People's United Financial, Inc.
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**20-8447891** **(I.R.S. Employer** **Identification No.)**
850 Main Street, Bridgeport, Connecticut **(Address of principal executive offices)**	**06604** **(Zip Code)**

(203) 338-7171

(Registrant s telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, there were 348,637,353 shares of the registrant s common stock outstanding.

Table of Contents

People s United Financial Inc.

Form 10-Q

Table of Contents

Table of Contents

Part 1 - Financial Information

Item 1 - Financial Statements

People s United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

(in millions)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 462.7	$ 505.1
Short-term investments	253.1	377.5
Total cash and cash equivalents (note 2)	715.8	882.6
Securities (notes 2 and 13):		
Trading debt securities, at fair value	8.2	8.2
Equity securities, at fair value	9.9	8.7
Debt securities available-for-sale, at fair value	3,245.1	3,125.3
Debt securities held-to-maturity, at amortized cost (fair value of $3.68 billion and $3.63 billion)	3,718.7	3,588.1
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	342.2	312.3
Total securities	7,324.1	7,042.6
Loans held-for-sale	17.1	16.6
Loans (note 3):		
Commercial real estate	10,761.1	11,068.7
Commercial and industrial	8,823.3	8,731.1
Equipment financing	4,103.9	3,905.4
Total Commercial Portfolio	23,688.3	23,705.2
Residential mortgage	6,866.2	6,805.7
Home equity and other consumer	1,957.5	2,064.4
Total Retail Portfolio	8,823.7	8,870.1
Total loans	32,512.0	32,575.3
Less allowance for loan losses	(236.8)	(234.4)
Total loans, net	32,275.2	32,340.9

Goodwill (note 6)	2,435.2	2,411.4
Bank-owned life insurance	407.2	405.0
Premises and equipment, net	246.3	253.0
Other acquisition-related intangible assets (note 6)	138.6	148.6
Other assets (notes 1, 3 and 11)	1,015.0	952.7
Total assets	$ 44,574.5	$ 44,453.4
Liabilities		
Deposits:		
Non-interest-bearing	$ 8,002.4	$ 8,002.4
Savings	4,184.9	4,410.5
Interest-bearing checking and money market	14,659.4	15,189.1
Time	5,621.5	5,454.3
Total deposits	32,468.2	33,056.3
Borrowings:		
Federal Home Loan Bank advances	3,510.1	2,774.4
Federal funds purchased	855.0	820.0
Customer repurchase agreements	254.9	301.6
Other borrowings	19.1	207.8
Total borrowings	4,639.1	4,103.8
Notes and debentures	888.7	901.6
Other liabilities (notes 1 and 11)	678.3	571.8
Total liabilities	38,674.3	38,633.5
Commitments and contingencies (notes 1 and 8)		
Stockholders Equity (notes 4, 7 and 13)		
Preferred stock ($0.01 par value; 50.0 million shares authorized; 10.0 million shares issued and outstanding at both dates)	244.1	244.1
Common stock ($0.01 par value; 1.95 billion shares authorized; 437.1 million shares and 435.6 million shares issued)	4.4	4.4
Additional paid-in capital	6,040.3	6,012.3
Retained earnings	1,167.9	1,040.2
Unallocated common stock of Employee Stock Ownership Plan, at cost (6.5 million shares and 6.6 million shares)	(133.7)	(137.3)
Accumulated other comprehensive loss	(260.7)	(181.7)
Treasury stock, at cost (89.0 million shares at both dates)	(1,162.1)	(1,162.1)
Total stockholders equity	5,900.2	5,819.9
Total liabilities and stockholders equity	$ 44,574.5	$ 44,453.4

See accompanying notes to consolidated financial statements.

Table of Contents

People s United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

(in millions, except per common share data)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest and dividend income:				
Commercial real estate	$ 111.5	$ 105.3	$ 218.5	$ 193.9
Commercial and industrial	90.1	74.1	172.4	138.7
Equipment financing	50.5	31.5	99.4	63.1
Residential mortgage	55.3	52.3	110.0	101.6
Home equity and other consumer	21.4	19.9	42.2	38.3
Total interest on loans	328.8	283.1	642.5	535.6
Securities	45.1	37.9	89.1	74.9
Short-term investments	1.3	0.1	2.5	0.4
Loans held-for-sale	0.2	0.9	0.4	1.6
Total interest and dividend income	375.4	322.0	734.5	612.5
Interest expense:				
Deposits	47.3	30.9	88.6	58.0
Borrowings	18.5	8.9	32.7	16.2
Notes and debentures	8.4	7.3	16.2	14.8
Total interest expense	74.2	47.1	137.5	89.0
Net interest income	301.2	274.9	597.0	523.5
Provision for loan losses (note 3)	6.5	7.1	11.9	11.5
Net interest income after provision for loan losses	294.7	267.8	585.1	512.0
Non-interest income:				
Bank service charges	24.3	25.0	48.1	48.5
Investment management fees	17.2	16.3	34.9	32.3
Operating lease income	11.2	11.0	21.9	21.2
Commercial banking lending fees	9.4	11.5	19.8	19.7
Insurance revenue	8.3	7.5	18.1	16.6
Cash management fees	7.0	6.5	13.6	12.8
Brokerage commissions	3.2	3.4	6.3	6.4
Net security gains (losses) (note 2)		0.1	0.1	(15.6)
Other non-interest income (note 2)	14.3	10.3	22.5	34.4

Total non-interest income	94.9	91.6	185.3	176.3
Non-interest expense:				
Compensation and benefits (note 13)	135.0	132.1	275.7	260.0
Occupancy and equipment	40.8	39.8	82.0	78.4
Professional and outside services	20.6	28.1	39.2	43.6
Regulatory assessments	9.9	9.9	20.5	19.5
Operating lease expense	8.7	8.7	17.7	17.5
Amortization of other acquisition-related intangible assets (note 6)	4.9	7.9	10.0	14.2
Other non-interest expense (note 13)	28.7	30.8	47.0	50.2
Total non-interest expense	248.6	257.3	492.1	483.4
Income before income tax expense	141.0	102.1	278.3	204.9
Income tax expense (note 1)	30.8	32.8	60.2	64.8
Net income	110.2	69.3	218.1	140.1
Preferred stock dividend	3.5	3.5	7.0	7.0
Net income available to common shareholders	$ 106.7	$ 65.8	$ 211.1	$ 133.1
Earnings per common share (note 5):				
Basic	$ 0.31	$ 0.20	$ 0.62	$ 0.42
Diluted	0.31	0.19	0.61	0.41

See accompanying notes to consolidated financial statements.

Table of Contents

People s United Financial, Inc.

Consolidated Statements of Comprehensive Income - (Unaudited)

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$ 110.2	$ 69.3	$ 218.1	$ 140.1
Other comprehensive (loss) income, net of tax:				
Net actuarial loss and prior service credit related to pension and other postretirement plans	1.3	1.0	3.0	1.9
Net unrealized gains and losses on debt securities available-for-sale	(6.6)	6.1	(44.3)	17.4
Amortization of unrealized losses on debt securities transferred to held-to-maturity	0.9	0.5	1.6	1.0
Net unrealized gains and losses on derivatives accounted for as cash flow hedges	(0.5)	(0.3)	(2.0)	0.1
Total other comprehensive (loss) income, net of tax (note 4)	(4.9)	7.3	(41.7)	20.4
Total comprehensive income	$ 105.3	$ 76.6	$ 176.4	$ 160.5

See accompanying notes to consolidated financial statements.

3

Table of Contents

People s United Financial, Inc.

Consolidated Statements of Changes in Stockholders Equity - (Unaudited)

Six months ended June 30, 2018 (in millions, except per common share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallocated ESOP Common Stock	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2017	$ 244.1	$ 4.4	$ 6,012.3	$ 1,040.2	$ (137.3)	$ (181.7)	$ (1,162.1)	$ 5,819.9
Net income				218.1				218.1
Total other comprehensive loss, net of tax (note 4)						(41.7)		(41.7)
Cash dividends on common stock ($0.3475 per share)				(118.7)				(118.7)
Cash dividends on preferred stock				(7.0)				(7.0)
Restricted stock and performance-based share awards			7.4					7.4
Employee Stock Ownership Plan common committed to be released (note 7)				(0.3)	3.6			3.3
Common stock repurchased and retired upon vesting of restricted stock awards				(2.3)				(2.3)
Stock options exercised			20.6					20.6
Transition adjustments related to adoption of new accounting standards (notes 4 and 13)				37.9		(37.3)		0.6
Balance at June 30, 2018	$ 244.1	$ 4.4	$ 6,040.3	$ 1,167.9	$ (133.7)	$ (260.7)	$ (1,162.1)	$ 5,900.2

Six months ended June 30, 2017 (in millions, except per common share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallocated ESOP Common Stock	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2016	$ 244.1	$ 4.0	$ 5,446.1	$ 949.3	$ (144.6)	$ (195.0)	$ (1,162.0)	$ 5,141.9
Net income				140.1				140.1
Total other comprehensive income, net of tax (note 4)						20.4		20.4
Common stock issued in Suffolk Bancorp acquisition		0.2	484.6					484.8
Cash dividends on common stock ($0.3425 per share)				(111.0)				(111.0)
Cash dividends on preferred stock				(7.0)				(7.0)

Restricted stock and performance-based share awards			6.3				(0.1)	6.2
Employee Stock Ownership Plan common committed to be released (note 7)				(0.4)	3.6			3.2
Common stock repurchased and retired upon vesting of restricted stock awards				(3.2)				(3.2)
Stock options exercised		0.1	28.0					28.1
Balance at June 30, 2017	$ 244.1	$ 4.3	$ 5,965.0	$ 967.8	$ (141.0)	$ (174.6)	$ (1,162.1)	$ 5,703.5

See accompanying notes to consolidated financial statements.

