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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

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

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

(203) 338-7171

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 31, 2011, there were 376,504,222 shares of the registrant s common stock outstanding.

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Item 1 - Financial Statements

People s United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 334.7	$ 354.7
Short-term investments (note 3)	821.9	599.8
Total cash and cash equivalents	1,156.6	954.5
Securities purchased under agreements to resell		520.0
Securities (note 3):		
Trading account securities, at fair value	84.9	83.5
Securities available for sale, at fair value	3,025.6	2,831.1
Securities held to maturity, at amortized cost (fair value of $64.4 million and $55.1 million)	56.0	55.1
Federal Home Loan Bank stock, at cost	59.5	63.6
Total securities	3,226.0	3,033.3
Residential mortgage loans held for sale	36.8	88.5
Loans (note 4):		
Commercial real estate	6,530.9	7,306.3
Commercial	6,074.1	5,196.0
Residential mortgage	2,931.7	2,647.5
Consumer	2,150.3	2,177.9
Total loans	17,687.0	17,327.7
Less allowance for loan losses	(176.0)	(172.5)
Total loans, net	17,511.0	17,155.2
Goodwill (note 7)	1,720.0	1,723.4
Other acquisition-related intangibles (note 7)	226.7	238.6
Premises and equipment	323.6	325.1
Bank-owned life insurance	293.5	291.8
Other assets (notes 2, 4 and 12)	828.3	706.7
Total assets	$ 25,322.5	$ 25,037.1
Liabilities		
Deposits:		
Non-interest-bearing	$ 3,932.2	$ 3,872.6
Savings, interest-bearing checking and money market	9,336.8	8,897.8
Time	5,009.3	5,162.7
Total deposits	18,278.3	17,933.1

Borrowings:		
Federal Home Loan Bank advances	477.5	509.3
Repurchase agreements	453.7	501.3
Federal funds purchased	400.0	
Total borrowings	1,331.2	1,010.6
Subordinated notes and debentures	159.1	182.2
Other liabilities (note 12)	360.0	691.9
Total liabilities	20,128.6	19,817.8
Commitments and contingencies (note 9)		
Stockholders Equity		
Common stock ($0.01 par value; 1.95 billion shares authorized; 377.0 million shares and 376.6 million shares issued)	3.7	3.7
Additional paid-in capital	4,989.1	4,978.8
Retained earnings	763.2	772.6
Treasury stock, at cost (22.0 million shares and 17.5 million shares) (note 5)	(307.6)	(248.9)
Accumulated other comprehensive loss (note 5)	(70.2)	(99.0)
Unallocated common stock of Employee Stock Ownership Plan, at cost (8.9 million shares and 9.1 million shares) (note 8)	(184.3)	(187.9)
Total stockholders equity	5,193.9	5,219.3
Total liabilities and stockholders equity	$ 25,322.5	$ 25,037.1

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

(in millions, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest and dividend income:				
Commercial real estate	$ 92.5	$ 75.6	$ 194.1	$ 149.9
Commercial	85.9	69.7	164.5	127.7
Residential mortgage	29.7	27.7	59.0	55.8
Consumer	20.6	22.5	41.5	45.3
Total interest on loans	228.7	195.5	459.1	378.7
Securities	23.4	9.2	44.4	17.3
Residential mortgage loans held for sale	0.3	0.6	1.0	1.1
Short-term investments	0.4	1.5	1.0	3.2
Securities purchased under agreements to resell		0.1	0.1	0.2
Total interest and dividend income	252.8	206.9	505.6	400.5
Interest expense:				
Deposits	26.4	29.0	53.0	58.7
Borrowings	2.4	0.3	4.9	0.8
Subordinated notes and debentures	2.8	3.8	6.2	7.6
Total interest expense	31.6	33.1	64.1	67.1
Net interest income	221.2	173.8	441.5	333.4
Provision for loan losses (note 4)	14.0	17.8	28.6	27.3
Net interest income after provision for loan losses	207.2	156.0	412.9	306.1
Non-interest income:				
Bank service charges	32.9	32.9	63.9	64.1
Investment management fees	8.3	8.6	16.5	16.5
Insurance revenue	6.6	6.3	14.5	13.6
Brokerage commissions	3.3	2.8	6.5	5.6
Net gains on sales of loans	8.3	2.7	16.9	5.5
Bank-owned life insurance	1.4	2.6	2.6	4.4
Merchant services income, net	1.1	1.1	2.1	2.1
Net security gains	0.1		0.2	
Other non-interest income	14.6	12.7	28.0	22.1
Total non-interest income	76.6	69.7	151.2	133.9
Non-interest expense:				
Compensation and benefits	102.5	92.6	207.9	188.9
Occupancy and equipment	30.9	28.5	64.0	58.3
Professional and outside service fees	17.4	20.8	33.3	34.4
Merger-related expenses (note 2)	6.4	2.8	9.5	17.5
Other non-interest expense (note 7)	49.8	58.0	95.1	97.5

Total non-interest expense	207.0	202.7	409.8	396.6
Income before income tax expense	76.8	23.0	154.3	43.4
Income tax expense	25.6	7.0	51.4	13.8
Net income	$ 51.2	$ 16.0	$ 102.9	$ 29.6
Earnings per common share (note 6):				
Basic	$ 0.15	$ 0.04	$ 0.30	$ 0.08
Diluted	0.15	0.04	0.30	0.08

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Changes in Stockholders Equity - (Unaudited)

For the six months ended June 30, 2011 (in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Total Stockholders Equity
Balance at December 31, 2010	$ 3.7	$ 4,978.8	$ 772.6	$ (248.9)	$ (99.0)	$ (187.9)	$ 5,219.3
Comprehensive income:							
Net income			102.9				102.9
Other comprehensive income, net of tax (note 5)					28.8		28.8
Total comprehensive income							131.7
Cash dividends on common stock ($0.3125 per share)			(108.7)				(108.7)
Restricted stock awards		6.5	(1.0)	2.0			7.5
ESOP common stock committed to be released (note 8)			(1.3)			3.6	2.3
Common stock repurchased (note 5)				(60.7)			(60.7)
Common stock repurchased and retired upon vesting of restricted stock awards			(1.3)				(1.3)
Stock options and related tax benefits		3.8					3.8
Balance at June 30, 2011	$ 3.7	$ 4,989.1	$ 763.2	$ (307.6)	$ (70.2)	$ (184.3)	$ 5,193.9

For the six months ended June 30, 2010 (in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Unallocated ESOP Common Stock	Total Stockholders Equity
Balance at December 31, 2009	$ 3.5	$ 4,511.3	$ 914.5	$ (58.6)	$ (74.8)	$ (195.2)	$ 5,100.7
Comprehensive income:							
Net income			29.6				29.6
Other comprehensive income, net of tax					14.3		14.3
Total comprehensive income							43.9
Common stock issued in the Financial Federal acquisition, net (note 2)	0.3	405.1					405.4
Cash dividends on common stock ($0.3075 per share)			(107.4)				(107.4)
Restricted stock awards		17.9		0.3			18.2
ESOP common stock committed to be released (note 8)			(1.0)			3.7	2.7
Common stock repurchased				(51.9)			(51.9)
Common stock repurchased and retired upon vesting of restricted stock awards			(4.6)				(4.6)
Stock options and related tax benefits		6.3					6.3

Balance at June 30, 2010	$ 3.8	$ 4,940.6	$ 831.1	$ (110.2)	$ (60.5)	$ (191.5)	$ 5,413.3

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

(in millions)	Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities:		
Net income	$ 102.9	$ 29.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	28.6	27.3
Depreciation and amortization of premises and equipment	18.5	18.6
Amortization of leased equipment	10.2	6.8
Amortization of other acquisition-related intangibles	11.9	9.5
Net security gains	(0.2)	
Net gains on sales of loans	(16.9)	(5.5)
ESOP common stock committed to be released	2.3	2.7
Expense related to share-based awards	12.9	14.1
Originations of residential mortgage loans held-for-sale	(224.9)	(415.9)
Proceeds from sales of residential mortgage loans held-for-sale	293.5	421.7
Net (increase) decrease in trading account securities	(1.4)	0.1
Net changes in other assets and liabilities	(228.4)	8.2
Net cash provided by operating activities	9.0	117.2
Cash Flows from Investing Activities:		
Net decrease (increase) in securities purchased under agreements to resell	520.0	(345.0)
Proceeds from sales of securities available for sale	3.9	0.9
Proceeds from principal repayments of securities available for sale	663.9	115.5
Proceeds from principal repayments of securities held to maturity	0.1	
Proceeds from redemption of FHLB stock	4.1	
Purchases of securities available for sale	(821.7)	(968.7)
Purchases of securities held to maturity	(1.0)	
Proceeds from sales of loans	103.1	1.5
Net loan principal (disbursements) collections	(523.6)	327.0
Purchases of premises and equipment	(17.0)	(7.5)
Purchases of leased equipment	(9.1)	(12.6)
Proceeds from sales of real estate owned	9.8	6.9
Return of premiums on bank-owned life insurance, net	0.9	
Cash consideration in acquisitions, net	(214.5)	(260.0)
Net cash used in investing activities	(281.1)	(1,142.0)
Cash Flows from Financing Activities:		
Net increase in deposits	345.2	161.2
Net increase (decrease) in borrowings with terms of three months or less	350.3	(11.1)
Repayments of borrowings with terms of more than three months	(27.4)	(822.9)
Repayments of subordinated notes and debentures	(24.0)	
Cash dividends paid on common stock	(108.7)	(107.4)
Common stock repurchases	(62.0)	(56.5)
Proceeds from stock options exercised, including excess income tax benefits	0.8	0.2
Net cash provided by (used in) financing activities	474.2	(836.5)

Net increase (decrease) in cash and cash equivalents	202.1	(1,861.3)
Cash and cash equivalents at beginning of period	954.5	3,418.0
Cash and cash equivalents at end of period	$ 1,156.6	$ 1,556.7
Supplemental Information:		
Interest payments	$ 67.8	$ 66.7
Income tax payments	45.0	30.3
Real estate properties acquired by foreclosure	9.2	9.6
Assets acquired and liabilities assumed in acquisitions (note 2):		
Non-cash assets, excluding goodwill and other acquisition-related intangibles		1,458.9
Liabilities		1,068.8
Common stock issued in acquisitions		405.4

See accompanying notes to consolidated financial statements.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. GENERAL

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

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

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

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

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

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

NOTE 2. ACQUISITIONS

Acquisition Completed in 2011

After the close of business on June 30, 2011, People s United Financial acquired Danvers Bancorp, Inc. (Danvers) based in Danvers, Massachusetts. The transaction is effective July 1, 2011 and, as such, People s United Financial s consolidated financial statements as of and for the period ended June 30, 2011 do not include amounts for Danvers. At June 30, 2011, Danvers reported total assets of $2.60 billion and total deposits of $2.06 billion and operates 28 branches in the greater Boston area.

Total consideration paid in the Danvers acquisition of approximately $463 million consisted of approximately $215 million in cash and 18.5 million shares of People s United Financial common stock with a fair value of approximately $248 million. Cash consideration was paid at the rate of $23.00 per share of Danvers common stock and stock consideration was paid at the rate of 1.624 shares of People s United Financial common stock per share of Danvers common stock. Other assets in the Consolidated Statement of Condition at June 30, 2011 included the cash consideration placed in escrow for the benefit of Danvers shareholders (approximately $215 million).

