People's United Financial, Inc.
Form 10-K
March 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 2013

People s United Financial, Inc.

(Exact name of registrant as specified in its charter)

001-33326

(Commission File Number)

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

850 Main Street

Bridgeport, Connecticut 06604

(Address of principal executive offices, including zip code)

(203) 338-7171

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (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 Act). Yes ¨ No x

The aggregate market value of voting stock held by non-affiliates of the registrant, based upon the last reported sales price of its common stock as of the last business day of the registrant s most recently completed second quarter on the NASDAQ Global Select Market was $4,782,907,301.

As of February 14, 2014, there were 310,247,069 shares of the registrant s common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 17, 2014, are incorporated by reference into Part III.

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PEOPLE S UNITED FINANCIAL, INC.

2013 FORM 10-K

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Part I

Item 1. Business

General

People s United Financial, Inc. (People s United Financial or the Company) is a savings and loan holding company incorporated under the state laws of Delaware and the holding company for People s United Bank, a federally-chartered stock savings bank headquartered in Bridgeport, Connecticut.

The principal business of People s United Financial is to provide, through People s United Bank and its subsidiaries, commercial banking, retail and business banking, and wealth management services to individual, corporate and municipal customers. Traditional banking activities are conducted primarily within New England and southeastern New York, and include extending secured and unsecured commercial and consumer loans, originating mortgage loans secured by residential and commercial properties, and accepting consumer, commercial and municipal deposits.

In addition to traditional banking activities, People s United Bank provides specialized financial services tailored to specific markets including: personal, institutional and employee benefit trust; cash management; and municipal banking and finance. Through its non-banking subsidiaries, People s United Bank offers: brokerage, financial advisory services, investment management services and life insurance through People s Securities, Inc. (PSI); equipment financing through People s Capital and Leasing Corp. (PCLC) and People s United Equipment Finance Corp. (PUEFC); and other insurance services through People s United Insurance Agency, Inc. (PUIA).

This full range of financial services is delivered through a network of 410 branches located in Connecticut, southeastern New York, Massachusetts, Vermont, New Hampshire and Maine, including 85 full-service Stop & Shop supermarket branches throughout Connecticut and 58 in southeastern New York that provide customers with seven-day-a-week banking. People s United Bank s distribution network includes investment and brokerage offices, commercial banking offices, online banking and investment trading, a 24-hour telephone banking service and participation in a worldwide ATM network. PCLC and PUEFC maintain a sales presence in 14 states to support equipment financing operations throughout the United States. People s United Bank maintains a mortgage warehouse lending group located in Kentucky and a national credits group, which has participations in commercial loans and commercial real estate loans to borrowers in various industries on a national scale.

On June 22, 2012, People s United Bank acquired 57 branches from RBS Citizens, N.A. (Citizens) and assumed approximately $324 million in deposits associated with these branches. 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. See Note 5 to the Consolidated Financial Statements.

On November 30, 2010, People s United Financial completed its acquisitions of 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 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. On February 19, 2010, People s United Financial completed its acquisition of Financial Federal Corporation (Financial Federal), a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses. The assets acquired and liabilities assumed in these transactions were recorded at their estimated fair values as of their respective closing dates and People s United Financial s results of operations include the results of the acquired entities beginning with their respective closing dates.

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

The Company s operating segments have been aggregated into two reportable segments: Commercial Banking; and Retail and Business Banking. 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 PCLC and PUEFC, as well as cash management, correspondent banking and municipal banking. In addition, Commercial Banking consists of institutional trust services, corporate trust, insurance services provided through PUIA and private banking. Retail and Business Banking includes, as its principal business lines, business lending, consumer and business deposit gathering activities, consumer lending (including residential mortgage and home equity lending), and merchant services. In addition, Retail and Business Banking includes brokerage, financial advisory services, investment management services and life insurance provided by PSI and non-institutional trust services.

Further discussion of People s United Financial s business and operations appears on pages 23 through 84.

Supervision and Regulation People s United Financial

Federal Holding Company Regulation

People s United Financial is a savings and loan holding company within the meaning of the Home Owners Loan Act (HOLA). The Board of Governors of the Federal Reserve System (the FRB) has responsibility for the supervision, examination and regulation of savings and loan holding companies and their non-depository subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings bank.

Although savings and loan holding companies are currently not subject to consolidated regulatory leverage or risk-based capital requirements (see Capital Requirements), FRB guidance indicates that a savings and loan holding company should have sufficient capital and an effective capital planning process, consistent with its overall risk profile and considering the size, scope, and complexity of its operations, to ensure its safe and sound operation. The FRB has also indicated that it will evaluate a savings and loan holding company s capital planning and capital distribution processes, and its capital sufficiency in light of relevant supervisory guidance applicable to bank holding companies. The FRB also announced that in light of the requirements of the HOLA and any unique characteristics of savings and loan holding companies, it intends to assess the condition, performance and activities of savings and loan holding companies in a manner consistent with the FRB s established risk-based approach for bank holding companies.

Activities Restrictions Applicable to Savings and Loan Holding Companies. The activities of all savings and loan holding companies formed after May 4, 1999, including People s United Financial, must be financially related activities permissible for bank holding companies, unless the savings and loan holding company has elected to be treated as a financial holding company. A savings and loan holding company that has made a financial holding company election may also engage in activities permissible under section 4(k) of the Bank Holding Company Act. As of December 31, 2013, People s United Financial had not made an election to be treated as a financial holding company.

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Restrictions Applicable to All Savings and Loan Holding Companies. Federal law prohibits a savings and loan holding company directly or indirectly, from acquiring:

- control (as defined under the HOLA) of another savings bank (or a holding company parent) without prior FRB approval;
- through merger, consolidation or purchase of assets, another savings bank or a holding company thereof, or acquiring all or substantially all of the assets of such institution or holding company without prior approval by the FRB or the Office of the Comptroller of the Currency (the OCC); or
- control of any depository institution not insured by the FDIC (except through a merger with and into the holding company s savings bank subsidiary that is approved by the OCC).

The HOLA prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring another savings bank or holding company thereof without prior written approval of the FRB; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings bank, a non-subsidiary holding company or a non-subsidiary company engaged in activities other than those permitted by the HOLA; or acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by holding companies to acquire savings banks, the FRB must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the Deposit Insurance Fund (the DIF), the convenience and needs of the community and competitive factors.

Federal Securities Law

People s United Financial s common stock is registered with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934 (the Exchange Act), as amended. People s United Financial is subject to the information, proxy solicitation, insider trading, and other requirements and restrictions of the Exchange Act.

Delaware Corporation Law

People s United Financial is incorporated under the laws of the State of Delaware and is, therefore, subject to regulation by the state of Delaware. The rights of People s United Financial s stockholders are governed by the Delaware General Corporation Law.

Supervision and Regulation People s United Bank

General

People s United Bank is a federally-chartered savings bank. Its deposit accounts are insured up to applicable limits by the FDIC under the DIF. People s United Bank is subject to regulation, examination, supervision and reporting requirements by the OCC as its primary regulator, by the FDIC as the deposit insurer and by the Consumer Financial Protection Bureau (the CFPB) with respect to compliance with designated consumer financial laws.

People s United Bank files reports with the OCC concerning its activities and financial condition, and must obtain regulatory approval from the OCC prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OCC conducts periodic examinations to assess compliance with various regulatory requirements. The OCC has primary enforcement responsibility over federally chartered savings banks with more than $10 billion in total assets and has substantial discretion to impose enforcement action on a federally-chartered savings bank that fails to comply with applicable regulatory requirements, particularly with respect to capital requirements imposed on savings banks. In addition, the FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular federally chartered savings bank and, if action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances.

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This regulation and supervision establishes a comprehensive framework of activities in which a federal savings bank can engage and is intended primarily for the protection of the DIF, depositors and consumers. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such laws and regulations or interpretations thereof, whether by the OCC, the FDIC, and the CFPB or through legislation, could have a material adverse impact on People s United Bank and its operations.

People s United Bank s brokerage subsidiary, PSI, is regulated by the SEC, the Financial Industry Regulatory Authority and state securities regulators. PUIA is subject to regulation by applicable state insurance regulators.

Federally Chartered Savings Bank Regulation

Activity Powers. Federal savings banks derive their lending, investment and other activity powers primarily from the HOLA, as amended, and the regulations of the OCC thereunder. Under these laws and regulations, federal savings banks generally may invest in:

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

Federal savings banks may also establish service corporations that may, subject to applicable limitations, engage in activities not otherwise permissible for federal savings banks, including certain real estate equity investments and securities and insurance brokerage activities. People s United Bank s investment powers are subject to various limitations, including (1) a prohibition against the acquisition of corporate debt securities not meeting established standards of credit-worthiness; (2) a limit of 400% of a savings bank s capital on the aggregate amount of loans secured by non-residential real estate property; (3) a limit of 20% of a savings bank s assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (4) a limit of 35% of a savings bank s assets on the aggregate amount of consumer loans and acquisitions of certain debt securities, with amounts in excess of 30% of assets being limited to loans made directly to the original obligor and where no third-party finder or referral fees were paid; (5) a limit of 5% of assets on non-conforming loans (residential and farm loans in excess of the specific limitations of the HOLA); and (6) a limit of the greater of 5% of assets or a savings bank s capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

Capital Requirements. OCC capital regulations require federally chartered savings banks to meet three minimum capital ratios:

- Tangible Capital Ratio - A 1.5% tangible capital ratio, calculated as tangible capital to adjusted total assets.
- Leverage (Core) Capital Ratio - A 4% leverage (core) capital ratio, calculated as core capital to adjusted total assets. The minimum leverage (core) capital ratio is reduced to 3% if the savings bank received the highest rating on its most recent safety and soundness examination.
- Risk-Based Capital Ratio - An 8% Total risk-based capital ratio, calculated as total risk-based capital to total risk-weighted assets. For purposes of this calculation, total risk-based capital includes core and supplementary capital, provided that supplementary capital may not exceed 100% of core capital.

In assessing an institution s capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary. People s United Bank, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with People s United Bank s risk profile. At December 31, 2013, People s United Bank exceeded each of its applicable capital requirements. See *Management s Discussion & Analysis Regulatory Capital Requirements* beginning on page 77 for a further discussion regarding People s United Bank s capital requirements.

In December 2010, the Basel Committee on Banking Supervision released its final framework for capital requirements (the Basel framework or Basel III). In July 2013, the U.S. banking agencies published final rules to address implementation of the Basel III framework for U.S. financial institutions which, when fully phased-in, will: (i) set forth changes in the calculation of risk-weighted assets; (ii) introduce limitations on what is permissible for inclusion in Tier 1 capital; and (iii) require savings and loan holding companies and their savings bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The implementation of the Basel III final framework is scheduled to commence on January 1, 2015 for both the Company and People s United Bank.

Safety and Soundness Standards. Each federal banking agency, including the OCC, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines.

In addition, the OCC adopted regulations to require a savings bank that is given notice by the OCC that it is not satisfying any of such safety and soundness standards to submit a compliance plan to the OCC. If, after being so notified, a savings bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the OCC may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution is subject under the prompt corrective action provisions of the Federal Deposit Insurance Corporation Improvement Act. If a savings bank fails to comply with such an order, the OCC may seek to enforce the order in judicial proceedings and to impose civil monetary penalties.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, federal bank regulators, including the OCC, are required to take certain, and authorized to take other, supervisory actions against undercapitalized institutions, based upon five categories of capitalization which the Federal Deposit Insurance Corporation Improvement Act created: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank s capital decreases within the three undercapitalized categories. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. The OCC is required to monitor closely the condition of an undercapitalized savings bank and to restrict the growth of its assets. An undercapitalized bank is required to file a capital restoration plan within 45 days of the date the bank receives notice or is deemed to have notice that it is within any of the three undercapitalized categories, and the plan must be guaranteed by any parent holding company.

The aggregate liability of a parent holding company is limited to the lesser of:

- an amount equal to 5% of the bank s total assets at the time it became undercapitalized ; and
- the amount that is necessary (or would have been necessary) to bring the bank into compliance with all capital standards applicable with respect to such bank as of the time it fails to comply with a capital restoration plan.

If a bank fails to submit an acceptable plan, it is treated as if it were significantly undercapitalized. Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions. Under OCC regulations, generally, a federal savings bank is treated as well-capitalized if its Total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 6% or greater, and its leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. As of December 31, 2013, People s United Bank s regulatory capital ratios exceeded the OCC s numeric criteria for classification as a well-capitalized institution. Basel III would also revise the prompt corrective action framework by incorporating new regulatory capital minimums, including a requirement for tangible common equity.

Insurance Activities. Federal savings banks are generally permitted to engage in certain insurance and annuity activities through subsidiaries. However, federal banking laws prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity from an entity affiliated with the depository institution or an agreement by the consumer not to purchase an insurance product or annuity from an entity that is not affiliated with the depository institution. Applicable regulations also require prior disclosure of this prohibition to potential insurance product or annuity customers.

Federal banking agencies, including the OCC, also require depository institutions that offer non-deposit investment products, such as certain annuity and related insurance products, to disclose to the consumer that the products are not federally insured, are not guaranteed by the institution and are subject to investment risk including possible loss of principal. These disclosure requirements apply if the institution offers the non-deposit investment products directly or through affiliates or subsidiaries.

Deposit Insurance. People s United Bank is a member of, and pays its deposit insurance assessments to, the DIF.

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

One of the financial ratios used in the scorecard-based assessment system for financial institutions with more than $10 billion in assets is the ratio of higher-risk assets to Tier 1 capital and reserves. In October 2012, the FDIC adopted a final rule, which became effective April 1, 2013, that revised the definitions of higher-risk commercial and industrial loans, securities and consumer loans, and clarified when an asset must be classified as higher-risk.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC at an annual rate of approximately 0.0062% of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature between 2017 and 2019.

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Under the Federal Deposit Insurance Act, the FDIC may terminate the insurance of an institution s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Transactions with Affiliates. Federal savings banks are subject to the affiliate and insider transaction rules set forth in Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act, and their implementing regulations, Regulation W and Regulation O, issued by the FRB. Affiliated transaction provisions, among other things, prohibit or limit a federal savings bank from extending credit to, or entering into certain transactions with, its affiliates and principal stockholders, directors and executive officers.

In addition, Section 11 of the HOLA prohibits a savings bank from making a loan to an affiliate that is engaged in non-bank holding company activities and prohibits a savings bank from purchasing or investing in securities issued by an affiliate that is not a subsidiary. The FRB and the OCC require each depository institution that is subject to the affiliate transaction restrictions of Sections 23A and 23B of the Federal Reserve Act to implement policies and procedures to ensure compliance with Regulation W.

In addition to the insider transaction limitations of Sections 22(g) and 22(h) of the Federal Reserve Act, Section 402 of the Sarbanes-Oxley Act of 2002 prohibits the extension of personal loans to directors and executive officers of issuers (as defined in the Sarbanes-Oxley Act). The prohibition, however, does not apply to mortgage loans advanced by an insured depository institution, such as People s United Bank, that are subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act.

Privacy Standards. People s United Bank is subject to OCC regulations implementing statutorily-mandated privacy protection. These regulations require People s United Bank to disclose its privacy policy, including identifying with whom it shares non-public personal information, to customers at the time of establishing the customer relationship and annually thereafter. In addition, People s United Bank is required to provide its customers with the ability to opt-out of having People s United Bank share their non-public personal information with unaffiliated third parties before the bank can disclose such information, subject to certain exceptions.

In addition to certain state laws governing protection of customer information, People s United Bank is subject to federal regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. Federal guidelines also impose certain customer disclosures and other actions in the event of unauthorized access to customer information.

Community Reinvestment Act. Under the Community Reinvestment Act, as implemented by the OCC regulations, any federally chartered savings bank, including People s United Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community. The Community Reinvestment Act requires the OCC, in connection with its examination of a federally chartered savings bank, to assess the depository institution s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution.

Current Community Reinvestment Act regulations rate an institution based on its actual performance in meeting community needs. In particular, the evaluation system focuses on three tests:

- a lending test, to evaluate the institution s record of making loans in its service areas;
- an investment test, to evaluate the institution s record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and
- a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices.

The Community Reinvestment Act also requires all institutions to make public disclosure of their Community Reinvestment Act ratings. People s United Bank received an outstanding rating in its most recent Community Reinvestment Act examination performed in 2009. The federal banking agencies adopted regulations implementing the requirements under the Gramm-Leach-Bliley Act that insured depository institutions publicly disclose certain agreements that are in fulfillment of the Community Reinvestment Act. People s United Bank has no such agreements in place at this time.

Loans to One Borrower. Under the HOLA, savings banks are generally subject to the national bank limits on loans to one borrower. Generally, savings banks may not make a loan or extend credit, including credit associated with derivatives and securities financing transactions, to a single or related group of borrowers in excess of 15% of the institution s unimpaired capital and surplus. Additional amounts may be loaned, not in excess of 10% of unimpaired capital and surplus, if such loans or extensions of credit are secured by readily-marketable collateral. People s United Bank is in compliance with applicable loans to one borrower limitations.

Nontraditional Mortgage Products. The federal banking agencies have issued guidance for institutions that originate or service nontraditional or alternative mortgage products, defined to include all residential mortgage loan products that allow borrowers to defer repayment on principal or interest, such as interest-only mortgages and payment option adjustable-rate mortgages. A portion of People s United Bank s adjustable-rate residential mortgage loans represent interest-only residential mortgage loans. None of these loans permit negative amortization or optional payment amounts.

