

People's United Financial, Inc.
Form 10-Q
November 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

Commission File Number 001-33326

PEOPLE S UNITED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-8447891

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(State or other jurisdiction of
incorporation or organization)

(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, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 31, 2010, there were 368,948,575 shares of the registrant's common stock outstanding.

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Item 1 - Financial Statements

People's United Financial, Inc.

Consolidated Statements of Condition - (Unaudited)

| (in millions) | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 320.3 | \$ 326.0 |
| Short-term investments (note 3) | 478.1 | 3,092.0 |
| Total cash and cash equivalents | 798.4 | 3,418.0 |
| Securities purchased under agreements to resell | 740.0 | 400.0 |
| Securities (note 3): | | |
| Trading account securities, at fair value | 83.5 | 75.7 |
| Securities available for sale, at fair value | 2,305.0 | 739.7 |
| Securities held to maturity, at amortized cost (fair value of \$55.1 million and \$55.3 million) | 55.1 | 55.3 |
| Federal Home Loan Bank stock, at cost | 33.9 | 31.1 |
| Total securities | 2,477.5 | 901.8 |
| Loans (note 4): | | |
| Commercial real estate | 5,493.1 | 5,399.4 |
| Commercial | 5,070.7 | 4,042.5 |
| Residential mortgage | 2,474.5 | 2,546.9 |
| Consumer | 2,176.5 | 2,245.0 |
| Total loans | 15,214.8 | 14,233.8 |
| Less allowance for loan losses | (172.5) | (172.5) |
| Total loans, net | 15,042.3 | 14,061.3 |
| Goodwill (notes 2 and 7) | 1,533.6 | 1,261.7 |
| Other acquisition-related intangibles (notes 2 and 7) | 238.7 | 253.5 |
| Premises and equipment | 254.1 | 264.5 |
| Bank-owned life insurance | 239.1 | 235.1 |
| Other assets (notes 2 and 12) | 573.6 | 461.3 |
| Total assets | \$ 21,897.3 | \$ 21,257.2 |
| Liabilities | | |
| Deposits: | | |
| Non-interest-bearing | \$ 3,427.2 | \$ 3,509.0 |
| Savings, interest-bearing checking and money market | 7,880.1 | 7,327.9 |
| Time | 4,367.6 | 4,608.7 |
| Total deposits | 15,674.9 | 15,445.6 |

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| | | |
|---|--------------------|--------------------|
| Borrowings: | | |
| Repurchase agreements | 244.2 | 144.1 |
| Federal Home Loan Bank advances | 9.7 | 14.8 |
| Total borrowings | 253.9 | 158.9 |
| Subordinated notes | 182.9 | 181.8 |
| Other liabilities (note 12) | 421.1 | 370.2 |
| Total liabilities | 16,532.8 | 16,156.5 |
| Commitments and contingencies (note 9) | | |
| Stockholders Equity | | |
| Common stock (\$0.01 par value; 1.95 billion shares authorized; 374.6 million shares and 348.2 million shares issued) | 3.7 | 3.5 |
| Additional paid-in capital | 4,946.0 | 4,511.3 |
| Retained earnings | 798.5 | 914.5 |
| Treasury stock, at cost (8.8 million shares and 3.2 million shares) (note 5) | (134.6) | (58.6) |
| Accumulated other comprehensive loss (note 5) | (59.4) | (74.8) |
| Unallocated common stock of Employee Stock Ownership Plan, at cost (9.1 million shares and 9.4 million shares) (note 8) | (189.7) | (195.2) |
| Total stockholders equity | 5,364.5 | 5,100.7 |
| Total liabilities and stockholders equity | \$ 21,897.3 | \$ 21,257.2 |

See accompanying notes to consolidated financial statements.

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People's United Financial, Inc.

Consolidated Statements of Income - (Unaudited)

| (in millions, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Interest and dividend income: | | | | |
| Commercial real estate | \$ 76.3 | \$ 73.9 | \$ 226.2 | \$ 213.7 |
| Commercial | 68.1 | 49.6 | 195.8 | 150.8 |
| Residential mortgage | 27.1 | 35.1 | 84.0 | 113.6 |
| Consumer | 22.2 | 24.0 | 67.5 | 71.9 |
| | | | | |
| Total interest on loans | 193.7 | 182.6 | 573.5 | 550.0 |
| Securities | 12.6 | 7.5 | 29.9 | 24.0 |
| Short-term investments | 0.8 | 1.4 | 4.0 | 4.7 |
| Securities purchased under agreements to resell | 0.4 | 0.4 | 0.6 | 0.6 |
| | | | | |
| Total interest and dividend income | 207.5 | 191.9 | 608.0 | 579.3 |
| Interest expense: | | | | |
| Deposits | 27.6 | 42.5 | 86.3 | 137.5 |
| Borrowings | 0.3 | 0.3 | 1.1 | 1.1 |
| Subordinated notes | 3.8 | 3.8 | 11.4 | 11.4 |
| | | | | |
| Total interest expense | 31.7 | 46.6 | 98.8 | 150.0 |
| | | | | |
| Net interest income | 175.8 | 145.3 | 509.2 | 429.3 |
| Provision for loan losses | 21.8 | 21.5 | 49.1 | 43.4 |
| | | | | |
| Net interest income after provision for loan losses | 154.0 | 123.8 | 460.1 | 385.9 |
| Non-interest income: | | | | |
| Investment management fees | 7.6 | 8.4 | 24.1 | 24.5 |
| Insurance revenue | 8.3 | 7.9 | 21.9 | 23.0 |
| Brokerage commissions | 2.8 | 2.8 | 8.4 | 9.3 |
| | | | | |
| Total wealth management income | 18.7 | 19.1 | 54.4 | 56.8 |
| Bank service charges | 31.5 | 33.3 | 95.6 | 96.6 |
| Merchant services income | 6.9 | 6.7 | 19.1 | 18.6 |
| Net gains on sales of residential mortgage loans | 2.4 | 5.2 | 7.9 | 10.9 |
| Bank-owned life insurance | 1.4 | 2.2 | 5.8 | 6.5 |
| Net security gains (note 3) | | 4.7 | | 22.1 |
| Other non-interest income | 15.0 | 9.0 | 40.5 | 25.9 |
| | | | | |
| Total non-interest income | 75.9 | 80.2 | 223.3 | 237.4 |
| Non-interest expense: | | | | |
| Compensation and benefits | 93.2 | 86.0 | 282.1 | 261.3 |
| Occupancy and equipment | 28.0 | 27.5 | 86.3 | 81.8 |
| Professional and outside service fees | 18.5 | 11.6 | 52.9 | 34.0 |

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| | | | | |
|--|---------|---------|---------|---------|
| Merchant services expense | 5.8 | 5.7 | 15.9 | 15.8 |
| Merger-related expenses (note 2) | 1.0 | | 18.5 | |
| Other non-interest expense (notes 7 and 8) | 47.7 | 34.3 | 148.6 | 119.5 |
| Total non-interest expense | 194.2 | 165.1 | 604.3 | 512.4 |
| Income before income tax expense | 35.7 | 38.9 | 79.1 | 110.9 |
| Income tax expense | 11.6 | 12.1 | 25.4 | 34.6 |
| Net income | \$ 24.1 | \$ 26.8 | \$ 53.7 | \$ 76.3 |
| Earnings per common share (note 6): | | | | |
| Basic | \$ 0.07 | \$ 0.08 | \$ 0.15 | \$ 0.23 |
| Diluted | 0.07 | 0.08 | 0.15 | 0.23 |

See accompanying notes to consolidated financial statements.

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People's United Financial, Inc.

Consolidated Statements of Changes in Stockholders' Equity - (Unaudited)

For the nine months

| ended September 30, 2010 | Additional | | Retained | Treasury | Accumulated Unallocated | | Total |
|---|---------------|-------------------|-----------------|-------------------|-------------------------|-------------------|-------------------|
| | Common | Paid-In | | | Other | ESOP | |
| (in millions, except per share data) | Stock | Capital | Earnings | Stock | Comprehensive | Common | Equity |
| | | | | | Loss | Stock | |
| Balance at December 31, 2009 | \$ 3.5 | \$ 4,511.3 | \$ 914.5 | \$ (58.6) | \$ (74.8) | \$ (195.2) | \$ 5,100.7 |
| Comprehensive income: | | | | | | | |
| Net income | | | 53.7 | | | | 53.7 |
| Other comprehensive income, net of tax (note 5) | | | | | 15.4 | | 15.4 |
| Total comprehensive income | | | | | | | 69.1 |
| Common stock issued in the Financial Federal acquisition, net of acquisition costs (note 2) | 0.3 | 405.1 | | | | | 405.4 |
| Cash dividends on common stock (\$0.4625 per share) | | | (162.9) | | | | (162.9) |
| Restricted stock awards | | 21.5 | (0.1) | 0.8 | | | 22.2 |
| ESOP common stock committed to be released (note 8) | | | (1.7) | | | 5.5 | 3.8 |
| Common stock repurchased (note 5) | (0.1) | | | (76.8) | | | (76.9) |
| Common stock repurchased and retired upon vesting of restricted stock awards | | | (5.0) | | | | (5.0) |
| Stock options and related tax benefits | | 8.1 | | | | | 8.1 |
| Balance at September 30, 2010 | \$ 3.7 | \$ 4,946.0 | \$ 798.5 | \$ (134.6) | \$ (59.4) | \$ (189.7) | \$ 5,364.5 |

For the nine months

| ended September 30, 2009 | Additional | | Retained | Treasury | Accumulated Unallocated | | Total |
|--|---------------|-------------------|-----------------|------------------|-------------------------|-------------------|-------------------|
| | Common | Paid-In | | | Other | ESOP | |
| (in millions, except per share data) | Stock | Capital | Earnings | Stock | Comprehensive | Common | Equity |
| | | | | | Loss | Stock | |
| Balance at December 31, 2008 | \$ 3.5 | \$ 4,485.1 | \$ 1,020.9 | \$ (57.9) | \$ (75.4) | \$ (202.4) | \$ 5,173.8 |
| Comprehensive income: | | | | | | | |
| Net income | | | 76.3 | | | | 76.3 |
| Other comprehensive loss, net of tax | | | | | (6.0) | | (6.0) |
| Total comprehensive income | | | | | | | 70.3 |
| Cash dividends on common stock (\$0.4550 per share) | | | (152.5) | | | | (152.5) |
| Restricted stock awards | | 15.2 | | (1.7) | | | 13.5 |
| ESOP common stock committed to be released (note 8) | | | (1.1) | | | 5.4 | 4.3 |
| Common stock repurchased and retired upon vesting of restricted stock awards | | | (0.2) | | | | (0.2) |
| Stock options and related tax benefits | | 6.0 | | | | | 6.0 |
| Balance at September 30, 2009 | \$ 3.5 | \$ 4,506.3 | \$ 943.4 | \$ (59.6) | \$ (81.4) | \$ (197.0) | \$ 5,115.2 |

See accompanying notes to consolidated financial statements.

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People's United Financial, Inc.

