ 0.2	$ 58.7	$ 0.7
Commercial and industrial	14.0	11.1	4.8	15.5		13.1	0.1
Equipment financing	42.4	38.4	9.6	37.6	0.1	33.5	0.6
Retail:							
Residential mortgage							
Home equity							
Other consumer							
Total	$ 124.4	$ 98.7	$ 27.7	$ 101.7	$ 0.3	$ 105.3	$ 1.4
Total impaired loans:							
Commercial Banking:							
Commercial real estate	$ 109.0	$ 84.4	$ 13.3	$ 80.7	$ 0.4	$ 85.5	$ 1.4
Commercial and industrial	59.4	46.0	4.8	35.3	1.1	29.2	1.4
Equipment financing	62.0	54.8	9.6	57.7	0.2	57.2	1.1
Total	230.4	185.2	27.7	173.7	1.7	171.9	3.9
Retail:							
Residential mortgage	14.7	14.3		14.5	0.1	11.2	0.4
Home equity	0.7	0.7		0.7		0.6	
Other consumer							

Total	15.4	15.0		15.2	0.1	11.8	0.4
Total	$ 245.8	$ 200.2	$ 27.7	$ 188.9	$ 1.8	$ 183.7	$ 4.3

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2010 (in millions)	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses
Without a related allowance for loan losses:			
Commercial Banking:			
Commercial real estate	$ 37.4	$ 33.6	$
Commercial and industrial	13.5	12.3	
Equipment financing	24.9	22.4	
Retail:			
Residential mortgage	8.1	8.0	
Home equity	0.2	0.2	
Other consumer			
Total	$ 84.1	$ 76.5	$
With a related allowance for loan losses:			
Commercial Banking:			
Commercial real estate	$ 89.5	$ 70.5	$ 18.1
Commercial and industrial	20.6	5.8	2.4
Equipment financing	31.1	29.8	7.1
Retail:			
Residential mortgage			
Home equity			
Other consumer			
Total	$ 141.2	$ 106.1	$ 27.6
Total impaired loans:			
Commercial Banking:			
Commercial real estate	$ 126.9	$ 104.1	$ 18.1
Commercial and industrial	34.1	18.1	2.4
Equipment financing	56.0	52.2	7.1
Total	217.0	174.4	27.6
Retail:			
Residential mortgage	8.1	8.0	
Home equity	0.2	0.2	
Other consumer			
Total	8.3	8.2	
Total	$ 225.3	$ 182.6	$ 27.6

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

As of September 30, 2011		Past Due			
(in millions)	Current	30-89 Days	90 Days or More	Total Past Due	Total Originated
Commercial Banking:					
Commercial real estate	$ 5,207.2	$ 45.4	$ 51.2	$ 96.6	$ 5,303.8
Commercial and industrial	4,097.4	39.7	43.2	82.9	4,180.3
Equipment financing	1,523.3	66.6	12.8	79.4	1,602.7
Total	10,827.9	151.7	107.2	258.9	11,086.8
Retail:					
Residential mortgage	2,857.0	66.2	60.9	127.1	2,984.1
Home equity	1,904.4	16.3	12.7	29.0	1,933.4
Other consumer	169.5	4.2	0.5	4.7	174.2
Total	4,930.9	86.7	74.1	160.8	5,091.7
Total originated loans	$ 15,758.8	$ 238.4	$ 181.3	$ 419.7	$ 16,178.5

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling $41.6 million, $15.3 million and $25.2 million, respectively. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

As of December 31, 2010		Past Due			
(in millions)	Current	30-89 Days	90 Days or More	Total Past Due	Total Originated
Commercial Banking:					
Commercial real estate	$ 5,501.9	$ 35.3	$ 67.9	$ 103.2	$ 5,605.1
Commercial and industrial	2,953.5	23.9	38.6	62.5	3,016.0
Equipment financing	1,376.0	21.6	21.8	43.4	1,419.4
Total	9,831.4	80.8	128.3	209.1	10,040.5
Retail:					
Residential mortgage	2,142.2	75.6	76.2	151.8	2,294.0
Home equity	1,895.7	14.4	8.9	23.3	1,919.0
Other consumer	189.5	6.6	0.6	7.2	196.7
Total	4,227.4	96.6	85.7	182.3	4,409.7

Total originated loans	$ 14,058.8	$ 177.4	$ 214.0	$ 391.4	$ 14,450.2

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling $17.3 million, $6.3 million and $16.7 million, respectively. 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.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

As of September 30, 2011 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial Banking:				
Originated loans				
Pass	$ 4,917.2	$ 3,790.0	$ 1,328.7	$ 10,035.9
Special mention	113.3	132.4	105.4	351.1
Substandard	272.9	252.5	168.6	694.0
Doubtful	0.4	5.4		5.8
Total originated loans	5,303.8	4,180.3	1,602.7	11,086.8
Acquired loans				
Pass	1,201.1	956.6	92.1	2,249.8
Special mention	200.4	72.3	93.0	365.7
Substandard	432.9	59.9	203.2	696.0
Doubtful	4.7	0.4	2.0	7.1
Total acquired loans	1,839.1	1,089.2	390.3	3,318.6
Total	$ 7,142.9	$ 5,269.5	$ 1,993.0	$ 14,405.4

As of September 30, 2011 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans				
Low risk	$ 2,215.9	$ 1,249.6	$ 145.1	$ 3,610.6
Moderate risk	741.8	593.5	8.5	1,343.8
High risk	26.4	90.3	20.6	137.3
Total originated loans	2,984.1	1,933.4	174.2	5,091.7
Acquired loans				
Low risk	155.0	89.5	3.1	247.6
Moderate risk	361.3	39.8	0.8	401.9
High risk	1.6			1.6
Total acquired loans	517.9	129.3	3.9	651.1
Total	$ 3,502.0	$ 2,062.7	$ 178.1	$ 5,742.8

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As of December 31, 2010 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial Banking:				
Pass	$ 5,084.1	$ 2,735.7	$ 1,109.3	$ 8,929.1
Special mention	233.5	116.7	79.0	429.2
Substandard	277.9	160.1	228.5	666.5
Doubtful	9.6	3.5	2.6	15.7
Total originated loans	5,605.1	3,016.0	1,419.4	10,040.5
Acquired loans	1,701.2	79.6	681.0	2,461.8
Total	$ 7,306.3	$ 3,095.6	$ 2,100.4	$ 12,502.3

As of December 31, 2010 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Low risk	$ 1,391.2	$ 1,215.4	$ 165.6	$ 2,772.2
Moderate risk	883.3	623.9	7.3	1,514.5
High risk	19.5	79.7	23.8	123.0
Total originated loans	2,294.0	1,919.0	196.7	4,409.7
Acquired loans	353.5	57.8	4.4	415.7
Total	$ 2,647.5	$ 1,976.8	$ 201.1	$ 4,825.4

Commercial Banking Credit Quality Indicators

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

Risk ratings on commercial banking loans are subject to ongoing monitoring by lending and credit personnel with such ratings updated annually or more frequently, if warranted. The Company s Internal Loan Review function is responsible for independently confirming the appropriateness of those credit risk ratings in connection with its cyclical portfolio 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 made available to management each month.

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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 which are not assigned individual loan risk ratings. Rather, the assessment of these portfolios is based upon a consideration of recent historical loss experience, delinquency trends, and portfolio-specific risk characteristics, the combination of which determines whether a loan is classified as High risk, Moderate risk or Low risk.

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

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

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

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Acquired Loans Credit Quality Indicators

Upon acquiring a loan portfolio, our Internal Loan Review function undertakes the process of assigning risk ratings to all Commercial Banking loans in accordance with our 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 ours. As a result, while acquired loans are risk rated, there are occasions when such ratings may be deemed preliminary until our re-rating process has been completed.

In contrast to originated loans, risk ratings for acquired loans are not directly considered in the establishment of the allowance for loan losses. Rather, acquired loans are initially recorded at fair value, determined based upon an estimate of the amount and timing of both principal and interest cash flows expected to be collected and discounted using a market interest rate. The difference between contractually required principal and interest payments at the acquisition date and the undiscounted cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference , which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time. At September 30, 2011 and December 31, 2010, there had not been such a decrease and therefore there was no allowance for losses on acquired loans.

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 a carryover of the respective 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 on such loans, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. In doing so, the loans are generally segregated into pools based on their principal common risk characteristics such as broad asset 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.

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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 in accordance with the applicable accounting model for such loans 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, the estimate of cash flows expected to be collected is regularly re-assessed. These re-assessments involve the use of key assumptions and estimates, similar to those 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.

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

At the respective acquisition dates in 2011 and 2010, on an aggregate basis, the acquired loan portfolio had contractually required principal and interest payments receivable of $7.57 billion; expected cash flows of $7.02 billion; and a fair value (initial carrying amount) of $5.36 billion. The difference between the contractually required principal and interest payments receivable and the expected cash flows ($550.9 million) represented the initial nonaccretable difference. The difference between the expected cash flows and fair value ($1.66 billion) represented the initial accretable yield. Both the contractually required principal and interest payments receivable and the expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At September 30, 2011, the outstanding balance and the carrying amount of the acquired loan portfolio were $4.14 billion and $3.97 billion, respectively ($3.21 billion and $2.88 billion, respectively, at December 31, 2010). There was no related allowance for loan losses for acquired loans at either date, as there were no decreases in expected cash flows compared to the estimates made at the respective acquisition dates.

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Notes to Consolidated Financial Statements (Unaudited)

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

For the three months ended September 30 (in millions)	2011	2010
Balance at beginning of period	$ 902.0	$ 87.3
Acquisitions	629.0	
Accretion	(72.0)	(18.9)
Balance at end of period	$ 1,459.0	$ 68.4

For the nine months ended September 30 (in millions)	2011	2010
Balance at beginning of period	$ 954.8	$
Acquisitions	629.0	120.3
Reclassification from nonaccretable difference for loans with improved cash flows (1)	55.3	
Changes in expected cash flows that do not affect nonaccretable difference (2)	22.9	
Accretion	(189.9)	(51.9)
Loan sales (3)	(13.1)	
Balance at end of period	$ 1,459.0	$ 68.4

(1) Results in increased interest income as a prospective yield adjustment over the remaining life of the corresponding pool of loans.
(2) Represents changes in cash flows expected to be collected due to changes in prepayment assumptions and/or changes in interest rates on variable rate loans.
(3) Represents remaining accretable yield eliminated upon the sale of loans with an outstanding balance of $147.6 million (carrying amount of $99.1 million) to third parties.

During the nine months ended September 30, 2011, accretable yield adjustments totaling $78.2 million were made for certain loan pools to reflect better than expected credit experience ($55.3 million) and slower than anticipated prepayment activity ($22.9 million), as compared to the original acquisition date estimates. These accretable yield adjustments, which are subject to continued re-assessment, will be recognized over the remaining lives of those pools (weighted average period of approximately 4 years from the date of the last reassessment).

At September 30, 2011, the aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans totaled $373.5 million.

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

Other real estate owned (REO) was comprised of residential and commercial properties totaling $11.8 million and $15.9 million, respectively, at September 30, 2011, and $21.3 million and $18.5 million, respectively, at December 31, 2010. Repossessed assets totaled $19.2 million and $18.1 million at September 30, 2011 and December 31, 2010, respectively.

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Notes to Consolidated Financial Statements (Unaudited)

NOTE 5. STOCKHOLDERS EQUITY

Treasury Stock

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

In April 2008, People s United Financial s Board of Directors authorized the repurchase of up to 5% of People s United Financial s then-outstanding common stock, or up to a maximum of 17.3 million shares. Such shares may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In January 2011, People s United Financial s Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of People s United Financial s then-outstanding common stock, or 17.5 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In February 2011 and September 2011, People s United Financial completed the repurchase of the maximum number of shares of common stock authorized in April 2008 and January 2011, respectively. During the first nine months of 2011, 20.4 million shares of People s United Financial common stock were repurchased under the stock repurchase programs at a total cost of $247.2 million. In October 2011, People s United Financial s Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of the Company s common stock outstanding, or 18.0 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management.

In conjunction with establishing the RRP in October 2007, a trustee purchased 7.0 million shares of People s United Financial common stock in the open market with funds provided by People s United Financial. At September 30, 2011, 3.1 million shares were available to be awarded in the form of restricted stock under the provisions of the RRP.

Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss that are reported directly in stockholders equity on an after-tax basis. These items include: (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People s United Financial s pension and other postretirement benefit plans; (ii) net unrealized gains or losses on securities available for sale; and (iii) net gains or losses on derivatives accounted for as cash flow hedges. People s United Financial s total comprehensive income for the nine months ended September 30, 2011 and 2010 is reported in the Consolidated Statements of Changes in Stockholders Equity.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The components of accumulated other comprehensive loss, which are included in People s United Financial s stockholders equity on an after-tax basis, are as follows:

(in millions)	September 30, 2011	December 31, 2010
Net actuarial loss and other amounts related to pension and other postretirement benefit plans	$ (84.9)	$ (101.0)
Net unrealized gain on securities available for sale	47.6	1.5
Net gain on derivatives accounted for as cash flow hedges	0.5	0.5
Total accumulated other comprehensive loss	$ (36.8)	$ (99.0)

The decrease in total accumulated other comprehensive loss from December 31, 2010 consisted of an after-tax increase of $46.1 million in the net unrealized gain on securities available for sale and an after-tax decrease of $16.1 million in the net actuarial loss and other amounts related to pension and other postretirement benefit plans as a result of the Company s decision to freeze the accrual of pension benefits (see Note 8). Other comprehensive income, which is presented net of tax, totaled $62.2 million for the nine months ended September 30, 2011. There are no other-than-temporary impairment losses recognized in accumulated other comprehensive loss at September 30, 2011 or December 31, 2010 (see Note 3).

NOTE 6. EARNINGS PER COMMON SHARE

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

(in millions, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$ 52.9	$ 24.1	$ 155.8	$ 53.7
Dividends on participating securities	(0.3)	(0.4)	(1.0)	(1.3)
Income attributable to common shareholders	$ 52.6	$ 23.7	$ 154.8	$ 52.4
Average common shares outstanding for basic EPS	358.2	354.9	349.3	352.6
Effect of dilutive equity-based awards	0.1	0.1	0.1	0.1
Average common and common-equivalent shares for diluted EPS	358.3	355.0	349.4	352.7
Basic EPS	$ 0.15	$ 0.07	$ 0.45	$ 0.15
Diluted EPS	$ 0.15	$ 0.07	$ 0.45	$ 0.15

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

All unallocated ESOP common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted earnings per share. Anti-dilutive equity-based awards totaling 11.6 million for both the three and nine months ended September 30, 2011 and 10.9 million for both the three and nine months ended September 30, 2010 have been excluded from the calculation of diluted EPS.

NOTE 7. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are summarized as follows for the nine months ended September 30, 2011 and 2010:

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

	Business Segment		
(in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total
Balance at December 31, 2009	$ 616.9	$ 595.0	$ 49.8	$ 1,261.7
Acquisition of:				
Financial Federal	258.5			258.5
Butler Bank	5.5	10.9		16.4
Other adjustments	(1.7)	(1.3)		(3.0)
Balance at September 30, 2010	$ 879.2	$ 604.6	$ 49.8	$ 1,533.6

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

People s United Financial s other acquisition-related intangible assets totaled $229.8 million and $238.6 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible ($114.6 million); core deposit intangible ($81.1 million); trust relationship intangible ($32.0 million); and insurance relationship intangible ($2.1 million).

Amortization expense of other acquisition-related intangible assets, which is included in other non-interest expense in the Consolidated Statements of Income, totaled $7.0 million and $6.1 million for the three months ended September 30, 2011 and 2010, respectively, and $18.9 million and $15.6 million for the nine months ended September 30, 2011 and 2010, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2011 and each of the next five years is as follows: $25.8 million in 2011; $26.4 million in 2012; $25.7 million in 2013; $24.3 million in 2014; $23.3 million in 2015; and $13.0 million in 2016. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the nine months ended September 30, 2011 or 2010.

NOTE 8. EMPLOYEE BENEFIT PLANS

People s United Financial Employee Pension and Other Postretirement Benefit Plans

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

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

New employees of People s United Bank starting on or after August 14, 2006 are not eligible to participate in the defined benefit pension plan. Instead, People s United Financial makes contributions on behalf of these employees to a qualified defined contribution plan in an annual amount equal to 3% of the covered employee s eligible compensation. Employee participation in this plan is restricted to employees who are at least 21 years of age and worked at least 1,000 hours in a year. Both full-time and part-time employees are eligible to participate as long as they meet these requirements.