Acquisitions Completed in 2010

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

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

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Notes to Consolidated Financial Statements (Unaudited)

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

The asset arising from the loss-sharing coverage is referred to as the FDIC loss-share receivable and is included in other assets ($20.0 million at June 30, 2011 and $26.2 million at December 31, 2010) in the Consolidated Statements of Condition. The FDIC loss-share receivable is measured separately from the covered loans because the coverage is not contractually embedded in the loans and is not transferable should People s United Bank choose to dispose of the covered loans. The FDIC loss-share receivable will be reduced as losses are realized on covered assets and as the loss-sharing payments are received from the FDIC. Realized losses in excess of the acquisition date estimates will result in an increase in the FDIC loss-share receivable. Conversely, the FDIC loss-share receivable will be reduced if realized losses are less than the estimates at acquisition. The amount ultimately collected for the FDIC loss-share receivable is dependent upon the performance of the underlying covered assets over time and claims submitted to the FDIC. In the event that losses under the loss-share coverage do not reach expected levels, People s United Bank has agreed to make a cash payment to the FDIC on approximately the tenth anniversary of the Agreement.

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

Recent acquisitions have been undertaken with the objective of expanding the Company s business, both geographically and through the products we offer, as well as realizing synergies and economies of scale by combining with the acquired entities. For these reasons, we paid a market-based premium for the acquired entities which, in turn, resulted in the recognition of goodwill, representing the excess of the respective purchase prices over the estimated fair value of the net assets acquired (see Note 7). All of People s United Financial s tax deductible goodwill was created in transactions in which the Company purchased the assets of the target (as opposed to purchasing the issued and outstanding stock of the target). At both June 30, 2011 and December 31, 2010, tax deductible goodwill totaled $50.5 million and related, almost entirely, to the Butler Bank acquisition. People s United Financial s results of operations include the results of the acquired entities beginning with the respective closing dates.

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Notes to Consolidated Financial Statements (Unaudited)

NOTE 3. SECURITIES AND SHORT-TERM INVESTMENTS

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

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

As of June 30, 2011 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	$ 258.8	$ 0.3	$	$ 259.1
GSE (1) residential mortgage-backed securities and CMOs (2)	2,664.4	39.7	(0.3)	2,703.8
State and municipal	57.2	2.7		59.9
Other	2.6	0.1		2.7
Total debt securities	2,983.0	42.8	(0.3)	3,025.5
Equity securities	0.1			0.1
Total securities available for sale	$ 2,983.1	$ 42.8	$ (0.3)	$ 3,025.6
Securities held to maturity:				
Debt securities:				
Corporate	$ 55.0	$ 8.4	$	$ 63.4
Other	1.0			1.0
Total securities held to maturity	$ 56.0	$ 8.4	$	$ 64.4

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

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

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

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Notes to Consolidated Financial Statements (Unaudited)

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

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
As of June 30, 2011 (in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
GSE residential mortgage-backed securities and CMOs	$ 127.7	$ (0.3)	$	$	$ 127.7	$ (0.3)
U.S. Treasury and agency (1)	9.5				9.5	
State and municipal (1)	1.0		0.3		1.3	
Total	$ 138.2	$ (0.3)	$ 0.3	$	$ 138.5	$ (0.3)

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

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

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

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	Available for Sale		Held to Maturity	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and agency:				
Within 1 year	$ 10.8	$ 10.8	$	$
After 1 but within 5 years	242.7	243.0		
After 5 but within 10 years	5.3	5.3		
Total	258.8	259.1		
GSE residential mortgage-backed securities and CMOs:				
Within 1 year	1.5	1.5		
After 5 but within 10 years	214.8	215.4		
After 10 years	2,448.1	2,486.9		
Total	2,664.4	2,703.8		
State and municipal:				
Within 1 year	2.1	2.1		
After 1 but within 5 years	11.8	12.2		
After 5 but within 10 years	23.8	25.1		
After 10 years	19.5	20.5		
Total	57.2	59.9		
Other:				
After 1 but within 5 years			1.0	1.0
After 5 but within 10 years			55.0	63.4
After 10 years	2.6	2.7		
Total	2.6	2.7	56.0	64.4
Total:				
Within 1 year	14.4	14.4		
After 1 but within 5 years	254.5	255.2	1.0	1.0
After 5 but within 10 years	243.9	245.8	55.0	63.4
After 10 years	2,470.2	2,510.1		
Total	$ 2,983.0	$ 3,025.5	$ 56.0	$ 64.4

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People s United Financial, Inc.

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People s United Bank, as a member of the Federal Home Loan Bank (FHLB) of Boston, is currently required to purchase and hold shares of FHLB capital stock (total cost of $45.7 million at June 30, 2011) in an amount equal to its membership base investment plus an activity based investment determined according to People s United Bank s level of outstanding FHLB advances. FHLB stock is a non-marketable equity security and is, therefore, reported at cost, which equals par value (the amount at which shares have been redeemed in the past). As with other investment securities, the investment is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. As a result of operating losses and a decline in capital, in February 2009 the FHLB of Boston suspended paying dividends and placed a moratorium on certain stock repurchases. In the first quarter of 2011, the FHLB of Boston resumed dividend payments. Based on the current capital adequacy and liquidity position of the FHLB of Boston, management believes there is no impairment in the Company s investment at June 30, 2011 and the cost of the investment approximates fair value. As a result of the Smithtown acquisition, People s United Financial acquired shares of capital stock in the FHLB of New York (total cost of $13.8 million at June 30, 2011), which also pays a dividend.

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

The balance of short-term investments at June 30, 2011 and December 31, 2010 principally consisted of $781.6 million and $570.3 million, respectively, of interest-earning deposits at the Federal Reserve Bank of New York. These deposits are an alternative to overnight federal funds sold and had a yield of 0.25% at both June 30, 2011 and December 31, 2010.

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People s United Financial, Inc.

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NOTE 4. LOANS

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

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

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

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	June 30, 2011			December 31, 2010		
(in millions)	Originated	Acquired	Total	Originated	Acquired	Total
Commercial Banking:						
Commercial real estate (1)	$ 5,073.5	$ 1,457.4	$ 6,530.9	$ 5,605.1	$ 1,701.2	$ 7,306.3
Commercial and industrial (1)	3,942.2	121.6	4,063.8	3,016.0	79.6	3,095.6
Equipment financing	1,524.9	485.4	2,010.3	1,419.4	681.0	2,100.4
Total commercial	5,467.1	607.0	6,074.1	4,435.4	760.6	5,196.0
Total Commercial Banking	10,540.6	2,064.4	12,605.0	10,040.5	2,461.8	12,502.3
Retail:						
Residential mortgage:						
Adjustable-rate	2,228.5	105.0	2,333.5	1,927.5	190.4	2,117.9
Fixed-rate	435.6	162.6	598.2	366.5	163.1	529.6
Total residential mortgage	2,664.1	267.6	2,931.7	2,294.0	353.5	2,647.5
Consumer:						
Home equity	1,897.8	52.7	1,950.5	1,919.0	57.8	1,976.8
Other consumer	197.3	2.5	199.8	196.7	4.4	201.1
Total consumer	2,095.1	55.2	2,150.3	2,115.7	62.2	2,177.9
Total Retail	4,759.2	322.8	5,082.0	4,409.7	415.7	4,825.4
Total loans	$ 15,299.8	$ 2,387.2	$ 17,687.0	$ 14,450.2	$ 2,877.5	$ 17,327.7

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

Net deferred loan costs that are included in total loans and accounted for as interest yield adjustments totaled $30.3 million and $26.5 million at June 30, 2011 and December 31, 2010, respectively.

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

(in millions)	Commercial Banking	Retail	Total
For the three months ended June 30, 2011			
Balance at beginning of period	$ 165.7	$ 11.8	$ 177.5
Charge-offs	(13.6)	(3.8)	(17.4)
Recoveries	0.3	1.6	1.9
Net loan charge-offs	(13.3)	(2.2)	(15.5)
Provision for loan losses	11.5	2.5	14.0
Balance at end of period	$ 163.9	$ 12.1	$ 176.0
For the six months ended June 30, 2011			
Balance at beginning of period	$ 161.5	$ 11.0	$ 172.5
Charge-offs	(20.7)	(7.1)	(27.8)
Recoveries	0.6	2.1	2.7
Net loan charge-offs	(20.1)	(5.0)	(25.1)
Provision for loan losses	22.5	6.1	28.6
Balance at end of period	$ 163.9	$ 12.1	$ 176.0

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

As of June 30, 2011	Originated Loans Individually Evaluated for Impairment		Originated Loans Collectively Evaluated for Impairment		Acquired Loans (Discounts Related to Credit Quality)		Total	
(in millions)	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial Banking	$ 182.5	$ 31.4	$ 10,358.1	$ 132.5	$ 2,064.4	$	$ 12,605.0	$ 163.9
Retail	15.3		4,743.9	12.1	322.8		5,082.0	12.1
Total	$ 197.8	$ 31.4	$ 15,102.0	$ 144.6	$ 2,387.2	$	$ 17,687.0	$ 176.0

As of December 31, 2010	Originated Loans Individually Evaluated	Originated Loans Collectively Evaluated for Impairment	Acquired Loans (Discounts Related to Credit Quality)	Total

(in millions)	for Impairment Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Commercial Banking	$ 174.4	$ 27.6	$ 9,866.1	$ 133.9	$ 2,461.8	$	$ 12,502.3	$ 161.5
Retail	8.2		4,401.5	11.0	415.7		4,825.4	11.0
Total	$ 182.6	$ 27.6	$ 14,267.6	$ 144.9	$ 2,877.5	$	$ 17,327.7	$ 172.5

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

(in millions)	June 30, 2011	December 31, 2010
Commercial Banking:		
Commercial real estate	$ 90.2	$ 82.5
Commercial and industrial	54.1	38.2
Equipment financing	36.0	36.0
Total (1)	180.3	156.7
Retail:		
Residential mortgage	65.8	78.8
Home equity	12.3	9.1
Other consumer	0.4	0.6
Total	78.5	88.5
Total	$ 258.8	$ 245.2

(1) Reported net of government guarantees totaling $10.7 million and $9.4 million at June 30, 2011 and December 31, 2010, respectively. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. The principal loan classes to which these government guarantees relate are commercial and industrial loans (approximately 90%) and commercial real estate loans (approximately 10%).

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by an FDIC loss-share agreement totaling $234 million and $16 million, respectively, at June 30, 2011 and $342 million and $18 million, respectively, at December 31, 2010. Such loans meet People s United Financial s definition of a non-performing loan but are excluded given that the risk of credit loss has been considered by virtue of our estimate of acquisition-date fair value and/or the existence of an FDIC loss-share agreement. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. Past due status is based on the contractual payment terms of the loan. A loan may be placed on non-accrual status before it reaches 90 days past due if such loan has been identified as presenting uncertainty with respect to the collectibility of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection. Loans past due 90 days or more and still accruing interest totaled $1.2 million at December 31, 2010 (none at June 30, 2011).

People s United Financial s recorded investment in originated loans classified as troubled debt restructurings (TDRs) totaled $83.4 million and $62.6 million at June 30, 2011 and December 31, 2010, respectively. The related allowance for loan losses at June 30, 2011 and December 31, 2010 was $7.3 million and $8.4 million, respectively, and interest income recognized on these loans totaled $1.9 million and $0.3 million for the six months ended June 30, 2011 and 2010, respectively.

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People s United Financial, Inc.