Table of Contents

People s United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

(in millions)	Six Months Ended June 30, 2018	2017
Cash Flows from Operating Activities:		
Net income	$ 218.1	$ 140.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	18.0	19.4
Expense related to operating leases	17.7	17.5
Provision for loan losses	11.9	11.5
Expense related to share-based awards	10.2	9.5
Amortization of other acquisition-related intangible assets	10.0	14.2
Employee Stock Ownership Plan common stock committed to be released	3.3	3.2
Net security (gains) losses	(0.1)	15.6
Net gains on sales of residential mortgage loans	(0.5)	(1.6)
Originations of loans held-for-sale	(75.6)	(143.4)
Proceeds from sales of loans held-for-sale	75.6	157.8
Net increase in trading debt securities		(1.0)
Excess income tax benefits from stock option exercises	1.1	1.2
Net changes in other assets and other liabilities	(15.5)	(33.9)
Net cash provided by operating activities	274.2	210.1
Cash Flows from Investing Activities:		
Proceeds from principal repayments and maturities of debt securities available-for-sale	223.5	325.5
Proceeds from sales of debt securities available-for-sale	0.5	478.0
Proceeds from principal repayments and maturities of debt securities held-to-maturity	89.4	62.6
Purchases of debt securities available-for-sale	(412.4)	(52.2)
Purchases of debt securities held-to-maturity	(213.1)	(773.7)
Net purchases of Federal Reserve Bank stock	(0.5)	(5.6)
Net (purchases) redemptions of Federal Home Loan Bank stock	(29.4)	9.9
Proceeds from sales of loans	2.9	7.5
Loan disbursements, net of principal collections	122.7	(262.0)
Purchases of premises and equipment	(11.0)	(4.7)
Purchases of leased equipment	(21.8)	(12.1)
Proceeds from sales of real estate owned	5.0	6.0
Return of premium on bank-owned life insurance, net	0.3	1.2
Net cash (paid) acquired in acquisitions	(35.8)	174.0
Net cash used in investing activities	(279.7)	(45.6)

Cash Flows from Financing Activities:		
Net (decrease) increase in deposits	(588.1)	101.5
Net increase in borrowings with terms of three months or less	753.9	13.9
Repayments of borrowings with terms of more than three months	(216.6)	(0.1)
Repayment of notes and debentures		(125.0)
Cash dividends paid on common stock	(118.7)	(111.0)
Cash dividends paid on preferred stock	(7.0)	(7.0)
Common stock repurchases	(2.3)	(3.2)
Proceeds from stock options exercised	17.8	24.8
Contingent consideration payments	(0.3)	(0.3)
Net cash used in financing activities	(161.3)	(106.4)
Net (decrease) increase in cash, cash equivalents and restricted cash	(166.8)	58.1
Cash, cash equivalents and restricted cash at beginning of period	882.6	614.1
Cash, cash equivalents and restricted cash at end of period	$ 715.8	$ 672.2
Supplemental Information:		
Interest payments	$ 133.4	$ 86.3
Income tax payments	25.5	26.3
Unsettled purchases of securities	17.6	84.0
Real estate properties acquired by foreclosure	3.9	5.4
Assets acquired and liabilities assumed in acquisitions		
Non-cash assets, excluding goodwill and other acquisition-related intangibles	69.1	1,908.8
Liabilities	1.4	1,896.4
Common stock issued in Suffolk Bancorp acquisition		484.8

See accompanying notes to consolidated financial statements.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. GENERAL

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

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

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

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

Note 1 to People s United s audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017, as supplemented by the Quarterly Report for the period ended March 31, 2018 and this Quarterly Report for the period ended June 30, 2018, provides disclosure of People s United s significant accounting policies.

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Affordable housing investments, including all legally binding commitments to fund future investments, are included in other assets in the Consolidated Statements of Condition ($285.0 million and $250.7 million at June 30, 2018 and December 31, 2017, respectively). Included in other liabilities in the Consolidated Statements of Condition is a liability for all legally binding unfunded commitments to fund future investments ($118.0 million and $99.6 million at those dates). The cost of the Company s investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). Amortization expense, which is included as a component of income tax expense, totaled $4.9 million and $4.1 million for the three months ended June 30, 2018 and 2017, respectively, and $9.2 million and $8.1 million for the six months ended June 30, 2018 and 2017, respectively.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles (GAAP) have been omitted or condensed. As a result, the accompanying consolidated financial statements should be read in conjunction with People s United s Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

On June 27, 2018, the Bank completed its all-cash acquisition of Vend Lease Company (Vend Lease), a Baltimore-based equipment finance company. In connection with the transaction, the Bank acquired a lease and loan portfolio totaling approximately $68 million.

Pending Acquisition

On June 19, 2018, People s United announced the signing of a definitive agreement to acquire First Connecticut Bancorp, Inc. (First Connecticut) based in Farmington, Connecticut. Under the terms of the definitive agreement, each share of First Connecticut common stock will be converted into the right to receive 1.725 shares of People s United common stock, with a total transaction value, as of June 30, 2018, of approximately $500 million. At June 30, 2018, First Connecticut reported total assets of $3.3 billion and total deposits of $2.4 billion and operates 25 branch locations throughout central Connecticut and western Massachusetts.

The transaction, which is expected to close during the fourth quarter of 2018, is subject to regulatory approvals and the approval of First Connecticut shareholders. People s United shareholder approval is not required for the transaction.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 2. CASH AND CASH EQUIVALENTS AND SECURITIES

At December 31, 2017, cash and due from banks included restricted cash totaling $13.8 million (none at June 30, 2018) relating to one remaining securitization (which was repaid in June 2018) assumed in the acquisition of LEAF Commercial Capital, Inc. Included in short-term investments are interest-bearing deposits at the Federal Reserve Bank of New York (the FRB-NY) totaling $230.3 million at June 30, 2018 and $340.4 million at December 31, 2017. These deposits represent an alternative to overnight federal funds sold and had yields of 1.95% and 1.50% at June 30, 2018 and December 31, 2017, respectively.

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

As of June 30, 2018 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available-for-sale:				
U.S. Treasury and agency	$ 684.7	$	$ (28.4)	$ 656.3
GSE (1) mortgage-backed securities	2,657.7	2.7	(71.6)	2,588.8
Total debt securities available-for-sale	$ 3,342.4	$ 2.7	$ (100.0)	$ 3,245.1
Debt securities held-to-maturity:				
State and municipal	$ 2,196.6	$ 29.3	$ (22.2)	$ 2,203.7
GSE mortgage-backed securities	1,454.7		(49.6)	1,405.1
Corporate	65.9	0.4	(0.4)	65.9
Other	1.5			1.5
Total debt securities held-to-maturity	$ 3,718.7	$ 29.7	$ (72.2)	$ 3,676.2

(1) Government sponsored enterprise

As of December 31, 2017 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available-for-sale:				

U.S. Treasury and agency	$	687.1	$		$	(18.3)	$	668.8
GSE mortgage-backed securities		2,477.8		7.4		(28.7)		2,456.5
Total debt securities available-for-sale	$	3,164.9	$	7.4	$	(47.0)	$	3,125.3
Debt securities held-to-maturity:								
State and municipal	$	2,060.4	$	64.5	$	(4.6)	$	2,120.3
GSE mortgage-backed securities		1,474.9		0.3		(15.4)		1,459.8
Corporate		51.3		0.8				52.1
Other		1.5						1.5
Total debt securities held-to-maturity	$	3,588.1	$	65.6	$	(20.0)	$	3,633.7

At June 30, 2018 and December 31, 2017, debt securities available-for-sale with fair values of $1.95 billion and $1.94 billion, respectively, and debt securities held-to-maturity with amortized costs of $1.29 billion and $1.37 billion, respectively, were pledged as collateral for public deposits and for other purposes.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following table is a summary of the amortized cost and fair value of debt securities as of June 30, 2018, based on remaining period to contractual maturity. Information for GSE mortgage-backed securities is based on the final contractual maturity dates without considering repayments and prepayments.