Consolidated Statements of Cash Flows - (Unaudited)

| (in millions) | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2010 | 2009 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 53.7 | \$ 76.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 49.1 | 43.4 |
| Depreciation and amortization of premises and equipment | 27.1 | 23.6 |
| Amortization of leased equipment | 11.3 | 10.1 |
| Amortization of other acquisition-related intangibles | 15.5 | 15.6 |
| Net security gains | | (22.1) |
| Net gains on sales of residential mortgage loans | (7.9) | (10.9) |
| ESOP common stock committed to be released | 3.8 | 4.3 |
| Expense related to share-based awards | 19.8 | 18.9 |
| Originations of loans held-for-sale | (648.3) | (922.1) |
| Proceeds from sales of loans held-for-sale | 657.3 | 908.6 |
| Net (increase) decrease in trading account securities | (7.8) | 11.1 |
| Net changes in other assets and liabilities | 27.7 | 23.5 |
| Net cash provided by operating activities | 201.3 | 180.3 |
| Cash Flows from Investing Activities: | | |
| Net increase in securities purchased under agreements to resell | (340.0) | (1,144.0) |
| Proceeds from sales of securities available for sale | 1.0 | 731.6 |
| Proceeds from sales of other securities | | 5.6 |
| Proceeds from principal repayments of securities available for sale | 606.5 | 1,618.1 |
| Proceeds from principal repayments of securities held to maturity | 0.2 | 0.6 |
| Purchases of securities available for sale | (2,138.3) | (1,275.3) |
| Purchases of securities held to maturity | | (55.0) |
| Proceeds from sales of loans | 1.5 | 9.3 |
| Net loan principal collections | 304.3 | 228.7 |
| Return of premium on bank-owned life insurance | 1.7 | |
| Purchases of premises and equipment | (15.1) | (23.4) |
| Purchases of leased equipment | (31.1) | (20.0) |
| Net cash paid in sales of branches | | (16.2) |
| Proceeds from sales of real estate owned | 12.1 | 6.5 |
| Cash paid, net of cash acquired, in acquisitions | (260.2) | |
| Net cash (used in) provided by investing activities | (1,857.4) | 66.5 |
| Cash Flows from Financing Activities: | | |
| Net increase in deposits | 1.8 | 799.3 |
| Net increase (decrease) in borrowings with terms of three months or less | 100.1 | (33.8) |
| Repayments of borrowings with terms of more than three months | (823.5) | (0.8) |
| Proceeds from borrowings with terms of more than three months | 2.7 | 0.7 |
| Cash dividends paid on common stock | (162.9) | (152.5) |
| Common stock repurchased | (76.9) | |
| Common stock repurchased and retired upon vesting of restricted stock awards | (5.0) | (0.2) |

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| | | |
|---|-----------|------------|
| Proceeds from stock options exercised, including excess income tax benefits | 0.2 | 0.5 |
| Net cash (used in) provided by financing activities | (963.5) | 613.2 |
| Net (decrease) increase in cash and cash equivalents | (2,619.6) | 860.0 |
| Cash and cash equivalents at beginning of period | 3,418.0 | 1,483.9 |
| Cash and cash equivalents at end of period | \$ 798.4 | \$ 2,343.9 |

Supplemental Information:

| | | |
|--|----------|----------|
| Interest payments | \$ 101.3 | \$ 153.5 |
| Income tax payments | 36.6 | 38.4 |
| Real estate properties acquired by foreclosure | 13.6 | 10.0 |

The fair values of non-cash assets acquired, excluding goodwill and other acquisition-related intangibles, and liabilities assumed in the Financial Federal and Butler Bank acquisitions were \$1.46 billion and \$1.07 billion, respectively. Common stock and additional paid-in capital (net of issuance costs) increased by \$405.4 million as a result of the Financial Federal acquisition.

See accompanying notes to consolidated financial statements.

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PEOPLE S UNITED FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Unaudited)

NOTE 1. GENERAL

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

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

Note 1 to People s United Financial s audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented by the Quarterly Reports on Form 10-Q for the periods ended March 31, 2010 and June 30, 2010 and this Quarterly Report for the period ended September 30, 2010, provides disclosure of People s United Financial s significant accounting policies. Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses, the valuation of derivative financial instruments, and asset impairment judgments, such as other-than-temporary declines in the value of securities and the recoverability of goodwill and other intangible assets. These significant accounting policies and critical estimates are reviewed with the Audit Committee of the Board of Directors. The judgments used by management in applying these critical accounting policies may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. For example, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect outstanding principal may result in increased loan losses.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in conformity with U.S. generally accepted accounting principles have been omitted or condensed. As a result, the accompanying consolidated financial statements should be read in conjunction with People s United Financial s Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results of operations that may be expected for the entire year or any other interim period.

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NOTE 2. ACQUISITIONS

Completed Acquisitions

On April 16, 2010, People's United Bank (the "Bank"), a subsidiary of People's United Financial, entered into a definitive purchase and assumption agreement (the "Agreement") with the Federal Deposit Insurance Corporation (the "FDIC") pursuant to which the Bank assumed all of the deposits, certain assets and the banking operations of Butler Bank, located in Lowell, Massachusetts, with four branches in the greater Boston market. The transaction resulted in the acquisition of approximately \$244 million in total assets and approximately \$227 million in total deposits. The assets acquired and liabilities assumed were recorded by People's United Financial at their estimated fair values as of the closing date and People's United Financial's results of operations for the nine months ended September 30, 2010 include the results of Butler Bank beginning with the closing date. Merger-related expenses totaling \$0.4 million were recorded in the first nine months of 2010.

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

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

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The excess of the acquisition cost over the estimated fair value of the net assets acquired has been recorded as goodwill. Goodwill was allocated to the Retail and Business Banking, and the Commercial Banking business segments.

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

| | |
|----------------------------|-----------------|
| (in millions) | |
| Assets: | |
| Cash and cash equivalents | \$ 31.6 |
| Securities | 4.4 |
| Loans, net | 147.3 |
| Goodwill | 16.4 |
| Core deposit intangible | 0.7 |
| FDIC loss-share receivable | 23.0 |
| Real estate owned | 13.7 |
| Other assets | 6.6 |
| Total assets | \$ 243.7 |
| Liabilities: | |
| Deposits | \$ 227.5 |
| Borrowings | 14.0 |
| Other liabilities | 2.2 |
| Total liabilities | \$ 243.7 |

Net deferred tax assets totaling \$5.8 million were established in connection with recording the related purchase accounting adjustments (other than goodwill). All borrowings assumed by People's United Bank were repaid prior to June 30, 2010. Fair value adjustments to assets acquired and liabilities assumed will be amortized on a straight-line basis over periods consistent with the average life, useful life and / or contractual term of the related assets and liabilities. The core deposit intangible will be amortized over a 5-year period using an accelerated amortization method reflective of the manner in which the related benefit attributable to the deposits will be recognized.

The fair value of the FDIC loss-share receivable represents the present value of the estimated loss-share reimbursements expected to be received from the FDIC for future losses on covered assets, based on the credit loss assumptions used in determining the fair value of covered assets and the loss-sharing percentage. These loss-share reimbursements were discounted using the U.S. Treasury strip curve plus a premium to reflect the uncertainty of the timing and receipt of the loss-sharing reimbursements from the FDIC.

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On February 19, 2010, People's United Financial completed its acquisition of Financial Federal Corporation (Financial Federal), a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses. On the closing date, Financial Federal had total assets of \$1.28 billion.

Total consideration paid in the Financial Federal acquisition of approximately \$699 million consisted of approximately \$293 million in cash and 26.0 million shares of People's United Financial common stock with a fair value of approximately \$406 million. Cash consideration was paid at the rate of \$11.27 per share of Financial Federal common stock and stock consideration was paid at the rate of one share of People's United Financial common stock per share of Financial Federal common stock. The assets acquired and liabilities assumed were recorded by People's United Financial at their estimated fair values as of the closing date and People's United Financial's results of operations for the nine months ended September 30, 2010 include the results of Financial Federal beginning with the closing date. Merger-related expenses totaling \$17.1 million (including (i) investment advisory, legal, accounting and valuation services, (ii) debt prepayment costs and (iii) compensatory charges) were recorded in the first nine months of 2010.

The excess of the acquisition cost over the estimated fair value of the net assets acquired has been recorded as goodwill. All goodwill was allocated to the Commercial Banking business segment. There were no specifically-identifiable intangible assets in the Financial Federal acquisition.

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

| | |
|-------------------------------|-------------------|
| (in millions) | |
| Assets: | |
| Cash and cash equivalents | \$ 1.8 |
| Loans, net | 1,219.2 |
| Premises and equipment | 1.6 |
| Goodwill | 258.5 |
| Other assets | 43.0 |
| Total assets | \$ 1,524.1 |
| Liabilities: | |
| Borrowings | \$ 801.5 |
| Other liabilities | 23.6 |
| Total liabilities | \$ 825.1 |
| Total acquisition cost | \$ 699.0 |

Net deferred tax assets totaling \$18.6 million were established in connection with recording the related purchase accounting adjustments (other than goodwill). All borrowings assumed by People's United Financial were repaid prior to March 31, 2010.

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The above summaries include adjustments to record Financial Federal's and Butler Bank's assets and liabilities at their respective fair values based on management's best estimate using the information available at this time. While there may be changes in the acquisition-date fair values of certain balance sheet amounts and other items of Financial Federal or Butler Bank as compared to the information presented, management does not expect that such changes, if any, will be material.

The following table presents selected pro forma financial information reflecting the acquisitions of Financial Federal and Butler Bank assuming the acquisitions were completed as of the beginning of the respective periods:

| (in millions, except per share data) | Nine Months Ended | |
|---|-------------------|-----------------------|
| | 2010 | September 30, 2009 |
| Selected Operating Data: | | |
| Net interest income | \$ 522.9 | \$ 507.0 |
| Provision for loan losses | 49.1 | 43.4 |
| Non-interest income | 225.1 | 240.4 |
| Non-interest expense | 613.3 | 543.4 |
| Net income | \$ 58.0 | \$ 108.5 |
| Basic and diluted earnings per common share | \$ 0.16 | \$ 0.30 |

The selected pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisitions actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period. Pro forma basic and diluted earnings per common share were calculated using People's United Financial's actual weighted-average shares outstanding for the periods presented, plus the incremental shares issued, assuming the acquisitions occurred at the beginning of the periods presented.

Included in the Consolidated Statements of Income for the nine months ended September 30, 2010 are approximately \$58 million of interest income and approximately \$25 million of net income attributable to Financial Federal and Butler Bank since the respective acquisition dates.

The loans acquired in these transactions have been recorded at fair value without a carryover of either Financial Federal's or Butler Bank's allowance for loan losses. Fair values of the loans are determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on such loans and then applying a market-based discount rate to those cash flows. The discounts on the loans acquired in these transactions were due, in part, to credit quality. The excess of expected cash flows at the acquisition date over estimated fair value is referred to as the accretable yield, which is recognized into interest income over the remaining lives of the acquired loans.

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The difference between contractually required principal and interest payments at the acquisition date and the cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference, which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. Decreases in the expected cash flows in subsequent periods will require People's United Financial to record an allowance for loan losses. Improvements in expected cash flows in future periods will result in a reduction of the nonaccretable difference, with such amount reclassified as part of the accretable yield and subsequently recognized into interest income over the remaining lives of the acquired loans. Charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

Upon acquisition, the Financial Federal and Butler Bank loan portfolios had, on a combined basis, contractually required principal and interest payments receivable of \$1.60 billion; expected cash flows of \$1.48 billion; and a fair value of \$1.36 billion. The difference between the contractually required payments receivable and the expected cash flows (\$120.6 million) represents the nonaccretable difference. The difference between the expected cash flows and fair value (\$120.3 million) represents the accretable yield. Both contractually required payments receivable and expected cash flows reflect anticipated prepayments, determined based on historical portfolio experience. At September 30, 2010, the outstanding balance and the carrying amount of the acquired loan portfolios were \$1.02 billion and \$0.93 billion, respectively, and there was no related allowance for loan losses for either portfolio at that date.