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People s United Financial s impaired loans consist of certain Commercial Banking and Retail loans, including TDRs. The following is a summary, by class of loan, of information related to impaired loans within the originated portfolio:

	As of June 30, 2011			Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
(in millions)	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance for loan losses:							
Commercial Banking:							
Commercial real estate	$ 37.5	$ 32.1	$	$ 23.3	$ 0.7	$ 24.1	$ 0.9
Commercial and industrial	17.2	16.2		16.5	0.4	14.2	0.6
Equipment financing	25.8	22.9		25.6	0.2	25.5	0.4
Retail:							
Residential mortgage	15.0	14.6		10.6	0.2	9.6	0.3
Home equity	0.7	0.7		0.7		0.5	
Other consumer							
Total	96.2	86.5		76.7	1.5	73.9	2.2
With a related allowance for loan losses:							
Commercial Banking:							
Commercial real estate	67.0	51.4	16.4	58.5	1.1	63.7	1.2
Commercial and industrial	35.5	21.3	6.5	15.7	0.6	11.9	0.8
Equipment financing	43.0	38.6	8.5	33.5	0.3	31.5	0.5
Retail:							
Residential mortgage							
Home equity							
Other consumer							
Total	145.5	111.3	31.4	107.7	2.0	107.1	2.5
Total impaired loans:							
Commercial Banking:							
Commercial real estate	104.5	83.5	16.4	81.8	1.8	87.8	2.1
Commercial and industrial	52.7	37.5	6.5	32.2	1.0	26.1	1.4
Equipment financing	68.8	61.5	8.5	59.1	0.5	57.0	0.9
Total Commercial Banking	226.0	182.5	31.4	173.1	3.3	170.9	4.4
Retail:							
Residential mortgage	15.0	14.6		10.6	0.2	9.6	0.3
Home equity	0.7	0.7		0.7		0.5	
Other consumer							
Total Retail	15.7	15.3		11.3	0.2	10.1	0.3

Total	$ 241.7	$ 197.8	$ 31.4	$ 184.4	$ 3.5	$ 181.0	$ 4.7

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People s United Financial, Inc.

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

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

As of June 30, 2011 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total Past Due	Total Originated
Commercial Banking:					
Commercial real estate	$ 4,994.3	$ 30.2	$ 49.0	$ 79.2	$ 5,073.5
Commercial and industrial	3,863.3	35.5	43.4	78.9	3,942.2
Equipment financing	1,456.2	50.4	18.3	68.7	1,524.9
Total	10,313.8	116.1	110.7	226.8	10,540.6
Retail:					
Residential mortgage	2,534.1	65.9	64.1	130.0	2,664.1
Home equity	1,874.0	12.3	11.5	23.8	1,897.8
Other consumer	192.2	4.6	0.4	5.1	197.3
Total	4,600.3	82.8	76.0	158.9	4,759.2
Total originated loans	$ 14,914.1	$ 198.9	$ 186.7	$ 385.7	$ 15,299.8

Included in the Current and 30-89 Days categories above are $42.8 million, $19.5 million and $17.7 million of early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans, respectively. These loans are less than 90 days past due but have been identified as presenting uncertainty with respect to the collectability of interest and principal.

As of December 31, 2010 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total Past Due	Total Originated
Commercial Banking:					
Commercial real estate	$ 5,501.9	$ 35.3	$ 67.9	$ 103.2	$ 5,605.1
Commercial and industrial	2,953.5	23.9	38.6	62.5	3,016.0
Equipment financing	1,376.0	21.6	21.8	43.4	1,419.4
Total	9,831.4	80.8	128.3	209.1	10,040.5
Retail:					
Residential mortgage	2,142.2	75.6	76.2	151.8	2,294.0
Home equity	1,895.7	14.4	8.9	23.3	1,919.0
Other consumer	189.5	6.6	0.6	7.2	196.7
Total	4,227.4	96.6	85.7	182.3	4,409.7
Total originated loans	$ 14,058.8	$ 177.4	$ 214.0	$ 391.4	$ 14,450.2

Included in the "Current" and "30-89 Days" categories above are $17.3 million, $16.7 million and $6.3 million of early non-performing commercial real estate loans, equipment financing loans, and commercial and industrial loans, respectively. These loans are less than 90 days past due but have been identified as presenting uncertainty with respect to the collectability of interest and principal.

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

As of June 30, 2011 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial Banking:				
Originated loans				
Pass	$ 4,669.1	$ 3,581.2	$ 1,253.3	$ 9,503.6
Special mention	117.6	144.0	102.0	363.6
Substandard	286.4	213.1	169.6	669.1
Doubtful	0.4	3.9		4.3
Total originated loans	5,073.5	3,942.2	1,524.9	10,540.6
Acquired loans				
Pass	969.3	81.3	155.6	1,206.2
Special mention	144.7	20.0	130.9	295.6
Substandard	342.1	19.9	196.8	558.8
Doubtful	1.3	0.4	2.1	3.8
Total acquired loans	1,457.4	121.6	485.4	2,064.4
Total Commercial Banking	$ 6,530.9	$ 4,063.8	$ 2,010.3	$ 12,605.0

	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans				
Low risk	$ 1,580.7	$ 1,156.6	$ 166.9	$ 2,904.2
Moderate risk	1,048.8	643.3	8.3	1,700.4
High risk	34.6	97.9	22.1	154.6
Total originated loans	2,664.1	1,897.8	197.3	4,759.2
Acquired loans				
Low risk	164.0	39.4	0.6	204.0
Moderate risk	100.2	10.9	0.2	111.3
High risk	3.4	2.4	1.7	7.5
Total acquired loans	267.6	52.7	2.5	322.8
Total Retail	$ 2,931.7	$ 1,950.5	$ 199.8	$ 5,082.0

People s United Financial, Inc.

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

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

Commercial Banking Credit Quality Indicators

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

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

Retail Credit Quality Indicators

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

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

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

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

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

Acquired Loans Credit Quality Indicators

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

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

Acquired Loans

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

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

Subsequent to acquisition, the estimate of cash flows expected to be collected is regularly re-assessed. These re-assessments involve the use of key assumptions and estimates, similar to those used in the initial estimate of fair value. Generally speaking, expected cash flows are affected by:

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

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

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

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

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

At the respective acquisition dates in 2010, on an aggregate basis, the acquired loan portfolio had contractually required principal and interest payments receivable of $5.04 billion; expected cash flows of $4.53 billion; and a fair value (initial carrying amount) of $3.49 billion. The difference between the contractually required principal and interest payments receivable and the expected cash flows ($514.8 million) represented the initial nonaccretable difference. The difference between the expected cash flows and fair value ($1.04 billion) represented the initial accretable yield. Both the contractually required principal and interest payments receivable and the expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At June 30, 2011, the outstanding balance and the carrying amount of the acquired loan portfolio were $2.58 billion and $2.39 billion, respectively ($3.21 billion and $2.88 billion, respectively, at December 31, 2010). There was no related allowance for loan losses for acquired loans at either date, as there were no decreases in expected cash flows compared to the estimates made at the respective acquisition dates.

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

For the three months ended June 30 (in millions)	2011	2010
Balance at beginning of period	$ 946.6	$ 74.5
Acquisitions		35.6
Reclassification from nonaccretable difference for loans with improved cash flows (1)	9.8	
Changes in expected cash flows that do not affect nonaccretable difference (2)	9.9	
Accretion	(57.1)	(22.8)
Loan sales (3)	(7.2)	
Balance at end of period	$ 902.0	$ 87.3

For the six months ended June 30 (in millions)	2011	2010
Balance at beginning of period	$ 954.8	$
Acquisitions		120.3
Reclassification from nonaccretable difference for loans with improved cash flows (1)	55.3	
Changes in expected cash flows that do not affect nonaccretable difference (2)	22.9	
Accretion	(117.9)	(33.0)
Loan sales (4)	(13.1)	
Balance at end of period	$ 902.0	$ 87.3

(1) Results in increased interest income as a prospective yield adjustment over the remaining life of the corresponding pool of loans.
(2) Represents changes in cash flows expected to be collected due to changes in prepayment assumptions and/or changes in interest rates on variable rate loans.
(3) Represents remaining accretable yield eliminated upon the sale of loans with an outstanding balance of $56.4 million (carrying amount of $41.0 million) to third parties.
(4) Represents remaining accretable yield eliminated upon the sale of loans with an outstanding balance of $106.1 million (carrying amount of $67.1 million) to third parties.

During the three and six months ended June 30, 2011, accretable yield adjustments totaling $19.7 million and $78.2 million, respectively, were made for certain loan pools to reflect better than expected credit experience ($9.8 million and $55.3 million, respectively) and slower than anticipated prepayment activity ($9.9 million and $22.9 million, respectively), as compared to the original acquisition date estimates. These accretable yield adjustments, which are subject to continued re-assessment, will be recognized over the remaining lives of those pools (weighted average period of approximately 4 years).

At June 30, 2011, the aggregate remaining nonaccretable difference (representing both principal and interest) applicable to acquired loans totaled $363.3 million.

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

Other real estate owned (REO) was comprised of residential and commercial properties totaling $16.1 million and $17.4 million, respectively, at June 30, 2011, and $21.3 million and $18.5 million, respectively, at December 31, 2010. Repossessed assets totaled $23.1 million and $18.1 million at June 30, 2011 and December 31, 2010, respectively.

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 5. STOCKHOLDERS EQUITY

Treasury Stock

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

In April 2008, People s United Financial s Board of Directors authorized the repurchase of up to 5% of People s United Financial s then-outstanding common stock, or up to a maximum of 17.3 million shares. Such shares may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In January 2011, People s United Financial s Board of Directors authorized an additional repurchase of common stock. Under the new repurchase authorization, up to 5% of People s United Financial s then-outstanding common stock, or up to 17.5 million shares, may be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. In February 2011, People s United Financial completed the repurchase of the maximum number of common stock authorized in April 2008 and began repurchasing common stock under the authorization announced in January 2011. In the first six months of 2011, 4.6 million shares of People s United Financial common stock were repurchased under the stock repurchase programs at a total cost of $60.7 million.

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

Comprehensive Income

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

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

(in millions)	June 30, 2011	December 31, 2010
Net actuarial loss and other amounts related to pension and and other postretirement benefit plans	$ (97.3)	$ (101.0)
Net unrealized gain on securities available for sale	27.1	1.5
Net gain on derivatives accounted for as cash flow hedges		0.5
Total accumulated other comprehensive loss	$ (70.2)	$ (99.0)

The decrease in total accumulated other comprehensive loss from December 31, 2010 consisted of an after-tax increase in the net unrealized gain on securities available for sale ($25.6 million) and an after-tax decrease in the net actuarial loss and other amounts related to pension and other postretirement benefit plans ($3.7 million), partially offset by an after-tax decrease in the net gain on derivatives accounted for as cash flow hedges ($0.5 million). Other comprehensive income, which is presented net of tax, totaled $28.8 million for the six months ended June 30, 2011. There are no other-than-temporary impairment losses recognized in accumulated other comprehensive loss at June 30, 2011 or December 31, 2010 (see Note 3).

NOTE 6. EARNINGS PER COMMON SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2011	2010	2011	2010
Net income	$ 51.2	$ 16.0	$ 102.9	$ 29.6
Dividends on participating securities	(0.4)	(0.4)	(0.7)	(0.9)
Income attributable to common shareholders	$ 50.8	$ 15.6	$ 102.2	$ 28.7
Average common shares outstanding for basic EPS	343.8	358.1	344.8	351.4
Effect of dilutive equity-based awards	0.1	0.1	0.1	0.2
Average common and common-equivalent shares for diluted EPS	343.9	358.2	344.9	351.6
Basic EPS	$ 0.15	$ 0.04	$ 0.30	$ 0.08
Diluted EPS	$ 0.15	$ 0.04	$ 0.30	$ 0.08

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

All unallocated ESOP common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted earnings per share. Anti-dilutive equity-based awards totaling 11.0 million for both the three and six months ended June 30, 2011 and 10.7 million for both the three and six months ended June 30, 2010 have been excluded from the calculation of diluted EPS.

NOTE 7. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

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

	Business Segment			
(in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total
Balance at December 31, 2010	$ 1,037.1	$ 636.5	$ 49.8	$ 1,723.4
Other adjustments	(2.7)	(0.7)		(3.4)
Balance at June 30, 2011	$ 1,034.4	$ 635.8	$ 49.8	$ 1,720.0

	Business Segment			
(in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total
Balance at December 31, 2009	$ 616.9	$ 595.0	$ 49.8	$ 1,261.7
Acquisition of:				
Financial Federal	258.3			258.3
Butler Bank	5.5	10.9		16.4
Other adjustments	(1.7)	(1.3)		(3.0)
Balance at June 30, 2010	$ 879.0	$ 604.6	$ 49.8	$ 1,533.4

People s United Financial s other acquisition-related intangible assets totaled $226.7 million and $238.6 million at June 30, 2011 and December 31, 2010, respectively. At June 30, 2011, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible ($116.7 million); core deposit intangible ($75.1 million); trust relationship intangible ($32.7 million); and insurance relationship intangible ($2.2 million).