	Available-for-Sale		Held-to-Maturity	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and agency:				
Within 1 year	$ 6.0	$ 6.1	$	$
After 1 but within 5 years	627.9	602.3		
After 5 but within 10 years	50.8	47.9		
Total	684.7	656.3		
GSE mortgage-backed securities:				
After 1 but within 5 years	36.7	36.2	185.2	180.0
After 5 but within 10 years	917.8	910.3	883.0	851.0
After 10 years	1,703.2	1,642.3	386.5	374.1
Total	2,657.7	2,588.8	1,454.7	1,405.1
State and municipal:				
Within 1 year			23.8	23.8
After 1 but within 5 years			136.7	139.2
After 5 but within 10 years			340.8	350.2
After 10 years			1,695.3	1,690.5
Total			2,196.6	2,203.7
Corporate:				
After 1 but within 5 years			5.0	5.0
After 5 but within 10 years			60.9	60.9
Total			65.9	65.9
Other:				
After 1 but within 5 years			1.5	1.5
Total			1.5	1.5

Total:				
Within 1 year	6.0	6.1	23.8	23.8
After 1 but within 5 years	664.6	638.5	328.4	325.7
After 5 but within 10 years	968.6	958.2	1,284.7	1,262.1
After 10 years	1,703.2	1,642.3	2,081.8	2,064.6
Total	$ 3,342.4	$ 3,245.1	$ 3,718.7	$ 3,676.2

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

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

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
As of June 30, 2018 (in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities available-for-sale:						
GSE mortgage-backed securities	$ 1,219.8	$ (31.2)	$ 996.0	$ (40.4)	$ 2,215.8	$ (71.6)
U.S. Treasury and agency	153.4	(1.5)	497.9	(26.9)	651.3	(28.4)
Debt securities held-to-maturity:						
GSE mortgage-backed securities	1,344.9	(47.5)	60.1	(2.1)	1,405.0	(49.6)
State and municipal	731.4	(11.3)	223.8	(10.9)	955.2	(22.2)
Corporate	34.2	(0.4)			34.2	(0.4)
Total	$ 3,483.7	$ (91.9)	$ 1,777.8	$ (80.3)	$ 5,261.5	$ (172.2)

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
As of December 31, 2017 (in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities available-for-sale:						
GSE mortgage-backed securities	$ 1,013.5	$ (8.7)	$ 1,114.8	$ (20.0)	$ 2,128.3	$ (28.7)
U.S. Treasury and agency	156.0		507.7	(18.3)	663.7	(18.3)
Debt securities held-to-maturity:						
GSE mortgage-backed securities	1,289.3	(14.7)	45.0	(0.7)	1,334.3	(15.4)
State and municipal	106.2	(0.5)	224.9	(4.1)	331.1	(4.6)
Total	$ 2,565.0	$ (23.9)	$ 1,892.4	$ (43.1)	$ 4,457.4	$ (67.0)

At June 30, 2018, approximately 43% of the 2,131 debt securities owned by the Company, consisting of 125 debt securities classified as available-for-sale and 788 debt securities classified as held-to-maturity, had gross unrealized losses totaling $100.0 million and $72.2 million, respectively. All of the GSE mortgage-backed securities had AAA credit ratings and an average contractual maturity of nine years. The state and municipal securities had an average credit rating of AA and an average maturity of 12 years.

The cause of the gross unrealized losses with respect to all of the debt securities is directly related to changes in interest rates. At this time, management does not intend to sell such securities nor is it more likely than not, based upon available evidence, that management will be required to sell such securities prior to recovery. As such, management believes that all gross unrealized losses within the securities portfolio at June 30, 2018 represent temporary impairments. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three or six months ended June 30, 2018 or 2017.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Security transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method and reported in non-interest income. During the quarter ended March 31, 2017, People s United sold U.S. Treasury and collateralized mortgage obligation securities with a combined amortized cost of $486.9 million and recorded $15.7 million of gross realized losses.

Effective January 1, 2018, People s United adopted new accounting guidance that requires equity investments (other than equity method investments) be measured at fair value with changes in fair value recognized in net income (see Note 13). At December 31, 2017, the Company s securities portfolio included equity securities with an amortized cost of $9.6 million and a fair value of $8.7 million. Accordingly, upon adoption of this guidance, a cumulative-effect transition adjustment, representing the cumulative unrealized loss (net-of-tax) within accumulated other comprehensive income (loss) (AOCL), was recorded which served to decrease opening retained earnings by $0.6 million. For the three and six months ended June 30, 2018, People s United recorded unrealized gains of $0.9 million and $0.8 million, respectively, (included in other non-interest income in the Consolidated Statements of Income) relating to the change in fair value of its equity securities during the respective periods.

The Bank, as a member of the Federal Home Loan Bank (the FHLB) of Boston, is currently required to purchase and hold shares of capital stock in the FHLB of Boston (total cost of $160.0 million and $130.0 million at June 30, 2018 and December 31, 2017, respectively) in an amount equal to its membership base investment plus an activity based investment determined according to the Bank s level of outstanding FHLB advances. As a result of prior acquisitions, the Bank acquired shares of capital stock in the FHLB of New York (total cost of $11.5 million and $12.0 million at June 30, 2018 and December 31, 2017, respectively). Based on the current capital adequacy and liquidity position of both the FHLB of Boston and the FHLB of New York, management believes there is no impairment in the Company s investment at June 30, 2018 and the cost of the investment approximates fair value.

The Bank, as a member of the Federal Reserve Bank system, is currently required to purchase and hold shares of capital stock in the FRB-NY (total cost of $170.7 million and $170.3 million at June 30, 2018 and December 31, 2017, respectively) in an amount equal to 6% of its capital and surplus. Based on the current capital adequacy and liquidity position of the FRB-NY, management believes there is no impairment in the Company s investment at June 30, 2018 and the cost of the investment approximates fair value.

NOTE 3. LOANS

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

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

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

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

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

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

Recognition of loan charge-offs.

The Company did not change its application of the accounting policies noted above or its methodology for determining the allowance for loan losses during the six months ended June 30, 2018.

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

	June 30, 2018			December 31, 2017		
(in millions)	Originated	Acquired	Total	Originated	Acquired	Total
Commercial:						
Commercial real estate	$ 9,879.4	$ 881.7	$ 10,761.1	$ 10,126.6	$ 942.1	$ 11,068.7
Commercial and industrial	8,310.0	513.3	8,823.3	8,129.9	601.2	8,731.1
Equipment financing	3,566.8	537.1	4,103.9	3,308.5	596.9	3,905.4
Total Commercial Portfolio	21,756.2	1,932.1	23,688.3	21,565.0	2,140.2	23,705.2
Retail:						
Residential mortgage:						
Adjustable-rate	5,798.0	130.2	5,928.2	5,782.6	144.0	5,926.6
Fixed-rate	827.6	110.4	938.0	758.0	121.1	879.1
Total residential mortgage	6,625.6	240.6	6,866.2	6,540.6	265.1	6,805.7
Home equity and other consumer:						
Home equity	1,862.6	46.9	1,909.5	1,960.0	55.2	2,015.2
Other consumer	45.1	2.9	48.0	45.6	3.6	49.2
Total home equity and other consumer	1,907.7	49.8	1,957.5	2,005.6	58.8	2,064.4

Total Retail Portfolio	8,533.3	290.4	8,823.7	8,546.2	323.9	8,870.1
Total loans	$ 30,289.5	$ 2,222.5	$ 32,512.0	$ 30,111.2	$ 2,464.1	$ 32,575.3

Loan origination fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in interest income as an adjustment of yield. Depending on the loan portfolio, amounts are amortized or accreted using the level yield method over either the actual life or the estimated average life of the loan. Net deferred loan costs, which are included in loans by respective class and accounted for as interest yield adjustments, totaled $87.8 million at June 30, 2018 and $80.4 million at December 31, 2017.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following tables present a summary, by loan portfolio segment, of activity in the allowance for loan losses for the three and six months ended June 30, 2018 and 2017. With respect to the originated portfolio, an allocation of a portion of the allowance to one segment does not preclude its availability to absorb losses in another segment.