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

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

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

For the three months ended September 30 (in millions)	Pension Benefits 2011	Pension Benefits 2010	Other Postretirement Benefits 2011	Other Postretirement Benefits 2010
Net periodic benefit expense:				
Service cost	$ 1.8	$ 2.4	$	$ 0.1
Interest cost	4.6	4.2	0.2	0.1
Expected return on plan assets	(6.7)	(6.3)		
Amortization of unrecognized net transition obligation			0.1	0.1
Recognized net actuarial loss	2.0	1.7		
Recognized prior service credit		(0.1)	(0.1)	(0.1)
Curtailments (1)	(0.5)			
Net periodic benefit expense	$ 1.2	$ 1.9	$ 0.2	$ 0.2

For the nine months ended September 30 (in millions)	Pension Benefits 2011	Pension Benefits 2010	Other Postretirement Benefits 2011	Other Postretirement Benefits 2010
Net periodic benefit expense:				
Service cost	$ 6.7	$ 7.1	$ 0.1	$ 0.1
Interest cost	13.9	12.5	0.5	0.5
Expected return on plan assets	(20.0)	(18.8)		
Amortization of unrecognized net transition obligation			0.3	0.3
Recognized net actuarial loss	7.2	5.1		
Recognized prior service credit	(0.1)	(0.2)	(0.2)	(0.2)
Special termination benefits (2)		2.1		
Curtailments (1)	(0.5)			
Net periodic benefit expense	7.2	7.8	0.7	0.7
Other changes in plan assets and benefit obligations recognized in other comprehensive income or loss:				
Net actuarial loss	(25.5)	(5.1)		
Transition obligation			(0.3)	(0.3)
Prior service credit	0.1	0.2	0.2	0.2
Total pre-tax changes recognized in other comprehensive income or loss	(25.4)	(4.9)	(0.1)	(0.1)
Total recognized in net periodic benefit expense and other comprehensive income or loss	$ (18.2)	$ 2.9	$ 0.6	$ 0.6

(1) Reflects the recognition of prior service credit associated with the decision in July 2011 to freeze, effective December 31, 2011, the accrual of pension benefits for Plan participants.
(2) Included in other non-interest expense in the Consolidated Statements of Income.

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Chittenden Pension Plan

In addition to the plans described above, People s United Financial continues to maintain a fully-funded qualified defined benefit pension plan that covers former Chittenden Corporation (Chittenden) employees who meet certain eligibility requirements. Effective December 31, 2005, benefits accrued under this defined benefit plan were frozen based on participants then current service and pay levels. During April 2010, participants in the Chittenden pension plan who were in payment status as of April 1, 2010 or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010 (based upon elections made by April 15, 2010) were transferred into the People s United Financial pension plan. Net periodic benefit income for the Chittenden pension plan totaled $0.3 million and $1.8 million for the nine months ended September 30, 2011 and 2010, respectively.

Employee Stock Ownership Plan

In April 2007, People s United Financial established an Employee Stock Ownership Plan (the ESOP). At that time, People s United Financial loaned the ESOP $216.8 million to purchase 10.5 million shares of People s United Financial common stock in the open market. In order for the ESOP to repay the loan, People s United Financial expects to make annual cash contributions to the ESOP of approximately $18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares. At September 30, 2011, the loan balance totaled $203.5 million.

Shares of People s United Financial common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant s eligible compensation. Since the ESOP was established, a total of 1.7 million shares of People s United Financial common stock have been allocated or committed to be released to participants accounts. At September 30, 2011, a total of 8.8 million shares of People s United Financial common stock, with a fair value of $100.3 million, have not been allocated or committed to be released.

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants accounts multiplied by the average fair value of People s United Financial s common stock during the reporting period. The difference between the fair value of the shares of People s United Financial s common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled $3.4 million and $3.8 million for the nine months ended September 30, 2011 and 2010, respectively.

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NOTE 9. LEGAL PROCEEDINGS

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

Litigation Relating to the Smithtown Bancorp, Inc. Transaction

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

On April 26, 2010, the named plaintiff in the *Waterford* action moved to consolidate its action with the *Yourgal* action, to have itself appointed lead plaintiff in the consolidated action and to obtain approval of its selection of lead counsel. The Court approved the consolidation of the two suits, with Waterford Township named the lead plaintiff.

In addition, on April 22, 2010, a Smithtown shareholder commenced an action in New York State Supreme Court, Kings County (*Toussie v. Smithtown Bancorp, Inc., et al.*) against Smithtown and several of its officers. The complaint alleges claims for fraud and aiding and abetting fraud based upon, among other things, the plaintiff s allegation that during 2008 and 2009, one or more defendants made material misrepresentations and incomplete statements to the plaintiff concerning Smithtown s loan losses, delinquent loans, capitalization, quarterly earnings and financial soundness. The complaint seeks compensatory and punitive damages against the defendants. As a result of the consummation of the merger on November 30, 2010, People s United Financial has become the successor party to Smithtown in this matter.

On May 12, 2010, the defendants removed the April 22, 2010 action to the United States District Court for the Eastern District of New York. The defendants notified the court that the action was related to the *Waterford* and *Yourgal* actions. On June 1, 2010, the plaintiff moved to have the action remanded to state court. The plaintiff s remand motion was granted on March 24, 2011. The plaintiff filed an Amended Verified Complaint on May 24, 2011, and People s United filed a motion to dismiss the amended complaint on June 24, 2011. This motion is still pending.

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Litigation Relating to the Danvers Bancorp, Inc. Transaction

People s United Financial was named as a defendant in two lawsuits instituted by Michael Rubin and Steven M. Knudsen, respectively, in the Court of Chancery of the State of Delaware on behalf of shareholders of Danvers Bancorp, Inc., in connection with People s United Financial s acquisition of Danvers Bancorp, Inc. (the Danvers Acquisition). These two actions were consolidated on February 18, 2011, under the caption *In re Danvers Bancorp, Inc. Shareholders Litigation*, Consolidated C.A. No. 6162-VCS (the Delaware Action). The plaintiffs filed a consolidated amended complaint on March 10, 2011. People s United Financial also was named as a defendant in a lawsuit instituted by Ralph E. Swift in the Commonwealth of Massachusetts, Superior Court of Suffolk County on behalf of shareholders of Danvers Bancorp, Inc. in connection with the Danvers Acquisition. This action was transferred to the Business Litigation Section on February 17, 2011 under the caption *Swift v. Bottomley et al.*, Civ. A. No. 11-0575-BLS2 (the Massachusetts Action). The plaintiff filed an amended complaint on March 9, 2011. The amended complaints in the Actions generally allege, among other things, that (i) the Danvers directors breached their fiduciary duties by approving the merger, (ii) People s United Financial and Danvers aided and abetted such breaches and (iii) the proxy statement relating to the merger was deficient in that it failed to disclose certain information. The amended complaints in the Actions seek, among other relief, injunctive relief, damages and attorneys fees. Danvers, the Danvers board of directors and People s United Financial deny any wrongdoing in connection with the Danvers Acquisition and maintain that they diligently and scrupulously complied with any and all fiduciary and other legal duties.

On April 22, 2011, the parties in the Delaware Action entered into a memorandum of understanding regarding a proposed settlement of that action. In connection with the proposed settlement, Danvers made certain additional disclosures related to the Danvers Acquisition. On May 2, 2011, the Massachusetts Action was stayed pending resolution of the Delaware Action. On July 19, 2011, the parties entered into a stipulation of settlement, which was subject to customary conditions, including court approval following notice to Danvers stockholders and a hearing (scheduled for October 19, 2011) to consider the fairness, reasonableness, and adequacy of the settlement. On October 19, 2011, the Delaware Court of Chancery entered a final judgment dismissing the Delaware Action with prejudice and approving the stipulation of settlement which, among other things, releases all claims that were asserted or could have been asserted by Danvers shareholders concerning the Danvers Acquisition. The Delaware Court of Chancery awarded fees and expenses of $150,000 to plaintiffs counsel in the Delaware Action. On October 21, 2011, the parties to the Massachusetts Action filed a Stipulation and Dismissal with Prejudice, which was approved by the court on October 25, 2011.

Other

People s United Bank has been named as a defendant in a lawsuit arising from its assessment and collection of overdraft fees on its checking account customers. The complaint was filed in the Superior Court of Connecticut, Judicial District of Waterbury, on April 22, 2011 and alleges that People s United Bank engaged in certain unfair practices in the posting of electronic debit card transactions from highest to lowest dollar amount. The complaint also alleges that such practices were inadequately disclosed to customers and were unfairly used by People s United Bank for the purpose of generating revenue by maximizing the number of overdrafts a customer is assessed. The complaint seeks certification of a class of checking account holders residing in Connecticut and who have incurred at least one overdraft fee, injunctive relief, compensatory, punitive and treble damages, disgorgement and restitution of overdraft fees paid, and attorneys fees. On June 16, 2011, People s United Bank filed a motion to dismiss the complaint, and that motion remains pending.

NOTE 10. BUSINESS SEGMENT INFORMATION

See Business Segment Results included in Item 2 for segment information for the nine months ended September 30, 2011 and 2010.

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People s United Financial, Inc.

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NOTE 11. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements (Unaudited)

People s United Financial maintains policies and procedures to value assets and liabilities using the most relevant data available. Described below are the valuation methodologies used by People s United Financial and the resulting fair value measurement of those financial instruments reported at fair value on both a recurring and a non-recurring basis.

Recurring Fair Value Measurements

Investments in Debt and Equity Securities

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

Substantially all of the Company s available-for-sale securities represent GSE residential mortgage-backed securities and CMOs. The fair values of these securities are based on prices obtained from the independent pricing service. The pricing service uses various techniques to determine pricing for the Company s mortgage-backed securities, including option pricing and discounted cash flow analysis. The inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, monthly payment information and collateral performance. At both September 30, 2011 and December 31, 2010, the entire available-for-sale residential mortgage-backed securities portfolio was comprised of 15-year GSE securities for which an active market exists for similar securities, 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

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

Derivatives

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	Fair Value Measurements Using			
As of September 30, 2011 (in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Trading account securities	$ 69.8	$ 0.1	$	$ 69.9
Securities available for sale:				
U.S. Treasury and agency	34.1	50.1		84.2
GSE residential mortgage-backed securities and CMOs		2,095.9		2,095.9
State and municipal		117.0		117.0
Corporate		36.6		36.6
Other debt securities		2.2		2.2
Equity securities		0.1		0.1
Other assets:				
Fixed income securities		38.8		38.8
Equity mutual funds		0.4		0.4
Interest rate swaps		57.0		57.0
Foreign exchange contracts		0.6		0.6
Forward commitments to sell residential mortgage loans		3.2		3.2
Total	$ 103.9	$ 2,402.0	$	$ 2,505.9
Liabilities:				
Interest rate swaps	$	$ 52.9	$	$ 52.9
Interest rate-lock commitments on residential mortgage loans		3.7		3.7
Total	$	$ 56.6	$	$ 56.6

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2010 (in millions)	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Assets:				
Trading account securities	$ 83.5	$	$	$ 83.5
Securities available for sale:				
U.S. Treasury and agency	39.3	437.0		476.3
GSE residential mortgage-backed securities and CMOs		2,290.6		2,290.6
State and municipal		58.2		58.2
Other debt securities		4.5		4.5
Equity securities		1.5		1.5
Other assets:				
Fixed income securities		32.9		32.9
Equity mutual funds		0.3		0.3
Interest rate swaps		17.0		17.0
Forward commitments to sell residential mortgage loans		0.1		0.1
Total	$ 123.1	$ 2,841.8	$	$ 2,964.9
Liabilities:				
Interest rate swaps	$	$ 14.7	$	$ 14.7
Foreign exchange contracts		0.1		0.1
Interest rate-lock commitments on residential mortgage loans		0.1		0.1
Total	$	$ 14.9	$	$ 14.9

There were no significant transfers into or out of the Level 1 or Level 2 categories during the nine months ended September 30, 2011 and 2010.

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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 Financial uses observable secondary market data, including pricing on recent closed market transactions for loans with similar characteristics. Accordingly, such loans are classified as Level 2 measurements. When observable data is unavailable, valuation methodologies using current market interest rate data adjusted for inherent credit risk are used, and such loans are included in Level 3.

Impaired Loans

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

REO and Repossessed Assets

REO and repossessed assets are recorded at the lower of cost or fair value, less estimated selling costs, and are therefore measured at fair value on a non-recurring basis. People s United Financial has estimated the fair values of these assets using Level 3 inputs, such as independent third-party appraisals and price opinions. 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.

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

	Fair Value Measurements Using			
As of September 30, 2011 (in millions)	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	$	$ 45.4	$	$ 45.4
Impaired loans (2)			98.7	98.7
REO and repossessed assets (3)			46.9	46.9
Total	$	$ 45.4	$ 145.6	$ 191.0

	Fair Value Measurements Using			
As of December 31, 2010 (in millions)	Level 1	Level 2	Level 3	Total
Loans held for sale (1)	$	$ 88.5	$	$ 88.5
Impaired loans (2)			106.1	106.1
REO and repossessed assets (3)			57.9	57.9
Total	$	$ 88.5	$ 164.0	$ 252.5

(1) Consists of residential mortgage loans; no fair value adjustments were recorded for the nine months ended September 30, 2011 and 2010.

(2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured based on the fair value of the underlying collateral (less cost to sell) ($49.2 million, $38.4 million and $11.1 million of commercial real estate, equipment financing, and commercial and industrial loans, respectively, at September 30, 2011). Provisions for loan losses on collateral-dependent impaired loans totaled $0.1 million and $2.9 million for the nine months ended September 30, 2011 and 2010, respectively.

(3) Represents: (i) $11.8 million of residential real estate owned; (ii) $15.9 million of commercial real estate owned; and (iii) $19.2 million of repossessed assets at September 30, 2011. Charge-offs to the allowance for loan losses related to loans that were transferred to real estate owned and repossessed assets totaled $3.0 million and $2.8 million for the nine months ended September 30, 2011 and 2010, respectively. Write downs and net loss on sale related to foreclosed/repossessed assets charged to non-interest expense totaled $4.0 million and $1.3 million for the same periods.

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Fair Values of Financial Instruments

The following is a summary of the carrying amounts and estimated fair values of People s United Financial s financial instruments:

	September 30, 2011		December 31, 2010	
(in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets (other than derivatives):				
Cash and cash equivalents	$ 1,150.0	$ 1,150.0	$ 954.5	$ 954.5
Securities purchased under agreements to resell			520.0	520.0
Total securities (1)	2,540.0	2,546.1	3,033.3	3,033.3
Residential mortgage loans held for sale	45.4	45.4	88.5	88.5
Total loans, net	19,971.2	20,528.3	17,155.2	17,685.1
Accrued interest receivable	70.2	70.2	67.6	67.6
Other assets (2)	40.4	40.4	39.0	39.0
Financial liabilities (other than derivatives):				
Time deposits	5,479.7	5,549.4	5,162.7	5,205.5
Other deposits	15,007.0	15,007.0	12,770.4	12,770.4
FHLB advances	333.4	345.4	509.3	504.0
Retail repurchase agreements	519.8	519.8	472.2	472.2
Federal funds purchased and other borrowings	27.3	26.5	29.1	30.7
Subordinated notes and debentures	159.4	164.2	182.2	193.6
Accrued interest payable	5.8	5.8	9.1	9.1
Derivative financial instruments: (3)				
Recognized as an asset:				
Interest rate swaps	57.0	57.0	17.0	17.0
Foreign exchange contracts	0.6	0.6		
Forward commitments to sell residential mortgage loans	3.2	3.2	0.1	0.1
Recognized as a liability:				
Interest rate swaps	52.9	52.9	14.7	14.7
Foreign exchange contracts			0.1	0.1
Interest rate-lock commitments on residential mortgage loans	3.7	3.7	0.1	0.1

(1) Includes (i) trading account securities of $69.9 million and $83.5 million at September 30, 2011 and December 31, 2010, respectively (no other financial instruments in this table were held for trading purposes) and (ii) FHLB stock, reported at cost, totaling $77.7 million and $63.6 million at September 30, 2011 and December 31, 2010, respectively.

(2) Includes fixed income securities, cash and cash equivalents, and equity mutual funds of $38.8 million, $1.2 million and $0.4 million, respectively, at September 30, 2011, and $32.9 million, $5.8 million and $0.3 million, respectively, at December 31, 2010.

(3) See Note 12 for a further discussion of derivative financial instruments.

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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 value).

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

The following is a description of the principal valuation methods used by People s United Financial for financial instruments other than securities and derivatives, which were previously discussed:

Loans

For valuation purposes, the loan portfolio was segregated into its significant categories, which are commercial real estate, commercial and industrial, equipment financing, residential mortgage, home equity and other consumer. These categories were 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 were 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 fair value of home equity lines of credit was based on the outstanding loan balances, and therefore does not reflect the value associated with earnings from future loans to existing customers. Management believes that the fair value of these customer relationships has a substantial intangible value separate from the loan balances currently outstanding.

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Deposit Liabilities

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

Borrowings and Subordinated Notes

The fair values of FHLB advances, retail repurchase agreements and other borrowings represent contractual repayments discounted using interest rates currently available on borrowings with similar characteristics and remaining maturities. The fair values of subordinated notes and debentures were based on dealer quotes.

Other Financial Assets and Liabilities

Cash and cash equivalents, securities purchased under agreements to resell, federal funds purchased and accrued interest receivable and payable 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.

Off-Balance-Sheet Financial Instruments

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

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

All derivatives are recognized as either assets or liabilities and are measured at fair value. Until a derivative is settled, favorable changes in fair values result in unrealized gains that are recognized as assets, while unfavorable changes result in unrealized losses that are recognized as liabilities.

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

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

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

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

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Notes to Consolidated Financial Statements (Unaudited)

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

Certain of People s United Financial s derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company s external credit rating. If the Company s senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of bilateral netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2011 was $9.2 million, for which People s United Financial had posted $8.3 million collateral in the normal course of business. If the Company s senior unsecured debt rating had fallen below investment grade as of that date, $0.9 million in additional collateral would have been required.

