People's United Financial, Inc.
Form 10-K
February 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 2015

People s United Financial, Inc.

(Exact name of registrant as specified in its charter)

001-33326

(Commission File Number)

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

850 Main Street

Bridgeport, Connecticut 06604

(Address of principal executive offices, including zip code)

(203) 338-7171

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant, based upon the last reported sales price of its common stock as of the last business day of the registrant s most recently completed second quarter on the NASDAQ Global Select Market was $5,023,144,734.

As of February 17, 2016, there were 310,440,469 shares of the registrant s common stock outstanding.

<u>Documents Incorporated by Reference</u>

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 21, 2016, are incorporated by reference into Part III.

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PEOPLE S UNITED FINANCIAL, INC.

2015 FORM 10-K

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Part I

Item 1. Business

General

People s United Financial, Inc. (People s United or the Company) is a bank holding company and a financial holding company registered under the Bank Holding Company Act of 1956 (the BHC Act), as amended, and is incorporated under the state laws of Delaware. People s United is the holding company for People s United Bank, National Association (the Bank), a national banking association headquartered in Bridgeport, Connecticut. Prior to February 23, 2015, People s United was a savings and loan holding company within the meaning of the Home Owners Loan Act and the Bank was a federally-chartered savings bank. These changes primarily affect the manner in which both People s United and the Bank are regulated, and did not have a material effect on either People s United s or the Bank s financial condition or results of operations.

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

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

This full range of financial services is delivered through a network of 396 branches located in Connecticut, southeastern New York, Massachusetts, Vermont, New Hampshire and Maine, including 84 full-service Stop & Shop supermarket branches throughout Connecticut and 66 in southeastern New York that provide customers with seven-day-a-week banking. The Bank s distribution network includes investment and brokerage offices, commercial banking offices, online banking and investment trading, a 24-hour telephone banking service and participation in a worldwide ATM network. PCLC and PUEFC maintain a sales presence in 14 states to support equipment financing operations throughout the United States. The Bank maintains a mortgage warehouse lending group located in Kentucky and a national credits group that has participations in commercial loans and commercial real estate loans to borrowers in various industries on a national scale.

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

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

Further discussion of People s United s business and operations appears on pages 22 through 78.

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Supervision and Regulation People s United Financial, Inc.

General

As a bank holding company and a financial holding company, People s United is regulated under the BHC Act and is subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (the FRB). Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the subsidiary bank. A bank holding company should have sufficient capital and an effective capital planning process, consistent with its overall risk profile and considering the size, scope, and complexity of its operations, to ensure its safe and sound operation. In addition, the FRB evaluates a bank holding company s capital planning and capital distribution processes, and its capital sufficiency in light of relevant regulations and supervisory guidance applicable to bank holding companies.

Activities Restrictions Applicable to Bank Holding Companies. The activities of a bank holding company, including People s United, must be financially-related activities permissible for a bank holding company, unless the bank holding company has elected to be treated as a financial holding company. A bank holding company that has made a financial holding company election may also engage in activities permissible under section 4(k) of the BHC Act.

Federal law prohibits a bank holding company directly or indirectly, from acquiring:

- control (as defined under the BHC Act) of another bank (or a holding company parent) without prior FRB approval;

- through merger, consolidation or purchase of assets, another bank or a holding company thereof, or acquiring all or substantially all of the assets of such institution or holding company without prior approval by the FRB or the Office of the Comptroller of the Currency (the OCC); or

- control of any depository institution not insured by the Federal Deposit Insurance Corporation (the FDIC) (except through a merger with and into the holding company s bank subsidiary that is approved by the OCC).

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

Federal Securities Law

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

Delaware Corporation Law

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

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Regulatory Capital Requirements

Bank holding companies and national banks are subject to various regulations regarding capital requirements administered by U.S. banking agencies. The FRB (in the case of a bank holding company) and the OCC (in the case of a bank) may initiate certain actions if a bank holding company or a bank fails to meet minimum capital requirements. In addition, under its prompt corrective action regulations, the OCC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized bank. These actions could have a direct material effect on a bank s financial statements. People s United and the Bank are subject to regulatory capital requirements administered by the FRB and the OCC, respectively.

In December 2010, the Basel Committee on Banking Supervision released its final framework for capital requirements (the Basel framework or Basel III). Final interagency rules to address implementation of the Basel III framework for U.S. financial institutions, including the Company and the Bank, became effective on January 1, 2015. When fully phased-in, these rules will: (i) set forth changes in the calculation of risk-weighted assets; (ii) introduce limitations on what is permissible for inclusion in Tier 1 capital; and (iii) require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

See *Management s Discussion & Analysis Regulatory Capital Requirements* beginning on page 72 for a further discussion regarding capital requirements.

Dividends and Capital Distributions

People s United is dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and other general corporate purposes. People s United s ability to pay cash dividends is governed by federal law and regulations, including requirements to maintain adequate capital above regulatory minimums and safety and soundness practices.

The National Bank Act and OCC regulations impose limitations upon dividend payments by national banks. A national bank must file an application with the OCC if the total amount of its dividends for the applicable calendar year exceeds the national bank s net income for that year plus its retained net income for the preceding two years. The Bank may not pay dividends to People s United if, after paying those dividends, it would fail to meet the required minimum levels under risk-based capital guidelines or if the OCC notified the Bank that it was in need of more than normal supervision.

In addition, a national bank is required to file an application with the OCC for the redemption of subordinated debt under certain circumstances, as well as for reductions in permanent capital.

Under the Federal Deposit Insurance Act (the FDI Act), an insured depository institution, such as the Bank, is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized (as such term is used in the FDI Act). Payment of dividends by the Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. See Note 12 to the Consolidated Financial Statements for a further discussion on capital distributions.

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People s United Bank, N.A.

General

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

The Bank files reports with the OCC concerning its activities and financial condition, and must obtain regulatory approval from the OCC prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OCC conducts periodic examinations to assess compliance with various regulatory requirements. The OCC has substantial discretion to impose enforcement action on a national bank that fails to comply with applicable regulatory requirements, particularly with respect to capital requirements imposed on national banks. In addition, the FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular national bank and, if action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances.

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

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

Activity Powers. National association banks derive their lending, investment and other activity powers primarily from the National Bank Act and the regulations of the OCC thereunder. Under these laws and regulations, national banks generally may invest in:

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

The ability of a national bank to invest in debt securities is limited to those securities that are readily marketable, investment grade and primarily non-speculative. OCC regulations also impose limits on the amount of investments in certain types of debt securities.

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

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

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

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

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

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

If a bank fails to submit an acceptable plan, it is treated as if it were significantly undercapitalized. Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions. Under OCC regulations, generally, a national bank is treated as well-capitalized if its Total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 8% or greater, its Common Equity Tier 1 (CET1) capital ratio is 6.5% and its Tier 1 leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. As of December 31, 2015, the Bank s regulatory capital ratios exceeded the OCC s numeric criteria for classification as a well-capitalized institution. Basel III also revised the prompt corrective action framework by incorporating new regulatory capital minimums, including a requirement for tangible common equity.

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

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

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

The FDIC has established a system for setting deposit insurance premiums based upon the risks a particular bank poses to the DIF. The assessment is based on a bank s average consolidated total assets minus average tangible equity (defined as Tier 1 capital). The size of the DIF is targeted at 2% of insured deposits. A reduced assessment rate schedule applies once the DIF reaches 1.15% of insured deposits, with additional reductions when the DIF reaches 2% and 2.5% of insured deposits, respectively. The FDIC applies a scorecard-based assessment system for financial institutions with more than $10 billion in assets (such as the Bank). One of the financial ratios used in the scorecard is the ratio of higher risk assets to Tier 1 capital and reserves. The classification of assets such as commercial and industrial loans, securities and consumer loans as higher risk is determined in accordance with applicable FDIC regulations and guidance.

In October 2015, the FDIC issued a proposed rule that would impose an annual assessment surcharge of 4.5 basis points on banks with $10 billion or more in total assets once the DIF reserve ratio reaches 1.15%. The surcharge will apply until the DIF reserve ratio reaches 1.35% of insured deposits. The Company is currently evaluating the impact of the proposed surcharge on the Company s Consolidated Financial Statements. See *Management s Discussion & Analysis Non-Interest Expense* beginning on page 43 for a further discussion regarding the proposed rule.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC at an annual rate of approximately 0.006% of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature between 2017 and 2019.

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

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

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

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

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

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

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

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

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

The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a satisfactory rating in its most recent CRA examination for the evaluation period ending June 30, 2013. The federal banking agencies adopted regulations implementing the requirements under the Gramm-Leach-Bliley Act that insured depository institutions publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements in place at this time.

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

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

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

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

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

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

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

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

The Bank, as a member of the FHLB of Boston, is currently required to purchase and hold shares of capital stock in the FHLB of Boston in an amount equal to 0.35% of the Bank s Membership Stock Investment Base plus an Activity Based Stock Investment Requirement. The Activity Based Stock Investment Requirement is equal to 3.0% of any outstanding principal for overnight advances, 4.0% of any outstanding principal for term advances with an original term of two days to three months and 4.5% of any outstanding principal for term advances with an original term greater than three months. The Bank is in compliance with these requirements. As a result of its acquisition of the Bank of Smithtown in 2010, the Bank also holds shares of capital stock in the FHLB of New York. The Bank, as a member of the Federal Reserve Bank system, is currently required to purchase and hold shares of capital stock in the Federal Reserve Bank of New York (the FRB-NY) in an amount equal to 6% of its capital and surplus.

Reserve Requirements. FRB reserve regulations require banks to maintain reserves against their transaction accounts (primarily negotiable order of withdrawal and demand deposit accounts). Institutions must maintain a reserve of 3% against aggregate transaction account balances between $15.2 million and $110.2 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB within specific limits) against that portion of total transaction account balances in excess of $110.2 million. The first $15.2 million of otherwise reservable balances is exempt from the reserve requirements. The Bank is in compliance with the foregoing requirements. The required reserves must be maintained in the form of vault cash, or an interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB.

Market Area and Competition

People s United s primary market areas are New England and southeastern New York, with Connecticut, Massachusetts, New York and Vermont having the largest concentration of its loans, deposits and branches. At December 31, 2015, 27%, 20%, 17% and 6% of the Company s loans by outstanding principal amount were to customers located within Connecticut, New York, Massachusetts and Vermont, respectively. Loans to customers located in the New England states as a group represented 59% of total loans at December 31, 2015. However, substantially the entire equipment financing portfolio (97% at December 31, 2015) was to customers located outside of New England. At December 31, 2015, 34% of the equipment financing portfolio was to customers located in Texas, California, Louisiana and New York and no other state exposure was greater than 5%.

As of June 30, 2015, People s United had: (i) the largest market share of deposits in Fairfield County, Connecticut; (ii) the second largest market share of deposits in the state of Connecticut; and (iii) the largest market share of deposits in the state of Vermont. People s United competes for deposits, loans and financial services with commercial banks, savings institutions, commercial and consumer finance companies, mortgage banking companies, insurance companies, credit unions and a variety of other institutional lenders and securities firms.

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As People s United s predominant market, Connecticut is one of the most attractive banking markets in the United States. With a total population of approximately 3.6 million and a median household income of $70,077, Connecticut ranks fourth in the United States, well above the U.S. median household income of $55,551, according to U.S. Census data and SNL Financial. The median household income in New York, which has the Company s second highest number of branches, was $60,445, according to U.S. Census data and SNL Financial. The median household income in Massachusetts and Vermont, which have the Company s third and fourth highest number of branches, was $69,807 and $58,048, respectively, according to U.S. Census data and SNL Financial.

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

Personnel

As of December 31, 2015, People s United had 4,652 full-time and 487 part-time employees.

Access to Information

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

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

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

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

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

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

Annual Report to Shareholders (two most recent years)

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

XBRL Interactive Data (most recent 12 months)

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Item 1A. Risk Factors

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

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

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

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

People s United manages this risk using many different techniques. If unsuccessful in managing this risk, People s United may be less profitable.

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

Asset quality measures the performance of a borrower in repaying a loan, with interest, on time. While we believe we have benefited from relatively stable asset quality, there are elements of our loan portfolio that inherently present greater credit risk, such as interest-only and stated income residential mortgage loans, home equity loans and lines with incomplete first lien data and commercial real estate loans. Each of these portfolio risk elements, where potentially material in the context of our overall loan portfolio, are discussed in greater detail within *Management s Discussion & Analysis Asset Quality* beginning on page 55. While the Company believes that it manages asset quality through prudent underwriting practices and collection operations, it is possible that our asset quality could deteriorate, depending upon economic conditions and other factors.

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

One element of our strategy is to focus on increasing deposits by providing a wide range of convenient services to our customers. An integral component of this strategy is the Bank s supermarket banking initiative, pursuant to which, as of December 31, 2015, the Bank has established 150 full-service Stop & Shop branches throughout Connecticut and southeastern New York, most of which are in close proximity to our traditional branches, which provide customers with the convenience of seven-day-a-week banking. At December 31, 2015, 38% of the Bank s branches were located in Stop & Shop supermarkets and 15% of our total deposits at that date were held in Stop & Shop branches.

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

Under the terms of the licensing agreements, the Bank has the obligation to open branches in new Stop & Shop locations, even if Stop & Shop s market share declines or the value of the Stop & Shop brand is diminished. The licensing agreements do not stipulate the number of branch openings per year but, rather, apply only to those new Stop & Shop locations that meet or exceed specified thresholds as to size (square footage) and/or customer traffic. Based on our experience, we would expect the application of these thresholds to result in the opening of approximately 3-5 new branches per year in Stop & Shop locations.

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

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

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

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

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

As a result of the financial crisis that existed for much of the period from 2008 through 2012, the housing and real estate markets, as well as the broader economy, experienced declines, both nationally and locally. Housing market conditions in the New England region, where much of our lending activity occurs, were adversely impacted, leading to a reduced level of sales, increasing inventories of houses on the market, declining house prices and an increase in the length of time houses remained on the market. No assurance can be given that these conditions will not be repeated or that such conditions will not result in a decrease in our interest income, an increase in our non-performing loans, an increase in our provision for loan losses or an adverse impact on our loan losses.

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

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

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

At December 31, 2015, 27%, 20% and 17% of the Company s loans by outstanding principal amount were to customers located within Connecticut, New York and Massachusetts, respectively. Loans to people and businesses located in the New England states as a group represented 59% of total loans at that date. How well our business performs depends very much on the health of these regional and local economies. We could experience losses in our real estate-related loan portfolios if the prices for housing and other kinds of real estate decreased significantly in New England or southeastern New York.

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

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

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

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

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

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

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

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

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

Several of People s United s competitors have branches in the same market area as it does, some of which are much larger than it is. The New England region, including Connecticut, which is People s United s predominant market, and specifically Fairfield County, where People s United is headquartered, is an attractive banking market. As locally-based banks continue to be acquired by large regional and national companies, there are not as many bank competitors in our market as there used to be, but the remaining ones are usually larger and have more resources than the banks they acquired.

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

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

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

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

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

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

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

Changes to the regulatory landscape, including:

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

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

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

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

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

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the DFA. As of December 31, 2015, the Bank s non-interest bearing deposits totaled $6.2 billion, or 22% of total deposits. The Company s interest expense may increase and net interest margin may decrease if it begins to offer higher rates of interest than are currently offered on demand deposits.

Stricter capital requirements for bank holding companies:

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

Mortgage rules promulgated by the CFPB:

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

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

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

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While it is difficult to fully quantify the increase in our regulatory compliance burden, we do believe that costs associated with regulatory compliance, including the need to hire additional compliance personnel, will continue to increase. Because certain other provisions of the DFA still require regulatory rulemaking, it is not clear how those new regulations will affect People s United.

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

People s United is exposed to the risk that customers will not be able to repay their loans. This risk is inherent in the lending business. There is also the risk that the customer s collateral will not be sufficient to cover the balance of their loan, as underlying collateral values fluctuate with market changes. People s United records an allowance for loan losses to cover probable losses inherent in the existing loan portfolio. The allowance for loan losses is established through provisions for loan losses charged to income. Losses on loans, including impaired loans, are charged to the allowance for loan losses when all or a portion of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance for loan losses when realized.

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

While People s United seeks to use the best available information to make these evaluations and, at December 31, 2015, believed that the allowance for loan losses was appropriate to cover probable losses inherent in the existing loan portfolio, it is possible that borrower defaults could exceed the current estimates for loan losses, which would reduce earnings. In addition, future increases to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, increasing charge-offs of existing problem loans, or the identification of additional problem loans and other factors, which would also reduce earnings. See Note 1 to the Consolidated Financial Statements for additional information concerning People s United s allowance for loan losses.

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

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

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

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

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

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

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

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

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

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

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

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

We do not currently have statistics for our entire portfolio of home equity loans and lines of credit with respect to first liens serviced by third parties that have priority over our junior liens, as we did not historically capture that data on our loan servicing systems. As a result, we may therefore be unaware that the loan secured by the first lien is not performing, which could delay our response to an apparent deterioration in the borrower s creditworthiness. As of December 31, 2015, full and complete first lien position data was not readily available for 38% of the home equity portfolio which, in turn, represented 3% of our overall loan portfolio at that date.

We are actively working with a third-party vendor to obtain the missing first lien information and have, in certain cases, obtained the data through information reported to credit bureaus when the borrower defaults. This data collection effort, however, can be more difficult in cases where more than one mortgage is reported in a borrower s credit report and/or there is not a corresponding property address associated with a reported mortgage, in which case we are often unable to associate a specific first lien with our junior lien. Please see the discussion in *Management s Discussion and Analysis Asset Quality Portfolio Risk Elements Home Equity Lending* beginning on page 57 for more detail, including steps we are taking to otherwise address this issue.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

People s United s corporate headquarters is located in Bridgeport, Connecticut. The headquarters building had a net book value of $57 million at December 31, 2015 and People s United occupies 87% of the building; all other available office space is leased to an unrelated party. People s United delivers its financial services through a network of 396 branches located throughout Connecticut, southeastern New York, Massachusetts, Vermont, New Hampshire and Maine. People s United s branch network is primarily concentrated in Connecticut, where it has 154 offices (including 84 located in Stop & Shop supermarkets). People s United also has 101 branches in southeastern New York (including 66 located in Stop & Shop supermarkets), 48 branches in Massachusetts, 40 branches in Vermont, 27 branches in New Hampshire and 26 branches in Maine. People s United owns 105 of its branches, which had an aggregate net book value of $52 million at December 31, 2015. People s United s remaining banking operations are conducted in leased locations. Information regarding People s United s operating leases for office space and related rent expense appears in Note 19 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

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Part II

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

The common stock of People s United is listed on the NASDAQ Global Select Market under the symbol PBCT . On February 17, 2016, the closing price of People s United common stock was $14.68. As of that date, there were approximately 18,100 record holders of People s United common stock.

Five-Year Performance Comparison

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

The graph assumes $100 invested on December 31, 2010 in each of People s United s common stock, the S&P 500 Stock Index, the Russell Midcap Index and the SNL Mid Cap Index. The graph also assumes reinvestment of all dividends.

The Russell Midcap Index is a market-capitalization weighted index comprised of 800 publicly-traded companies which are among the 1,000 largest U.S. companies (by market capitalization) but not among the 200 largest such companies. People s United is included as a component of the Russell Midcap Index. The SNL Mid Cap Index is an index prepared by SNL Securities comprised of 85 financial institutions (including People s United) located throughout the United States.

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Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by People s United of its common stock during the three months ended December 31, 2015:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1 31, 2015:				
Tendered by employees (1)	1,464	$ 15.90		
November 1 30, 2015:				
Tendered by employees (1)	3,461	$ 16.43		
December 1 31, 2015:				
Tendered by employees (1)	434	$ 16.78		
Total:				
Tendered by employees (1)	5,359	$ 16.32		

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

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

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Item 6. Selected Financial Data

As of and for the years ended December 31

(dollars in millions, except per share data)	2015	2014	2013	2012	2011
Earnings Data:					
Net interest income (fully taxable equivalent)	$ 957.3	$ 931.1	$ 905.8	$ 940.4	$ 921.2
Net interest income	932.1	911.9	888.6	928.7	913.4
Provision for loan losses	33.4	40.6	43.7	49.2	63.7
Non-interest income	352.4	350.8	341.7	320.4	314.3
Non-interest expense (1)	860.6	841.5	839.0	830.6	871.9
Operating non-interest expense (1)	847.7	832.0	826.3	817.9	815.1
Income before income tax expense	390.5	380.6	347.6	369.3	292.1
Net income	260.1	251.7	232.4	245.3	192.4
Operating earnings (1)	262.5	244.5	241.1	253.9	230.7
Selected Statistical Data:					
Net interest margin	2.88%	3.09%	3.31%	3.86%	4.10%
Return on average assets	0.71	0.75	0.75	0.87	0.74
Operating return on average assets (1)	0.71	0.72	0.78	0.90	0.89
Return on average tangible assets	0.75	0.80	0.81	0.95	0.80
Return on average stockholders equity	5.5	5.4	4.9	4.7	3.6
Return on average tangible stockholders equity	10.0	10.0	8.9	8.2	6.0
Operating return on average tangible stockholders equity (1)	10.1	9.7	9.2	8.5	7.2
Efficiency ratio (1)	61.5	62.1	62.3	61.2	62.6
Financial Condition Data:					
Total assets	$ 38,877	$ 35,997	$ 33,214	$ 30,324	$ 27,558
Loans	28,411	26,592	24,390	21,737	20,385
Securities	6,449	5,012	5,033	4,669	2,931
Short-term investments (2)	380	769	124	131	411
Allowance for loan losses	211	198	188	188	183
Goodwill and other acquisition-related intangible assets	2,088	2,103	2,127	2,154	2,174
Deposits	28,417	26,138	22,557	21,751	20,816
Borrowings	4,307	3,692	5,057	2,386	857
Notes and debentures	1,039	1,034	639	659	160
Stockholders equity	4,732	4,633	4,568	5,039	5,215
Non-performing assets (3)	182	224	248	290	337
Ratios:					
Net loan charge-offs to average total loans	0.08%	0.12%	0.19%	0.21%	0.28%
Non-performing assets to originated loans, real estate owned and repossessed assets (3)	0.66	0.88	1.08	1.48	2.00
Originated allowance for loan losses to:					
Originated loans (3)	0.73	0.74	0.78	0.91	1.05
Originated non-performing loans (3)	127.3	95.5	81.9	70.3	59.7
Average stockholders equity to average total assets	12.5	13.5	15.3	18.4	20.3
Stockholders equity to total assets	12.2	12.9	13.8	16.6	18.9
Tangible stockholders equity to tangible assets	7.2	7.5	7.9	10.2	12.0
Total risk-based capital (4)	12.6	13.0	12.4	13.1	14.0
Common Share Data:					
Basic and diluted earnings per share	$ 0.86	$ 0.84	$ 0.74	$ 0.72	$ 0.55
Operating earnings per share (1)	0.87	0.82	0.77	0.75	0.66
Dividends paid per share	0.6675	0.6575	0.6475	0.6375	0.6275
Dividend payout ratio	77.3%	78.2%	88.1%	88.8%	114.9%
Operating dividend payout ratio (1)	76.6	80.6	84.9	85.8	95.8
Book value per share (end of period)	$ 15.62	$ 15.44	$ 15.28	$ 15.21	$ 14.96
Tangible book value per share (end of period) (1)	8.73	8.43	8.17	8.71	8.72
Stock price:					
High	16.95	15.70	15.27	13.79	14.49

Low	13.97	13.61	11.82	11.20	10.50
Close (end of period)	16.15	15.18	15.12	12.09	12.85

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(1) See Non-GAAP Financial Measures and Reconciliation to GAAP.
(2) Includes securities purchased under agreements to resell.
(3) Excludes acquired loans. See Asset Quality.
(4) Total risk-based capital ratios presented are for People s United Bank. See Regulatory Capital Requirements.