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

| (in millions) | Total |
|--|---------|
| Balance at January 1, 2010 | \$ |
| For the three months ended March 31: | |
| Additions | 84.7 |
| Accretion | (10.2) |
| Balance at March 31, 2010 | 74.5 |
| For the three months ended June 30: | |
| Additions | 35.6 |
| Accretion | (22.8) |
| Balance at June 30, 2010 | 87.3 |
| For the three months ended September 30: | |
| Additions | (18.9) |
| Accretion | (18.9) |
| Balance at September 30, 2010 | \$ 68.4 |

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The following is a summary of changes in People's United Financial's goodwill for the nine months ended September 30, 2010 and 2009:

| (in millions) | 2010 | 2009 |
|---|------------|------------|
| Balance January 1 | \$ 1,261.7 | \$ 1,261.7 |
| Goodwill resulting from the acquisition of: | | |
| Financial Federal | 258.5 | |
| Butler Bank | 16.4 | |
| Other adjustments | (3.0) | |
| Balance September 30 | \$ 1,533.6 | \$ 1,261.7 |

There were no impairment losses relating to goodwill recorded during the nine months ended September 30, 2010 or 2009. During the second quarter of 2010, People's United Financial changed the date of its annual impairment testing for goodwill from December 31 to October 1st. Management believes this change in date is preferable, as the earlier date provides the company additional time for the completion of its annual impairment testing in conjunction with its December 31 year-end closing activities and is better aligned with the timing of its annual budget process.

Pending Acquisitions

On July 15, 2010, People's United Financial announced the signing of definitive agreements to acquire Smithtown Bancorp, Inc. (Smithtown) based in Hauppauge, New York and LSB Corporation (LSB) based in North Andover, Massachusetts.

The Smithtown acquisition is currently valued at approximately \$57 million, with approximately half that amount being paid in cash and the balance in the form of shares of People's United Financial common stock. At September 30, 2010, Smithtown reported total assets of \$2.28 billion, total deposits of \$1.82 billion and operated 30 branches, including 29 on Long Island and one in New York City.

The LSB acquisition is an all-cash transaction valued at approximately \$96 million. At September 30, 2010, LSB reported total assets of \$780 million, total deposits of \$475 million and operated seven branches, including five in the greater Boston area and two in southern New Hampshire.

Both transactions, which are expected to close in November 2010, are subject to approval by bank regulatory authorities. Smithtown shareholders are scheduled to vote on the Smithtown merger on November 19, 2010 and LSB shareholders approved the LSB merger on October 27, 2010. People's United Financial shareholder approval is not required for either transaction. Merger expenses totaling \$1.0 million relating to these transactions were recorded in the third quarter of 2010.

Table of Contents**NOTE 3. SECURITIES AND SHORT-TERM INVESTMENTS**

The amortized cost, gross unrealized gains and losses, and fair value of People's United Financial's securities are as follows:

| As of September 30, 2010 (in millions) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| Trading account securities | \$ 83.5 | \$ | \$ | \$ 83.5 |
| Securities available for sale: | | | | |
| Debt securities: | | | | |
| U.S. Treasury and agency | 537.9 | 0.6 | (0.1) | 538.4 |
| GSE residential mortgage-backed securities and CMOs | 1,735.3 | 31.1 | (0.4) | 1,766.0 |
| State and municipal | 0.3 | | | 0.3 |
| Total debt securities | 2,273.5 | 31.7 | (0.5) | 2,304.7 |
| Equity securities | 0.3 | | | 0.3 |
| Total securities available for sale | 2,273.8 | 31.7 | (0.5) | 2,305.0 |
| Securities held to maturity: | | | | |
| Debt securities: | | | | |
| Corporate | 55.0 | | | 55.0 |
| Other | 0.1 | | | 0.1 |
| Total securities held to maturity | 55.1 | | | 55.1 |
| FHLB stock | 33.9 | | | 33.9 |
| Total securities | \$ 2,446.3 | \$ 31.7 | \$ (0.5) | \$ 2,477.5 |
| As of December 31, 2009 (in millions) | | | | |
| Trading account securities | \$ 75.7 | \$ | \$ | \$ 75.7 |
| Securities available for sale: | | | | |
| Debt securities: | | | | |
| U.S. Treasury and agency | 10.7 | 0.1 | | 10.8 |
| GSE residential mortgage-backed securities | 729.9 | 2.6 | (4.4) | 728.1 |
| State and municipal | 0.3 | | | 0.3 |
| Total debt securities | 740.9 | 2.7 | (4.4) | 739.2 |
| Equity securities | 0.5 | | | 0.5 |
| Total securities available for sale | 741.4 | 2.7 | (4.4) | 739.7 |

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| | | | | |
|-----------------------------------|----------|--------|----------|----------|
| Securities held to maturity: | | | | |
| Debt securities: | | | | |
| Corporate | 55.0 | | | 55.0 |
| Other | 0.3 | | | 0.3 |
| Total securities held to maturity | 55.3 | | | 55.3 |
| FHLB stock | 31.1 | | | 31.1 |
| Total securities | \$ 903.5 | \$ 2.7 | \$ (4.4) | \$ 901.8 |

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Included in debt securities available for sale at September 30, 2010 are three U.S. agency debt securities (fair value of \$208.0 million) and two government-sponsored enterprise (GSE) collateralized mortgage obligations (CMOs) (fair value of \$191.0 million) that had continuous unrealized losses of \$0.1 million and \$0.4 million, respectively, for a period less than 12 months. In addition, seven state and municipal securities (fair value of \$0.3 million) had continuous unrealized losses for a period greater than 12 months totaling less than \$25,000.

Management conducts a periodic review and evaluation of the securities portfolio to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on debt securities when: (i) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary losses are reflected in earnings as realized losses to the extent the impairment is related to credit losses. 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 Financial expects to receive full value for the securities. As of September 30, 2010, management believes that all impairments within the securities portfolio are temporary in nature. No other-than-temporary impairment losses were recognized in the Consolidated Statements of Income for the three and nine month periods ended September 30, 2010 and 2009.

At September 30, 2010, the amortized cost of available for sale debt securities, other than residential mortgage-backed securities, and held to maturity debt securities, are as follows (by remaining period to contractual maturity): \$14.8 million within 1 year; \$523.2 million after 1 but within 5 years; \$55.0 million after 5 but within 10 years; and \$0.3 million after 10 years.

People's United Bank, as a member of the Federal Home Loan Bank of Boston (FHLB), is currently required to purchase and hold shares of capital stock in the FHLB in an amount equal to its membership base investment plus an activity based investment determined according to the company's level of outstanding FHLB advances. FHLB stock is a non-marketable equity security and is, therefore, reported at cost, which equals par value (the amount at which shares have been redeemed in the past). As with other investment securities, the investment is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. As a result of operating losses and a decline in capital, in February 2009 the FHLB suspended paying dividends and placed a moratorium on certain stock repurchases. Continued operating losses or further declines in capital could cause People's United Financial to conclude that the fair value of its investment in FHLB stock is less than its par value. However, based on the current capital adequacy and liquidity position of the FHLB, management believes there is no impairment in the company's investment at September 30, 2010 and the cost of the investment approximates fair value. Management will continue to monitor the affairs of the FHLB in order to evaluate the investment for impairment.

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People's United Financial uses the specific identification method to determine the cost of securities sold and records securities transactions on the trade date. In the third quarter of 2009, People's United Financial sold residential mortgage-backed securities with an amortized cost of \$308 million and recorded \$4.8 million of gross realized gains. In the second quarter of 2009, People's United Financial sold residential mortgage-backed securities with an amortized cost of \$723 million and recorded \$12.1 million of gross realized gains. Net security gains in the first quarter of 2009 include a gain of \$5.6 million resulting from the sale of People's United Financial's remaining Class B Visa, Inc. shares acquired as part of Visa's initial public offering. Including other minor gains and losses, net security gains totaled \$22.1 million for the nine months ended September 30, 2009 (none for the nine months ended September 30, 2010).

In connection with the sale of its remaining Class B Visa shares, People's United Financial and the buyer entered into a derivative contract providing for cash settlements that will depend, in part, on the ultimate resolution of certain litigation involving Visa. The amounts recorded for the derivative contract were insignificant through September 30, 2010.

The balance of short-term investments at September 30, 2010 and December 31, 2009 principally consisted of \$440 million and \$3.1 billion, respectively, of interest-earning deposits at the Federal Reserve Bank of New York. These deposits are an alternative to overnight federal funds sold and had a yield of 0.25% at both September 30, 2010 and December 31, 2009. Short-term investments at December 31, 2009 also included \$12.0 million of GSE debt securities with maturities of 90 days or less. Given the short duration of these securities, they are classified as held to maturity and carried at amortized cost, which approximates fair value. These securities, which carry the implicit backing of the U.S. government but are not direct obligations of the U.S. government, had a weighted average yield of 0.07% at December 31, 2009.

Table of Contents**NOTE 4. LOANS**

The components of People's United Financial's loan portfolio are summarized as follows:

| (in millions) | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Commercial real estate: | | |
| Office buildings | \$ 1,494.3 | \$ 1,289.9 |
| Retail | 1,443.7 | 1,388.4 |
| Residential (multi-family) | 714.6 | 756.3 |
| Industrial/manufacturing | 587.6 | 662.4 |
| Hospitality and entertainment | 457.3 | 523.2 |
| Mixed/Special use | 406.3 | 270.5 |
| Land | 141.7 | 161.4 |
| Self storage | 134.3 | 127.4 |
| Health care | 76.2 | 46.0 |
| Other properties | 37.1 | 173.9 |
| Total commercial real estate | 5,493.1 | 5,399.4 |
| Commercial and industrial: | | |
| Finance, insurance and real estate | 648.1 | 609.7 |
| Service | 625.0 | 595.0 |
| Manufacturing | 530.8 | 514.5 |
| Wholesale distribution | 245.7 | 244.4 |
| Retail sales | 198.4 | 192.7 |
| Health services | 179.4 | 181.7 |
| Construction | 142.6 | 128.2 |
| Transportation/utility | 82.6 | 77.8 |
| Public administration | 75.4 | 85.3 |
| Arts/entertainment/recreation | 67.6 | 67.3 |
| Agriculture | 29.4 | 31.0 |
| Other | 96.6 | 78.1 |
| Total commercial and industrial (1) | 2,921.6 | 2,805.7 |
| Equipment financing: | | |
| Transportation/utility | 646.3 | 355.8 |
| Construction | 460.4 | |
| Printing | 384.3 | 407.1 |
| General manufacturing | 169.3 | 170.9 |
| Waste | 141.1 | |
| Retail sales | 110.3 | 128.4 |
| Packaging | 86.1 | 88.0 |
| Service | 41.6 | 37.8 |
| Food services | 31.6 | |
| Wholesale distribution | 28.0 | 24.2 |
| Health services | 23.0 | 24.6 |
| Other | 27.1 | |

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| | | |
|-------------------------------|--------------------|--------------------|
| Total equipment financing (1) | 2,149.1 | 1,236.8 |
| Residential mortgage: | | |
| Adjustable rate | 2,107.6 | 2,244.5 |
| Fixed rate | 366.9 | 302.4 |
| Total residential mortgage | 2,474.5 | 2,546.9 |
| Consumer: | | |
| Home equity credit lines | 1,748.1 | 1,740.2 |
| Second mortgages | 210.2 | 246.1 |
| Indirect auto | 169.9 | 207.3 |
| Other | 48.3 | 51.4 |
| Total consumer | 2,176.5 | 2,245.0 |
| Total loans | \$ 15,214.8 | \$ 14,233.8 |

(1) Reported as commercial loans in the Consolidated Statements of Condition.