Three months ended	Commercial			Retail			
June 30, 2018 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	Total
Balance at beginning of period	$ 200.2	$ 3.8	$ 204.0	$ 31.1	$ 0.2	$ 31.3	$ 235.3
Charge-offs	(3.8)	(2.5)	(6.3)	(0.9)		(0.9)	(7.2)
Recoveries	1.0	0.3	1.3	0.9		0.9	2.2
Net loan charge-offs	(2.8)	(2.2)	(5.0)				(5.0)
Provision for loan losses	4.6	2.2	6.8	(0.3)		(0.3)	6.5
Balance at end of period	$ 202.0	$ 3.8	$ 205.8	$ 30.8	$ 0.2	$ 31.0	$ 236.8

Six months ended	Commercial			Retail			
June 30, 2018 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	Total
Balance at beginning of period	$ 201.1	$ 3.4	$ 204.5	$ 29.7	$ 0.2	$ 29.9	$ 234.4
Charge-offs	(7.2)	(4.3)	(11.5)	(1.9)		(1.9)	(13.4)
Recoveries	2.0	0.6	2.6	1.3		1.3	3.9
Net loan charge-offs	(5.2)	(3.7)	(8.9)	(0.6)		(0.6)	(9.5)
Provision for loan losses	6.1	4.1	10.2	1.7		1.7	11.9
Balance at end of period	$ 202.0	$ 3.8	$ 205.8	$ 30.8	$ 0.2	$ 31.0	$ 236.8

Three months ended	Commercial			Retail			
June 30, 2017 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	Total
Balance at beginning of period	$ 195.1	$ 6.1	$ 201.2	$ 29.9	$ 0.2	$ 30.1	$ 231.3
Charge-offs	(5.1)	(1.9)	(7.0)	(1.6)		(1.6)	(8.6)
Recoveries	1.3		1.3	0.5		0.5	1.8

Net loan charge-offs	(3.8)	(1.9)	(5.7)	(1.1)		(1.1)	(6.8)
Provision for loan losses	7.0	(0.6)	6.4	0.8	(0.1)	0.7	7.1
Balance at end of period	$ 198.3	$ 3.6	$ 201.9	$ 29.6	$ 0.1	$ 29.7	$ 231.6

Six months ended	Commercial			Retail			
June 30, 2017 (in millions)	Originated	Acquired	Total	Originated	Acquired	Total	Total
Balance at beginning of period	$ 198.8	$ 6.1	$ 204.9	$ 24.2	$ 0.2	$ 24.4	$ 229.3
Charge-offs	(8.0)	(1.9)	(9.9)	(3.3)		(3.3)	(13.2)
Recoveries	2.9		2.9	1.1		1.1	4.0
Net loan charge-offs	(5.1)	(1.9)	(7.0)	(2.2)		(2.2)	(9.2)
Provision for loan losses	4.6	(0.6)	4.0	7.6	(0.1)	7.5	11.5
Balance at end of period	$ 198.3	$ 3.6	$ 201.9	$ 29.6	$ 0.1	$ 29.7	$ 231.6

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize, by loan portfolio segment and impairment methodology, the allowance for loan losses and related portfolio balances:

As of June 30, 2018	Commercial		Retail		Total	
(in millions)	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Originated loans:						
Collectively evaluated for impairment	$ 21,620.1	$ 194.5	$ 8,443.9	$ 28.4	$ 30,064.0	$ 222.9
Individually evaluated for impairment	136.1	7.5	89.4	2.4	225.5	9.9
Acquired loans:						
PCI (1)	314.1	2.2	114.6	0.2	428.7	2.4
Purchased performing:						
Collectively evaluated for impairment	1,618.0	1.6	174.2		1,792.2	1.6
Individually evaluated for impairment			1.6		1.6	
Total	$ 23,688.3	$ 205.8	$ 8,823.7	$ 31.0	$ 32,512.0	$ 236.8

As of December 31, 2017	Commercial		Retail		Total	
(in millions)	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
Originated loans:						
Collectively evaluated for impairment	$ 21,423.8	$ 196.5	$ 8,454.1	$ 27.3	$ 29,877.9	$ 223.8
Individually evaluated for impairment	141.2	4.6	92.1	2.4	233.3	7.0
Acquired loans:						
PCI (1)	370.4	2.8	128.1	0.2	498.5	3.0
Purchased performing:						
Collectively evaluated for impairment	1,769.8	0.6	193.9		1,963.7	0.6
Individually evaluated for impairment			1.9		1.9	
Total	$ 23,705.2	$ 204.5	$ 8,870.1	$ 29.9	$ 32,575.3	$ 234.4

(1) Purchased credit impaired (PCI) loans are evaluated for impairment on a pool basis.

14

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

(in millions)	June 30, 2018	December 31, 2017
Commercial:		
Commercial real estate	$ 20.3	$ 23.7
Commercial and industrial	50.1	32.6
Equipment financing	49.2	44.3
Total (1)	119.6	100.6
Retail:		
Residential mortgage	33.5	32.7
Home equity	15.1	15.4
Other consumer		
Total (2)	48.6	48.1
Total	$ 168.2	$ 148.7

(1) Reported net of government guarantees totaling $2.6 million and $3.1 million at June 30, 2018 and December 31, 2017, 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 June 30, 2018, the principal loan classes to which these government guarantees relate are commercial and industrial loans (93%) and commercial real estate loans (7%).

(2) Includes $19.1 million and $15.2 million of loans in the process of foreclosure at June 30, 2018 and December 31, 2017, respectively.

The preceding table excludes acquired loans that are (i) accounted for as PCI loans and/or (ii) covered by a Federal Deposit Insurance Corporation (FDIC) loss-share agreement (LSA), which totaled $21.2 million and $25.1 million at June 30, 2018 and December 31, 2017, respectively. 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. Accordingly, such 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. In addition, the table excludes purchased performing loans totaling $5.5 million and $4.6 million at June 30, 2018 and December 31, 2017, respectively, all of which became non-performing subsequent to acquisition.

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.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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 June 30, 2018 or December 31, 2017.

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

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

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

At June 30, 2018 and December 31, 2017, People s United s recorded investment in loans classified as TDRs totaled $173.4 million and $186.9 million, respectively. The related allowance for loan losses was $2.3 million at June 30, 2018 and $4.4 million at December 31, 2017. Interest income recognized on TDRs totaled $1.6 million and $1.6 million for the three months ended June 30, 2018 and 2017, respectively, and $2.8 million and $2.3 million for the six months ended June 30, 2018 and 2017, respectively. Fundings under commitments to lend additional amounts to borrowers with loans classified as TDRs were immaterial for the three and six months ended June 30, 2018 and 2017. Loans that were modified and classified as TDRs during the three and six months ended June 30, 2018 and 2017 principally involve reduced payment and/or payment deferral, extension of term (generally no more than two years for commercial loans and five years for retail loans) and/or a temporary reduction of interest rate (generally less than 200 basis points).

The following tables summarize, by class of loan, the recorded investments in loans modified as TDRs during the three and six months ended June 30, 2018 and 2017. For purposes of this disclosure, recorded investments represent amounts immediately prior to and subsequent to the restructuring.

	Three Months Ended June 30, 2018		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	1	$ 0.3	$ 0.3
Commercial and industrial (2)	11	29.8	29.8
Equipment financing (3)	2	2.6	2.6
Total	14	32.7	32.7
Retail:			
Residential mortgage (4)	7	2.7	2.7
Home equity (5)	25	1.8	1.8
Other consumer			
Total	32	4.5	4.5
Total	46	$ 37.2	$ 37.2

(1) Represents the following concessions: extension of term (1 contract; recorded investment of $0.3 million).
(2)

Represents the following concessions: extension of term (6 contracts; recorded investment of $15.5 million); reduced payment and/or payment deferral (4 contracts; recorded investment of $13.9 million); or a combination of concessions (1 contract; recorded investment of $0.4 million).

(3) Represents the following concessions: a combination of concessions (2 contracts; recorded investment of $2.6 million).

(4) Represents the following concessions: loans restructured through bankruptcy (1 contract; recorded investment of $0.1 million); reduced payment and/or payment deferral (2 contracts; recorded investment of $1.0 million); or a combination of concessions (4 contracts; recorded investment of $1.6 million).

(5) Represents the following concessions: loans restructured through bankruptcy (19 contracts; recorded investment of $1.1 million); or a combination of concessions (6 contracts; recorded investment of $0.7 million).

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

		Six Months Ended June 30, 2018	
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	5	$ 3.6	$ 3.6
Commercial and industrial (2)	24	44.9	44.9
Equipment financing (3)	11	10.1	10.1
Total	40	58.6	58.6
Retail:			
Residential mortgage (4)	12	3.5	3.5
Home equity (5)	37	2.7	2.7
Other consumer			
Total	49	6.2	6.2
Total	89	$ 64.8	$ 64.8

(1) Represents the following concessions: extension of term (5 contracts; recorded investment of $3.6 million).

(2) Represents the following concessions: extension of term (15 contracts; recorded investment of $27.1 million); reduced payment and/or payment deferral (8 contracts; recorded investment of $17.4 million); or a combination of concessions (1 contract; recorded investment of $0.4 million).

(3) Represents the following concessions: reduced payment and/or payment deferral (6 contracts; recorded investment of $7.0 million); or a combination of concessions (5 contracts; recorded investment of $3.1 million).

(4) Represents the following concessions: loans restructured through bankruptcy (3 contracts; recorded investment of $0.2 million); reduced payment and/or payment deferral (5 contracts; recorded investment of $1.7 million); or a combination of concessions (4 contracts; recorded investment of $1.6 million).

(5) Represents the following concessions: loans restructured through bankruptcy (26 contracts; recorded investment of $1.7 million); reduced payment and/or payment deferral (4 contracts; recorded investment of $0.3 million); or a combination of concessions (7 contracts; recorded investment of $0.7 million).

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

		Three Months Ended June 30, 2017	
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	4	$ 1.3	$ 1.3
Commercial and industrial (2)	10	19.7	19.7
Equipment financing (3)	21	11.2	11.2
Total	35	32.2	32.2
Retail:			
Residential mortgage (4)	22	3.2	3.2
Home equity (5)	24	1.2	1.2
Other consumer			
Total	46	4.4	4.4
Total	81	$ 36.6	$ 36.6

(1) Represents the following concessions: extension of term (4 contracts; recorded investment of $1.3 million).