Recognizing that alternative mortgage products expose institutions to increased risks as compared to traditional loans where payments amortize or reduce the principal amount, the guidance requires increased scrutiny for alternative mortgage products. Institutions that originate or service alternative mortgages should have: (i) strong risk management practices that include maintenance of capital levels and allowance for loan losses commensurate with the risk; (ii) prudent lending policies and underwriting standards that address a borrower s repayment capacity; and (iii) programs and practices designed to ensure that consumers receive clear and balanced information to assist in making informed decisions about mortgage products. The guidance also recommends heightened controls and safeguards when an institution combines an alternative mortgage product with features that compound risk, such as a simultaneous second-lien or the use of reduced documentation to evaluate a loan application. People s United Bank complies with the guidance on non-traditional mortgage products as it is interpreted and applied by the OCC.

Qualified Thrift Lender Test. The HOLA requires federal savings banks to meet a Qualified Thrift Lender (QTL) test. Under the QTL test, a savings bank is required to maintain at least 65% of its portfolio assets (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed securities, credit card loans, student loans and small business loans) on a monthly basis during at least 9 out of every 12 months.

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A savings bank that fails the QTL test will be deemed to have violated Section 5 of the HOLA and be subject to enforcement action under Section 5(d) of the HOLA. In addition, a savings bank that fails the QTL test generally will be prohibited from: (i) engaging in any new activity not permissible for a national bank; (ii) paying dividends without prior approval from the OCC and the FRB (the payment of such dividend must also be permissible under national bank regulations); and (iii) establishing any new branch office in a location not permissible for a national bank in the institution s home state. In addition, the institution may have to repay any outstanding advances from the Federal Home Loan Bank (the FHLB) as promptly as possible. At December 31, 2013, People s United Bank was in compliance with the QTL test.

Limitation on Capital Distributions. The OCC regulates capital distributions by People s United Bank directly or indirectly to People s United Financial, including cash dividend payments. OCC regulations impose limitations upon capital distributions by federal savings banks, such as certain cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger and other distributions charged against capital. OCC regulations require People's United Bank to submit an application to the OCC prior to making a capital distribution, including the payment of cash dividends to People s United Financial. In addition, a federal savings bank that is a subsidiary of a savings and loan holding company must notify the FRB at least 30 days prior to making any cash dividend payment to its parent. An informational copy of this notice is also provided to the federal savings bank s primary federal regulator, which in the case of People s United Bank is the OCC. The FRB will consult with the institution s primary federal regulator in determining whether to disapprove the proposed dividend.

FRB and OCC regulations state that the FRB or OCC may disapprove the proposed dividend if: (i) the federal savings bank will be less than adequately capitalized following payment of the proposed dividend; (ii) the proposed dividend raises safety or soundness concerns; or (iii) the proposed dividend would violate a prohibition contained in any statute, regulation, enforcement action, or agreement among or between the savings bank, its parent and a federal banking agency; a condition imposed on the savings association or its parent in an application or notice approved by an appropriate federal banking agency; or any formal or informal enforcement action involving the federal savings bank or its parent.

OCC regulations provide that a federal savings bank must file an application with the OCC if the total amount of all its capital distributions (including the proposed capital distribution) for the applicable calendar year exceeds the federal savings bank s net income for that year plus its retained net income for the preceding two years. People s United Bank may not pay dividends to People s United Financial if, after paying those dividends, it would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements or if the OCC notified People s United Bank that it was in need of more than normal supervision. Under the Federal Deposit Insurance Act, an insured depository institution, such as People s United Bank, is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized (as such term is used in the Federal Deposit Insurance Act). Payment of dividends by People s United Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. See Note 12 to the Consolidated Financial Statements for a further discussion on capital distributions.

Liquidity. People s United Bank maintains sufficient liquidity to ensure its safe and sound operation, in accordance with applicable OCC regulations.

Assessments. The OCC charges assessments to recover the cost of examining federal savings banks and their affiliates. These assessments are based on three components: (i) the size of the institution on which the basic assessment is based; (ii) the institution s supervisory condition, which results in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and (iii) the complexity of the institution s operations, which results in an additional assessment based on a percentage of the basic assessment for any savings institution that managed over $1 billion in trust assets, serviced for others loans aggregating more than $1 billion, or had certain off-balance sheet assets aggregating more than $1 billion.

Branching. Under OCC branching regulations, People s United Bank is generally authorized to open branches nationwide. People s United Bank is required to submit an application to the OCC and publish a public notice prior to establishing a new branch or relocating an existing branch. OCC authority preempts any state law purporting to regulate branching by federal savings banks.

Anti-Money Laundering and Customer Identification. People s United Bank is subject to OCC and Financial Crimes Enforcement Network regulations implementing the Bank Secrecy Act, as amended by the USA PATRIOT Act. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among banks, regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative reporting obligations on a broad range of financial institutions, including savings banks like People s United Bank.

Federal Home Loan Bank System. People s United Bank is a member of the FHLB system, which consists of twelve regional Federal Home Loan Banks, each subject to supervision and regulation by the Federal Housing Finance Agency. The FHLB system provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Banks. It makes loans or advances to members in accordance with policies and procedures, including collateral requirements, established by the respective boards of directors of the Federal Home Loan Banks. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Agency, which has also established standards of community or investment service that members must meet to maintain access to long-term advances.

People s United Bank, as a member of the FHLB of Boston, is currently required to purchase and hold shares of capital stock in the FHLB of Boston in an amount equal to 0.35% of People s United Bank s Membership Stock Investment Base plus an Activity Based Stock Investment Requirement. The Activity Based Stock Investment Requirement is equal to 3.0% of any outstanding principal for overnight advances, 4.0% of any outstanding principal for term advances with an original term of two days to three months and 4.5% of any outstanding principal for term advances with an original term greater than three months. People s United Bank is in compliance with these requirements. As a result of its acquisition of the Bank of Smithtown in 2010, People s United Bank also holds shares of capital stock in the FHLB of New York.

Federal Reserve System. FRB regulations require federally chartered savings banks to maintain non-interest-earning cash reserves against their transaction accounts (primarily negotiable order of withdrawal and demand deposit accounts). Institutions must maintain a reserve of 3% against aggregate transaction account balances between $13.3 million and $89.0 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB within specific limits) against that portion of total transaction account balances in excess of $89.0 million. The first $13.3 million of otherwise reservable balances is exempt from the reserve requirements. People s United Bank is in compliance with the foregoing requirements. The required reserves must be maintained in the form of vault cash, or an interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the Federal Reserve Board.

Market Area and Competition

People s United Financial s primary market areas are New England and southeastern New York, with Connecticut, Massachusetts, New York and Vermont having the largest concentration of its loans, deposits and branches. At December 31, 2013, approximately 28%, 18%, 18% and 7% of the Company s loans by outstanding principal amount were to customers located within Connecticut, Massachusetts, New York and Vermont, respectively. Loans to customers located in the New England states as a group represented approximately 63% of total loans at December 31, 2013. However, substantially all of the equipment financing portfolio (approximately 97% at December 31, 2013) was to customers located outside of New England. At December 31, 2013, approximately 31% of the equipment financing portfolio was to customers located in Texas, California and New York and no other state exposure was greater than 6%.

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As of June 30, 2013, People s United Financial had: (i) the largest market share of deposits in Fairfield County, Connecticut; (ii) the third largest market share of deposits in the state of Connecticut; and (iii) the largest market share of deposits in the state of Vermont. People s United Financial competes for deposits, loans and financial services with commercial banks, savings institutions, commercial and consumer finance companies, mortgage banking companies, insurance companies, credit unions and a variety of other institutional lenders and securities firms.

As People s United Financial s predominant market, Connecticut is one of the most attractive banking markets in the United States. With a total population of approximately 3.6 million and a median household income of $65,549, Connecticut ranks third in the United States, well above the U.S. median household income of $50,157, according to the 2010 Census and SNL Financial. Fairfield County, where People s United Financial is headquartered, has the highest median household income in Connecticut of $80,342 according to the 2010 Census and SNL Financial. The median household income in New York, which has the Company s second highest number of branches, was $53,826, according to the 2010 Census and SNL Financial. The median household income in Massachusetts and Vermont, which have the Company s third and fourth highest number of branches, was $62,403 and $50,435, respectively, according to the 2010 Census and SNL Financial.

The principal basis of competition for deposits is the interest rate paid for those deposits and related fees, the convenience of access to services through traditional and non-traditional delivery alternatives, and the quality of services to customers. The principal basis of competition for loans is through the interest rates and loan fees charged and the development of relationships based on the efficiency, convenience and quality of services provided to borrowers. Further competition has been created through the rapid acceleration of commerce conducted over the Internet. This has enabled institutions, including People s United Financial, to compete in markets outside their traditional geographic boundaries.

Personnel

As of December 31, 2013, People s United Financial had 4,842 full-time and 587 part-time employees.

Access to Information

As a public company, People s United Financial is subject to the informational requirements of the Exchange Act, as amended and, in accordance therewith, files reports, proxy and information statements and other information with the SEC. Such reports, proxy and information statements and other information can be inspected and copied at prescribed rates at the public reference room maintained by the SEC at 100 F Street N.E., Washington, D.C. 20549 and are available on the SEC s EDGAR database on the internet at www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. People s United Financial s common stock is listed on the NASDAQ Global Select Market under the symbol PBCT .

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

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

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

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

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

Annual Report to Shareholders (two most recent years)

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

XBRL Interactive Data (most recent 12 months)

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Item 1A. Risk Factors

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

People s United Financial makes most of its earnings based on the difference between interest it earns compared to interest it pays. This difference is called the interest spread. People s United Financial earns interest on loans and to a much lesser extent on securities and short-term investments. These are called interest-earning assets. People s United Financial pays interest on some forms of deposits and on funds it borrows from other sources. These are called interest-bearing liabilities.

People s United Financial s interest spread can change depending on when interest rates earned on interest-earning assets change, compared to when interest rates paid on interest-bearing liabilities change. Some rate changes occur while these assets or liabilities are still on People s United Financial s books. Other rate changes occur when these assets or liabilities mature and are replaced by new interest-earning assets or interest-bearing liabilities at different rates. It may be difficult to replace interest-earning assets quickly, since customers may not want to borrow money when interest rates are high, or People s United Financial may not be able to make loans that meet its lending standards. People s United Financial interest spread may also change based on the mix of interest-earning assets and interest-bearing liabilities.

People s United Financial s interest spread may be lower if the timing of interest rate changes is different for its interest-earning assets compared to its interest-bearing liabilities. For example, if interest rates go down, People s United Financial could earn less on some of its interest-earning assets while it is still obligated to pay higher rates on some of its interest-bearing liabilities. On the other hand, if interest rates go up, People s United Financial might have to pay more on some of its interest-bearing liabilities while it continues to receive lower rates on some of its interest-earning assets.

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

Changes in Our Asset Quality Could Adversely Affect Our Results of Operations and Financial Condition

Asset quality measures the performance of a borrower in repaying a loan, with interest, on time. In recent years, we have benefited from relatively stable asset quality. Still, there are elements of our loan portfolio that inherently present greater credit risk, such as interest-only and stated income residential mortgage loans, home equity loans and lines with incomplete first lien data and commercial real estate loans. Each of these portfolio risk elements, where potentially material in the context of our overall loan portfolio, are discussed in greater detail within *Management s Discussion & Analysis Asset Quality* beginning on page 58. While the Company believes that it manages asset quality through prudent underwriting practices and collection operations, it is possible that our asset quality could deteriorate, depending upon economic conditions and other factors.

The Success of Our Stop & Shop Branches Depends on the Success of the Stop & Shop Brand

One element of our strategy is to focus on increasing deposits by providing a wide range of convenient services to our customers. An integral component of this strategy is People s United Bank s supermarket banking initiative, pursuant to which, as of December 31, 2013, People s United Bank has established 143 full-service Stop & Shop branches throughout Connecticut and southeastern New York, most in close proximity to our traditional branches, which provide customers with the convenience of seven-day-a-week banking. At December 31, 2013, 35% of People s United Bank branches were located in Stop & Shop supermarkets and 15% of our total deposits at that date were held in Stop & Shop branches.

People s United Bank currently has exclusive branching rights in Stop & Shop supermarkets in the state of Connecticut and certain counties in the state of New York, in the form of licensing agreements between The Stop & Shop Supermarket Company and People s United Bank, which provides for the leasing of space to People s United Bank within Stop & Shop supermarkets for branch use. People s United Bank has the exclusive right to branch in these supermarkets until 2027, provided that People s United Bank does not default on its obligations under the licensing agreement.

Under the terms of the license agreements, People s United Bank has the obligation to open branches in new Stop & Shop locations, even if Stop & Shop s market share declines or the value of the Stop & Shop brand is diminished. The license agreements do not stipulate the number of branch openings per year but, rather, apply only to those new Stop & Shop locations that meet or exceed specified thresholds as to size (square footage) and/or customer traffic. Based on our experience, we would expect the application of these thresholds to result in the opening of approximately 4-6 new branches per year in Stop & Shop locations.

Stop & Shop is currently the leading grocery store in Connecticut. The success of People s United Bank supermarket branches is dependent, in part, on the success of the Stop & Shop supermarkets in which they are located. A drop in Stop & Shop s market share, a decrease in the number of Stop & Shop locations or customers, or a decline in the overall quality of Stop & Shop supermarkets could result in decreased business for the Stop & Shop branches, in the form of fewer loan originations, lower deposit generation and fewer overall branch transactions, and could influence market perception of People s United Bank Stop & Shop supermarket branches as convenient banking locations.

We Depend on Our Executive Officers and Key Personnel to Continue the Implementation of Our Long-Term Business Strategy and Could Be Harmed by the Loss of Their Services

We believe that our continued growth and future success will depend in large part upon the skills of our management team. The competition for qualified personnel in the financial services industry can be intense, and the loss of our key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect our business.

Our Business Is Affected by the International, National, Regional and Local Economies in Which We Operate

Changes in international, national, regional and local economic conditions affect our business. If economic conditions change significantly or quickly, our business operations could suffer, and we could become weaker financially as a result.

Since 2008, the housing and real estate markets, as well as the broader economy, have experienced declines, both nationally and locally. Housing market conditions in the New England region, where much of our lending activity occurs, have deteriorated as evidenced by reduced levels of sales, increasing inventories of houses on the market, declining house prices and an increase in the length of time houses remain on the market. No assurance can be given that these conditions will improve or will not worsen or that such conditions will not result in a decrease in our interest income, an increase in our non-performing loans, an increase in our provision for loan losses or an adverse impact on our loan losses.

The 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.

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

International economic uncertainty continues to have an impact on the U.S. financial markets, potentially suppressing stock prices and adding to volatility. Our foreign country exposure, which is defined as the aggregation of exposure maintained with financial institutions, companies or individuals in a given country outside of the United States, is minimal and indirect, with the majority of such exposure comprised of corporate debt securities. Our sovereign credit exposure is comprised of an immaterial amount of government bonds issued by a single non-European sovereign.

The Geographic Concentration of Our Loan Portfolio Could Make Us Vulnerable to a Downturn in the Economies in Which We Operate

At December 31, 2013, approximately 28%, 18% and 18% of the Company s loans by outstanding principal amount were to people and businesses located within Connecticut, Massachusetts and New York, respectively. Loans to people and businesses located in the New England states as a group represented approximately 63% of total loans at that date. How well our business performs depends very much on the health of these regional and local economies. We could experience losses in our real estate-related loan portfolios if the prices for housing and other kinds of real estate decreased significantly in New England or southeastern New York.

If the economic environment deteriorates, or negative trends emerge with respect to the financial markets, the New England and southeastern New York economies could suffer more than the national economy. This would be especially likely in Fairfield County, Connecticut (where the Company is headquartered) as well as the suburban communities of New York City and Boston as a result of the significant number of people living in these areas who also work in the financial services industry.

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

Our equipment financing business, which operates nationally, could be negatively affected by adverse changes in the national economy, even if those changes have no significant effect on the local and regional economies in which our other businesses operate.

No assurance can be given that such conditions will not occur or that such conditions will not result in a decrease in our interest income, an increase in our non-performing loans, an increase in our provision for loan losses or an adverse impact on our loan losses.

In Response to Competitive Pressures, Our Costs Could Increase if We Were Required to Increase Our Service and Convenience Levels or Our Margins Could Decrease if We Were Required to Increase Deposit Rates or Lower Interest Rates on Loans

People s United Financial faces significant competition for deposits and loans. In deciding where to deposit their money, many people look first at the interest rate they will earn. They also might consider whether a bank offers other kinds of services they might need and, if they have been a customer of a bank before, what their experience was like. People also like convenience, so the number of offices and banking hours may be important. Some people also prefer the availability of on-line services.

People s United Financial competes with other banks, credit unions, brokerage firms and money market funds for deposits. Some people may decide to buy bonds or similar kinds of investments issued by companies or by federal, state and local governments and agencies, instead of opening a deposit account.

In making decisions about loans, many people consider the interest rate they will have to pay. They also consider any extra fees they might have to pay in order to get the loan. Many business loans are more complicated because there may not be a standard type of loan that meets all of the customer s needs. Business borrowers consider many different factors that are not all financial in nature, including the type and amount of security the lender wants and other terms of the loan that do not involve the interest rate.

People s United Financial competes with other banks, credit unions, credit card issuers, finance companies, mortgage lenders and mortgage brokers for loans. Insurance companies also compete with People s United Financial for some types of commercial loans.

Many of People s United Financial s competitors have branches in the same market area as it does, some of which are much larger than it is. The New England region, including Connecticut, which is People s United Financial s predominant market, and specifically Fairfield County, where People s United Financial is headquartered, is an attractive banking market. Many locally-based banks have been acquired by large regional and national companies in the last several years. We expect this trend to continue. Therefore, there are not as many bank competitors in our market as there used to be, but the ones that are left are usually bigger and have more resources than the ones they acquired.