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

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

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

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

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

General

People s United is a bank holding company and a financial holding company, and the Bank is a national banking association. Prior to February 23, 2015, People s United was a savings and loan holding company within the meaning of the Home Owners Loan Act and the Bank was a federally-chartered savings bank. These changes primarily affect the manner in which both People s United and the Bank are regulated, and did not have a material effect on either People s United s or the Bank s financial condition or results of operations.

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The principal business of People s United is to provide, through the Bank and its subsidiaries, commercial banking, retail banking and wealth management services to individual, corporate and municipal customers. The Bank, which is headquartered in Bridgeport, Connecticut, had $38.5 billion in total assets as of December 31, 2015. Its deposit accounts are insured up to applicable limits by the FDIC under the DIF. The Bank is subject to regulation, examination, supervision and reporting requirements by the OCC, as its primary regulator, and by the FDIC as the deposit insurer. In addition, the CFPB has responsibility for supervising the Bank s compliance with designated consumer financial laws.

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

Critical Accounting Policies

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

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

The judgments used by management in applying critical accounting policies may be affected by economic conditions, which may result in changes to future financial results. For example, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect outstanding principal may result in increased loan losses. People s United s significant accounting policies and critical estimates are summarized in Note 1 to the Consolidated Financial Statements.

The Financial Accounting Standards Board (the FASB) is currently reviewing or proposing changes to several accounting and reporting standards, some of which govern key aspects of the Company s financial statements. Most notably, the FASB s proposed standard on accounting for credit losses would remove the existing probable threshold in U.S. generally accepted accounting principles (GAAP) for recognizing credit losses and, instead, utilize an expected credit loss measurement objective. The proposed model would be applied in the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired and adjusted each period for changes in expected credit losses. This proposal represents a significant change in GAAP and may, when issued, result in material changes to the Company s Consolidated Financial Statements.

Non-GAAP Financial Measures and Reconciliation to GAAP

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

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

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

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

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

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

Years ended December 31 (dollars in millions)	2015	2014	2013	2012	2011
Total non-interest expense	$ 860.6	$ 841.5	$ 839.0	$ 830.6	$ 871.9
Adjustments to arrive at operating non-interest expense:					
Writedowns of banking house assets	(10.5)	(6.2)	(9.0)		(4.8)
Severance-related costs	(2.4)	(3.3)	(2.8)	(7.3)	(5.3)
Acquisition integration and other costs			(0.9)	(5.4)	
Merger-related expenses					(42.9)
Executive-level separation agreement					(3.8)
Total	(12.9)	(9.5)	(12.7)	(12.7)	(56.8)
Operating non-interest expense	847.7	832.0	826.3	817.9	815.1
Operating lease expense (1)	(37.1)	(37.4)	(31.3)	(26.3)	(20.8)
Amortization of other acquisition-related intangible assets	(23.9)	(24.8)	(26.2)	(26.8)	(25.8)
Other (2)	(7.8)	(10.3)	(10.3)	(7.8)	(10.3)
Total non-interest expense for efficiency ratio	$ 778.9	$ 759.5	$ 758.5	$ 757.0	$ 758.2
Net interest income (FTE basis)	$ 957.3	$ 931.1	$ 905.8	$ 940.4	$ 921.2
Total non-interest income	352.4	350.8	341.7	320.4	314.3
Total revenues	1,309.7	1,281.9	1,247.5	1,260.8	1,235.5
Adjustments:					
Operating lease expense (1)	(37.1)	(37.4)	(31.3)	(26.3)	(20.8)
Gain on sale of business, net of expenses	(9.2)	(20.6)			
BOLI FTE adjustment	2.4	2.8	2.1	2.8	3.1
Net security gains		(3.0)			(8.8)
Other (3)	(0.1)	(0.5)	(0.8)	(0.7)	2.2
Total revenues for efficiency ratio	$ 1,265.7	$ 1,223.2	$ 1,217.5	$ 1,236.6	$ 1,211.2
Efficiency ratio	61.5%	62.1%	62.3%	61.2%	62.6%

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

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

Years ended December 31 (dollars in millions, except per share data)	2015	2014	2013	2012	2011
Net income, as reported	$ 260.1	$ 251.7	$ 232.4	$ 245.3	$ 192.4
Adjustments to arrive at operating earnings:					
Writedowns of banking house assets	10.5	6.2	9.0		4.8
Severance-related costs	2.4	3.3	2.8	7.3	5.3
Gain on sale of business, net of expenses	(9.2)	(20.6)			
Acquisition integration and other costs			0.9	5.4	
Merger-related expenses					42.9
Executive-level separation costs					3.8
Total pre-tax adjustments	3.7	(11.1)	12.7	12.7	56.8
Tax effect	(1.3)	3.9	(4.0)	(4.1)	(18.5)
Total adjustments, net of tax	2.4	(7.2)	8.7	8.6	38.3
Operating earnings	$ 262.5	$ 244.5	$ 241.1	$ 253.9	$ 230.7
EPS, as reported	$ 0.86	$ 0.84	$ 0.74	$ 0.72	$ 0.55
Adjustment to arrive at operating EPS:					
Writedowns of banking house assets	0.03	0.01	0.03		0.01
Severance-related costs		0.01		0.02	0.01
Gain on sale of business, net of expenses	(0.02)	(0.04)			
Acquisition integration and other costs				0.01	
Merger-related expenses					0.08
Executive-level separation costs					0.01
Total adjustments per share	0.01	(0.02)	0.03	0.03	0.11
Operating EPS	$ 0.87	$ 0.82	$ 0.77	$ 0.75	$ 0.66
Average total assets	$ 36,894	$ 33,753	$ 31,009	$ 28,113	$ 26,028
Operating return on average assets	0.71%	0.72%	0.78%	0.90%	0.89%

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

Years ended December 31 (dollars in millions)	2015	2014	2013	2012	2011
Operating earnings	$ 262.5	$ 244.5	$ 241.1	$ 253.9	$ 230.7
Average stockholders equity	$ 4,697	$ 4,625	$ 4,755	$ 5,168	$ 5,271
Less: Average goodwill and average other acquisition-related intangible assets	2,094	2,115	2,141	2,165	2,053
Average tangible stockholders equity	$ 2,603	$ 2,510	$ 2,614	$ 3,003	$ 3,218

Operating return on average tangible stockholders equity	10.1%	9.7%	9.2%	8.5%	7.2%

Years ended December 31 (dollars in millions)	2015	2014	2013	2012	2011
Dividends paid	$ 201.2	$ 196.9	$ 204.8	$ 217.9	$ 220.9
Operating earnings	$ 262.5	$ 244.5	$ 241.1	$ 253.9	$ 230.7
Operating dividend payout ratio	76.7%	80.6%	84.9%	85.8%	95.8%

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

As of December 31 (dollars in millions)	2015	2014	2013	2012	2011
Total stockholders equity	$ 4,732	$ 4,633	$ 4,568	$ 5,039	$ 5,215
Less: Goodwill and other acquisition-related intangible assets	2,088	2,103	2,127	2,154	2,174
Tangible stockholders equity	$ 2,644	$ 2,530	$ 2,441	$ 2,885	$ 3,041
Total assets	$ 38,877	$ 35,997	$ 33,214	$ 30,324	$ 27,558
Less: Goodwill and other acquisition-related intangible assets	2,088	2,103	2,127	2,154	2,174
Tangible assets	$ 36,789	$ 33,894	$ 31,087	$ 28,170	$ 25,384
Tangible equity ratio	7.2%	7.5%	7.9%	10.2%	12.0%

As of December 31 (in millions, except per share data)	2015	2014	2013	2012	2011
Tangible stockholders equity	$ 2,644	$ 2,530	$ 2,441	$ 2,885	$ 3,041
Common shares issued	399.24	396.85	396.45	395.81	395.42
Less: Common shares classified as treasury shares	89.06	89.05	89.54	56.18	38.03
Unallocated ESOP common shares	7.32	7.67	8.01	8.36	8.71
Common shares	302.86	300.13	298.90	331.27	348.68
Tangible book value per share	$ 8.73	$ 8.43	$ 8.17	$ 8.71	$ 8.72

Economic Environment

People s United s results are subject to fluctuations based on economic conditions that can affect interest rates, deposit flows, credit demand and the ability of borrowers to service debt, among others. Throughout 2015, the United States economy experienced a moderate expansion, with real gross domestic product increasing 2.4% year-over-year, national employment increasing by 2.6 million jobs, the unemployment rate declining from 5.7% to 5.0% and the yield on the 10-year Treasury note increasing from 2.17% to 2.27%. Inflation remained temperate with the Consumer Price Index (CPI) increasing 0.7% over the course of the year and the CPI index less food and energy increasing 2.1%. After maintaining the target rate for federal funds between 0% and 0.25% since December 2008, the Federal Open Market Committee (the FOMC) of the FRB raised the target rate to 0.25% to 0.50% at its December 2015 meeting.

On balance, the moderate expansion in 2015 supported loan and deposit growth and loan performance even as the interest rate environment did not support an expansion of the net interest margin. The Company expects a continuation of moderate economic growth in 2016, which should continue to support deposit growth, loan growth and loan performance. Although the FOMC indicated at its December 2015 meeting that four additional 0.25% increases in the target federal funds rate would likely occur in 2016, subsequent global developments and concerns about the momentum of the United States economy make it unlikely that the target rate will increase by that much. Unless economic growth and inflation increase more than in 2015, the interest rate environment in 2016 will continue to be a challenging one for the net interest margin.

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The New England region and southeastern New York comprise People s United s primary market area, with Connecticut, Massachusetts, New York and Vermont having the largest concentration of People s United s loans, deposits and branches. While the New England economy experienced a less severe contraction during the recent recession than the United States as a whole, since the recession ended it has expanded more slowly. Employment growth since 2008 has exceeded the national average only in Massachusetts and New York. As of December 31, 2015, Connecticut and Maine had yet to recover all the jobs lost in the recession, while Vermont and New Hampshire had increased employment but more slowly that the nation overall. The combination of the less severe recession but slower subsequent growth resulted in state unemployment rates that are less than the national rate in all states in the Company s primary market area except for Connecticut, where the unemployment rate was 5.2% as of December 31, 2015 compared to the national average of 5.0%.

Slow economic growth is expected to continue within People s United s primary market area. Although this area does not enjoy the natural resources that have led to strong economic growth in other areas of the nation, its skilled labor force should enable it to be competitive in sectors of the economy with high growth potential, including health care, technology, education and advanced manufacturing.

Financial Overview

Comparison of Financial Condition at December 31, 2015 and 2014. Total assets at December 31, 2015 were $38.9 billion, a $2.9 billion increase from December 31, 2014, reflecting increases of $1.8 billion in total loans and $1.4 billion in total securities, partially offset by decreases of $298 million in cash and cash equivalents and $100 million in securities purchased under agreements to resell. The increase in total loans from December 31, 2014 to December 31, 2015 reflects increases of $1.3 billion in commercial loans and $525 million in residential mortgage loans. Originated loans increased $2.1 billion from December 31, 2014 to $27.6 billion (commercial loans increased $1.5 billion and retail loans increased $583 million) and acquired loans decreased $254 million. At December 31, 2015, the carrying amount of the acquired loan portfolio totaled $797 million. The increase in total securities primarily reflects net purchases of government sponsored enterprise (GSE) residential mortgage-backed securities and U.S. Treasury and agency securities. The decrease in cash and cash equivalents reflects a $293 million decrease in interest-bearing deposits at the FRB-NY.

Non-performing assets (excluding acquired non-performing loans) totaled $181.5 million at December 31, 2015, a $42.6 million decrease from year-end 2014, reflecting decreases of $38.8 million in non-performing commercial real estate loans and $12.0 million in real estate owned (REO), partially offset by a $7.0 million increase in repossessed assets. The allowance for loan losses was $211.0 million ($202.9 million on originated loans and $8.1 million on acquired loans) at December 31, 2015 compared to $198.3 million ($188.1 million on originated loans and $10.2 million on acquired loans) at December 31, 2014. At December 31, 2015, the originated allowance for loan losses as a percentage of originated loans was 0.73% and as a percentage of originated non-performing loans was 127.3%, compared to 0.74% and 95.5%, respectively, at December 31, 2014.

At December 31, 2015, total liabilities were $34.1 billion, a $2.8 billion increase from December 31, 2014, reflecting increases of $2.3 billion in total deposits and $616 million in total borrowings. The increase in total borrowings reflects additional funding used to support loan growth and securities purchases.

People s United s total stockholders equity was $4.7 billion at December 31, 2015, a $99 million increase from December 31, 2014. This increase reflects net income in 2015 of $260.1 million and net restricted stock and stock option-related transactions in 2015 totaling $43.2 million, partially offset by dividends paid in 2015 of $201.2 million. As a percentage of total assets, stockholders equity was 12.2% at December 31, 2015 compared to 12.9% at December 31, 2014. Tangible stockholders equity as a percentage of tangible assets was 7.2% at December 31, 2015 compared to 7.5% at December 31, 2014.

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People s United s Tier 1 Leverage, CET1, Tier 1 and Total Risk-Based capital ratios were 8.0%, 9.8%, 9.8% and 11.7%, respectively, at December 31, 2015 (calculated in accordance with Basel III capital rules), compared to 7.9%, 9.8%, 9.8% and 12.2%, respectively, at December 31, 2014. The Bank s Tier 1 Leverage, CET1, Tier 1 and Total Risk-Based capital ratios were 8.4%, 10.2%, 10.2% and 12.6%, respectively, at December 31, 2015 (calculated in accordance with Basel III capital rules), compared to 8.5%, 10.5%, 10.5% and 13.0%, respectively, at December 31, 2014.

Comparison of Results of Operations for the Years Ended December 31, 2015 and 2014. People s United reported net income of $260.1 million, or $0.86 per diluted share, for the year ended December 31, 2015, compared to $251.7 million, or $0.84 per diluted share, for the year-ago period. Included in the 2015 results is a net after-tax gain of $6.1 million ($0.02 per share) resulting from the sale of the Company s payroll services business. Included in the 2014 results is a net after-tax gain of $13.4 million ($0.04 per share) resulting from the formation of a merchant services joint venture. Results for 2015 and 2014 include $2.5 million and $6.2 million (after-tax), respectively, of non-operating expenses. Operating earnings were $262.5 million, or $0.87 per share, and $244.5 million, or $0.82 per share, for the respective periods. The results for 2015 reflect continued loan and deposit growth, meaningful cost control and the negative impact of the historically low interest rate environment. People s United s operating return on average assets was 0.71% for 2015 compared to 0.72% for 2014. Operating return on average tangible stockholders equity was 10.1% for 2015 compared to 9.7% for the year-ago period.

FTE net interest income totaled $957.3 million in 2015, a $26.2 million increase from the year-ago period, and the net interest margin declined 21 basis points from 2014 to 2.88%. The decrease in the net interest margin primarily reflects continued pricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at rates lower than the existing portfolio, and declining interest income on acquired loans.

Average total earning assets increased $3.0 billion compared to 2014, reflecting increases of $2.0 billion in average total loans and $985 million in average securities. Average total funding liabilities increased $3.0 billion compared to 2014, reflecting increases of $3.2 billion in average total deposits and $200 million in average notes and debentures, partially offset by a $423 million decrease in average total borrowings.

Compared to 2014, total non-interest income increased $1.6 million and total non-interest expense increased $19.1 million. The efficiency ratio was 61.5% for 2015 compared to 62.1% for the year-ago period. The provision for loan losses in 2015 totaled $33.4 million compared to $40.6 million in the year-ago period. Net loan charge-offs as a percentage of average total loans were 0.08% in 2015 compared to 0.12% in 2014.

Comparison of Financial Condition at December 31, 2014 and 2013. Total assets at December 31, 2014 were $36.0 billion, a $2.8 billion increase from December 31, 2013, primarily reflecting increases of $2.2 billion in total loans and $545 million in short-term investments. The increase in total loans from December 31, 2013 to December 31, 2014 primarily reflects increases of $1.6 billion in commercial loans and $515 million in residential mortgage loans. Originated loans increased $2.7 billion from December 31, 2013 to $25.5 billion (commercial loans increased $2.1 billion and retail loans increased $615 million) and acquired loans decreased $474 million. At December 31, 2014, the carrying amount of the acquired loan portfolio totaled $1.1 billion. The increase in short-term investments reflects an increase in interest-bearing deposits at the FRB-NY.

Non-performing assets (excluding acquired non-performing loans) totaled $224.1 million at December 31, 2014, a $23.7 million decrease from year-end 2013, primarily reflecting a $23.2 million decrease in non-performing retail loans partially offset by a $3.6 million increase in non-performing commercial loans. The allowance for loan losses was $198.3 million ($188.1 million on originated loans and $10.2 million on acquired loans) at December 31, 2014 compared to $187.8 million ($177.5 million on originated loans and $10.3 million on acquired loans) at December 31, 2013. At December 31, 2014, the originated allowance for loan losses as a percentage of originated loans was 0.74% and as a percentage of originated non-performing loans was 95.5%, compared to 0.78% and 81.9%, respectively, at December 31, 2013.

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At December 31, 2014, total liabilities were $31.4 billion, a $2.7 billion increase from December 31, 2013, reflecting increases of $3.6 billion in total deposits, including a $2.5 billion increase in brokered deposits, and $394 million in notes and debentures, partially offset by a $1.4 billion decrease in total borrowings. The increase in notes and debentures reflects the Bank s issuance of $400 million of subordinated notes in June 2014.

People s United s total stockholders equity was $4.6 billion at December 31, 2014, a $65 million increase from December 31, 2013. This increase reflects net income in 2014 of $251.7 million partially offset by dividends paid in 2014 of $196.9 million. As a percentage of total assets, stockholders equity was 12.9% at December 31, 2014 compared to 13.8% at December 31, 2013. Tangible stockholders equity as a percentage of tangible assets was 7.5% at December 31, 2014 compared to 7.9% at December 31, 2013.

People s United s (consolidated) Tier 1 common equity, Tier 1 and Total Risk-Based capital ratios were 9.8%, 9.8% and 12.2%, respectively, at December 31, 2014, compared to 10.2%, 10.2% and 11.3%, respectively, at December 31, 2013. The Bank s leverage (core) capital ratio, and Tier 1 and Total Risk-Based capital ratios were 8.5%, 10.5% and 13.0%, respectively, at December 31, 2014, compared to 9.1%, 11.1% and 12.4%, respectively, at December 31, 2013.

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013. People s United reported net income of $251.7 million, or $0.84 per diluted share, for the year ended December 31, 2014, compared to $232.4 million, or $0.74 per diluted share, for the 2013 period. Included in the 2014 results is a net after-tax gain of $13.4 million ($0.04 per share) resulting from the formation of a merchant services joint venture. Results for 2014 and 2013 include $6.2 million and $8.7 million (after-tax), respectively, of non-operating expenses. Operating earnings were $244.5 million, or $0.82 per share, and $241.1 million, or $0.77 per share, for the respective periods. The results for 2014 reflect continued loan and deposit growth, meaningful cost control and the negative impact of the historically low interest rate environment. People s United s operating return on average assets was 0.72% for 2014 compared to 0.78% for 2013. Operating return on average tangible stockholders equity was 9.7% for 2014 compared to 9.2% for the 2013 period.

FTE net interest income totaled $931.1 million in 2014, a $25.3 million increase from the year-ago period, and the net interest margin declined 22 basis points from 2013 to 3.09%. The decrease in the net interest margin primarily reflects continued pricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at rates lower than the existing portfolio, and declining interest income on acquired loans.

Average total earning assets increased $2.8 billion compared to 2013, reflecting increases of $2.6 billion in average total loans and $201 million in average securities. Average total funding liabilities increased $2.9 billion compared to 2013, reflecting increases of $2.3 billion in average total deposits, $393 million in average total borrowings and $192 million in average notes and debentures.

Compared to 2013, total non-interest income increased $9.1 million and total non-interest expense increased $2.5 million. The efficiency ratio was 62.1% for 2014 compared to 62.3% for 2013. The provision for loan losses in 2014 totaled $40.6 million compared to $43.7 million in 2013. Net loan charge-offs as a percentage of average total loans were 0.12% in 2014 compared to 0.19% in 2013.

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Segment Results

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

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

Segment Performance Summary

	Net Income		
Years ended December 31 (in millions)	2015	2014	2013
Commercial Banking	$ 234.8	$ 221.0	$ 224.9
Retail Banking	(14.1)	20.3	47.4
Total reportable segments	220.7	241.3	272.3
Treasury	45.7	11.1	(25.4)
Other	(6.3)	(0.7)	(14.5)
Total Consolidated	$ 260.1	$ 251.7	$ 232.4

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

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

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During the quarter ended March 31, 2015, the Company modified its FTP methodology relating to certain deposit products that resulted in a reduction in the funding credit recognized within net interest income for Commercial Banking and Retail Banking, with the offset reflected in Treasury. Prior period segment results for this modification have not been adjusted and continue to reflect the previous FTP methodology.