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

Interest Rate Floors

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

In the first quarter of 2009, People s United Financial terminated its remaining $600 million (notional amount) interest rate floor contracts. The decision to do so was based on management s belief that, in light of the current interest rate environment, the derivative contracts had achieved their stated market risk management objective. Termination of the derivative contracts also served to reduce the Company s counterparty credit risk. At the time of termination, the interest rate floors had an unrealized gain of $40.1 million. The gain was included (on a net-of-tax basis) as a component of accumulated other comprehensive loss and was recognized in income over the period during which the hedged items (certain floating rate commercial loans) affected earnings (approximately 2 years). The remaining unrecognized gain at December 31, 2010 of $0.6 million was recognized in income in the first quarter of 2011.

Interest Rate Swaps

People s United Financial has also entered into pay fixed/receive floating interest rate swaps that are used to manage interest rate risk associated with certain interest-earning assets and interest-bearing liabilities.

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

People s United Financial has entered into an interest rate swap to hedge the LIBOR floating interest rate on the Company s $125 million subordinated notes beginning in February 2012. The subordinated notes pay a fixed interest rate of 5.80% until February 2012, at which time the interest rate converts to the three month LIBOR plus 68.5 basis points. Specifically, People s United Financial has agreed with the 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. As a result, the interest rate swap effectively converts the variable rate subordinated notes to a fixed interest rate and consequently reduces People s United Financial s exposure to increases in interest rates. This interest rate swap is accounted for as a cash flow hedge.

Foreign Exchange Contracts

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

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Customer Derivatives

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

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

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

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

				Fair Values (1)			
		Notional Amounts		Assets		Liabilities	
(in millions)	Type of Hedge	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Derivatives Not Designated as Hedging Instruments:							
Interest rate swaps:							
Commercial customers	N/A	$ 758.4	$ 491.5	$ 56.4	$ 13.5	$	$ 2.8
Other counterparties	N/A	758.4	491.5	0.1	3.5	52.8	11.5
Foreign exchange contracts	N/A	11.5	8.3	0.6			0.1
Forward commitments to sell residential mortgage loans	N/A	208.3	111.2	3.2	0.1		
Interest rate-lock commitments on residential mortgage loans	N/A	235.4	120.1			3.7	0.1
Total				60.3	17.1	56.5	14.5
Derivatives Designated as Hedging Instruments:							
Interest rate swaps:							
Loans	Fair value	4.1	5.7			0.1	0.4
Subordinated notes	Cash flow	125.0		0.5			
Total				0.5		0.1	0.4
Total derivatives				$ 60.8	$ 17.1	$ 56.6	$ 14.9

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following table summarizes the impact of People s United Financial s derivatives on pre-tax income and accumulated other comprehensive loss (AOCL) for the nine months ended September 30, 2011 and 2010:

Nine months ended September 30 (in millions)	Type of Hedge	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1) 2011	2010	Amount of Pre-Tax Gain (Loss) Recognized in AOCL 2011	2010
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps:					
Commercial customers	N/A	$ 55.4	$ 40.7	$	$
Other counterparties	N/A	(54.1)	(39.5)		
Foreign exchange contracts	N/A	0.7			
Interest rate-lock commitments on residential mortgage loans	N/A	(0.4)	(0.6)		
Total		1.6	0.6		
Derivatives Designated as Hedging Instruments:					
Interest rate swaps	Cash flow			0.5	
Interest rate floors (2)	Cash flow	0.7	15.8		
Interest rate swaps	Fair value	(0.2)	(0.2)		
Total		0.5	15.6	0.5	
Total derivatives		$ 2.1	$ 16.2	$ 0.5	$

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

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

NOTE 13. NEW ACCOUNTING STANDARDS

Credit Quality and Allowance for Credit Losses Disclosures

In July 2010, the Financial Accounting Standards Board (the FASB) amended its standards related to required disclosures about the credit quality of financing receivables and the allowance for credit losses. As a result, companies are required to provide expanded credit risk disclosures (such as aging information and credit quality indicators) and expanded disclosures related to the allowance for credit losses (such as a disaggregated rollforward of activity in the allowance). Both new and existing disclosures must be disaggregated either by portfolio segment or by class of financing receivable that are based, in part, on how a company develops its allowance for credit losses and manages its credit exposure. The amendments requiring disclosure as of the end of a reporting period were effective for People s United Financial at December 31, 2010. The amendments requiring disclosures about activity that occurs during a reporting period generally became effective for People s United Financial on January 1, 2011, except for disclosures about TDR activity that became effective on July 1, 2011. The applicable required disclosures have been provided in Note 4.

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Notes to Consolidated Financial Statements (Unaudited)

Goodwill and Intangible Assets

In December 2010, the FASB amended its standards related to intangible assets by modifying Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This amendment became effective for People s United Financial on January 1, 2011 and is not expected to have a significant impact on the Company s Consolidated Financial Statements.

In September 2011, the FASB amended its standards to provide an entity 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 performing the two-step impairment test is not required. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (January 1, 2012 for People s United Financial). While early adoption is permitted, the Company has not elected to do so. The adoption of this guidance in 2012 is not expected to have a significant impact on the Company s Consolidated Financial Statements.

Business Combinations

In December 2010, the FASB amended its standards related to business combinations by (i) providing clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required when comparative financial statements are presented and (ii) requiring entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. For People s United Financial, these amendments are effective for business combinations for which the acquisition date is on or after January 1, 2011. The required disclosures have been provided in Note 2.

Troubled Debt Restructurings

In April 2011, the FASB amended its standards to provide clarifying guidance to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a TDR, both for purposes of recording an impairment loss and for disclosure of TDRs. In evaluating whether a loan modification constitutes a TDR, a creditor must separately conclude that (i) the modification constitutes a concession and (ii) the debtor is experiencing financial difficulties. For public companies, this clarifying guidance is effective for periods beginning on or after June 15, 2011 (July 1, 2011 for People s United Financial), and applies retrospectively to restructurings occurring on or after January 1, 2011. The Company s existing policies and procedures have been, and remain, consistent with this clarifying guidance. As such, the application of this guidance did not result in the identification of additional TDRs nor did it have a material impact on the Company s allowance for loan losses, provision for loan losses or TDR-related financial statement disclosures, which have been provided in Note 4.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB amended its standards with respect to repurchase agreements. The amendments change (i) the effective control assessment by removing the criterion that required the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. Instead, the amendments focus the assessment of effective control on the transferor s rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. As a result, it is anticipated that most repurchase agreements will not qualify for derecognition from the transferor s financial statements. These amendments are effective for the first interim or annual period beginning on or after December 15, 2011 (January 1, 2012 for People s United Financial), and will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. These amendments are not expected to have a significant impact on the Company s Consolidated Financial Statements.

Comprehensive Income

In June 2011, the FASB amended its standards relating to the presentation of comprehensive income to require that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate consecutive statements. These amendments will make the financial statement presentation of other comprehensive income more prominent by eliminating the alternative to present comprehensive income within the statement of equity. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (January 1, 2012 for People s United Financial) and should be applied retrospectively. The adoption of these amendments in 2012 is not expected to have a significant impact on the Company s Consolidated Financial Statements.

Fair Value Measurements

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

Specifically, the amendments include provisions relating to: (i) application of the highest and best use and valuation premise concepts; (ii) application of premiums and discounts, including blockage factors, in a fair value measurement; (iii) measuring the fair value of an instrument classified in a reporting entity s shareholders equity; and (iv) additional disclosures about fair value measurements, including quantitative information (e.g. sensitivity analysis) about the unobservable inputs used for Level 3 items and the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value is required to be disclosed. These amendments, for which early adoption is not permitted, are effective prospectively for interim and annual periods beginning on or after December 15, 2011 (January 1, 2012 for People s United Financial) and are not expected to have a significant impact on the Company s Consolidated Financial Statements.

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

Forward-Looking Statements

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

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

All forward-looking statements are subject to risks and uncertainties that could cause People s United Financial s actual results or financial condition to differ materially from those expressed in or implied by such statements. Factors of particular importance to People s United Financial include, but are not limited to: (1) changes in general, national or regional economic conditions; (2) changes in interest rates; (3) changes in loan default and charge-off rates; (4) changes in deposit levels; (5) changes in levels of income and expense in non-interest income and expense related activities; (6) residential mortgage and secondary market activity; (7) changes in accounting and regulatory guidance applicable to banks; (8) price levels and conditions in the public securities markets generally; (9) competition and its effect on pricing, spending, third-party relationships and revenues; (10) the successful integration of acquired companies; and (11) changes in regulation resulting from or relating to financial reform legislation.

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

Recent Market Developments

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

FDIC Insurance Coverage / Assessments

The Federal Deposit Insurance Corporation (the FDIC) insures deposits at FDIC insured financial institutions up to certain limits, charging premiums to maintain the Deposit Insurance Fund (the DIF) at specified levels. Such premiums may vary based on the risk profile of the insured institution and have historically ranged from 0.05% of deposits for an institution in the highest sub-category of the highest category to 0.43% of deposits for an institution in the lowest category. In response to an increase in the number of bank failures, the FDIC authorized higher premium assessments for 2009 pursuant to a restoration plan designed to increase the DIF reserve ratio to required levels. Under the FDIC s restoration plan, the premium assessment rate was raised uniformly by seven basis points beginning on January 1, 2009 resulting in an initial base assessment rate of 12 basis points for People s United Bank.

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On September 29, 2009, the FDIC adopted a plan that extended the DIF restoration plan from seven years to eight years and on November 12, 2009, the FDIC adopted a final rule that amended the assessment regulations to require insured financial institutions to prepay, on December 30, 2009, their estimated deposit insurance premiums for 2010, 2011 and 2012. Under this rule, which did not include any additional special assessments, the prepayment was based on an assumed 5% annual growth rate in each institution s insured deposits (the assessment base) and an assumed increase of three basis points in each institution s premium assessment rate beginning in 2011. As such, deposit insurance expense may continue to increase in the future. On December 30, 2009, People s United Bank prepaid its estimated deposit insurance premiums totaling $69 million in accordance with FDIC regulations. The prepaid deposit insurance assessment totaled $39 million at September 30, 2011, which includes balances acquired in connection with recent business combinations.

The EESA increased the FDIC deposit insurance limit from $100,000 to $250,000 per depositor through December 31, 2009, and subsequent amendments extended the increased coverage through December 31, 2013. In addition, on October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program, which consists of two components: temporary unlimited deposit insurance on funds in non-interest-bearing transaction deposit accounts not otherwise covered by the increased $250,000 deposit insurance limit (the Transaction Account Guarantee Program) and a temporary guarantee of certain newly-issued unsecured debt (the Debt Guarantee Program). Through June 30, 2010, People s United Bank participated in the Transaction Account Guarantee Program as it had historically participated in all other FDIC deposit insurance programs. However, People s United Bank elected to opt out of future participation in the Transaction Account Guarantee Program effective July 1, 2010. While People s United Financial has retained its right to do so, the Company does not, at this time, intend to issue senior unsecured debt securities under the Debt Guarantee Program.

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

Based on the increase in the premium assessment rate in 2009, the special assessment announced in May 2009, and People s United Bank s participation in the Transaction Account Guarantee Program through June 30, 2010, the Company s cost of deposit insurance increased significantly in 2009 and 2010. The actual amount of future assessments will be dependent on several factors, including: (i) People s United Bank s average total assets and average tangible equity; (ii) People s United Bank s risk profile; (iii) and whether additional special assessments are imposed in future periods and the manner in which such assessments are determined.

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Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

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

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Act. As a result, beginning on July 21, 2011, financial institutions could begin offering interest on demand deposits. As of September 30, 2011, People s United Bank s non-interest bearing deposits totaled $4.2 billion, or 20.6% of total deposits. The Company s interest expense may increase and our net interest margin may decrease if we begin to offer higher rates of interest than we currently offer on demand deposits.

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

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

On July 21, 2011, the Office of the Comptroller of the Currency (the OCC) assumed responsibility for the supervision and regulation of all federally-chartered savings banks, and the Board assumed responsibility for the supervision and regulation of all savings and loan holding companies. People s United Bank has submitted an application to the OCC to convert to a national bank charter from its current federal savings bank charter. In addition, People s United Financial plans to submit an application to the Board for financial holding company status.

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Selected Consolidated Financial Data

(dollars in millions, except per share data)	Three Months Ended Sept. 30, 2011	Three Months Ended June 30, 2011	Three Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010
Earnings Data:					
Net interest income	$ 240.0	$ 221.2	$ 175.8	$ 681.5	$ 509.2
Provision for loan losses	14.4	14.0	21.8	43.0	49.1
Non-interest income (1), (2)	84.7	76.6	68.0	235.9	201.9
Non-interest expense (1), (3)	231.9	207.0	186.3	641.7	582.9
Income before income tax expense	78.4	76.8	35.7	232.7	79.1
Net income	52.9	51.2	24.1	155.8	53.7
Operating earnings (4)	67.3	57.3	27.7	178.4	88.7
Selected Statistical Data:					
Net interest margin (5)	4.11%	4.13%	3.74%	4.13%	3.64%
Return on average assets (5)	0.77	0.82	0.44	0.81	0.33
Operating return on average assets (4), (5)	0.98	0.92	0.50	0.93	0.55
Return on average tangible assets (5)	0.84	0.89	0.48	0.88	0.36
Return on average stockholders equity (5)	3.8	4.0	1.8	3.9	1.3
Return on average tangible stockholders equity (5)	6.6	6.3	2.7	6.3	2.0
Operating return on average tangible stockholders equity (4), (5)	8.0	7.1	3.1	7.3	3.2
Efficiency ratio (4)	63.1	65.7	71.2	64.9	72.8
Common Share Data:					
Basic and diluted earnings per share	$ 0.15	$ 0.15	$ 0.07	$ 0.45	$ 0.15
Operating earnings per share (4)	0.19	0.17	0.08	0.51	0.25
Dividends paid per share	0.1575	0.1575	0.1550	0.4700	0.4625
Dividend payout ratio	108.4%	106.4%	230.4%	106.6%	303.5%
Operating dividend payout ratio (4)	85.3	95.1	200.4	93.1	183.7
Book value per share (end of period)	$ 15.18	$ 15.01	$ 15.04	$ 15.18	$ 15.04
Tangible book value per share (end of period) (4)	9.01	9.38	10.07	9.01	10.07
Stock price:					
High	13.96	13.81	14.35	14.49	17.08
Low	10.50	12.55	12.56	10.50	12.56
Close (end of period)	11.40	13.44	13.09	11.40	13.09

(1) Income and expenses associated with merchant services and customer derivatives are presented net in non-interest income for all periods.
(2) Includes net security gains of $8.6 million and $8.8 million for the three and nine months ended September 30, 2011, respectively.
(3) Includes a total of $21.5 million, $9.2 million and $5.3 million of merger-related expenses, core system conversion costs and one-time charges for the three months ended September 30, 2011, June 30, 2011, and September 30, 2010, respectively, and $33.8 million and $51.9 million for the nine months ended September 30, 2011 and 2010, respectively.
(4) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(5) Annualized.

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(dollars in millions)	As of and for the Three Months Ended Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Financial Condition Data:					
Total assets	$ 27,213	$ 25,323	$ 24,962	$ 25,037	$ 21,897
Loans	20,148	17,687	17,523	17,328	15,120
Securities	2,540	3,226	3,203	3,033	2,478
Short-term investments (1)	779	822	926	1,120	1,218
Allowance for loan losses	177	176	178	173	173
Goodwill and other acquisition-related intangibles	2,151	1,947	1,953	1,962	1,772
Deposits	20,487	18,278	18,110	17,933	15,675
Borrowings	881	1,331	1,158	1,011	254
Subordinated notes and debentures	159	159	176	182	183
Stockholders equity	5,291	5,194	5,160	5,219	5,365
Non-performing assets (2)	305	315	292	303	312
Net loan charge-offs	13.4	15.5	9.6	10.9	21.8
Average Balances:					
Loans	$ 19,856	$ 17,654	$ 17,290	$ 15,770	$ 15,120
Securities	2,976	3,264	3,089	2,457	1,856
Short-term investments (1)	756	629	843	1,418	1,892
Residential mortgage loans held for sale	26	17	52	52	47
Total earning assets	23,614	21,564	21,274	19,697	18,915
Total assets	27,355	24,853	24,623	22,961	21,955
Deposits	20,259	18,225	17,944	16,531	15,801
Total funding liabilities	21,499	19,353	19,121	17,236	16,175
Stockholders equity	5,515	5,177	5,185	5,335	5,404
Ratios:					
Net loan charge-offs to average loans (annualized)	0.27%	0.35%	0.22%	0.28%	0.58%
Non-performing assets to originated loans, real estate owned and repossessed assets (2)	1.88	2.05	1.96	2.09	2.19
Allowance for loan losses to:					
Originated loans (2)	1.09	1.15	1.19	1.19	1.22
Originated non-performing loans (2)	68.5	68.0	73.8	70.3	68.6
Average stockholders equity to average total assets	20.2	20.8	21.1	23.2	24.6
Stockholders equity to total assets	19.4	20.5	20.7	20.8	24.5
Tangible stockholders equity to tangible assets (3)	12.5	13.9	13.9	14.1	17.8
Total risk-based capital (4)	16.6	19.1	19.4	19.3	23.3

(1) Includes securities purchased under agreements to resell.
(2) Excludes acquired loans. See Asset Quality.
(3) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(4) Consolidated. See Regulatory Capital Requirements.