People s United Financial also has competition from outside its own market area. A bank that does not have any branches in our primary markets can still have customers there by providing banking services on-line. It costs money to set up and maintain a branch system. Banks that do not spend as much money as People s United Financial does on branches might be more profitable than it is, even if they pay higher interest on deposits and charge lower interest on loans.

Changes in Federal and State Regulation Could Adversely Affect Our Results of Operations and Financial Condition

The banking business is heavily regulated by the federal and state governments. Banking laws and rules are for the most part intended to protect depositors, not stockholders.

Banking laws and rules can change at any time. The government agencies responsible for supervising People s United Financial s businesses can also change the way they interpret these laws and rules, even if the rules themselves do not change. We need to make sure that our business activities comply with any changes in these rules or the interpretation of the rules. We might be less profitable if we have to change the way we conduct business in order to comply. Our business might suffer in other ways as well.

Changes in state and federal tax laws or the accounting standards we are required to follow can make our business less profitable. Changes in the government s economic and monetary policies may hurt our ability to compete for deposits and loans. Changes in these policies can also make it more expensive for us to do business.

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The government agencies responsible for supervising our business can take drastic action if they think we are not conducting business safely or are too weak financially. They can force People s United Financial to hold additional capital, pay higher deposit insurance premiums, stop paying dividends, stop making certain kinds of loans or stop offering certain kinds of deposits. If the agencies took any of these steps or other similar steps, it would probably make our business less profitable. People s United Bank is subject to the QTL test and commercial loan limits imposed under the HOLA.

Enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the DFA) has resulted in significant changes in the financial regulatory landscape, many of which affect us. Among the more significant provisions of the DFA, as well as their actual or anticipated impact, if quantifiable, are:

Changes to the regulatory landscape, including:

(i) change in both People's United Financial's and People's United Bank's primary regulator;

(ii) creation of the CFPB, which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection, and exercise exclusive authority over our consumer compliance examinations; and

(iii) restrictions on the ability of federal bank regulatory authorities to preempt the application of state consumer protection laws and regulations.

Limitations on the amount of interchange fees that an issuer of debit cards may charge or receive:

The DFA limits the amount of interchange fee that an issuer of debit cards may charge or receive to an amount that is reasonable and proportional to the cost of the transaction. The DFA further provides that a debit card issuer may not restrict the number of payment card networks on which a debit card transaction may be processed to a single network or limit the ability of a merchant to direct the routing of debit card payments for processing. The interchange fee provisions, which became effective in the fourth quarter of 2011, have resulted in a decline in bank service charges of approximately $20 million on an annualized basis (see Recent Market Developments).

Changes impacting the financial products and services we offer to our customers:

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the DFA. As of December 31, 2013, People s United Bank s non-interest bearing deposits totaled $5.3 billion, or 24% of total deposits. The Company s interest expense may increase and net interest margin may decrease if it begins to offer higher rates of interest than are currently offered on demand deposits.

Stricter capital requirements for bank holding companies:

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

Mortgage rules promulgated by the CFPB:

The CFPB has issued a series of final rules to implement provisions in the DFA related to mortgage origination and mortgage servicing. These rules, which went into effect in January 2014 and which may increase the cost of originating and servicing residential mortgage loans, include:

A rule to implement the requirement that creditors make a reasonable, good faith determination of a consumer s ability to repay any consumer credit transaction secured by a dwelling and establish certain protections from liability under this requirement for qualified mortgages ; and

A rule addressing mortgage servicers obligations to: correct errors asserted by mortgage loan borrowers; provide certain information requested by such borrowers; and provide protections to such borrowers in connection with force-placed insurance. Additionally, this final rule addresses servicers obligations to: provide information about mortgage loss mitigation options to delinquent borrowers; establish policies and procedures for providing delinquent borrowers with continuity of contact with servicer personnel capable of performing certain functions; and evaluate borrowers applications for available loss mitigation options.

While it is difficult to fully quantify the anticipated increase in our regulatory compliance burden, we do expect that costs associated with regulatory compliance, including the need to hire additional compliance personnel, will continue to increase as a result of the DFA. Certain other provisions of the DFA still require subsequent regulatory rulemaking. As a result, it is not clear at this time how those new regulations will affect People s United Financial.

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

People s United Financial is exposed to the risk that customers will not be able to repay their loans. This risk is inherent in the lending business. There is also the risk that the customer s collateral will not be sufficient to cover the balance of their loan, as underlying collateral values fluctuate with market changes. People s United Financial records an allowance for loan losses to cover probable losses inherent in the existing loan portfolio. The allowance for loan losses is established through provisions for loan losses charged to income. Losses on loans, including impaired loans, are charged to 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 loans, commercial and industrial loans and equipment financing loans, and the results of ongoing reviews of those ratings by People s United Financial s independent loan review function; 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.

While People s United Financial seeks to use the best available information to make these evaluations, and at December 31, 2013, management believed that the allowance for loan losses was appropriate to cover probable losses inherent in the existing loan portfolio, it is possible that borrower defaults could exceed the current estimates for loan losses, which would reduce earnings. In addition, future increases to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, increasing charge-offs of existing problem loans, or the identification of additional problem loans and other factors, which would also reduce earnings.

Our Goodwill May be Determined to be Impaired at a Future Date Depending on the Results of Periodic Impairment Evaluations

People s United Financial evaluates goodwill for impairment on an annual basis (or more frequently, if necessary). According to applicable accounting requirements, acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. If the quoted market price for People s United Financial common stock were to decline significantly, or if it was determined that the carrying amount of our goodwill exceeded its implied fair value, we would be required to write down the asset recorded for goodwill as reflected in the Consolidated Statements of Condition. This, in turn, would result in a charge to earnings and, thus, a reduction in stockholders equity. See Notes 1 and 5 to the Consolidated Financial Statements for additional information concerning People s United Financial s goodwill and the required impairment test.

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People s United Financial May Fail To Successfully Integrate Acquired Companies and Realize All of the Anticipated Benefits of an Acquisition

The ultimate success of an acquisition will depend, in part, on the ability of People s United Financial to realize the anticipated benefits from combining the businesses of People s United Financial with those of an acquired company. If People s United Financial is not able to successfully combine the businesses, the anticipated benefits of a merger may not be realized fully or at all or may take longer to realize than expected.

A Failure In or Breach Of Our Operational or Security Systems or Infrastructure, or Those of Our Third Party Vendors and Other Service Providers, Including as a Result of Cyber Attacks, Could Disrupt Our Business, Result in the Disclosure or Misuse of Confidential or Proprietary Information, Damage Our Reputation, Increase Our Costs and Cause Losses

We depend upon our ability to process, record and monitor a large number of customer transactions on a continuous basis. As customer, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Information security risks for financial institutions, such as ours, have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks.

Our business operations rely on our digital technologies, computer and email systems, software and networks to conduct their operations. In addition, to access our products and services, our customers may use electronic devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our customers devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers confidential, proprietary and other information, or otherwise disrupt our or our customers or other third parties business operations.

Third parties with whom we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the size and scale of People s United Financial, our plans to continue to implement our internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint, the outsourcing of some of our business operations and the continued uncertain global economic environment. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

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Disruptions or failures in the physical infrastructure or operating systems that support our business and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Availability of First Lien Data With Respect to Our Home Equity Loans and Lines of Credit Could Delay Our Response to Any Deterioration in the Borrower s Credit

We do not currently have statistics for our entire portfolio of home equity loans and lines of credit with respect to first liens serviced by third parties that have priority over our junior liens, as we did not historically capture that data on our loan servicing systems. As a result, we may therefore be unaware that the loan secured by the first lien is not performing, which could delay our response to an apparent deterioration in the borrower s creditworthiness. As of December 31, 2013, full and complete first lien position data was not readily available for approximately 59% of the home equity portfolio which, in turn, represented approximately 3% of our overall loan portfolio at that date.

We are actively working with a third-party vendor to obtain the missing first lien information and have, in certain cases, obtained the data through information reported to credit bureaus when the borrower defaults. This data collection effort, however, can be more difficult in cases where more than one mortgage is reported in a borrower s credit report and/or there is not a corresponding property address associated with a reported mortgage, in which case we are often unable to associate a specific first lien with our junior lien. Please see the discussion in *Management s Discussion and Analysis Asset Quality Portfolio Risk Elements Home Equity Lending* beginning on page 61 for more detail, including steps we are taking to otherwise address this issue.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

People s United Financial s corporate headquarters is located in Bridgeport, Connecticut. The headquarters building had a net book value of $62 million at December 31, 2013 and People s United Financial occupies approximately 87% of the building; all other available office space is leased to an unrelated party. People s United Financial delivers its financial services through a network of 410 branches located throughout Connecticut, southeastern New York, Massachusetts, Vermont, New Hampshire and Maine. People s United Financial s branch network is primarily concentrated in Connecticut, where it has 163 offices (including 85 located in Stop & Shop supermarkets). People s United Financial also has 97 branches in southeastern New York (including 58 located in Stop & Shop supermarkets), 54 branches in Massachusetts, 42 branches in Vermont, 28 branches in New Hampshire and 26 branches in Maine. People s United Financial owns 115 of its branches, which had an aggregate net book value of $62 million at December 31, 2013. People s United Financial s remaining banking operations are conducted in leased offices. Information regarding People s United Financial s operating leases for office space and related rent expense appears in Note 19 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

The information required by this item appears in Note 19 to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

None.

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Part II

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

The common stock of People s United Financial, Inc. is listed on the NASDAQ Global Select Market under the symbol PBCT . On February 14, 2014, the closing price of People s United Financial, Inc. common stock was $14.16. As of that date, there were approximately 19,700 record holders of People s United Financial, Inc. common stock.

Five-Year Performance Comparison

The following graph compares total shareholder return on People s United Financial common stock over the last five fiscal years with: (i) the Standard & Poor s 500 Stock Index (the S & P 500 Stock Index); (ii) the Russell Midcap Index; and (iii) the SNL Mid Cap U.S. Bank & Thrift Index (the SNL Mid Cap Index). Index values are as of December 31 of the indicated year.

The graph assumes $100 invested on December 31, 2008 in each of People s United Financial s common stock, the S & P 500 Stock Index, the Russell Midcap Index and the SNL Mid Cap Index. The graph also assumes reinvestment of all dividends.

The Russell Midcap Index is a market-capitalization weighted index comprised of 800 publicly-traded companies which are among the 1,000 largest U.S. companies (by market capitalization) but not among the 200 largest such companies. People s United Financial is included as a component of the Russell Midcap Index. The SNL Mid Cap Index is an index prepared by SNL Securities comprised of 74 financial institutions (including People s United Financial) located throughout the United States.

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Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by People s United Financial of its common stock during the three months ended December 31, 2013:

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
October 1 - 31, 2013:				
Tendered by employees (1)	2,521	$ 14.53		
Publicly announced program (2)	1,210,657	$ 14.59	1,210,657	7,716,844
November 1 - 30, 2013:				
Tendered by employees (1)	8,942	$ 14.71		
Publicly announced program (2)	4,333,736	$ 14.65	4,333,736	3,383,108
December 1 - 31, 2013:				
Tendered by employees (1)	16,071	$ 15.06		
Publicly announced program (2)	3,383,108	$ 14.87	3,383,108	
Total:				
Tendered by employees (1)	27,534	$ 14.90		
Publicly announced program (2)	8,927,501	$ 14.72	8,927,501	

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

(2) In November 2012, People s United Financial s Board of Directors authorized the repurchase of up to 10% of People s United Financial s outstanding common stock, or 33.6 million shares. Such shares may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In December 2013, People s United Financial completed this repurchase authorization. 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.

Additional information required by this item is included in Part III, Item 12 of this report, and Notes 12 and 24 to the Consolidated Financial Statements.

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Item 6. Selected Financial Data

As of and for the years ended December 31

(dollars in millions, except per share data)	2013	2012	2011	2010	2009
Earnings Data:					
Net interest income (fully taxable equivalent)	$ 905.8	$ 940.4	$ 921.2	$ 697.3	$ 580.2
Provision for loan losses	43.7	49.2	63.7	60.0	57.0
Non-interest income	333.2	313.8	307.6	270.0	284.3
Non-interest expense (1)	839.0	830.6	871.9	782.0	659.8
Operating non-interest expense (2)	826.3	817.9	815.1	743.4	657.8
Net income	232.4	245.3	192.4	82.5	101.2
Operating earnings (2)	241.1	253.9	230.7	122.2	104.3
Selected Statistical Data:					
Net interest margin	3.31%	3.86%	4.10%	3.67%	3.20%
Operating net interest margin (2)	3.31	3.82	4.03	3.67	3.20
Return on average assets	0.75	0.87	0.74	0.37	0.49
Operating return on average assets (2)	0.78	0.90	0.89	0.55	0.50
Return on average tangible assets	0.81	0.95	0.80	0.41	0.53
Return on average stockholders' equity	4.9	4.7	3.6	1.5	2.0
Return on average tangible stockholders' equity	8.9	8.2	6.0	2.3	2.8
Operating return on average tangible stockholders' equity (2)	9.2	8.5	7.2	3.4	2.9
Efficiency ratio (2)	63.7	62.3	63.6	73.3	73.6
Financial Condition Data:					
Total assets	$ 33,214	$ 30,324	$ 27,558	$ 25,034	$ 21,257
Loans	24,390	21,737	20,385	17,323	14,099
Securities	5,033	4,669	2,931	3,033	902
Short-term investments (3)	124	131	411	1,120	3,492
Allowance for loan losses	188	188	183	173	173
Goodwill and other acquisition-related intangible assets	2,127	2,154	2,174	1,962	1,515
Deposits	22,557	21,751	20,816	17,933	15,446
Borrowings	5,057	2,386	857	1,011	159
Notes and debentures	639	659	160	182	182
Stockholders' equity	4,568	5,039	5,215	5,216	5,101
Non-performing assets (4)	248	290	337	303	206
Ratios:					
Net loan charge-offs to average total loans	0.19%	0.21%	0.28%	0.40%	0.29%
Non-performing assets to originated loans, real estate owned and repossessed assets (4)	1.08	1.48	2.00	2.10	1.45
Originated allowance for loan losses to:					
Originated loans (4)	0.78	0.91	1.05	1.19	1.22
Originated non-performing loans (4)	81.9	70.3	59.7	70.3	102.2
Average stockholders' equity to average total assets	15.3	18.4	20.3	24.4	24.8
Stockholders' equity to total assets	13.8	16.6	18.9	20.8	24.0
Tangible stockholders' equity to tangible assets	7.9	10.2	12.0	14.1	18.2
Total risk-based capital (5)	12.4	13.1	14.0	14.5	14.1
Common Share Data:					
Basic and diluted earnings per share	$ 0.74	$ 0.72	$ 0.55	$ 0.23	$ 0.30
Operating earnings per share (2)	0.77	0.75	0.66	0.34	0.31
Dividends paid per share	0.6475	0.6375	0.6275	0.6175	0.6075
Dividend payout ratio	88.1%	88.8%	114.9%	264.4%	201.1%
Operating dividend payout ratio (2)	84.9	85.8	95.8	178.6	195.2
Book value per share (end of period)	$ 15.28	$ 15.21	$ 14.96	$ 14.90	$ 15.20

Tangible book value per share (end of period) (2)	8.17	8.71	8.72	9.30	10.68
Stock price:					
High	15.27	13.79	14.49	17.08	18.54
Low	11.82	11.20	10.50	12.20	14.72
Close (end of period)	15.12	12.09	12.85	14.01	16.70

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(1) Includes a total of $12.7 million, $12.7 million, $56.8 million, $58.9 million and $4.5 million of one-time charges, merger-related expenses and core system conversion costs in 2013, 2012, 2011, 2010 and 2009, respectively. Also includes an FDIC special assessment charge of $8.4 million in 2009.
(2) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(3) Includes securities purchased under agreements to resell.
(4) Excludes acquired loans. See Asset Quality.
(5) Total risk-based capital ratios presented are for People s United Bank. See Regulatory Capital.

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

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

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

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

FDIC Insurance Coverage / Assessments

The FDIC insures deposits at FDIC insured financial institutions up to certain limits (up to $250,000 per depositor), charging premiums to maintain the DIF at specified levels. The FDIC has established a system for setting deposit insurance premiums based upon the risks a particular bank or savings association poses to the DIF.

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

One of the financial ratios used in the scorecard-based assessment system for financial institutions with more than $10 billion in assets is the ratio of higher-risk assets to Tier 1 capital and reserves. In October 2012, the FDIC adopted a final rule, which became effective April 1, 2013, that revised the definitions of higher-risk commercial and industrial loans, securities and consumer loans, and clarified when an asset must be classified as higher-risk.

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

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

The Company's business is subject to risk as a result of changes in federal and state regulation. The DFA, which was signed into law on July 21, 2010, imposes significant changes in the financial regulatory landscape and will continue to impact all financial institutions and their holding companies, including People s United Bank and People s United Financial.

Among the more significant provisions of the DFA, the responsibility for all supervisory functions, including ongoing supervision, examination and regulation, for savings and loan holding companies and their non-depository subsidiaries was transferred to the FRB and the OCC assumed responsibility for the supervision, examination and regulation of all federally-chartered savings banks. The DFA created a new federal consumer protection agency, the CFPB, which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. The CFPB has exclusive authority to issue regulations, orders and guidance to administer and implement the objectives of federal consumer protection laws and also has supervision over our consumer compliance examinations. Moreover, the DFA permits states to adopt stricter consumer protection laws and authorizes state attorneys general to enforce consumer protection rules issued by the CFPB. The DFA restricts the authority of the federal banking regulators to preempt state consumer protection laws applicable to banks and limits the preemption of state laws as they affect subsidiaries and agents of federally-chartered banks.