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

People s United allocates a majority of non-interest expenses to each operating segment using a full-absorption costing process (i.e. all expenses are fully-allocated to the segments). Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate operating segment and corporate overhead costs are allocated to the operating segments. During the quarter ended March 31, 2015, the Company modified its cost allocation methodology with respect to the allocation of branch costs associated with servicing certain customers, which resulted in an increase in non-interest expense for Commercial Banking and Wealth Management, with the offset reflected in Retail Banking. Prior period segment results have not been adjusted and continue to reflect the previous cost allocation methodology. Income tax expense is allocated to each operating segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the year. Average total assets and average total liabilities are presented for each reportable segment due to management s reliance, in part, on such average balances for purposes of assessing segment performance.

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

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Commercial Banking consists principally of commercial real estate lending, commercial and industrial lending, and commercial deposit gathering activities. This segment also includes the equipment financing operations of PCLC and PUEFC, as well as cash management, correspondent banking and municipal banking. In addition, Commercial Banking consists of institutional trust services, corporate trust, insurance services provided through PUIA and private banking.

Years ended December 31 (in millions)	2015	2014	2013
Net interest income	$ 551.6	$ 516.0	$ 487.7
Provision for loan losses	47.7	47.6	47.3
Total non-interest income	162.0	141.4	143.3
Total non-interest expense	313.2	275.7	247.4
Income before income tax expense	352.7	334.1	336.3
Income tax expense	117.9	113.1	111.4
Net income	$ 234.8	$ 221.0	$ 224.9
Average total assets	$ 21,465.7	$ 19,338.5	$ 16,979.5
Average total liabilities	5,483.2	4,275.1	3,459.7

Commercial Banking net income increased $13.8 million in 2015 compared to 2014, reflecting increases in net interest income and non-interest income partially offset by an increase in non-interest expense. The $35.6 million increase in net interest income primarily reflects the benefit from an increase in average commercial loans and lower net FTP funding charges, partially offset by continued pricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new originations at rates lower than the existing portfolio, and declining interest income on acquired loans. Included in non-interest income in 2015 and 2014 are net gains (losses) on sales of acquired loans totaling $1.7 million and $(0.9) million, respectively. Excluding these net gains (losses), non-interest income increased $18.0 million in 2015, primarily reflecting increases in commercial banking lending fees, customer interest rate swap income and operating lease income resulting from a higher level of equipment leases to PCLC customers. The $37.5 million increase in non-interest expense in 2015 reflects higher levels of direct (including operating lease expense) and allocated expenses. Average total assets increased $2.1 billion and average total liabilities increased $1.2 billion compared to 2014, reflecting loan and deposit growth. In addition, during the quarter ended March 31, 2015, certain customer loans and deposits were transferred from Retail Banking to Commercial Banking to better align with the Bank s customer relationship management approach.

Commercial Banking net income decreased $3.9 million in 2014 compared to 2013, as an increase in net interest income was more than offset by lower non-interest income and an increase in non-interest expense. The $28.3 million increase in net interest income primarily reflects the benefits from loan growth and lower net FTP funding charges, partially offset by continued pricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at rates lower than the existing portfolio, and declining interest income on acquired loans. Included in non-interest income in 2014 and 2013 are net (losses) gains on sales of acquired loans totaling $(0.9) million and $5.7 million, respectively. Excluding these net (losses) gains, non-interest income increased $4.7 million in 2014, primarily reflecting increases in operating lease income resulting from a higher level of equipment leases to PCLC customers and trust-related income, partially offset by declines in commercial banking lending fees and customer interest rate swap income. The $28.3 million increase in non-interest expense in 2014 reflects higher levels of direct (including operating lease expense) and allocated expenses. Average total assets increased $2.4 billion and average total liabilities increased $815 million compared to 2013, reflecting loan and deposit growth.

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

Years ended December 31 (in millions)	2015	2014	2013
Net interest income	$ 344.6	$ 408.0	$ 456.3
Provision for loan losses	15.2	16.8	15.0
Total non-interest income	169.7	167.4	180.9
Total non-interest expense	520.2	528.0	551.2
(Loss) income before income tax (benefit) expense	(21.1)	30.6	71.0
Income tax (benefit) expense	(7.0)	10.3	23.6
Net (loss) income	$ (14.1)	$ 20.3	$ 47.4
Average total assets	$ 8,478.1	$ 8,514.8	$ 8,373.4
Average total liabilities	19,235.8	19,109.2	19,064.4

Retail Banking net loss in 2015 compared to net income in 2014 primarily reflects a $63.4 million decrease in net interest income. The decrease in net interest income primarily reflects lower net FTP funding credits, continued pricing pressure within the loan portfolio, including the pay-off of higher yielding loans and new originations at rates lower than the existing portfolio, and declining interest income on acquired loans, partially offset by the benefit from an increase in average residential mortgage loans. The $2.3 million increase in non-interest income primarily reflects an increase in net gains on sales of residential mortgages. The $7.8 million decrease in non-interest expense primarily reflects lower levels of direct and allocated expenses. Average total assets decreased $36.7 million and average total liabilities increased $126.6 million compared to 2014. During the quarter ended March 31, 2015, certain customer loans and deposits were transferred from Retail Banking to Commercial Banking to better align with the Bank s customer relationship management approach.

Retail Banking net income decreased $27.1 million in 2014 compared to 2013. The $48.3 million decrease in net interest income primarily reflects continued pricing pressure within the loan portfolio, including the pay-off of higher yielding loans and new originations at rates lower than the existing portfolio, declining interest income on acquired loans and lower net FTP funding credits, partially offset by continued loan growth. The $13.5 million decrease in non-interest income primarily reflects an $11.9 million decrease in net gains on sales of residential mortgages partially offset by an increase in investment management fees. The $23.2 million decrease in non-interest expense primarily reflects lower levels of direct and allocated expenses. Compared to 2013, average total assets increased $141 million, reflecting loan growth, and average total liabilities increased $45 million, reflecting deposit growth partially offset by a decrease in customer repurchase agreements.

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

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

Years ended December 31 (in millions)	2015	2014	2013
Net interest income (loss)	$ 64.4	$ 10.7	$ (46.6)
Total non-interest income	11.1	12.4	7.2
Total non-interest expense	6.9	6.2	(1.4)
Income (loss) before income tax expense (benefit)	68.6	16.9	(38.0)
Income tax expense (benefit)	22.9	5.8	(12.6)
Net income (loss)	$ 45.7	$ 11.1	$ (25.4)
Average total assets	$ 6,405.5	$ 5,266.7	$ 5,021.1
Average total liabilities	7,194.4	5,423.0	3,352.3

Treasury s net income increased $51.7 million in 2015 compared to 2014. The $53.7 million improvement in net interest income primarily reflects lower net FTP funding costs and an increase in securities income, partially offset by an increase in interest expense. The decrease in non-interest income primarily reflects a decrease in net security gains and BOLI income. The increase in non-interest expense primarily reflects increases in both direct and allocated expenses. Average total assets increased $1.1 billion in 2015 compared to 2014, primarily reflecting an increase in average securities and average short-term investments. The $1.8 billion increase in average total liabilities in 2015 compared to 2014 reflects increases in average deposits and average notes and debentures partially offset by a decrease in average borrowings.

Treasury s net income in 2014 compared to a net loss in 2013 primarily reflects a $57.3 million increase in net interest income. The improvement in net interest income primarily reflects lower net FTP funding costs and an increase in securities income, partially offset by an increase in interest expense. The increase in non-interest income primarily reflects increases in net security gains and BOLI income. The increase in non-interest expense primarily reflects increases in both direct and allocated expenses. Average total assets increased $246 million in 2014 compared to 2013, reflecting increases in average securities and average short-term investments. The $2.1 billion increase in average total liabilities in 2014 compared to 2013 reflects increases in average brokered deposits, average total borrowings and average notes and debentures ($400 million of subordinated notes were issued in June 2014).

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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; assets and liabilities not attributable to a particular segment; reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis; and the FTP impact from excess capital. The Other category also includes certain non-recurring items, such as: the net gain on the sale of the payroll services business totaling $9.2 million for the year ended December 31, 2015 and the net gain on the merchant services joint venture totaling $20.6 million for the year ended December 31, 2014 (included in total non-interest income); and one-time charges totaling $12.9 million, $9.5 million and $12.7 million for the years ended December 31, 2015, 2014 and 2013, respectively (included in total non-interest expense).

Years ended December 31 (in millions)	2015	2014	2013
Net interest loss	$ (28.5)	$ (22.8)	$ (8.8)
Provision for loan losses	(29.5)	(23.8)	(18.6)
Total non-interest income	9.6	29.6	10.3
Total non-interest expense	20.3	31.6	41.8
Loss before income tax benefit	(9.7)	(1.0)	(21.7)
Income tax benefit	(3.4)	(0.3)	(7.2)
Net loss	$ (6.3)	$ (0.7)	$ (14.5)
Average total assets	$ 544.7	$ 632.8	$ 634.9
Average total liabilities	283.3	320.1	377.7

Net Interest Income

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

Net Interest Margin

Years ended December 31 (percent)

Net Interest Income - FTE

Years ended December 31 (dollars in millions)

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On December 17, 2015, the FRB raised the targeted range for the federal funds rate by 25 basis points to 0.25% to 0.50%. Until that date, the FRB had not changed the targeted range of 0% to 0.25% since December 2008. For 2015, the average effective federal funds rate was 0.13%.

The net interest margin was 2.88% in 2015 compared to 3.09% in 2014. The decline in the net interest margin in 2015 compared to 2014 primarily reflects continued pricing pressure within the loan portfolio, including the pay-off of higher-yielding loans and new loan originations at rates lower than the existing portfolio, declining interest income on acquired loans and an increase in total deposit average balances. The net interest margin continues to be negatively impacted by the historically low interest rate environment where loan repricings are outpacing the Company s ability to lower deposit costs as well as the continued investment of a portion of the Company s capital in low-yielding short-term investments.

2015 Compared to 2014

FTE net interest income increased $26.2 million compared to 2014, reflecting a $44.3 million increase in total interest and dividend income partially offset by an $18.1 million increase in total interest expense, and the net interest margin decreased 21 basis points to 2.88%. The decline in the net interest margin reflects new loan volume at rates lower than the existing portfolio (15 basis points) and an increase in average deposit balances (5 basis points).

Average total earning assets were $33.2 billion in 2015, a $3.0 billion increase from 2014, primarily reflecting increases of $2.0 billion in average total loans and $985 million in average securities. Average total loans, average securities and average short-term investments comprised 82%, 17% and 1%, respectively, of average total earning assets in 2015 compared to 83%, 16% and 1%, respectively, of average total earning assets in 2014. In 2015, the yield earned on the total loan portfolio was 3.52% and the yield earned on securities and short-term investments was 2.28%, compared to 3.74% and 2.15%, respectively, in the year-ago period. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, 49% of the loan portfolio had floating interest rates at December 31, 2015 compared to 47% at December 31, 2014.

The average total commercial and residential mortgage loan portfolios increased $1.4 billion and $587 million, respectively, compared to 2014, reflecting growth. Average consumer loans increased $20 million compared to 2014, reflecting a $32 million increase in average home equity loans partially offset by a $10 million decrease in average indirect auto loans.

Average total funding liabilities were $31.8 billion in 2015, a $3.0 billion increase from the year-ago period, reflecting increases of $3.2 billion in average total deposits and $200 million in average notes and debentures, partially offset by a $423 million decrease in average total borrowings. The increase in average total deposits reflects organic growth as well as a $1.2 billion increase in average brokered deposits. Excluding brokered deposits, average savings and money market deposits, average non-interest-bearing deposits and average time deposits increased $1.4 billion, $411 million and $204 million, respectively. Average total deposits comprised 87% and 85% of average total funding liabilities in 2015 and 2014, respectively. The increase in average notes and debentures reflects the issuance of $400 million of subordinated notes in June 2014.

The two basis point increase to 0.43% from 0.41% in the rate paid on average total funding liabilities in 2015 compared to 2014 primarily reflects a decrease in market interest rates and the shift in deposit mix as well as continued repricing of higher-yielding deposits assumed in acquisitions. The rate paid on average total deposits increased two basis points in 2015, reflecting an increase of four basis points in time deposits. Average savings and money market deposits and average time deposits comprised 60% and 19%, respectively, of average total deposits in 2015 compared to 59% and 19%, respectively, in 2014.

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2014 Compared to 2013

FTE net interest income increased $25.3 million compared to 2013, reflecting a $28.2 million increase in total interest and dividend income partially offset by a $2.9 million increase in total interest expense, and the net interest margin decreased 22 basis points to 3.09%. The decline in the net interest margin reflects new loan volume at rates lower than the existing portfolio (21 basis points).

Average total earning assets were $30.2 billion in 2014, a $2.8 billion increase from 2013, primarily reflecting increases of $2.6 billion in average total loans and $201 million in average securities. Average total loans, average securities and average short-term investments comprised 83%, 16% and 1%, respectively, of average total earning assets in both 2014 and 2013. In 2014, the yield earned on the total loan portfolio was 3.74% and the yield earned on securities and short-term investments was 2.15%, compared to 4.08% and 2.08%, respectively, in 2013. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, 47% of the loan portfolio had floating interest rates at December 31, 2014 compared to 45% at December 31, 2013.

The average total commercial and residential mortgage loan portfolios increased $2.0 billion and $509 million, respectively, compared to 2013, reflecting growth. Average consumer loans increased $27 million compared to 2013, reflecting a $50 million increase in average home equity loans partially offset by a $23 million decrease in average indirect auto loans.

Average total funding liabilities were $28.7 billion in 2014, a $2.9 billion increase from 2013, reflecting increases of $2.3 billion in average total deposits, $393 million in average total borrowings and $192 million in average notes and debentures. The increase in average total deposits reflects organic growth as well as a $1.4 billion increase in average brokered deposits. Excluding brokered deposits, average savings and money market deposits and average non-interest-bearing deposits increased $781 million and $370 million, respectively, while average time deposits decreased $230 million. Average total deposits comprised 85% of average total funding liabilities in both 2014 and 2013. The increase in average total borrowings reflects the additional funding used to support loan growth. The increase in average notes and debentures reflects the issuance of $400 million of subordinated notes in June 2014.

The four basis point decrease to 0.41% from 0.45% in the rate paid on average total funding liabilities in 2014 compared to 2013 primarily reflects a decrease in market interest rates and the shift in deposit mix as well as continued repricing of higher-yielding deposits assumed in acquisitions. The rate paid on average total deposits decreased four basis points in 2014, reflecting decreases of 11 basis points in time deposits and one basis point in savings and money market deposits. Average savings and money market deposits and average time deposits comprised 59% and 19%, respectively, of average total deposits in 2014 compared to 57% and 21%, respectively, in 2013.

Average Balance Sheet, Interest and Yield/Rate Analysis

The table on the following page presents average balance sheets, FTE-basis interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2015, 2014 and 2013. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People s United has ceased to accrue interest. Premium amortization and discount accretion (including amounts attributable to purchase accounting adjustments) are also included in the respective interest income and interest expense amounts. The impact of People s United s use of derivative instruments in managing IRR is also reflected in the table, classified according to the instrument hedged and the related risk management objective.

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Average Balance Sheet, Interest and Yield/Rate Analysis

Years ended December 31	2015			2014			2013		
(dollars in millions)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Short-term investments (1)	$ 247.8	$ 0.5	0.20%	$ 214.9	$ 0.4	0.20%	$ 156.1	$ 0.3	0.22%
Securities (2)	5,731.5	135.7	2.37	4,746.9	106.3	2.24	4,545.9	97.7	2.15
Loans:									
Commercial (3)	10,189.5	375.4	3.68	9,266.2	360.7	3.89	8,421.5	356.2	4.23
Commercial real estate	9,643.9	343.5	3.56	9,145.0	354.2	3.87	7,965.0	351.2	4.41
Residential mortgage	5,222.4	166.7	3.19	4,635.1	154.3	3.33	4,126.1	141.4	3.42
Consumer	2,193.1	72.3	3.30	2,172.7	73.9	3.40	2,145.4	74.8	3.49
Total loans	27,248.9	957.9	3.52	25,219.0	943.1	3.74	22,658.0	923.6	4.08
Total earning assets	33,228.2	$ 1,094.1	3.29%	30,180.8	$ 1,049.8	3.48%	27,360.0	$ 1,021.6	3.73%
Other assets	3,665.8			3,572.0			3,648.9		
Total assets	$ 36,894.0			$ 33,752.8			$ 31,008.9		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing	$ 5,801.9	$	%	$ 5,390.1	$	%	$ 5,020.3	$	%
Savings, interest-bearing checking and money market	16,489.3	43.5	0.26	14,238.9	36.7	0.26	12,417.3	33.0	0.27
Time	5,241.4	52.0	0.99	4,668.7	44.2	0.95	4,524.7	48.1	1.06
Total deposits	27,532.6	95.5	0.35	24,297.7	80.9	0.33	21,962.3	81.1	0.37
Borrowings:									
FHLB advances	2,306.6	9.8	0.42	2,593.7	9.2	0.36	2,043.9	8.2	0.40
Customer repurchase agreements	463.6	0.9	0.19	482.0	1.0	0.20	522.7	1.1	0.20
Federal funds purchased	411.0	0.8	0.19	471.8	0.8	0.17	641.2	1.2	0.19
Repurchase agreements	0.6		1.76	53.5	0.1	0.26	1.0		1.75
Other borrowings				3.6		0.08	2.9		0.08
Total borrowings	3,181.8	11.5	0.36	3,604.6	11.1	0.31	3,211.7	10.5	0.33
Notes and debentures	1,039.4	29.8	2.87	839.1	26.7	3.19	647.5	24.2	3.74
Total funding liabilities	31,753.8	$ 136.8	0.43%	28,741.4	$ 118.7	0.41%	25,821.5	$ 115.8	0.45%
Other liabilities	442.9			386.0			432.6		
Total liabilities	32,196.7			29,127.4			26,254.1		
Stockholders equity	4,697.3			4,625.4			4,754.8		

Total liabilities and stockholders equity	$ 36,894.0			$ 33,752.8			$ 31,008.9		
Net interest income/spread (4)		$ 957.3	2.86%		$ 931.1	3.07%		$ 905.8	3.28%
Net interest margin			2.88%			3.09%			3.31%

(1) Includes securities purchased under agreements to resell.
(2) Average balances and yields for securities are based on amortized cost.
(3) Includes commercial and industrial loans and equipment financing loans.
(4) The FTE adjustment was $25.2 million, $19.2 million and $17.2 million for the years ended December 31, 2015, 2014 and 2013, 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 total earning assets and average interest-bearing liabilities have affected People s United net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year s average interest rates); changes in rates (changes in average interest rates multiplied by the prior year s average balances); and the total change. Changes attributable to both volume and rate have been allocated proportionately.

	2015 Compared to 2014 Increase (Decrease)			2014 Compared to 2013 Increase (Decrease)		
(in millions)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	$ 0.1	$	$ 0.1	$ 0.1	$	$ 0.1
Securities	23.0	6.4	29.4	4.4	4.2	8.6
Loans:						
Commercial	34.7	(20.0)	14.7	34.1	(29.6)	4.5
Commercial real estate	18.7	(29.4)	(10.7)	48.6	(45.6)	3.0
Residential mortgage	18.9	(6.5)	12.4	17.0	(4.1)	12.9
Consumer	0.7	(2.3)	(1.6)	1.0	(1.9)	(0.9)
Total loans	73.0	(58.2)	14.8	100.7	(81.2)	19.5
Total change in interest and dividend income	96.1	(51.8)	44.3	105.2	(77.0)	28.2
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	5.9	0.9	6.8	4.7	(1.0)	3.7
Time	5.6	2.2	7.8	1.5	(5.4)	(3.9)
Total deposits	11.5	3.1	14.6	6.2	(6.4)	(0.2)
Borrowings:						
FHLB advances	(1.1)	1.7	0.6	2.0	(1.0)	1.0
Customer repurchase agreements		(0.1)	(0.1)	(0.1)		(0.1)
Federal funds purchased	(0.1)	0.1		(0.3)	(0.1)	(0.4)
Repurchase agreements	(0.3)	0.2	(0.1)	0.2	(0.1)	0.1
Other borrowings						
Total borrowings	(1.5)	1.9	0.4	1.8	(1.2)	0.6
Notes and debentures	6.0	(2.9)	3.1	6.5	(4.0)	2.5
Total change in interest expense	16.0	2.1	18.1	14.5	(11.6)	2.9
Change in net interest income	$ 80.1	$ (53.9)	$ 26.2	$ 90.7	$ (65.4)	$ 25.3

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The following table provides the weighted average yields earned and rates paid for each major category of earning assets and funding liabilities as of December 31, 2015:

(dollars in millions)	Balance	Yield/Rate
Earning assets:		
Short-term investments	$ 380.5	0.22%
Securities	6,449.4	2.18
Loans	28,410.9	3.36
Total earning assets	$ 35,240.8	3.11%
Funding liabilities:		
Non-interest-bearing deposits	$ 6,178.6	%
Interest-bearing deposits:		
Money market	7,648.3	0.29
Interest-bearing checking	5,572.5	0.16
Time	4,818.1	1.03
Savings	4,199.9	0.13
Borrowings	4,307.3	0.55
Notes and debentures	1,038.7	3.48
Total funding liabilities	$ 33,763.4	0.43%

Non-Interest Income

				Percentage Increase (Decrease)	
Years ended December 31 (dollars in millions)	2015	2014	2013	2015/2014	2014/2013
Bank service charges	$ 125.2	$ 128.6	$ 127.3	(2.6)%	1.0%
Investment management fees	43.7	41.6	37.2	5.0	11.8
Commercial banking lending fees	42.6	36.4	40.4	17.0	(9.9)
Operating lease income	42.3	41.6	34.5	1.7	20.6
Insurance revenue	30.7	29.9	31.2	2.7	(4.2)
Brokerage commissions	12.6	13.6	13.7	(7.4)	(0.7)
Gain on sale of business, net of expenses	9.2	20.6		n/m	n/m
Net gains on sales of residential mortgage loans	5.5	2.9	14.8	89.7	(80.4)
Net gains (losses) on sales of acquired loans	1.7	(0.9)	5.7	n/m	n/m
Net security gains		3.0		n/m	n/m
Other non-interest income:					
Customer interest rate swap income, net	14.5	8.6	10.8	68.6	(20.4)
BOLI	4.6	5.8	4.5	(20.7)	28.9
Other	19.8	19.1	21.6	3.7	(11.6)
Total other non-interest income	38.9	33.5	36.9	16.1	(9.2)
Total non-interest income	$ 352.4	$ 350.8	$ 341.7	0.5%	2.7%

n/m not meaningful

Total non-interest income, excluding the effects of the gain on sale of business in both 2015 and 2014 discussed below, increased $13.0 million in 2015 compared to 2014 and decreased $11.5 million in 2014 compared to 2013. The increase in non-interest income in 2015 compared to 2014 primarily reflects increases in commercial banking lending fees and customer interest rate swap income. The decline in non-interest income in 2014 compared to 2013 primarily reflects lower net gains on sales of residential mortgages and acquired loans, and commercial banking lending fees, partially offset by higher operating lease income.