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Non-GAAP Financial Measures and Reconciliation to GAAP

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

The efficiency ratio, which represents an approximate measure of the cost required by People s United Financial to generate a dollar of revenue, is the ratio of (i) total non-interest expense (excluding goodwill impairment charges, amortization of other acquisition-related intangibles and certain purchase accounting-related fair value adjustments, losses on real estate assets and non-recurring expenses) (the numerator) to (ii) net interest income on a fully taxable equivalent (FTE) basis plus total non-interest income (including the fully taxable equivalent adjustment on bank-owned life insurance (BOLI) income, and excluding certain purchase accounting-related fair value adjustments, gains and losses on sales of assets other than residential mortgage loans, and non-recurring income) (the denominator). People s United Financial generally considers an item of income or expense to be non-recurring if it is not similar to an item of income or expense of a type incurred within the last two years and is not similar to an item of income or expense of a type reasonably expected to be incurred within the following two years.

Operating earnings exclude from net income those items that management considers to be of such a non-recurring or infrequent nature that, by excluding such items, People s United Financial s results can be measured and assessed on a more consistent basis from period to period. Items excluded from operating earnings, which include, but are not limited to, merger-related expenses, core system conversion costs, and one-time charges related to executive-level management separation and severance-related costs, are generally also excluded when calculating the efficiency ratio. Operating earnings per share is calculated by dividing operating earnings by the weighted average number of dilutive common shares outstanding for the respective period. Operating return on average assets is calculated by dividing operating earnings (annualized) by average assets. Operating return on average tangible stockholders equity is calculated by dividing operating earnings (annualized) by average tangible stockholders equity. The operating dividend payout ratio is calculated by dividing dividends paid by operating earnings for the respective period.

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

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

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

	Three Months Ended			Nine Months Ended	
(dollars in millions)	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Total non-interest expense	$ 231.9	$ 207.0	$ 186.3	$ 641.7	$ 582.9
Adjustments:					
Amortization of:					
Other acquisition-related intangibles	(7.0)	(6.0)	(6.1)	(18.9)	(15.6)
Purchase accounting-related fair value adjustments (1)	(0.8)	(0.8)	(0.8)	(2.4)	(2.4)
Merger-related expenses	(20.1)	(6.4)	(1.0)	(29.6)	(18.5)
Severance-related costs	(1.4)			(1.4)	
Executive-level separation costs		(2.8)		(2.8)	(15.3)
Other (2)	(2.3)	(1.9)	(3.0)	(6.3)	(6.7)
Total	$ 200.3	$ 189.1	$ 175.4	$ 580.3	$ 524.4
Net interest income (FTE basis)	$ 242.7	$ 222.5	$ 176.6	$ 686.7	$ 511.6
Total non-interest income	84.7	76.6	68.0	235.9	201.9
Total revenues	327.4	299.1	244.6	922.6	713.5
Adjustments:					
BOLI FTE adjustment	0.9	0.8	0.7	2.3	3.1
Purchase accounting-related fair value adjustments (1)	(7.3)	(4.7)	1.0	(17.0)	3.6
Net security gains	(8.6)	(0.1)		(8.8)	
Losses (gains) on sales of acquired loans	4.8	(7.2)		(7.9)	
Other (3)	0.1			2.3	
Total	$ 317.3	$ 287.9	$ 246.3	$ 893.5	$ 720.2
Efficiency ratio	63.1%	65.7%	71.2%	64.9%	72.8%

(1) Reflects the impact of amortization and accretion associated with certain purchase accounting-related fair value adjustments recognized in connection with past business combinations. Amounts deducted from non-interest expense represent the impact of adjustments made to acquired premises and equipment to reflect the fair value of such assets and which generally have a remaining life of approximately 6 years at September 30, 2011. Amounts added to (deducted from) total revenues represent the impact of adjustments made to loans acquired prior to January 1, 2010 and liabilities assumed (i.e. time deposits, FHLB advances, repurchase agreements and subordinated notes and debentures) as a result of interest rate-related changes applicable to such instruments and which generally have a weighted average remaining life of approximately 7 years at September 30, 2011. These adjustments are made because management believes such income and expense amounts are not relevant for purposes of evaluating operating efficiency.

(2) Items classified as other and deducted from non-interest expense include, as applicable, certain franchise taxes, real estate owned expenses and contract termination costs.

(3) Items classified as other and added to (deducted from) total revenues include, as applicable, asset write-offs, gains associated with the sale of branch locations and mortgage servicing rights, and interest on an income tax refund.

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

	Three Months Ended			Nine Months Ended	
(dollars in millions, except per share data)	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net income, as reported	$ 52.9	$ 51.2	$ 24.1	$ 155.8	$ 53.7
Adjustments to arrive at operating earnings:					
Merger-related expenses	20.1	6.4	1.0	29.6	18.5
Severance-related costs	1.4			1.4	
Executive-level separation costs		2.8		2.8	15.3
Core system conversion costs			4.3		18.1
Total pre-tax adjustments	21.5	9.2	5.3	33.8	51.9
Tax effect	(7.1)	(3.1)	(1.7)	(11.2)	(16.9)
Total adjustments, net of tax	14.4	6.1	3.6	22.6	35.0
Operating earnings	$ 67.3	$ 57.3	$ 27.7	$ 178.4	$ 88.7
Earnings per share, as reported	$ 0.15	$ 0.15	$ 0.07	$ 0.45	$ 0.15
Adjustment to arrive at operating earnings per share:					
Merger-related expenses	0.04	0.02		0.06	0.03
Severance-related costs					
Executive-level separation costs					0.04
Core system conversion costs			0.01		0.03
Total adjustments per share	0.04	0.02	0.01	0.06	0.10
Operating earnings per share	$ 0.19	$ 0.17	$ 0.08	$ 0.51	$ 0.25
Average total assets	$ 27,355	$ 24,853	$ 21,955	$ 25,620	$ 21,698
Operating return on average assets (annualized)	0.98%	0.92%	0.50%	0.93%	0.55%

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

Operating Return on Average Tangible Stockholders Equity

	Three Months Ended			Nine Months Ended	
(dollars in millions)	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Operating earnings	$ 67.3	$ 57.3	$ 27.7	$ 178.4	$ 88.7
Average stockholders equity	$ 5,515	$ 5,177	$ 5,404	$ 5,294	$ 5,380
Less: average goodwill and average other acquisition-related intangibles	2,154	1,950	1,776	2,021	1,728

Average tangible stockholders equity	$ 3,361	$ 3,227	$ 3,628	$ 3,273	$ 3,652
Operating return on average tangible stockholders equity (annualized)	8.0%	7.1%	3.1%	7.3%	3.2%

Operating Dividend Payout Ratio

	Three Months Ended			Nine Months Ended	
(dollars in millions)	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Dividends paid	$ 57.4	$ 54.5	$ 55.5	$ 166.1	$ 162.9
Operating earnings	$ 67.3	$ 57.3	$ 27.7	$ 178.4	$ 88.7
Operating dividend payout ratio	85.3%	95.1%	200.4%	93.1%	183.7%

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

Tangible Equity Ratio

(in millions, except per share data)	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Total stockholders equity	$ 5,291	$ 5,194	$ 5,160	$ 5,219	$ 5,365
Less: goodwill and other acquisition-related intangibles	2,151	1,947	1,953	1,962	1,772
Tangible stockholders equity	$ 3,140	$ 3,247	$ 3,207	$ 3,257	$ 3,593
Total assets	$ 27,213	$ 25,323	$ 24,962	$ 25,037	$ 21,897
Less: goodwill and other acquisition-related intangibles	2,151	1,947	1,953	1,962	1,772
Tangible assets	$ 25,062	$ 23,376	$ 23,009	$ 23,075	$ 20,125
Tangible equity ratio	12.5%	13.9%	13.9%	14.1%	17.8%

Tangible Book Value Per Share

(in millions, except per share data)	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Tangible stockholders equity	$ 3,140	$ 3,247	$ 3,207	$ 3,257	$ 3,593
Common shares issued	395.46	377.02	376.95	376.62	374.63
Less: Common shares classified as treasury shares	38.07	22.01	22.01	17.49	8.75
Unallocated ESOP common shares	8.80	8.89	8.97	9.06	9.15
Common shares	348.59	346.12	345.97	350.07	356.73
Tangible book value per share	$ 9.01	$ 9.38	$ 9.27	$ 9.30	$ 10.07

Acquisition Completed in 2011

After the close of business on June 30, 2011, People s United Financial acquired Danvers Bancorp, Inc. (Danvers) based in Danvers, Massachusetts. The transaction was effective July 1, 2011. Total consideration paid in the Danvers acquisition of approximately $462 million consisted of approximately $214 million in cash and 18.5 million shares of People s United Financial common stock with a fair value of approximately $248 million. Cash consideration was paid at the rate of $23.00 per share of Danvers common stock and stock consideration was paid at the rate of 1.624 shares of People s United Financial common stock per share of Danvers common stock. At the acquisition date, Danvers operated 28 branches in the greater Boston area.

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Acquisitions Completed in 2010

On November 30, 2010, People s United Financial acquired Smithtown Bancorp, Inc. (Smithtown) based in Hauppauge, New York and LSB Corporation (LSB) based in North Andover, Massachusetts. On April 16, 2010, People s United Bank entered into a definitive purchase and assumption agreement with the FDIC pursuant to which People s United Bank assumed all of the deposits, certain assets and the banking operations of Butler Bank, located in Lowell, Massachusetts. On February 19, 2010, People s United Financial acquired Financial Federal Corporation (Financial Federal), a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses. See Note 2 to the Consolidated Financial Statements for a further discussion of these acquisitions.

Financial Overview

People s United Financial reported net income of $52.9 million, or $0.15 per diluted share, for the three months ended September 30, 2011, compared to $24.1 million, or $0.07 per diluted share, for the year-ago period. Operating earnings were $67.3 million, or $0.19 per share, and $27.7 million, or $0.08 per share, for the respective periods. Third quarter 2011 earnings continue to reflect organic loan and deposit growth, improvement in net interest income, continued positive results in fee-related businesses and tighter expense control.

For the nine months ended September 30, 2011, net income totaled $155.8 million, or $0.45 per diluted share, compared to $53.7 million, or $0.15 per diluted share, for the year-ago period. Operating earnings were $178.4 million, or $0.51 per share, and $88.7 million, or $0.25 per share, for the respective periods.

People s United Financial completed its acquisition of Danvers on June 30, 2011, effective July 1, 2011. People s United Financial acquired both Smithtown and LSB on November 30, 2010, Butler Bank on April 16, 2010 and Financial Federal on February 19, 2010. Accordingly, the results of operations for these acquisitions are included beginning as of the respective acquisition dates, and prior period results have not been restated to include Danvers, Smithtown, LSB, Butler Bank and Financial Federal.

People s United Financial s operating return on average assets was 0.98% for the three months ended September 30, 2011, compared to 0.50% for the year-ago period. Operating return on average tangible stockholders equity was 8.0% for the three months ended September 30, 2011, compared to 3.1% for the year-ago period.

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Net interest income increased $64.2 million from the year-ago quarter while the net interest margin improved 37 basis points to 4.11%. The higher net interest margin primarily reflects the benefits from acquisitions as well as a 16 basis point reduction in the cost of deposits, partially offset by the effect of the historically low interest rate environment, and the Company s excess capital, a portion of which was invested in relatively low-yielding short-term investments and securities purchased under agreements to resell for most of 2010.

Compared to the second quarter of 2011, net interest income increased $18.8 million primarily reflecting the benefit from the Danvers acquisition and a reduction in the cost of deposits, and the net interest margin was relatively flat, declining by 2 basis points.

Compared to the third quarter of 2010, average earning assets increased $4.7 billion, reflecting increases of $4.7 billion in average loans and $1.1 billion in average securities, partially offset by a $1.1 billion decrease in average short-term investments and securities purchased under agreements to resell. Average funding liabilities increased $5.3 billion, primarily reflecting increases of $4.5 billion in average total deposits and $872 million in average total borrowings.

Compared to the year-ago quarter, total non-interest income increased $16.7 million and total non-interest expense increased $45.6 million (see Non-Interest Income and Non-Interest Expense). The efficiency ratio was 63.1% for the third quarter of 2011 compared to 71.2% for the year-ago period.

The provision for loan losses in the third quarter of 2011 totaled $14.4 million compared to $21.8 million in the year-ago quarter. The provision for loan losses in the third quarter of 2011 reflected net loan charge-offs of $13.4 million and a $1.0 million increase in the allowance for loan losses (see Asset Quality). The provision for loan losses in the third quarter of 2010 reflected net loan charge-offs of $21.8 million. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.27% in the third quarter of 2011 compared to 0.58% in the year-ago quarter.

The allowance for loan losses totaled $177.0 million at September 30, 2011, reflecting a $4.5 million increase from December 31, 2010 in response to growth in the commercial and residential mortgage loan portfolios. Non-performing assets totaled $305.2 million at September 30, 2011, a $2.1 million increase from December 31, 2010. At September 30, 2011, the allowance for loan losses as a percentage of originated loans was 1.09% and as a percentage of originated non-performing loans was 68.5% (see Asset Quality).

People s United Financial s total stockholders equity was $5.3 billion at September 30, 2011 and $5.2 billion at December 31, 2010 and as a percentage of total assets, stockholders equity was 19.4% and 20.8%, respectively. Tangible stockholders equity as a percentage of tangible assets was 12.5% at September 30, 2011 compared to 14.1% at December 31, 2010.

People s United Bank s and People s United Financial s (consolidated) total risk-based capital ratio were 14.9% and 16.6%, respectively, at September 30, 2011 compared to 14.5% and 19.3%, respectively, at December 31, 2010 (see Regulatory Capital Requirements).

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Business Segment Results

People s United Financial s operations are divided into three primary business segments that represent its core businesses: Commercial Banking, Retail and Business Banking, and Wealth Management. In addition, the Treasury area manages People s United Financial s securities portfolio, short-term investments and securities purchased under agreements to resell, wholesale borrowings and the funding center. The Company s operating segments have been aggregated into reportable segments that have been identified and organized based on the nature of the products and services offered by the respective segment.

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

FTP is used in the calculation of each operating segment s net interest income, and measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income (see Treasury). Beginning in the third quarter of 2011, the Company s FTP methodology relating to certain deposit products was modified, resulting in the allocation of a larger credit to net interest income within Commercial Banking and Retail and Business Banking with the offset allocated to the Treasury area. Prior period results were not restated to reflect this change in methodology.

A five-year rolling average net charge-off rate is used as the basis for the provision for loan losses for the respective 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 business segment, it may result in a measure of segment provision that does not reflect actual incurred losses for the periods presented.

People s United Financial allocates a majority of non-interest expenses to each business 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 business segment and corporate overhead costs are allocated to the business segments. Income tax expense is allocated to each business segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the year.

Total average assets and total average liabilities are reported for each business segment due to management s reliance, in part, on such average balances for purposes of assessing business segment performance. These averages include allocated goodwill and intangible assets.

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

Business Segment Performance Summary

Three months ended September 30, 2011 (in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total Segments	Treasury	Other	Total Consolidated
Net interest income	$ 119.5	$ 127.3	$ 1.7	$ 248.5	$ (14.7)	$ 6.2	$ 240.0
Provision for loan losses	10.1	2.9	0.1	13.1		1.3	14.4
Total non-interest income	16.3	37.8	20.4	74.5	10.6	(0.4)	84.7
Total non-interest expense	56.7	133.2	21.7	211.6	(4.0)	24.3	231.9
Income (loss) before income tax expense (benefit)	69.0	29.0	0.3	98.3	(0.1)	(19.8)	78.4
Income tax expense (benefit)	22.8	9.6	0.1	32.5		(7.0)	25.5
Net income (loss)	$ 46.2	$ 19.4	$ 0.2	$ 65.8	$ (0.1)	$ (12.8)	$ 52.9
Total average assets	$ 14,424.9	$ 7,376.2	$ 326.0	$ 22,127.1	$ 3,947.2	$ 1,280.4	$ 27,354.7
Total average liabilities	2,840.4	17,992.9	202.4	21,035.7	759.5	44.3	21,839.5

Nine months ended September 30, 2011 (in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	$ 322.4	$ 339.5	$ 4.3	$ 666.2	$ (4.7)	$ 20.0	$ 681.5
Provision for loan losses	27.8	8.1	0.3	36.2		6.8	43.0
Total non-interest income	60.3	107.9	58.6	226.8	12.4	(3.3)	235.9
Total non-interest expense	154.3	375.3	65.0	594.6	(2.3)	49.4	641.7
Income (loss) before income tax expense (benefit)	200.6	64.0	(2.4)	262.2	10.0	(39.5)	232.7
Income tax expense (benefit)	66.7	21.3	(0.8)	87.2	3.5	(13.8)	76.9
Net income (loss)	$ 133.9	$ 42.7	$ (1.6)	$ 175.0	$ 6.5	$ (25.7)	$ 155.8
Total average assets	$ 13,217.4	$ 6,868.6	$ 333.8	$ 20,419.8	$ 3,989.2	$ 1,211.0	$ 25,620.0
Total average liabilities	2,527.6	16,810.9	192.7	19,531.2	736.3	58.7	20,326.2

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Commercial Banking consists principally of commercial real estate lending, commercial and industrial lending, and commercial deposit gathering activities. This segment also includes the equipment financing operations of People s Capital and Leasing Corp. (PCLC) and People s United Equipment Finance Corp. (PUEFC), as well as cash management, correspondent banking and municipal banking.