The DFA limits the amount of interchange fee that an issuer of debit cards may charge or receive to an amount that is reasonable and proportional to the cost of the transaction. The DFA further provides that a debit card issuer may not restrict the number of payment card networks on which a debit card transaction may be processed to a single network or limit the ability of a merchant to direct the routing of debit card payments for processing. The interchange fee provisions became effective in the fourth quarter of 2011 (see Non-Interest Income).

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On July 31, 2013, the U.S. District Court for the District of Columbia issued an Order vacating portions of the FRB s Debit Card Interchange Fee and Routing regulations related to the calculation of interchange transaction fees and network non-exclusivity. The Order would require the FRB to revise its Debit Card Interchange Fee regulations, which serve to limit the fees that issuers can charge for debit card interchange transactions, as well as its regulations relating to routing of debit card interchange transactions. The FRB has appealed the District Court s ruling to the U.S. Court of Appeals for the District of Columbia Circuit, which has agreed to an expedited schedule for briefing and consideration of the appeal. The Order vacating the FRB s debit card regulations has been stayed pending resolution of the appeal. If the District Court's ruling is upheld, bank service charge revenue derived from interchange transaction fees could be reduced further.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the DFA. As of December 31, 2013, People s United Bank s non-interest-bearing deposits totaled $5.3 billion, or 24% of total deposits. The Company s interest expense may increase and its net interest margin may decrease if we begin to offer higher rates of interest than we currently offer on demand deposits.

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

In January 2014, a series of final rules issued by the CFPB to implement provisions in the DFA related to mortgage origination and mortgage servicing went into effect and may increase the cost of originating and servicing residential mortgage loans.

Enactment of the DFA has resulted in significant increases in the Company s regulatory compliance burden and costs and may restrict the financial products and services People s United Financial offers to its customers.

General

People s United Financial is a savings and loan holding company incorporated under the state laws of Delaware and the holding company for People s United Bank. The principal business of People s United Financial is to provide, through People s United Bank and its subsidiaries, commercial banking, retail and business banking, and wealth management services to individual, corporate and municipal customers.

People s United Bank is a federally-chartered stock savings bank headquartered in Bridgeport, Connecticut with $33.2 billion in total assets as of December 31, 2013. People s United Bank was organized in 1842 as a mutual savings bank, converted to stock form in 1988, and in 2006 converted from a Connecticut-chartered stock savings bank to a federally-chartered stock savings bank. Its deposit accounts are insured up to applicable limits by the FDIC under the DIF. People s United Bank is subject to regulation, examination, supervision and reporting requirements by the OCC, as its primary regulator, and by the FDIC as the deposit insurer. In addition, the CFPB has responsibility for supervising People's United Bank's compliance with designated consumer financial laws.

People s United Financial s results of operations are largely dependent upon revenues generated through net interest income and fee-based revenues and, to a much lesser extent, other forms of non-interest income such as gains on asset sales. Sources for these revenues are diversified across People s United Financial s three primary operating segments that represent its core businesses: Commercial Banking; Retail and Business Banking; and Wealth Management. People s United Financial s results of operations are also significantly affected by the provision for loan losses and the level of non-interest expense. In addition, People s United Financial s results of operations may also be affected by general and local economic conditions, changes in market interest rates, government policies and actions of regulatory authorities.

Acquisitions

On June 22, 2012, People s United Bank acquired 57 branches from Citizens and assumed approximately $324 million in deposits associated with these branches. After the close of business on June 30, 2011, People s United Financial acquired Danvers based in Danvers, Massachusetts. The transaction was effective July 1, 2011. See Note 5 to the Consolidated Financial Statements.

On November 30, 2010, People s United Financial completed its acquisitions of Smithtown based in Hauppauge, New York and 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 completed its acquisition of Financial Federal, a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses.

People s United Financial s results of operations include the results of the acquired entities beginning with their respective closing dates. Financial data for prior periods has not been restated to include Danvers, Smithtown, LSB, Butler Bank and Financial Federal and therefore, are not directly comparable to subsequent periods.

Critical Accounting Policies

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

Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses and asset impairment judgments, such as the recoverability of goodwill and other intangible assets, and other-than-temporary declines in the value of securities.

The judgments used by People s United Financial 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. People s United Financial s significant accounting policies and critical estimates are summarized in Note 1 to the Consolidated Financial Statements.

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

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

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

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

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

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

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

Years ended December 31 (dollars in millions)	2013	2012	2011	2010	2009
Total non-interest expense	$ 839.0	$ 830.6	$ 871.9	$ 782.0	$ 659.8
Adjustments to arrive at operating non-interest expense:					
Writedowns of banking house assets	(9.0)		(4.8)		
Severance-related costs	(2.8)	(7.3)	(5.3)		
Acquisition integration and other costs	(0.9)	(5.4)			
Merger-related expenses			(42.9)	(23.3)	(2.0)
Executive-level separation agreement			(3.8)	(15.3)	
Total	(12.7)	(12.7)	(56.8)	(38.6)	(2.0)
Operating non-interest expense	826.3	817.9	815.1	743.4	657.8
Amortization of other acquisition-related intangible assets	(26.2)	(26.8)	(25.8)	(21.7)	(20.6)
FDIC special assessment					(8.4)
Other (1)	(10.3)	(7.8)	(10.3)	(9.4)	(6.5)
Total	$ 789.8	$ 783.3	$ 779.0	$ 712.3	$ 622.3
Net interest income (FTE basis)	$ 905.8	$ 940.4	$ 921.2	$ 697.3	$ 580.2
Total non-interest income	333.2	313.8	307.6	270.0	284.3
Total revenues	1,239.0	1,254.2	1,228.8	967.3	864.5
Adjustments:					
BOLI FTE adjustment	2.1	2.8	3.1	3.6	4.5
Net security (gains) losses			(8.8)	1.0	(22.0)
Other (2)	(0.8)	(0.7)	2.2		(1.9)
Total	$ 1,240.3	$ 1,256.3	$ 1,225.3	$ 971.9	$ 845.1
Efficiency ratio	63.7%	62.3%	63.6%	73.3%	73.6%

(1) Items classified as other and deducted from non-interest expense for purposes of calculating the efficiency ratio include, as applicable, certain franchise taxes, real estate owned expenses, contract termination costs and non-recurring expenses.

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

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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:

Years ended December 31 (in millions, except per share data)	2013	2012	2011	2010	2009
Net income, as reported	$ 232.4	$ 245.3	$ 192.4	$ 82.5	$ 101.2
Adjustments to arrive at operating earnings:					
Writedowns of banking house assets	9.0		4.8		
Severance-related costs	2.8	7.3	5.3		
Acquisition integration and other costs	0.9	5.4			
Merger-related expenses			42.9	23.3	2.0
Executive-level separation costs			3.8	15.3	
Core system conversion costs				20.3	2.5
Total pre-tax adjustments	12.7	12.7	56.8	58.9	4.5
Tax effect	(4.0)	(4.1)	(18.5)	(19.2)	(1.4)
Total adjustments, net of tax	8.7	8.6	38.3	39.7	3.1
Operating earnings	$ 241.1	$ 253.9	$ 230.7	$ 122.2	$ 104.3
Earnings per share, as reported	$ 0.74	$ 0.72	$ 0.55	$ 0.23	$ 0.30
Adjustment to arrive at operating earnings per share:					
Writedowns of banking house assets	0.03		0.01		
Severance-related costs		0.02	0.01		
Acquisition integration and other costs		0.01			
Merger-related expenses			0.08	0.04	
Executive-level separation costs			0.01	0.03	
Core system conversion costs				0.04	0.01
Total adjustments per share	0.03	0.03	0.11	0.11	0.01
Operating earnings per share	$ 0.77	$ 0.75	$ 0.66	$ 0.34	$ 0.31
Average total assets	$ 31,009	$ 28,113	$ 26,028	$ 22,016	$ 20,757
Operating return on average assets	0.78%	0.90%	0.89%	0.55%	0.50%

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

Years ended December 31 (dollars in millions)	2013	2012	2011	2010	2009
Net interest income (FTE basis)	$ 905.8	$ 940.4	$ 921.2	$ 697.3	$ 580.2
Adjustments to arrive at operating net interest income:					
Cost recovery income		(8.8)	(5.0)		
Changes in accretable yield			(11.2)		
Total adjustments		(8.8)	(16.2)		
Operating net interest income	$ 905.8	$ 931.6	$ 905.0	$ 697.3	$ 580.2
Net interest margin, as reported	3.31%	3.86%	4.10%	3.67%	3.20%
Adjustments to arrive at operating net interest margin:					
Cost recovery income		(0.04)	(0.02)		
Changes in accretable yield			(0.05)		
Total adjustments		(0.04)	(0.07)		
Operating net interest margin	3.31%	3.82%	4.03%	3.67%	3.20%
Average total earning assets	$ 27,360	$ 24,366	$ 22,497	$ 18,989	$ 18,157

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

Years ended December 31 (dollars in millions)	2013	2012	2011	2010	2009
Operating earnings	$ 241.1	$ 253.9	$ 230.7	$ 122.2	$ 104.3
Average stockholders equity	$ 4,755	$ 5,168	$ 5,271	$ 5,368	$ 5,141
Less: Average goodwill and average other acquisition-related intangible assets	2,141	2,165	2,053	1,753	1,526
Average tangible stockholders equity	$ 2,614	$ 3,003	$ 3,218	$ 3,615	$ 3,615
Operating return on average tangible stockholders equity	9.2%	8.5%	7.2%	3.4%	2.9%

Years ended December 31 (dollars in millions)	2013	2012	2011	2010	2009
Dividends paid	$ 204.8	$ 217.9	$ 220.9	$ 218.1	$ 203.6
Operating earnings	$ 241.1	$ 253.9	$ 230.7	$ 122.2	$ 104.3
Operating dividend payout ratio	84.9%	85.8%	95.8%	178.6%	195.2%

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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:

As of December 31 (dollars in millions)	2013	2012	2011	2010	2009
Total stockholders equity	$ 4,568	$ 5,039	$ 5,215	$ 5,216	$ 5,101
Less: Goodwill and other acquisition-related intangible assets	2,127	2,154	2,174	1,962	1,515
Tangible stockholders equity	$ 2,441	$ 2,885	$ 3,041	$ 3,254	$ 3,586
Total assets	$ 33,214	$ 30,324	$ 27,558	$ 25,034	$ 21,257
Less: Goodwill and other acquisition-related intangible assets	2,127	2,154	2,174	1,962	1,515
Tangible assets	$ 31,087	$ 28,170	$ 25,384	$ 23,072	$ 19,742
Tangible equity ratio	7.9%	10.2%	12.0%	14.1%	18.2%

As of December 31 (in millions, except per share data)	2013	2012	2011	2010	2009
Tangible stockholders equity	$ 2,441	$ 2,885	$ 3,041	$ 3,254	$ 3,586
Common shares issued	396.45	395.81	395.42	376.62	348.25
Less: Common shares classified as treasury shares	89.54	56.18	38.03	17.49	3.21
Unallocated ESOP common shares	8.01	8.36	8.71	9.06	9.41
Common shares	298.90	331.27	348.68	350.07	335.63
Tangible book value per share	$ 8.17	$ 8.71	$ 8.72	$ 9.30	$ 10.68

Economic Environment

People s United Financial s results are subject to fluctuations based on economic conditions. 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 has maintained its targeted range for the federal funds rate of 0% to 0.25% since December 16, 2008. Throughout 2013, the United States economy experienced a moderate expansion. Real gross domestic product increased at an annual rate of 3.2% in the fourth quarter of 2013, after increasing 4.1% in the third quarter. The national unemployment rate was 6.7% as of December 31, 2013, down from 7.8% at the end of 2012.

The New England region and southeastern New York comprise People s United Financial s primary market area, with Connecticut, New York, Massachusetts and Vermont having the largest concentration of People s United Financial s loans, deposits and branches. Connecticut is one of the most attractive banking markets in the United States. With a total population of approximately 3.6 million and a median household income of $65,549, Connecticut ranks third in the United States, well above the U.S. median household income of $50,157, according to the 2010 Census and SNL Financial. Fairfield County, where People s United Financial is headquartered, has the highest median household income in Connecticut of $80,342 according to the 2010 Census and SNL Financial. The state s unemployment rate decreased to 6.8% as of December 31, 2013 compared to 7.8% at the end of 2012, which is in-line with the national rate. The Connecticut economy experienced a slight decrease in jobs in 2013, with total seasonally adjusted employment decreasing by approximately 4,000 jobs, or 0.2%, from December 31, 2012 to December 31, 2013, compared to a decrease of approximately 18,000 jobs, or 1.0%, from December 31, 2011 to December 31, 2012.

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The median household income in New York was $53,826, according to the 2010 Census and SNL Financial, and the state s unemployment rate was 6.6% at December 31, 2013, down from 8.2% at the end of 2012. The median household income in Massachusetts was $62,403, according to the 2010 Census and SNL Financial, and the state s unemployment rate was 6.7% at December 31, 2013, up from 6.6% at the end of 2012. The median household income in Vermont was $50,435 according to the 2010 Census and SNL Financial, and the state s unemployment rate was 3.8% at December 31, 2013, down from 4.7% at the end of 2012.

While the New England and New York economies experienced less severe contraction during the recent recession than the United States as a whole, they also exhibited milder recoveries. As a consequence, real GDP for 2012 (the most recent period for which regional data is available) was 5.1% higher in New England and 6.6% higher in New York compared to 2009, whereas U.S. GDP was 6.7% higher over the same period. The overall outlook for the economies of New England and southeastern New York in 2014 is improving, with the expectation that these regions may continue the recovery along with the rest of the United States.

Financial Overview

Comparison of Financial Condition at December 31, 2013 and 2012. Total assets at December 31, 2013 were $33.2 billion, a $2.9 billion increase from December 31, 2012, reflecting increases of $2.7 billion in total loans and $364 million in total securities. The increase in total loans from December 31, 2012 to December 31, 2013 primarily reflects increases of $2.1 billion in commercial banking loans and $531 million in residential mortgage loans. Originated loans increased $3.4 billion from December 31, 2012 to $22.9 billion (commercial banking loans increased $2.7 billion and retail loans increased $633 million) and acquired loans decreased $713 million. At December 31, 2013, the carrying amount of the acquired loan portfolio totaled $1.5 billion. The increase in total securities primarily reflects purchases of agency-backed collateralized mortgage obligations (CMOs) and FHLB stock.

Non-performing assets (excluding acquired non-performing loans) totaled $247.8 million at December 31, 2013, a $41.8 million decrease from year-end 2012, primarily reflecting decreases of $28.6 million in non-performing commercial banking loans and $7.5 million in non-performing retail loans. The allowance for loan losses was $187.8 million ($177.5 million on originated loans and $10.3 million on acquired loans) at December 31, 2013 compared to $188.0 million ($177.5 million on originated loans and $10.5 million on acquired loans) at December 31, 2012. At December 31, 2013, the originated allowance for loan losses as a percentage of originated loans was 0.78% and as a percentage of originated non-performing loans was 81.9%, compared to 0.91% and 70.3%, respectively, at December 31, 2012.

At December 31, 2013, total liabilities were $28.6 billion, a $3.4 billion increase from December 31, 2012, reflecting increases of $2.7 billion in total borrowings and $807 million in total deposits ($189 million in retail deposits and $618 million in commercial deposits). The increase in total borrowings primarily reflects the additional funding used to support loan growth and securities purchases.

People s United Financial s total stockholders equity was $4.6 billion at December 31, 2013, a $470 million decrease from December 31, 2012. This decrease primarily reflects open market repurchases of 33.4 million shares of common stock at a total cost of $458.9 million, dividends paid of $204.8 million and a $58.2 million increase in accumulated other comprehensive loss ("AOCL") since December 31, 2012, partially offset by net income of $232.4 million. As a percentage of total assets, stockholders equity was 13.8% at December 31, 2013 compared to 16.6% at December 31, 2012. Tangible stockholders equity as a percentage of tangible assets was 7.9% at December 31, 2013 compared to 10.2% at December 31, 2012.

People s United Financial s (consolidated) Tier 1 common equity, and Tier 1 and Total risk-based capital ratios were 10.2%, 10.2% and 11.3%, respectively, at December 31, 2013, compared to 13.1%, 13.2% and 14.7%, respectively, at December 31, 2012. People s United Bank s leverage (core) capital ratio, and Tier 1 and Total risk-based capital ratios were 9.1%, 11.1% and 12.4%, respectively, at December 31, 2013, compared to 9.8%, 12.2% and 13.1%, respectively, at December 31, 2012.

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Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012. People s United Financial reported net income of $232.4 million, or $0.74 per diluted share, for the year ended December 31, 2013, compared to $245.3 million, or $0.72 per diluted share, for the year-ago period. Included in the 2013 and 2012 results are $8.7 million and $8.6 million (after-tax), respectively, of non-operating expenses. Operating earnings were $241.1 million, or $0.77 per share, and $253.9 million, or $0.75 per share, for the respective periods. The results for 2013 reflect continued loan and deposit growth, strength in fee income business, meaningful cost control and the negative impact of the historically low interest rate environment. People s United Financial s operating return on average assets was 0.78% for 2013 compared to 0.90% for 2012. Operating return on average tangible stockholders equity was 9.2% for 2013 compared to 8.5% for the year-ago period.