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Bank service charges continue to be impacted as a result of certain provisions of the DFA (see below) as increases in cash management and certain other commercial fees were more than offset by lower overdraft fees.

The improvement in investment management fees in both 2015 and 2014 reflects the continued benefits from new revenue initiatives, additional personnel in our key markets and a broader suite of product offerings. Assets under administration and those under full discretionary management, neither of which are reported as assets of People s United, totaled $9.8 billion and $5.6 billion, respectively, at December 31, 2015 compared to $10.8 billion and $5.6 billion, respectively, at December 31, 2014. The decline in brokerage commissions in 2015 compared to 2014 primarily reflects lower levels of mutual fund and annuity commission income.

The increase in net gains on sales of residential mortgage loans in 2015 compared to 2014 primarily reflects a 51% increase in the volume of residential mortgage loan sales and an improvement in spreads on pricing. Loans held for sale at December 31, 2015 and 2014 consisted of newly-originated residential mortgage loans with carrying amounts of $34.5 million and $34.2 million, respectively. The decrease in net gains on sales of residential mortgage loans in 2014 compared to 2013 primarily reflects a 62% decline in the volume of residential mortgage loan sales and narrower spreads on pricing.

Net gains (losses) on sales of acquired loans in 2015, 2014 and 2013 reflect sales of acquired loans with contractual balances of $24.1 million, $10.4 million and $12.4 million, respectively (carrying amounts of $22.3 million, $10.3 million and $10.2 million, respectively).

The fluctuation in commercial banking lending fees in both years is primarily related to the level of prepayment fees collected each year. The increase in operating lease income in both 2015 and 2014 reflects higher levels of equipment leased to PCLC customers. The level of insurance revenue over the past few years reflects the continued soft insurance market. In October 2015, PUIA acquired Kesten-Brown Insurance, LLC, a Connecticut-based insurance brokerage firm that focuses on commercial lines and employee benefits.

On an FTE basis, BOLI income totaled $7.0 million in 2015, compared to $8.6 million in 2014 and $6.6 million in 2013. The decrease in BOLI income in 2015 compared to 2014 primarily reflects lower average interest rates in 2015 compared to 2014, resulting in a slightly lower crediting rate in 2015. The increase in BOLI income in 2014 compared to 2013 primarily reflects a slightly higher crediting rate in 2014 and death benefits received in 2014 totaling $0.5 million (none in 2013). Net security gains in 2014 include a $2.3 million gain resulting from the call of a single security acquired in a previous acquisition.

During the quarter ended December 31, 2015, the Bank sold its payroll services business to its current payroll software licensor and entered into a long-term referral agreement. A $9.2 million gain (non-operating), net of related expenses, was recognized, which represented the fair value of the Bank s entire portfolio of payroll services customer contracts that previously had a zero book basis. During the quarter ended June 30, 2014, the Bank formed a joint venture with Vantiv, Inc. to provide a comprehensive suite of payment solutions to businesses throughout the Bank s footprint. The Bank retained a 49% minority interest in the joint venture and recognized a $20.6 million gain (non-operating), net of related expenses, resulting from the formation of the joint venture. The gain represented the fair value of the Bank s entire portfolio of merchant contracts that was contributed to the joint venture and which previously had a zero book basis. The investment in the joint venture is accounted for using the equity method of accounting.

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

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

The DFA created a new federal consumer protection agency, the CFPB, which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection. In January 2014, a series of final rules issued by the CFPB to implement provisions in the DFA related to mortgage origination and mortgage servicing went into effect and in October 2015, new mortgage disclosure rules went into effect. These rules may increase the cost of originating and servicing residential mortgage loans.

Non-Interest Expense

				Percentage Increase (Decrease)	
Years ended December 31 (dollars in millions)	2015	2014	2013	2015/2014	2014/2013
Compensation and benefits	$ 449.5	$ 436.0	$ 427.1	3.1%	2.1%
Occupancy and equipment	149.5	147.3	148.0	1.5	(0.5)
Professional and outside service	68.0	59.2	60.6	14.9	(2.3)
Operating lease expense	37.1	37.4	31.3	(0.8)	19.5
Regulatory assessments	35.1	35.6	33.8	(1.4)	5.3
Amortization of other acquisition-related intangible assets	23.9	24.8	26.2	(3.6)	(5.3)
Other non-interest expense:					
Stationery, printing, postage and telephone	19.0	20.3	20.9	(6.4)	(2.9)
Advertising and promotion	12.0	13.0	15.4	(7.7)	(15.6)
Other	66.5	67.9	75.7	(2.1)	(10.3)
Total other non-interest expense	97.5	101.2	112.0	(3.7)	(9.6)
Total non-interest expense	$ 860.6	$ 841.5	$ 839.0	2.3%	0.3%
Efficiency ratio	61.5%	62.1%	62.3%		

Total non-interest expense increased $19.1 million in 2015 compared to 2014 and $2.5 million in 2014 compared to 2013. Included in total non-interest expense are non-operating expenses (see below) totaling $12.9 million, $9.5 million and $12.7 million in 2015, 2014 and 2013, respectively.

The improvement in the efficiency ratio in 2015 compared to 2014 reflects a 3.5% increase in adjusted total revenues partially offset by a 2.6% increase in adjusted total expenses (see Non-GAAP Financial Measures and Reconciliation to GAAP).

Compensation and benefits includes non-operating expenses totaling $2.4 million in 2015, $3.3 million in 2014 and $2.8 million in 2013. Excluding non-operating expenses, compensation and benefits increased $14.4 million in 2015 compared to 2014 and $8.4 million in 2014 compared to 2013. The increases for both periods primarily reflect normal merit increases, higher incentive-related costs and compensation and benefit costs for additional employees primarily within commercial banking, wealth management and regulatory compliance. In 2016, pension-related expense is expected to decline by approximately $3.0 million as a result of a change in accounting estimate (see Note 16 to the Consolidated Financial Statements).

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The increase in occupancy and equipment expense in 2015 compared to 2014 primarily reflects higher equipment-related costs partially offset by the benefits from consolidating branches and other office space over the past few years. The decrease in occupancy and equipment expense in 2014 compared to 2013 reflects the benefits from consolidating branches and other office space over the past few years. In 2015, the Company closed 18 branches compared to eight branches in 2014. Since the beginning of 2011, the Company has closed 54 branches, most of which were traditional branches, and opened 25 branches, of which 16 are more cost efficient Stop & Shop locations.

The increase in professional and outside services fees in 2015 compared to 2014 is primarily related to costs associated with a number of initiatives focused on enhancing the Company s product offerings and processes. The increase in operating lease expense in both 2015 and 2014 relates to the higher level of equipment leased to PCLC customers. The decrease in advertising and promotion in both 2015 and 2014 primarily reflects lower levels of spending on certain advertising campaigns.

Regulatory assessments include FDIC insurance premiums that are primarily based on the Bank s average total assets and average tangible equity, and FDIC-defined risk factors. The actual amount of future regulatory assessments will be dependent on several factors, including: (i) the Bank s average total assets and average tangible equity; (ii) the Bank s risk profile; and (iii) whether additional special assessments are imposed in future periods and the manner in which such assessments are determined. The higher level of regulatory assessments over the past few years primarily reflects increases in the Bank s average total assets over this period. Regulatory assessment expense in 2015 reflects a $2.4 million benefit resulting from the overpayment of FDIC assessments in prior periods.

In October 2015, the FDIC issued a proposed rule that would serve to implement a DFA provision requiring recapitalization of the DIF to 1.35% of insured deposits after it reached a 1.15% reserve ratio. As proposed, the rule would go into effect in either the first or second quarter of 2016 and, for banks with over $10 billion in assets, would result in an annual assessment surcharge of 4.5 basis points in order to bring the DIF s reserve ratio to 1.35% by the end of 2018. The Company is currently evaluating the impact of the proposed surcharge on the Company s Consolidated Financial Statements.

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

Included in other non-interest expense are non-operating expenses totaling $10.5 million, $6.2 million and $9.0 million in 2015, 2014 and 2013, respectively, relating to charges associated with the writedowns of certain banking house assets and related lease termination costs. The decrease in other non-interest expense in both 2015 and 2014 primarily reflects lower collateral protection costs as well as the continued benefits from cost-savings initiatives.

Income Taxes

Income tax expense totaled $130.4 million, $128.9 million and $115.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. People s United s effective income tax rate was 33.4%, 33.9% and 33.1% for the years ended December 31, 2015, 2014 and 2013, respectively. People s United s effective income tax rate for 2016 is expected to be approximately 34%.

Differences, if any, arising between People s United s effective income tax rate and the U.S. federal statutory rate of 35% are generally attributable to: (i) tax-exempt interest earned on certain investments;

(ii) tax-exempt income from BOLI; and (iii) state income taxes.

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People s United holds ownership interests in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout its franchise area. The underlying partnerships, which are considered variable interest entities, are not consolidated into the Company s Consolidated Financial Statements. These investments have historically played a role in enabling the Bank to meet its CRA requirements while, at the same time, providing federal income tax credits. The cost of the Company s investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). Amortization expense, which is now included as a component of income tax expense, totaled $12.6 million, $10.7 million and $8.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

Securities

	2015		2014		2013	
As of December 31 (in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities held to maturity:						
Debt securities:						
State and municipal	$ 1,019.6	$ 1,075.3	$ 832.8	$ 880.1	$ 584.5	$ 584.5
GSE residential mortgage-backed securities	588.5	585.7				
Corporate					55.0	57.0
Other	1.5	1.5	1.5	1.5	1.0	1.0
Total securities held to maturity	$ 1,609.6	$ 1,662.5	$ 834.3	$ 881.6	$ 640.5	$ 642.5
Securities available for sale:						
Debt securities:						
U.S. Treasury and agency	$ 363.7	$ 362.8	$ 56.5	$ 56.8	$ 48.6	$ 48.9
GSE residential mortgage-backed securities and CMOs	4,191.3	4,164.7	3,943.4	3,936.7	4,172.2	4,096.4
Corporate					58.3	60.2
Other					2.6	2.5
Total debt securities	4,555.0	4,527.5	3,999.9	3,993.5	4,281.7	4,208.0
Equity securities	0.2	0.2	0.2	0.2	0.2	0.2
Total securities available for sale	$ 4,555.2	$ 4,527.7	$ 4,000.1	$ 3,993.7	$ 4,281.9	$ 4,208.2

People s United strives to maintain an appropriate balance between loan portfolio growth and deposit funding. People s United s management believes that a large securities portfolio funded with wholesale borrowings provides limited economic value and therefore, the total securities portfolio only comprises 17% of total assets as of December 31, 2015.

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

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

At December 31, 2015, People s United s securities available for sale portfolio totaled $4.5 billion, or 12% of total assets, compared to $4.0 billion, or 11% of total assets, at December 31, 2014 and $4.2 billion, or 13% of total assets, at December 31, 2013. The increase in securities available for sale in 2015 compared to 2014 primarily reflects net purchases of GSE residential mortgage-backed securities and U.S. Treasury and agency securities. The decrease in securities available for sale in 2014 compared to 2013 primarily reflects principal repayments and maturities of GSE residential mortgage-backed securities and collateralized mortgage obligations (CMOs).

At December 31, 2015, 2014 and 2013, the amortized cost exceeded the fair value of the securities available for sale portfolio by $27.5 million, $6.4 million and $73.7 million, respectively.

All unrealized gains and those unrealized losses representing temporary declines in value due to factors other than credit are recorded in stockholders equity, net of income taxes. As a result, management anticipates continued fluctuations in stockholders equity due to changes in the fair value of these securities, albeit on a relatively modest scale due to the duration of the portfolio. The duration of the debt securities portfolio was approximately 4.2 years, 4.1 years and 4.2 years at December 31, 2015, 2014 and 2013, respectively.

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

In addition to the held to maturity and available for sale securities discussed above, the Bank holds shares of capital stock in both the FHLB of Boston and New York and the FRB-NY. Dividend income on FRB-NY capital stock and FHLB capital stock totaled $7.1 million (for approximately 10 months) and $4.6 million, respectively, for the year ended December 31, 2015. On February 18, 2016, the FRB issued an interim final rule, which serves to implement a reduction in the dividend rate paid on Federal Reserve Bank capital stock from an annual fixed-rate of 6% to the lesser of 6% or a rate based on 10-year Treasury notes, for those banks with total assets greater than $10 billion, including the Bank. The Company estimates that dividend income from FRB-NY capital stock may be reduced by approximately $5 million on an annual basis.

Lending Activities

People s United conducts its lending activities principally through its Commercial Banking and Retail Banking operating segments. People s United s lending activities consist of originating loans secured by commercial and residential properties, and extending secured and unsecured loans to commercial and consumer customers.

Total loans increased $1.82 billion in 2015 compared to 2014 and increased $2.20 billion in 2014 compared to 2013. People s United acquired loans with fair values of $1.87 billion in 2011 and $3.49 billion in 2010. Loans acquired in connection with business combinations are referred to as acquired loans as a result of the manner in which they are accounted for (see further discussion under Acquired Loans in Note 1 to the Consolidated Financial Statements). All other loans are referred to as originated loans. At December 31, 2015 and 2014, the carrying amount of the acquired loan portfolio totaled $796.6 million and $1.05 billion, respectively.

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

As of December 31 (in millions)	2015	2014	2013	2012	2011
Commercial:					
Commercial real estate	$ 10,028.8	$ 9,404.3	$ 8,921.6	$ 7,294.2	$ 7,172.2
Commercial and industrial	7,748.7	7,189.6	6,302.1	6,047.7	5,352.6
Equipment financing	2,973.3	2,865.5	2,593.1	2,352.3	2,014.2
Total Commercial Portfolio	20,750.8	19,459.4	17,816.8	15,694.2	14,539.0
Retail:					
Residential mortgage:					
Adjustable-rate	4,851.2	4,393.8	3,895.3	3,335.2	2,947.7
Fixed-rate	605.8	538.2	521.3	550.9	680.7
Total residential mortgage	5,457.0	4,932.0	4,416.6	3,886.1	3,628.4
Consumer:					
Home equity	2,153.7	2,143.1	2,084.6	2,051.5	2,057.7
Other consumer	49.4	57.5	72.3	104.8	159.7
Total consumer	2,203.1	2,200.6	2,156.9	2,156.3	2,217.4
Total Retail Portfolio	7,660.1	7,132.6	6,573.5	6,042.4	5,845.8
Total loans	$ 28,410.9	$ 26,592.0	$ 24,390.3	$ 21,736.6	$ 20,384.8

People s United s loan portfolio is primarily concentrated within New England with 59% and 61% of the total loan portfolio representing loans to customers located within the New England states at December 31, 2015 and 2014, respectively, and 20% and 19% represents loans to customers located in New York at those dates.

Total Loans

As of December 31 (dollars in millions)

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Contractual Maturity and Interest Rate Sensitivity

The following table presents the contractual maturity of total loans as of December 31, 2015:

(in millions)	Commercial	Retail	Total
Amounts due:			
One year or less	$ 2,820.0	$ 89.7	$ 2,909.7
After one year:			
One to five years	9,228.1	197.2	9,425.3
Over five years	8,702.7	7,373.2	16,075.9
Total due after one year	17,930.8	7,570.4	25,501.2
Total	$ 20,750.8	$ 7,660.1	$ 28,410.9

The following table presents, as of December 31, 2015, loan amounts due after December 31, 2016, and whether these loans have adjustable or fixed interest rates:

	Interest Rate		
(in millions)	Adjustable	Fixed	Total
Commercial	$ 9,568.0	$ 8,362.8	$ 17,930.8
Retail	6,587.6	982.8	7,570.4
Total due after one year	$ 16,155.6	$ 9,345.6	$ 25,501.2

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

As of December 31, 2015 (in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total
Contractual maturity:				
Commercial and industrial loans	$ 1,893.3	$ 3,070.7	$ 2,784.7	$ 7,748.7
Construction loans:				
Commercial real estate	246.3	126.1	258.2	630.6
Residential mortgage	16.0	89.7		105.7
Total	$ 2,155.6	$ 3,286.5	$ 3,042.9	$ 8,485.0

As of December 31, 2015 (in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total
Interest rate sensitivity:				
Variable rates	$ 5,821.9	$ 525.7	$ 100.5	$ 6,448.1
Predetermined rates	263.8	703.2	1,069.9	2,036.9

Total	$ 6,085.7	$ 1,228.9	$ 1,170.4	$ 8,485.0

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Commercial Portfolio

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

Commercial Real Estate

People s United manages the commercial real estate portfolio by limiting the concentration in any particular loan type, term, industry, or to any individual borrower. People s United s highest loan concentration in the commercial real estate loan portfolio is in the residential (multi-family) sector, which represented 38% of this loan portfolio at December 31, 2015.

As of December 31 (in millions)	2015	2014
Property Type:		
Residential (multi-family)	$ 3,807.2	$ 3,378.4
Retail	2,450.5	2,422.0
Office buildings	2,137.3	2,185.3
Industrial/manufacturing	578.4	538.6
Hospitality/entertainment	490.2	424.2
Mixed/special use	259.2	165.2
Self-storage	136.7	147.3
Health care	63.9	19.2
Land	56.7	62.7
Other	48.7	61.4
Total commercial real estate	$ 10,028.8	$ 9,404.3

Commercial Real Estate Portfolio

As of December 31 (dollars in millions)

The commercial real estate portfolio increased $625 million in 2015 compared to 2014, reflecting originated loan growth of $737 million, or 8% of the commercial real estate portfolio, partially offset by run-off in the acquired portfolio. The commercial real estate portfolio increased $483 million in 2014 compared to 2013, reflecting originated loan growth of $673 million, or 8% of the commercial real estate portfolio, partially offset by run-off in the acquired portfolio. Included in the commercial real estate portfolio are construction loans totaling $631 million and $658 million at December 31, 2015 and 2014, respectively, net of the unadvanced portion of such loan totaling $314 million and $435 million, respectively. During 2015 and 2014, the Company sold acquired loans with outstanding principal balances of $24.1 million and $10.4 million, respectively (carrying amounts of $22.3 million and $10.3 million, respectively) and recognized net gains (losses) on sales totaling $1.7 million and $(0.9) million, respectively.

At both December 31, 2015 and 2014, 36% of People s United s commercial real estate portfolio was secured by properties located in New York, and 19% and 20%, respectively, was secured by properties located in Connecticut. In addition, 26% of the commercial real estate portfolio was secured by properties located in Massachusetts, Vermont and New Hampshire at both December 31, 2015 and 2014. No other state exposure was greater than 5% at December 31, 2015.

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

Commercial Real Estate Diversification by Property Type

As of December 31, 2015 (percent)

Commercial and Industrial

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

As of December 31 (in millions)	2015	2014
Industry:		
Service	$ 1,390.1	$ 1,328.5
Finance and insurance	1,374.9	1,174.9
Manufacturing	1,004.2	949.9
Wholesale distribution	880.6	802.6
Health services	849.4	724.0
Real estate, rental and leasing	797.7	873.5
Retail sales	633.0	589.0
Transportation/utility	225.6	202.8
Construction	182.0	194.4
Arts/entertainment/recreation	146.1	130.4
Information/media	125.2	102.2
Public administration	61.8	57.2
Mining, oil and gas	31.7	28.2
Other	46.4	32.0
Total commercial and industrial	$ 7,748.7	$ 7,189.6

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Commercial and Industrial Portfolio

As of December 31 (dollars in millions)

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

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

In 2015, the commercial and industrial portfolio increased $559 million compared to 2014, reflecting originated loan growth of $635 million, or 9% of the commercial and industrial portfolio, partially offset by run-off in the acquired portfolio. In 2014, the commercial and industrial portfolio increased $888 million compared to 2013, reflecting originated loan growth of $1.1 billion, or 18% of the commercial and industrial portfolio, partially offset by run-off in the acquired portfolio.

At December 31, 2015 and 2014, the commercial and industrial portfolio included $526 million and $486 million, respectively, of asset-based lending loans, of which 83% were to customers located within the Company s geographic footprint at December 31, 2015. The commercial and industrial portfolio also includes $963 million of mortgage warehouse loans at December 31, 2015, compared to $781 million at December 31, 2014. Such loans represent lines of credit extended to a loan originator to fund a mortgage that a borrower initially used to purchase a property. The extension of credit generally lasts from the loan s point of origination to the point when the mortgage is sold into the secondary market. At December 31, 2015, 7% of the mortgage warehouse loans were to customers located within the Company s footprint.

At both December 31, 2015 and 2014, 22% of the commercial and industrial loan portfolio consisted of loans to Connecticut-based businesses. Commercial and industrial loan exposure in the states of Vermont, Massachusetts and New Hampshire totaled a combined 39% and 42% at December 31, 2015 and 2014, respectively. No other state exposure was greater than 14%. While People s United continues to focus on asset quality, the performance of the commercial lending and industrial portfolio may be adversely impacted if the economy weakens in the future.

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Commercial and Industrial Diversification by Industry

As of December 31, 2015 (percent)

Equipment Financing

PCLC and PUEFC provide equipment financing for customers in all 50 states, specializing in financing for the transportation/utility, construction, printing and general manufacturing industries. PCLC will buy or sell portions of financing transactions in the secondary market to manage the concentration risk of its overall portfolio. In addition, PCLC provides customers with the option to lease equipment. Substantially the entire equipment financing portfolio (97% at both December 31, 2015 and 2014) was to customers located outside of New England. At December 31, 2015, 34% of the equipment financing portfolio consisted of loans to customers located in Texas, California, Louisiana and New York and no other state exposure was greater than 5%.