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Amortization expense of other acquisition-related intangible assets, which is included in other non-interest expense in the Consolidated Statements of Income, totaled $6.0 million and $4.8 million for the three months ended June 30, 2011 and 2010, respectively, and $11.9 million and $9.5 million for the six months ended June 30, 2011 and 2010, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2011 and each of the next five years is as follows: $25.0 million in 2011; $24.7 million in 2012; $24.2 million in 2013; $22.7 million in 2014; $21.8 million in 2015; and $11.6 million in 2016. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the six months ended June 30, 2011 or 2010.

NOTE 8. EMPLOYEE BENEFIT PLANS

People s United Financial Employee Pension and Other Postretirement Benefit Plans

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

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

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

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

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

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

For the three months ended June 30 (in millions)	Pension Benefits 2011	Pension Benefits 2010	Other Postretirement Benefits 2011	Other Postretirement Benefits 2010
Net periodic benefit expense:				
Service cost	$ 2.5	$ 2.3	$ 0.1	$ 0.1
Interest cost	4.7	4.2	0.1	0.1
Expected return on plan assets	(6.7)	(6.2)		
Amortization of unrecognized net transition obligation			0.1	0.1
Recognized net actuarial loss	2.6	1.7		
Recognized prior service credit	(0.1)	(0.1)		
Special termination benefits (1)		2.1		
Net periodic benefit expense	$ 3.0	$ 4.0	$ 0.3	$ 0.3

For the six months ended June 30 (in millions)	Pension Benefits 2011	Pension Benefits 2010	Other Postretirement Benefits 2011	Other Postretirement Benefits 2010
Net periodic benefit expense:				
Service cost	$ 4.9	$ 4.7	$ 0.1	$ 0.1
Interest cost	9.3	8.3	0.3	0.3
Expected return on plan assets	(13.3)	(12.5)		
Amortization of unrecognized net transition obligation			0.2	0.2
Recognized net actuarial loss	5.2	3.4		
Recognized prior service credit	(0.1)	(0.1)	(0.1)	(0.1)
Special termination benefits (1)		2.1		
Net periodic benefit expense	6.0	5.9	0.5	0.5
Other changes in plan assets and benefit obligations recognized in other comprehensive income or loss:				
Net actuarial loss	(5.2)	(3.4)		
Transition obligation			(0.2)	(0.2)
Prior service credit	0.1	0.1	0.1	0.1
Total pre-tax changes recognized in other comprehensive income or loss	(5.1)	(3.3)	(0.1)	(0.1)
Total recognized in net periodic benefit expense and other comprehensive income or loss	$ 0.9	$ 2.6	$ 0.4	$ 0.4

(1) Included in other non-interest expense in the Consolidated Statements of Income.

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Chittenden Pension Plan

In addition to the plans described above, People s United Financial continues to maintain a fully-funded qualified defined benefit pension plan that covers former Chittenden Corporation (Chittenden) employees who meet certain eligibility requirements. Effective December 31, 2005, benefits accrued under this defined benefit plan were frozen based on participants then current service and pay levels. During April 2010, participants in the Chittenden pension plan who were in payment status as of April 1, 2010 or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010 (based upon elections made by April 15, 2010) were transferred into the People s United Financial pension plan. Net periodic benefit income for the Chittenden pension plan totaled $0.2 million and $1.2 million for the six months ended June 30, 2011 and 2010, respectively.

Employee Stock Ownership Plan

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

Shares of People s United Financial common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant s eligible compensation. Since the ESOP was established, a total of 1.6 million shares of People s United Financial common stock have been allocated or committed to be released to participants accounts. At June 30, 2011, a total of 8.9 million shares of People s United Financial common stock, with a fair value of $119.4 million, have not been allocated or committed to be released.

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants accounts multiplied by the average fair value of People s United Financial s common stock during the reporting period. The difference between the fair value of the shares of People s United Financial s common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled $2.3 million and $2.7 million for the six months ended June 30, 2011 and 2010, respectively.

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NOTE 9. LEGAL PROCEEDINGS

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

Litigation Relating to the Smithtown Bancorp, Inc. Transaction

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

On April 26, 2010, the named plaintiff in the *Waterford* action moved to consolidate its action with the *Yourgal* action, to have itself appointed lead plaintiff in the consolidated action and to obtain approval of its selection of lead counsel. On May 31, 2011, the Magistrate Judge assigned to these cases ordered and approved the consolidation of the two suits; however, the Court has not yet approved the Magistrate s order.

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

On May 12, 2010, the defendants removed the April 22, 2010 action to the United States District Court for the Eastern District of New York. The defendants notified the court that the action was related to the *Waterford* and *Yourgal* actions. On June 1, 2010, the plaintiff moved to have the action remanded to state court. The plaintiff s remand motion was granted on March 24, 2011.

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Litigation Relating to the Danvers Bancorp, Inc. Transaction

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

On April 22, 2011, the parties in the Delaware Action entered into a memorandum of understanding regarding a proposed settlement of that action. In connection with the proposed settlement, Danvers made certain additional disclosures related to the Danvers Acquisition. On May 2, 2011, the Massachusetts Action was stayed pending resolution of the Delaware Action. On July 19, 2011, the parties entered into a stipulation of settlement, which is subject to customary conditions, including court approval following notice to Danvers stockholders and a hearing (scheduled for October 19, 2011) to consider the fairness, reasonableness, and adequacy of the settlement. The proposed settlement provides, among other things, for the release of all claims that were asserted or could have been asserted by Danvers shareholders concerning the Danvers Acquisition. In connection with the proposed settlement, plaintiffs counsel in the Delaware Action intend to petition the Delaware Court of Chancery for an award of fees and expenses in an amount not to exceed $750,000 and the defendants in the Delaware Action have reserved their right to oppose a fee petition by plaintiffs counsel. There can be no assurance that the Delaware Court of Chancery will approve the proposed settlement. However, management, in conjunction with counsel, believes the matter will be settled in the manner described above.

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Other

People s United Bank has been named as a defendant in a lawsuit arising from its assessment and collection of overdraft fees on its checking account customers. The complaint was filed in the Superior Court of Connecticut, Judicial District of Waterbury, on April 22, 2010 and alleges that People s United Bank engaged in certain unfair practices in the posting of electronic debit card transactions from highest to lowest dollar amount. The complaint also alleges that such practices were inadequately disclosed to customers and were unfairly used by People s United Bank for the purpose of generating revenue by maximizing the number of overdrafts a customer is assessed. The complaint seeks certification of a class of checking account holders residing in Connecticut and who have incurred at least one overdraft fee, injunctive relief, compensatory, punitive and treble damages, disgorgement and restitution of overdraft fees paid, and attorneys fees. On June 16, 2011, People s United Bank filed a motion to dismiss the complaint, and that motion remains pending.

NOTE 10. BUSINESS SEGMENT INFORMATION

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

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People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 11. FAIR VALUE MEASUREMENTS

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

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

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

- quoted prices for similar assets or liabilities in active markets (such as U.S. agency and GSE issued mortgage-backed securities and CMOs;
- quoted prices for identical or similar assets or liabilities in less active markets (such as certain U.S. and government agency debt securities, and corporate and municipal debt securities that trade infrequently); and
- other inputs that: (i) are observable for substantially the full term of the asset or liability (e.g. interest rates, yield curves, prepayment speeds, default rates, etc.); or (ii) can be corroborated by observable market data (such as interest rate and currency derivatives and certain other securities).

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

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

Recurring Fair Value Measurements

Investments in Debt and Equity Securities

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

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

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

Other Assets

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

Derivatives

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

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

As of June 30, 2011 (in millions)	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Assets:				
Trading account securities	$ 73.8	$ 11.1	$	$ 84.9
Securities available for sale:				
U.S. Treasury and agency	33.8	225.3		259.1
GSE residential mortgage-backed securities and CMOs		2,703.8		2,703.8
State and municipal		59.9		59.9
Other debt securities		2.7		2.7
Equity securities		0.1		0.1
Other assets:				
Fixed income securities		36.6		36.6
Equity mutual funds	0.2			0.2
Interest rate swaps		21.3		21.3
Forward commitments to sell residential mortgage loans		0.7		0.7
Total	$ 107.8	$ 3,061.5	$	$ 3,169.3
Liabilities:				
Interest rate swaps	$	$ 18.4	$	$ 18.4
Foreign exchange contracts		0.2		0.2
Interest rate-lock commitments on residential mortgage loans		0.8		0.8
Total	$	$ 19.4	$	$ 19.4

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

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

Non-Recurring Fair Value Measurements

Loans Held for Sale

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

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Impaired Loans

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

REO and Repossessed Assets

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

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

As of June 30, 2011 (in millions)	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Loans held for sale (1)	$	$ 36.8	$	$ 36.8
Impaired loans (2)			111.3	111.3
REO and repossessed assets (3)			56.6	56.6
Total	$	$ 36.8	$ 167.9	$ 204.7

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

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

(2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured based on the fair value of the underlying collateral (less cost to sell) ($51.4 million, $38.6 million and $21.3 million of commercial real estate, equipment financing and commercial and industrial loans, respectively, at June 30, 2011). Related impairment charges totaled $3.8 million and $7.8 million for the six months ended June 30, 2011 and 2010, respectively.

(3) Represents: (i) $16.1 million of residential real estate owned; (ii) $17.4 million of commercial real estate owned; and (iii) $23.1 million of repossessed assets at June 30, 2011. Charge-offs to the allowance for loan losses related to loans that were transferred to real estate owned and repossessed assets totaled $1.8 million and $2.1 million for the six months ended June 30, 2011 and 2010, respectively. Write downs and net loss (gain) on sale related to foreclosed/repossessed assets charged (credited) to non-interest expense totaled $2.4 million and $(0.5) million for the same periods.

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Notes to Consolidated Financial Statements (Unaudited)

Fair Values of Financial Instruments

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

	June 30, 2011		December 31, 2010	
(in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets (other than derivatives):				
Cash and cash equivalents	$ 1,156.6	$ 1,156.6	$ 954.5	$ 954.5
Securities purchased under agreements to resell			520.0	520.0
Total securities (1)	3,226.0	3,234.4	3,033.3	3,033.3
Residential mortgage loans held for sale	36.8	36.8	88.5	88.5
Total loans, net	17,511.0	17,953.2	17,155.2	17,685.1
Other assets (2)	39.6	39.6	39.0	39.0
Accrued interest receivable	67.9	67.9	67.6	67.6
Financial liabilities (other than derivatives):				
Time deposits	5,009.3	5,054.5	5,162.7	5,205.5
Other deposits	13,269.0	13,269.0	12,770.4	12,770.4
FHLB advances	477.5	481.0	509.3	504.0
Repurchase agreements	453.7	452.7	501.3	502.9
Federal funds purchased	400.0	400.0		
Subordinated notes and debentures	159.1	164.9	182.2	193.6
Accrued interest payable	8.6	8.6	9.1	9.1
Derivative financial instruments: (3)				
Recognized as an asset:				
Interest rate swaps	21.3	21.3	17.0	17.0
Forward commitments to sell residential mortgage loans	0.7	0.7	0.1	0.1
Recognized as a liability:				
Interest rate swaps	18.4	18.4	14.7	14.7
Foreign exchange contracts	0.2	0.2	0.1	0.1
Interest rate-lock commitments on residential mortgage loans	0.8	0.8	0.1	0.1

(1) Includes (i) trading account securities of $84.9 million and $83.5 million at June 30, 2011 and December 31, 2010, respectively (no other financial instruments in this table were held for trading purposes) and (ii) FHLB stock, reported at cost, totaling $59.5 million and $63.6 million at June 30, 2011 and December 31, 2010, respectively.