FTE net interest income totaled $905.8 million in 2013, a $34.6 million decrease from the year-ago period, and the net interest margin declined 55 basis points from 2012 to 3.31%. The decrease in the net interest margin primarily reflects the effects of new loan volume at lower rates, less interest income on acquired loans and higher borrowing costs, partially offset by lower deposit costs. Average total earning assets increased $3.0 billion compared to 2012, reflecting increases of $1.9 billion in average total loans and $1.2 million in average securities, partially offset by a $176 million decrease in average short-term investments. Average total funding liabilities increased $3.3 billion compared to 2012, reflecting increases of $2.1 billion in average total borrowings, $721 million in average total deposits and $452 million in notes and debentures.

Compared to 2012, total non-interest income increased $19.4 million and total non-interest expense increased $8.4 million. The efficiency ratio was 63.7% for 2013 compared to 62.3% for the year-ago period. The provision for loan losses in 2013 totaled $43.7 million compared to $49.2 million in the year-ago period. Net loan charge-offs as a percentage of average total loans were 0.19% in 2013 compared to 0.21% in 2012.

Comparison of Financial Condition at December 31, 2012 and 2011. Total assets at December 31, 2012 were $30.3 billion, a $2.7 billion increase from December 31, 2011, reflecting increases of $1.7 billion in total securities and $1.3 billion in total loans, partially offset by a $280 million decrease in short-term investments.

The increase in total loans from December 31, 2011 to December 31, 2012 reflects increases of $1.2 billion in commercial banking loans and $258 million in residential mortgage loans. Originated loans increased $2.7 billion from December 31, 2011 to $19.5 billion (commercial banking loans increased $2.4 billion and retail loans increased $361 million) and acquired loans decreased $1.4 billion. At December 31, 2012, the carrying amount of the acquired loan portfolio totaled $2.2 billion. The increase in total securities primarily reflects purchases of agency-issued CMOs backed by collateral that is expected to exhibit lower prepayment risk.

Non-performing assets (excluding acquired non-performing loans) totaled $289.6 million at December 31, 2012, a $47.1 million decrease from year-end 2011, primarily reflecting a $42.4 million decrease in non-performing commercial banking loans. The allowance for loan losses on originated loans was $177.5 million at December 31, 2012, reflecting a $2.0 million increase from December 31, 2011 in response to growth in the commercial and residential mortgage loan portfolios. The allowance for loan losses on acquired loans was $10.5 million at December 31, 2012 ($7.4 million at December 31, 2011). At December 31, 2012, the originated allowance for loan losses as a percentage of originated loans was 0.91% and as a percentage of originated non-performing loans was 70.3%, compared to 1.05% and 59.7%, respectively, at December 31, 2011.

At December 31, 2012, total liabilities were $25.3 billion, a $3.0 billion increase from December 31, 2011, reflecting increases of $1.5 billion in total borrowings, $935 million in total deposits and $499 million in notes and debentures. The increase in total borrowings primarily reflects the additional funding used to support loan growth and securities purchases. The increase in deposits reflects, in part, the assumption of approximately $324 million in deposits associated with People s United Bank s acquisition of 57 branches in June 2012. The increase in notes and debentures reflects the Company s issuance of $500 million of senior notes in December 2012.

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People s United Financial s total stockholders equity was $5.0 billion at December 31, 2012, a $177 million decrease from December 31, 2011. This decrease primarily reflects open market repurchases of 18.2 million shares of common stock at a total cost of $220.0 million and dividends paid of $217.9 million, partially offset by net income of $245.3 million. As a percentage of total assets, stockholders equity was 16.6% at December 31, 2012 compared to 18.9% at December 31, 2011. Tangible stockholders equity as a percentage of tangible assets was 10.2% at December 31, 2012 compared to 12.0% at December 31, 2011.

People s United Financial s (consolidated) Tier 1 common equity, and Tier 1 and Total risk-based capital ratios were 13.1%, 13.2% and 14.7%, respectively, at December 31, 2012, compared to 14.3%, 14.8% and 16.2%, respectively, at December 31, 2011. People s United Bank s leverage (core) capital ratio, and Tier 1 and Total risk-based capital ratios were 9.8%, 12.2% and 13.1%, respectively, at December 31, 2012, compared to 11.1%, 13.1% and 14.0%, respectively, at December 31, 2011.

Comparison of Results of Operations for the Years Ended December 31, 2012 and 2011. People s United Financial reported net income of $245.3 million, or $0.72 per diluted share, for the year ended December 31, 2012, compared to $192.4 million, or $0.55 per diluted share, for the year-ago period. Included in the 2012 and 2011 results are $8.6 million and $38.3 million (after-tax), respectively, of merger-related expenses and one-time charges. Operating earnings were $253.9 million, or $0.75 per share, and $230.7 million, or $0.66 per share, for the respective periods. Earnings in 2012 continue to reflect loan and deposit growth, continued positive results in fee-related businesses and ongoing expense control. People s United Financial s operating return on average assets was 0.90% for 2012 compared to 0.89% for 2011. Operating return on average tangible stockholders equity was 8.5% for 2012 compared to 7.2% for the year-ago period.

FTE net interest income increased $19.2 million from the year-ago period while the net interest margin declined 24 basis points to 3.86%. The lower net interest margin primarily reflects the effects of new loan volume at lower rates and lower interest income on acquired loans, partially offset by lower deposit rates. Compared to 2011, average total earning assets increased $1.9 billion, reflecting increases of $1.9 billion in average total loans and $367 million in average securities, partially offset by a $438 million decrease in average short-term investments. Average total funding liabilities increased $2.1 billion compared to 2011, reflecting a $2.0 billion increase in average total deposits.

Total non-interest income increased $6.2 million and total non-interest expense decreased $41.3 million compared to the year-ago period. The efficiency ratio was 62.4% for 2012 compared to 64.0% for the year-ago period. The provision for loan losses in 2012 totaled $49.2 million compared to $63.7 million in the year-ago period. Net loan charge-offs as a percentage of average total loans were 0.21% in 2012 compared to 0.28% in 2011.

Segment Results

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

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

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Segment Performance Summary

Years ended December 31 (in millions)	Net Income 2013	2012	2011
Commercial Banking	$ 223.4	$ 210.3	$ 182.1
Retail and Business Banking	48.5	81.8	57.3
Total reportable segments	271.9	292.1	239.4
Treasury	(18.6)	(35.1)	(4.2)
Other	(20.9)	(11.7)	(42.8)
Total Consolidated	$ 232.4	$ 245.3	$ 192.4

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

FTP is used in the calculation of each operating segment s net interest income, and measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income (see Treasury). Beginning in the third quarter of 2011, the Company modified its FTP methodology relating to certain deposit products, which resulted in the allocation of a larger credit to net interest income within Commercial Banking and Retail and Business Banking, with the offset allocated to Treasury. Segment results for 2011 reflect the modified FTP methodology for the third and fourth quarters of 2011 and the previous FTP methodology for the first and second quarters of 2011.

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

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

For a more detailed description of the estimates and allocations used to measure segment performance, see Note 22 to the Consolidated Financial Statements.

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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 PCLC and PUEFC, as well as cash management, correspondent banking and municipal banking. In addition, Commercial Banking consists of institutional trust services, corporate trust, insurance services provided through PUIA and private banking.

Years ended December 31 (in millions)	2013	2012	2011
Net interest income	$ 484.2	$ 469.5	$ 442.4
Provision for loan losses	46.9	42.8	38.3
Total non-interest income	131.8	120.5	113.2
Total non-interest expense	243.3	236.3	245.5
Income before income tax expense	325.8	310.9	271.8
Income tax expense	102.4	100.6	89.7
Net income	$ 223.4	$ 210.3	$ 182.1
Average total assets	$ 16,791.0	$ 15,058.6	$ 13,713.4
Average total liabilities	3,382.9	3,016.4	2,694.0

Commercial Banking net income increased $13.1 million in 2013 compared to 2012. The $14.7 million increase in net interest income primarily reflects continued loan growth and lower FTP funding charges, partially offset by continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new loan originations at lower yields and lower interest income on acquired loans. The $11.3 million increase in non-interest income in 2013 reflects increases in commercial banking fees and operating lease income resulting from a higher level of equipment leased to PCLC customers. Included in non-interest income in 2013 and 2012 are net gains on sales of acquired loans totaling $5.7 million and $1.0 million, respectively. The $7.0 million increase in non-interest expense in 2013 reflects a higher level of direct expenses primarily due to increased operating lease expense, partially offset by a decrease in allocated expenses in 2013 compared to 2012. Average total assets increased $1.7 billion and average total liabilities increased $367 million compared to 2012, reflecting loan and deposit growth.

Commercial Banking net income increased $28.2 million in 2012 compared to 2011. The $27.1 million increase in net interest income primarily reflects continued loan growth, improved spreads on commercial loans and certain commercial deposits, and the benefit from the change in FTP methodology discussed previously, partially offset by the continued negative impact of the low interest rate environment. The $7.3 million increase in non-interest income in 2012 reflects increases in commercial banking fees and operating lease income resulting from a higher level of equipment leased to PCLC customers. Included in non-interest income in 2012 and 2011 are net gains on sales of acquired loans totaling $1.0 million and $7.5 million, respectively. The $9.2 million decrease in non-interest expense reflects a lower level of allocated expenses in 2012 compared to 2011, partially offset by an increase in direct expenses. Average total assets increased $1.3 billion and average total liabilities increased $322 million in 2012 compared to 2011, reflecting loan and deposit growth, as well as loans acquired and deposits assumed in the Danvers acquisition (effective July 1, 2011).

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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. In addition, Retail and Business Banking consists of brokerage, financial advisory services, investment management services and life insurance provided by PSI and non-institutional trust services.

Years ended December 31 (in millions)	2013	2012	2011
Net interest income	$ 459.6	$ 504.0	$ 469.7
Provision for loan losses	15.4	14.0	10.9
Total non-interest income	181.6	179.5	184.4
Total non-interest expense	554.8	548.3	558.1
Income before income tax expense	71.0	121.2	85.1
Income tax expense	22.5	39.4	27.8
Net income	$ 48.5	$ 81.8	$ 57.3
Average total assets	$ 8,509.6	$ 8,298.1	$ 7,245.3
Average total liabilities	19,072.4	18,677.3	17,281.6

Retail and Business Banking net income decreased $33.3 million in 2013 compared to 2012. The $44.4 million decrease in net interest income primarily reflects continued repricing pressure within the loan portfolio, including the pay-off of higher yielding loans and new loan originations at lower yields, lower FTP funding credits and the run-off of fair value amortization on acquired deposits, partially offset by continued loan growth. The increase in non-interest income primarily reflects increases in investment management fees and brokerage commissions, partially offset by a decrease in gains on sales of residential mortgages. The increase in non-interest expense reflects a higher level of direct expenses primarily as a result of the acquisition of 57 branches late in the second quarter of 2012, partially offset by a decrease in allocated expenses. Average total assets increased $212 million and average total liabilities increased $395 million in 2013 compared to 2012, reflecting loan and deposit growth as well as the assumption of approximately $324 million in deposits in connection with the branch acquisition noted above.

Retail and Business Banking net income increased $24.5 million in 2012 compared to 2011. The $34.3 million increase in net interest income primarily reflects deposit growth and the benefit from the change in FTP methodology previously discussed, partially offset by narrower spreads on certain deposit products resulting from the continued negative impact of a reduced interest rate environment. The decrease in non-interest income primarily reflects lower retail bank service charges (reflecting the impact of certain provisions of the DFA relating to interchange fees that became effective October 1, 2011), partially offset by an increase in gains on sales of residential mortgages. The decrease in non-interest expense reflects primarily reflects a lower level of allocated expenses in 2012 compared to 2011. Average total assets increased $1.1 billion and average total liabilities increased $1.4 billion in 2012 compared to 2011, reflecting loan and deposit growth, the assumption of approximately $324 million in deposits in connection with the branch acquisition noted above, and loans acquired and deposits assumed in the Danvers acquisition (effective July 1, 2011).

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

Years ended December 31 (in millions)	2013	2012	2011
Net interest loss	$ (46.5)	$ (66.0)	$ (21.1)
Total non-interest income	18.0	10.6	14.0
Total non-interest expense	(1.2)	(3.3)	(1.3)
Loss before income tax benefit	(27.3)	(52.1)	(5.8)
Income tax benefit	(8.7)	(17.0)	(1.6)
Net loss	$ (18.6)	$ (35.1)	$ (4.2)
Average total assets	$ 5,099.5	$ 4,121.4	$ 3,870.3
Average total liabilities	3,421.1	903.7	699.0

The improvement in Treasury s net loss in 2013 compared to 2012 reflects a decrease in net interest loss and an increase in non-interest income. The improvement in net interest loss primarily reflects lower FTP funding charges and increased interest income partially offset by an increase in interest expense. The increase in non-interest income primarily reflects an increase in net revenues relating to derivative transactions entered into with commercial customers. Average total assets increased $978 million in 2013 compared to 2012, primarily reflecting an increase in average securities partially offset by a decline in average short-term investments. The $2.5 billion increase in average total liabilities in 2013 compared to 2012 primarily reflects increases in average total borrowings (used to support loan growth and securities purchases) and average notes and debentures ($500 million of senior notes issued in December 2012).

The increase in Treasury s net loss in 2012 compared to 2011 reflects an increase in net interest loss due to the change in FTP methodology discussed previously. Average total assets increased $251 million in 2012 compared to 2011, primarily reflecting an increase in average securities partially offset by a decline in average short-term investments. The increase in average total liabilities primarily reflects an increase in average total borrowings.

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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. The Other category also includes certain non-recurring items, such as one-time charges and merger-related expenses, which totaled $12.7 million, $12.7 million and $56.8 million for the years ended December 31, 2013, 2012 and 2011, respectively (included in total non-interest expense). Included in Other are assets such as cash, premises and equipment, and other assets.

Years ended December 31 (in millions)	2013	2012	2011
Net interest (loss) income	$ (8.7)	$ 21.2	$ 22.4
Provision for loan losses	(18.6)	(7.6)	14.5
Total non-interest income	1.8	3.2	(4.0)
Total non-interest expense	42.1	49.3	69.6
Loss before income tax benefit	(30.4)	(17.3)	(65.7)
Income tax benefit	(9.5)	(5.6)	(22.9)
Net loss	$ (20.9)	$ (11.7)	$ (42.8)
Average total assets	$ 608.8	$ 634.8	$ 1,199.2
Average total liabilities	377.7	347.6	82.3

Net Interest Income

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

Net Interest Margin

Years ended December 31 (percent)

Net Interest Income - FTE

Years ended December 31 (dollars in millions)

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Since December 2008, the Federal Reserve Board has not changed its targeted range for the federal funds rate of 0% to 0.25% and, for 2013, the average effective federal funds rate was 0.11%. The net interest margin was 3.31% in 2013 compared to 3.86% in 2012 and the operating net interest margin was 3.31% in 2013 compared to 3.82% in the year-ago period. The decline in the net interest margin in 2013 compared to 2012 primarily reflects continued repricing pressure within the loan portfolio, including the pay-off of higher-yielding loans, new loan originations at lower yields and lower interest income on acquired loans. The net interest margin continues to be negatively impacted by the historically low interest rate environment where loan repricings are outpacing the Company s ability to lower deposit costs as well as the continued investment of a portion of the Company s capital in low-yielding short-term investments.

2013 Compared to 2012

FTE net interest income decreased $34.6 million compared to 2012, reflecting a $25.0 million decrease in total interest and dividend income and a $9.6 million increase in total interest expense, and the net interest margin decreased 55 basis points to 3.31%. Net interest income in 2012 included $8.8 million of cost recovery income on acquired loans (representing cash receipts in excess of carrying amount). Excluding this item, FTE operating net interest income decreased $25.8 million and the operating net interest margin declined 51 basis points.

Average total earning assets were $27.4 billion in 2013, a $3.0 billion increase from 2012, primarily reflecting increases of $1.9 billion in average total loans and $1.2 billion in average securities. Average total loans, average securities and average short-term investments comprised 83%, 16% and 1%, respectively, of average total earning assets in 2013 compared to 85%, 14% and 1%, respectively, in 2012. In 2013, the yield earned on the total loan portfolio was 4.08% and the yield earned on securities and short-term investments was 2.08%, compared to 4.65% and 2.27%, respectively, in the year-ago period. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 45% of the loan portfolio had floating interest rates at December 31, 2013 compared to approximately 47% at December 31, 2012.

The average total commercial banking and residential mortgage loan portfolios increased $1.7 billion and $271 million, respectively, compared to 2012, reflecting growth. Average consumer loans decreased $30 million compared to 2012, reflecting a $45 million decrease in average indirect auto loans partially offset by a $10 million increase in average home equity loans.

Average total funding liabilities were $25.8 billion in 2013, a $3.3 billion increase from the year-ago period, reflecting increases of $2.1 billion in average total borrowings, $721 million in average total deposits and $452 million in average notes and debentures. The increase in average total deposits reflects deposit growth and deposits assumed (approximately $324 million) in connection with the acquisition of 57 branches in the second quarter of 2012. Average savings and money market deposits and average non-interest-bearing deposits increased $861 million and $364 million, respectively, while average time deposits decreased $504 million. Average total deposits comprised 85% and 94% of average total funding liabilities in 2013 and 2012, respectively. The increase in average total borrowings reflects the additional funding used to support loan growth and securities purchases. The increase in average notes and debentures reflects the issuance of $500 million of senior notes in December 2012.