As of December 31 (in millions)	2015	2014
Industry:		
Transportation/utility	$ 1,076.2	$ 994.8
Construction	407.3	371.4
Finance, insurance and real estate	370.8	328.3
Waste	204.0	211.8
Printing	182.0	192.5
Wholesale distribution	162.6	146.8
Manufacturing	155.1	174.9
Packaging	137.5	140.0
Service	72.1	68.4
Mining, oil and gas	66.5	104.6
Health services	56.2	51.9
Other	83.0	80.1
Total equipment financing	$ 2,973.3	$ 2,865.5

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Equipment Financing Portfolio

As of December 31 (dollars in millions)

The equipment financing portfolio increased $108 million in 2015 compared to 2014, reflecting originated loan growth of $119 million, or 4% of the equipment and financing portfolio, partially offset by run-off in the PUEFC acquired loan portfolio. Operating on a national scale, equipment financing represented 14% and 15% of the commercial portfolio at December 31, 2015 and 2014, respectively. While People s United continues to focus on asset quality, the performance of the equipment financing portfolio may be adversely impacted if the national economy weakens in the future.

Equipment Financing Diversification by Industry

As of December 31, 2015 (percent)

Retail Portfolio

Residential Mortgage Lending

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

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At December 31, 2015 and 2014, 86% and 89%, respectively, of the residential mortgage loan portfolio was secured by properties located in New England. At December 31, 2015, the residential mortgage loan portfolio included $1.1 billion of interest-only loans, of which less than $1 million are stated income loans, compared to $993 million and $1 million, respectively, at December 31, 2014. See Asset Quality for further discussion of interest-only loans. Also included in residential mortgage loans at December 31, 2015 and 2014 are construction loans totaling $106 million and $108 million, respectively.

People s United s residential mortgage originations totaled $2.0 billion in 2015, $1.6 billion in 2014 and $2.3 billion in 2013. The mix and volume of residential mortgage loan originations vary in response to changes in market interest rates and customer preferences. Adjustable-rate residential mortgage loans accounted for 69% of total residential mortgage originations in 2015, compared to 74% in 2014 and 62% in 2013.

In 2015, adjustable-rate residential mortgage loans increased $457 million compared to 2014, reflecting originated loan growth of $479 million, or 11% of adjustable-rate residential mortgage loans, partially offset by run-off in the acquired portfolio. In 2014, adjustable-rate residential mortgage loans increased $499 million compared to 2013, reflecting originated loan growth of $520 million, or 14% of adjustable-rate residential mortgage loans, partially offset by run-off in the acquired portfolio. Fixed-rate residential mortgage loans increased $68 million in 2015 compared to 2014 and $17 million in 2014 compared to 2013. The Company currently retains in its portfolio most of its originated adjustable-rate and certain fixed-rate residential mortgage loans.

Residential Mortgage Originations

Years ended December 31 (dollars in millions)

Residential Mortgage Originations by Product

Year ended December 31, 2015 (percent)

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

Consumer Lending

People s United offers home equity lines of credit (HELOCs) and home equity loans, and to a lesser extent, other forms of installment and revolving credit loans. At December 31, 2015, 88% of the consumer loan portfolio was to customers located within the New England states. Future growth of People s United s consumer loan portfolio is highly dependent upon economic conditions, the interest rate environment and competitors strategies.

As of December 31 (in millions)	2015	2014
Home equity lines of credit	$ 1,964.8	$ 1,945.9
Home equity loans	188.9	197.2
Other	49.4	57.5
Total consumer	$ 2,203.1	$ 2,200.6

Asset Quality

Recent Trends

While People s United continues to adhere to prudent underwriting standards, the loan portfolio is not immune to potential negative consequences arising as a result of general economic weakness and, in particular, a prolonged downturn in the housing market on a national scale as was experienced for much of the period from 2008 to 2012. Decreases in real estate values could adversely affect the value of property used as collateral for loans. In addition, adverse changes in the economy could have a negative effect on the ability of borrowers to make scheduled loan payments, which would likely have an adverse impact on earnings. Further, an increase in loan delinquencies may serve to decrease interest income and adversely impact loan loss experience, resulting in an increased provision and allowance for loan losses.

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

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

OCC guidance requires that loans subject to a borrower s discharge from personal liability following a Chapter 7 bankruptcy be treated as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Included in TDRs at December 31, 2015 are $26.4 million of such loans. Of this amount, $18.5 million, or 70%, were less than 90 days past due on their payments as of that date.

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

During 2015, we performed 78 loan modifications that were not classified as TDRs. The balances of the loans at the time of the respective modifications totaled $162.8 million. In each case, we concluded that the modification did not result in the granting of a concession based on one or more of the following considerations: (i) the receipt of additional collateral (the nature and amount of which was deemed to serve as adequate compensation for other terms of the restructuring) and/or guarantees; (ii) the borrower having access to funds at a market rate for debt with similar risk characteristics as the restructured debt; and (iii) the restructuring resulting in a delay in payment that is insignificant in relation to the other terms of the obligation. See Note 4 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

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

Portfolio Risk Elements Residential Mortgage Lending

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

At December 31, 2015, the loan portfolio included $1.1 billion of interest-only residential mortgage loans, of which less than $1 million are stated income loans (which People s United has not offered since mid-2007). People s United began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. People s United has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 adjustable-rate mortgage). In general, People s United s underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value (LTV) ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post-closing reserves.

Updated estimates of property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At December 31, 2015, non-performing residential mortgage loans totaling $0.7 million had current LTV ratios of more than 100%. At December 31, 2015, the weighted average LTV ratio and FICO score for the residential mortgage loan portfolio were 63% and 753, respectively.

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The Company continues to monitor its foreclosure policies and procedures to ensure ongoing compliance with applicable industry standards. We believe that our established procedures for reviewing foreclosure affidavits and validating information contained in related loan documentation are sound and consistently applied, and that our foreclosure affidavits are accurate. As a result, People s United has not found it necessary to interrupt or suspend foreclosure proceedings. We have also considered the effect of representations and warranties that we made to third-party investors in connection with whole loan sales, and believe our representations and warranties were true and correct and do not expose the Company to any material loss.

During 2015, the Company repurchased from GSEs and other parties a total of three residential mortgage loans that we had previously sold to the GSEs and other parties. The balances of the loans at the time of the respective repurchases totaled $0.5 million and related fees and expenses incurred totaled less than $0.1 million. During that same time period, the Company issued 19 investor refunds, totaling less than $0.1 million, under contractual recourse agreements. Based on the limited number of repurchase requests the Company has historically received, the immaterial cost associated with such repurchase requests and management s view that this past experience is consistent with our current and near-term estimate of such exposure, the Company has established a reserve for such repurchase requests, which totaled $0.5 million as of December 31, 2015.

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

Portfolio Risk Elements Home Equity Lending

The majority of our HELOCs have an initial draw period of 9 $^{1}/_{2}$ years followed by a 20-year repayment phase. During the initial draw period, interest-only payments are required, after which the disbursed balance is fully amortized over a 20-year repayment term. HELOCs carry variable rates indexed to the Prime Rate with a lifetime interest rate ceiling and floor, and are secured by first or second liens on the borrower s primary residence. The rate used to qualify borrowers is the Prime Rate plus 3.00%, even though the initial rate may be substantially lower. The maximum LTV ratio is 80% on a single-family property, including a condominium, and 70% on a two-family property. Lower LTV ratios are required on larger line amounts. The minimum FICO credit score is 680. The borrower has the ability to convert the entire balance or a portion of the balance to a fixed-rate term loan during the draw period. There is a limit of three term loans that must be fully amortized over a term not to exceed the original HELOC maturity date.

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

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The following table sets forth, as of December 31, 2015, the committed amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2016	$ 191.9
2017	295.2
2018	301.2
2019	138.3
2020	237.1
Later years	2,529.6
Total	$ 3,693.3

More than 90% of our HELOCs are presently in their draw period. Although converted amortizing payment loans represent only a small portion of the portfolio, our default and delinquency statistics indicate a higher level of occurrence for such loans when compared to HELOCs that are still in the draw period.

Delinquency statistics for the HELOC portfolio as of December 31, 2015 are as follows:

	Portfolio	Delinquencies	
(dollars in millions)	Balance	Amount	Percent
HELOC status:			
Still in draw period	$ 1,776.0	$ 12.6	0.71%
Amortizing payment	188.8	11.1	5.86

For the three months ended December 31, 2015, 36% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

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

We are not able, at this time, to develop statistics for the entire home equity portfolio (both HELOCs and home equity loans) with respect to first liens serviced by third parties that have priority over our junior liens, as lien position data has not historically been captured on our loan servicing systems. As of December 31, 2015, full and complete first lien position data was not readily available for 38% of the home equity portfolio. Effective January 2011, we began tracking lien position data for all new originations and our collections department continues to add lien position data once a loan reaches 75 days past due in connection with our updated assessment of combined loan-to-value (CLTV) exposure, which takes place for loans 90 days past due. In addition, when we are notified that the holder of a superior lien has commenced a foreclosure action, our home equity account is identified in the collections system for ongoing monitoring of the legal action. As of December 31, 2015, the portion of the home equity portfolio more than 90 days past due with a CLTV greater than 80% was $6.6 million.

As of December 31, 2015, full and complete first lien position data was readily available for 62%, or $1.3 billion, of the home equity portfolio. Of that total, 39%, or $510.8 million, are in a junior lien position. We estimate that of those junior liens, 35%, or $178.8 million, are held or serviced by others.

When the first lien is held by a third party, we can, in some cases, obtain an indication that a first lien is in default through information reported to credit bureaus. However, because more than one mortgage may be reported in a borrower s credit report and there may not be a corresponding property address associated with reported mortgages, we are often unable to associate a specific first lien with our junior lien. As of December 31, 2015, there were 31 loans totaling $2.3 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 21 of the loans (totaling $1.8 million), our second lien position was performing at the time such foreclosure action was commenced. There was no estimated loss related to those 21 loans as of December 31, 2015. It is important to note that the percentage of new home equity originations for which we hold the first lien has increased steadily from approximately 40% in 2009 to approximately 60% as of December 31, 2015.

We believe there are several factors that serve to mitigate the potential risk associated with the limitations on available first lien data. Most importantly, our underwriting guidelines for home equity loans, which have been, and continue to be, consistently applied, generally require the following: (i) properties located within our geographic footprint; (ii) lower LTV ratios; and (iii) higher credit scores. Notwithstanding the maximum LTV ratios and minimum FICO scores discussed previously, actual LTV ratios at origination were less than 60% on average and current FICO scores of our borrowers are greater than 750 on average. In addition, as of December 31, 2015, 91% of the portfolio balance relates to originations that occurred since 2005, which is generally recognized as the peak of the recent housing bubble. We believe these factors are a primary reason for the portfolio s relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average total loans.

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

As of December 31, 2015, the weighted average CLTV ratio and FICO score for the home equity portfolio were 56% and 759, respectively.

Portfolio Risk Elements Commercial Real Estate Lending

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

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

People s United s construction loan portfolio totaled $630.6 million (2% of total loans) at December 31, 2015. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, was $944.7 million. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At December 31, 2015, construction loans totaling $398.3 million had remaining available interest reserves of $38.9 million. At that date, the Company had construction loans with interest reserves totaling $0.5 million that were on non-accrual status and included in non-performing loans.

Recent economic conditions have resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which have related repayment guarantees. Modifications of originated commercial real estate loans involving maturity extensions are evaluated according to the Company s normal underwriting standards and are classified as TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People s United similar to those discussed previously. People s United had $9.9 million of restructured construction loans at December 31, 2015.

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

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

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

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

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Allowance and Provision for Loan Losses

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

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

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

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

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the accretable yield , is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, acquired loans are not subject to classification as non-accrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the nonaccretable difference , includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses. At December 31, 2015 and 2014, the allowance for loan losses on acquired loans was $8.1 million and $10.2 million, respectively.

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

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Provision and Allowance for Loan Losses

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

Years ended December 31 (dollars in millions)	2015	2014	2013	2012	2011
Allowance for loan losses on originated loans:					
Balance at beginning of period	$ 188.1	$ 177.5	$ 177.5	$ 175.5	$ 172.5
Charge-offs:					
Commercial:					
Commercial real estate	(3.9)	(11.3)	(10.1)	(15.8)	(21.7)
Commercial and industrial	(9.8)	(9.4)	(16.8)	(11.2)	(12.6)
Equipment financing	(6.4)	(1.6)	(2.8)	(4.6)	(9.0)
Total	(20.1)	(22.3)	(29.7)	(31.6)	(43.3)
Retail:					
Residential mortgage	(2.5)	(3.6)	(6.5)	(7.2)	(7.4)
Home equity	(4.1)	(5.5)	(7.2)	(6.4)	(3.8)
Other consumer	(1.3)	(2.0)	(2.3)	(2.7)	(3.6)
Total	(7.9)	(11.1)	(16.0)	(16.3)	(14.8)
Total charge-offs	(28.0)	(33.4)	(45.7)	(47.9)	(58.1)
Recoveries:					
Commercial:					
Commercial real estate	1.1	0.3	1.2	1.3	0.5
Commercial and industrial	1.4	2.2	1.7	1.2	1.0
Equipment financing	2.4	1.1	0.8	0.7	0.2
Total	4.9	3.6	3.7	3.2	1.7
Retail:					
Residential mortgage	1.1	1.3	0.7	0.8	1.0
Home equity	0.8	0.5	0.8	1.0	0.4
Other consumer	0.5	0.6	1.0	1.5	1.7
Total	2.4	2.4	2.5	3.3	3.1
Total recoveries	7.3	6.0	6.2	6.5	4.8
Net loan charge-offs	(20.7)	(27.4)	(39.5)	(41.4)	(53.3)
Provision for loan losses	35.5	38.0	39.5	43.4	56.3
Balance at end of period	$ 202.9	$ 188.1	$ 177.5	$ 177.5	$ 175.5
Allowance for loan losses on acquired loans:					
Balance at beginning of period	$ 10.2	$ 10.3	$ 10.5	$ 7.4	$
Charge-offs		(2.7)	(4.4)	(2.7)	
Provision for loan losses	(2.1)	2.6	4.2	5.8	7.4

Balance at end of period	$ 8.1	$ 10.2	$ 10.3	$ 10.5	$ 7.4
Commercial originated allowance for loan losses as a percentage of originated commercial loans	0.90%	0.91%	0.95%	1.13%	1.39%
Retail originated allowance for loan losses as a percentage of originated retail loans	0.28	0.27	0.30	0.36	0.29
Total originated allowance for loan losses as a percentage of:					
Originated loans	0.73	0.74	0.78	0.91	1.05
Originated non-performing loans	127.3	95.5	81.9	70.3	59.7

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The provision for loan losses on originated loans totaled $35.5 million in 2015, reflecting net loan charge-offs of $20.7 million (including $8.8 million against previously-established specific reserves) and a $23.6 million increase in the originated allowance for loan losses in response to growth in both the commercial and residential mortgage loan portfolios. The provision for loan losses on originated loans totaled $38.0 million in 2014, reflecting net loan charge-offs of $27.4 million (including $14.4 million against previously-established specific reserves) and a $25.0 million increase in the originated allowance for loan losses due to growth in both the commercial and residential mortgage loan portfolios. The originated allowance for loan losses as a percentage of originated loans was 0.73% at December 31, 2015 and 0.74% at December 31, 2014.

The provision for loan losses on acquired loans in 2015 reflects an allowance reversal while the provision for loan losses on acquired loans in the year-ago period reflects net loan charge-offs of $2.7 million, all of which carried previously-established specific reserves, and a $0.1 million decrease in the acquired allowance for loan losses.

Loan Charge-Offs

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

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

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

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

Net loan charge-offs as a percentage of average total loans equaled 0.08% in 2015, 0.12% in 2014 and 0.19% in 2013. The comparatively low level of net loan charge-offs in recent years, in terms of absolute dollars and as a percentage of average total loans, may not be sustainable in the future.

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

Years ended December 31	2015	2014	2013	2012	2011
Commercial:					
Commercial real estate	0.03%	0.15%	0.16%	0.24%	0.30%
Commercial and industrial	0.11	0.11	0.26	0.18	0.26
Equipment financing	0.14	0.02	0.08	0.19	0.44
Retail:					
Residential mortgage	0.03	0.05	0.15	0.17	0.21
Home equity	0.16	0.24	0.31	0.26	0.17
Other consumer	1.21	1.87	1.29	0.93	0.93
Total portfolio	0.08%	0.12%	0.19%	0.21%	0.28%

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

As of December 31	2015		2014		2013		2012		2011	
(dollars in millions)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Commercial:										
Commercial real estate	$ 73.1	35.3%	$ 63.8	35.4%	$ 65.0	36.6%	$ 60.0	33.6%	$ 70.5	35.2%
Commercial and industrial	80.0	27.3	78.2	27.0	72.5	25.8	75.5	27.8	69.4	26.2
Equipment financing	28.7	10.4	27.6	10.8	21.0	10.6	22.0	10.8	20.5	9.9
Retail:										
Residential mortgage	11.2	19.2	9.2	18.5	10.0	18.1	12.0	17.9	8.8	17.8
Home equity	8.9	7.6	8.3	8.1	8.0	8.6	6.7	9.4	4.3	10.1
Other consumer	1.0	0.2	1.0	0.2	1.0	0.3	1.3	0.5	2.0	0.8
Total originated allowance for loan losses	$ 202.9	100.0%	$ 188.1	100.0%	$ 177.5	100.0%	$ 177.5	100.0%	$ 175.5	100.0%

The allocation of the allowance for loan losses on originated loans at December 31, 2015 reflects management s assessment of credit risk and probable loss within each portfolio. This assessment is based on a variety of internal and external factors including, but not limited to, the likelihood and severity of loss, portfolio growth and related risk characteristics, and current economic conditions. With respect to the originated portfolio, an allocation of a portion of the allowance to one loan segment does not preclude its availability to absorb losses in another loan segment. Management believes that the level of the allowance for loan losses at December 31, 2015 is appropriate to cover probable losses.

Non-Performing Assets

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

All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the period in which the accrual of interest is discontinued. Interest payments received on non-accrual loans (including impaired loans) are generally applied as a reduction of principal if future collections are doubtful, although such interest payments may be recognized as income. A loan remains on non-accrual status until the factors that indicated doubtful collectability no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses. There were no loans past due 90 days or more and still accruing interest at December 31, 2015 or 2014.

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Non-Performing Assets

As of December 31 (dollars in millions)	2015	2014	2013	2012	2011
Originated non-performing loans:					
Commercial:					
Commercial and industrial	$ 44.9	$ 55.8	$ 43.8	$ 54.8	$ 59.2
Commercial real estate	30.2	60.2	70.8	84.4	106.7
Equipment financing	27.5	25.4	23.2	27.2	42.9
Total	102.6	141.4	137.8	166.4	208.8
Retail:					
Residential mortgage	37.2	37.6	58.9	65.0	68.9
Home equity	19.5	17.9	19.8	21.0	15.8
Other consumer	0.1	0.1	0.1	0.3	0.3
Total	56.8	55.6	78.8	86.3	85.0
Total originated non-performing loans (1)	159.4	197.0	216.6	252.7	293.8
REO:					
Residential	7.1	13.6	13.6	17.2	10.9
Commercial	5.5	11.0	13.1	11.4	15.9
Total REO	12.6	24.6	26.7	28.6	26.8
Repossessed assets	9.5	2.5	4.5	8.3	16.1
Total non-performing assets	$ 181.5	$ 224.1	$ 247.8	$ 289.6	$ 336.7
Originated non-performing loans as a percentage of originated loans	0.58%	0.77%	0.95%	1.30%	1.75%
Non-performing assets as a percentage of:					
Originated loans, REO and repossessed assets	0.66	0.88	1.08	1.48	2.00
Tangible stockholders equity and originated allowance for loan losses	6.38	8.24	9.47	9.45	10.47

(1) Reported net of government guarantees totaling $16.9 million, $17.6 million, $19.4 million, $9.7 million and $12.1 million at December 31, 2015, 2014, 2013, 2012 and 2011, respectively. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At December 31, 2015, the principal loan classes to which these government guarantees relate are commercial and industrial loans (99%) and commercial real estate loans (1%).

The preceding table excludes acquired loans that are (i) accounted for as purchased credit impaired loans or (ii) covered by an FDIC loss-share agreement (LSA) totaling: $27.7 million and $2.3 million, respectively, at December 31, 2015; $100.6 million and $3.0 million, respectively, at December 31, 2014; $138.0 million and $4.5 million, respectively, at December 31, 2013; $173.6 million and $8.0 million, respectively, at December 31, 2012; and $235.2 million and $13.8 million, respectively, at December 31, 2011. Such loans otherwise meet People s United s definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level.

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Total non-performing assets decreased $42.6 million from December 31, 2014 and equaled 0.66% of originated loans, REO and repossessed assets at December 31, 2015. The decrease in total non-performing assets from December 31, 2014 primarily reflects decreases in non-performing commercial real estate loans of $30.0 million, non-performing commercial and industrial loans of $10.9 million and REO of $12.0 million, partially offset by an increase in repossessed assets of $7.0 million.

All loans and REO acquired in the Butler Bank acquisition (completed in 2010) are subject to an FDIC LSA, which provides for coverage by the FDIC, up to certain limits, on all such covered assets . The FDIC is obligated to reimburse the Company for 80% of any future losses on covered assets up to $34 million. The Company will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Company 80% reimbursement under the loss-sharing coverage.

In addition to the originated non-performing loans discussed above, People s United has also identified $577.1 million in originated potential problem loans at December 31, 2015. Originated potential problem loans represent loans that are currently performing, but for which known information about possible credit deterioration on the part of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms and which may result in the disclosure of such loans as non-performing at some time in the future. The originated potential problem loans are generally loans that, although performing, have been classified as substandard in accordance with People s United s loan rating system, which is consistent with guidelines established by banking regulators.

At December 31, 2015, originated potential problem loans consisted of equipment financing loans ($261.0 million), commercial and industrial loans ($218.0 million) and commercial real estate loans ($98.1 million). Such loans are closely monitored by management and have remained in performing status for a variety of reasons including, but not limited to, delinquency status, borrower payment history and fair value of the underlying collateral. Management cannot predict the extent to which economic conditions may worsen or whether other factors may adversely impact the ability of these borrowers to make payments. Accordingly, there can be no assurance that originated potential problem loans will not become 90 days or more past due, be placed on non-accrual status, be restructured, or require additional provisions for loan losses.

The levels of non-performing assets and potential problem loans are expected to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with management s degree of success in resolving problem assets. While management takes a proactive approach with respect to the identification and resolution of problem loans, the level of non-performing assets may increase in the future.

Off-Balance-Sheet Arrangements

Detailed discussions pertaining to People s United s off-balance-sheet arrangements are included in the following sections: Funding, Liquidity, Stockholders Equity and Dividends, and Market Risk Management.