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Residential mortgage loans at September 30, 2010 and December 31, 2009 included loans held for sale (substantially all to be sold servicing released) of \$70.2 million and \$71.3 million, respectively, which approximate fair value.

People's United Financial's recorded investment in troubled debt restructurings (TDRs) totaled \$25.0 million and \$3.6 million at September 30, 2010 and December 31, 2009, respectively. Allowances for loan impairment at both dates and interest income recognized on these loans for both the nine months ended September 30, 2010 and the year ended December 31, 2009 were insignificant.

People's United Financial's impaired loans consist of certain commercial and industrial loans, commercial real estate loans, equipment financing loans and consumer loans. The recorded investment in impaired loans, which includes TDRs, was \$139.2 million at September 30, 2010 and \$97.7 million at December 31, 2009. Impaired loans totaling \$71.1 million and \$53.8 million had allowances for loan impairment of \$19.5 million and \$16.6 million, respectively, at September 30, 2010 and December 31, 2009. Impaired loans totaling \$68.1 million and \$43.9 million at September 30, 2010 and December 31, 2009, respectively, had no allowances for loan impairment.

NOTE 5. STOCKHOLDERS' EQUITY

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

In April 2008, People's United Financial's Board of Directors approved a stock repurchase program. Under the program, up to 5% of People's United Financial's then-outstanding common stock, or up to 17.3 million shares, can be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. Through September 30, 2010, a total of 5.6 million shares of People's United Financial common stock had been repurchased under the stock repurchase program at a total cost of \$76.9 million.

In conjunction with establishing the RRP in October 2007, a trustee purchased 7.0 million shares of People's United Financial common stock in the open market with funds provided by People's United Financial. At September 30, 2010, 3.2 million shares were available to be awarded in the form of restricted stock under the provisions of the RRP.

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Comprehensive income represents the sum of net income and items of other comprehensive income or loss that are reported directly in stockholders' equity on an after-tax basis. These items include: (i) net actuarial gains and losses, prior service credits and costs, and transition assets and obligations related to People's United Financial's pension and other postretirement benefit plans; (ii) net unrealized gains or losses on securities available for sale; and (iii) net gains or losses on derivatives accounted for as cash flow hedges. People's United Financial's total comprehensive income for the nine months ended September 30, 2010 and 2009 is reported in the Consolidated Statements of Changes in Stockholders' Equity.

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

| (in millions) | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Net actuarial loss and other amounts related to pension and other postretirement benefit plans | \$ (83.5) | \$ (87.6) |
| Net gain on derivatives accounted for as cash flow hedges | 3.7 | 13.9 |
| Net unrealized gain (loss) on securities available for sale | 20.4 | (1.1) |
| Total accumulated other comprehensive loss | \$ (59.4) | \$ (74.8) |

The decrease in total accumulated other comprehensive loss from December 31, 2009 consisted of an after-tax increase in the net unrealized gain on securities available for sale (\$21.5 million) and an after-tax decrease in the net actuarial loss and other amounts related to pension and other postretirement benefit plans (\$4.1 million), partially offset by an after-tax decrease in the net gain on derivatives accounted for as cash flow hedges (\$10.2 million). Other comprehensive income, which is presented net of tax, totaled \$15.4 million for the nine months ended September 30, 2010. There are no other-than-temporary impairment losses recognized in accumulated other comprehensive loss at September 30, 2010 or December 31, 2009 (see Note 3).

Table of Contents**NOTE 6. EARNINGS PER COMMON SHARE**

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

| (in millions, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 24.1 | \$ 26.8 | \$ 53.7 | \$ 76.3 |
| Dividends on participating securities | (0.4) | (0.5) | (1.3) | (1.3) |
| Income attributable to common shareholders | \$ 23.7 | \$ 26.3 | \$ 52.4 | \$ 75.0 |
| Average common shares outstanding for basic EPS | 354.9 | 332.0 | 352.6 | 331.8 |
| Effect of dilutive equity-based awards | 0.1 | 0.2 | 0.1 | 0.2 |
| Average common and common-equivalent shares for diluted EPS | 355.0 | 332.2 | 352.7 | 332.0 |
| Basic EPS | \$ 0.07 | \$ 0.08 | \$ 0.15 | \$ 0.23 |
| Diluted EPS | \$ 0.07 | \$ 0.08 | \$ 0.15 | \$ 0.23 |

Effective January 1, 2009, in accordance with new accounting requirements issued by the Financial Accounting Standards Board (the FASB), unvested share-based payment awards, which include the right to receive non-forfeitable dividends or dividend equivalents, are considered to participate with common stock in undistributed earnings for purposes of computing EPS. Accordingly, companies that issue share-based payment awards considered to be participating securities, including People's United Financial, are required to calculate basic and diluted EPS amounts under the two-class method. Restricted stock awards granted by People's United Financial are considered participating securities pursuant to this guidance. Calculations of EPS under the two-class method (i) exclude any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities from the numerator and (ii) exclude the dilutive impact of the participating securities from the denominator. EPS amounts for the three and nine months ended September 30, 2010 and 2009 have been presented in accordance with these requirements.

All unallocated ESOP common shares and all common shares accounted for as treasury shares have been excluded from the calculation of basic and diluted earnings per share. Anti-dilutive equity-based awards totaling 10.9 million for both the three and nine months ended September 30, 2010, and 9.7 million for both the three and nine months ended September 30, 2009 have been excluded from the calculation of diluted EPS.

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NOTE 7. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS

People's United Financial's goodwill totaled \$1.53 billion and \$1.26 billion at September 30, 2010 and December 31, 2009, respectively (see Note 2). At September 30, 2010, goodwill was allocated to People's United Financial's business segments as follows: Commercial Banking (\$879.2 million), Retail and Business Banking (\$604.6 million), and Wealth Management (\$49.8 million).

People's United Financial's other acquisition-related intangible assets totaled \$238.7 million and \$253.5 million at September 30, 2010 and December 31, 2009, respectively. At September 30, 2010, the carrying amounts of other acquisition-related intangible assets were as follows: trade name intangible (\$121.2 million); core deposits intangible (\$80.2 million); trust relationship intangible (\$34.9 million); and insurance relationship intangible (\$2.4 million).

In connection with People's United Financial's acquisition of Chittenden Corporation (Chittenden) in January 2008, a trade name intangible asset with a fair value of \$122.7 million was established and assigned an indefinite useful life based on management's intentions at that time. In June 2010, People's United Financial announced a plan to re-brand, as People's United Bank, the former Chittenden banks in connection with the scheduled completion of its core system conversion in July 2010. Management believes the name change better leverages the People's United brand and the full range of services available to its customers.

As a result of the decision to re-brand the Chittenden banks, the useful life of the trade name intangible asset was no longer deemed to be indefinite and management was required to perform a final impairment test prior to amortizing the asset over its estimated remaining useful life beginning July 1, 2010. People's United Financial performed its final trade name impairment test as of June 30, 2010 and determined that the fair value of the trade name intangible exceeded its carrying amount. As a result, no impairment loss was recognized. The trade name intangible will be amortized on an accelerated basis over a period of approximately 20 years, reflecting the manner in which the related benefit is realized.

Amortization expense of other acquisition-related intangible assets, which is included in other non-interest expense in the Consolidated Statements of Income, totaled \$6.0 million and \$5.1 million for the three months ended September 30, 2010 and 2009, respectively, and \$15.5 million and \$15.6 million for the nine months ended September 30, 2010 and 2009, respectively. Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2010 and each of the next five years is as follows: \$21.6 million in 2010; \$22.9 million in 2011; \$21.6 million in 2012; \$20.9 million in 2013; \$19.6 million in 2014; and \$18.9 million in 2015.

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NOTE 8. EMPLOYEE BENEFIT PLANS

People's United Financial Employee Pension and Other Postretirement Benefit Plans

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

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

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

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

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

| For the three months ended September 30 (in millions) | Pension Benefits | | Other Postretirement Benefits | |
|--|------------------|--------|-------------------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Net periodic benefit expense: | | | | |
| Service cost | \$ 2.4 | \$ 2.4 | \$ 0.1 | \$ |
| Interest cost | 4.2 | 3.9 | 0.1 | 0.2 |
| Expected return on plan assets | (6.3) | (6.2) | | |
| Amortization of unrecognized net transition obligation | | | 0.1 | 0.1 |
| Recognized net actuarial loss | 1.7 | 1.4 | | |
| Recognized prior service credit | (0.1) | | (0.1) | (0.1) |
| Net periodic benefit expense | \$ 1.9 | \$ 1.5 | \$ 0.2 | \$ 0.2 |
| For the nine months ended September 30 | | | | |
| (in millions) | Pension Benefits | | Other Postretirement Benefits | |
| | 2010 | 2009 | 2010 | 2009 |
| Net periodic benefit expense: | | | | |
| Service cost | \$ 7.1 | \$ 7.0 | \$ 0.2 | \$ 0.1 |
| Interest cost | 12.5 | 11.9 | 0.4 | 0.5 |
| Expected return on plan assets | (18.8) | (18.5) | | |
| Amortization of unrecognized net transition obligation | | | 0.3 | 0.3 |
| Recognized net actuarial loss | 5.1 | 4.2 | | |
| Recognized prior service credit | (0.2) | (0.1) | (0.2) | (0.2) |
| Special termination benefits (1) | 2.1 | | | |
| Net periodic benefit expense | 7.8 | 4.5 | 0.7 | 0.7 |
| Other changes in plan assets and benefit obligations recognized in other comprehensive income or loss: | | | | |
| Net actuarial loss | (5.1) | (4.2) | | |
| Transition obligation | | | (0.3) | (0.3) |
| Prior service credit | 0.2 | 0.1 | 0.2 | 0.2 |
| Total pre-tax changes recognized in other comprehensive income or loss | (4.9) | (4.1) | (0.1) | (0.1) |
| Total recognized in net periodic benefit expense and other comprehensive income or loss | \$ 2.9 | \$ 0.4 | \$ 0.6 | \$ 0.6 |

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

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Chittenden Pension Plan

In addition to the plans described above, People's United Financial continues to maintain a fully-funded qualified defined benefit pension plan that covers former Chittenden employees who meet certain eligibility requirements. Effective December 31, 2005, benefits accrued under this defined benefit plan were frozen based on participants' then current service and pay levels. During April 2010, participants in the Chittenden pension plan who were in payment status as of April 1, 2010 or whose accrued benefit as of that date was scheduled to be paid in the form of an annuity commencing May 1, 2010 (based upon elections made by April 15, 2010) were transferred into the People's United Financial pension plan. Net periodic benefit income for the Chittenden pension plan totaled \$1.8 million and \$1.0 million for the nine months ended September 30, 2010 and 2009, respectively.

Employee Stock Ownership Plan

In April 2007, People's United Financial established an Employee Stock Ownership Plan (the "ESOP"). At that time, People's United Financial loaned the ESOP \$216.8 million to purchase 10.4 million shares of People's United Financial common stock in the open market. In order for the ESOP to repay the loan, People's United Financial expects to make annual cash contributions of approximately \$18.8 million until 2036. Such cash contributions may be reduced by the cash dividends paid on unallocated ESOP shares. At September 30, 2010, the loan balance totaled \$205.9 million.

Shares of People's United Financial common stock are held by the ESOP and allocated to eligible participants annually based upon a percentage of each participant's eligible compensation. Since the ESOP was established, a total of 1.3 million shares of People's United Financial common stock have been allocated or committed to be released to participants' accounts. At September 30, 2010, a total of 9.1 million shares of People's United Financial common stock, with a fair value of \$119.7 million, have not been allocated or committed to be released.