The two basis point decrease to 0.45% from 0.47% in the rate paid on average total funding liabilities in 2013 compared to 2012 primarily reflects the decrease in market interest rates and the shift in deposit mix as well as continued repricing of higher-yielding deposits assumed in acquisitions. The rate paid on average total deposits decreased six basis points in 2013, reflecting decreases of six basis points in savings and money market deposits partially offset by a two basis point increase in time deposits. Average savings and money market deposits and average time deposits comprised 57% and 21%, respectively, of average total deposits in 2013 compared to 54% and 24%, respectively, in 2012.

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2012 Compared to 2011

FTE net interest income increased $19.2 million compared to 2011, reflecting a $22.3 million decrease in total interest expense partially offset by a $3.1 million decrease in total interest and dividend income, and the net interest margin decreased 24 basis points to 3.86%. Net interest income in 2012 included $8.8 million of cost recovery income on acquired loans, while net interest income in 2011 included $11.2 million of interest related to changes in the accretable yield on acquired loans stemming from periodic cash flow reassessments and $5.0 million of cost recovery income on acquired loans. Excluding these items, the operating net interest margin in 2012 was 3.82% compared to 4.03% in 2011.

Average total earning assets were $24.4 billion in 2012, a $1.9 billion increase from 2011, reflecting increases of $1.9 billion in average total loans and $367 million in average securities, partially offset by a $438 million decrease in average short-term investments. Average total loans, average securities and average short-term investments comprised 85%, 14% and 1%, respectively, of average total earning assets in 2012 compared to 84%, 13% and 3%, respectively, in 2011. In 2012, the yield earned on the total loan portfolio was 4.65% and the yield earned on securities and short-term investments was 2.27%, compared to 5.12% and 2.35%, respectively, in the year-ago period. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 47% of the loan portfolio had floating interest rates at December 31, 2012 compared to approximately 48% at December 31, 2011.

The average total commercial banking and residential mortgage loan portfolios increased $1.3 billion and $697 million, respectively, compared to 2011, reflecting growth. Average consumer loans decreased $15 million compared to 2011, reflecting a $57 million decline in average indirect auto loans partially offset by a $41 million increase in average home equity loans.

Average total funding liabilities were $22.6 billion in 2012, a $2.1 billion increase from 2011, reflecting increases of $2.0 billion in average total deposits and $147 million in average total borrowings. The increase in average total deposits reflects deposit growth and deposits assumed in recent acquisitions. Average savings and money market deposits and average non-interest-bearing deposits increased $1.6 billion and $624 million, respectively, while average time deposits decreased $248 million. Average total deposits comprised 94% of average total funding liabilities in both 2012 and 2011.

The 16 basis point decrease to 0.47% from 0.63% in the rate paid on average total funding liabilities in 2012 compared to 2011 primarily reflects the decrease in market interest rates and the shift in deposit mix as well as continued repricing of higher-yielding deposits assumed in acquisitions. The rate paid on average total deposits decreased 13 basis points in 2012, reflecting decreases of 18 basis points in savings and money market deposits and 3 basis points in time deposits. Average savings and money market deposits and average time deposits comprised 54% and 24%, respectively, of average total deposits in 2012 compared to 52% and 27%, respectively, in 2011.

Average Balance Sheet, Interest and Yield/Rate Analysis

The table on the following page presents average balance sheets, FTE-basis interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2013, 2012 and 2011. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People s United Financial has ceased to accrue interest. Premium amortization and discount accretion (including amounts attributable to purchase accounting adjustments) are also included in the respective interest income and interest expense amounts. The impact of People s United Financial s use of derivative instruments in managing IRR is also reflected in the table, classified according to the instrument hedged and the related risk management objective.

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Average Balance Sheet, Interest and Yield/Rate Analysis

Years ended December 31	2013			2012			2011		
(dollars in millions)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Short-term investments (1)	$ 156.1	$ 0.3	0.22%	$ 332.0	$ 0.8	0.24%	$ 770.4	$ 2.1	0.27%
Securities (2)	4,545.9	97.7	2.15	3,299.8	81.5	2.47	2,933.3	85.1	2.90
Loans:									
Commercial (3)	8,421.5	356.2	4.23	7,672.8	373.4	4.87	6,465.4	354.7	5.49
Commercial real estate (4)	7,965.0	351.2	4.41	7,031.5	365.4	5.20	6,971.8	392.4	5.63
Residential mortgage	4,126.1	141.4	3.42	3,854.7	145.5	3.77	3,165.6	131.2	4.14
Consumer	2,145.4	74.8	3.49	2,174.9	80.0	3.68	2,190.1	84.2	3.85
Total loans	22,658.0	923.6	4.08	20,733.9	964.3	4.65	18,792.9	962.5	5.12
Total earning assets	27,360.0	$ 1,021.6	3.73%	24,365.7	$ 1,046.6	4.30%	22,496.6	$ 1,049.7	4.67%
Other assets	3,648.9			3,747.2			3,531.6		
Total assets	$ 31,008.9			$ 28,112.9			$ 26,028.2		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing	$ 5,020.3	$	%	$ 4,656.8	$	%	$ 4,032.8	$	%
Savings, interest-bearing checking and money market	12,417.3	33.0	0.27	11,556.8	38.7	0.33	9,970.1	51.0	0.51
Time	4,524.7	48.1	1.06	5,028.2	52.1	1.04	5,276.6	56.4	1.07
Total deposits	21,962.3	81.1	0.37	21,241.8	90.8	0.43	19,279.5	107.4	0.56
Borrowings:									
FHLB advances	2,043.9	8.2	0.40	419.5	5.1	1.23	456.1	6.7	1.48
Federal funds purchased	641.2	1.2	0.19	195.3	0.5	0.24	8.6		0.13
Retail repurchase agreements	522.7	1.1	0.20	494.7	1.3	0.26	486.6	2.0	0.41
Other borrowings	3.9		0.51	16.4	0.1	1.00	28.0	0.3	0.94
Total borrowings	3,211.7	10.5	0.33	1,125.9	7.0	0.63	979.3	9.0	0.92
Notes and debentures	647.5	24.2	3.74	195.5	8.4	4.28	170.4	12.1	7.08
Total funding liabilities	25,821.5	$ 115.8	0.45%	22,563.2	$ 106.2	0.47%	20,429.2	$ 128.5	0.63%
Other liabilities	432.6			381.8			327.7		
Total liabilities	26,254.1			22,945.0			20,756.9		
Stockholders equity	4,754.8			5,167.9			5,271.3		

Total liabilities and stockholders equity	$ 31,008.9			$ 28,112.9			$ 26,028.2		
Net interest income/spread (5)		$ 905.8	3.28%		$ 940.4	3.83%		$ 921.2	4.04%
Net interest margin			3.31%			3.86%			4.10%
Operating net interest margin (6)			3.31%			3.82%			4.03%

(1) Includes securities purchased under agreements to resell.
(2) Average balances and yields for securities available for sale are based on amortized cost.
(3) Includes commercial and industrial loans and equipment financing loans.
(4) Interest income for the year ended December 31, 2012 includes $8.0 million of cost recovery income; yield of 5.08% without cost recovery income.
(5) The FTE adjustment was $17.2 million, $11.7 million and $7.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.
(6) See Non-GAAP financial measures and reconciliation to GAAP.

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

	2013 Compared to 2012 Increase (Decrease)			2012 Compared to 2011 Increase (Decrease)		
(in millions)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest and dividend income:						
Short-term investments	$ (0.4)	$ (0.1)	$ (0.5)	$ (1.1)	$ (0.2)	$ (1.3)
Securities	27.8	(11.6)	16.2	9.9	(13.5)	(3.6)
Loans:						
Commercial	34.4	(51.6)	(17.2)	61.6	(42.9)	18.7
Commercial real estate	45.1	(59.3)	(14.2)	3.3	(30.3)	(27.0)
Residential mortgage	9.8	(13.9)	(4.1)	26.5	(12.2)	14.3
Consumer	(1.1)	(4.1)	(5.2)	(0.6)	(3.6)	(4.2)
Total loans	88.2	(128.9)	(40.7)	90.8	(89.0)	1.8
Total change in interest and dividend income	115.6	(140.6)	(25.0)	99.6	(102.7)	(3.1)
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	2.7	(8.4)	(5.7)	7.2	(19.5)	(12.3)
Time	(5.3)	1.3	(4.0)	(2.6)	(1.7)	(4.3)
Total deposits	(2.6)	(7.1)	(9.7)	4.6	(21.2)	(16.6)
Borrowings:						
FHLB advances	8.5	(5.4)	3.1	(0.5)	(1.1)	(1.6)
Federal funds purchased	0.8	(0.1)	0.7	0.4	0.1	0.5
Retail repurchase agreements	0.1	(0.3)	(0.2)		(0.7)	(0.7)
Other borrowings	(0.1)		(0.1)	(0.1)	(0.1)	(0.2)
Total borrowings	9.3	(5.8)	3.5	(0.2)	(1.8)	(2.0)
Notes and debentures	17.0	(1.2)	15.8	1.6	(5.3)	(3.7)
Total change in interest expense	23.7	(14.1)	9.6	6.0	(28.3)	(22.3)
Change in net interest income	$ 91.9	$ (126.5)	$ (34.6)	$ 93.6	$ (74.4)	$ 19.2

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The following table provides the weighted average yields earned and rates paid for each major category of earning assets and funding liabilities as of December 31, 2013:

(dollars in millions)	Balance	Yield/Rate
Earning assets:		
Short-term investments	$ 123.6	0.37%
Securities	5,032.7	2.05
Loans	24,390.3	3.69
Total earning assets	$ 29,546.6	3.40%
Funding liabilities:		
Non-interest-bearing deposits	$ 5,312.2	%
Savings, interest-bearing checking and money market deposits	12,862.2	0.22
Time deposits	4,382.9	1.00
Borrowings	5,057.0	0.33
Notes and debentures	639.1	3.36
Total funding liabilities	$ 28,253.4	0.39%

Non-Interest Income

				Percentage Increase (Decrease)	
Years ended December 31 (dollars in millions)	2013	2012	2011	2013/2012	2012/2011
Bank service charges	$ 127.3	$ 127.2	$ 131.3	0.1%	(3.1)%
Investment management fees	37.2	34.9	33.2	6.6	5.1
Operating lease income	34.5	31.2	25.0	10.6	24.8
Insurance revenue	31.2	31.8	30.7	(1.9)	3.6
Net gains on sales of residential mortgage loans	14.8	16.1	7.6	(8.1)	111.8
Brokerage commissions	13.7	12.2	11.9	12.3	2.5
Net gains on sales of acquired loans	5.7	1.0	7.5	n/m	(86.7)
Net security gains			8.8	n/m	(100.0)
Other non-interest income:					
Commercial banking fees	35.6	33.3	26.6	6.9	25.2
Merchant services income, net	5.0	4.9	4.3	2.0	14.0
BOLI	4.5	5.4	6.3	(16.7)	(14.3)
Other	23.7	15.8	14.4	50.0	9.7
Total other non-interest income	68.8	59.4	51.6	15.8	15.1
Total non-interest income	$ 333.2	$ 313.8	$ 307.6	6.2%	2.0%

n/m not meaningful

Total non-interest income increased $19.4 million in 2013 compared to 2012 and increased $6.2 million in 2012 compared to 2011 ($15.0 million excluding net security gains). The improvement in total non-interest income in 2013 compared to 2012 primarily reflects increases in gains on sales of acquired loans, operating lease income, investment management fees, commercial banking fees and customer interest rate swaps (included in Other) in 2013. The improvement in total non-interest income in 2012 compared to 2011 primarily reflects an increase in the level of gains on sales of residential mortgage loans and higher commercial banking fees and operating lease income in 2012.

The decrease in bank service charges in 2012 compared to 2011 primarily reflects the impact of certain provisions of the DFA, as increases in commercial and retail fees were more than offset by the decline in interchange fees (see Recent Market Developments).

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The improvement in brokerage commissions in 2013 reflects higher levels of mutual fund and annuity commission income while the improvement in investment management fees reflects the benefit from new revenue initiatives, additional personnel in our key markets and a broader suite of product offerings.

The decrease in net gains on sales of residential mortgage loans in 2013 compared to 2012 primarily reflects a 16% decrease in the volume of residential mortgage loan sales partially offset by the continued improvement in pricing on loans sold directly to a government sponsored enterprises ("GSE"). Loans held for sale at December 31, 2013 and 2012 consisted of newly-originated residential mortgage loans with carrying amounts of $23.3 million and $77.0 million, respectively. The increase in net gains on sales of residential mortgage loans in 2012 compared to 2011 reflects the higher level of residential mortgage loan sales (a 50% increase in volume from 2011) due to the higher level of refinancing activity during 2012.

Net gains on sales of acquired loans in 2013, 2012 and 2011 reflect sales of acquired loans with contractual balances of approximately $12 million, $14 million and $152 million, respectively (carrying amounts of approximately $10 million, $12 million and $105 million, respectively).

The increase in operating lease income in both 2013 and 2012 reflects higher levels of equipment leased to PCLC customers. The increase in commercial banking fees in both years primarily reflects higher prepayment fees while the fluctuation in payment processing volume is the primary driver for the variances in merchant services income.

BOLI income totaled $4.5 million ($6.6 million on a taxable-equivalent basis) in 2013 compared to $5.4 million ($8.2 million on a taxable-equivalent basis) in 2012 and $6.3 million ($9.4 million on a taxable-equivalent basis) in 2011. The decrease in BOLI income in 2013 and 2012 primarily reflects a lower crediting rate in both years due to the continued low interest rate environment. The increase in other non-interest income in 2013 compared to 2012 primarily reflects an increase in revenues relating to customer interest rate swaps.

In 2011, People s United Financial sold mortgage-backed securities with an amortized cost of $507 million, in order to reduce book value at risk resulting from higher prepayment speeds, and recorded $9.1 million of gross security gains.

Assets under administration and those under full discretionary management, neither of which are reported as assets of People s United Financial, totaled $10.8 billion and $5.2 billion, respectively, at December 31, 2013 compared to $11.4 billion and $4.5 billion, respectively, at December 31, 2012.

In June 2005, a group of U.S. merchants filed a class action lawsuit against VISA and MasterCard claiming that the way VISA and MasterCard set interchange rates was a violation of anti-trust laws. In July 2012, the parties signed a memorandum of understanding to enter into a settlement to the lawsuit in which VISA and MasterCard proposed to pay $7.25 billion to the merchants ($6.05 billion in cash and $1.2 billion from an eight month reduction in credit card interchange). The proposed settlement is not expected to have a significant impact on the Company s financial results.

In connection with a new accounting standard issued with respect to investments in qualified affordable housing projects (which People s United Financial intends to adopt as of January 1, 2014), the amortization of such investments, which is currently included in pre-tax income, will, upon adoption, be included as a component of income tax expense. Adoption of this standard is expected to result in an increase in total non-interest income, pre-tax income, income tax expense and People s United Financial s effective income tax rate.

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Non-Interest Expense

Years ended December 31 (dollars in millions)	2013	2012	2011	Percentage Increase (Decrease) 2013/2012	2012/2011
Compensation and benefits	$ 427.1	$ 418.9	$ 429.0	2.0%	(2.4)%
Occupancy and equipment	148.0	141.9	133.3	4.3	6.5
Professional and outside service fees	60.6	65.4	70.6	(7.3)	(7.4)
Operating lease expense	31.3	26.3	20.8	19.0	26.4
Amortization of other acquisition-related intangible assets	26.2	26.8	25.8	(2.2)	3.9
Other non-interest expense:					
Regulatory assessments	33.8	30.8	30.1	9.7	2.3
Stationery, printing, postage and telephone	20.9	22.5	21.6	(7.1)	4.2
Advertising and promotion	15.4	17.7	17.2	(13.0)	2.9
Other	75.7	80.3	80.6	(5.7)	(0.4)
Total other non-interest expense	145.8	151.3	149.5	(3.6)	1.2
Total	839.0	830.6	829.0	1.0	0.2
Merger-related expenses			42.9		(100.0)
Total non-interest expense	$ 839.0	$ 830.6	$ 871.9	1.0%	(4.7)%
Efficiency ratio	63.7%	62.3%	63.6%		

n/m not meaningful

Total non-interest expense increased $8.4 million in 2013 compared to 2012 and, excluding the effect of merger-related expenses, $1.6 million in 2012 compared to 2011. Merger-related expenses consist of: (i) fees for investment advisory, legal, accounting and valuation services; (ii) debt prepayment costs; (iii) compensatory charges; and (iv) regulatory filings. Total non-interest expense includes $12.7 million, $12.7 million and $13.9 million of non-operating expenses in 2013, 2012 and 2011, respectively.

The increase in the efficiency ratio in 2013 compared to 2012 reflects lower total revenues and higher operating expenses in 2013 (see Non-GAAP Financial Measures and Reconciliation to GAAP).

The increase in compensation and benefits in 2013 compared to 2012 reflects normal merit increases and compensation and benefit costs for additional employees related to regulatory compliance and the acquisition of 57 branches late in the second quarter of 2012. The decrease in compensation and benefits in 2012 compared to 2011 reflects lower incentive costs, including the benefit associated with the final vesting of stock awards granted in 2007 in connection with the Company s second step conversion, as well as the benefit from cost-savings initiatives, partially offset by additional compensation and benefit costs resulting from the acquisitions completed in 2012 and 2011 and normal merit increases. Compensation and benefits includes severance-related costs (non-operating) totaling $2.8 million in 2013, $7.3 million in 2012 and $5.3 million in 2011.