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Funding

People s United s primary funding sources are deposits and stockholders equity, which represent 85% of total assets at December 31, 2015. Borrowings and notes and debentures also are available sources of funding.

Deposits

People s United s strategy is to focus on increasing deposits by providing a wide range of convenient services to commercial, retail, business and wealth management customers. People s United provides customers access to their deposits through 396 branches, including 150 full-service Stop & Shop supermarket branches, 594 ATMs, telephone banking and an Internet banking site.

As of December 31	2015		2014		2013	
(dollars in millions)	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Non-interest-bearing	$ 6,178.6	%	$ 5,655.1	%	$ 5,312.2	%
Money market	7,648.3	0.29	8,396.2	0.22	6,513.8	0.29
Interest-bearing checking	5,572.5	0.16	2,989.4	0.14	2,713.8	0.13
Savings	4,199.9	0.13	3,866.8	0.16	3,634.6	0.16
Total	17,420.7	0.21	15,252.4	0.19	12,862.2	0.22
Time deposits maturing:						
Within 3 months	991.5	0.69	1,254.3	0.63	874.5	0.55
After 3 but within 6 months	679.6	0.86	912.5	0.62	781.4	0.68
After 6 months but within 1 year	1,915.6	1.10	1,306.7	0.79	1,151.5	0.71
After 1 but within 2 years	636.1	1.06	1,341.0	1.36	799.7	1.31
After 2 but within 3 years	153.5	0.98	230.9	1.40	520.6	2.18
After 3 but within 4 years	101.9	1.46	85.5	1.07	173.3	1.67
After 4 but within 5 years	339.6	1.81	96.2	1.51	77.7	1.13
After 5 years	0.3	2.44	3.6	2.45	4.2	2.45
Total	4,818.1	1.03	5,230.7	0.91	4,382.9	1.00
Total deposits	$ 28,417.4	0.30%	$ 26,138.2	0.29%	$ 22,557.3	0.32%

Deposits equaled 73%, 73% and 68% of total assets at December 31, 2015, 2014 and 2013, respectively. Deposits and stockholders equity constituted 86%, 87% and 83% of People s United s funding base at December 31, 2015, 2014 and 2013, respectively.

The expansion of People s United s branch network and its commitment to developing full-service relationships with its customers are integral components of People s United s strategy to leverage the success of its supermarket banking initiative, expand market share and continue growing deposits. At December 31, 2015, People s United s network of Stop & Shop branches held $4.2 billion in total deposits and deposits in supermarket branches open for more than one year averaged $29 million per store.

Non-interest-bearing deposits are an important source of low-cost funding and fee income for People s United. In addition, People s United believes that checking accounts represent one of the core relationships between a financial institution and its customers, and it is from these relationships that cross-selling of other financial services can be achieved. Non-interest-bearing deposits equaled 22%, 22% and 23% of total deposits at December 31, 2015, 2014 and 2013, respectively. Time deposits of $100,000 or more totaled $2.1 billion at December 31, 2015, of which $426 million mature within three months, $310 million mature after three months but within six months, $936 million mature after six months but within one year and $471 million mature after one year. Included in total deposits at December 31, 2015 are $2.6 billion of brokered deposits, comprised of interest-bearing checking ($1.6 billion), money market ($527 million) and time ($469 million). See Note 8 to the Consolidated Financial Statements for additional information concerning deposits.

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Total Deposits

As of December 31 (dollars in millions)

The following table presents People s United s time deposits by rate category:

As of December 31 (in millions)	2015
0.50% or less	$ 1,535.7
0.51% to 1.00%	956.1
1.01% to 1.50%	1,453.8
1.51% to 2.00%	425.5
2.01% to 2.50%	230.9
2.51% to 3.00%	206.4
3.01% and greater	9.7
Total	$ 4,818.1

The following table presents, by rate category, the remaining period to maturity of time deposits outstanding as of December 31, 2015:

	Period to Maturity from December 31, 2015								
(in millions)	Within three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	Total
0.50% or less	$ 535.6	$ 387.8	$ 452.9	$ 156.6	$ 2.7	$	$ 0.1	$	$ 1,535.7
0.51% to 1.00%	105.3	138.9	425.2	127.2	85.3	38.2	36.0		956.1
1.01% to 1.50%	307.9	43.9	772.5	242.1	61.3	11.1	15.0		1,453.8
1.51% to 2.00%	5.9	4.8	30.1	84.0	3.7	52.2	244.8		425.5
2.01% to 2.50%	6.5	9.5	146.1	24.6		0.2	43.7	0.3	230.9
2.51% to 3.00%	27.4	88.9	88.3	1.4	0.2	0.2			206.4
3.01% and greater	2.9	5.8	0.5	0.2	0.3				9.7
Total	$ 991.5	$ 679.6	$ 1,915.6	$ 636.1	$ 153.5	$ 101.9	$ 339.6	$ 0.3	$ 4,818.1

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Borrowings

People s United s primary source for borrowings are advances from the FHLB of Boston, which provides credit for member institutions within its assigned region, and federal funds purchased, which are typically unsecured overnight loans among banks. Customer repurchase agreements primarily consist of transactions with commercial and municipal customers.

At December 31, 2015, the Bank s total borrowing capacity from (i) the FHLB of Boston and the FRB-NY for advances and (ii) repurchase agreements was $10.5 billion based on the level of qualifying collateral available for these borrowings. In addition, the Bank had unsecured borrowing capacity of $1.1 billion at that date. FHLB advances are secured by the Bank s investment in FHLB stock and by a security agreement that requires the Bank to maintain, as collateral, sufficient qualifying assets not otherwise pledged (principally single-family residential mortgage loans, HELOCs, home equity loans and commercial real estate loans).

At December 31, 2015, total borrowings equaled 11% of total assets compared to 10% at December 31, 2014 and 15% at December 31, 2013. FHLB advances, customer repurchase agreements and federal funds purchased represented 9%, 1% and 1% of total assets at December 31, 2015, respectively. See Note 9 to the Consolidated Financial Statements for additional information concerning borrowings.

2015

STATEMENTS (Continued)

ecember 31, 2008 and 2007:

		December 31, 2008	
ization of $1,461,000 and $170,000 as of December 31, 2008 and 2007, respectively	$	4,751,000	$
on of $99,000 and $7,000 as of December 31, 2008 and 2007, respectively		1,009,000	
n of $107,000 and $19,000 as of December 31, 2008 and 2007, respectively		753,000	
		3,928,000	
		1,073,000	
	$	11,514,000	$

ng costs, lease commissions, lease inducements and note receivable closing costs for the years ended December 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Incepti
0, $170,000 and $0, respectively, of amortization was recorded as interest expense for deferred financing costs and $88,000, $19,000 and $0, respectively, of amortization was recorded ag

ancing costs, lease commissions and lease inducements as of December 31, 2008 for each of the next five years ending December 31 and thereafter is as follows:

	Amount
$	2,152,000
$	1,803,000
$	860,000
$	411,000
$	366,000
$	921,000

cured Note Payables to Affiliate

762,000, net of discount) and $185,899,000 ($185,801,000, net of discount) as of December 31, 2008 and 2007, respectively. As of December 31, 2008, we had fixed and variable rate mo
verage effective interest rate of 4.07% per annum. As of December 31, 2008, we had $141,058,000 ($139,278,000, net of discount) of fixed rate debt, or 30.5% of mortgage loan payable
or 69.5% of mortgage loan payables, at a weighted average interest rate of 3.33% per annum. As of December 31, 2007, we had fixed and variable rate mortgage loans with effective inter
e of 6.07% per annum. As of December 31, 2007, we had $90,919,000 ($90,821,000 net of discount) of fixed rate debt, or 48.9% of mortgage loan payables, at a weighted average intere
bles, at a weighted average interest rate of 6.35% per annum.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pplicable loan documents to meet certain financial covenants, such as debt service coverage ratios, rent coverage ratios and reporting re
ce with all such covenants and requirements.

d of the following as of December 31, 2008 and 2007:

	Interest Rate	Maturity Date	200
'arke I	6.11%	09/01/16	$ 9,1
ınd Athens Surgery Center	6.12%	10/01/16	4,2
	5.76%	03/01/17	6,0
	5.88%	02/01/17	12,0
g	5.54%	06/11/17	9,9
rag Medical Center	5.52%	05/11/17	13,5
	5.67%	06/11/17	14,0
	5.88%	01/01/14	5,6
	5.80%	09/04/09	8,2
	5.99%	12/01/14	7,8
	5.91%	07/01/13	14,4
	5.38%	09/01/15	19,0
	12.75%	09/01/15	1,2
	5.50%	06/01/19	6,7
	6.18%	06/01/19	1,7
	5.11%	11/01/15	7,2
			141,0
	4.75%(a)	03/31/10	24,8
	1.93%(a)	09/30/10	14,5
	1.90%(a)	10/01/10	29,9
	1.98%(a)	11/30/10	8,3
	3.54%(a)	12/30/10	22,0
	2.13%(a)	12/31/10	10,9
	2.13%(a)	12/31/10	8,8
	2.26%(a)	02/28/11	21,3
	3.09%(a)	03/06/11	5,8
	3.69%(a)	06/26/11	58,0
	2.78%(a)	06/30/11	12,8
	4.65%(a)	06/30/11	50,3
ling	2.26%(a)	09/01/11	7,2
	3.25%(a)	09/24/11	21,4
	3.25%(a)	09/26/11	7,9

3.97%(a)	09/28/11	17,3
		321,4
		462,5
		(1,7
		$ 460,7

ffect as of December 31, 2008.

had variable rate mortgage loans on 20 of our properties with effective interest rates ranging from
l a weighted average effective interest rate of 3.33% per annum. However, as of December 31, 2008, we
ps, ranging from

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

e rate mortgage loan payables on 20 of our properties, thereby effectively fixing our interest rate on

had variable rate mortgage loans on six of our properties with effective interest rates ranging from
l a weighted average effective interest rate of 6.35% per annum. However, as of December 31, 2007, we
ps, ranging from 5.52% to 6.02%, on all of our variable rate mortgage loan payables, thereby effectively
mortgage loan payables.

e principal amount of $50,322,000 secured by Epler Parke Building B, 5995 Plaza Drive, Nutfield
ortfolio 2 and Academy Medical Center.

ortgage loan payables as of December 31, 2008 for each of the next five years ending December 31 and thereafter is as follows:

	Amount
	$ 11,900,000
	$ 123,410,000
	$ 199,029,000
	$ 2,047,000
	$ 15,512,000
	$ 110,644,000

vailable extension options. Of the amounts maturing in 2010, $64,596,000 have two one year extensions available and $54,717,000 hav
831,000 have two one year extensions available.

e

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we entered into, and subsequently
Realty Advisors, evidenced by unsecured promissory notes:

Amount	Maturity Date	Interest Rate
$ 6,000,000	12/30/14	4.96%
$ 6,100,000	03/05/08	6.86%
$ 1,300,000	03/01/08	6.85%
$ 4,000,000	12/08/07	6.82%
$ 1,000,000	09/09/07	6.84%
$ 7,500,000	07/22/07	6.86%

ate bore interest at a fixed rate and required monthly interest-only payments for the terms of the unsecured note payables to affiliate. As
nder the unsecured note payables to affiliate.

y loans, the terms of the unsecured note payables to affiliate were approved by our board of directors, including a majority of our indep
able by our board of directors.

ents

ative Instruments and Hedging Activities, or SFAS No. 133, as amended and interpreted, establishes accounting and reporting standards

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ded in other contracts, and for hedging activities. We utilize derivatives such as fixed interest rate swaps to add stability to interest expe
vith SFAS No. 133 we record derivative financial instruments on our accompanying consolidated balance sheets as either an asset or a l
accounting if certain requirements are met. Hedge accounting allows for gains and losses on derivatives designated as hedges to be offs
her comprehensive income.

no derivatives were designated as fair value hedges or cash flow hedges. Derivatives not designated as hedges are not speculative and ar
eet the strict hedge accounting requirements of SFAS No. 133. Changes in the fair value of derivative financial instruments are recorde
solidated statements of operations.

e financial instruments held by us as of December 31, 2008:

	Index	Rate	Fair Value	Instrument
00	LIBOR	5.97%	$ (870,000)	Swa
00	LIBOR	5.86%	$ (512,000)	Swa
00	LIBOR	5.52%	$ (480,000)	Swa
00	LIBOR	5.52%	$ (593,000)	Swa
00	LIBOR	5.59%	$ (1,167,000)	Swa
00	LIBOR	6.02%	$ (1,776,000)	Swa
00	LIBOR	5.23%	$ (976,000)	Swa
00	LIBOR	4.70%	$ (221,000)	Swa
00	LIBOR	4.51%	$ (168,000)	Swa
00	LIBOR	4.85%	$ (554,000)	Swa
00	LIBOR	5.60%	$ (1,797,000)	Swa
00	LIBOR	5.65%	$ (460,000)	Swa
00	LIBOR	5.59%	$ (1,972,000)	Swa
00	LIBOR	5.27%	$ (936,000)	Swa
00	LIBOR	5.16%	$ (355,000)	Swa
00	LIBOR	5.87%	$ (1,361,000)	Swa

nancial instruments held by us as of December 31, 2007:

	Index	Rate	Fair Value	Instrument
0,000	LIBOR	5.97%	$ (306,000)	Swa
0,000	LIBOR	5.86%	$ (164,000)	Swa
3,000	LIBOR	5.52%	$ (23,000)	Swa
3,000	LIBOR	5.52%	$ (65,000)	Swa
0,000	LIBOR	5.59%	$ (117,000)	Swa
4,000	LIBOR	6.02%	$ (702,000)	Swa

he fair value of our derivative financial instruments was $(14,198,000) and $(1,377,000), respectively.

08 and 2007 and for the period April 28, 2006 (Date of Inception) through December 31, 2006, we recorded $12,821,000, $1,377,000 a

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in the fair value of our derivative financial instruments. See Note 16, Fair Value Measurements for a further discussion of the fair valu

an Agreement, with LaSalle and KeyBank, in which we obtained a secured revolving line of credit with LaSalle and KeyBank in an agg f credit available under the Loan Agreement is a function of certain loan to cost, loan to value and debt service coverage ratios containe an Agreement may be increased to $120,000,000 subject to the terms of the Loan Agreement. Also, additional financial institutions ma of the Loan Agreement is September 10, 2010, which may be extended by one 12-month period subject to satisfaction of certain conditi rincipal balance of loans then outstanding.

Agreement bear interest at per annum rates equal to: (1) the London Interbank Offered Rate, or LIBOR, plus a margin of 1.50%, (2) the the Loan Agreement) plus 0.50%, or (3) a combination of these rates.

s affirmative and negative covenants that are customary for facilities and transactions of this type, including limitations on the incurrenc serve as collateral for the Loan Agreement, limitations on the nature of our business, and limitations on our subsidiaries that own proper nt also imposes the following financial covenants on us and our operating partnership, as applicable: (1) a minimum ratio of operating c to fixed charges, (3) a maximum ratio of liabilities to asset value, (4) a maximum distribution covenant and (5) a minimum net worth c he Loan Agreement includes events of default that are customary for facilities and transactions of this type. As of December 31, 2008 a ents.

borrowings under our secured revolving line of credit with LaSalle and KeyBank totaled $0 and $51,801,000, respectively. Borrowings rate of 6.93% per annum.

bilities, Net

nsisted of the following as of December 31, 2008 and 2007:

	December 31,			
		2008		**20**
ated amortization of $1,400,000 and $245,000 as of December 31, 2008 and 2007, respectively, ife of 113 months and 55 months as of December 31, 2008 and 2007, respectively).	$	8,128,000	$	1,
	$	8,128,000	$	1,

e identified intangible liabilities for the years ended December 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Incep spectively, which is recorded to rental income in our accompanying consolidated statements of operations.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

e identified intangible liabilities as of December 31, 2008 for each of the next five years ending December 31 and thereafter is as follov

	Amount
	$ 1,751,000
	$ 1,441,000
	$ 1,013,000
	$ 841,000
	$ 704,000
	$ 2,378,000

ngencies

naterial litigation nor, to our knowledge, is any material litigation threatened against us, which if determined unfavorably to us, would h
s of operations or cash flows.

ur properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability
nmental liability with respect to our properties that would have a material effect on our consolidated financial position, results of operat
ity or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure

Expenses

expenses are being paid by our advisor or its affiliates on our behalf. These other organizational and offering expenses include all expe
ort fee which generally represent 7.0% and 2.5% of our gross offering proceeds, respectively) to be paid by us in connection with our of
er organizational and offering expenses do not exceed 1.5% of the gross proceeds of our offering. As of December 31, 2008, our adviso
enses that exceed 1.5% of the gross proceeds of our offering. As of December 31, 2007, our advisor and its affiliates had incurred other
.5% of the gross proceeds of our offering, and therefore these expenses are not recorded in our accompanying consolidated financial st
ed and have been paid in 2008. In the future, to the extent our advisor or its affiliates incur additional other organizational and offering
amounts may become our liability. See Note 12, Related Party Transactions Offering Stage, for a further discussion of other organiza

Louis Development, LLC, or BD St. Louis, for G&E Healthcare REIT/Duke Chesterfield Rehab, LLC, or the JV Company, which ow
2010 to March 31, 2010, our operating partnership has the right and option to purchase the 20.0% membership interest in the JV Comp

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

our right to purchase the 20.0% membership interest. However, if we do not exercise that right, the operating agreement provides that f option to sell all, but not less than all, of its 20.0% membership interest in the JV Company to our operating partnership at the greater of erating agreement. As of December 31, 2008 the estimated redemption value is $3,133,000.

ncies include the usual obligations of real estate owners and operators in the normal course of business. In our opinion, these matters ar ancial position, results of operations or cash flows.

ns

,

so executive officers and employees and/or holders of a direct or indirect interest in our advisor, our sponsor, Grubb & Ellis Realty Inve g, we entered into the Advisory Agreement and a dealer manager agreement, or the Dealer Manager Agreement, with Grubb & Ellis Sec ese agreements entitle our advisor, our dealer manager and their affiliates to specified compensation for certain services as well as reiml

and restated the Advisory Agreement with our advisor and Grubb & Ellis Realty Investors. The Advisory Agreement, as amended Nov September 20, 2009.

December 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $82,(r or its affiliates as detailed below.

commissions of up to 7.0% of the gross offering proceeds from the sale of shares of our common stock in our offering other than shares re-allow all or a portion of these fees to participating broker-dealers. For the years ended December 31, 2008 and 2007 and for the per 6, we incurred $36,307,000, $14,568,000 and $0, respectively, in selling commissions to our dealer manager. Such selling commission sed to our dealer manager from the gross proceeds of our offering.

gence Expense Reimbursements

ountable marketing support fees of up to 2.5% of the gross offering proceeds from the sale of shares of our common stock in our offerin dealer manager may re-allow a portion up to 1.5% of the gross offering proceeds for non-accountable marketing fees to participating br ffiliates an additional 0.5% of the gross offering proceeds to participating broker-dealers for accountable bona fide due diligence expen the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pectively, in marketing support fees and due diligence expense reimbursements to our dealer manager. Such fees and reimbursements ar
sed to our dealer manager or its affiliates from the gross proceeds of our offering.

xpenses

expenses are paid by our advisor or Grubb & Ellis Realty Investors on our behalf. Our advisor or Grubb & Ellis Realty Investors are re
ring proceeds from the sale of shares of our common stock in our offering other than shares of our common stock sold pursuant to the D
the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $5,630,000, $3,170,000 and $0, respective
izational expenses are expensed as incurred, and offering expenses are charged to stockholders equity (deficit) as such amounts are rei
our offering.

006 through October 24, 2008, our advisor or its affiliates received, as compensation for services rendered in connection with the investi
3.0% of the contract purchase price for each property acquired or up to 4.0% of the total development cost of any development propert

eement, as amended November 14, 2008, the acquisition fee payable to our advisor or its affiliate for services rendered in connection wi
uced from up to 3.0% to an amount determined as follows:

) in aggregate contract purchase price for properties acquired directly or indirectly by us after October 24,
ct purchase price of each such property;

000 in aggregate contract purchase price for properties acquired directly or indirectly by us after October 24,
ct purchase price of each such property, which amount is subject to downward adjustment, but not below
le projections regarding the anticipated amount of net proceeds to be received in our offering; and

n aggregate contract purchase price for properties acquired directly or indirectly by us after October 24, 2008,
rchase price of each such property.

d November 14, 2008, also provides that we will pay an acquisition fee in connection with the acquisition of real estate related assets in
e each such real estate related asset.

itled to receive these acquisition fees for real estate and real estate related assets acquired with funds raised in our offering, including ac
ent, as amended November 14, 2008, subject to certain conditions.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $16,226,000, $12,253
ffiliates. Through December 31, 2008, acquisition fees are capitalized as part of the purchase price allocations.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ses

ursed for acquisition expenses related to selecting, evaluating, acquiring and investing in properties. Acquisition expenses, excluding an
the properties. The reimbursement of acquisition fees and expenses, including real estate commissions paid to unaffiliated parties, will
ment costs, unless fees in excess of such limits are determined to be commercially competitive, fair and reasonable to us by a majority c
ndependent directors not interested in the transaction. For the years ended December 31, 2008 and 2007 and for the period from April 2
,000, $12,000 and $0, respectively, for such expenses to our advisor and its affiliates, excluding amounts our advisor and its affiliates pa
tion expenses are capitalized as part of the purchase price allocations.

006 through October 24, 2008, our advisor or its affiliates were paid a monthly fee for services rendered in connection with the manager
verage invested assets calculated as of the close of business on the last day of each month, subject to our stockholders receiving annuali
verage invested capital. The asset management fee is calculated and payable monthly in cash or shares of our common stock at the opti

eement, as amended November 14, 2008, the monthly asset management fee we pay to our advisor in connection with the management
nvested assets to one-twelfth of 0.5% of our average invested assets.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $6,177,000, $1,590,0
ts affiliates, which is included in general and administrative in our accompanying consolidated statements of operations.

monthly property management fee equal to 4.0% of the monthly gross cash receipts from each property managed. For properties mana
or or its affiliates will be paid up to 1.0% of the gross cash receipts from the property for a monthly oversight fee. For the years ended D
ate of Inception) through December 31, 2006, we incurred $2,372,000, $591,000 and $0, respectively, in property management fees an
al expenses in our accompanying consolidated statements of operations.

perty manager, may receive a separate fee for leasing activities in an amount not to exceed the fee customarily charged in arm s length
ic area for similar properties, as determined by a survey of brokers and agents in such area ranging between 3.0% and 8.0% of gross re
December 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $1,
es in lease fees.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Payroll

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, Grubb & Ellis Realty Investors in
012,000, $162,000 and $0, respectively, which is included in rental expenses in our accompanying consolidated statements of operations

ates for expenses incurred in rendering services to us, subject to certain limitations on our operating expenses. However, we cannot rei
r consecutive fiscal quarters then ended exceed the greater of: (1) 2.0% of our average invested assets, as defined in the Advisory Agree
greement unless our independent directors determine that such excess expenses were justified based on unusual and non-recurring facto
, our operating expenses did not exceed this limitation. Our operating expenses as a percentage of average invested assets and as a perc
onths ended December 31, 2008.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, Grubb & Ellis Realty Investors in
in operating expenses which is included in general and administrative in our accompanying consolidated statements of operations.