(2) Includes fixed income securities, cash and cash equivalents, and equity mutual funds of $36.6 million, $2.8 million and $0.2 million, respectively, at June 30, 2011, and $32.9 million, $5.8 million and $0.3 million, respectively, at December 31, 2010.

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

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

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

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

Loans

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

The fair values of performing loans were estimated by discounting the anticipated cash flows from the respective portfolios. Estimates of the timing of these cash flows considered future loan prepayments. The discount rates reflected current market rates for loans with similar terms to borrowers of similar credit quality. As a result, the valuation method for performing loans, which is consistent with certain guidance provided in accounting standards, considers interest rate-related adjustments but does not fully incorporate the exit price approach to fair value which would also consider adjustments for liquidity and credit-related factors. The fair values of non-performing loans were based on recent collateral appraisals or management s analysis of estimated cash flows discounted at rates commensurate with the credit risk involved.

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

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Deposit Liabilities

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

Borrowings and Subordinated Notes

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

Other Financial Assets and Liabilities

Cash and cash equivalents, securities purchased under agreements to resell, federal funds purchased and accrued interest receivable and payable have fair values that approximate the respective carrying amounts because the instruments are payable on demand or have short-term maturities, and present relatively low credit risk and interest rate risk.

Off-Balance-Sheet Financial Instruments

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

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

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

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

Certain of People s United Financial s derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the Company s external credit rating. If the Company s senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of bilateral netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at June 30, 2011 was $0.7 million, for which People s United Financial had posted no collateral in the normal course of business. If the Company s senior unsecured debt rating had fallen below investment grade as of that date, $0.7 million in additional collateral would have been required.

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

Interest Rate Floors

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

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

Interest Rate Swaps

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

Foreign Exchange Contracts

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

Customer Derivatives

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

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

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

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

				Fair Values (1)			
		Notional Amounts		Assets		Liabilities	
(in millions)	Type of Hedge	June 30, 2011	Dec. 31, 2010	June 30, 2011	Dec. 31, 2010	June 30, 2011	Dec. 31, 2010
Derivatives Not Designated as Hedging Instruments:							
Interest rate swaps:							
Commercial customers	N/A	$ 586.6	$ 491.5	$ 19.3	$ 13.5	$ 1.4	$ 2.8
Other counterparties	N/A	586.6	491.5	2.0	3.5	16.9	11.5
Foreign exchange contracts	N/A	10.4	8.3			0.2	0.1
Forward commitments to sell residential mortgage loans	N/A	92.9	111.2	0.7	0.1		
Interest rate-lock commitments on residential mortgage loans	N/A	108.9	120.1			0.8	0.1
Total				22.0	17.1	19.3	14.5
Derivatives Designated as Hedging Instruments:							
Interest rate swaps:							
Loans	Fair value	4.1	5.7			0.1	0.4
Total						0.1	0.4
Total derivatives				$ 22.0	$ 17.1	$ 19.4	$ 14.9

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

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

Six months ended June 30, (in millions)	Type of Hedge	Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1) 2011	2010	Amount of Pre-Tax Gain (Loss) Recognized in AOCL 2011	2010
Derivatives Not Designated as Hedging Instruments:					
Interest rate swaps:					
Commercial customers	N/A	$ 13.2	$ 26.2	$	$
Other counterparties	N/A	(12.7)	(25.5)		
Foreign exchange contracts	N/A	(0.1)			
Interest rate-lock commitments on residential mortgage loans	N/A	(0.1)	(0.1)		
Total		0.3	0.6		
Derivatives Designated as Hedging Instruments:					
Interest rate floors (2)	Cash flow	0.7	10.4		
Interest rate swaps	Fair value	(0.1)	(0.2)		
Total		0.6	10.2		
Total derivatives		$ 0.9	$ 10.8	$	$

(1) Amounts recognized in earnings are recorded in interest income on loans for derivatives designated as hedging instruments and other non-interest income for derivatives not designated as hedging instruments.
(2) Reflects income relating to interest rate floors terminated during 2008 and 2009. See Interest Rate Floors.

NOTE 13. NEW ACCOUNTING STANDARDS

Credit Quality and Allowance for Credit Losses Disclosures

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

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Goodwill and Intangible Assets

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

Business Combinations

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

Troubled Debt Restructurings

In April 2011, the FASB amended its standards to provide clarifying guidance to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a TDR, both for purposes of recording an impairment loss and for disclosure of TDRs. In evaluating whether a loan modification constitutes a TDR, a creditor must separately conclude that (i) the modification constitutes a concession and (ii) the debtor is experiencing financial difficulties. For public companies, this clarifying guidance is effective for periods beginning on or after June 15, 2011 (July 1, 2011 for People s United Financial), and applies retrospectively to restructurings occurring on or after January 1, 2011.

The Company believes its existing policies and procedures are consistent with this clarifying guidance and, as such, believes application of this guidance will not have a material impact on the Company s allowance for loan losses, provision for loan losses or TDR-related financial statement disclosures.

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Notes to Consolidated Financial Statements (Unaudited)

Reconsideration of Effective Control for Repurchase Agreements

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

Comprehensive Income

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

Fair Value Measurements

In May 2011, the FASB issued amendments to its standards on fair value with the objective of establishing (i) a consistent definition of fair value and (ii) common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments, which are generally consistent with existing fair value measurement principles contained in U.S. GAAP, do serve to expand the related disclosure requirements for fair value measurements and provide necessary clarifications in order to align with IFRS No. 13.

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

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

Forward-Looking Statements

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

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

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

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Recent Market Developments

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

FDIC Insurance Coverage / Assessments

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

On September 29, 2009, the FDIC adopted a plan that extended the DIF restoration plan from seven years to eight years and on November 12, 2009, the FDIC adopted a final rule that amended the assessment regulations to require insured financial institutions to prepay, on December 30, 2009, their estimated deposit insurance premiums for 2010, 2011 and 2012. Under this rule, which did not include any additional special assessments, the prepayment was based on an assumed 5% annual growth rate in each institution s insured deposits (the assessment base) and an assumed increase of three basis points in each institution s premium assessment rate beginning in 2011. As such, deposit insurance expense may continue to increase in the future. On December 30, 2009, People s United Bank prepaid its estimated deposit insurance premiums totaling $69 million in accordance with FDIC regulations. The prepaid deposit insurance assessment totaled $40 million at June 30, 2011, which includes balances acquired in connection with recent business combinations.

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

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

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

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Act. As a result, beginning on July 21, 2011, financial institutions could begin offering interest on demand deposits. As of June 30, 2011, People s United Bank s non-interest bearing deposits totaled $3.9 billion, or 21.5% of total deposits. The Company s interest expense may increase and our net interest margin may decrease if we begin to offer higher rates of interest than we currently offer on demand deposits.

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

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

On July 21, 2011, the Office of the Comptroller of the Currency (the OCC) assumed responsibility for the supervision and regulation of all federally-chartered savings banks, and the Board assumed responsibility for the supervision and regulation of all savings and loan holding companies.

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Selected Consolidated Financial Data

(dollars in millions, except per share data)	Three Months Ended June 30, 2011	March 31, 2011	June 30, 2010	Six Months Ended June 30, 2011	June 30, 2010
Earnings Data:					
Net interest income	$ 221.2	$ 220.3	$ 173.8	$ 441.5	$ 333.4
Provision for loan losses	14.0	14.6	17.8	28.6	27.3
Non-interest income (1)	76.6	74.6	69.7	151.2	133.9
Non-interest expense (1), (2)	207.0	202.8	202.7	409.8	396.6
Income before income tax expense	76.8	77.5	23.0	154.3	43.4
Net income	51.2	51.7	16.0	102.9	29.6
Operating earnings (3)	57.3	53.8	31.8	111.1	61.0
Selected Statistical Data:					
Net interest margin (4)	4.13%	4.16%	3.69%	4.15%	3.59%
Return on average assets (4)	0.82	0.84	0.29	0.83	0.27
Operating return on average assets (3), (4)	0.92	0.87	0.58	0.90	0.57
Return on average tangible assets (4)	0.89	0.91	0.32	0.90	0.30
Return on average stockholders equity (4)	4.0	4.0	1.2	4.0	1.1
Return on average tangible stockholders equity (4)	6.3	6.4	1.7	6.4	1.6
Operating return on average tangible stockholders equity (3), (4)	7.1	6.7	3.4	6.9	3.3
Efficiency ratio (3)	65.7	66.2	72.2	65.9	73.6
Per Common Share Data:					
Basic and diluted earnings per share	$ 0.15	$ 0.15	$ 0.04	$ 0.30	$ 0.08
Operating earnings per share (3)	0.17	0.15	0.09	0.32	0.17
Dividends paid per share	0.1575	0.1550	0.1550	0.3125	0.3075
Dividend payout ratio	106.4%	104.9%	352.0%	105.6%	363.1%
Operating dividend payout ratio (3)	95.1	100.7	176.7	97.8	176.1
Book value (end of period)	$ 15.01	$ 14.92	$ 15.10	$ 15.01	$ 15.10
Tangible book value (end of period) (3)	9.38	9.27	10.14	9.38	10.14
Stock price:					
High	13.81	14.49	16.79	14.49	17.08
Low	12.55	12.17	13.49	12.17	13.49
Close (end of period)	13.44	12.58	13.50	13.44	13.50

(1) Income and expenses associated with merchant services and customer derivatives are presented net in non-interest income for all periods.
(2) Includes a total of $9.2 million, $3.1 million and $23.2 million of merger-related expenses, core system conversion costs and one-time charges for the three months ended June 30, 2011, March 31, 2011 and June 30, 2010, respectively, and $12.3 million and $46.6 million for the six months ended June 30, 2011 and June 30, 2010, respectively.
(3) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(4) Annualized.

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(dollars in millions)	As of and for the Three Months Ended June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010
Financial Condition Data:					
Total assets	$ 25,323	$ 24,962	$ 25,037	$ 21,897	$ 21,950
Loans	17,687	17,523	17,328	15,120	15,140
Securities	3,226	3,203	3,033	2,478	1,787
Short-term investments (1)	822	926	1,120	1,218	1,944
Allowance for loan losses	176	178	173	173	173
Goodwill and other acquisition-related intangibles	1,947	1,953	1,962	1,772	1,778
Deposits	18,278	18,110	17,933	15,675	15,834
Borrowings	1,331	1,158	1,011	254	141
Subordinated notes and debentures	159	176	182	183	183
Stockholders equity	5,194	5,160	5,219	5,365	5,413
Non-performing assets (2)	315	292	303	312	285
Net loan charge-offs	15.5	9.6	10.9	21.8	17.8
Average Balances:					
Loans	$ 17,654	$ 17,290	$ 15,770	$ 15,120	$ 15,247
Securities	3,264	3,089	2,457	1,856	1,097
Short-term investments (1)	629	843	1,418	1,892	2,533
Residential mortgage loans held for sale	17	52	52	47	38
Total earning assets	21,564	21,274	19,697	18,915	18,915
Total assets	24,853	24,623	22,961	21,955	21,872
Deposits	18,225	17,944	16,531	15,801	15,704
Total funding liabilities	19,353	19,121	17,236	16,175	16,052
Stockholders equity	5,177	5,185	5,335	5,404	5,458
Ratios:					
Net loan charge-offs to average loans (annualized)	0.35%	0.22%	0.28%	0.58%	0.47%
Non-performing assets to originated loans, real estate owned and repossessed assets (2)	2.05	1.96	2.09	2.19	2.02
Allowance for loan losses to:					
Originated loans (2)	1.15	1.19	1.19	1.22	1.23
Originated non-performing loans (2)	68.0	73.8	70.3	68.6	78.5
Average stockholders equity to average total assets	20.8	21.1	23.2	24.6	25.0
Stockholders equity to total assets	20.5	20.7	20.8	24.5	24.7
Tangible stockholders equity to tangible assets (3)	13.9	13.9	14.1	17.8	18.0
Total risk-based capital (4)	15.0	14.8	14.5	16.4	16.6

(1) Includes securities purchased under agreements to resell.
(2) Excludes acquired loans. See Asset Quality.
(3) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(4) Total risk-based capital ratios are presented for People s United Bank and, as such, do not reflect the additional capital residing at People s United Financial. See Regulatory Capital Requirements.