In July 2011, People s United Bank amended the qualified noncontributory defined benefit pension plan (the Qualified Plan) to freeze , effective December 31, 2011, the accrual of pension benefits for Qualified Plan participants. As such, participants will not earn any additional benefits after that date. Instead, effective January 1, 2012, 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.

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The increase in occupancy and equipment expense in 2013 and 2012 primarily reflects the incremental costs associated with the continued geographic expansion of People s United Financial s franchise as well as the acquisitions completed during the past three years. The decrease in professional and outside services fees in 2013 and 2012 primarily reflects improvements in vendor pricing, lower legal fees and computer system servicing costs. The increase in operating lease expense in 2013 and 2012 relates to the higher level of equipment leased to PCLC customers.

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

In February 2011, the FDIC approved a final rule that: (i) changed the assessment base from adjusted domestic deposits to a bank s average consolidated total assets minus average tangible equity (defined as Tier 1 capital); (ii) adopted a new large-bank pricing assessment scheme; and (iii) set a target size for the DIF at 2% of insured deposits. The rule also (i) implemented a lower assessment rate schedule when the DIF reaches 1.15% and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2% and 2.5% and (ii) created a scorecard-based assessment system for financial institutions with more than $10 billion in assets, including People s United Bank. One of the financial ratios used in the scorecard-based assessment system for financial institutions with more than $10 billion in assets is the ratio of higher-risk assets to Tier 1 capital and reserves. In October 2012, the FDIC adopted a final rule, which became effective April 1, 2013, that revised the definitions of higher-risk commercial and industrial loans, securities and consumer loans, and clarified when an asset must be classified as higher-risk.

The actual amount of future regulatory assessments may increase in 2014 and beyond, depending on several factors, including: (i) People s United Bank s average total assets and average tangible equity; (ii) People s United Bank s risk profile; and (iii) whether additional special assessments are imposed in future periods and the manner in which such assessments are determined.

The decrease in advertising and promotion compared to 2012 primarily reflects lower levels of spending on certain television advertising campaigns. The decrease in other non-interest expense in 2013 compared to 2012 reflects decreases in operational charge-offs, partially offset by higher real estate owned (REO) related costs, including writedowns relating to one residential property. Other non-interest expense includes (i) $9.0 million and $4.8 million in 2013 and 2011, respectively, associated with the writedowns of certain banking house assets and (ii) $3.8 million of executive-level separation costs in 2011 (all non-operating).

Income Taxes

Income tax expense totaled $106.7 million, $117.4 million and $93.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. People s United Financial s effective income tax rate was 31.5%, 32.4% and 32.6% for the years ended December 31, 2013, 2012 and 2011, respectively. People s United Financial s effective income tax rate in 2014 is expected to approximate the rate in 2013.

The difference between People s United Financial s effective income tax rate for the year ended December 31, 2013 and the U.S. federal statutory rate of 35% is primarily attributable to: (i) tax-exempt interest earned on certain investments; (ii) federal income tax credits associated with the Company s investment in affordable housing limited partnerships; (iii) tax-exempt income from BOLI; and (iv) state income taxes.

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People s United Financial maintains an ownership interest in several limited partnership investments to develop and operate affordable housing units for lower income tenants throughout its franchise area. These investments have historically played a significant role in enabling People s United Bank to meet its Community Reinvestment Act requirements while, at the same time, providing federal income tax credits. The cost of these investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). These credits totaled $8.5 million, $8.5 million and $6.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

In connection with a new accounting standard issued with respect to investments in qualified affordable housing projects (which People s United Financial intends to adopt as of January 1, 2014), the amortization of such investments, which is currently included in pre-tax income, will, upon adoption, be included as a component of income tax expense. Adoption of this standard is expected to result in an increase in total non-interest income, pre-tax income, income tax expense and People s United Financial s effective income tax rate.

Income tax expense for all three years reflects the state tax benefit resulting from the formation of People s Mortgage Investment Company, a wholly owned subsidiary of People s United Bank. The formation of this subsidiary was a result of Connecticut tax legislation, which became effective on January 1, 1999, that allows for the transfer of mortgage loans to a passive investment subsidiary. The related earnings of the subsidiary, and any dividends it pays to the parent, are not subject to Connecticut income tax. See Note 11 to the Consolidated Financial Statements for additional information concerning income tax expense.

Securities

	2013		2012		2011	
As of December 31 (in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities held to maturity:						
Debt securities:						
State and municipal	$ 584.5	$ 584.5	$	$	$	$
Corporate	55.0	57.0	55.0	59.7	55.0	61.1
Other	1.0	1.0	1.2	1.2	1.4	1.4
Total securities held to maturity	$ 640.5	$ 642.5	$ 56.2	$ 60.9	$ 56.4	$ 62.5
Securities available for sale:						
Debt securities:						
U.S. Treasury and agency	$ 48.6	$ 48.9	$ 30.1	$ 30.7	$ 80.5	$ 81.0
GSE residential mortgage-backed securities and CMOs	4,172.2	4,096.4	3,830.9	3,899.0	2,388.9	2,447.8
State and municipal			527.4	539.6	127.8	137.7
Corporate	58.3	60.2	57.9	59.9	57.4	56.5
Other	2.6	2.5	2.6	2.9	2.6	2.3
Total debt securities	4,281.7	4,208.0	4,448.9	4,532.1	2,657.2	2,725.3
Equity securities	0.2	0.2	0.2	0.2	0.2	0.2
Total securities available for sale	$ 4,281.9	$ 4,208.2	$ 4,449.1	$ 4,532.3	$ 2,657.4	$ 2,725.5

People s United Financial strives to maintain an appropriate balance between loan portfolio growth and deposit funding. People s United Financial s management believes that a large securities portfolio funded with wholesale borrowings provides limited economic value and therefore, the total securities portfolio only comprises 15% of total assets as of December 31, 2013.

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People s United Financial has historically utilized the securities portfolio for earnings generation (in the form of interest and dividend income), liquidity, IRR management, asset diversification and tax planning. Securities available for sale are used as part of People s United Financial s asset/liability management strategy and may be sold in response to, or in anticipation of, factors such as changes in market conditions and interest rates, changes in security prepayment rates, liquidity considerations and regulatory capital requirements.

People s United Financial invests in debt securities rated in the highest categories assigned by nationally recognized statistical ratings organizations (NRSRO) and all credit risk undergoes an internal creditworthiness assessment separate from NRSRO ratings. Management has internal guidelines for the credit quality and duration of People s United Financial s debt securities portfolio and monitors these on a regular basis.

At December 31, 2013, People s United Financial s securities available for sale portfolio totaled $4.2 billion, or 13% of total assets, compared to $4.5 billion, or 15% of total assets, at December 31, 2012 and $2.7 billion, or 10% of total assets, at December 31, 2011.

In December 2013, the entire state and municipal securities portfolio was transferred from available for sale to held to maturity. This action was taken to minimize future fluctuations in stockholders' equity due to changes in the fair value of these long duration securities resulting from changes in interest rates in light of management's view of the long-term investment horizon of this portfolio.

The increase in GSE residential mortgage-backed securities and CMOs in 2013 compared to 2012 reflects management s decision to invest in such securities to provide an improved balance sheet mix of duration, yield and credit risk as well as regulatory considerations. The increase in debt securities available for sale in 2012 compared to 2011 reflects management s decision in the second half of 2012 to invest in GSE residential mortgage-backed securities and CMOs, as well as investment grade state and municipal securities, to provide an improved balance sheet mix of duration, yield and credit risk. In 2011, the Company sold 15-year mortgage-backed securities with an amortized cost of $507 million to reduce book value at risk due to an expected increase in prepayments and recorded gross realized gains totaling $9.1 million. Subsequently, the Company purchased short-duration agency-issued CMOs backed by collateral that was expected to exhibit lower prepayment risk.

At December 31, 2013, the amortized cost exceeded the fair value of the securities available for sale portfolio by $73.7 million. At December 31, 2012 and 2011, the fair value exceeded the amortized cost of the securities available for sale portfolio by $83.2 million and $68.1 million, respectively.

All unrealized gains and those unrealized losses representing temporary declines in value due to factors other than credit are recorded in stockholders equity, net of income taxes. As a result, management anticipates continued fluctuations in stockholders equity due to changes in the fair value of these securities, albeit on a relatively modest scale due to the duration of the portfolio. The duration of the debt securities portfolio was approximately 4.2 years, 3.3 years and 2.8 years at December 31, 2013, 2012 ad 2011, respectively.

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Lending Activities

People s United Financial conducts its lending activities principally through its Commercial Banking and Retail and Business Banking operating segments. 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.

Total loans increased $2.65 billion in 2013 compared to 2012 and increased $1.35 billion in 2012 compared to 2011. People s United Financial acquired loans with fair values of $1.87 billion in 2011 and $3.49 billion in 2010. Loans acquired in connection with business combinations beginning in 2010 are referred to as acquired loans as a result of the manner in which they are accounted for (see further discussion under Acquired Loans in Note 1 to the Consolidated Financial Statements). All other loans are referred to as originated loans. At December 31, 2013 and 2012, the carrying amount of the acquired loan portfolio totaled $1.53 billion and $2.24 billion, respectively.

The following table summarizes the loan portfolio before deducting the allowance for loan losses:

As of December 31 (in millions)	2013	2012	2011	2010	2009
Commercial Banking:					
Commercial real estate (1)	$ 8,921.6	$ 7,294.2	$ 7,172.2	$ 7,306.3	$ 5,399.4
Commercial and industrial (1)	6,302.1	6,047.7	5,352.6	3,095.6	2,805.7
Equipment financing	2,593.1	2,352.3	2,014.2	2,095.4	1,236.8
Total Commercial Banking	17,816.8	15,694.2	14,539.0	12,497.3	9,441.9
Retail:					
Residential mortgage:					
Adjustable-rate	3,895.3	3,335.2	2,947.7	2,117.9	2,230.2
Fixed-rate	521.3	550.9	680.7	529.6	182.4
Total residential mortgage	4,416.6	3,886.1	3,628.4	2,647.5	2,412.6
Consumer:					
Home equity	2,084.6	2,051.5	2,057.7	1,976.8	1,986.3
Other consumer	72.3	104.8	159.7	201.1	258.7
Total consumer	2,156.9	2,156.3	2,217.4	2,177.9	2,245.0
Total Retail	6,573.5	6,042.4	5,845.8	4,825.4	4,657.6
Total loans	$ 24,390.3	$ 21,736.6	$ 20,384.8	$ 17,322.7	$ 14,099.5

(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.

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People s United Financial s loan portfolio is primarily concentrated within New England with approximately 63% and 68% of the total loan portfolio representing loans to customers located within the New England states at December 31, 2013 and 2012, respectively, and approximately 18% and 13% represents loans to customers located in New York at those dates.

Total Loans

As of December 31 (dollars in millions)

The following table presents the contractual maturity of total loans as of December 31, 2013:

(in millions)	Commercial Banking	Retail	Total
Amounts due:			
One year or less	$ 1,876.7	$ 69.5	$ 1,946.2
After one year:			
One to five years	7,780.3	209.7	7,990.0
Over five years	8,159.8	6,294.3	14,454.1
Total due after one year	15,940.1	6,504.0	22,444.1
Total	$ 17,816.8	$ 6,573.5	$ 24,390.3

The following table presents, as of December 31, 2013, loan amounts due after December 31, 2014, and whether these loans have adjustable or fixed interest rates:

	Interest Rate		
(in millions)	Adjustable	Fixed	Total
Commercial Banking	$ 7,407.2	$ 8,532.9	$ 15,940.1
Retail	5,576.3	927.7	6,504.0
Total loans due after one year	$ 12,983.5	$ 9,460.6	$ 22,444.1

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Commercial Banking

The Commercial Banking lending businesses include commercial real estate, commercial and industrial lending, and equipment financing.

Commercial Real Estate

People s United Financial manages the commercial real estate portfolio by limiting the concentration in any particular loan type, term, industry, or to any individual borrower. People s United Financial s highest loan concentration in the commercial real estate loan portfolio is in the residential (multi-family) sector, which represented 31% of this loan portfolio at December 31, 2013.

As of December 31 (in millions)	2013	2012
Property Type:		
Residential (multi-family)	$ 2,733.3	$ 1,762.7
Retail	2,389.6	1,873.0
Office buildings	2,258.7	2,208.8
Industrial/manufacturing	542.2	543.9
Hospitality and entertainment	419.1	342.8
Mixed/special use	232.8	210.0
Self storage	160.9	107.8
Land	92.3	109.4
Health care	48.1	84.2
Other properties	44.6	51.6
Total commercial real estate	$ 8,921.6	$ 7,294.2

Commercial Real Estate Portfolio

As of December 31 (dollars in millions)

The commercial real estate portfolio increased $1.6 billion in 2013 compared to 2012, reflecting loan growth of $2.0 billion, or 33% of the commercial real estate portfolio, partially offset by a decrease in the acquired portfolio. The commercial real estate portfolio increased $122 million in 2012 compared to 2011, reflecting loan growth of $771 million, or 11% of the commercial real estate portfolio, partially offset by a decrease in the acquired portfolio.

Included in the commercial real estate portfolio are construction loans totaling $532 million and $552 million at December 31, 2013 and 2012, respectively, net of the unadvanced portion of such loan totaling $414 million and $392 million, respectively. During 2013 and 2012, the Company sold acquired loans with outstanding principal balances of $12 million and $14 million, respectively (carrying amount of $10 million and $12 million, respectively) and recognized net gains on sales totaling $5.7 million and $1.0 million, respectively.

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At December 31, 2013 and 2012, approximately 33% and 24%, respectively, of People s United Financial s commercial real estate portfolio was secured by properties located in New York, and approximately 20% and 26%, respectively, was secured by properties located in Connecticut. In addition, approximately 27% of the commercial real estate portfolio was secured by properties located in Massachusetts, Vermont and New Hampshire at December 31, 2013 compared to approximately 32% at December 31, 2012. No other state exposure was greater than 7% at December 31, 2013.

Commercial real estate is dependent on the successful operation of the related income-producing real estate. Accordingly, the income streams generated by this portfolio can be impacted by changes in the real estate market and, to a large extent, the New England and southeastern New York economies. People s United Financial continues to focus on maintaining strong asset quality standards in a competitive market generally characterized by aggressive pricing and less attractive underwriting terms. The growth and performance of this portfolio is largely dependent on the economic environment and may be adversely impacted if the economy weakens in the future.

Commercial Real Estate Diversification

As of December 31, 2013 (percent)

Commercial and Industrial

People s United Financial provides diversified products and services to its commercial customers, including short-term working capital credit facilities, term financing, asset-based loans, letters of credit, cash management services and commercial deposit accounts.

As of December 31 (in millions)	2013	2012
Industry:		
Finance, insurance and real estate	$ 1,704.4	$ 1,730.9
Service	1,240.2	1,111.5
Manufacturing	817.0	816.5
Health services	735.1	592.2
Wholesale distribution	614.7	561.9
Retail sales	535.0	531.7
Construction	173.2	184.9
Transportation/utility	155.6	144.7
Arts/entertainment/recreation	141.1	156.4
Public administration	72.4	69.4
Agriculture	23.5	21.9
Other	89.9	125.7
Total commercial and industrial	$ 6,302.1	$ 6,047.7

Commercial products are generally packaged together to create a financing solution specifically tailored to the needs of the customer. Taking a total relationship-focused approach with commercial customers to meet their financing needs has resulted in substantial growth in non-interest-bearing deposits over time, as well as in opportunities to provide other banking services to principals and employees of these commercial customers.

The borrower s ability to repay a commercial loan is closely tied to the ongoing profitability and cash flow of the borrower s business. Consequently, a commercial loan tends to be more directly impacted by changes in economic cycles that affect businesses generally and the borrower s business specifically. The availability of adequate collateral is a factor in commercial loan decisions and loans are generally collateralized and/or guaranteed by third parties.

In 2013, the commercial and industrial portfolio increased $254 million compared to 2012, reflecting loan growth of $381 million, or 7% of the commercial and industrial portfolio, partially offset by a decrease in the acquired portfolio. In 2012, the commercial and industrial portfolio increased $695 million compared to 2011, reflecting loan growth of $1.1 billion, or 20% of the commercial and industrial portfolio, partially offset by a decrease in the acquired portfolio.

At December 31, 2013 and 2012, the commercial and industrial portfolio included $411 million and $301 million, respectively, of asset-based lending loans, of which approximately 76% were to customers located within the Company s geographic footprint at December 31, 2013. The commercial and industrial portfolio also includes $538 million of mortgage warehouse loans at December 31, 2013, compared to $710 million at December 31, 2012. Such loans represent lines of credit extended to a loan originator to fund a mortgage that a borrower initially used to purchase a property. The extension of credit generally lasts from the loan s point of origination to the point when the mortgage is sold into the secondary market. At December 31, 2013, approximately 18% of the mortgage warehouse loans were to customers located within the Company s footprint.

At both December 31, 2013 and 2012, approximately 24% of the commercial and industrial loan portfolio consisted of loans to Connecticut-based businesses. Commercial and industrial loan exposure in the states of Vermont, Massachusetts and New Hampshire totaled approximately 44% and 45% at December 31, 2013 and 2012, respectively. No other state exposure was greater than 12%. While People s United Financial continues to focus on asset quality, the performance of the commercial lending and industrial portfolio may be adversely impacted if the economy weakens in the future.