	Three Months Ended		Nine Months Ended	
(in millions)	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net interest income	$ 119.5	$ 74.6	$ 322.4	$ 219.4
Provision for loan losses	10.1	6.8	27.8	19.8
Total non-interest income	16.3	14.2	60.3	40.1
Total non-interest expense	56.7	48.4	154.3	140.5
Income before income tax expense	69.0	33.6	200.6	99.2
Income tax expense	22.8	10.9	66.7	32.3
Net income	$ 46.2	$ 22.7	$ 133.9	$ 66.9
Total average assets	$ 14,424.9	$ 10,837.3	$ 13,217.4	$ 10,886.4
Total average liabilities	2,840.4	2,165.9	2,527.6	2,186.6

Commercial Banking net income increased $23.5 million in the third quarter of 2011 compared to the third quarter of 2010, reflecting the benefits from acquisitions as well as organic loan growth. The $44.9 million increase in net interest income reflects an increase in average earning assets, improved spreads on commercial loans due to loan mix and a change in FTP methodology discussed previously, partially offset by narrowing spreads on commercial deposits. Non-interest income reflects an increase in commercial loan fees compared to the third quarter of 2010 and a $4.8 million loss on sale of acquired loans in the third quarter of 2011. The increase in non-interest expense reflects additional non-interest expenses resulting from acquisitions and an increase in amortization expense on leased equipment.

Average assets increased $3.6 billion in the third quarter of 2011 compared to the third quarter of 2010, reflecting organic loan growth and acquisitions.

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Retail and Business Banking includes, as its principal business lines, business lending, consumer and business deposit gathering activities, consumer lending (including residential mortgage and home equity lending), and merchant services.

	Three Months Ended		Nine Months Ended	
(in millions)	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net interest income	$ 127.3	$ 98.1	$ 339.5	$ 284.1
Provision for loan losses	2.9	1.7	8.1	4.7
Total non-interest income	37.8	33.3	107.9	100.9
Total non-interest expense	133.2	106.0	375.3	311.1
Income before income tax expense	29.0	23.7	64.0	69.2
Income tax expense	9.6	7.7	21.3	22.6
Net income	$ 19.4	$ 16.0	$ 42.7	$ 46.6
Total average assets	$ 7,376.2	$ 5,897.6	$ 6,868.6	$ 5,666.4
Total average liabilities	17,992.9	13,850.4	16,810.9	13,551.4

Retail and Business Banking net income increased $3.4 million in the third quarter of 2011 compared to the third quarter of 2010. The $29.2 million increase in net interest income primarily reflects the growth in deposit balances, an increase in the spread on residential mortgages and consumer loans and a change in FTP methodology discussed previously, partially offset by narrower spreads on deposit products resulting from the continued negative impact of a reduced interest rate environment initiated by the Federal Reserve Board in 2008. The increase in non-interest income reflects an increase in retail bank service charges, partially offset by a decrease in gains on sales of residential mortgages. The $27.2 million increase in non-interest expense reflects increases in direct and allocated expenses primarily due to acquisitions.

Average assets increased $1.5 billion and average liabilities increased $4.1 billion in the third quarter of 2011 compared to the third quarter of 2010, reflecting organic loan and deposit growth, and acquisitions.

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Wealth Management consists of trust services, corporate trust, brokerage, financial advisory services, investment management services and life insurance provided by People s Securities, Inc., other insurance services provided through People s United Insurance Agency, Inc. and private banking.

	Three Months Ended		Nine Months Ended	
(in millions)	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net interest income	$ 1.7	$ 1.0	$ 4.3	$ 2.9
Provision for loan losses	0.1	0.1	0.3	0.2
Total non-interest income	20.4	19.4	58.6	56.6
Total non-interest expense	21.7	21.2	65.0	64.4
Income (loss) before income tax expense (benefit)	0.3	(0.9)	(2.4)	(5.1)
Income tax espense (benefit)	0.1	(0.3)	(0.8)	(1.6)
Net income (loss)	$ 0.2	$ (0.6)	$ (1.6)	$ (3.5)
Total average assets	$ 326.0	$ 325.9	$ 333.8	$ 339.3
Total average liabilities	202.4	200.5	192.7	194.3

The improvement in net income (loss) in Wealth Management s in the third quarter of 2011 compared to the year-ago quarter reflects increases of $0.7 million in net interest income and $1.0 million in non-interest income, partially offset by $0.5 million increase in non-interest expense. Within non-interest income, insurance revenue increased $0.8 million reflecting a higher level of insurance renewals, investment management fees increased $0.7 million and brokerage commissions increased $0.1 million. The increase in non-interest expense primarily reflects an increase in professional and outside services as well as an increase in allocated expenses.

Assets under administration and those under full discretionary management, neither of which are reported as assets of People s United Financial, totaled $12.2 billion and $4.1 billion, respectively, at September 30, 2011 compared to $12.6 billion and $4.2 billion, respectively, at December 31, 2010.

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

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

	Three Months Ended		Nine Months Ended	
(in millions)	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net interest income (loss)	$ (14.7)	$ (13.4)	$ (4.7)	$ (45.4)
Total non-interest income	10.6	1.9	12.4	6.8
Total non-interest expense	(4.0)	1.5	(2.3)	3.0
Income (loss) before income tax expense (benefit)	(0.1)	(13.0)	10.0	(41.6)
Income tax expense (benefit)		(4.2)	3.5	(13.6)
Net income (loss)	$ (0.1)	$ (8.8)	$ 6.5	$ (28.0)
Total average assets	$ 3,947.2	$ 3,912.7	$ 3,989.2	$ 3,877.2
Total average liabilities	759.5	102.5	736.3	94.5

Treasury s net loss in the third quarter of 2011 improved by $8.7 million compared to the 2010 period, reflecting an $8.7 million increase in non-interest income, partially offset by an increase in net interest loss, primarily due to the change in FTP methodology discussed previously. Included in non-interest income in the third quarter of 2011 are $9.1 million of gross security gains resulting from the sale of mortgage-backed securities with a book value of $507 million.

Average securities increased $1.1 billion in the third quarter of 2011 compared to the year-ago period, while average short-term investments and average securities purchased under agreements to resell decreased $1.1 billion. The increase in average liabilities primarily reflects increases in total borrowings and subordinated notes and debentures assumed in connection with acquisitions.

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Other includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment, reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis, and the FTP impact from excess capital. This category also includes certain non-recurring items, including merger-related expenses, core system conversion costs and one-time charges totaling $21.5 million and $33.8 million for the three and nine months ended September 30, 2011, respectively, and $5.3 million and $51.9 million for the three and nine months ended September 30, 2010, respectively (included in total non-interest-expense). Included in Other are assets such as cash, premises and equipment, and other assets, including pension assets.

	Three Months Ended		Nine Months Ended	
(in millions)	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Net interest income	$ 6.2	$ 15.5	$ 20.0	$ 48.2
Provision for loan losses	1.3	13.2	6.8	24.4
Total non-interest income	(0.4)	(0.8)	(3.3)	(2.5)
Total non-interest expense	24.3	9.2	49.4	63.9
Loss before income tax benefit	(19.8)	(7.7)	(39.5)	(42.6)
Income tax benefit	(7.0)	(2.5)	(13.8)	(14.3)
Net loss	$ (12.8)	$ (5.2)	$ (25.7)	$ (28.3)
Total average assets	$ 1,280.4	$ 981.1	$ 1,211.0	$ 928.6
Total average liabilities	44.3	231.1	58.7	291.6

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Net Interest Income

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

In response to the significant disruptions in the capital markets brought about by the sub-prime mortgage crisis and its after-effects, turmoil in the financial sector, and the contracting U.S. economy, the Federal Reserve Board lowered the targeted federal funds rate ten times beginning in September 2007, and established a target range for the federal funds rate of 0 to 0.25 percent as of December 16, 2008, which has not changed. The modest two basis point decline in the net interest margin in the third quarter of 2011 primarily reflects continued repricing pressure within the loan portfolios, partially offset by the benefits from the Danvers acquisition. The net interest margin continues to be impacted by the historically low interest rate environment, and the Company s investment of a portion of its excess capital in relatively low-yielding short-term investments and securities purchased under agreements to resell.

Third Quarter 2011 Compared to Third Quarter 2010

The net interest margin increased 37 basis points to 4.11% compared to the third quarter of 2010. The higher net interest margin primarily reflects the benefits from acquisitions and lower deposit costs. Net interest income (FTE basis) increased $66.1 million, reflecting a $68.4 million increase in total interest and dividend income partially offset by a $2.3 million increase in total interest expense.

Average earning assets totaled $23.6 billion in the third quarter of 2011, a $4.7 billion increase from the third quarter of 2010, reflecting increases of $4.7 billion in average loans and $1.1 billion in average securities, partially offset by a $ $1.1 billion decrease in average short-term investments and securities purchased under agreements to resell. Average loans, average securities, and average short-term investments and securities purchased under agreements to resell comprised 84%, 13% and 3%, respectively, of average earning assets in the third quarter of 2011 compared to 79%, 4% and 17%, respectively, in the 2010 period. In the current quarter, the yield earned on the total loan portfolio was 5.11% and the yield earned on securities, short-term investments and securities resale agreements was 2.44%, compared to 5.12% and 1.47%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 48% of the loan portfolio had floating interest rates at September 30, 2011 compared to approximately 45% at December 31, 2010.

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The total average commercial banking loan portfolio increased $3.7 billion compared to the year-ago quarter, reflecting loans acquired through acquisitions as well as organic growth. Average residential mortgage loans increased $1.0 billion compared to the year-ago quarter, reflecting acquisitions and People s United Financial s decision in May 2010 to begin retaining newly-originated residential mortgage loans. Average consumer loans increased $57 million compared to the year-ago quarter, reflecting an increase of $92 million in average home equity loans partially offset by a decline of $33 million in average indirect auto loans.

Average funding liabilities increased $5.3 billion compared to the year-ago quarter to $21.5 billion, primarily due to acquisitions. Average deposits increased $4.5 billion, reflecting increases of $662 million in average non-interest-bearing deposits, $2.7 billion in average savings and money market deposits, and $1.1 billion in average time deposits. Average deposits comprised 94% and 98% of average funding liabilities in the third quarter of 2011 and the year-ago period, respectively.

The 15 basis point decrease to 0.63% from 0.78% in the rate paid on average funding liabilities primarily reflects the decrease in market interest rates and the shift in deposit mix. The rate paid on average deposits decreased 14 basis points from the third quarter of 2010, reflecting decreases of 36 basis points in time deposits and 8 basis points in savings and money market deposits. Average savings and money market deposits and average time deposits comprised 53% and 27%, respectively, of average total deposits in the third quarter of 2011 compared to 50% and 28%, respectively, in the 2010 period.

Third Quarter 2011 Compared to Second Quarter 2011

The net interest margin declined 2 basis points in the third quarter, primarily reflecting repricing pressure within the loan portfolios, partially offset by the benefits from the Danvers acquisition. Net interest income (FTE basis) increased $20.2 million compared to the second quarter of 2011, reflecting a $22.6 million increase in total interest and dividend income partially offset by a $2.4 million increase in total interest expense.

Average earning assets increased $2.1 billion, reflecting increases of $2.2 billion in average loans and $127 million in average short-term investments and securities purchased under agreements to resell, partially offset by a decrease of $288 million in average securities. Average funding liabilities increased $2.1 billion, reflecting increases of $2.0 billion in average deposits, $102 million in average borrowings and $10 million in average subordinated notes and debentures. The increases in both average loans and average deposits primarily reflect the addition of Danvers loans and deposits.

The following tables present average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended September 30, 2011, June 30, 2011 and September 30, 2010, and the nine months ended September 30, 2011 and 2010. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People s United Financial has ceased to accrue interest. The impact of People s United Financial s use of derivative instruments in managing interest rate risk is also reflected in the tables, classified according to the instrument hedged and the risk management objective.

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

	September 30, 2011			June 30, 2011			September 30, 2010		
Three months ended (dollars in millions)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Short-term investments	$ 755.9	$ 0.5	0.29%	$ 628.8	$ 0.4	0.26%	$ 1,176.2	$ 0.8	0.28%
Securities purchased under agreements to resell							715.8	0.4	0.21
Securities (2)	2,976.3	22.2	2.99	3,264.4	23.7	2.91	1,855.9	12.6	2.72
Residential mortgage loans held for sale	25.6	0.4	5.80	16.6	0.3	6.63	47.3	0.6	5.43
Loans:									
Commercial real estate	7,157.0	98.0	5.48	6,558.1	92.5	5.65	5,464.7	76.3	5.59
Commercial	7,102.3	99.6	5.61	6,099.7	86.9	5.69	5,096.4	68.9	5.40
Residential mortgage	3,356.4	34.5	4.10	2,859.3	29.7	4.16	2,374.2	26.5	4.46
Consumer	2,240.7	21.5	3.84	2,136.8	20.6	3.87	2,184.1	22.2	4.06
Total loans	19,856.4	253.6	5.11	17,653.9	229.7	5.21	15,119.4	193.9	5.13
Total earning assets	23,614.2	$ 276.7	4.69%	21,563.7	$ 254.1	4.71%	18,914.6	$ 208.3	4.41%
Other assets	3,740.5			3,289.1			3,040.0		
Total assets	$ 27,354.7			$ 24,852.8			$ 21,954.6		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing	$ 4,094.5	$	%	$ 3,849.6	$	%	$ 3,432.4	$	%
Savings, interest-bearing checking and money market	10,642.9	14.1	0.53	9,353.7	12.4	0.53	7,929.6	12.0	0.61
Time	5,522.0	14.4	1.04	5,021.9	14.0	1.12	4,439.1	15.6	1.40
Total deposits	20,259.4	28.5	0.56	18,225.2	26.4	0.58	15,801.1	27.6	0.70
Borrowings:									
FHLB advances	514.6	1.8	1.39	478.7	1.8	1.56	9.8	0.1	5.19
Retail repurchase agreements	520.6	0.5	0.43	432.3	0.5	0.44	178.5	0.2	0.47
Federal funds purchased and other borrowings	27.9	0.1	0.95	50.0	0.1	0.58	2.7		
Total borrowings	1,063.1	2.4	0.91	961.0	2.4	1.00	191.0	0.3	0.71
Subordinated notes and debentures	176.0	3.1	6.86	166.4	2.8	6.78	182.7	3.8	8.28
Total funding liabilities	21,498.5	$ 34.0	0.63%	19,352.6	$ 31.6	0.65%	16,174.8	$ 31.7	0.78%
Other liabilities	341.0			322.9			375.6		
Total liabilities	21,839.5			19,675.5			16,550.4		
Stockholders equity	5,515.2			5,177.3			5,404.2		
Total liabilities and stockholders equity	$ 27,354.7			$ 24,852.8			$ 21,954.6		

Net interest income/spread (3)	$ 242.7	4.06%	$ 222.5	4.06%	$ 176.6	3.62%
Net interest margin		4.11%		4.13%		3.74%

(1) Average yields earned and rates paid are annualized.
(2) Average balances and yields for securities available for sale are based on amortized cost.
(3) The FTE adjustment was $2.7 million, $1.3 million and $0.8 million for the three months ended September 30, 2011, June 30, 2011 and September 30, 2010, respectively.

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

Nine months ended (dollars in millions)	September 30, 2011 Average Balance	Interest	Yield/ Rate	September 30, 2010 Average Balance	Interest	Yield/ Rate
Assets:						
Short-term investments	$ 705.8	$ 1.5	0.29%	$ 2,031.8	$ 4.0	0.26%
Securities purchased under agreements to resell	36.4	0.1	0.17	406.4	0.6	0.20
Securities (2)	3,109.3	67.2	2.88	1,283.9	29.9	3.10
Residential mortgage loans held for sale	31.5	1.4	5.96	40.6	1.7	5.53
Loans:						
Commercial real estate	6,923.5	292.1	5.63	5,439.9	226.2	5.55
Commercial	6,199.1	266.0	5.72	4,919.9	198.2	5.37
Residential mortgage	2,976.9	93.5	4.19	2,418.1	82.3	4.54
Consumer	2,176.6	63.0	3.86	2,209.3	67.5	4.07
Total loans	18,276.1	714.6	5.21	14,987.2	574.2	5.11
Total earning assets	22,159.1	$ 784.8	4.72%	18,749.9	$ 610.4	4.34%
Other assets	3,460.9			2,948.0		
Total assets	$ 25,620.0			$ 21,697.9		
Liabilities and stockholders equity:						
Deposits:						
Non-interest-bearing	$ 3,915.0	$	%	$ 3,352.8	$	%
Savings, interest-bearing checking and money market	9,676.5	38.6	0.53	7,723.6	35.9	0.62
Time	5,226.6	42.9	1.09	4,494.8	50.4	1.50
Total deposits	18,818.1	81.5	0.58	15,571.2	86.3	0.74
Borrowings:						
FHLB advances	497.7	5.5	1.48	9.9	0.3	5.58
Retail repurchase agreements	472.8	1.5	0.43	165.0	0.6	0.45
Federal funds purchased and other borrowings	36.8	0.3	0.74	7.0	0.2	3.26
Total borrowings	1,007.3	7.3	0.96	181.9	1.1	0.84
Subordinated notes and debentures	174.0	9.3	7.09	182.4	11.4	8.30
Total funding liabilities	19,999.4	$ 98.1	0.65%	15,935.5	$ 98.8	0.83%
Other liabilities	326.8			382.9		
Total liabilities	20,326.2			16,318.4		
Stockholders equity	5,293.8			5,379.5		
Total liabilities and stockholders equity	$ 25,620.0			$ 21,697.9		
Net interest income/spread (3)		$ 686.7	4.07%		$ 511.6	3.51%
Net interest margin			4.13%			3.64%

(1) Average yields earned and rates paid are annualized.
(2) Average balances and yields for securities available for sale are based on amortized cost.
(3) The FTE adjustment was $5.2 million and $2.4 million for the nine months ended September 30, 2011 and 2010, respectively.