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Non-GAAP Financial Measures and Reconciliation to GAAP

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

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

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

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

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

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

	Three Months Ended			Six Months Ended	
(dollars in millions)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Total non-interest expense	$ 207.0	$ 202.8	$ 202.7	$ 409.8	$ 396.6
Less:					
Amortization of:					
Other acquisition-related intangibles	6.0	5.9	4.8	11.9	9.5
Purchase accounting-related fair value adjustments (1)	0.8	0.8	0.8	1.6	1.6
Merger-related expenses	6.4	3.1	2.8	9.5	17.5
Executive-level separation costs	2.8		15.3	2.8	15.3
Other (2)	1.9	2.1	0.8	4.0	3.7
Total	$ 189.1	$ 190.9	$ 178.2	$ 380.0	$ 349.0
Net interest income (FTE basis)	$ 222.5	$ 221.5	$ 174.6	$ 444.0	$ 335.0
Total non-interest income	76.6	74.6	69.7	151.2	133.9
Add:					
Purchase accounting-related fair value adjustments (1)			1.0		2.6
BOLI FTE adjustment	0.8	0.6	1.4	1.4	2.4
Less:					
Purchase accounting-related fair value adjustments (1)	4.7	5.0		9.7	
Net security gains	0.1	0.1		0.2	
Gains on sales of acquired loans	7.2	5.5		12.7	
Other (3)		(2.2)		(2.2)	
Total	$ 287.9	$ 288.3	$ 246.7	$ 576.2	$ 473.9
Efficiency ratio	65.7%	66.2%	72.2%	65.9%	73.6%

(1) Reflects the impact of amortization and accretion associated with certain purchase accounting-related fair value adjustments recognized in connection with past business combinations. These adjustments are made because management believes such income and expense amounts are not relevant for purposes of evaluating operating efficiency.

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

(3) Items classified as other and (added to)/deducted from non-interest income principally consist of asset write-offs, gains associated with the sale of branch locations, a gain on the sale of mortgage servicing rights and interest on an income tax refund.

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

(dollars in millions, except per share data)	Three Months Ended June 30, 2011	March 31, 2011	June 30, 2010	Six Months Ended June 30, 2011	June 30, 2010
Net income, as reported	$ 51.2	$ 51.7	$ 16.0	$ 102.9	$ 29.6
Adjustments to arrive at operating earnings:					
Merger-related expenses	6.4	3.1	2.8	9.5	17.5
Executive-level separation costs	2.8		15.3	2.8	15.3
Core system conversion costs			5.1		13.8
Total pre-tax adjustments	9.2	3.1	23.2	12.3	46.6
Tax effect	(3.1)	(1.0)	(7.4)	(4.1)	(15.2)
Total adjustments, net of tax	6.1	2.1	15.8	8.2	31.4
Operating earnings	$ 57.3	$ 53.8	$ 31.8	$ 111.1	$ 61.0
Earnings per share, as reported	$ 0.15	$ 0.15	$ 0.04	$ 0.30	$ 0.08
Adjustment to arrive at operating earnings per share:					
Merger-related expenses	0.02			0.02	0.03
Executive-level separation costs			0.04		0.04
Core system conversion costs			0.01		0.02
Total adjustments per share	0.02		0.05	0.02	0.09
Operating earnings per share	$ 0.17	$ 0.15	$ 0.09	$ 0.32	$ 0.17
Average total assets	$ 24,853	$ 24,623	$ 21,872	$ 24,738	$ 21,567
Operating return on average assets (annualized)	0.92%	0.87%	0.58%	0.90%	0.57%

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

Operating Return on Average Tangible Stockholders Equity

(dollars in millions)	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Average stockholders equity	$ 5,177	$ 5,185	$ 5,458	$ 5,181	$ 5,367
Less: average goodwill and average other acquisition-related intangibles	1,950	1,957	1,768	1,953	1,704
Average tangible stockholders equity	$ 3,227	$ 3,228	$ 3,690	$ 3,228	$ 3,663
Operating earnings	$ 57.3	$ 53.8	$ 31.8	$ 111.1	$ 61.0
Operating return on average tangible stockholders equity (annualized)	7.1%	6.7%	3.4%	6.9%	3.3%

Operating Dividend Payout Ratio

(dollars in millions)	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Dividends paid	$ 54.5	$ 54.2	$ 56.2	$ 108.7	$ 107.4
Operating earnings	$ 57.3	$ 53.8	$ 31.8	$ 111.1	$ 61.0
Operating dividend payout ratio	95.1%	100.7%	176.7%	97.8%	176.1%

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

Tangible Equity Ratio

(in millions, except per share data)	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010
Total stockholders equity	$ 5,194	$ 5,160	$ 5,219	$ 5,365	$ 5,413
Less: goodwill and other acquisition-related intangibles	1,947	1,953	1,962	1,772	1,778
Tangible stockholders equity	$ 3,247	$ 3,207	$ 3,257	$ 3,593	$ 3,635
Total assets	$ 25,323	$ 24,962	$ 25,037	$ 21,897	$ 21,950
Less: goodwill and other acquisition-related intangibles	1,947	1,953	1,962	1,772	1,778
Tangible assets	$ 23,376	$ 23,009	$ 23,075	$ 20,125	$ 20,172
Tangible equity ratio	13.9%	13.9%	14.1%	17.8%	18.0%

Tangible Book Value Per Share

(in millions, except per share data)	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010
Tangible stockholders equity	$ 3,247	$ 3,207	$ 3,257	$ 3,593	$ 3,635
Common shares issued	377.02	376.95	376.62	374.63	374.64
Less: Common shares classified as treasury shares	22.01	22.01	17.49	8.75	6.90
Unallocated ESOP common shares	8.89	8.97	9.06	9.15	9.23
Common shares	346.12	345.97	350.07	356.73	358.51
Tangible book value per share	$ 9.38	$ 9.27	$ 9.30	$ 10.07	$ 10.14

Acquisition Completed in 2011

After the close of business on June 30, 2011, People s United Financial acquired Danvers Bancorp, Inc. (Danvers) based in Danvers, Massachusetts. The transaction is effective July 1, 2011 and, as such, People s United Financial s consolidated financial statements as of and for the period ended June 30, 2011 do not include amounts for Danvers. At June 30, 2011, Danvers reported total assets of $2.60 billion and total deposits of $2.06 billion and operates 28 branches in the greater Boston area.

Total consideration paid in the Danvers acquisition of approximately $463 million consisted of approximately $215 million in cash and 18.5 million shares of People s United Financial common stock with a fair value of approximately $248 million. Cash consideration was paid at the rate of $23.00 per share of Danvers common stock and stock consideration was paid at the rate of 1.624 shares of People s United Financial common stock per share of Danvers common stock. Other assets in the Consolidated Statement of Condition at June 30, 2011 included the cash consideration placed in escrow for the benefit of Danvers shareholders (approximately $215 million).

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Acquisitions Completed in 2010

On February 19, 2010, People s United Financial acquired Financial Federal Corporation (Financial Federal), a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses. 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 November 30, 2010, People s United Financial acquired Smithtown Bancorp, Inc. (Smithtown) based in Hauppauge, New York and LSB Corporation (LSB) based in North Andover, Massachusetts. The assets acquired and liabilities assumed in these transactions were recorded at their estimated fair values as of the respective closing dates. People s United Financial s results of operations include the results of these companies beginning with the respective closing dates. See Note 2 to the Consolidated Financial Statements for a further discussion of these acquisitions.

Financial Overview

People s United Financial reported net income of $51.2 million, or $0.15 per diluted share, for the three months ended June 30, 2011, compared to $16.0 million, or $0.04 per diluted share, for the year-ago period and $51.7 million, or $0.15 per diluted share, for the three months ended March 31, 2011. Operating earnings were $57.3 million, or $0.17 per share, $31.8 million, or $0.09 per share, and $53.8 million, or $0.15 per share, for the respective periods. Second quarter 2011 earnings continue to reflect organic loan and deposit growth, improvement in net interest income, continued positive results in fee-related businesses and tighter expense control.

For the six months ended June 30, 2011, net income totaled $102.9 million, or $0.30 per diluted share, compared to $29.6 million, or $0.08 per diluted share, for the year-ago period. Operating earnings were $111.1 million, or $0.32 per share and $61.0 million, or $0.17 per share, for the respective periods.

As previously discussed, People s United Financial acquired Danvers after the close of business on June 30, 2011, effective July 1, 2011, and People s United Financial s consolidated financial statements as of and for the period ended June 30, 2011 do not include amounts for Danvers. People s United Financial acquired Financial Federal on February 19, 2010, Butler Bank on April 16, 2010 and both Smithtown and LSB on November 30, 2010. Accordingly, the results of operations for these acquisitions are included beginning as of the respective acquisition dates, and prior period results have not been restated to include Financial Federal, Butler Bank, Smithtown and LSB.

People s United Financial s return on average assets was 0.82% and return on average tangible stockholders equity was 6.3% for the three months ended June 30, 2011, compared to 0.29% and 1.7%, respectively, for the year-ago quarter. Operating return on average assets was 0.92% and 0.58%, and operating return on average tangible stockholders equity was 7.1% and 3.4%, for the respective periods.

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Net interest income increased $47.4 million from the year-ago quarter while the net interest margin improved 44 basis points to 4.13%. The higher net interest margin primarily reflects the benefit of the acquisitions completed during 2010 as well as a 16 basis point reduction in the cost of deposits, partially offset by the effect of the historically low interest rate environment, and the Company s asset sensitive balance sheet, including its excess capital, a portion of which was invested in relatively low-yielding short-term investments and securities purchased under agreements to resell for most of 2010.

Compared to the first quarter of 2011, net interest income increased $1.0 million and, as expected, the net interest margin decreased 3 basis points, primarily reflecting repricing pressure within the loan portfolio, partially offset by an increase in investment income and a 1 basis point reduction in the cost of deposits.

Compared to the second quarter of 2010, average earning assets increased $2.7 billion, reflecting increases of $2.4 billion in average loans and $2.2 billion in average securities, partially offset by a $1.9 billion decrease in average short-term investments and securities purchased under agreements to resell. Average funding liabilities increased $3.3 billion, primarily reflecting increases of $2.5 billion in average total deposits and $796 million in average total borrowings.

Compared to the year-ago quarter, total non-interest income increased $6.9 million and total non-interest expense increased $4.3 million (see Non-Interest Income and Non-Interest Expense). The efficiency ratio was 65.7% for the second quarter of 2011 compared to 72.2% for the year-ago period.

The provision for loan losses in the second quarter of 2011 totaled $14.0 million compared to $17.8 million in the year-ago period. The provision for loan losses in the second quarter of 2011 reflected net loan charge-offs of $15.5 million and a $1.5 million decrease in the allowance for loan losses (see Asset Quality). The provision for loan losses in the second quarter of 2010 reflected net loan charge-offs of $17.8 million. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.35% in the second quarter of 2011 compared to 0.47% in the year-ago quarter.

The allowance for loan losses totaled $176.0 million at June 30, 2011, reflecting a $3.5 million increase from December 31, 2010 in response to loan growth. Non-performing assets totaled $315.4 million at June 30, 2011, a $12.3 million increase from December 31, 2010. At June 30, 2011, the allowance for loan losses as a percentage of originated loans was 1.15% and as a percentage of originated non-performing loans was 68.0% (see Asset Quality).

People s United Financial s total stockholders equity was $5.2 billion at both June 30, 2011 and December 31, 2010 and as a percentage of total assets, stockholders equity was 20.5% and 20.8%, respectively. Tangible stockholders equity as a percentage of tangible assets was 13.9% at June 30, 2011 compared to 14.1% at December 31, 2010.