Compensation expense related to the ESOP is recognized at an amount equal to the number of common shares committed to be released by the ESOP for allocation to participants' accounts multiplied by the average fair value of People's United Financial's common stock during the reporting period. The difference between the fair value of the shares of People's United Financial's common stock committed to be released and the cost of those common shares is recorded as a credit to additional paid-in capital (if fair value exceeds cost) or, to the extent that no such credits remain in additional paid-in capital, as a charge to retained earnings (if fair value is less than cost). Expense recognized for the ESOP totaled \$3.8 million and \$4.3 million for the nine months ended September 30, 2010 and 2009, respectively.

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NOTE 9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, People's United Financial has various outstanding commitments and contingent liabilities that are not required to be and, therefore, have not been reflected in the consolidated financial statements.

Litigation Relating to Smithtown Bancorp, Inc. Transaction. People's United Financial was named as a defendant in a class-action lawsuit filed on behalf of Smithtown Bancorp, Inc. (Smithtown) stockholders in New York state court (*In re Smithtown Bancorp Shareholder Litigation*, No. 026751/2010 (*In re Smithtown Bancorp*)). The primary claims in the complaint are directed towards the directors and certain executive officers of Smithtown, alleging that in approving the merger agreement between People's United Financial and Smithtown, those individuals did not maximize shareholder value and agreed to deal protection devices that impermissibly limit their ability to pursue and accept any competing offer for Smithtown. People's United Financial is alleged to have aided and abetted the actions of the individual defendants. The complaint also alleges that the proxy statement/prospectus relating to the proposed merger contains material omissions which, if not cured, would prevent Smithtown shareholders from casting an informed vote in connection with the proposed merger. The complaint seeks an order enjoining the defendants from proceeding with the transaction, other equitable relief, damages, and attorneys' fees.

On October 12, 2010, all parties to the proceedings entered into an agreement to settle the litigation. As part of that agreement, the defendants agreed (without admitting any wrongdoing or other liability) to make certain additional disclosures requested by the plaintiffs in the proxy statement/prospectus. The proposed settlement is subject to, among other things, court approval, plaintiffs conducting confirmatory discovery to confirm the fairness and adequacy of the terms of the settlement and the additional disclosures relating to the proposed merger, and the closing of the proposed merger.

Management expects this matter to be resolved in accordance with the agreement summarized above, and does not expect the settlement to have a material effect on the financial condition and results of operations of People's United Financial.

People's United Financial was named as a defendant in a lawsuit filed in federal court by a Smithtown stockholder (*Linda Martucci v. Bradley E. Rock et al.*, CV No. 10-3997 (*Martucci*)). The claims alleged in *Martucci* were substantially similar to those alleged in *In re Smithtown Bancorp*. On October 19, 2010, the plaintiff in this action filed a Notice of Voluntary Dismissal, effectively ending this matter.

Litigation Relating to LSB Corporation Transaction. People's United Financial was named as a defendant in two lawsuits filed in Massachusetts state court by two LSB Corporation (LSB) stockholders (*Assad v. LSB Corporation et al.*, Civ. A. No. 2010-1616 (*Assad*) and *Madden v. LSB Corporation et al.*, Civ. A. No. 2010-1702 (*Madden*)). The claims in the complaint are substantially similar to the claims made in *In re Smithtown Bancorp*, and the remedies sought are likewise similar. On October 22, 2010, the plaintiffs' request for an injunction preventing the LSB shareholder vote on the merger was denied.

Management has reviewed the allegations of these complaints, believes them to be without merit and intends to defend these actions vigorously. People's United Financial has filed a motion to dismiss both the *Assad* and *Madden* actions. Management does not believe these matters will have a material effect on the financial condition and results of operations of People's United Financial.

In addition, in the normal course of business, People's United Financial is also subject to various other legal proceedings. Management has discussed the nature of these legal proceedings with legal counsel. In the opinion of management, People's United Financial's financial condition and results of operations will not be affected materially as a result of the outcome of such commitments, contingent liabilities and legal proceedings.

NOTE 10. BUSINESS SEGMENT INFORMATION

See Business Segment Results included in Item 2 for segment information for the three and nine months ended September 30, 2010 and 2009.

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NOTE 11. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

Recurring Fair Value Measurements

Investments in Debt and Equity Securities

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

Other Assets

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

Derivatives

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

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The following tables summarize People's United Financial's assets and liabilities measured at fair value on a recurring basis:

| As of September 30, 2010 (in millions) | Fair Value Measurements Using | | | Total |
|--|-------------------------------|-------------------|-----------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Trading account securities | \$ 83.5 | \$ | \$ | \$ 83.5 |
| Securities available for sale: | | | | |
| U.S. Treasury and agency | 14.7 | 523.7 | | 538.4 |
| GSE residential mortgage-backed securities and CMOs | | 1,766.0 | | 1,766.0 |
| State and municipal | | 0.3 | | 0.3 |
| Equity securities | | 0.3 | | 0.3 |
| Other assets: | | | | |
| Fixed income securities | | 33.7 | | 33.7 |
| Equity mutual funds | 0.3 | | | 0.3 |
| Interest rate swaps | | 30.1 | | 30.1 |
| Forward commitments to sell residential mortgage loans | | 2.1 | | 2.1 |
| Total | \$ 98.5 | \$ 2,356.2 | \$ | \$ 2,454.7 |
| Liabilities: | | | | |
| Interest rate swaps | \$ | \$ 28.3 | \$ | \$ 28.3 |
| Foreign exchange contracts | | 0.2 | | 0.2 |
| Interest rate-lock commitments on residential mortgage loans | | 2.7 | | 2.7 |
| Total | \$ | \$ 31.2 | \$ | \$ 31.2 |

| As of December 31, 2009 (in millions) | Fair Value Measurements Using | | | Total |
|--|-------------------------------|-----------------|-----------|-----------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Trading account securities | \$ 75.7 | \$ | \$ | \$ 75.7 |
| Securities available for sale: | | | | |
| U.S. Treasury and agency | 10.8 | | | 10.8 |
| GSE residential mortgage-backed securities | | 728.1 | | 728.1 |
| State and municipal | | 0.3 | | 0.3 |
| Equity securities | | 0.5 | | 0.5 |
| Other assets: | | | | |
| Fixed income securities | | 14.2 | | 14.2 |
| Interest rate swaps | | 9.6 | | 9.6 |
| Foreign exchange contracts | | 0.1 | | 0.1 |
| Interest rate-lock commitments on residential mortgage loans | | 0.3 | | 0.3 |
| Total | \$ 86.5 | \$ 753.1 | \$ | \$ 839.6 |
| Liabilities: | | | | |
| Interest rate swaps | \$ | \$ 8.6 | \$ | \$ 8.6 |
| Forward commitments to sell residential mortgage loans | | 0.3 | | 0.3 |
| Total | \$ | \$ 8.9 | \$ | \$ 8.9 |

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

Non-Recurring Fair Value Measurements

Loans Held for Sale

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

Impaired Loans

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

Other Real Estate Owned and Repossessed Assets

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

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

| As of September 30, 2010 (in millions) | Fair Value Measurements Using | | | Total |
|--|-------------------------------|---------|----------|----------|
| | Level 1 | Level 2 | Level 3 | |
| Loans held for sale (1) | \$ | \$ 70.2 | \$ | \$ 70.2 |
| Impaired loans (2) | | | 71.1 | 71.1 |
| Other real estate owned and repossessed assets (3) | | | 60.6 | 60.6 |
| Total | \$ | \$ 70.2 | \$ 131.7 | \$ 201.9 |

| As of December 31, 2009 (in millions) | Fair Value Measurements Using | | | Total |
|--|-------------------------------|---------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| Loans held for sale (1) | \$ | \$ 71.3 | \$ | \$ 71.3 |
| Impaired loans (2) | | | 53.8 | 53.8 |
| Other real estate owned and repossessed assets (3) | | | 39.6 | 39.6 |
| Total | \$ | \$ 71.3 | \$ 93.4 | \$ 164.7 |

- (1) Consists of residential mortgage loans; no fair value adjustments were recorded for the nine months ended September 30, 2010 and 2009.
- (2) Represents impaired loans measured based on the fair value of the underlying collateral (\$48.0 million and \$23.1 million of commercial real estate loans and commercial loans, respectively, at September 30, 2010). Related impairment charges totaled \$2.9 million and \$10.2 million for the nine months ended September 30, 2010 and 2009, respectively.
- (3) Represents: (i) \$25.2 million of commercial real estate owned; (ii) \$9.7 million of residential real estate owned; and (iii) \$25.7 million of repossessed assets at September 30, 2010. Charge-offs to the allowance for loan losses related to loans that were transferred to real estate owned and repossessed assets totaled \$2.8 million and \$3.2 million for the nine months ended September 30, 2010 and 2009, respectively. Write downs and net loss on sale related to foreclosed/repossessed assets charged to non-interest expense totaled \$1.3 million and \$0.9 million for the same periods.

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Fair Values of Financial Instruments

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

| (in millions) | September 30, 2010 | | December 31, 2009 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets (other than derivatives): | | | | |
| Cash and cash equivalents | \$ 798.4 | \$ 798.4 | \$ 3,418.0 | \$ 3,418.0 |
| Securities purchased under agreements to resell | 740.0 | 740.0 | 400.0 | 400.0 |
| Securities (1) | 2,477.5 | 2,477.5 | 901.8 | 901.8 |
| Loans, net | 15,042.3 | 15,511.8 | 14,061.3 | 13,924.8 |
| Other assets (2) | 39.2 | 39.2 | 33.9 | 33.9 |
| Accrued interest receivable | 56.8 | 56.8 | 54.9 | 54.9 |
| Financial liabilities (other than derivatives): | | | | |
| Time deposits | 4,367.6 | 4,402.0 | 4,608.7 | 4,636.2 |
| Other deposits | 11,307.3 | 11,307.3 | 10,836.9 | 10,836.9 |
| Repurchase agreements | 244.2 | 244.2 | 144.1 | 144.1 |
| FHLB advances | 9.7 | 9.2 | 14.8 | 14.6 |
| Subordinated notes | 182.9 | 194.6 | 181.8 | 195.1 |
| Accrued interest payable | 3.5 | 3.5 | 7.2 | 7.2 |
| Derivative financial instruments: (3) | | | | |
| Recognized as an asset: | | | | |
| Interest rate swaps | 30.1 | 30.1 | 9.6 | 9.6 |
| Foreign exchange contracts | | | 0.1 | 0.1 |
| Forward commitments to sell residential mortgage loans | 2.1 | 2.1 | | |
| Interest rate-lock commitments on residential mortgage loans | | | 0.3 | 0.3 |
| Recognized as a liability: | | | | |
| Interest rate swaps | 28.3 | 28.3 | 8.6 | 8.6 |
| Foreign exchange contracts | 0.2 | 0.2 | | |
| Interest rate-lock commitments on residential mortgage loans | 2.7 | 2.7 | | |
| Forward commitments to sell residential mortgage loans | | | 0.3 | 0.3 |

- (1) Includes (i) trading account securities of \$83.5 million and \$75.7 million at September 30, 2010 and December 31, 2009, respectively (no other financial instruments in this table were held for trading purposes) and (ii) FHLB stock, reported at cost, totaling \$33.9 million and \$31.1 million at September 30, 2010 and December 31, 2009, respectively.
- (2) Includes fixed income securities, cash and cash equivalents, and equity mutual funds of \$33.7 million, \$5.2 million and \$0.3 million, respectively, at September 30, 2010, and fixed income securities and cash and cash equivalents of \$14.2 million and \$19.7 million, respectively, at December 31, 2009.
- (3) See Note 12 for a further discussion of derivative financial instruments.