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Volume and Rate Analysis

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

	Three Months Ended September 30, 2011 Compared To					
	September 30, 2010 Increase (Decrease)			June 30, 2011 Increase (Decrease)		
(in millions)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	$ (0.3)	$	$ (0.3)	$ 0.1	$	$ 0.1
Securities purchased under agreements to resell	(0.4)		(0.4)			
Securities	8.3	1.3	9.6	(2.1)	0.6	(1.5)
Residential mortgage loans held for sale	(0.3)	0.1	(0.2)	0.1		0.1
Loans:						
Commercial real estate	23.2	(1.5)	21.7	8.3	(2.8)	5.5
Commercial	28.0	2.7	30.7	14.1	(1.4)	12.7
Residential mortgage	10.2	(2.2)	8.0	5.1	(0.3)	4.8
Consumer	0.6	(1.3)	(0.7)	1.0	(0.1)	0.9
Total loans	62.0	(2.3)	59.7	28.5	(4.6)	23.9
Total change in interest and dividend income	69.3	(0.9)	68.4	26.6	(4.0)	22.6
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	3.7	(1.6)	2.1	1.7		1.7
Time	3.3	(4.5)	(1.2)	1.4	(1.0)	0.4
Total deposits	7.0	(6.1)	0.9	3.1	(1.0)	2.1
Borrowings:						
FHLB advances	1.8	(0.1)	1.7	0.1	(0.1)	
Retail repurchase agreements	0.4	(0.1)	0.3	0.1	(0.1)	
Federal funds purchased and other borrowings	0.1		0.1			
Total borrowings	2.3	(0.2)	2.1	0.2	(0.2)	
Subordinated notes and debentures	(0.1)	(0.6)	(0.7)	0.2	0.1	0.3
Total change in interest expense	9.2	(6.9)	2.3	3.5	(1.1)	2.4
Change in net interest income	$ 60.1	$ 6.0	$ 66.1	$ 23.1	$ (2.9)	$ 20.2

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Volume and Rate Analysis

	Nine Months Ended September 30, 2011 Compared To September 30, 2010 Increase (Decrease)		
(in millions)	Volume	Rate	Total
Interest and dividend income:			
Short-term investments	$ (2.8)	$ 0.3	$ (2.5)
Securities purchased under agreements to resell	(0.5)		(0.5)
Securities	39.6	(2.3)	37.3
Residential mortgage loans held for sale	(0.4)	0.1	(0.3)
Loans:			
Commercial real estate	62.6	3.3	65.9
Commercial	54.2	13.6	67.8
Residential mortgage	17.9	(6.7)	11.2
Consumer	(1.0)	(3.5)	(4.5)
Total loans	133.7	6.7	140.4
Total change in interest and dividend income	169.6	4.8	174.4
Interest expense:			
Deposits:			
Savings, interest-bearing checking and money market	8.3	(5.6)	2.7
Time	7.3	(14.8)	(7.5)
Total deposits	15.6	(20.4)	(4.8)
Borrowings:			
FHLB advances	5.6	(0.4)	5.2
Retail repurchase agreements	1.0	(0.1)	0.9
Federal funds purchased and other borrowings	0.3	(0.2)	0.1
Total borrowings	6.9	(0.7)	6.2
Subordinated notes and debentures	(0.5)	(1.6)	(2.1)
Total change in interest expense	22.0	(22.7)	(0.7)
Change in net interest income	$ 147.6	$ 27.5	$ 175.1

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Non-Interest Income

(in millions)	Three Months Ended Sept. 30, 2011	Three Months Ended June 30, 2011	Three Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010
Bank service charges	$ 35.8	$ 32.9	$ 31.5	$ 99.7	$ 95.6
Investment management fees	8.4	8.3	7.6	24.9	24.1
Insurance revenue	9.0	6.6	8.3	23.5	21.9
Brokerage commissions	2.8	3.3	2.8	9.3	8.4
Net security gains:					
Trading account securities		0.1		0.1	
Debt securities	8.6			8.7	
Equity securities					
Total net security gains	8.6	0.1		8.8	
Net (losses) gains on sales of loans	(3.5)	8.3	2.4	13.4	7.9
Bank-owned life insurance	2.0	1.4	1.4	4.6	5.8
Merchant services income, net	1.1	1.1	1.1	3.2	3.2
Other non-interest income:					
Commercial banking fees	9.8	4.4	3.6	19.3	10.0
Operating lease income	6.4	6.2	5.4	18.7	13.5
Other	4.3	4.0	3.9	10.5	11.5
Total other non-interest income	20.5	14.6	12.9	48.5	35.0
Total non-interest income	$ 84.7	$ 76.6	$ 68.0	$ 235.9	$ 201.9

Total non-interest income increased $16.7 million compared to the third quarter of 2010 and $8.1 million compared to the second quarter of 2011. The improvement in non-interest income compared to the second quarter of 2011 primarily reflects continued improvement in fee income and insurance revenue, the Danvers acquisition, as well as net security gains, partially offset by a net loss on sales of loans.

The increase in bank service charges from the second quarter of 2011 primarily reflects seasonally stronger interchange and other fees. Bank service charges are expected to decline (beginning in the fourth quarter of 2011) by approximately $20 million on an annualized basis as a result of certain provisions of the recently-enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (see Recent Market Developments). The increase in insurance revenue reflects the seasonal nature of insurance renewals. The decline in brokerage commissions from the second quarter of 2011 reflects lower commissions on mutual funds and fixed income products due to the uncertainty in the equity markets and the low interest rate environment.

In the third quarter of 2011, People s United Financial sold mortgage-backed securities with a book value of $507 million to reduce book value at risk resulting from higher pre-payment speeds and recorded $9.1 million of gross security gains.

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Net (losses) gains on sales of loans in the third and second quarter of 2011 include a net loss of $4.8 million and a net gain of $7.2 million, respectively, resulting from sales of acquired loans with contractual balances of approximately $41 million and $56 million, respectively (carrying amounts of approximately $32 million and $41 million, respectively). Net gains on sales of residential mortgage loans totaled $1.3 million in the third quarter of 2011, $1.1 million the second quarter of 2011 and $2.4 million in the third quarter of 2010. The decline in net gains on sales of residential mortgage loans reflects the lower level of residential mortgage loan sales (a 39% decline in volume in the third quarter of 2011 from last year s third quarter) due to the lower level in refinancing activity in the third and second quarters of 2011.

BOLI income totaled $2.0 million ($2.9 million on a taxable-equivalent basis) in the third quarter of 2011, compared to $1.4 million ($2.1 million on a taxable-equivalent basis) in the year-ago quarter and $1.4 million ($2.2 million on a taxable-equivalent basis) in the second quarter of 2011. The increase from both the year-ago period and the second quarter of 2011 primarily reflects a modest increase in the crediting rate.

Within non-interest income, the expenses related to the Company s merchant services business and customer derivative activities are presented on a net basis for all periods, along with the respective revenues. The increases in commercial banking fees and operating lease income reflect higher levels commercial loan fees and equipment leased to PCLC customers.

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Non-Interest Expense

(dollars in millions)	Three Months Ended Sept. 30, 2011	Three Months Ended June 30, 2011	Three Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2011	Nine Months Ended Sept. 30, 2010
Compensation and benefits	$ 110.1	$ 102.5	$ 93.2	$ 318.0	$ 282.1
Occupancy and equipment	34.9	30.9	28.0	98.9	86.3
Professional and outside service fees	18.6	17.4	18.5	51.9	52.9
Other non-interest expense:					
Amortization of other acquisition-related intangibles	7.0	6.0	6.1	18.9	15.6
Regulatory	6.9	7.3	6.8	21.7	20.8
Amortization of leased equipment	5.3	5.1	4.5	15.5	11.3
Advertising and promotion	4.0	4.6	4.5	11.8	12.2
Stationery, printing and postage	3.2	2.9	3.3	9.3	10.2
Other	21.8	23.9	20.4	66.1	73.0
Total other non-interest expense	48.2	49.8	45.6	143.3	143.1
Total	211.8	200.6	185.3	612.1	564.4
Merger-related expenses	20.1	6.4	1.0	29.6	18.5
Total non-interest expense	$ 231.9	$ 207.0	$ 186.3	$ 641.7	$ 582.9
Efficiency ratio	63.1%	65.7%	71.2%	64.9%	72.8%

Excluding the effect of merger-related expenses, total non-interest expense in the third quarter of 2011 increased $26.5 million compared to the third quarter of 2010 and $11.2 million compared to the second quarter of 2011. The third quarter of 2011 includes a full quarter of non-interest expense related to Danvers (approximately $12.2 million) and $1.4 million of severance-related costs (included in other non-interest expense), while the second quarter of 2011 includes $2.8 million of executive-level separation costs (included in other non-interest expense). Included in the year-ago quarter is $4.3 million of core system conversion costs. Merger-related expenses included (i) investment advisory, legal, accounting and valuation services, (ii) debt prepayment costs, (iii) compensatory charges, and (iv) regulatory filings. Merger-related expenses in the third quarter of 2011 include a $9.3 million charge relating to the prepayment of $284 million of callable FHLB advances.

The efficiency ratio was 63.1% in the third quarter of 2011 compared to 71.2% in the year-ago quarter (see Non-GAAP Financial Measures and Reconciliation to GAAP).

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Compensation and benefits increased $16.9 million compared to the year-ago quarter and $7.6 million compared to the second quarter of 2011. The year-over-year increase reflects additional compensation and benefit costs resulting from the acquisitions completed in 2011 and 2010, normal merit increases and higher benefit-related costs. The increase from the second quarter of 2011 primarily reflects additional Danvers compensation and benefits costs, partially offset by lower payroll tax expense as a result of more employees having reached the maximum payroll tax limits and lower benefit-related costs.

In July 2011, People s United Bank amended its defined benefit pension plan (the Plan) to freeze , effective December 31, 2011, the accrual of pension benefits for Plan participants. As such, Plan participants will not earn any additional benefits after that date. Instead, effective January 1, 2012, People s United Bank will make a contribution on behalf of these participants to a qualified defined contribution plan in an annual amount equal to 3% of the employee s eligible compensation. Also in July 2011, other cost-saving initiatives were announced, including the elimination of selected positions primarily within corporate functions, non-core lending businesses and the former Bank of Smithtown. The annual cost savings expected to be realized as a result of these initiatives is approximately $23 million beginning in 2012.

In March 2010, comprehensive health care reform legislation was signed into law under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the Acts). Included among the major provisions of the law is a change in tax treatment of the federal drug subsidy paid with respect to Medicare-eligible retirees. The effect of the Acts on the Company s other postretirement benefits obligation, which totaled $10.7 million at December 31, 2010, and related net periodic benefit expense, which totaled $0.7 million for the nine months ended September 30, 2011, depends on finalization of related regulatory requirements; however, the impact is not expected to be material. People s United Financial will continue to monitor and assess the effect of the Acts as the regulatory requirements are finalized.

The increase in professional and outside services compared to the second quarter of 2011 reflects a higher level of information technology costs and real estate appraisal fees. The increase in amortization expense of leased equipment relates to the higher level of equipment leased to PCLC customers.

Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2011 and each of the next five years is as follows: $25.8 million in 2011; $26.4 million in 2012; $25.7 million in 2013; $24.3 million in 2014; $23.3 million in 2015; and $13.0 million in 2016.

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Income Taxes

People s United Financial s effective income tax rate was 32.5% for the third quarter of 2011, compared to 33.3% for the second quarter of 2011 and 32.5% for the full-year of 2010. The effective income tax rate in the third quarter of 2011 reflects $0.6 million of tax reserves that were released as a result of closed tax years. Excluding the benefit from releasing these reserves, the income tax rate was 33.3%, which approximates the expected income tax rate for the remainder of 2011. The increase in the effective rate in 2011 primarily reflects the higher effective state rate resulting from the Company s further expansion into states with higher corporate income tax rates.

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

FINANCIAL CONDITION

General

Total assets at September 30, 2011 were $27.2 billion, a $2.2 billion increase from December 31, 2010, reflecting increases of $2.8 billion in total loans, $198 million in goodwill and $179 million in short-term investments, partially offset by decreases of $520 million in securities purchased under agreements to resell, $493 million in total securities and $43 million in residential mortgage loans held for sale.

At September 30, 2011, liabilities totaled $21.9 billion, a $2.1 billion increase from December 31, 2010, reflecting a $2.6 billion increase in total deposits, partially offset by decreases of $296 million in other liabilities and $130 million in total borrowings. At the acquisition date, the fair value of Danvers deposits totaled $2.1 billion. The decrease in total borrowings primarily reflects the repayment of callable FHLB advances assumed in acquisitions.

The increase in total loans from December 31, 2010 to September 30, 2011 reflects increases of $1.9 billion in commercial banking loans and $855 million in residential mortgage loans, partially offset by a $63 million decrease in consumer loans. Originated loans increased $1.7 billion from December 31, 2010 (commercial banking loans increased $1.0 billion and retail loans increased $682 million) and acquired loans increased $1.1 billion. At the acquisition date, the fair value of Danvers loans totaled $1.9 billion. The decrease in total securities reflects the sale during the third quarter of 2011 of mortgage-backed securities with a book value of $507 million to reduce book value at risk.

Non-performing assets (excluding acquired non-performing loans) totaled $305.2 million at September 30, 2011, a $2.1 million increase from year-end 2010, primarily reflecting an increase of $21.4 million in non-performing commercial banking loans, essentially offset by decreases of $13.3 million in non-performing residential mortgage loans and $12.1 million in real estate owned (REO). The allowance for loan losses was $177.0 million at September 30, 2011 compared to $172.5 million at December 31, 2010. At September 30, 2011, the allowance for loan losses as a percent of originated loans was 1.09% and as a percent of originated non-performing loans was 68.5%, compared to 1.19% and 70.3%, respectively, at December 31, 2010.

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People s United Financial s total stockholders equity was $5.3 billion at September 30, 2011, a $71 million increase from December 31, 2010. This increase primarily reflects the issuance of 18.5 million shares of common stock with a fair value of approximately $248 million in connection with the Danvers acquisition, net income of $155.8 million and a $62.2 million decrease in Accumulated Other Comprehensive Loss since December 31, 2010, partially offset by dividends paid of $166.1 million and open market repurchases of 20.4 million shares of common stock at a total cost of $247.2 million. As a percentage of total assets, stockholders equity was 19.4% at September 30, 2011 compared to 20.8% at December 31, 2010. Tangible stockholders equity as a percentage of tangible assets was 12.5% at September 30, 2011 compared to 14.1% at December 31, 2010.

People s United Financial s (consolidated) tier 1 and total risk-based capital ratios were 15.2% and 16.6%, respectively, at September 30, 2011, compared to 17.5% and 19.3%, respectively, at December 31, 2010. People s United Bank s leverage (core) capital ratio, and tier 1 and total risk-based capital ratios were 11.8%, 14.1% and 14.9%, respectively, at September 30, 2011, compared to 11.4%, 13.6% and 14.5%, respectively, at December 31, 2010 (see Regulatory Capital Requirements).

Loans

People s United Financial s lending activities consist of originating loans secured by commercial and residential properties, and extending secured and unsecured loans to commercial and consumer customers. The following tables summarize People s United Financial s loan portfolios. Approximately $875 million of loans secured, in part, by owner-occupied commercial properties were reclassified from commercial real estate loans to commercial and industrial loans as of March 31, 2011. This reclassification is being applied prospectively as it was deemed impracticable to do so for prior periods due to systems limitations. See Note 4 to the Consolidated Financial Statements for additional information regarding this loan portfolio reclassification.