(2) Represents the following concessions: extension of term (8 contracts; recorded investment of $10.9 million); reduced payment and/or payment deferral (1 contract; recorded investment of $8.5 million); or a combination of concessions (1 contract; recorded investment of $0.3 million).

(3) Represents the following concessions: reduced payment and/or payment deferral (10 contracts; recorded investment of $7.1 million); or a combination of concessions (11 contracts; recorded investment of $4.1 million).

(4) Represents the following concessions: loans restructured through bankruptcy (19 contracts; recorded investment of $2.5 million); reduced payment and/or payment deferral (1 contract; recorded investment of $0.3 million); or a combination of concessions (2 contracts; recorded investment of $0.4 million).

(5) Represents the following concessions: loans restructured through bankruptcy (19 contracts; recorded investment of $1.0 million); reduced payment and/or payment deferral (2 contracts; recorded investment of $0.1 million); or a combination of concessions (3 contracts; recorded investment of $0.1 million).

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

		Six Months Ended June 30, 2017	
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:			
Commercial real estate (1)	7	$ 5.2	$ 5.2
Commercial and industrial (2)	19	28.0	28.0
Equipment financing (3)	42	17.1	17.1
Total	68	50.3	50.3
Retail:			
Residential mortgage (4)	29	7.0	7.0
Home equity (5)	48	3.4	3.4
Other consumer			
Total	77	10.4	10.4
Total	145	$ 60.7	$ 60.7

(1) Represents the following concessions: extension of term (4 contracts; recorded investment of $1.3 million); reduced payment and/or payment deferral (2 contracts; recorded investment of $2.2 million); or temporary rate reduction (1 contract; recorded investment of $1.7 million).
(2) Represents the following concessions: extension of term (16 contracts; recorded investment of $18.3 million); reduced payment and/or payment deferral (2 contracts; recorded investment of $9.4 million); or a combination of concessions (1 contract; recorded investment of $0.3 million).
(3) Represents the following concessions: reduced payment and/or payment deferral (17 contracts; recorded investment of $9.4 million); or a combination of concessions (25 contracts; recorded investment of $7.7 million).
(4) Represents the following concessions: loans restructured through bankruptcy (20 contracts; recorded investment of $2.5 million); reduced payment and/or payment deferral (5 contracts; recorded investment of $1.7 million); or a combination of concessions (4 contracts; recorded investment of $2.8 million).
(5) Represents the following concessions: loans restructured through bankruptcy (33 contracts; recorded investment of $2.1 million); reduced payment and/or payment deferral (6 contracts; recorded investment of $0.4 million); or a combination of concessions (9 contracts; recorded investment of $0.9 million).

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following is a summary, by class of loan, of information related to TDRs completed within the previous 12 months that subsequently defaulted during the three and six months ended June 30, 2018 and 2017. For purposes of this disclosure, the previous 12 months is measured from July 1 of the respective prior year and a default represents a previously-modified loan that became past due 30 days or more during the three or six months ended June 30, 2018 or 2017.

	Three Months Ended June 30,			
	2018		2017	
(dollars in millions)	Number of Contracts	Recorded Investment as of Period End	Number of Contracts	Recorded Investment as of Period End
Commercial:				
Commercial real estate	2	$ 0.9		$
Commercial and industrial	2	0.4	2	0.5
Equipment financing	2	2.1	1	0.4
Total	6	3.4	3	0.9
Retail:				
Residential mortgage				
Home equity	2	0.2	5	0.7
Other consumer				
Total	2	0.2	5	0.7
Total	8	$ 3.6	8	$ 1.6

	Six Months Ended June 30,			
	2018		2017	
(dollars in millions)	Number of Contracts	Recorded Investment as of Period End	Number of Contracts	Recorded Investment as of Period End
Commercial:				
Commercial real estate	2	$ 0.9		$
Commercial and industrial	9	4.0	3	1.4
Equipment financing	7	7.5	7	1.9
Total	18	12.4	10	3.3

Retail:						
Residential mortgage	2		0.5	7		1.8
Home equity	3		0.2	7		0.9
Other consumer						
Total	5		0.7	14		2.7
Total	23	$	13.1	24	$	6.0

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

People s United s impaired loans consist of certain loans that have been placed on non-accrual status, including all TDRs. The following table summarizes, by class of loan, information related to individually-evaluated impaired loans.

	As of June 30, 2018			As of December 31, 2017		
(in millions)	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance for Loan Losses
Without a related allowance for loan losses:						
Commercial:						
Commercial real estate	$ 30.2	$ 29.0	$	$ 37.7	$ 36.3	$
Commercial and industrial	40.3	38.3		27.9	25.5	
Equipment financing	34.7	31.1		36.9	32.8	
Retail:						
Residential mortgage	65.9	58.9		67.6	60.8	
Home equity	23.2	19.6		24.0	20.2	
Other consumer						
Total	$ 194.3	$ 176.9	$	$ 194.1	$ 175.6	$
With a related allowance for loan losses:						
Commercial:						
Commercial real estate	$ 10.3	$ 7.4	$ 1.1	$ 11.7	$ 9.9	$ 0.9
Commercial and industrial	22.6	21.2	4.2	26.9	26.0	2.6
Equipment financing	9.1	9.1	2.2	11.6	10.7	1.1
Retail:						
Residential mortgage	10.9	10.9	1.8	11.4	11.4	1.7
Home equity	1.7	1.6	0.6	1.7	1.6	0.7
Other consumer						
Total	$ 54.6	$ 50.2	$ 9.9	$ 63.3	$ 59.6	$ 7.0
Total impaired loans:						
Commercial:						
Commercial real estate	$ 40.5	$ 36.4	$ 1.1	$ 49.4	$ 46.2	$ 0.9
Commercial and industrial	62.9	59.5	4.2	54.8	51.5	2.6
Equipment financing	43.8	40.2	2.2	48.5	43.5	1.1
Total	147.2	136.1	7.5	152.7	141.2	4.6

Retail:						
Residential mortgage	76.8	69.8	1.8	79.0	72.2	1.7
Home equity	24.9	21.2	0.6	25.7	21.8	0.7
Other consumer						
Total	101.7	91.0	2.4	104.7	94.0	2.4
Total	$ 248.9	$ 227.1	$ 9.9	$ 257.4	$ 235.2	$ 7.0

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize, by class of loan, the average recorded investment and interest income recognized on impaired loans for the periods indicated. The average recorded investment amounts are based on month-end balances.

	Three Months Ended June 30,			
	2018		2017	
(in millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial:				
Commercial real estate	$ 40.7	$ 0.2	$ 56.9	$ 0.2
Commercial and industrial	50.5	0.7	68.5	0.4
Equipment financing	42.3		42.8	0.1
Total	133.5	0.9	168.2	0.7
Retail:				
Residential mortgage	69.2	0.4	72.1	0.5
Home equity	20.9	0.1	21.1	0.1
Other consumer				
Total	90.1	0.5	93.2	0.6
Total	$ 223.6	$ 1.4	$ 261.4	$ 1.3

	Six Months Ended June 30,			
	2018		2017	
(in millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial:				
Commercial real estate	$ 42.9	$ 0.5	$ 54.4	$ 0.6
Commercial and industrial	49.7	1.1	69.2	0.9
Equipment financing	41.7	0.1	41.4	0.2
Total	134.3	1.7	165.0	1.7
Retail:				
Residential mortgage	69.9	0.9	71.6	0.9

Home equity	21.2		0.2	20.8		0.2
Other consumer						
Total	91.1		1.1	92.4		1.1
Total	$ 225.4	$	2.8	$ 257.4	$	2.8

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

As of June 30, 2018 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial:					
Commercial real estate	$ 9,859.1	$ 8.4	$ 11.9	$ 20.3	$ 9,879.4
Commercial and industrial	8,279.9	9.4	20.7	30.1	8,310.0
Equipment financing	3,473.1	78.3	15.4	93.7	3,566.8
Total	21,612.1	96.1	48.0	144.1	21,756.2
Retail:					
Residential mortgage	6,579.5	23.5	22.6	46.1	6,625.6
Home equity	1,850.3	5.6	6.7	12.3	1,862.6
Other consumer	45.0	0.1		0.1	45.1
Total	8,474.8	29.2	29.3	58.5	8,533.3
Total originated loans	$ 30,086.9	$ 125.3	$ 77.3	$ 202.6	$ 30,289.5

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling $8.6 million, $31.8 million and $33.8 million, respectively, and $19.3 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

As of December 31, 2017 (in millions)	Current	30-89 Days	Past Due 90 Days or More	Total	Total Originated
Commercial:					
Commercial real estate	$ 10,102.3	$ 11.0	$ 13.3	$ 24.3	$ 10,126.6
Commercial and industrial	8,099.0	14.9	16.0	30.9	8,129.9
Equipment financing	3,219.7	83.1	5.7	88.8	3,308.5
Total	21,421.0	109.0	35.0	144.0	21,565.0