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

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

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

Loans

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

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

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

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Deposit Liabilities

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

Borrowings and Subordinated Notes

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

Other Financial Assets and Liabilities

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

Off-Balance-Sheet Financial Instruments

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

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

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

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

Certain of People's United Financial's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the company's external credit rating. If the company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of bilateral netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2010 was \$5.1 million, for which People's United Financial had posted \$2.4 million of collateral in the normal course of business. If the company's senior unsecured debt rating had fallen below investment grade as of that date, \$2.7 million in additional collateral would have been required.

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

Interest Rate Floors

An interest rate floor is a type of option contract that is exercised when the underlying interest rate falls below a specified strike rate. Previously, People's United Financial purchased interest rate floors for the purpose of partially managing its exposure to decreases in the one-month LIBOR-index rate used to reprice certain long-term commercial loans. If the one-month LIBOR-index rate fell below the specified strike rate, People's United Financial received an interest payment on the interest rate floor equal to the difference between the one-month LIBOR-index rate on the reset date and the strike rate, which in effect, offset the decline in interest income earned on the hedged floating rate commercial loans from the decline in interest rates. The interest rate floors were accounted for as cash flow hedges.

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In the first quarter of 2009, People's United Financial terminated its remaining \$600 million (notional amount) interest rate floor contracts. The decision to do so was based on management's belief that, in light of the current interest rate environment, the derivative contracts had achieved their stated market risk management objective. Termination of the derivative contracts also served to reduce the company's counterparty credit risk. At the time of termination, the interest rate floors had an unrealized gain of \$40.1 million. The gain is included (on a net-of-tax basis) as a component of accumulated other comprehensive loss and is being recognized in income over the period during which the hedged items (certain floating rate commercial loans) affect earnings (approximately 2 years). A total of \$14.8 million of this gain was recognized in income during the nine months ended September 30, 2010 and the remaining unrecognized gain at September 30, 2010 was \$5.4 million, which is expected to be recognized in income over the next six months.

In connection with the September 2008 bankruptcy filing by Lehman Brothers Holdings, Inc., People's United Financial terminated its \$100 million (notional) derivative contract (interest rate floor) with Lehman Brothers. The derivative contract had a fair value of \$5.3 million at the time of termination. After considering the master netting arrangement and posted collateral, the net amount due from the counterparty was \$1.4 million. After impairment adjustments, the carrying amount of this receivable was \$0.4 million at September 30, 2010.

Interest Rate Swaps

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

Foreign Exchange Contracts

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

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Customer Derivatives

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

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

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

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The table below provides a summary of the notional amounts and fair values of derivatives outstanding at September 30, 2010 and December 31, 2009:

| (in millions) | Type of Hedge | Notional Amounts | | Fair Values (1) | | | |
|--|---------------|------------------|---------------|-----------------|---------------|----------------|---------------|
| | | Sept. 30, 2010 | Dec. 31, 2009 | Assets | | Liabilities | |
| | | Sept. 30, 2010 | Dec. 31, 2009 | Sept. 30, 2010 | Dec. 31, 2009 | Sept. 30, 2010 | Dec. 31, 2009 |
| Derivatives Not Designated as Hedging Instruments: | | | | | | | |
| Interest rate swaps: | | | | | | | |
| Commercial customers | N/A | \$ 428.9 | \$ 294.8 | \$ 30.1 | \$ 3.0 | \$ | \$ 5.6 |
| Other counterparties | N/A | 428.9 | 294.8 | | 6.6 | 27.8 | 2.5 |
| Foreign exchange contracts | N/A | 11.7 | | | | 0.2 | |
| Forward commitments to sell residential mortgage loans | N/A | 214.3 | 140.4 | 2.1 | | | 0.3 |
| Interest rate-lock commitments on residential mortgage loans | N/A | 261.1 | 141.4 | | 0.3 | 2.7 | |
| Total | | | | 32.2 | 9.9 | 30.7 | 8.4 |
| Derivatives Designated as Hedging Instruments: | | | | | | | |
| Interest rate swaps: | | | | | | | |
| Loans | Fair value | 5.8 | 6.0 | | | 0.5 | 0.5 |
| Foreign exchange contracts: | | | | | | | |
| Loans | Cash flow | | 9.6 | | 0.1 | | |
| Total | | | | | 0.1 | 0.5 | 0.5 |
| Total derivatives | | | | \$ 32.2 | \$ 10.0 | \$ 31.2 | \$ 8.9 |

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

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The following table summarizes the impact of People's United Financial's derivatives on pre-tax income and accumulated other comprehensive loss (AOCL) for the nine months ended September 30, 2010 and 2009:

| (in millions) | Type of Hedge | Amount of Pre-Tax Gain (Loss) Recognized in Earnings (1) | | Amount of Pre-Tax Gain (Loss) Recognized in AOCL | |
|--|---------------|--|--------------------------------------|--|--------------------------------------|
| | | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
| Derivatives Not Designated as Hedging Instruments: | | | | | |
| Interest rate swaps: | | | | | |
| Commercial customers | N/A | \$ 40.7 | \$ (1.0) | \$ | \$ |
| Other counterparties | N/A | (39.5) | 1.9 | | |
| Foreign exchange contracts | N/A | | | | |
| Forward commitments to sell residential mortgage loans | N/A | | | | |
| Interest rate-lock commitments on residential mortgage loans | N/A | (0.6) | | | |
| Total | | 0.6 | 0.9 | | |
| Derivatives Designated as Hedging Instruments: | | | | | |
| Interest rate floors (2) | Cash flow | 15.8 | 17.0 | | 1.2 |
| Interest rate swaps | Fair value | (0.2) | (0.3) | | |
| Foreign exchange contracts | Cash flow | | | | |
| Total | | 15.6 | 16.7 | | 1.2 |
| Total derivatives | | \$ 16.2 | \$ 17.6 | \$ | \$ 1.2 |

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

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NOTE 13. NEW ACCOUNTING STANDARDS

Transfers of Financial Assets

In June 2009, the FASB issued new requirements related to the accounting for transfers of financial assets, including securitization transactions. These requirements: (i) eliminate the concept of a qualifying special-purpose entity; (ii) change the requirements for derecognizing financial assets; and (iii) require additional disclosures, the objective of which is to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. These requirements were effective January 1, 2010 for People's United Financial. Transfers of financial assets occurring on or after the effective date are subject to the new requirements. Adoption did not have a significant impact on the company's Consolidated Financial Statements.

Variable Interest Entities

In June 2009, the FASB issued new requirements to improve financial reporting by companies involved with variable interest entities. These requirements: (i) amend existing guidance for determining whether an entity meets the definition of a variable interest entity; (ii) amend the criteria for identification of the primary beneficiary of a variable interest entity by requiring a qualitative analysis rather than a quantitative analysis; and (iii) require continuous reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Under the new requirements, the identification of the primary beneficiary focuses on which enterprise has the power to direct the activities of a variable interest entity which, in turn, most significantly impacts the entity's economic performance. These requirements were effective January 1, 2010 for People's United Financial. Adoption did not have a significant impact on the company's Consolidated Financial Statements.

Fair Value Measurement Disclosures

In January 2010, the FASB amended its standards related to disclosure of fair value measurements to require: (i) disclosure of amounts transferred in and out of the Level 1 and 2 fair value measurement categories; (ii) a reconciliation, presented on a gross basis rather than a net basis, of activity in the Level 3 fair value measurement category; (iii) greater disaggregation of the assets and liabilities for which fair value measurements are presented; and (iv) more robust disclosure of the valuation techniques and inputs used to measure assets and liabilities in the Level 2 and 3 fair value measurement categories. The new requirements were effective January 1, 2010 for People's United Financial, with the exception of the requirement related to the Level 3 activity reconciliation, which is effective for fiscal years beginning after December 15, 2010 (January 1, 2011 for People's United Financial). The applicable disclosures have been provided in Note 11.

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Loan Modifications

In March 2010, the Emerging Issues Task Force (EITF) of the FASB reached a consensus that a modified loan in a pool of purchased credit-impaired loans should remain in the pool even if the modification would otherwise be considered a troubled-debt restructuring. A one-time election to terminate accounting for loans in a pool, which may be made on a pool-by-pool basis, is provided upon adoption of the new guidance. Adoption of the guidance in the third quarter of 2010 did not have a significant impact on the company's Consolidated Financial Statements.

Credit Quality and Allowance for Credit Losses Disclosures

In July 2010, the FASB amended its standards related to required disclosures about the credit quality of financing receivables and the allowance for credit losses. As a result, companies will be required to provide expanded credit risk disclosures (such as aging information and credit quality indicators) and expanded disclosures related to the allowance for credit losses (such as a disaggregated rollforward of activity in the allowance). Both new and existing disclosures must be disaggregated either by portfolio segment or by class of financing receivable that are based, in part, on how a company develops its allowance for credit losses and manages its credit exposure. The amendments requiring disclosure as of the end of a reporting period are effective for periods ending on or after December 15, 2010 (December 31, 2010 for People's United Financial). The amendments requiring disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010 (January 1, 2011 for People's United Financial).

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

Forward-Looking Statements

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

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

All forward-looking statements are subject to risks and uncertainties that could cause People's United Financial's actual results or financial condition to differ materially from those expressed in or implied by such statements. Factors of particular importance to People's United Financial include, but are not limited to: (1) changes in general, national or regional economic conditions; (2) changes in interest rates; (3) changes in loan default and charge-off rates; (4) changes in deposit levels; (5) changes in levels of income and expense in non-interest income and expense related activities; (6) residential mortgage and secondary market activity; (7) changes in accounting and regulatory guidance applicable to banks; (8) price levels and conditions in the public securities markets generally; (9) competition and its effect on pricing, spending, third-party relationships and revenues; (10) the successful integration of acquired companies; (11) success in addressing management succession issues in a timely and effective manner; and (12) possible changes in regulation resulting from or relating to recently enacted financial reform legislation.

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

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Recent Market Developments

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

FDIC Insurance Coverage / Assessments

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

On September 29, 2009, the FDIC adopted a plan that extended the DIF restoration plan from seven years to eight years and on November 12, 2009, the FDIC adopted a final rule that amended the assessment regulations to require insured financial institutions to prepay, on December 30, 2009, their estimated deposit insurance premiums for 2010, 2011 and 2012. This rule, which did not include any additional special assessments, assumes a 5% annual growth rate in each institution's insured deposits (the assessment base) and increases each institution's premium assessment rate by three basis points beginning in 2011. As such, deposit insurance expense may continue to increase in the future. On December 30, 2009, People's United Bank prepaid its estimated deposit insurance premiums totaling \$69 million in accordance with FDIC regulations. After recognizing \$17 million of deposit insurance expense in the first nine months of 2010, the prepaid deposit insurance premium was reduced to \$52 million.

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The EESA increased the FDIC deposit insurance limit from \$100,000 to \$250,000 per depositor through December 31, 2009, and subsequent amendments extended the increased coverage through December 31, 2013. In addition, on October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program, which consists of two components: temporary unlimited deposit insurance on funds in non-interest-bearing transaction deposit accounts not otherwise covered by the increased \$250,000 deposit insurance limit (the Transaction Account Guarantee Program) and a temporary guarantee of certain newly-issued unsecured debt (the Debt Guarantee Program). All eligible institutions were covered under both programs for the first 30 days without incurring any costs. After the initial 30 day period, institutions participating in the Transaction Account Guarantee Program are assessed a 10 basis point surcharge on the additional insured deposits and institutions participating in the Debt Guarantee Program are subject to an annualized charge equal to 75 basis points.