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Commercial Real Estate

(in millions)	September 30, 2011	December 31, 2010
Property Type:		
Office buildings	$ 2,047.5	$ 1,837.5
Residential (multi-family)	1,824.2	1,271.3
Retail	1,653.2	1,759.8
Industrial/manufacturing	509.2	670.6
Hospitality and entertainment	407.7	551.0
Mixed/Special use	277.4	590.7
Land	182.9	269.4
Self storage	130.6	151.6
Health care	42.7	114.2
Other properties	67.5	90.2
Total commercial real estate	$ 7,142.9	$ 7,306.3

Commercial and Industrial

(in millions)	September 30, 2011	December 31, 2010
Industry:		
Finance, insurance and real estate	$ 1,155.6	$ 725.8
Service	1,097.3	658.5
Manufacturing	826.5	531.6
Retail sales	508.3	223.6
Wholesale distribution	500.8	254.3
Health services	430.2	210.0
Construction	220.1	145.4
Arts/entertainment/recreation	155.3	65.2
Transportation/utility	104.6	76.9
Public administration	76.1	63.5
Agriculture	24.8	29.7
Other	169.9	111.1
Total commercial and industrial	$ 5,269.5	$ 3,095.6

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Equipment Financing

(in millions)	September 30, 2011	December 31, 2010
Industry:		
Transportation/utility	$ 588.1	$ 630.2
Printing	344.3	381.0
Construction	343.9	427.8
General manufacturing	217.5	176.4
Waste	131.4	135.0
Retail sales	114.7	103.6
Packaging	82.9	89.9
Service	63.7	43.9
Wholesale distribution	33.9	35.1
Health services	24.6	21.8
Food services	24.5	30.6
Other	23.5	25.1
Total equipment financing	$ 1,993.0	$ 2,100.4

Residential Mortgage

(in millions)	September 30, 2011	December 31, 2010
Adjustable-rate	$ 2,916.7	$ 2,117.9
Fixed-rate	585.3	529.6
Total residential mortgage	$ 3,502.0	$ 2,647.5

Consumer

(in millions)	September 30, 2011	December 31, 2010
Home equity lines of credit	$ 1,862.3	$ 1,759.2
Home equity loans	200.4	217.6
Indirect auto	134.9	155.2
Other	43.2	45.9
Total consumer	$ 2,240.8	$ 2,177.9

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Asset Quality

Recent Trends

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

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

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

During the recent credit cycle, People s United Financial has experienced an increase in the number of loan modification requests. Certain originated loans whose terms have been modified are considered troubled debt restructurings (TDRs). Acquired loans that are modified are not considered for TDR classification because they are evaluated for impairment on a pool basis. Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People s United Financial, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan s original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest. Generally, TDRs are placed on non-accrual status (and reported as non-performing loans) until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Loans may continue to be reported as TDRs after they are returned to accrual status. See Note 4 to the Consolidated Financial Statements for information regarding additional disclosures relating to TDRs.

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Portfolio Risk Elements Residential Mortgage Lending

People s United Financial does not engage in subprime mortgage lending, which has been the riskiest sector of the residential housing market. People s United Financial has virtually no exposure to subprime loans, or to similarly high-risk Alt-A loans and structured investment vehicles.

At September 30, 2011, the loan portfolio included $507 million of interest-only residential mortgage loans, of which $26 million are stated income loans. People s United Financial began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. In general, People s United Financial s underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post closing reserves. People s United Financial has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 adjustable-rate mortgage).

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

Updated independent third-party appraisals are obtained for residential mortgage loans 90 days past due. At September 30, 2011, non-performing residential mortgage loans totaling $5.9 million had current loan-to-value ratios of more than 100%.

Several of the nation s largest residential mortgage loan servicers have come under the scrutiny of state attorneys general and various regulatory authorities, in light of allegations of robo-signing (signing foreclosure affidavits without an appropriate review) and other issues related to their foreclosure practices. In light of these developments, the Company has reviewed its foreclosure policies and procedures and found no systemic concerns or instances of robo-signing with respect to its loan servicing activities. We believe that our established procedures for reviewing foreclosure affidavits and validating information contained in related loan documentation are sound and consistently applied, and that our foreclosure affidavits are accurate. As a result, People s United Bank has not found it necessary to interrupt or suspend foreclosure proceedings. We have also considered the effect of representations and warranties that we made to third-party investors in connection with whole loan sales, and believe our representations and warranties were true and correct and do not expose People s United Bank to any material loss.

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

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Portfolio Risk Elements Home Equity Lending

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

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

The following table sets forth, as of September 30, 2011, the amount of HELOCs scheduled to have the draw period end during the years shown:

December 31,	
(in millions)	Credit Lines
2011	$ 24.0
2012	129.5
2013	279.2
2014	361.3
2015	392.8
2016	397.8
Later years	2,019.9
Total	$ 3,604.5

Essentially all (99%) of our HELOCs are presently in their draw period. Our default and delinquency statistics indicate a higher level of occurrence for converted amortizing payment loans when compared to HELOCs that are still in the draw period.

The delinquency statistics at September 30, 2011 are as follows:

HELOC Status			
(dollars in millions)	Portfolio Balance	Delinquencies	Delinquency %
Still in draw period	$ 1,833.3	$ 22.0	1.20%
Amortizing payment	27.6	1.0	3.62

For the three months ended September 30, 2011, approximately 35% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

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

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We are not able, at this time, to develop statistics for the entire home equity portfolio with respect to first liens serviced by third parties that are in front of our junior liens, as lien position data has not historically been captured on our loan servicing systems. Effective January 2011, we began tracking lien position data for all new originations and our Collections Department continues to add lien position data once a loan reaches 75 days past due in connection with our updated assessment of combined loan-to-value (CLTV) exposure, which takes place for loans 90 days past due. In addition, when we are notified that the holder of a superior lien has commenced a foreclosure action, our home equity account is identified in the collections system for ongoing monitoring of the legal action. As of September 30, 2011, the portion of our home equity portfolio greater than 90 days past due with a CLTV greater than 80% was $4.8 million.

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 unable to associate a specific first lien with our junior lien. As of September 30, 2011, there were 57 loans totaling $3.4 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 23 of the loans (totaling $1.1 million), our second lien position was performing at the time such foreclosure action was commenced. The total estimated loss related to those 23 loans was $0.3 million as of September 30, 2011. 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 60% in 2011.

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 loan-to-value ratios; and (iii) higher credit scores. Notwithstanding the maximum loan-to-value ratios and minimum FICO scores discussed previously, actual loan-to-value ratios at origination were less than 60% on average and current FICO scores of our borrowers are greater than 750 on average. In addition, as of September 30, 2011, approximately 70% of the portfolio balance relates to originations that occurred since 2005, which is generally recognized as the peak of the recent housing bubble. We believe these factors are a primary reason for the portfolio s relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average loans.

Each month, all home equity and second mortgage loans greater than 180 days past due (regardless of our lien position) are analyzed in order to determine the amount by which the balance outstanding (including any amount subject to a first lien) exceeds the underlying collateral value. To the extent a shortfall exists, a charge-off is recognized. This charge-off activity is reflected in our established allowance for loan losses for home equity and second mortgage loans as part of the component attributable to historical portfolio loss experience, which considers losses incurred over the most recent 6- and 9-month periods. 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.

Portfolio Risk Elements Commercial Real Estate Lending

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

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

People s United Financial s construction loan portfolio totaled $760 million (approximately 4% of total loans) at September 30, 2011. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, totaled $1.0 billion. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At September 30, 2011, construction loans totaling $275 million had remaining available interest reserves totaling $16 million. At that date, the Company had construction loans with interest reserves totaling $3 million that were on non-accrual status and included in non-performing loans.

The recent economic downturn has resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which have related repayment guarantees. Modifications of originated commercial real estate loans involving maturity extensions are evaluated according to the Company s normal underwriting standards and are classified as TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People s United Financial similar to those discussed previously. People s United Financial had approximately $6 million of restructured construction loans as of September 30, 2011.

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.

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

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

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

Allowance and Provision for Loan Losses

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

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

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

The Company establishes a loan loss allowance for its larger-balance, non-homogeneous loans using a methodology that incorporates (i) the probability of default for a given loan risk rating and (ii) historical default data over a multi-year period. In accordance with the Company s loan risk rating system, each loan, with the exception of those included in large groups of smaller-balance homogeneous loans, is assigned a risk rating (using a nine-grade scale) by the originating loan officer, credit management, internal loan review or loan committee. Loans rated one represent those loans least likely to default while loans rated nine represent a loss. The probability of loans defaulting for each risk rating, referred to as default factors, are estimated based on the frequency with which loans migrate from one risk rating to another and to default status over time. Estimated loan default factors are multiplied by loan balances within each risk-rating category and again multiplied by an historical loss-given-default estimate for each loan type (which incorporates estimated recoveries) to determine an appropriate level of allowance by loan type. The historical loss-given-default estimates are updated annually 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 this element of the allowance for loan losses, the Company also gives consideration to certain qualitative factors, including the macroeconomic environment and any potential imprecision inherent in its loan loss model which may result from having limited historical loan loss data which, in turn, may result in inaccurate probability of default and loss-given-default factors. In consideration of these factors, the Company may adjust the allowance for loan losses upward or downward based on current economic conditions and portfolio trends. In determining the extent of any such adjustment, the Company considers both economic and portfolio-specific data that correlates with loan losses. The Company annually reviews this data to determine that such a correlation continues to exist. Additionally, at interim dates between annual reviews, the Company evaluates the factors in order to conclude that they continue to be adequate based on current economic conditions.

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

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

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

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

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

In establishing the allowance for loan losses for residential mortgage loans, the Company principally considers historical portfolio loss experience of the most recent 3- and 5-year periods. We supplementally consider charge-off data over a longer period of time in further assessing historical loss trends. Based on the evaluation of our portfolio loss history, we believe that charge-offs incurred over the last 3 to 5 years provide a reasonable basis for estimating the inherent probable losses within our 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 6- and 9-month periods.

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

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

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

The amount reflecting our consideration of these various qualitative factors is added to the amounts attributable to historical portfolio loss experience and portfolio-specific risk elements. In this manner, historical charge-off data (whether periods or amounts) is not adjusted and the allowance for loan loss always contains 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 changes in the qualitative factor component of the related allowance for loan losses during the nine months ended September 30, 2011.

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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 $250,000 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 values 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. At September 30, 2011 and December 31, 2010, the allowance for loan losses included specific reserves of $8.8 million and $6.7 million, respectively, relating to TDRs.

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

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

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

People s United Financial did not change its practices with respect to determining the allowance for loan losses during the first nine months of 2011. While People s United Financial seeks to use the best available information to make these evaluations, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, the identification of additional problem loans and other factors.

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 a carryover of the respective 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 on such loans, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. In doing so, the loans are generally segregated into pools based on their principal common risk characteristics such as broad asset 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 in accordance with the applicable accounting model for such loans 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. There was no related allowance for loan losses for acquired loans at September 30, 2011 or December 31, 2010, as there were no decreases in expected cash flows compared to the estimates made at the respective acquisition dates.

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

Provision and Allowance for Loan Losses

	Three Months Ended			Nine Months Ended	
(dollars in millions)	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Balance at beginning of period	$ 176.0	$ 177.5	$ 172.5	$ 172.5	$ 172.5
Charge-offs	(14.6)	(17.4)	(22.6)	(42.4)	(52.5)
Recoveries	1.2	1.9	0.8	3.9	3.4
Net loan charge-offs	(13.4)	(15.5)	(21.8)	(38.5)	(49.1)
Provision for loan losses	14.4	14.0	21.8	43.0	49.1
Balance at end of period	$ 177.0	$ 176.0	$ 172.5	$ 177.0	$ 172.5
Allowance for loan losses as a percentage of:					
Originated loans	1.09%	1.15%	1.22%	1.09%	1.22%
Originated non-performing loans	68.5	68.0	68.6	68.5	68.6
Commercial banking allowance for loan losses as a percentage of originated commercial banking loans	1.48	1.55	1.66	1.48	1.66
Retail allowance for loan losses as a percentage of originated retail loans	0.26	0.25	0.24	0.26	0.24

The provision for loan losses totaled $14.4 million in the third quarter of 2011, reflecting $13.4 million in net loan charge-offs and a $1.0 million increase in the allowance for loan losses. The provision for loan losses in the third quarter of 2011 reflects a $5.7 million increase in the allowance for loan losses in light of continued strong growth in the commercial and residential mortgage loan portfolios, partially offset by charge-offs totaling $4.7 million against previously established specific reserves. The provision for loan losses in the year-ago period reflected $21.8 million in net loan charge-offs. The allowance for loan losses as a percentage of originated loans was 1.09% and 1.19% at September 30, 2011 and December 31, 2010, respectively.

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.

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

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

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

Net Loan Charge-Offs

	Three Months Ended			Nine Months Ended	
(in millions)	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Commercial Banking:					
Commercial real estate	$ 4.6	$ 9.3	$ 13.5	$ 17.2	$ 24.1
Commercial and industrial	4.4	1.6	3.1	8.3	11.9
Equipment financing	0.8	2.3	1.6	4.3	6.2
Total	9.8	13.2	18.2	29.8	42.2
Retail:					
Residential mortgage	2.1	1.2	1.2	4.9	1.7
Home equity	1.1	0.8	1.3	2.7	3.3
Other consumer	0.4	0.3	1.1	1.1	1.9
Total	3.6	2.3	3.6	8.7	6.9
Total	$ 13.4	$ 15.5	$ 21.8	$ 38.5	$ 49.1

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

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2011	June 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Commercial Banking:					
Commercial real estate	0.26%	0.57%	0.98%	0.33%	0.59%
Commercial and industrial	0.34	0.16	0.43	0.26	0.57
Equipment financing	0.16	0.46	0.29	0.28	0.39
Retail					
Residential mortgage	0.25	0.16	0.21	0.21	0.09
Home equity	0.21	0.17	0.26	0.18	0.15
Other consumer	0.97	0.54	1.88	0.78	1.57
Total portfolio	0.27%	0.35%	0.58%	0.28%	0.44%

Net loan charge-offs as a percentage of average total loans decreased 31 basis points in the third quarter of 2011 compared to the year-ago period. The lower ratio reflects (i) a $4.7 billion increase in average loans (the denominator), and (ii) an $8.4 million decrease in net loan charges from the year-ago quarter. The relatively low level of net loan charge-offs in terms of absolute dollars and as a percentage of average loans is unlikely to be sustainable in the future. Management believes that the level of the allowance for loan losses at September 30, 2011 is appropriate to cover probable losses.

Non-Performing Assets

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectibility of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the period in which interest accrual is discontinued. Interest payments received on non-accrual loans (including impaired loans) are generally applied as a reduction of principal if future collections are doubtful, although such interest payments may be recognized as income. A loan remains on non-accrual status until the factors that indicated doubtful collectibility no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses.

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Non-Performing Assets

(dollars in millions)	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010
Originated non-performing loans:					
Commercial Banking:					
Commercial real estate (1)	$ 91.0	$ 90.2	$ 71.7	$ 82.5	$ 85.0
Commercial and industrial (1)	49.2	54.1	48.9	38.2	34.3
Equipment financing	37.9	36.0	38.6	36.0	35.1
Total	178.1	180.3	159.2	156.7	154.4
Retail:					
Residential mortgage	65.5	65.8	70.4	78.8	87.0
Home equity	14.2	12.3	10.5	9.1	9.3
Other consumer	0.5	0.4	0.4	0.6	0.7
Total	80.2	78.5	81.3	88.5	97.0
Total originated non-performing loans (2)	258.3	258.8	240.5	245.2	251.4
REO	27.7	33.5	38.1	39.8	34.9
Repossessed assets	19.2	23.1	13.5	18.1	25.7
Total non-performing assets	$ 305.2	$ 315.4	$ 292.1	$ 303.1	$ 312.0
Originated non-performing loans as a percentage oforiginated loans	1.60%	1.69%	1.62%	1.70%	1.77%
Non-performing assets as a percentage of:					
Originated loans, REO and repossessed assets	1.88	2.05	1.96	2.09	2.19
Tangible stockholders equity andallowance for loan losses	9.20	9.21	8.63	8.84	8.29

(1) Non-performing commercial and industrial loans at March 31, 2011 include approximately $10.7 million of loans secured, in part, by owner-occupied commercial properties that were previously classified as non-performing commercial real estate loans.

(2) Reported net of government guarantees totaling $11.3 million at Sept. 30, 2011, $10.7 million at June 30, 2011, $10.0 million at March 31, 2011, $9.4 million at Dec. 31, 2010 and $8.8 million at Sept. 30, 2010. 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. The principal loan classes to which these government guarantees relate are commercial and industrial loans (approximately 90%) and commercial real estate loans (approximately 10%).

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by an FDIC loss-share agreement totaling $226 million and $15 million, respectively, at September 30, 2011. Such loans meet People s United Financial s definition of a non-performing loan but are excluded given that the risk of credit loss has been considered by virtue of our estimate of acquisition-date fair value and/or the existence of an FDIC loss-share agreement. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

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Total non-performing assets increased $2.1 million from December 31, 2010 and equaled 1.88% of originated loans, REO and repossessed assets at September 30, 2011. The increase in total non-performing assets from December 31, 2010 reflects increases in non-performing commercial and industrial loans of $11.0 million, non-performing commercial real estate loans of $8.5 million, non-performing consumer loans of $5.0 million, non-performing equipment financing loans of $1.9 million and repossessed assets of $1.1 million, essentially offset by decreases in non-performing residential mortgage loans of $13.3 million, and REO of $12.1 million. Included in non-performing commercial real estate loans at September 30, 2011 is a previously disclosed loan with a remaining balance of $23 million that was placed on non-accrual status during the second quarter of 2011. Loans past due 90 days or more and still accruing interest totaled $1.2 million at December 31, 2010 (none at September 30, 2011).