, effective January 1, 2008, with Grubb & Ellis Realty Investors for subscription agreement processing and investor services. The servi
ed for successive one year terms. Since Grubb & Ellis Realty Investors is the managing member of our advisor, the terms of this agreem
ng a majority of our independent directors, as fair and reasonable to us and at fees charged to us in an amount no greater than the cost t
ch amount shall be no greater than that which would be paid to an unaffiliated third party for similar services. The services agreement
y advance written notice for any termination, while we have the right to terminate upon 30 days advance written notice.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $130,000, $0 and $0,
rovided to us, which is included in general and administrative in our accompanying consolidated statements of operations.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, our advisor and its affiliates incur
nt processing that Grubb & Ellis Realty Investors provided to us. As an other organizational and offering expense, these subscription a
t cumulative other organizational and offering expenses do not exceed 1.5% of the gross proceeds of our offering.

s

or services performed for us other than those required to be rendered by our advisor or its affiliates under the Advisory Agreement. The

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rity of our board of directors, including a majority of our independent directors, and cannot exceed an amount that would be paid to una
ber 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $7,000, $3,0
vestors provided to us, which is included in general and administrative in our accompanying consolidated statements of operations.

id, for services relating to a sale of one or more properties, a disposition fee up to the lesser of 1.75% of the contract sales price or 50.0
ances surrounding the sale, as determined by our board of directors, which will not exceed market norms. The amount of disposition fe
ies, will not exceed the lesser of a customary competitive real estate disposition fee given the circumstances surrounding the sale or an a
led December 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we did not inc

es Proceeds

r advisor will be paid a subordinated distribution of net sales proceeds. The distribution will be equal to 15.0% of the net proceeds from
holders of: (1) their initial contributed capital (less amounts paid to repurchase shares of our common stock pursuant to our share repurc
of 8.0% on average invested capital. Actual amounts depend upon the sales prices of properties upon liquidation.

08 and 2007 and for the period April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such distribution.

ng

mon stock on a national securities exchange, our advisor will be paid a distribution equal to 15.0% of the amount by which: (1) the mar
tions paid prior to listing exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to repurchase sh
ash that, if distributed to stockholders as of the date of listing, would have provided them an annual 8.0% cumulative, non-compounded
ounts depend upon the market value of shares of our common stock at the time of listing, among other factors. For the years ended Dec
of Inception) through December 31, 2006, we did not incur such distribution.

ination

greement, other than a termination by us for cause, our advisor will be entitled to receive a distribution from our operating partnership in
market value of all of the assets of our operating partnership as of the date of the termination (determined by appraisal), less any indebt
us by our operating partnership from our inception through the termination

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share repurchase plan) plus an annual 8
ough the termination date. However, our advisor will not be entitled to this distribution if our shares have been listed on a national secu
nt.

ip Agreement Amendment, our advisor may elect to defer its right to receive a subordinated distribution from our operating partnership
n conditions.

nto an amendment to the partnership agreement for our operating partnership, or the Partnership Agreement Amendment. The Partnersh
the Advisory Agreement without cause, if there is a listing of our shares of common stock on a national securities exchange or a merge
n stock shares of a company that are tracked on a national securities exchange, our advisor will be entitled to receive a distribution from
, if any, by which: (1) the fair market value of the assets of our operating partnership (determined by appraisal as of the listing date or m
Agreement, plus any assets acquired after such termination for which our advisor was entitled to receive an acquisition fee (as describe
Included Assets, less any indebtedness secured by the Included Assets, plus the cumulative distributions made by our operating partne
nection with the acquisition of the Included Assets, from our inception through the listing date or merger date, as applicable, exceeds (2
he capital value of partnership units issued in connection with the acquisition of the Included Assets through the listing date or merger
our offering) (less amounts paid to redeem shares pursuant to our share repurchase plan) plus an annual 8.0% cumulative, noncompoun
hip units measured for the period from inception through the listing date or merger date, as applicable.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we did not incur such distribution.

Net

ling to affiliates as of December 31, 2008 and 2007:

Fee	20
Operating Expenses	$
Offering Costs	
Due Diligence	
On-site Payroll and Engineering	
Acquisition Related Expenses	
Selling Commissions and Marketing Support Fees	1
Asset and Property Management Fees	
Lease Commissions	
	$ 3

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

e

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we incurred $2,000, $84,000 and $
Mortgage Loan Payables, Net and Unsecured Note Payables to Affiliate Unsecured Note Payables to Affiliate, for a further discussi

we owned a 99.99% general partnership interest in our operating partnership and our advisor owned a 0.01% limited partnership interes
erating partnership are allocated to minority interests.

and 2007, we owned an 80.0% interest in the JV Company that owns the Chesterfield Rehabilitation Center which was purchased on D
ance was comprised of the minority interest s initial contribution and 20.0% of the earnings at the Chesterfield Rehabilitation Center. F
llocation adjustment related to the Chesterfield Rehabilitation Center.

eficit)

nted an aggregate of 90,200 shares of restricted common stock to our independent directors and affiliates pursuant to the terms and cond
ed 73,824,809 shares of our common stock in connection with our offering and 1,660,176 shares of our common stock under the DRIP,
purchase plan. As of December 31, 2008 and 2007, we had 75,465,437 and 21,449,451 shares of our common stock outstanding, respec

lic up to 200,000,000 shares of our $0.01 par value common stock for $10.00 per share and up to 21,052,632 shares of our $0.01 par va
re. Our charter authorizes us to issue 1,000,000,000 shares of our common stock.

,000,000 shares of our $0.01 par value preferred stock. As of December 31, 2008 and 2007, no shares of preferred stock were issued an

ckholders to purchase additional shares of common stock through the reinvestment of distributions, subject to certain conditions. We reg
ck for sale pursuant to the DRIP in our offering. For the years ended December 31, 2008 and 2007 and for the period from April 28, 20
,673,000 and $0, respectively, in distributions were reinvested and 1,378,795, 281,381 and 0 shares of our common stock, respectively,
of $15,772,000 and $2,673,000, respectively, in distributions were reinvested and 1,660,176 and 281,381 shares of our common stock,

share repurchase plan. On August 24, 2006, we received SEC exemptive relief from rules restricting issuer purchases during distributi

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tain criteria are met by the requesting stockholders. Share repurchases will be made at the sole discretion of our board of directors. Fund
vely from the proceeds we receive from the sale of shares of our common stock under the DRIP.

pproved certain amendments to our share repurchase plan which became effective August 25, 2008. The primary purpose of the amendr
res of our common stock redeemed, at the sole discretion of our board of directors, during the period we are engaged in a public offerin
non stock have been continuously held. Under the amended share repurchase plan, redemption prices range from $9.25 per share, or 92.
o an amount equal to not less than 100% of the price paid per share following a four year holding period. Under the previous share repu
ur common stock redeemed at $9.00 per share during the period we are engaged in a public offering.

08, we repurchased 109,748 shares of our common stock, for an aggregate amount of $1,077,000. During the year ended December 31, 2
rough December 31, 2006, we did not repurchase any share of our common stock.

nt Directors Compensation Plan

e Plan, the aggregate number of shares of our common stock subject to options, shares of restricted common stock, stock purchase right
er its sub-plan, the 2006 Independent Directors Compensation Plan, will be no more than 2,000,000 shares.

4, 2006, we granted an aggregate of 15,000 shares and 5,000 shares, respectively, of restricted common stock, as defined in our 2006 In
Director Compensation Plan. On April 12, 2007, we granted 5,000 shares of restricted common stock to our newly appointed independ
n with their re-election, we granted 12,500 shares of restricted common stock in the aggregate to our independent directors. Each of the
ill vest on each of the first four anniversaries of the date of grant.

Mr. Peters 40,000 shares of restricted common stock under, and pursuant to the terms and conditions of, our 2006 Incentive Plan. The sh
in equal annual installments of 33.3% each, on the first, second and third anniversaries of the grant date.

ted common stock was estimated at the date of grant at $10.00 per share, the per share price of shares of our common stock in our offer
riod. Shares of restricted common stock may not be sold, transferred, exchanged, assigned, pledged, hypothecated or otherwise encumb
er 31, 2008 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we recognized compensat
the restricted common stock grants, which is included in general and administrative in our accompanying consolidated statements of ope
and rights to dividends.

here was $623,000 and $228,000, respectively, of total unrecognized compensation expense, net of estimated forfeitures, related to non
expense is expected to be recognized over a remaining weighted average period of 2.8 years.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

he fair value of the nonvested shares of restricted common stock was $685,000 and $260,000, respectively. A summary of the status of
)08, 2007 and 2006, and the changes for the period from April 28, 2006 (Date of Inception) through December 31, 2006, is presented be

	Restricted Common Stock	Weigh Average C Date F Valu
ception)		$
	20,000	
	(4,000)	
	16,000	
	17,500	
	(7,500)	
	26,000	
	52,500	
	(10,000)	
	68,500	$
)8	68,500	$

on Interest

nto an amendment to the partnership agreement for our operating partnership, or the Partnership Agreement Amendment. Pursuant to th
may elect to defer its right to receive a subordinated distribution from our operating partnership after the termination of the Advisory A

ent provides that after the termination of the Advisory Agreement if there is a listing of our shares on a national securities exchange or
common stock shares of a company that are tracked on a national securities exchange, our advisor will be entitled to receive a distributi
mount, if any, by which: (1) the fair market value of the assets of our operating partnership (determined by appraisal as of the listing dat
dvisory Agreement, plus any assets acquired after such termination for which our advisor was entitled to receive an acquisition fee (as d
Included Assets, less any indebtedness secured by the Included Assets, plus the cumulative distributions made by our operating partne
nection with the acquisition of the Included Assets, from our inception through the listing date or merger date, as applicable, exceeds (2
he capital value of partnership units issued in connection with the acquisition of the Included Assets through the listing date or merger
our offering) (less amounts paid to redeem shares of our common stock pursuant to our share repurchase plan) plus an annual 8.0% cun
al value of such partnership units measured for the period from inception through the listing date or merger date, as applicable.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

nt Amendment provides that after the termination date in the event of a liquidation or sale of all or substantially all of the assets of the o
be entitled to receive a distribution from our operating partnership in an amount equal to 15.0% of the net proceeds from the sale of the
the limited partners who received partnership units in connection with the acquisition of the Included Assets of: (1) their initial invested
paid to repurchase shares pursuant to our share repurchase program) through the date of the other liquidity event plus (2) an annual 8.0%
e capital value of such partnership units measured for the period from inception through the other liquidity event date.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we have not recorded any charges

nstruments

cord fair value of certain assets and to estimate fair value of financial instruments not recorded at fair value but required to be disclosed
ncial Instruments, or SFAS No. 107.

Fair Value

ich are classified within Level 1 of the fair value hierarchy because they are valued using unadjusted quoted market prices in active ma

to manage interest rate risk associated with floating rate debt. The valuation of these instruments is determined using widely accepted v
expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, a
foreign exchange rates, and implied volatilities. The fair values of interest rate swaps are determined using the market standard method
scounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves

AS No. 157, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective c
justing the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any
, mutual puts, and guarantees.

e majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments ass
urrent credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2008, we have ass
the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the ove
our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

nd liabilities measured at fair value on a recurring basis as of December 31, 2008, aggregated by the level in the fair value hierarchy wit

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$ 110,330,000	$	$
	$ 110,330,000	$	$
	$	$ (14,198,000)	$
	$	$ (14,198,000)	$

urements using significant unobservable inputs (Level 3) as of December 31, 2008.

Fair Value

the fair value of financial instruments, whether or not recognized on the face of the balance sheet. Fair value is defined under SFAS No

ide the following financial instruments: real estate note receivables, net, cash and cash equivalents, restricted cash, accounts and other re
ble due to affiliates, net, mortgage loan payables, net and borrowings under the line of credit.

ables, net reasonably approximates fair value based on expected interest rates for notes to similar borrowers with similar terms and rema
valents, restricted cash, accounts and other receivables, net and accounts payable and accrued liabilities to approximate fair value for th
rigination of the instruments and their expected realization. The fair value of accounts payable due to affiliates, net is not determinable d

ayable is estimated using borrowing rates available to us for mortgage loan payables with similar terms and maturities. As of December
5,000, compared to the carrying value of $460,762,000. As of December 31, 2007, the fair value of the mortgage loan payables was $18
fair value of our secured revolving line of credit with LaSalle and KeyBank as of December 31, 2008 and 2007 was $0 and $51,801,000

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

utions

tions reportable for the years ended December 31, 2008, 2007 and 2006 was as follows:

			Years Ended December 31,		
	2008			**2007**	
$	5,879,000	21.0%	$	915,000	
	22,163,000	79.0		5,081,000	
$	28,042,000	100%	$	5,996,000	

s that expire at various dates through 2037 and in some cases subject to scheduled fixed increases or adjustments based on the consume also provide for additional rents based on certain operating expenses. Future minimum rent contractually due under operating leases, e 8 for each of the next five years ending December 31 and thereafter is as follows:

	Amount
$	83,797,000
$	77,291,000
$	68,364,000
$	62,464,000
$	50,866,000
$	213,320,000
$	556,102,000

e is from tenants with leases which are subject to contingent rent provisions. These contingent rents are subject to the tenant achieving p December 31, 2008 and 2007 and the period from April 28, 2006 (Date of Inception) through December 31, 2006, the amount of contin

08, we completed the acquisition of 21 consolidated properties, adding a total of approximately 2,920,000 square feet of GLA to our pro as $542,976,000 plus closing costs of $14,213,000. See Note 3, Real Estate Investments, for a listing of the properties acquired and the ns are reflected in our consolidated statements of operations for the year ended December 31, 2008 for the periods subsequent to the acc

e allocated the purchase price to the fair value of the assets acquired and the liabilities assumed, including allocating to the intangibles a
se origination costs and tenant relationships. Certain allocations as of December 31, 2008 are subject to change based on information re
events at the time of purchase which confirm the value of an asset acquired or a

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a property. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisit
e aggregate purchase price of the 21 properties and all other properties aggregated together:

		Total
	$	55,062,000
		418,060,000
		8,768,000
		41,308,000
		38,694,000
		926,000
		349,000
		563,167,000
		(7,768,000)
		(7,768,000)
	$	555,399,000

iscussed above had occurred on January 1, 2008, for the year ended December 31, 2008, pro forma revenues, net income (loss) and net
, $(40,590,000) and $(0.95), respectively.

iscussed above had occurred on January 1, 2007, for the year ended December 31, 2007, pro forma revenues, net income (loss) and net
$(32,134,000) and $(3.23), respectively.

rily indicative of the operating results that would have been obtained had the acquisitions occurred at the beginning of the periods prese

Risk

subject us to a concentration of credit risk are primarily cash and cash equivalents, restricted cash and accounts receivable from tenants
nt and restricted cash accounts in excess of Federal Deposit Insurance Corporation, or FDIC, insured limits. We believe this risk is not s
le from tenants is limited. We perform credit evaluations of prospective tenants, and security deposits or letters of credit are obtained up
ne acquisition of a property.

08, we had interests in seven consolidated properties located in Texas, which accounted for 17.1% of our total rental income and interest
for 15.5% of our total rental income. Medical Portfolio 3 accounts for 11.3% of our aggregate total rental income. This rental income is
008. Accordingly, there is a geographic concentration of risk subject to fluctuations in each state s economy.

08, none of our tenants at our consolidated properties accounted for 10.0% or more of our aggregate annual rental income

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

07, we had interests in three consolidated properties located in Ohio, which accounted for 15.1% of our total rental income, interests in s
% of our total rental income and interest in three consolidated properties located in Georgia, which accounted for 12.8% of our total rent
eases in effect as of December 31, 2007. Accordingly, there is a geographic concentration of risk subject to fluctuations in each state s

07, one of our tenants at our consolidated properties accounted for 10.0% or more of our aggregate annual rental income, as follows:

2007 Annual Base Rent *	Percentage of 2007 Annual Base Rent	Property	G (Squa
$ 4,095,000	11.2 %	East Florida Senior Care Portfolio	

d on contractual base rent from leases in effect as of December 31, 2007. The loss of the tenant or
ave a material adverse effect on our business and results of operations.

Date of Inception) through December 31, 2006, we did not own any properties.

ursuant to SFAS No. 128, *Earnings Per Share.* Basic earnings (loss) per share attributable for all periods presented are computed by div
f our common stock outstanding during the period. Diluted earnings (loss) per share are computed based on the weighted average numb
if any. Shares of restricted common stock give rise to potentially dilutive shares of common stock.

08 and 2007 and for the period from April 28, 2006 (Date of Inception) through December 31, 2006, we recorded a net loss of $28,448,
08, 2007 and 2006, 68,500 shares, 26,000 shares and 16,000 shares, respectively, of restricted common stock were outstanding, but were
ch shares of restricted common stock were anti-dilutive during these periods.

cial Data (Unaudited)

ted quarterly financial data. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been inclu
. GAAP, the unaudited selected quarterly financial data when read in conjunction with our consolidated financial statements.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quarters Ended		
	December 31, 2008	**September 30, 2008**	**June 30, 2008**
	$ 27,108,000	$ 23,920,000	$ 16,273,0
	(24,814,000)	(22,671,000)	(15,078,0
e)	2,294,000	1,249,000	1,195,0
	(18,890,000)	(6,887,000)	(681,0
sts	(16,596,000)	(5,638,000)	514,0
	117,000	(47,000)	(188,0
	$ (16,479,000)	$ (5,685,000)	$ 326,0
	$ (0.25)	$ (0.12)	$ 0.
	$ (0.25)	$ (0.12)	$ 0.
outstanding	65,904,688	47,735,536	33,164,8
	65,904,688	47,735,536	33,165,0

	Quarters Ended		
	December 31, 2007	**September 30, 2007**	**June 30, 2**
	$ 8,914,000	$ 4,787,000	$ 3,1
	(8,850,000)	(5,545,000)	(3,7
xpense)	64,000	(758,000)	(5
	(4,070,000)	(1,175,000)	(6
	(4,006,000)	(1,933,000)	(1,2
	8,000		
	$ (3,998,000)	$ (1,933,000)	$ (1,2
	$ (0.21)	$ (0.15)	$

outstanding basic and diluted	18,893,438	13,223,746	6,7

13, 2009, we had received and accepted subscriptions in our offering for 15,206,071 shares of our common stock, for an aggregate am
nder the DRIP. As of March 13, 2009, we had received and accepted subscriptions in our offering for 89,030,880 shares of our commo
r common stock issued under the DRIP.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

,842 shares of our common stock, for an aggregate amount of $1,310,000, under our share repurchase plan.

l condo and a four-building medical office property comprising 188,000 square feet of gross leasable area in two states, for an aggregat

ealty Investors provided notice of its termination of the Services Agreement, pursuant to which it provides subscription processing and
tember 20, 2009.

Grubb & Ellis Healthcare REIT, Inc.

SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND ACCUMULATED DEPRECIATION
December 31, 2008

	Initial Cost to Company		Cost Capitalized Subsequent	Gross Amount at Which Carried at Close of Period			
cumbrances	**Land**	**Buildings, Improvements and Fixtures**	**to Acquisition**(a)	**Land**	**Buildings, Improvements and Fixtures**	**Total**(b)	**Accum Deprecia**
9,146,000	$ 2,889,000	$ 10,015,000	$ 130,000	$ 2,889,000	$ 10,145,000	$ 13,034,000	$
4,264,000	699,000	5,473,000		699,000	5,473,000	6,172,000	
6,000,000	1,157,000	5,009,000	1,008,000	1,157,000	6,017,000	7,174,000	
12,000,000	1,670,000	13,626,000	23,000	1,670,000	13,649,000	15,319,000	(1
9,939,000	4,173,000	9,070,000		4,173,000	9,070,000	13,243,000	
13,530,000	3,545,000	15,792,000	49,000	3,545,000	15,841,000	19,386,000	(1

14,000,000	3,842,000	19,680,000	275,000	3,842,000	19,955,000	23,797,000	(1
	3,047,000	28,550,000	(1,000)	3,047,000	28,549,000	31,596,000	(1
5,604,000	1,290,000	7,246,000	198,000	1,290,000	7,444,000	8,734,000	
14,500,000	2,326,000	17,208,000	276,000	2,326,000	17,484,000	19,810,000	
8,300,000	1,779,000	9,613,000	225,000	1,779,000	9,838,000	11,617,000	
8,280,000	1,815,000	10,242,000	(4,000)	1,815,000	10,238,000	12,053,000	
	2,323,000	22,634,000	(3,000)	2,323,000	22,631,000	24,954,000	(1
29,917,000	10,078,000	34,870,000	(1,000)	10,078,000	34,869,000	44,947,000	(1

7,865,000	1,245,000	9,109,000	171,000	1,245,000	9,280,000	10,525,000	
	1,309,000	17,574,000	181,000	1,309,000	17,755,000	19,064,000	
	701,000	18,336,000	37,000	701,000	18,373,000	19,074,000	
8,853,000	2,240,000	10,426,000	255,000	2,240,000	10,681,000	12,921,000	
10,943,000	1,987,000	11,341,000	138,000	1,987,000	11,479,000	13,466,000	
22,000,000	4,212,000	27,901,000		4,212,000	27,901,000	32,113,000	
21,340,000	4,206,000	28,373,000	810,000	4,206,000	29,183,000	33,389,000	(1

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Grubb & Ellis Healthcare REIT, Inc.

SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND ACCUMULATED DEPRECIATION (Continued)

Initial Cost to Company		Cost Capitalized Subsequent	Gross Amount at Which Carried at Close of Period			
Land	**Buildings, Improvements and Fixtures**	**to Acquisition**(a)	**Land**	**Buildings, Improvements and Fixtures**	**Total**(b)	**Accumu Depreciati**
$ 1,571,000	$ 5,786,000	$ 21,000	$ 1,571,000	$ 5,807,000	$ 7,378,000	$ (1
842,000	5,639,000	1,000	842,000	5,640,000	6,482,000	(1
857,000	4,497,000	(17,000)	857,000	4,480,000	5,337,000	(1
1,345,000	8,312,000	11,000	1,345,000	8,323,000	9,668,000	(2
1,082,000	3,588,000	(29,000)	1,082,000	3,559,000	4,641,000	(1
4,871,000	30,002,000		4,871,000	30,002,000	34,873,000	(6

1,110,000	17,688,000		1,110,000	17,688,000	18,798,000	(3
5,109,000	17,961,000	58,000	5,109,000	18,019,000	23,128,000	(3
1,075,000	10,320,000	38,000	1,075,000	10,358,000	11,433,000	(1
4,259,000	14,636,000	(103,000)	4,259,000	14,533,000	18,792,000	(3
9,355,000	70,259,000	1,335,000	9,355,000	71,594,000	80,949,000	(1,7
1,193,000	6,106,000	154,000	1,193,000	6,260,000	7,453,000	(1
3,166,000	6,862,000	325,000	3,166,000	7,187,000	10,353,000	(1
5,360,000	33,506,000	43,000	5,360,000	33,549,000	38,909,000	(6
3,701,000	24,442,000		3,701,000	24,442,000	28,143,000	(3

	25,976,000	456,000		26,432,000	26,432,000	(2
2,632,000	38,652,000	343,000	2,632,000	38,995,000	41,627,000	(4
804,000	18,400,000		804,000	18,403,000	19,207,000	
1,248,000	34,858,000		1,248,000	34,858,000	36,106,000	(3
1,276,000	12,197,000		1,276,000	12,197,000	13,473,000	
$ 107,389,000	$ 721,775,000	$ 6,403,000	$ 107,389,000	$ 728,181,000	$ 835,570,000(c)	$ (24,6

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Grubb & Ellis Healthcare REIT, Inc.

SCHEDULE III REAL ESTATE OPERATING PROPERTIES AND ACCUMULATED DEPRECIATION (Continued)

acquisition is net of dispositions.

for the years ended December 31, 2008 and 2007 and for the period from April 28, 2006 (Date of 1, 2006 are as follows:

		Amount
f Inception)	$	
		356,565,000
		1,046,000
		(33,000)
		357,578,000
		473,132,000
		6,590,000
		(1,730,000)
	$	835,570,000

ate for federal income tax purposes was $994,509,000.

epreciation for the years ended December 31, 2008 and 2007 and for the period from April 28, 2006 cember 31, 2006 are as follows:

		Amount
f Inception)	$	
		4,590,000
		(2,000)
		4,588,000

		20,523,000
		(461,000)
	$	24,650,000

vements is depreciated on a straight-line basis over the estimated useful lives of 39 years and the
ful life, ranging from one month to 241 months, respectively. Furniture, fixtures and equipment is

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SIGNATURES

on 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the unders

Ellis Healthcare REIT, Inc.

t)

D. Peters	Chief Executive Officer and President (principal executive officer)
eters	
2009	
S. Pruitt	Chief Accounting Officer (principal financial officer and principal accounting o
Pruitt	
2009	

ecurities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capaci

D. Peters	Chief Executive Officer and President (principal executive officer)
eters	
2009	
S. Pruitt	Chief Accounting Officer (principal financial officer and principal accounting o
Pruitt	
2009	
ce J. DeWald	Director
DeWald	
2009	
adley Blair, II	Director
y Blair, II	
2009	

n D. Fix	Director
Fix	
2009	
L. Mathis	Director
Mathis	
2009	
T. Wescombe	Director
Wescombe	
2009	

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EXHIBIT INDEX

nerger of NNN Realty Advisors, Inc., which previously served as our sponsor, with and into a wholly owned subsidiary of Grubb & Elli
NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Advisor, LLC, NNN Healthcare/Office Management, LLC
mes to Grubb & Ellis Healthcare REIT, Inc., Grubb & Ellis Healthcare REIT Holdings, L.P., Grubb & Ellis Healthcare REIT Advisor, L
ealty Investors, LLC, and Grubb & Ellis Securities, Inc. respectively. The following Exhibit List refers to the entity names used prior to
rties on the documents listed.

tion S-K, this Exhibit Index immediately precedes the exhibits.

or incorporated by reference, in this Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (and are numbered in ac

Amendment and Restatement of NNN Healthcare/Office REIT, Inc. (included as Exhibit 3.1 to our Annual Report on
year ended December 31, 2006 and incorporated herein by reference)
ment, effective December 10, 2007 (included as Exhibit 3.1 to our Current Report on Form 8-K filed December 10,

ealthcare/Office REIT, Inc. (included as Exhibit 3.2 to the registrant s Registration Statement on Form S-11 (File
iled on April 28, 2006 and incorporated herein by reference)
lthcare REIT, Inc. Share Repurchase Plan, effective August 25, 2008 (included as Exhibit 4.1 to our Current Report
ugust 25, 2008 and incorporated herein by reference)
on Agreement (included as Exhibit B to the prospectus)
estment Plan (included as Exhibit C to the prospectus)
t (included as Exhibit 4.4 to our Quarterly Report on the Form 10-Q for the quarter ended September 30, 2006 and
n by reference)
tated Advisory Agreement among Grubb & Ellis Healthcare REIT, Inc., Grubb & Ellis Healthcare REIT Holdings,
Healthcare REIT Advisory, LLC and Grubb & Ellis Realty Investors, LLC (included as Exhibit 10.1 to our Current
K filed on November 19, 2008 and incorporated herein by reference)
ited Partnership of NNN Healthcare/Office REIT Holdings, L.P. (included as Exhibit 10.2 to our Quarterly Report
the quarter ended September 30, 2006 and incorporated herein by reference)
to Agreement of Limited Partnership of Grubb & Ellis Healthcare REIT Holdings, LP (included as Exhibit 10.2 to
t on Form 8-K filed on November 19, 2008 and incorporated herein by reference)
Office REIT, Inc. 2006 Incentive Plan (including the 2006 Independent Directors Compensation Plan) (included as
registrant s Registration Statement on Form S-11 (File No. 333-133652) filed on April 28, 2006 and incorporated
e)
NNN Healthcare/Office REIT, Inc. 2006 Incentive Plan (including the 2006 Independent Directors Compensation
Exhibit 10.4 to the registrant s Registration Statement on Form S-11, Amendment No. 6 (File No. 333-133652) filed
2006 and incorporated herein by reference)
cation agreement executed by W. Bradley Blair, II, Maurice J. DeWald, Warren D. Fix, Gary T. Wescombe, Scott
Prosky, Andrea R. Biller and Larry L. Mathis (included as Exhibit 10.1 to our Current Report on Form 8-K filed on
incorporated herein by reference)

chase and Sale of Real Property and Escrow Instructions by and between Fort Road Associated Limited Partnership
perties, LLC, dated January 14, 2008 (included as Exhibit 10.1 to our Current Report on Form 8-K filed March 12,
ated herein by reference)
o Agreement of Sale by and among TST Overland Park, L.P., TST El Paso Properties, Ltd., TST Jacksonville II,
Bay, Ltd., TST Largo ASC, Ltd., TST Brandon, Ltd., and TST Lakeland, Ltd. and Triple Net Properties, LLC, dated
included as Exhibit 10.2 to our Current Report on Form 8-K filed February 7, 2008 and incorporated herein by

eement by and between National City Bank and G&E Healthcare REIT Chesterfield Rehab Hospital, LLC, dated
included as Exhibit 10.1 to our Current Report on Form 8-K filed February 1, 2008 and incorporated herein by

o Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Fort Road Associates
p and Triple Net Properties, LLC, dated January 31, 2008 (included as Exhibit 10.2 to our Current Report on
rch 12, 2008 and incorporated herein by reference)
nt to Agreement of Sale by and among TST Overland Park, L.P., TST El Paso Properties, Ltd., TST Jacksonville II,
Bay, Ltd., TST Largo ASC, Ltd., TST Brandon, Ltd., TST Lakeland, Ltd., Triple Net Properties, LLC and
ncial Group, Inc., dated February 1, 2008 (included as Exhibit 10.3 to our Current Report on Form 8-K filed
nd incorporated herein by reference)
ssumption of Agreement of Sale by and between Triple Net Properties, LLC and G&E Healthcare REIT Medical
dated February 1, 2008 (included as Exhibit 10.4 to our Current Report on Form 8-K filed February 7, 2008 and
n by reference)
y and between G&E Healthcare REIT Medical Portfolio 1, LLC and Wachovia Bank, National Association, dated
included as Exhibit 10.5 to our Current Report on Form 8-K filed February 7, 2008 and incorporated herein by

y G&E Healthcare REIT Medical Portfolio 1, LLC in favor of Wachovia Bank, National Association, dated
included as Exhibit 10.6 to our Current Report on Form 8-K filed February 7, 2008 and incorporated herein by

ment, Security Agreement and Fixture Filing (West Bay) by G&E Healthcare REIT Medical Portfolio 1, LLC in
Bank, National Association, dated February 1, 2008 (included as Exhibit 10.7 to our Current Report on Form 8-K
008 and incorporated herein by reference)
ment, Security Agreement and Fixture Filing (Largo) by G&E Healthcare REIT Medical Portfolio 1, LLC in favor of
ational Association, dated February 1, 2008 (included as Exhibit 10.8 to our Current Report on Form 8-K filed
nd incorporated herein by reference)
ment, Security Agreement and Fixture Filing (Central Florida) by G&E Healthcare REIT Medical Portfolio 1, LLC
via Bank, National Association, dated February 1, 2008 (included as Exhibit 10.9 to our Current Report on
bruary 7, 2008 and incorporated herein by reference)
ment, Security Agreement and Fixture Filing (Brandon) by G&E Healthcare REIT Medical Portfolio 1, LLC in favor
, National Association, dated February 1, 2008 (included as Exhibit 10.10 to our Current Report on Form 8-K filed
nd incorporated herein by reference)
ment, Security Agreement and Fixture Filing (Overland Park) by G&E Healthcare REIT Medical Portfolio 1, LLC in
Bank, National Association, dated February 1, 2008 (included as Exhibit 10.11 to our Current Report on Form 8-K
008 and incorporated herein by reference)

nty by Grubb & Ellis Healthcare REIT, Inc. in favor of Wachovia Bank, National Association, dated February 1,
Exhibit 10.12 to our Current Report on Form 8-K filed February 7, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Medical Portfolio 1, LLC and Grubb & Ellis Healthcare REIT, Inc.
Wachovia Bank, National Association, dated February 1, 2008 (included as Exhibit 10.13 to our Current Report on
bruary 7, 2008 and incorporated herein by reference)
e Swap Agreement by and between Triple Net Properties, LLC and Wachovia Bank, National Association, dated
as amended on February 6, 2008 (included as Exhibit 10.14 to our Current Report on Form 8-K filed February 7,
ated herein by reference)
to Promissory Note by and between NNN Gallery Medical, LLC, NNN Realty Advisors, Inc. and LaSalle Bank
on, released from escrow on February 20, 2008 and effective as of February 12, 2008 (included as Exhibit 10.1 to
t on Form 8-K filed February 26, 2008 and incorporated herein by reference)
chase and Sale of Real Property and Escrow Instructions by and between NHP Cypress Station Partnership, LP and
lty Investors, LLC, dated February 22, 2008 (included as Exhibit 10.1 to our Current Report on Form 8-K filed
d incorporated herein by reference)
nt to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Fort Road
d Partnership and Triple Net Properties, LLC, dated March 5, 2008 (included as Exhibit 10.3 to our Current Report
March 12, 2008 and incorporated herein by reference)
ssumption of Purchase Agreement by and between Grubb & Ellis Realty Investors, LLC and G&E Healthcare REIT
, LLC, dated March 6, 2008 (included as Exhibit 10.4 to our Current Report on Form 8-K filed March 12, 2008 and
n by reference)
y G&E Healthcare REIT Fort Road Medical, LLC in favor of LaSalle Bank National Association, dated March 6,
Exhibit 10.5 to our Current Report on Form 8-K filed March 12, 2008 and incorporated herein by reference)
y Agreement, Assignment of Leases and Rents and Fixture Filing by G&E Healthcare REIT Fort Road Medical,
t of LaSalle Bank National Association, dated March 6, 2008 (included as Exhibit 10.6 to our Current Report on
arch 12, 2008 and incorporated herein by reference)
ent by Grubb & Ellis Healthcare REIT, Inc. in favor of LaSalle Bank National Association, dated March 6, 2008
it 10.7 to our Current Report on Form 8-K filed March 12, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Fort Road Medical, LLC and Grubb & Ellis Healthcare REIT, Inc. for
alle Bank National Association, dated March 6, 2008 (included as Exhibit 10.8 to our Current Report on Form 8-K
08 and incorporated herein by reference)
chase and Sale of Real Property and Escrow Instructions by and between Epler Parke, LLC and Grubb & Ellis
LLC, dated March 6, 2008 (included as Exhibit 10.1 to our Current Report on Form 8-K filed March 28, 2008 and
n by reference)
e Swap Confirmation Letter Agreement by and between G&E Healthcare REIT Fort Road Medical, LLC and
onal Association, dated March 10, 2008 (included as Exhibit 10.9 to our Current Report on Form 8-K filed
d incorporated herein by reference)
nt to Agreement for Purchase and Sale of Real Property and Escrow Instructions by and between Liberty Falls,
roperties, LLC, and Dave Chrestensen and Todd Crawford, dated March 11, 2008 (included as Exhibit 10.3 to our
Form 8-K filed March 25, 2008 and incorporated herein by reference)

ssumption of Purchase Agreement by and between Grubb & Ellis Realty Investors, LLC and G&E Healthcare REIT
cal Plaza, LLC, dated March 19, 2008 (included as Exhibit 10.4 to our Current Report on Form 8-K filed March 25,
ated herein by reference)
ssumption of Purchase Agreement by and between Grubb & Ellis Realty Investors, LLC and G&E Healthcare REIT
ng B, LLC, dated March 24, 2008 (included as Exhibit 10.2 to our Current Report on Form 8-K filed March 28,
ated herein by reference)
ssumption of Purchase Agreement by and between Grubb & Ellis Realty Investors, LLC and G&E Healthcare REIT
LC, dated March 25, 2008 (included as Exhibit 10.2 to our Current Report on Form 8-K filed March 31, 2008 and
n by reference)
y G&E Healthcare REIT Cypress Station, LLC in favor of National City Bank, dated March 25, 2008 (included as
r Current Report on Form 8-K filed March 31, 2008 and incorporated herein by reference)
urity Agreement, Assignment of Leases and Rents and Financing Statement by G&E Healthcare REIT Cypress
he benefit of National City Bank, dated March 25, 2008 (included as Exhibit 10.4 to our Current Report on
arch 31, 2008 and incorporated herein by reference)
of Payment by Grubb & Ellis Healthcare REIT, Inc. for the benefit of National City Bank, dated March 25, 2008
it 10.5 to our Current Report on Form 8-K filed March 31, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Cypress Station, LLC and Grubb & Ellis Healthcare REIT, Inc. for
onal City Bank, dated March 25, 2008 (included as Exhibit 10.6 to our Current Report on Form 8-K filed March 31,
ated herein by reference)
Agreement and Escrow Instructions by and between HCP, Inc. and HCPI/Indiana, LLC and G&E Healthcare REIT
3, LLC, dated May 30, 2008 (included as Exhibit 10.1 to our Current Report on Form 8-K filed June 4, 2008 and
n by reference)
of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing by G&E Healthcare REIT
LLC to and for the benefit of Jeffrey C. Baker, Esq., Trustee and LaSalle Bank National Association, dated
luded as Exhibit 10.1 to our Current Report on Form 8-K filed June 25, 2008 and incorporated herein by reference)
t by G&E Healthcare REIT Amarillo Hospital, LLC in favor of LaSalle Bank National Association, dated June 23,
Exhibit 10.2 to our Current Report on Form 8-K filed June 25, 2008 and incorporated herein by reference)
emnity Agreement by Grubb and Ellis Healthcare REIT Holdings, L.P., G&E Healthcare REIT Amarillo Hospital,
Ellis Healthcare REIT, Inc. to and for the benefit of LaSalle Bank National Association, dated June 23, 2008
it 10.3 to our Current Report on Form 8-K filed June 25, 2008 and incorporated herein by reference)
y and among G&E Healthcare REIT 5995 Plaza Drive, LLC, G&E Healthcare REIT Academy, LLC, G&E
Epler Parke Building B, LLC, G&E Healthcare REIT Nutfield Professional Center, LLC and G&E Healthcare REIT
2, LLC and Wachovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.1 to our Current Report
June 27, 2008 and incorporated herein by reference)
y G&E Healthcare REIT 5995 Plaza Drive, LLC, G&E Healthcare REIT Academy, LLC, G&E Healthcare REIT
ng B, LLC, G&E Healthcare REIT Nutfield Professional Center, LLC and G&E Healthcare REIT Medical Portfolio
Wachovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.2 to our Current Report on
ne 27, 2008 and incorporated herein by reference)

signment, Security Agreement and Fixture Filing by G&E Healthcare REIT 5995 Plaza Drive, LLC in favor of
al Services, Inc., dated June 24, 2008 (included as Exhibit 10.3 to our Current Report on Form 8-K filed June 27,
ated herein by reference)
signment, Security Agreement and Fixture Filing by G&E Healthcare REIT Academy, LLC in favor of Wachovia
, Inc., dated June 24, 2008 and delivered June 26, 2008 (included as Exhibit 10.4 to our Current Report on Form 8-K
3 and incorporated herein by reference)
signment, Security Agreement and Fixture Filing by G&E Healthcare REIT Medical Portfolio 2, LLC in favor of
al Services, Inc., dated June 24, 2008 (included as Exhibit 10.5 to our Current Report on Form 8-K filed June 27,
ated herein by reference)
ment, Security Agreement and Fixture Filing by G&E Healthcare REIT Epler Parke Building B, LLC in favor of
al Services, Inc., dated June 24, 2008 (included as Exhibit 10.6 to our Current Report on Form 8-K filed June 27,
ated herein by reference)
ment, Security Agreement and Fixture Filing (Overland Park) by G&E Healthcare REIT Nutfield Professional
vor of Wachovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.7 to our Current Report on
ne 27, 2008 and incorporated herein by reference)
nty by Grubb & Ellis Healthcare REIT, Inc. in favor of Wachovia Financial Services, Inc., dated June 24, 2008
it 10.8 to our Current Report on Form 8-K filed June 27, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT 5995 Plaza drive, LLC and Grubb & Ellis Healthcare REIT, Inc. for
hovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.9 to our Current Report on Form 8-K
3 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Academy, LLC and Grubb & Ellis Healthcare REIT, Inc. for the
ia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.10 to our Current Report on Form 8-K filed
incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Medical Portfolio 2, LLC and Grubb & Ellis Healthcare REIT, Inc.
Wachovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.11 to our Current Report on
ne 27, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Epler Parke Building B, LLC and Grubb & Ellis Healthcare REIT,
of Wachovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.12 to our Current Report on
ne 27, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Nutfield Professional Center, LLC and Grubb & Ellis Healthcare
benefit of Wachovia Financial Services, Inc., dated June 24, 2008 (included as Exhibit 10.13 to our Current Report
June 27, 2008 and incorporated herein by reference)
y and between G&E Healthcare REIT Medical Portfolio 3, LLC, The Financial Institutions Party Hereto, as Banks,
nk, as Agent, dated June 26, 2008 (included as Exhibit 10.2 to our Current Report on Form 8-K filed July 1, 2008
erein by reference)
sory Note (1) by G&E Healthcare REIT Medical Portfolio 3, LLC for the benefit of Fifth Third Bank, dated
luded as Exhibit 10.3 to our Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference)

sory Note (2) by G&E Healthcare REIT Medical Portfolio 3, LLC for the benefit of Fifth Third Bank, dated
luded as Exhibit 10.4 to our Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference)
ent by Grubb & Ellis Healthcare REIT, Inc. for the benefit of Fifth Third Bank, dated June 26, 2008 (included as
Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference)
Agreement, Fixture Filing and Assignment of Leases and Rents (Boone County) by and between G&E Healthcare
tfolio 3, LLC and Fifth Third Bank, dated June 26, 2008 (included as Exhibit 10.6 to our Current Report on
y 1, 2008 and incorporated herein by reference)
Agreement, Fixture Filing and Assignment of Leases and Rents (Hamilton County) by and between G&E
Medical Portfolio 3, LLC and Fifth Third Bank, dated June 26, 2008 (included as Exhibit 10.7 to our Current Report
July 1, 2008 and incorporated herein by reference)
Agreement, Fixture Filing and Assignment of Leases and Rents (Hendricks County) by and between G&E
Medical Portfolio 3, LLC and Fifth Third Bank, dated June 26, 2008 (included as Exhibit 10.8 to our Current Report
July 1, 2008 and incorporated herein by reference)
Agreement, Fixture Filing and Assignment of Leases and Rents (Marion County) by and between G&E Healthcare
tfolio 3, LLC and Fifth Third Bank, dated June 26, 2008 (included as Exhibit 10.9 to our Current Report on
y 1, 2008 and incorporated herein by reference)
emnity Agreement by G&E Healthcare REIT Medical Portfolio 3, LLC and Grubb & Ellis Healthcare REIT, Inc. to
of Fifth Third Bank, dated June 26, 2008 (included as Exhibit 10.10 to our Current Report on Form 8-K filed
ncorporated herein by reference)
oan Agreement by and among G&E Healthcare REIT Medical Portfolio 3, LLC, Grubb& Ellis Healthcare REIT,
d Bank, dated June 27, 2008 (included as Exhibit 10.1 to our Current Report on Form 8-K filed July 3, 2008 and
n by reference)
ement by and between Grubb & Ellis Healthcare REIT, Inc. and Scott D. Peters (included as Exhibit 10.3 to our
Form 8-K filed on November 19, 2008 and incorporated herein by reference)
Grubb & Ellis Healthcare REIT, Inc. 2006 Independent Directors Compensation Plan, effective January 1, 2009
ubb & Ellis Healthcare REIT, Inc.
ief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
ief Accounting Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
ief Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of

ief Accounting Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of

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