On August 26, 2009, the FDIC adopted a final rule extending the Transaction Account Guarantee Program from December 31, 2009 through June 30, 2010. In April 2010, the Transaction Account Guarantee Program was extended again through December 31, 2010. Institutions that remain in the Transaction Account Guarantee Program will be charged an assessment rate of either 15 basis points, 20 basis points or 25 basis points on the additional insured deposits, depending on the institution's risk category as assigned by the FDIC.

Through June 30, 2010, the company participated in the Transaction Account Guarantee Program as it had historically participated in all other FDIC deposit insurance programs. However, the company elected to opt out of future participation in the Transaction Account Guarantee Program effective July 1, 2010. While People's United Financial has retained its right to do so, the company does not, at this time, intend to issue senior unsecured debt securities under the Debt Guarantee Program.

Based on the increase in the premium assessment rate, the special assessment announced in May 2009, and the company's participation in the Transaction Account Guarantee Program through June 30, 2010, the company's cost of deposit insurance increased significantly in 2009, and further increases may occur. The actual amount of further increases will be dependent on several factors, including: (i) deposit levels; (ii) People's United Bank's risk profile; (iii) changes resulting from the FDIC's November 2009 final rule; and (iv) whether additional special assessments are imposed in future periods and the manner in which such assessments are determined.

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Dodd-Frank Wall Street Reform and Consumer Protection Act

As previously disclosed in the risk factors included in People's United Financial's Annual Report on Form 10-K for the year ended December 31, 2009, our business is subject to risk as a result of changes in Federal and State regulation. On July 21, 2010, financial regulatory reform was signed into law by the President as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act). The Act implements significant changes in the financial regulatory landscape and will impact all financial institutions and their holding companies, including People's United Bank and People's United Financial.

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

The Act provides that the amount of interchange fee that an issuer of debit cards may charge or receive must be reasonable and proportional to the cost of the transaction. The Act directs the Federal Reserve Board (the Board) to issue regulations to implement this requirement, and further provides that in determining whether a charge is reasonable and proportional the issuer may generally consider only the incremental cost of the individual transaction. Separately, the Board is authorized to issue regulations that would allow an issuer to adjust interchange fees to reflect the costs associated with fraud mitigation related to debit card transactions, provided that the issuer must comply with fraud-related standards to be established by the Board. The Act further provides that a debit card issuer may not restrict the number of payment card networks on which a debit card transaction may be processed to a single network or limit the ability of a merchant to direct the routing of debit card payments for processing. The company expects that the Act's interchange fee provisions will reduce interchange fee revenue, beginning in the third quarter of 2011, but the full impact will not be known until the Board has completed its rule-making. The Act also changes the scope of federal deposit insurance coverage and increases the FDIC assessment payable by the Bank. It is anticipated that establishment of the Bureau and these other changes will significantly increase the company's regulatory compliance burden and costs and may restrict the financial products and services People's United Financial offers to its customers.

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

Because many of the Act's provisions require subsequent regulatory rulemaking, the impact that the new regulations will have on People's United Bank and People's United Financial can not be predicted at this time.

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

Table of Contents**Selected Consolidated Financial Data**

| (dollars in millions, except per share data) | Three Months Ended | | Nine Months Ended | | |
|--|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Operating Data: | | | | | |
| Net interest income | \$ 175.8 | \$ 173.8 | \$ 145.3 | \$ 509.2 | \$ 429.3 |
| Provision for loan losses | 21.8 | 17.8 | 21.5 | 49.1 | 43.4 |
| Non-interest income (1) | 75.9 | 76.8 | 80.2 | 223.3 | 237.4 |
| Non-interest expense (2) | 194.2 | 209.8 | 165.1 | 604.3 | 512.4 |
| Income before income tax expense | 35.7 | 23.0 | 38.9 | 79.1 | 110.9 |
| Net income | 24.1 | 16.0 | 26.8 | 53.7 | 76.3 |

Selected Statistical Data:

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Net interest margin (3) | 3.73% | 3.68% | 3.19% | 3.63% | 3.18% |
| Return on average assets (3) | 0.44 | 0.29 | 0.51 | 0.33 | 0.49 |
| Return on average tangible assets (3) | 0.48 | 0.32 | 0.55 | 0.36 | 0.53 |
| Return on average stockholders' equity (3) | 1.8 | 1.2 | 2.1 | 1.3 | 2.0 |
| Return on average tangible stockholders' equity (3) | 2.7 | 1.7 | 3.0 | 2.0 | 2.8 |
| Efficiency ratio | 71.8 | 72.7 | 71.3 | 73.4 | 73.4 |

Per Common Share Data:

| | | | | | |
|--------------------------------------|----------|----------|----------|----------|----------|
| Basic and diluted earnings per share | \$ 0.07 | \$ 0.04 | \$ 0.08 | \$ 0.15 | \$ 0.23 |
| Dividends paid per share | 0.1550 | 0.1550 | 0.1525 | 0.4625 | 0.4550 |
| Dividend payout ratio | 230.4% | 352.0% | 191.3% | 303.5% | 199.9% |
| Book value (end of period) | \$ 15.04 | \$ 15.10 | \$ 15.24 | \$ 15.04 | \$ 15.24 |
| Tangible book value (end of period) | 10.07 | 10.14 | 10.71 | 10.07 | 10.71 |
| Stock price: | | | | | |
| High | 14.35 | 16.79 | 17.41 | 17.08 | 18.54 |
| Low | 12.56 | 13.49 | 14.84 | 12.56 | 14.72 |
| Close (end of period) | 13.09 | 13.50 | 15.56 | 13.09 | 15.56 |

- (1) Includes net security gains of \$4.7 million and \$22.1 million for the three and nine months ended September 30, 2009, respectively.
- (2) Includes a total of \$5.3 million and \$23.2 million of merger-related expenses, core system conversion costs and one-time charges for the three months ended September 30, 2010 and June 30, 2010, respectively, and \$51.9 million for the nine months ended September 30, 2010. Also includes an FDIC special assessment charge of \$8.4 million for the nine months ended September 30, 2009.
- (3) Annualized.

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| (dollars in millions) | As of and for the Three Months Ended | | | | |
|---|--------------------------------------|------------------|-------------------|------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | March 31, 2010 | Dec. 31, 2009 | Sept. 30, 2009 |
| Financial Condition Data: | | | | | |
| Total assets | \$ 21,897 | \$ 21,950 | \$ 21,588 | \$ 21,257 | \$ 20,810 |
| Loans | 15,215 | 15,215 | 15,311 | 14,234 | 14,302 |
| Securities | 2,478 | 1,787 | 886 | 902 | 550 |
| Short-term investments (1) | 1,218 | 1,944 | 2,527 | 3,492 | 3,077 |
| Allowance for loan losses | 173 | 173 | 173 | 173 | 173 |
| Goodwill and other acquisition-related intangibles | 1,772 | 1,778 | 1,767 | 1,515 | 1,520 |
| Deposits | 15,675 | 15,834 | 15,397 | 15,446 | 15,050 |
| Borrowings | 254 | 141 | 175 | 159 | 154 |
| Subordinated notes | 183 | 183 | 182 | 182 | 182 |
| Stockholders' equity | 5,365 | 5,413 | 5,479 | 5,101 | 5,115 |
| Non-performing assets (2) | 312 | 285 | 248 | 206 | 193 |
| Net loan charge-offs | 21.8 | 17.8 | 9.5 | 13.6 | 16.0 |
| Average Balances: | | | | | |
| Loans | \$ 15,208 | \$ 15,319 | \$ 14,680 | \$ 14,231 | \$ 14,454 |
| Securities | 1,856 | 1,097 | 888 | 887 | 782 |
| Short-term investments (1) | 1,892 | 2,534 | 2,901 | 3,464 | 3,105 |
| Total earning assets | 18,956 | 18,950 | 18,469 | 18,582 | 18,341 |
| Total assets | 21,955 | 21,872 | 21,260 | 21,132 | 20,870 |
| Deposits | 15,801 | 15,704 | 15,202 | 15,273 | 15,037 |
| Total funding liabilities | 16,175 | 16,052 | 15,573 | 15,616 | 15,365 |
| Stockholders' equity | 5,404 | 5,458 | 5,275 | 5,106 | 5,135 |
| Ratios: | | | | | |
| Net loan charge-offs to average loans (annualized) | 0.57% | 0.46% | 0.26% | 0.38% | 0.44% |
| Non-performing assets to originated loans, real estate owned and repossessed assets (2) | 2.18 | 2.01 | 1.74 | 1.44 | 1.35 |
| Allowance for loan losses to: | | | | | |
| Originated loans (2) | 1.21 | 1.23 | 1.22 | 1.21 | 1.21 |
| Originated non-accrual loans (2) | 68.6 | 78.5 | 89.7 | 102.2 | 98.2 |
| Average stockholders' equity to average total assets | 24.6 | 25.0 | 24.8 | 24.2 | 24.6 |
| Stockholders' equity to total assets | 24.5 | 24.7 | 25.4 | 24.0 | 24.6 |
| Tangible stockholders' equity to tangible assets | 17.8 | 18.0 | 18.7 | 18.2 | 18.6 |
| Total risk-based capital (3) | 16.4 | 16.6 | 16.3 | 14.1 | 14.0 |

(1) Includes securities purchased under agreements to resell.

(2) Excludes acquired non-accrual loans. See Asset Quality.

(3) Total risk-based capital ratios presented are for People's United Bank and, as such, do not reflect the additional capital residing at People's United Financial, Inc. See Regulatory Capital Requirements.

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Non-GAAP Financial Measures and Reconciliation to GAAP

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

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

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

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

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

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

| (dollars in millions) | Three Months Ended | | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Total non-interest expense | \$ 194.2 | \$ 209.8 | \$ 165.1 | \$ 604.3 | \$ 512.4 |
| Less: | | | | | |
| Amortization of other acquisition-related intangibles | 6.1 | 4.8 | 5.1 | 15.6 | 15.6 |
| FDIC special assessment | | | | | 8.4 |
| Merger-related expenses | 1.0 | 2.8 | | 18.5 | |
| Fair value adjustments | 0.8 | 0.8 | 0.8 | 2.4 | 2.4 |
| Executive-level separation agreement | | 15.3 | | 15.3 | |
| Other | 2.9 | 0.8 | (0.5) | 6.6 | 6.0 |
| Total | \$ 183.4 | \$ 185.3 | \$ 159.7 | \$ 545.9 | \$ 480.0 |
| Net interest income (1) | \$ 176.6 | \$ 174.6 | \$ 146.1 | \$ 511.6 | \$ 431.9 |
| Total non-interest income | 75.9 | 76.8 | 80.2 | 223.3 | 237.4 |
| Add: | | | | | |
| Fair value adjustments | 2.2 | 2.2 | 1.6 | 6.0 | 4.8 |
| BOLI FTE adjustment (1) | 0.7 | 1.4 | 1.1 | 3.1 | 3.5 |
| Less: | | | | | |
| Net security gains | | | 4.7 | | 22.1 |
| Other | | | 0.3 | | 1.6 |
| Total | \$ 255.4 | \$ 255.0 | \$ 224.0 | \$ 744.0 | \$ 653.9 |
| Efficiency ratio | 71.8% | 72.7% | 71.3% | 73.4% | 73.4% |

(1) Fully taxable equivalent.