Retail:					
Residential mortgage	6,487.3	32.8	20.5	53.3	6,540.6
Home equity	1,945.2	7.4	7.4	14.8	1,960.0
Other consumer	45.3	0.3		0.3	45.6
Total	8,477.8	40.5	27.9	68.4	8,546.2
Total originated loans	$ 29,898.8	$ 149.5	$ 62.9	$ 212.4	$ 30,111.2

Included in the Current and 30-89 Days categories above are early non-performing commercial real estate loans, commercial and industrial loans, and equipment financing loans totaling $10.6 million, $19.5 million and $38.6 million, respectively, and $20.2 million of retail loans in the process of foreclosure or bankruptcy. These loans are less than 90 days past due but have been placed on non-accrual status as a result of having been identified as presenting uncertainty with respect to the collectability of interest and principal.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Commercial Credit Quality Indicators

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

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

Retail Credit Quality Indicators

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

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

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

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

Acquired Loan Credit Quality Indicators

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

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

As of June 30, 2018 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial:				
Originated loans:				
Pass	$ 9,626.1	$ 7,912.4	$ 3,162.6	$ 20,701.1
Special mention	143.1	130.1	98.3	371.5
Substandard	109.3	266.5	305.9	681.7

Doubtful	0.9	1.0		1.9
Total originated loans	9,879.4	8,310.0	3,566.8	21,756.2
Acquired loans:				
Pass	823.9	446.2	537.1	1,807.2
Special mention	20.9	7.8		28.7
Substandard	36.9	59.3		96.2
Doubtful				
Total acquired loans	881.7	513.3	537.1	1,932.1
Total	$ 10,761.1	$ 8,823.3	$ 4,103.9	$ 23,688.3

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As of June 30, 2018 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	$ 3,360.2	$ 876.4	$ 29.2	$ 4,265.8
Moderate risk	2,760.1	601.2	6.4	3,367.7
High risk	505.3	385.0	9.5	899.8
Total originated loans	6,625.6	1,862.6	45.1	8,533.3
Acquired loans:				
Low risk	137.9			137.9
Moderate risk	55.1			55.1
High risk	47.6	46.9	2.9	97.4
Total acquired loans	240.6	46.9	2.9	290.4
Total	$ 6,866.2	$ 1,909.5	$ 48.0	$ 8,823.7

As of December 31, 2017 (in millions)	Commercial Real Estate	Commercial and Industrial	Equipment Financing	Total
Commercial:				
Originated loans:				
Pass	$ 9,859.3	$ 7,760.7	$ 2,899.9	$ 20,519.9
Special mention	159.4	124.0	91.8	375.2
Substandard	107.0	244.2	316.8	668.0
Doubtful	0.9	1.0		1.9
Total originated loans	10,126.6	8,129.9	3,308.5	21,565.0
Acquired loans:				
Pass	892.0	520.0	596.9	2,008.9
Special mention	14.8	15.2		30.0
Substandard	35.3	66.0		101.3
Doubtful				
Total acquired loans	942.1	601.2	596.9	2,140.2
Total	$ 11,068.7	$ 8,731.1	$ 3,905.4	$ 23,705.2

As of December 31, 2017 (in millions)	Residential Mortgage	Home Equity	Other Consumer	Total
Retail:				
Originated loans:				
Low risk	$ 3,292.1	$ 925.6	$ 28.2	$ 4,245.9
Moderate risk	2,738.8	640.0	7.1	3,385.9
High risk	509.7	394.4	10.3	914.4
Total originated loans	6,540.6	1,960.0	45.6	8,546.2
Acquired loans:				
Low risk	148.0			148.0
Moderate risk	65.7			65.7
High risk	51.4	55.2	3.6	110.2
Total acquired loans	265.1	55.2	3.6	323.9
Total	$ 6,805.7	$ 2,015.2	$ 49.2	$ 8,870.1

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Acquired Loans

Loans acquired in a business combination are initially recorded at fair value with no carryover of an acquired entity s previously established 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 evaluated upon acquisition and classified as either purchased performing or PCI.

For purchased performing loans, any premium or discount, representing the difference between the fair value and the outstanding principal balance of the loans, is recognized (using the level yield method) as an adjustment to interest income over the remaining period to contractual maturity or until the loan is repaid in full or sold. Subsequent to the acquisition date, the method utilized to estimate the required allowance for loan losses for these loans is similar to that for originated loans. However, a provision for loan losses is only recorded when the required allowance for loan losses exceeds any remaining purchase discount at the loan level.

PCI loans represent those acquired loans with specific evidence of deterioration in credit quality since origination and for which it is probable that, as of the acquisition date, all contractually required principal and interest payments will not be collected Such 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 PCI 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 level yield method. Accordingly, PCI loans are not subject to classification as non-accrual in the same manner as other loans. Rather, PCI 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 PCI loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

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

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

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

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

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

At the respective acquisition dates, on an aggregate basis, the PCI loan portfolio had contractually required principal and interest payments receivable of $7.65 billion; expected cash flows of $7.09 billion; and a fair value (initial carrying amount) of $5.42 billion. The difference between the contractually required principal and interest payments receivable and the expected cash flows ($560.1 million) represented the initial nonaccretable difference. The difference between the expected cash flows and fair value ($1.67 billion) represented the initial accretable yield. Both the contractually required principal and interest payments receivable and the expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At June 30, 2018, the outstanding principal balance and carrying amount of the PCI loan portfolio were $510.5 million and $428.6 million, respectively ($587.7 million and $498.5 million, respectively, at December 31, 2017).

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Balance at beginning of period	$ 207.5	$ 241.7	$ 219.7	$ 255.4
Acquisitions		13.1		13.1
Accretion	(6.0)	(7.8)	(12.3)	(15.4)
Reclassification from nonaccretable difference for loans with improved cash flows (1)				
Other changes in expected cash flows (2)	(11.3)	(13.6)	(17.2)	(19.7)
Balance at end of period	$ 190.2	$ 233.4	$ 190.2	$ 233.4

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

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

Other real estate owned (REO) was comprised of commercial and residential properties totaling $9.3 million and $5.8 million, respectively, at June 30, 2018, and $9.3 million and $7.6 million, respectively, at December 31, 2017. Repossessed assets totaled $3.7 million and $2.5 million at June 30, 2018 and December 31, 2017, respectively.

NOTE 4. STOCKHOLDERS EQUITY

Preferred Stock and Common Stock

People s United is authorized to issue (i) 50.0 million shares of preferred stock, par value of $0.01 per share, of which 10.0 million shares were outstanding at both June 30, 2018 and December 31, 2017, and (ii) 1.95 billion shares of common stock, par value of $0.01 per share, of which 437.1 million shares and 435.6 million shares were issued at June 30, 2018 and December 31, 2017, respectively.

Treasury Stock

Treasury stock includes (i) common stock repurchased by People s United, either directly or through agents, in the open market at prices and terms satisfactory to management in connection with stock repurchases authorized by its Board of Directors (86.4 million shares at both June 30, 2018 and December 31, 2017) and (ii) common stock purchased in the open market by a trustee with funds provided by People s United and originally intended for awards under the People s United Financial, Inc. 2007 Recognition and Retention Plan (the RRP) (2.6 million shares at both June 30, 2018 and December 31, 2017). Following shareholder approval of the People s United Financial, Inc. 2014 Long-Term Incentive Plan in 2014, no new awards may be granted under the RRP.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including (on an after-tax basis): (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People s United s pension and other postretirement plans; (ii) net unrealized gains and losses on debt securities available-for-sale; (iii) net unrealized gains and losses on debt securities transferred to held-to-maturity; and (iv) net unrealized gains and losses on derivatives accounted for as cash flow hedges. People s United s total comprehensive income for the three and six months ended June 30, 2018 and 2017 is reported in the Consolidated Statements of Comprehensive Income.