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

In addition to the originated non-performing loans discussed above, People s United Financial has also identified approximately $537 million in originated potential problem loans at September 30, 2011. Originated potential problem loans represent loans that are currently performing, but for which known information about possible credit deterioration on the part of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms and which may result in the disclosure of such loans as non-performing at some time in the future. The originated potential problem loans are generally loans that, although performing, have been classified as substandard in accordance with People s United Financial s loan rating system, which is consistent with guidelines established by banking regulators.

At September 30, 2011, originated potential problem loans consisted of $222 million of commercial and industrial loans, $184 million of commercial real estate loans and $131 million of equipment financing loans. Such loans are closely monitored by management and have remained in performing status for a variety of reasons including, but not limited to, delinquency status, borrower payment history and fair value of the underlying collateral. Management cannot predict the extent to which economic conditions may worsen or whether other factors may adversely impact the ability of these borrowers to make payments. Accordingly, there can be no assurance that originated potential problem loans will not become 90 days or more past due, be placed on non-accrual status, be restructured, or require additional provisions for loan losses.

The levels of non-performing assets and potential problem loans are expected to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with management s degree of success in resolving problem assets. Management takes a proactive approach with respect to the identification and resolution of problem loans. However, given the current state of the U.S. economy and, more specifically, the real estate market, the level of non-performing assets may continue to increase in the last quarter of 2011.

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Liquidity

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

Asset liquidity is provided by: cash; short-term investments and securities purchased under agreements to resell; proceeds from security sales, maturities and principal repayments; and proceeds from scheduled principal collections, prepayments and sales of loans. In addition, certain securities may be used to collateralize borrowings under repurchase agreements. The Consolidated Statements of Cash Flows present data on cash provided by and used in People s United Financial s operating, investing and financing activities. At September 30, 2011, People s United Financial (parent company) liquid assets included $52 million in debt securities available for sale. People s United Bank s liquid assets included $1.2 billion in cash and cash equivalents, $2.3 billion in debt securities available for sale and $70 million in trading account securities. Securities available for sale with a fair value of $1.5 billion at September 30, 2011 were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by People s United Financial s and People s United Bank s ability to obtain deposits and borrowings at cost-effective rates that are diversified with respect to markets and maturities. Deposits, which are considered the most stable source of liability liquidity, totaled $20.5 billion at September 30, 2011 and represented 76% of total funding (the sum of total deposits, total borrowings, subordinated notes and debentures, and stockholders equity). Borrowings are used to diversify People s United Financial s funding mix and to support asset growth. Borrowings and subordinated notes and debentures totaled $880 million and $159 million, respectively, at September 30, 2011, representing 3.3% and 0.6%, respectively, of total funding at that date.

People s United Bank s current sources of borrowings include: federal funds purchased, advances from the FHLB of Boston and the Federal Reserve Bank of New York, and repurchase agreements. At September 30, 2011, People s United Bank s total borrowing limit from the FHLB of Boston and Federal Reserve Bank of New York for advances, and repurchase agreements, was $3.2 billion, based on the level of qualifying collateral available for these borrowings. In addition, People s United Bank had unsecured borrowing capacity of $0.6 billion at that date.

At September 30, 2011, People s United Bank had outstanding commitments to originate loans totaling $1.2 billion and approved, but unused, lines of credit extended to customers totaling $3.9 billion (including $1.8 billion of home equity lines of credit).

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

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Stockholders Equity and Dividends

People s United Financial s total stockholders equity was $5.29 billion at September 30, 2011, a $71 million increase compared to $5.22 billion at December 31, 2010. The increase primarily reflects the issuance of 18.5 million shares of common stock with a fair value of approximately $248 million in connection with the Danvers acquisition, net income of $155.8 million and a $62.2 million decrease in Accumulated Other Comprehensive Loss (AOCL) since December 31, 2010, partially offset by dividends paid of $166.1 million and open market repurchases of 20.4 million shares of common stock at a total cost of $247.2 million. The decrease in AOCL primarily reflects the after-tax increase in the net unrealized gain on securities available for sale and an after-tax decrease in the net actuarial loss and other amounts related to pension and other postretirement benefit plans.

Stockholders equity equaled 19.4% of total assets at September 30, 2011 and 20.8% at December 31, 2010. Tangible stockholders equity (total stockholders equity less goodwill and other acquisition-related intangibles) equaled 12.5% of tangible assets (total assets less goodwill and other acquisition-related intangibles) at September 30, 2011 and 14.1% at December 31, 2010.

In April 2008, People s United Financial s Board of Directors authorized the repurchase of up to 5% of People s United Financial s then-outstanding common stock, or a maximum of 17.3 million shares. Such shares may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In January 2011, People s United Financial s Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of People s United Financial s then-outstanding common stock, or a maximum of 17.5 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management.

In February 2011 and September 2011, People s United Financial completed the repurchase of the maximum number of shares of common stock authorized in April 2008 and January 2011, respectively. During the first nine months of 2011, 20.4 million shares of People s United Financial common stock were repurchased under the stock repurchase programs at a total cost of $247.2 million. Also in February 2011, People s United Financial filed a registration statement with the Securities and Exchange Commission for 144,400 shares of its common stock. Such shares are issuable to the selling shareholders upon the exercise of outstanding warrants previously issued by Smithtown. The exercise price is approximately $37.83 per share, subject to certain adjustments.

In October 2011, People s United Financial s Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of the Company s common stock outstanding, or 18.0 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. The Company s Board of Directors also declared a quarterly dividend on its common stock of $0.1575 per share. The dividend is payable on November 15, 2011 to shareholders of record on November 1, 2011.

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Regulatory Capital Requirements

People s United Bank s tangible capital ratio was 11.8% at September 30, 2011, compared to the minimum ratio of 1.5% generally required by its regulator, the OCC, which assumed responsibility for the supervision and regulation of all federally-chartered savings banks from the Office of Thrift Supervision (OTS) effective July 21, 2011.

People s United Bank is also subject to risk-based capital regulations, which require minimum ratios of leverage capital and total risk-based capital of 4.0% and 8.0%, respectively. People s United Bank satisfied these requirements at September 30, 2011 with ratios of 11.8% and 14.9%, respectively, compared to 11.4% and 14.5%, respectively, at December 31, 2010. People s United Bank s regulatory capital ratios exceeded the numeric criteria for classification as a well capitalized institution at September 30, 2011.

The following summary compares People s United Bank s regulatory capital amounts and ratios as of September 30, 2011 to the minimum requirements. The leverage and risk-based capital requirements of the OCC are substantially the same as those of the OTS. At September 30, 2011, People s United Bank s adjusted total assets, as defined, were $24.9 billion and its total risk-weighted assets, as defined, were $20.8 billion. At September 30, 2011, People s United Bank exceeded each of its regulatory capital requirements.

As of September 30, 2011			Requirements for Classification as Well-Capitalized		Minimum Capital Adequacy	
(dollars in millions)	People s United Bank Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	$ 2,942.8(1)	11.8%	n/a	n/a	$ 373.2	1.5%
Leverage (core) capital	2,942.8(1)	11.8	$ 1,244.0	5.0%	995.2	4.0
Total risk-based capital	3,112.2(2)	14.9	2,084.0	10.0	1,667.2	8.0

(1) Represents total stockholder s equity, excluding: (i) after-tax net unrealized gains (losses) on certain securities classified as available for sale; (ii) after-tax net gains on derivatives qualifying as cash flow hedges; (iii) certain assets not recognized in tier 1 capital (principally goodwill and other acquisition-related intangibles); and (iv) the amount recorded in accumulated other comprehensive income (loss) relating to pension and other postretirement benefits.

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

In September 2010, the Basel Committee on Banking Supervision released revisions to recommended capital requirements, which are referred to as Basel III. People s United Bank s capital ratios at September 30, 2011 were well in excess of these new capital requirements. These new capital ratio requirements are still considered preliminary, and there is a prolonged implementation time frame. Management will monitor any proposed clarifications of the benchmarks.

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

	September 30, 2011	December 31, 2010
Tangible equity to tangible assets	12.5%	14.1%
Leverage (Tier 1 capital to adjusted total assets)	12.8	14.5
Tier 1 common equity to total risk-weighted assets (1)	15.0	17.0
Tier 1 risk-based capital to total risk-weighted assets	15.3	17.5
Total risk-based capital to total risk-weighted assets	16.7	19.3

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

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Market Risk Management

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

Interest Rate Risk

For People s United Financial, the only relevant market risk at this time is interest rate risk (IRR), which is the potential exposure to earnings or capital that may result from changes in interest rates. People s United Financial manages its IRR to achieve a balance between risk, earnings volatility and capital preservation. ALCO has primary responsibility for managing People s United Financial s IRR. To evaluate People s United Financial s IRR profile, ALCO monitors economic conditions, interest rate trends, liquidity levels and capital ratios. Management also reviews assumptions periodically for projected customer and competitor behavior, in addition to the expected repricing characteristics and cash flow projections for assets, liabilities and off-balance-sheet financial instruments. Actual conditions may vary significantly from People s United Financial s assumptions.

Management evaluates the impact of IRR on Income at Risk using an earnings simulation model to project earnings under multiple interest rate environments over a one-year time horizon resulting in a quantification of IRR.

The earnings projections are based on a static balance sheet and estimates of pricing levels for People s United Financial s products under multiple scenarios intended to reflect instantaneous yield curve shocks. People s United Financial estimates its base case Income at Risk using current interest rates. Internal policy regarding IRR simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated 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.

The following table shows the estimated percentage change in People s United Financial s Income at Risk over a one-year simulation period beginning September 30, 2011. Given the interest rate environment at September 30, 2011, simulations for declines in interest rates below 25 basis points were not deemed to be meaningful.

Rate Change (basis points)	Percent Change in Income at Risk
+300	20.2%
+200	12.8
+100	5.7
-25	(1.1)

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

Internal policy currently limits the exposure of a decrease in Net Present Value of Equity at Risk resulting from instantaneous parallel shifts of the yield curve in the following manner: 5% for 100 basis points shift; 10% for 200 basis points shift; and 15% for 300 basis points shift.

The following table shows the estimated percentage change in People s United Financial s Net Present Value of Equity at Risk, assuming various shifts in interest rates. Given the interest rate environment at September 30, 2011, simulations for declines in interest rates below 25 basis points were not deemed to be meaningful.

Rate Change (basis points)	Percent Change in Net Present Value of Equity
+300	1.3%
+200	1.6
+100	0.9
-25	(0.3)

People s United Financial s interest rate risk position at September 30, 2011, as set forth in the Income at Risk and Net Present Value of Equity at Risk tables above, reflects its excess capital position at that date. Management s current posture is to invest a portion of such excess capital in liquid, short-term investments and securities purchased under agreements to resell. While this strategy places pressure on net interest income in a low rate environment, management views such risk as an acceptable alternative in light of the current credit environment. Based on the Company s current interest rate position, an immediate 100 basis points increase in interest rates translates to an approximate $40 million increase in net interest income on an annualized basis. Given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by People s United Financial s models.

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

At September 30, 2011, People s United Financial used interest rate swaps on a limited basis to manage IRR associated with certain interest-earning assets and interest-bearing liabilities. Interest rate swaps associated with interest-earning assets are used to match more closely the repricing of fewer than five commercial real estate loans and the funding associated with these loans. The interest rate swaps effectively convert the fixed rate assets to a variable interest rate and consequently reduces People s United Financial s exposure to increases in interest rates. These interest rate swaps are accounted for as fair value hedges.

People s United Financial has entered into an interest rate swap to hedge the LIBOR floating interest rate on the Company s $125 million subordinated notes beginning in February 2012. The subordinated notes pay a fixed interest rate of 5.80% until February 2012, at which time the interest rate converts to the three month LIBOR plus 68.5 basis points. Specifically, People s United Financial has agreed with the 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. As a result, the interest rate swap effectively converts the variable rate subordinated notes to a fixed interest rate and consequently reduces People s United Financial s exposure to increases in interest rates. This interest rate swap is accounted for as a cash flow hedge.

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

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

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Certain of People s United Financial s derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company s external credit rating. If the Company s senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of bilateral netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2011 was $9.2 million, for which People s United Financial had posted $8.3 million collateral in the normal course of business. If the Company s senior unsecured debt rating had fallen below investment grade as of that date, $0.9 million in additional collateral would have been required.

Foreign Currency Risk

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

Derivative Financial Instruments

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

As of September 30, 2011			Foreign
	Interest Rate Swaps		Exchange
(dollars in millions)	Loans	Subordinated Notes	Contracts
Notional principal amounts	$ 4.1	$ 125.0	$ 11.5
Weighted average interest rates:			
Pay fixed (receive floating)	5.66% (0.22%)	1.99% (Libor + 0.685%)	N/A
Weighted average remaining term to maturity			
(in months)	5	65	2
Fair value:			
Recognized as an asset	$	$ 0.5	$ 0.6
Recognized as a liability	0.1		

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People s United Financial has entered into interest rate swaps with certain of its commercial customers. In order to minimize its risk, these customer derivatives have been offset with essentially matching interest rate swaps with People s United Financial s counterparties. Changes in the fair value of all such interest rate swaps are recognized in current earnings.

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

As of September 30, 2011	Interest Rate Swaps	
(dollars in millions)	Commercial Customers	Other Counterparties
Notional principal amounts	$ 758.4	$ 758.4
Weighted average interest rates:		
Pay floating (receive fixed)	0.21%	(2.60%)
Pay fixed (receive floating)		2.94%
		(0.21%)
Weighted average remaining term to maturity (in months)	85	85
Fair value:		
Recognized as an asset	$ 56.4	$ 0.1
Recognized as a liability		52.8

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The information required by this item appears on pages 105 through 109 of this report.

Item 4 Controls and Procedures

People s United Financial s management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of People s United Financial s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that People s United Financial s disclosure controls and procedures are effective, as of September 30, 2011, to ensure that information relating to People s United Financial, which is required to be disclosed in the reports People s United Financial files with the Securities and Exchange Commission under the Exchange Act, is (i) recorded, processed, summarized and reported as and when required, and (ii) accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

During the quarter ended September 30, 2011, there has not been any change in People s United Financial s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, People s United Financial s internal control over financial reporting.

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Part II Other Information

Item 1 Legal Proceedings

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

Item 1A Risk Factors

There have been no material changes in risk factors since December 31, 2010.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information with respect to purchases made by People s United Financial of its common stock during the three months ended September 30, 2011.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1 31, 2011:				
Tendered by employees (1)	24,250	$ 13.48		
Publicly announced program (2)		$		15,790,178
August 1 31, 2011:				
Tendered by employees (1)		$		
Publicly announced program (2)	2,600,000	$ 11.57	2,600,000	13,190,178
September 1 30, 2011:				
Tendered by employees (1)	245	$ 12.23		
Publicly announced program (2)	13,190,178	$ 11.86	13,190,178	
Total:				
Tendered by employees (1)	24,495	$ 13.46		
Publicly announced program (2)	15,790,178	$ 11.81	15,790,178	

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(1) All shares listed were tendered by employees of People s United Financial in satisfaction of their related minimum tax withholding obligations upon the vesting of restricted stock awards granted in prior periods. The average price paid per share is equal to the average of the high and low trading price of People s United Financial s common stock on The NASDAQ Stock Market on the vesting date or, if no trades took place on that date, the most recent day for which trading data was available. There is no limit on the number of shares that may be tendered by employees of People s United Financial in the future to satisfy their related minimum tax withholding obligations. Shares acquired in satisfaction of minimum tax withholding obligations are not eligible for reissuance in connection with any subsequent grants made pursuant to equity compensation plans maintained by People s United Financial. All shares acquired in this manner are retired by People s United Financial, resuming the status of authorized but unissued shares of People s United Financial s common stock.

(2) In January 2011, People s United Financial s Board of Directors authorized the repurchase of up to 5% of People s United Financial s then-outstanding common stock, or a maximum of 17.5 million shares. Such shares may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In October 2011, People s United Financial s Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of People s United Financial s outstanding common stock, or 18.0 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management.

During the third quarter of 2011, People s United Financial completed the repurchase of the maximum number of shares of common stock authorized in January 2011. Shares acquired in this manner have not been retired by People s United Financial and, as a result, remain available for issuance in the future.

Item 3 Defaults Upon Senior Securities

None

Item 4 (Removed and Reserved)

Item 5 Other Information

None

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Item 6 Exhibits

The following Exhibits are filed herewith:

Exhibit No.	Description
10.19(b)*	Amendment No. 2 to the Chittenden Corporation Deferred Compensation Plan
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.1	The following financial information from People s United Financial, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 formatted in XBRL: (i) Consolidated Statements of Condition as of September 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010; (iii) Consolidated Statements of Changes in Stockholders Equity for the nine months ended September 30, 2011 and 2010; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010; and (v) Notes to Consolidated Financial Statements.

* Each exhibit identified by an asterisk constitutes a management contract or compensation plan, contract or arrangement.

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SIGNATURES

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

PEOPLE S UNITED FINANCIAL, INC.

Date: November 9, 2011 By: /s/ John P. Barnes
John P. Barnes
President and Chief Executive Officer

(Principal Executive Officer)

Date: November 9, 2011 By: /s/ Kirk W. Walters
Kirk W. Walters
Senior Executive Vice President

and Chief Financial Officer

(Principal Financial Officer)

Date: November 9, 2011 By: /s/ Jeffrey Hoyt
Jeffrey Hoyt
Senior Vice President and Controller
(Principal Accounting Officer)

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INDEX TO EXHIBITS

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