Commercial and Industrial Diversification

As of December 31, 2013 (percent)

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Commercial and Industrial Portfolio

As of December 31 (dollars in millions)

Equipment Financing

PCLC and PUEFC provide equipment financing for customers in all 50 states, specializing in financing for the transportation/utility, construction, printing and general manufacturing industries. PCLC will buy or sell portions of financing transactions in the secondary market to manage the concentration risk of its overall portfolio. In addition, PCLC provides customers with the option to lease equipment. Substantially all of the equipment financing portfolio (approximately 97% at both December 31, 2013 and 2012) was to customers located outside of New England. At December 31, 2013, approximately 31% of the equipment financing portfolio consisted of loans to customers located in Texas, California and New York and no other state exposure was greater than 6%.

As of December 31 (in millions)	2013	2012
Industry:		
Transportation/utility	$ 864.5	$ 753.3
Construction	348.4	317.1
Finance, insurance and real estate	292.5	212.1
Printing	226.4	276.3
Waste	187.9	167.2
General manufacturing	159.4	132.4
Packaging	151.2	144.7
Wholesale distribution	117.1	115.3
Mining, oil and gas	70.6	40.7
Service	64.1	59.7
Health services	43.8	54.0
Other	67.2	79.5
Total equipment financing	$ 2,593.1	$ 2,352.3

The equipment financing portfolio increased $241 million in 2013 compared to 2012, reflecting loan growth of $322 million, or 15% of the equipment and financing portfolio, partially offset by a decrease in the PUEFC acquired loan portfolio. Operating on a national scale, equipment financing represented 15% of the Commercial Banking loan portfolio at both December 31, 2013 and 2012. While People s United Financial continues to focus on asset quality, the performance of the equipment financing portfolio may be adversely impacted if the national economy weakens in the future.

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Equipment Financing Diversification

As of December 31, 2013 (percent)

Equipment Financing Portfolio

As of December 31 (dollars in millions)

The following tables set forth the contractual maturity (based on final payment date) and interest rate sensitivity (based on next repricing date) of People s United Financial s commercial and industrial loans and construction loans:

As of December 31, 2013 (in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total
Contractual maturity:				
Commercial and industrial loans	$ 1,159.6	$ 2,627.2	$ 2,515.3	$ 6,302.1
Construction loans:				
Commercial real estate	210.6	197.7	123.8	532.1
Residential mortgage	8.8	83.2		92.0
Total	$ 1,379.0	$ 2,908.1	$ 2,639.1	$ 6,926.2

As of December 31, 2013 (in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total
Interest rate sensitivity:				
Variable rates	$ 3,926.8	$ 382.7	$ 164.8	$ 4,474.3
Predetermined rates	353.8	790.0	1,308.1	2,451.9
Total	$ 4,280.6	$ 1,172.7	$ 1,472.9	$ 6,926.2

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Residential Mortgage Lending

People s United Financial offers its customers a wide range of residential mortgage loan products. These include conventional fixed-rate loans, jumbo fixed-rate loans (loans with principal balances greater than established Freddie Mac and Fannie Mae limits), adjustable-rate loans, sometimes referred to as ARM loans, interest-only loans (loans where payments made by the borrower consist of only interest for a set period of time, before the payments change to principal and interest), as well as Federal Housing Administration insured loans and various state housing finance authority loans. People s United Financial originates these loans through its network of retail branches and calling officers, as well as correspondent lenders and mortgage brokers.

At December 31, 2013 and 2012, approximately 90% and 91%, respectively, of the residential mortgage loan portfolio was secured by properties located in New England. At December 31, 2013, the residential mortgage loan portfolio included $871 million of interest-only loans, of which $1 million are stated income loans, compared to $727 million and $11 million, respectively, at December 31, 2012. See Asset Quality for further discussion of interest-only and stated income loans. Also included in residential mortgage loans at December 31, 2013 and 2012 are construction loans totaling $92 million and $67 million, respectively.

People s United Financial s residential mortgage originations totaled $2.3 billion in 2013, $2.1 billion in 2012 and $2.0 billion in 2011. The mix and volume of residential mortgage loan originations vary in response to changes in market interest rates and customer preferences. Adjustable-rate residential mortgage loans accounted for 62% of total residential mortgage originations in 2013, compared to 55% in 2012 and 61% in 2011.

In 2013, adjustable-rate residential mortgage loans increased $560 million compared to 2012, reflecting loan growth of $604 million, or 19% of adjustable-rate residential mortgage loans, partially offset by a decrease in the acquired portfolio. In 2012, adjustable-rate residential mortgage loans increased $388 million compared to 2011, reflecting loan growth of $427 million, or 16% of adjustable-rate residential mortgage loans, partially offset by a decrease in the acquired portfolio. Fixed-rate residential mortgage loans decreased $30 million in 2013 compared to 2012 and decreased $130 million in 2012 compared to 2011, reflecting customer s preference for adjustable-rate loans and run-off in the acquired portfolio. The Company currently retains in its portfolio most of its originated adjustable-rate and 10-year fixed-rate residential mortgage loans.

People s United Financial s loan loss experience within the residential mortgage portfolio continues to be primarily attributable to a small number of loans. The continued performance of the residential mortgage loan portfolio in the future may be adversely impacted by the level and direction of interest rates, consumer preferences and the regional economy.

Residential Mortgage Originations

Years ended December 31 (dollars in millions)

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Residential Mortgage Originations by Product

Year ended December 31, 2013 (percent)

Consumer Lending

People s United Financial offers home equity lines of credit (HELOCs) and home equity loans (HELs), and to a lesser extent, other forms of installment and revolving credit loans. At December 31, 2013, approximately 92% of the consumer loan portfolio was to customers located within the New England states. Future growth of People s United Financial s consumer loan portfolio is highly dependent upon economic conditions, the interest rate environment and competitors strategies.

As of December 31 (in millions)	2013	2012
Home equity lines of credit	$ 1,881.1	$ 1,865.6
Home equity loans	203.4	185.9
Indirect auto	25.7	58.5
Other	46.7	46.3
Total consumer	$ 2,156.9	$ 2,156.3

Asset Quality

Recent Trends

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

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

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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 experienced an increase in the number of loan modification requests. Certain originated loans whose terms have been modified are considered troubled debt restructurings (TDRs). Acquired loans that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis. Originated loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People s United Financial, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan s original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest.

In June 2012, the OCC issued clarifying regulatory guidance requiring loans subject to a borrower s discharge from personal liability following a Chapter 7 bankruptcy to be treated as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Included in TDRs at December 31, 2013 are $28.6 million of such loans. Of this amount, $18.2 million, or 63%, were less than 90 days past due on their payments as of that date.

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

During 2013, we performed 49 loan modifications that were not classified as TDRs. The balances of the loans at the time of the respective modifications totaled $76.5 million. In each case, we concluded that the modification did not result in the granting of a concession based on one or more of the following considerations: (i) the receipt of additional collateral (the nature and amount of which was deemed to serve as adequate compensation for other terms of the restructuring) and/or guarantees; (ii) the borrower having access to funds at a market rate for debt with similar risk characteristics as the restructured debt; and (iii) the restructuring resulting in a delay in payment that is insignificant in relation to the other terms of the obligation. See Note 4 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

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

Portfolio Risk Elements Residential Mortgage Lending

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

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At December 31, 2013, the loan portfolio included $871 million of interest-only residential mortgage loans, of which $1 million are stated income loans. People s United Financial began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. In general, People s United Financial s underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value (LTV) ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post-closing reserves. People s United Financial has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 adjustable-rate mortgage).

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

Updated estimates of property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At December 31, 2013, non-performing residential mortgage loans totaling $3.3 million had current LTV ratios of more than 100%. At December 31, 2013, the weighted average LTV ratio and FICO score for the residential mortgage loan portfolio were approximately 62% and 746, respectively.

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

During 2013, the Company repurchased from GSEs and other parties a total of 11 residential mortgage loans that we had previously sold to the GSEs and other parties. The balances of the loans at the time of the respective repurchases totaled $1.9 million and related fees and expenses incurred totaled less than $0.1 million. During that same time period, the Company issued 14 investor refunds, totaling $0.2 million, under contractual obligations as a result of early payoffs, make whole payments, sales or settlement differences, underwriting or documentation non-compliance and obligations under recourse agreements. Based on the limited number of repurchase requests the Company has historically received, the immaterial cost associated with such repurchase requests and management s view that this past experience is consistent with our current and near-term estimate of such exposure, the Company has established a reserve for such repurchase requests, which totaled $0.6 million as of December 31, 2013.

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

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

The following table sets forth, as of December 31, 2013, the committed amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2014	$ 221.3
2015	288.7
2016	297.7
2017	381.7
2018	388.6
Later years	2,056.9
Total	$ 3,634.9

Essentially all of our HELOCs (95%) are presently in their draw period. Although converted amortizing payment loans represent only a small portion of the portfolio, our default and delinquency statistics indicate a higher level of occurrence for such loans when compared to HELOCs that are still in the draw period.

Delinquency statistics for the HELOC portfolio as of December 31, 2013 are as follows:

	Portfolio	Delinquencies	
(dollars in millions)	Balance	Amount	Percent
HELOC status:			
Still in draw period	$ 1,784.4	$ 24.0	1.35%
Amortizing payment	96.7	5.4	5.55

For the three months ended December 31, 2013, approximately 36% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

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

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We are not able, at this time, to develop statistics for the entire home equity portfolio (both HELOCs and HELs) with respect to first liens serviced by third parties that have priority over our junior liens, as lien position data has not historically been captured on our loan servicing systems. As of December 31, 2013, full and complete first lien position data was not readily available for approximately 59% of the home equity portfolio. Effective January 2011, we began tracking lien position data for all new originations and our collections department continues to add lien position data once a loan reaches 75 days past due in connection with our updated assessment of combined loan-to-value (CLTV) exposure, which takes place for loans 90 days past due. In addition, when we are notified that the holder of a superior lien has commenced a foreclosure action, our home equity account is identified in the collections system for ongoing monitoring of the legal action. As of December 31, 2013, the portion of the home equity portfolio more than 90 days past due with a CLTV greater than 80% was $8.1 million.

As of December 31, 2013, full and complete first lien position data was readily available for approximately 41%, or $842 million, of the home equity portfolio. Of that total, approximately 37%, or $313 million, are in a junior lien position. We estimate that of those junior liens, 35%, or $110 million, are held or serviced by others.

When the first lien is held by a third party, we can, in some cases, obtain an indication that a first lien is in default through information reported to credit bureaus. However, because more than one mortgage may be reported in a borrower s credit report and there may not be a corresponding property address associated with reported mortgages, we are often unable to associate a specific first lien with our junior lien. As of December 31, 2013, there were 50 loans totaling $3.8 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 35 of the loans (totaling $2.8 million), our second lien position was performing at the time such foreclosure action was commenced. The total estimated loss related to those 35 loans was $0.2 million as of December 31, 2013. It is important to note that the percentage of new home equity originations for which we hold the first lien has increased steadily from approximately 40% in 2009 to approximately 65% as of December 31, 2013.

We believe there are several factors that serve to mitigate the potential risk associated with the limitations on available first lien data. Most importantly, our underwriting guidelines for home equity loans, which have been, and continue to be, consistently applied, generally require the following: (i) properties located within our geographic footprint; (ii) lower LTV ratios; and (iii) higher credit scores. Notwithstanding the maximum LTV ratios and minimum FICO scores discussed previously, actual LTV ratios at origination were less than 60% on average and current FICO scores of our borrowers are greater than 750 on average. In addition, as of December 31, 2013, approximately 83% of the portfolio balance relates to originations that occurred since 2005, which is generally recognized as the peak of the recent housing bubble. We believe these factors are a primary reason for the portfolio s relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average total loans.

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

As of December 31, 2013, the weighted average CLTV ratio and FICO score for the home equity portfolio were approximately 55% and 755, respectively.

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Portfolio Risk Elements Commercial Real Estate Lending

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

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

People s United Financial s construction loan portfolio totaled $532 million (approximately 2% of total loans) at December 31, 2013. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, totaled $946 million. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At December 31, 2013, construction loans totaling $237 million had remaining available interest reserves totaling $51 million. At that date, the Company had no construction loans with interest reserves that were on non-accrual status and included in non-performing loans.

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 $14 million of restructured construction loans as of December 31, 2013.

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

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

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

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

Allowance and Provision for Loan Losses

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

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

For a more detailed discussion of the Company s allowance for loan losses methodology and related policies, see Note 1 to the Consolidated Financial Statements.

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

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the accretable yield , is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, acquired loans are not subject to classification as non-accrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the nonaccretable difference , includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses. At December 31, 2013 and 2012, the allowance for loan losses on acquired loans was $10.3 million and $10.5 million, respectively.

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

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Provision and Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses and ratios:

Years ended December 31 (dollars in millions)	2013	2012	2011	2010	2009
Allowance for loan losses on originated loans:					
Balance at beginning of period	$ 177.5	$ 175.5	$ 172.5	$ 172.5	$ 157.5
Charge-offs:					
Commercial Banking:					
Commercial real estate	(10.1)	(15.8)	(21.7)	(27.5)	(10.9)
Commercial and industrial	(16.8)	(11.2)	(12.6)	(14.3)	(9.8)
Equipment financing	(2.8)	(4.6)	(9.0)	(9.5)	(8.8)
Total	(29.7)	(31.6)	(43.3)	(51.3)	(29.5)
Retail:					
Residential mortgage	(6.5)	(7.2)	(7.4)	(4.3)	(5.4)
Home equity	(7.2)	(6.4)	(3.8)	(3.8)	(3.5)
Other consumer	(2.3)	(2.7)	(3.6)	(5.3)	(7.1)
Total	(16.0)	(16.3)	(14.8)	(13.4)	(16.0)
Total charge-offs	(45.7)	(47.9)	(58.1)	(64.7)	(45.5)
Recoveries:					
Commercial Banking:					
Commercial real estate	1.2	1.3	0.5	0.8	0.3
Commercial and industrial	1.7	1.2	1.0	1.0	1.0
Equipment financing	0.8	0.7	0.2	0.3	0.2
Total	3.7	3.2	1.7	2.1	1.5
Retail:					
Residential mortgage	0.7	0.8	1.0	0.6	0.2
Home equity	0.8	1.0	0.4	0.4	0.2
Other consumer	1.0	1.5	1.7	1.6	1.6
Total	2.5	3.3	3.1	2.6	2.0
Total recoveries	6.2	6.5	4.8	4.7	3.5
Net loan charge-offs	(39.5)	(41.4)	(53.3)	(60.0)	(42.0)
Provision for loan losses	39.5	43.4	56.3	60.0	57.0
Balance at end of period	$ 177.5	$ 177.5	$ 175.5	$ 172.5	$ 172.5
Allowance for loan losses on acquired loans:					
Balance at beginning of period	$ 10.5	$ 7.4	$	$	$
Charge-offs	(4.4)	(2.7)			
Provision for loan losses	4.2	5.8	7.4		

Balance at end of period	$ 10.3	$ 10.5	$ 7.4	$	$
Commercial banking originated allowance for loan losses as a percentage of originated commercial banking loans	0.95%	1.13%	1.39%	1.62%	1.72%
Retail originated allowance for loan losses as a percentage of originated retail loans	0.30	0.36	0.29	0.25	0.14
Total originated allowance for loan losses as a percentage of:					
Originated loans	0.78	0.91	1.05	1.19	1.22
Originated non-performing loans	81.9	70.3	59.7	70.3	102.2

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The provision for loan losses on originated loans totaled $39.5 million in 2013, reflecting net loan charge-offs of $39.5 million (including $21.3 million against previously-established specific reserves) and an $18.2 million increase in the originated allowance for loan losses due to growth in both the commercial banking and residential mortgage loan portfolios. The provision for loan losses on originated loans totaled $43.4 million in 2012, reflecting net loan charge-offs of $41.4 million (including $19.6 million against previously-established specific reserves) and a $23.8 million increase in the originated allowance for loan losses due to growth in both the commercial banking and residential mortgage loan portfolios. The originated allowance for loan losses as a percentage of originated loans was 0.78% at December 31, 2013 and 0.91% at December 31, 2012.

The provision for loan losses on acquired loans totaled $4.2 million in 2013, reflecting net loan charge-offs of $4.4 million, all of which carried previously-established specific reserves, and a $0.2 million decrease in the acquired allowance for loan losses. The provision for loan losses on acquired loans totaled $5.8 million in 2012, reflecting net loan charge-offs of $2.7 million, all of which carried previously-established specific reserves, and a $3.1 million increase in the acquired allowance for loan losses due to impairment on certain acquired loans.

Loan Charge-Offs

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

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

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

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

Net loan charge-offs as a percentage of average total loans equaled 0.19% in 2013, 0.21% in 2012 and 0.28% in 2011. The comparatively low level of net loan charge-offs in recent years, in terms of absolute dollars and as a percentage of average total loans, may not be sustainable in the future.

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

Years ended December 31	2013	2012	2011	2010	2009
Commercial Banking:					
Commercial real estate	0.16%	0.24%	0.30%	0.48%	0.20%
Commercial and industrial	0.26	0.18	0.26	0.47	0.31
Equipment financing	0.08	0.19	0.44	0.44	0.70
Retail:					
Residential mortgage	0.15	0.17	0.21	0.15	0.19
Home equity	0.31	0.26	0.17	0.17	0.17
Other consumer	1.29	0.93	0.93	1.57	1.90
Total portfolio	0.19%	0.21%	0.28%	0.40%	0.29%

The following table presents, by class of loan, the allocation of the allowance for loan losses on originated loans and the percent of loans in each class to total loans:

As of December 31	2013		2012		2011		2010		2009	
(dollars in millions)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Commercial Banking:										
Commercial real estate	$ 65.0	36.6%	$ 60.0	33.6%	$ 70.5	35.2%	$ 82.0	42.2%	$ 91.0	38.3%
Commercial and industrial	72.5	25.8	75.5	27.8	69.4					