The following is a summary of the changes in the components of AOCL, which are included in People s United s stockholders equity on an after-tax basis:

(in millions)	Pension and Other Postretirement Plans	Net Unrealized Gains (Losses) on Debt Securities Available-for-Sale	Net Unrealized Gains (Losses) on Debt Securities Transferred to Held-to-Maturity	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total AOCL
Balance at December 31, 2017	$ (144.1)	$ (21.6)	$ (15.1)	$ (0.9)	$ (181.7)
Other comprehensive income (loss) before reclassifications		(44.2)		(2.0)	(46.2)
Amounts reclassified from AOCL (1)	3.0	(0.1)	1.6		4.5
Current period other comprehensive income (loss)	3.0	(44.3)	1.6	(2.0)	(41.7)
Transition adjustments related to adoption of new accounting standards (2)	(30.0)	(3.9)	(3.2)	(0.2)	(37.3)
Balance at June 30, 2018	$ (171.1)	$ (69.8)	$ (16.7)	$ (3.1)	$ (260.7)

(in millions)	Pension and Other Postretirement Plans	Net Unrealized Gains (Losses) on Debt Securities Available-for-Sale	Net Unrealized Gains (Losses) on Debt Securities Transferred to Held-to-Maturity	Net Unrealized Gains (Losses) on Derivatives Accounted for as Cash Flow Hedges	Total AOCL
Balance at December 31, 2016	$ (145.6)	$ (32.3)	$ (17.4)	$ 0.3	$ (195.0)
Other comprehensive income before reclassifications		7.5		0.3	7.8
Amounts reclassified from AOCL (1)	1.9	9.9	1.0	(0.2)	12.6
Current period other comprehensive income	1.9	17.4	1.0	0.1	20.4
Balance at June 30, 2017	$ (143.7)	$ (14.9)	$ (16.4)	$ 0.4	$ (174.6)

(1) See the following table for details about these reclassifications.
(2) See Note 13.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following is a summary of the amounts reclassified from AOCL:

	Amounts Reclassified from AOCL				Affected Line Item
	Three Months Ended June 30,		Six Months Ended June 30,		in the Statement Where
(in millions)	2018	2017	2018	2017	Net Income is Presented
Details about components of AOCL:					
Amortization of pension and other postretirement plans items:					
Net actuarial loss	$ (2.1)	$ (1.7)	$ (4.2)	$ (3.4)	(1)
Prior service credit	0.1	0.2	0.2	0.4	(1)
	(2.0)	(1.5)	(4.0)	(3.0)	Income before income tax expense
	0.7	0.6	1.0	1.1	Income tax expense
	(1.3)	(0.9)	(3.0)	(1.9)	Net income
Reclassification adjustment for net realized gains (losses) on debt securities available-for-sale		0.1	0.1	(15.6)	Income before income tax expense (2)
		(0.1)		5.7	Income tax expense
			0.1	(9.9)	Net income
Amortization of unrealized losses on debt securities transferred to held-to-maturity	(1.2)	(0.9)	(2.1)	(1.7)	Income before income tax expense (3)
	0.3	0.4	0.5	0.7	Income tax expense
	(0.9)	(0.5)	(1.6)	(1.0)	Net income
Amortization of unrealized gains and losses on cash flow hedges:					
Interest rate swaps	(0.1)	0.4		0.3	(5)
Interest rate locks (4)					(5)

	(0.1)	0.4		0.3	Income before income tax expense
	0.1	(0.1)		(0.1)	Income tax expense
		0.3		0.2	Net income
Total reclassifications for the period	$ (2.2)	$ (1.1)	$ (4.5)	$ (12.6)	

(1) Included in the computation of net periodic benefit income (expense) reflected in other non-interest expense (see Notes 7 and 13 for additional details).
(2) Included in other non-interest income.
(3) Included in interest and dividend income - securities.
(4) Amount reclassified from AOCL totaled less than $0.1 million for all periods.
(5) Included in interest expense - notes and debentures.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 5. EARNINGS PER COMMON SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per common share data)	2018	2017	2018	2017
Net income available to common shareholders	$ 106.7	$ 65.8	$ 211.1	$ 133.1
Dividends paid on and undistributed earnings allocated to participating securities		(0.1)	(0.1)	(0.3)
Earnings attributable to common shareholders	$ 106.7	$ 65.7	$ 211.0	$ 132.8
Weighted average common shares outstanding for basic EPS	340.7	336.6	340.2	322.8
Effect of dilutive equity-based awards	3.8	1.9	4.0	2.1
Weighted average common shares and common-equivalent shares for diluted EPS	344.5	338.5	344.2	324.9
EPS:				
Basic	$ 0.31	$ 0.20	$ 0.62	$ 0.42
Diluted	0.31	0.19	0.61	0.41

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends or dividend equivalents, are considered to participate with common stock in undistributed earnings for purposes of computing EPS. Companies that have such participating securities, including People s United, are required to calculate basic and diluted EPS using the two-class method. Restricted stock awards granted by People s United prior to 2017 are considered participating securities. Calculations of EPS under the two-class method (i) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (ii) exclude from the denominator the dilutive impact of the participating securities.

All unallocated Employee Stock Ownership Plan (ESOP) common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted EPS. Anti-dilutive equity-based awards totaling 7.0 million shares for both the three and six months ended June 30, 2018, and 10.3 million shares and 9.3 million shares for the three and six months ended June 30, 2017, respectively, have also been excluded from the calculation of diluted EPS.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 6. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

Changes in the carrying amounts of People s United s goodwill for the six months ended June 30, 2018 and 2017 are summarized as follows:

	Operating Segment			
(in millions)	Commercial Banking	Retail Banking	Wealth Management	Total
Balance at December 31, 2017	$ 1,600.3	$ 720.1	$ 91.0	$ 2,411.4
Acquisition of Vend Lease	23.8			23.8
Balance at June 30, 2018	$ 1,624.1	$ 720.1	$ 91.0	$ 2,435.2

	Operating Segment			
(in millions)	Commercial Banking	Retail Banking	Wealth Management	Total
Balance at December 31, 2016	$ 1,222.1	$ 679.6	$ 91.0	$ 1,992.7
Acquisition of Suffolk Bancorp	229.8	40.5		270.3
Balance at June 30, 2017	$ 1,451.9	$ 720.1	$ 91.0	$ 2,263.0

Recent acquisitions have been undertaken with the objective of expanding the Company s business, both geographically and through product offerings, as well as realizing synergies and economies of scale by combining with the acquired entities. For these reasons, a market-based premium was paid for the acquired entities which, in turn, resulted in the recognition of goodwill, representing the excess of the respective purchase prices over the estimated fair value of the net assets acquired.

All of People s United s tax deductible goodwill was created in transactions in which the Company purchased the assets of the target (as opposed to purchasing the issued and outstanding stock of the target). At June 30, 2018 and December 31, 2017, tax deductible goodwill totaled $93.3 million and $72.3 million, respectively.

People s United s other acquisition-related intangible assets totaled $138.6 million and $148.6 million at June 30, 2018 and December 31, 2017, respectively. At June 30, 2018, the carrying amounts of other acquisition-related intangible assets were as follows: trade name ($62.7 million); client relationship intangible ($20.9 million); core deposit intangible ($19.8 million); trust relationship intangible ($12.8 million); insurance relationship intangible ($4.9 million); favorable lease agreement ($0.5 million); non-compete agreements ($0.5 million); and mutual fund management contracts, which are not amortized ($16.5 million).

Amortization expense of other acquisition-related intangible assets totaled $4.9 million and $7.9 million for the three months ended June 30, 2018 and 2017, respectively, and $10.0 million and $14.2 million for the six months ended June 30, 2018 and 2017, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2018 and each of the next five years is as follows: $19.9 million in 2018; $18.4 million in 2019; $16.8 million in 2020; $15.0 million in 2021; $13.5 million in 2022; and $8.5 million in 2023. There were no impairment losses relating to goodwill or other acquisition-related intangible assets recorded during the six months ended June 30, 2018 and 2017.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 7. EMPLOYEE BENEFIT PLANS

People s United Employee Pension and Other Postretirement Plans

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

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

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

In addition to the People s Qualified Plan, People s United continues to maintain a qualified defined benefit pension plan that covers former Chittenden employees who meet certain eligibility requirements (the Chittenden Qualified Plan). Effective December 31, 2005, accrued benefits were frozen based on participants then-current service and pay levels. Interest continues to be credited on undistributed balances at a crediting rate specified by the Chittenden Qualified Plan. During April 2010, participants who were in payment status as of April 1, 2010, or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010 based upon elections made by April 15, 2010, were transferred into the People s Qualified Plan.

People s United also continues to maintain a qualified defined benefit pension plan that covers former Suffolk Bancorp (Suffolk) employees who meet certain eligibility requirements (the Suffolk Qualified Plan). Effective December 31, 2012, accrued benefits were frozen based on participants then-current service and pay levels. Interest continues to be credited on undistributed balances at a crediting rate specified by the Suffolk Qualified Plan.

People s United s funding policy is to contribute the amounts required by applicable regulations, although additional amounts may be contributed from time to time. In February 2018, People s United made voluntary employer contributions of $40 million to the People s Qualified Plan and $10 million to the Chittenden Qualified Plan (none to the Suffolk Qualified Plan) in response to tax reform.

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

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

Three months ended June 30 (in millions)	Pension Plans 2018	Pension Plans 2017	Other Postretirement Plan 2018	Other Postretirement Plan 2017
Net periodic benefit (income) expense:				
Interest cost	$ 4.9	$ 5.0	$ 0.2	$ 0.2
Expected return on plan assets	(10.9)	(9.8)		
Recognized net actuarial loss	2.0	1.7	0.1	
Recognized prior service credit	(0.1)	(0.2)		
Settlements	0.5	1.0		
Net periodic benefit (income) expense (1)	$ (3.6)	$ (2.3)	$ 0.3	$ 0.2

Six months ended June 30 (in millions)	Pension Plans 2018	Pension Plans 2017	Other Postretirement Plan 2018	Other Postretirement Plan 2017
Net periodic benefit (income) expense:				
Interest cost	$ 9.7	$ 9.4	$ 0.4	$ 0.4
Expected return on plan assets	(21.8)	(18.7)		
Recognized net actuarial loss	4.0	3.3	0.2	0.1
Recognized prior service credit	(0.2)	(0.4)		
Settlements	0.9	1.5		
Net periodic benefit (income) expense (1)	(7.4)	(4.9)	0.6	0.5
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Net actuarial loss	(4.0)	(3.3)	(0.2)	(0.1)
Prior service credit	0.2	0.4		
Total pre-tax changes recognized in other comprehensive income (loss)	(3.8)	(2.9)	(0.2)	(0.1)
Total recognized in net periodic benefit (income) expense and other comprehensive income (loss)	$ (11.2)	$ (7.8)	$ 0.4	$ 0.4

(1) As discussed in Note 13, amounts are included in other non-interest expense for all periods presented.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Employee Stock Ownership Plan

In April 2007, People s United established an ESOP. At that time, People s United loaned the ESOP $216.8 million to purchase 10,453,575 shares of People s United common stock in the open market. In order for the ESOP to repay the loan, People s United expects to make annual cash contributions of approximately $18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares, which, for the six months ended June 30, 2018, totaled $2.3 million. At June 30, 2018, the loan balance totaled $180.8 million.