People s United Bank s and People s United Financial s (consolidated) total risk-based capital ratio were 15.0% and 19.1%, respectively, at June 30, 2011 compared to 14.5% and 19.3%, respectively, at December 31, 2010 (see Regulatory Capital Requirements).

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Business Segment Results

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

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

FTP is used in the calculation of each operating segment s net interest income, and measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income (see Treasury).

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

People s United Financial allocates a majority of non-interest expenses to each business segment using a full-absorption costing process (i.e. all expenses are fully-allocated to the segments). Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate business segment and corporate overhead costs are allocated to the business segments. Income tax expense is allocated to each business segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the year.

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

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

Business Segment Performance Summary

Three months ended June 30, 2011 (in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total Segments	Treasury	Other	Total Consolidated
Net interest income	$ 101.3	$ 107.2	$ 1.3	$ 209.8	$ 4.5	$ 6.9	$ 221.2
Provision for loan losses	9.0	2.7	0.1	11.8		2.2	14.0
Total non-interest income	22.2	35.1	18.6	75.9	1.0	(0.3)	76.6
Total non-interest expense	48.9	122.8	21.6	193.3	0.1	13.6	207.0
Income (loss) before income tax expense (benefit)	65.6	16.8	(1.8)	80.6	5.4	(9.2)	76.8
Income tax expense (benefit)	21.9	5.6	(0.6)	26.9	1.9	(3.2)	25.6
Net income (loss)	$ 43.7	$ 11.2	$ (1.2)	$ 53.7	$ 3.5	$ (6.0)	$ 51.2
Total average assets	$ 12,666.2	$ 6,707.6	$ 337.2	$ 19,711.0	$ 4,022.4	$ 1,119.4	$ 24,852.8
Total average liabilities	2,320.7	16,403.1	192.5	18,916.3	715.7	43.5	19,675.5

Six months ended June 30, 2011 (in millions)	Commercial Banking	Retail and Business Banking	Wealth Management	Total Segments	Treasury	Other	Total Consolidated
Net interest income (loss)	$ 202.9	$ 212.2	$ 2.6	$ 417.7	$ 10.0	$ 13.8	$ 441.5
Provision for loan losses	17.7	5.2	0.2	23.1		5.5	28.6
Total non-interest income	44.0	70.1	38.2	152.3	1.8	(2.9)	151.2
Total non-interest expense	97.6	242.1	43.3	383.0	1.7	25.1	409.8
Income (loss) before income tax expense (benefit)	131.6	35.0	(2.7)	163.9	10.1	(19.7)	154.3
Income tax expense (benefit)	43.9	11.7	(0.9)	54.7	3.5	(6.8)	51.4
Net income (loss)	$ 87.7	$ 23.3	$ (1.8)	$ 109.2	$ 6.6	$ (12.9)	$ 102.9
Total average assets	$ 12,612.1	$ 6,614.6	$ 337.7	$ 19,564.4	$ 4,010.2	$ 1,163.7	$ 24,738.3
Total average liabilities	2,371.2	16,219.9	188.0	18,779.1	724.6	53.3	19,557.0

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

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net interest income	$ 101.3	$ 75.6	$ 202.9	$ 144.8
Provision for loan losses	9.0	6.9	17.7	13.0
Total non-interest income	22.2	14.1	44.0	25.9
Total non-interest expense	48.9	48.6	97.6	92.1
Income before income tax expense	65.6	34.2	131.6	65.6
Income tax expense	21.9	11.0	43.9	21.4
Net income	$ 43.7	$ 23.2	$ 87.7	$ 44.2
Total average assets	$ 12,666.2	$ 11,205.1	$ 12,612.1	$ 10,905.4
Total average liabilities	2,320.7	2,109.6	2,371.2	2,196.9

Commercial Banking net income increased $20.5 million in the second quarter of 2011 compared to the second quarter of 2010, reflecting the benefit from the acquisitions completed during 2010 as well as organic loan growth. The $25.7 million increase in net interest income reflects an increase in average earning assets and improved spreads on commercial loans due to loan mix, partially offset by narrowing spreads on commercial deposits. The $8.1 million increase in non-interest income primarily reflects $7.2 million of net gains on sales of acquired loans recorded in the second quarter of 2011 and an increase in operating lease income resulting from a higher level of equipment leased to PCLC customers. The increase in non-interest expense reflects additional non-interest expenses resulting from the 2010 acquisitions, an increase in amortization expense on leased equipment and higher direct expenses due to the continued loan growth in Commercial Banking, essentially offset by a decrease in allocated expenses.

The average Commercial Banking loan portfolio increased $2.1 billion in the second quarter of 2011 compared to the second quarter of 2010, reflecting organic loan growth and the acquisitions completed during 2010.

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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, home equity and indirect auto lending), and merchant services.

	Three Months Ended		Six Months Ended	
(in millions)	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net interest income	$ 107.2	$ 95.2	$ 212.2	$ 186.0
Provision for loan losses	2.7	1.5	5.2	3.0
Total non-interest income	35.1	34.7	70.1	67.6
Total non-interest expense	122.8	103.3	242.1	205.1
Income before income tax expense	16.8	25.1	35.0	45.5
Income tax expense	5.6	8.1	11.7	14.9
Net income	$ 11.2	$ 17.0	$ 23.3	$ 30.6
Total average assets	$ 6,707.6	$ 5,587.6	$ 6,614.6	$ 5,555.3
Total average liabilities	16,403.1	13,739.4	16,219.9	13,401.9

Retail and Business Banking net income decreased $5.8 million in the second quarter of 2011 compared to the second quarter of 2010. The $12.0 million increase in net interest income primarily reflects the growth in deposit balances and an increase in the spread on residential mortgages and consumer loans, partially offset by narrower spreads on deposit products resulting from the continued negative impact of a reduced interest rate environment initiated by the Federal Reserve Board in 2008. The increase in non-interest income reflects an increase in retail bank service charges, partially offset by a decrease in gains on sales of residential mortgages. The $19.5 million increase in non-interest expense reflects increases in direct and allocated expenses primarily due to the acquisitions completed during 2010.

Average assets increased $1.1 billion and average liabilities increased $2.7 billion in the second quarter of 2011 compared to the second quarter of 2010, reflecting organic loan and deposit growth, and the acquisitions completed during 2010.

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

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net interest income	$ 1.3	$ 0.9	$ 2.6	$ 1.9
Provision for loan losses	0.1	0.1	0.2	0.1
Total non-interest income	18.6	18.5	38.2	37.2
Total non-interest expense	21.6	21.9	43.3	43.2
Loss before income tax benefit	(1.8)	(2.6)	(2.7)	(4.2)
Income tax benefit	(0.6)	(0.8)	(0.9)	(1.3)
Net loss	$ (1.2)	$ (1.8)	$ (1.8)	$ (2.9)
Total average assets	$ 337.2	$ 344.9	$ 337.7	$ 347.4
Total average liabilities	192.5	192.6	188.0	191.2

The decrease in Wealth Management s net loss in the second quarter of 2011 compared to the year-ago quarter reflects increases of $0.4 million in net interest income and $0.1 million in non-interest income, as well as a $0.3 million decrease in non-interest expense. Within non-interest income, increases in brokerage commissions of $0.5 million and insurance revenue of $0.3 million were partially offset by a $0.3 million decrease in investment management fees. The decrease in non-interest expense primarily reflects a decrease in allocated expenses.

Assets under administration and those under full discretionary management, which are not reported as assets of People s United Financial, totaled $12.8 billion and $4.3 billion, respectively, at June 30, 2011 compared to $12.6 billion and $4.2 billion, respectively, at December 31, 2010.

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

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

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net interest income (loss)	$ 4.5	$ (14.1)	$ 10.0	$ (32.0)
Total non-interest income	1.0	3.1	1.8	4.9
Total non-interest expense	0.1	0.5	1.7	1.5
Income (loss) before income tax expense (benefit)	5.4	(11.5)	10.1	(28.6)
Income tax expense (benefit)	1.9	(3.7)	3.5	(9.4)
Net income (loss)	$ 3.5	$ (7.8)	$ 6.6	$ (19.2)
Total average assets	$ 4,022.4	$ 3,778.7	$ 4,010.2	$ 3,859.5
Total average liabilities	715.7	94.9	724.6	90.6

Treasury s net income (loss) in the second quarter of 2011 improved by $11.3 million compared to the 2010 period, reflecting an improvement in net interest income (loss), partially offset by a decrease in non-interest income. The $18.6 million improvement in net interest income (loss) reflects an increase in the funding center s net interest spread primarily resulting from the benefit of an increase in investment income (see below). The decrease in non-interest income reflects a decline in BOLI income from the second quarter of 2010, which included a $1.2 million death benefit.

Average securities increased $2.2 billion in the second quarter of 2011 compared to the year-ago period, while average short-term investments and average securities purchased under agreements to resell decreased $1.9 billion. The increase in average liabilities primarily reflects increases in total borrowings and subordinated notes and debentures assumed in connection with the acquisitions completed in the fourth quarter of 2010.

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Other includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment, reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis, and the FTP impact from excess capital. This category also includes certain nonrecurring items, including merger-related expenses, core system conversion costs and one-time charges totaling $9.2 million and $12.3 million for the three and six months ended June 30, 2011, respectively, and $23.2 million and $46.6 million for the three and six months ended June 30, 2010, respectively (included in total non-interest-expense). Included in Other are assets such as cash, premises and equipment, and other assets, including pension assets.

(in millions)	Three Months Ended June, 30 2011	Three Months Ended June, 30 2010	Six Months Ended June, 30 2011	Six Months Ended June, 30 2010
Net interest income	$ 6.9	$ 16.2	$ 13.8	$ 32.7
Provision for loan losses	2.2	9.3	5.5	11.2
Total non-interest income	(0.3)	(0.7)	(2.9)	(1.7)
Total non-interest expense	13.6	28.4	25.1	54.7
Loss before income tax benefit	(9.2)	(22.2)	(19.7)	(34.9)
Income tax benefit	(3.2)	(7.6)	(6.8)	(11.8)
Net loss	$ (6.0)	$ (14.6)	$ (12.9)	$ (23.1)
Total average assets	$ 1,119.4	$ 955.6	$ 1,163.7	$ 899.8
Total average liabilities	43.5	277.5	53.3	319.8

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Net Interest Income

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

In response to the significant disruptions in the capital markets brought about by the sub-prime mortgage crisis and its after-effects, turmoil in the financial sector, and the contracting U.S. economy, the Federal Reserve Board lowered the targeted federal funds rate ten times beginning in September 2007, and established a target range for the federal funds rate of 0 to 0.25 percent as of December 16, 2008, which has not changed. The modest decline in the net interest margin in the second quarter of 2011 reflects repricing pressure within the loan portfolios, partially offset by an increase in investment income and a reduction in the cost of deposits. The net interest margin continues to be impacted by the historically low interest rate environment, given the asset sensitive position of People s United Financial s balance sheet, including the continued investment of a portion of the Company s excess capital in relatively low-yielding short-term investments and securities purchased under agreements to resell.

Second Quarter 2011 Compared to Second Quarter 2010

The net interest margin increased 44 basis points to 4.13% compared to the second quarter of 2010. The higher net interest margin reflects the benefit of the acquisitions completed during 2010, an increase in investment income, lower deposit costs and additional interest income from increases in the accretable yield on loans acquired in certain of our 2010 acquisitions as a result of better than expected credit experience and slower than anticipated pre-payment activity. Net interest income (FTE basis) increased $47.9 million, reflecting a $46.4 million increase in total interest and dividend income and a $1.5 million decrease in total interest expense.