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

Shares of People s United common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant s eligible compensation. Since the ESOP was established, a total of 4,007,202 shares of People s United common stock have been allocated or committed to be released to participants accounts. At June 30, 2018, 6,446,373 shares of People s United common stock, with a fair value of $116.6 million at that date, have not been allocated or committed to be released.

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants accounts multiplied by the average fair value of People s United s common stock during the reporting period. The difference between the fair value of the shares of People s United s common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled $3.3 million and $3.2 million for the six months ended June 30, 2018 and 2017.

NOTE 8. LEGAL PROCEEDINGS

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

NOTE 9. SEGMENT INFORMATION

See Segment Results included in Item 2 for segment information for the three and six months ended June 30, 2018 and 2017.

37

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 10. FAIR VALUE MEASUREMENTS

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

The three levels within the fair value hierarchy are as follows:

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

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

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

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

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

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

People s United maintains policies and procedures to value assets and liabilities using the most relevant data available. Described below are the valuation methodologies used by People s United and the resulting fair values for those financial instruments measured at fair value on both a recurring and a non-recurring basis. For those financial instruments not measured at fair value either on a recurring or non-recurring basis, disclosure of each instrument s carrying amount and estimated fair value has been provided.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Recurring Fair Value Measurements

Trading Debt Securities, Equity Securities and Debt Securities Available-For-Sale

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

The Company s available-for-sale debt securities are primarily comprised of GSE mortgage-backed securities. The fair value of these securities is based on prices obtained from the independent pricing service. The pricing service uses various techniques to determine pricing for the Company s mortgage-backed securities, including option pricing and discounted cash flow analysis. The inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, monthly payment information and collateral performance. At both June 30, 2018 and December 31, 2017, the entire available-for-sale mortgage-backed securities portfolio was comprised of 10- and 15-year GSE securities. An active market exists for securities that are similar to the Company s GSE mortgage-backed securities, making observable inputs readily available.

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

Other Assets

As discussed in Note 7, certain unfunded, nonqualified supplemental plans have been established to provide retirement benefits to certain senior officers. People s United has funded two trusts to provide benefit payments to the extent such benefits are not paid directly by People s United, the assets of which are included in other assets in the Consolidated Statements of Condition. When available, People s United determines the fair value of the trust assets using quoted market prices for identical securities received from a third-party nationally recognized pricing service.

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Derivatives

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

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

As of June 30, 2018 (in millions)	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Financial assets:				
Trading debt securities:				
U.S. Treasury	$ 8.2	$	$	$ 8.2
Debt securities available-for-sale:				
U.S. Treasury and agency	656.3			656.3
GSE mortgage-backed securities		2,588.8		2,588.8
Equity securities	9.9			9.9
Other assets:				
Exchange-traded funds	37.1			37.1
Mutual funds	3.5			3.5
Fixed income securities		0.5		0.5
Interest rate swaps		50.8		50.8
Interest rate caps		3.5		3.5
Foreign exchange contracts		0.3		0.3
Forward commitments to sell residential mortgage loans		0.3		0.3
Total	$ 715.0	$ 2,644.2	$	$ 3,359.2
Financial liabilities:				
Interest rate swaps	$	$ 179.2	$	$ 179.2
Interest rate caps		3.5		3.5
Risk participation agreements (1)				
Foreign exchange contracts		0.7		0.7
Interest rate-lock commitments on residential mortgage loans		0.3		0.3

Total	$	$ 183.7	$	$ 183.7

Table of Contents

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

As of December 31, 2017 (in millions)	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Financial assets:				
Trading debt securities:				
U.S. Treasury	$ 8.2	$	$	$ 8.2
Debt securities available-for-sale:				
U.S. Treasury and agency	668.8			668.8
GSE mortgage-backed securities		2,456.5		2,456.5
Equity securities	8.7			8.7
Other assets:				
Exchange-traded funds	36.5			36.5
Mutual funds	3.5			3.5
Fixed income securities		1.3		1.3
Interest rate swaps		74.8		74.8
Interest rate caps		2.8		2.8
Foreign exchange contracts		0.1		0.1
Forward commitments to sell residential mortgage loans		0.2		0.2
Total	$ 725.7	$ 2,535.7	$	$ 3,261.4
Financial liabilities:				
Interest rate swaps	$	$ 84.9	$	$ 84.9
Interest rate caps		2.8		2.8
Risk participation agreements (1)				
Foreign exchange contracts		0.4		0.4
Interest rate-lock commitments on residential mortgage loans		0.2		0.2
Total	$	$ 88.3	$	$ 88.3

(1) At both June 30, 2018 and December 31, 2017, the fair value of risk participation agreements totaled less than $0.1 million (see Note 11).

There were no transfers into or out of the Level 1 or Level 2 categories during the six months ended June 30, 2018 or 2017.

Non-Recurring Fair Value Measurements

Loans Held-for-Sale

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

Impaired Loans

Loan impairment is deemed to exist when full repayment of principal and interest according to the contractual terms of the loan is no longer probable. Impaired loans are reported based on one of three measures: (i) the present value of expected future cash flows discounted at the loan s original effective interest rate; (ii) the loan s observable market price; or (iii) the fair value of the collateral (less estimated cost to sell) if the loan is collateral dependent. Accordingly, certain impaired loans may be subject to measurement at fair value on a non-recurring basis.

41

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

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

REO and Repossessed Assets

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

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

	Fair Value Measurements Using			
As of June 30, 2018 (in millions)	Level 1	Level 2	Level 3	Total
Loans held-for-sale (1)	$	$ 17.1	$	$ 17.1
Impaired loans (2)			50.2	50.2
REO and repossessed assets (3)			18.8	18.8
Total	$	$ 17.1	$ 69.0	$ 86.1

	Fair Value Measurements Using			
As of December 31, 2017 (in millions)	Level 1	Level 2	Level 3	Total
Loans held-for-sale (1)	$	$ 16.6	$	$ 16.6
Impaired loans (2)			59.6	59.6
REO and repossessed assets (3)			19.4	19.4
Total	$	$ 16.6	$ 79.0	$ 95.6

(1) Consists of residential mortgage loans; no fair value adjustments were recorded for the six months ended June 30, 2018 and 2017.

(2) Represents the recorded investment in originated impaired loans with a related allowance for loan losses measured in accordance with applicable accounting guidance. The total consists of $37.7 million of Commercial loans and $12.5 million of Retail loans at June 30, 2018. The provision for loan losses on impaired loans totaled $6.3 million and $4.2 million for the six months ended June 30, 2018 and 2017, respectively.

(3) Represents: (i) $9.3 million of commercial REO; (ii) $5.8 million of residential REO; and (iii) $3.7 million of repossessed assets at June 30, 2018. Charge-offs to the allowance for loan losses related to loans that were transferred to REO or repossessed assets totaled $1.0 million and $1.9 million for the six months ended June 30, 2018 and 2017, respectively. Write downs and net loss on sale of foreclosed/repossessed assets charged to non-interest expense totaled $(0.2) million and $0.2 million for the same periods.

People s United Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Financial Assets and Financial Liabilities Not Measured at Fair Value

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

As of June 30, 2018 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 462.7	$ 462.7	$	$	$ 462.7
Short-term investments	253.1		253.1		253.1
Debt securities held-to-maturity	3,718.7		3,674.7	1.5	3,676.2
FHLB and FRB stock	342.2		342.2		342.2
Total loans, net (1)	32,225.0		6,554.5	25,212.0	31,766.5
Financial liabilities:					
Time deposits	5,621.5		5,585.7		5,585.7
Other deposits	26,846.7		26,846.7		26,846.7
FHLB advances	3,510.1		3,510.6		3,510.6
Federal funds purchased	855.0		855.0		855.0
Customer repurchase agreements	254.9		254.9		254.9
Other borrowings	19.1		19.1		19.1
Notes and debentures	888.7		889.2		889.2

(1) Excludes impaired loans totaling $50.2 million measured at fair value on a non-recurring basis.

As of December 31, 2017 (in millions)	Carrying Amount	Estimated Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 505.1	$ 505.1	$		