Average earning assets totaled $21.6 billion in the second quarter of 2011, a $2.6 billion increase from the second quarter of 2010, reflecting increases of $2.4 billion in average loans and $2.2 billion in average securities, partially offset by a $1.9 billion decrease in average short-term investments and securities purchased under agreements to resell. Average loans, average securities, and average short-term investments and securities purchased under agreements to resell comprised 82%, 15% and 3%, respectively, of average earning assets in the second quarter of 2011 compared to 81%, 6% and 13%, respectively, in the 2010 period. In the current quarter, the yield earned on the total loan portfolio was 5.21% and the yield earned on securities, short-term investments and securities purchased under agreements to resell was 2.48%, compared to 5.15% and 1.19%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 46% of the loan portfolio had floating interest rates at June 30, 2011 compared to approximately 45% at December 31, 2010.

The total average commercial banking loan portfolio increased $2.1 billion compared to the year-ago quarter, reflecting the acquisitions completed during 2010 as well as organic growth. Average residential mortgage loans increased $395 million compared to the year-ago quarter, reflecting the addition of the acquisitions completed during 2010 and People s United Financial s decision in May 2010 to begin retaining newly-originated residential mortgage loans. Average consumer loans decreased $72 million compared to the year-ago quarter, reflecting declines of $39 million in average indirect auto loans and $26 million in average home equity loans.

Average funding liabilities increased $3.3 billion compared to the year-ago quarter to $19.4 billion, primarily due to the acquisitions completed during 2010. Average deposits increased $2.5 billion, reflecting increases of $493 million in average non-interest-bearing deposits, $1.5 billion in average savings and money market deposits, and $493 million in average time deposits. Average deposits comprised 94% and 98% of average funding liabilities in the second quarter of 2011 and the year-ago period, respectively.

The 18 basis point decrease to 0.65% from 0.83% in the rate paid on average funding liabilities primarily reflects the decrease in market interest rates and the shift in deposit mix. The rate paid on average deposits decreased 16 basis points from the second quarter of 2010, reflecting decreases of 36 basis points in time deposits and 10 basis points in savings and money market deposits. Average savings and money market deposits and average time deposits comprised 51% and 28%, respectively, of average total deposits in the second quarter of 2011 compared to 50% and 29%, respectively, in the 2010 period.

Second Quarter 2011 Compared to First Quarter 2011

The net interest margin declined 3 basis points in the second quarter, primarily reflecting repricing pressure within the loan portfolios, partially offset by an increase in investment income and a 1 basis point decrease in the rate paid on average deposits in the second quarter. Net interest income (FTE basis) increased $1.0 million compared to the first quarter of 2011, reflecting a $0.1 million increase in total interest and dividend income and a $0.9 million decrease in total interest expense.

Average earning assets increased $290 million, reflecting increases of $364 million in average loans and $176 million in average securities, partially offset by a decrease of $214 million in average short-term investments and securities purchased under agreements to resell. Average funding liabilities increased $232 million, reflecting a $281 million increase in average deposits partially offset by decreases of $36 million in average borrowings and $13 million in average subordinated notes and debentures.

The following tables present average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended June 30, 2011, March 31, 2011 and June 30, 2010, and the six months ended June 30, 2011 and 2010. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People s United Financial has ceased to accrue interest. The impact of People s United Financial s use of derivative instruments in managing interest rate risk is also reflected in the tables, classified according to the instrument hedged and the risk management objective.

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

	June 30, 2011			March 31, 2011			June 30, 2010		
Three months ended (dollars in millions)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Short-term investments	$ 628.8	$ 0.4	0.26%	$ 732.4	$ 0.6	0.31%	$ 2,262.1	$ 1.5	0.26%
Securities purchased under agreements to resell				110.6	0.1	0.17	271.4	0.1	0.20
Securities (2)	3,264.4	23.7	2.91	3,088.5	21.2	2.75	1,096.7	9.2	3.33
Residential mortgage loans held for sale	16.6	0.3	6.63	52.5	0.7	5.78	38.0	0.6	5.71
Loans:									
Commercial real estate (3)	6,558.1	92.5	5.65	7,053.3	101.6	5.76	5,461.4	75.6	5.54
Commercial (3)	6,099.7	86.9	5.69	5,377.3	79.6	5.92	5,112.1	70.5	5.52
Residential mortgage	2,859.3	29.7	4.16	2,707.9	29.3	4.33	2,464.7	27.7	4.50
Consumer	2,136.8	20.6	3.87	2,151.2	20.9	3.88	2,208.8	22.5	4.08
Total loans	17,653.9	229.7	5.21	17,289.7	231.4	5.35	15,247.0	196.3	5.15
Total earning assets	21,563.7	$ 254.1	4.71%	21,273.7	$ 254.0	4.78%	18,915.2	$ 207.7	4.39%
Other assets	3,289.1			3,348.8			2,956.7		
Total assets	$ 24,852.8			$ 24,622.5			$ 21,871.9		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing	$ 3,849.6	$	%	$ 3,797.4	$	%	$ 3,357.0	$	%
Savings, interest-bearing checking and money market	9,353.7	12.4	0.53	9,015.1	12.1	0.54	7,817.7	12.3	0.63
Time	5,021.9	14.0	1.12	5,131.5	14.5	1.13	4,529.4	16.7	1.48
Total deposits	18,225.2	26.4	0.58	17,944.0	26.6	0.59	15,704.1	29.0	0.74
Borrowings:									
FHLB advances	478.7	1.9	1.56	499.6	1.9	1.49	8.6	0.1	6.12
Repurchase agreements	460.0	0.5	0.47	492.8	0.6	0.46	151.8	0.2	0.44
Federal funds purchased/other	22.3		0.11	4.7		0.09	4.9		
Total borrowings	961.0	2.4	1.00	997.1	2.5	0.98	165.3	0.3	0.72
Subordinated notes and debentures	166.4	2.8	6.78	179.7	3.4	7.61	182.3	3.8	8.30
Total funding liabilities	19,352.6	$ 31.6	0.65%	19,120.8	$ 32.5	0.68%	16,051.7	$ 33.1	0.83%
Other liabilities	322.9			316.3			362.3		
Total liabilities	19,675.5			19,437.1			16,414.0		
Stockholders equity	5,177.3			5,185.4			5,457.9		
Total liabilities and stockholders equity	$ 24,852.8			$ 24,622.5			$ 21,871.9		
Net interest income/spread (4)		$ 222.5	4.06%		$ 221.5	4.10%		$ 174.6	3.57%

Net interest margin	4.13%	4.16%	3.69%

(1) Average yields earned and rates paid are annualized.
(2) Average balances and yields for securities available for sale are based on amortized cost.
(3) Approximately $875 million of loans secured, in part, by owner-occupied commercial properties were reclassified from commercial real estate loans to commercial loans as of March 31, 2011.
(4) The FTE adjustment was $1.3 million, $1.2 million and $0.8 million for the three months ended June 30, 2011, March 31, 2011 and June 30, 2010, respectively.

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

Six months ended (dollars in millions)	June 30, 2011 Average Balance	Interest	Yield/ Rate	June 30, 2010 Average Balance	Interest	Yield/ Rate
Assets:						
Short-term investments	$ 680.3	$ 1.0	0.29%	$ 2,466.6	$ 3.2	0.26%
Securities purchased under agreements to resell	55.0	0.1	0.17	249.2	0.2	0.18
Securities (2)	3,177.0	44.9	2.83	993.1	17.3	3.47
Residential mortgage loans held for sale	34.4	1.0	6.00	37.2	1.0	5.61
Loans:						
Commercial real estate	6,804.8	194.1	5.71	5,427.3	149.9	5.52
Commercial	5,740.0	166.5	5.80	4,830.2	129.3	5.36
Residential mortgage	2,784.0	59.0	4.24	2,440.4	55.9	4.58
Consumer	2,144.0	41.5	3.87	2,222.1	45.3	4.07
Total loans	17,472.8	461.1	5.28	14,920.0	380.4	5.10
Total earning assets	21,419.5	$ 508.1	4.74%	18,666.1	$ 402.1	4.31%
Other assets	3,318.8			2,901.3		
Total assets	$ 24,738.3			$ 21,567.4		
Liabilities and stockholders equity:						
Deposits:						
Non-interest-bearing	$ 3,823.7	$	%	$ 3,312.3	$	%
Savings, interest-bearing checking and money market	9,185.4	24.5	0.53	7,618.8	23.9	0.63
Time	5,076.4	28.5	1.12	4,523.2	34.8	1.54
Total deposits	18,085.5	53.0	0.59	15,454.3	58.7	0.76
Borrowings:						
FHLB advances	489.1	3.8	1.53	9.9	0.2	5.77
Repurchase agreements	476.3	1.1	0.46	158.1	0.4	0.44
Federal funds purchased/other	13.5		0.10	9.2	0.2	3.73
Total borrowings	978.9	4.9	0.99	177.2	0.8	0.91
Subordinated notes and debentures	173.0	6.2	7.21	182.2	7.6	8.30
Total funding liabilities	19,237.4	$ 64.1	0.67%	15,813.7	$ 67.1	0.85%
Other liabilities	319.6			386.7		
Total liabilities	19,557.0			16,200.4		
Stockholders equity	5,181.3			5,367.0		
Total liabilities and stockholders equity	$ 24,738.3			$ 21,567.4		
Net interest income/spread (3)		$ 444.0	4.07%		$ 335.0	3.46%
Net interest margin			4.15%			3.59%

(1) Average yields earned and rates paid are annualized.
(2) Average balances and yields for securities available for sale are based on amortized cost.
(3) The FTE adjustment was $2.5 million and $1.6 million for the six months ended June 30, 2011 and 2010, respectively.

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Volume and Rate Analysis

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

	Three Months Ended June 30, 2011 Compared To					
	June 30, 2010 Increase (Decrease)			March 31, 2011 Increase (Decrease)		
(in millions)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	$ (1.1)	$	$ (1.1)	$ (0.1)	$ (0.1)	$ (0.2)
Securities purchased under agreements to resell	(0.1)		(0.1)	(0.1)		(0.1)
Securities	15.8	(1.3)	14.5	1.3	1.2	2.5
Residential mortgage loans held for sale	(0.3)		(0.3)	(0.5)	0.1	(0.4)
Loans:						
Commercial real estate	15.4	1.5	16.9	(7.1)	(2.0)	(9.1)
Commercial	14.0	2.4	16.4	10.4	(3.1)	7.3
Residential mortgage	4.2	(2.2)	2.0	1.6	(1.2)	0.4
Consumer	(0.8)	(1.1)	(1.9)	(0.2)	(0.1)	(0.3)
Total loans	32.8	0.6	33.4	4.7	(6.4)	(1.7)
Total change in interest and dividend income	47.1	(0.7)	46.4	5.3	(5.2)	0.1
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	2.2	(2.1)	0.1	0.5	(0.2)	0.3
Time	1.6	(4.3)	(2.7)	(0.3)	(0.2)	(0.5)
Total deposits	3.8	(6.4)	(2.6)	0.2	(0.4)	(0.2)
Borrowings:						
FHLB advances	1.9	(0.1)	1.8	(0.1)	0.1	
Repurchase agreements	0.3		0.3	(0.1)		(0.1)
Federal funds purchased/other						
Total borrowings	2.2	(0.1)	2.1	(0.2)	0.1	(0.1)
Subordinated notes and debentures	(0.3)	(0.7)	(1.0)	(0.2)	(0.4)	(0.6)
Total change in interest expense	5.7	(7.2)	(1.5)	(0.2)	(0.7)	(0.9)
Change in net interest income	$ 41.4	$ 6.5	$ 47.9	$ 5.5	$ (4.5)	$ 1.0

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Volume and Rate Analysis

	Six Months Ended June 30, 2011 Compared To June 30, 2010 Increase (Decrease)		
(in millions)	Volume	Rate	Total
Interest and dividend income:			
Short-term investments	$ (2.5)	$ 0.3	$ (2.2)
Securities purchased under agreements to resell	(0.1)		(0.1)
Securities	31.4	(3.8)	27.6
Residential mortgage loans held for sale	(0.1)	0.1	
Loans:			
Commercial real estate	39.1		