The following table summarizes People's United Financial's operating earnings and operating earnings per share:

| (in millions, except per share data) | Three Months Ended | | | Nine Months Ended | |
|--------------------------------------|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Net income, as reported | \$ 24.1 | \$ 16.0 | \$ 26.8 | \$ 53.7 | \$ 76.3 |
| Adjustments, net of tax (1) | 3.6 | 15.8 | | 35.0 | |
| Operating earnings | \$ 27.7 | \$ 31.8 | \$ 26.8 | \$ 88.7 | \$ 76.3 |
| Operating earnings per share | \$ 0.08 | \$ 0.09 | \$ 0.08 | \$ 0.25 | \$ 0.23 |

(1)

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Represents pre-tax merger-related expenses, core system conversion costs and one-time charges totaling \$5.3 million and \$23.2 million for the three months ended September 30, 2010 and June 30, 2010, respectively, and \$51.9 million for the nine months ended September 30, 2010, less related income taxes.

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

| (dollars in millions, except per share data) | Sept. 30, 2010 | June 30, 2010 | March 31, 2010 | Dec. 31, 2009 | Sept. 30, 2009 |
|--|-------------------|------------------|-------------------|------------------|-------------------|
| Total stockholders' equity | \$ 5,365 | \$ 5,413 | \$ 5,479 | \$ 5,101 | \$ 5,115 |
| Less: Goodwill and other acquisition-related intangibles | 1,772 | 1,778 | 1,767 | 1,515 | 1,520 |
| Tangible stockholders' equity | \$ 3,593 | \$ 3,635 | \$ 3,712 | \$ 3,586 | \$ 3,595 |
| Total assets | \$ 21,897 | \$ 21,950 | \$ 21,588 | \$ 21,257 | \$ 20,810 |
| Less: Goodwill and other acquisition-related intangibles | 1,772 | 1,778 | 1,767 | 1,515 | 1,520 |
| Tangible assets | \$ 20,125 | \$ 20,172 | \$ 19,821 | \$ 19,742 | \$ 19,290 |
| Tangible equity ratio | 17.8% | 18.0% | 18.7% | 18.2% | 18.6% |
| Common shares issued (in millions) | 374.63 | 374.64 | 374.76 | 348.25 | 348.38 |
| Less: Common shares classified as treasury shares | 8.75 | 6.90 | 3.19 | 3.21 | 3.27 |
| Unallocated ESOP common shares | 9.15 | 9.23 | 9.32 | 9.41 | 9.49 |
| Common shares | 356.73 | 358.51 | 362.25 | 335.63 | 335.62 |
| Tangible book value per share | \$ 10.07 | \$ 10.14 | \$ 10.25 | \$ 10.68 | \$ 10.71 |

Completed Acquisitions

On April 16, 2010, People's United Bank (the "Bank"), a subsidiary of People's United Financial, entered into a definitive purchase and assumption agreement (the "Agreement") with the FDIC pursuant to which the Bank assumed all of the deposits, certain assets and the banking operations of Butler Bank, located in Lowell, Massachusetts, with four branches in the greater Boston market. The transaction resulted in the acquisition of approximately \$244 million in total assets and approximately \$227 million in total deposits. The Bank did not pay the FDIC a premium to assume the deposits of Butler Bank. The assets acquired and liabilities assumed were recorded by People's United Financial at their estimated fair values as of the closing date and People's United Financial's results of operations for the nine months ended September 30, 2010 include the results of Butler Bank beginning with the closing date. Merger-related expenses totaling \$0.4 million were recorded in the first nine months of 2010.

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

On February 19, 2010, People's United Financial completed its acquisition of Financial Federal Corporation ("Financial Federal"), a financial services company providing collateralized lending, financing and leasing services nationwide to small and medium sized businesses. On the closing date, Financial Federal had total assets of \$1.28 billion.

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Total consideration paid in the Financial Federal acquisition of approximately \$699 million consisted of approximately \$293 million in cash and 26.0 million shares of People's United Financial common stock with a fair value of approximately \$406 million. Cash consideration was paid at the rate of \$11.27 per share of Financial Federal common stock and stock consideration was paid at the rate of one share of People's United Financial common stock per share of Financial Federal common stock. The assets acquired and liabilities assumed were recorded by People's United Financial at their estimated fair values as of the closing date and People's United Financial's results of operations for the nine months ended September 30, 2010 include the results of Financial Federal beginning with the closing date. Merger-related expenses totaling \$17.1 million (including (i) investment advisory, legal, accounting and valuation services, (ii) debt prepayment costs and (iii) compensatory charges) were recorded in the first nine months of 2010.

Included in the Consolidated Statements of Income for the nine months ended September 30, 2010 are approximately \$58 million of interest income and approximately \$25 million of net income attributable to Financial Federal and Butler Bank since the respective acquisition dates. See Note 2 to the Consolidated Financial Statements for further discussions of the acquisitions.

Pending Acquisitions

On July 15, 2010, People's United Financial announced the signing of definitive agreements to acquire Smithtown Bancorp, Inc. (Smithtown) based in Hauppauge, New York and LSB Corporation (LSB) based in North Andover, Massachusetts.

The Smithtown acquisition is currently valued at approximately \$57 million, with approximately half that amount being paid in cash and the balance in the form of shares of People's United Financial common stock. At September 30, 2010, Smithtown reported total assets of \$2.28 billion, total deposits of \$1.82 billion and operated 30 branches, including 29 on Long Island and one in New York City.

The LSB acquisition is an all-cash transaction valued at approximately \$96 million. At September 30, 2010, LSB reported total assets of \$780 million, total deposits of \$475 million and operated seven branches, including five in the greater Boston area and two in southern New Hampshire.

Both transactions, which are expected to close in November 2010, are subject to approval by bank regulatory authorities. Smithtown shareholders are scheduled to vote on the Smithtown merger on November 19, 2010 and LSB shareholders approved the LSB merger on October 27, 2010. People's United Financial shareholder approval is not required for either transaction. Merger expenses totaling \$1.0 million relating to these transactions were recorded in the third quarter of 2010.

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Financial Overview

People's United Financial reported net income of \$24.1 million, or \$0.07 per diluted share, for the three months ended September 30, 2010, compared to \$26.8 million, or \$0.08 per diluted share, for the year-ago period. Third quarter 2010 earnings reflect an improvement in the net interest margin and \$5.3 million (pre-tax) of merger-related expenses, core system conversion costs and one-time charges. The net impact of these expenses reduced third quarter 2010 net income by \$3.6 million, or \$0.01 per diluted share. Excluding the effect of these items, operating earnings were \$27.7 million, or \$0.08 per diluted share, for the third quarter of 2010.

For the nine months ended September 30, 2010, net income totaled \$53.7 million, or \$0.15 per diluted share, compared to \$76.3 million or \$0.23 per diluted share for the year-ago period. Results for the first nine months of 2010 include \$51.9 million (pre-tax) of merger-related expenses, core system conversion costs and one-time charges. The net impact of these expenses reduced net income for the first nine months of 2010 by \$35.0 million, or \$0.10 per diluted share. Excluding the effect of these items, operating earnings were \$88.7 million, or \$0.25 per diluted share, for the nine months ended September 30, 2010.

As previously reported, People's United Financial completed its acquisitions of Financial Federal on February 19, 2010 and Butler Bank on April 16, 2010. Accordingly, Financial Federal's and Butler Bank's results of operations are included beginning as of the respective acquisition dates, and prior period results have not been restated to include Financial Federal and Butler Bank.

People's United Financial's return on average tangible assets was 0.48% and return on average tangible stockholders' equity was 2.7% for the three months ended September 30, 2010, compared to 0.55% and 3.0%, respectively, in the year-ago quarter.

Net interest income increased \$30.5 million from the year-ago quarter while the net interest margin improved 54 basis points to 3.73%. The higher net interest margin reflects the benefit of Financial Federal as well as a 43 basis points reduction in the cost of deposits, partially offset by the low interest rate environment, and the company's asset sensitive balance sheet, including its significant excess capital position, a portion of which was temporarily invested in low-yielding short-term investments for most of 2010. Compared to the second quarter of 2010, net interest income increased \$2.0 million and the net interest margin increased 5 basis points, primarily attributable to higher investment income and a 4 basis point reduction in the cost of deposits.

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Compared to the third quarter of 2009, average earning assets increased \$615 million, reflecting increases of \$1.1 billion in average securities and \$754 million in average loans, partially offset by a \$1.2 billion decrease in average short-term investments. Average funding liabilities increased \$810 million compared to the third quarter of 2009, reflecting an \$764 million increase in average total deposits.

Compared to the year-ago quarter, total non-interest income decreased \$4.3 million and total non-interest expense increased \$29.1 million (see Non-Interest Income and Non-Interest Expense). The efficiency ratio was 71.8% in the third quarter of 2010 compared to 71.3% in the year-ago period.

The provision for loan losses in the third quarter of 2010 was \$21.8 million compared to \$21.5 million in the year-ago period. The provision for loan losses in the third quarter of 2010 reflected net loan charge-offs of \$21.8 million. The provision for loan losses in the third quarter of 2009 reflected net loan charge-offs of \$16.0 million and a \$5.5 million increase in the allowance for loan losses. Net loan charge-offs as a percentage of average total loans on an annualized basis were 0.57% in the third quarter of 2010 compared to 0.44% in the year-ago quarter.

The allowance for loan losses totaled \$172.5 million at September 30, 2010, unchanged from December 31, 2009. Non-performing assets totaled \$312.0 million at September 30, 2010, a \$106.4 million increase from December 31, 2009. At September 30, 2010, the allowance for loan losses as a percentage of originated loans was 1.21% and as a percentage of originated non-accrual loans was 68.6% (see Asset Quality).

People's United Financial's total stockholders' equity was \$5.4 billion at September 30, 2010 compared to \$5.1 billion at December 31, 2009 and as a percentage of total assets, stockholders' equity was 24.5% and 24.0%, respectively. Tangible stockholders' equity as a percentage of tangible assets was 17.8% at September 30, 2010 compared to 18.2% at December 31, 2009.

People's United Bank's total risk-based capital ratio was 16.4% at September 30, 2010 compared to 14.1% at December 31, 2009 (see Regulatory Capital Requirements).

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Business Segment Results

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

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

FTP is used in the calculation of each operating segment's net interest income, and measures the value of funds used in and provided by an operating segment. The difference between the interest income on earning assets and the interest expense on funding liabilities, and the corresponding FTP charge for interest income or credit for interest expense, results in net spread income. A five-year rolling average net charge-off rate is used as the basis for the provision for loan losses for the respective segment.

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

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

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Three months ended

September 30, 2010

| (in millions) | Retail and | | | | | | Total Consolidated |
|---|--------------------|------------------|-------------------|----------------|------------|----------|--------------------|
| | Commercial Banking | Business Banking | Wealth Management | Total Segments | Treasury | Other | |
| Net interest income (loss) | \$ 78.7 | \$ 96.9 | \$ 1.0 | \$ 176.6 | \$ (15.9) | \$ 15.1 | \$ 175.8 |
| Provision for loan losses | 6.8 | 1.7 | 0.1 | 8.6 | | 13.2 | 21.8 |
| Total non-interest income | 14.2 | 39.1 | 19.4 | 72.7 | 4.0 | (0.8) | 75.9 |
| Total non-interest expense | 47.9 | 111.3 | 21.2 | 180.4 | 3.7 | 10.1 | 194.2 |
| Income (loss) before income tax expense (benefit) | 38.2 | 23.0 | (0.9) | 60.3 | (15.6) | (9.0) | 35.7 |
| Income tax expense (benefit) | 12.4 | 7.5 | (0.3) | 19.6 | (5.1) | (2.9) | 11.6 |
| Net income (loss) | \$ 25.8 | \$ 15.5 | \$ (0.6) | \$ 40.7 | \$ (10.5) | \$ (6.1) | \$ 24.1 |
| Total average assets | \$ 10,861.6 | \$ 5,893.4 | \$ 325.0 | \$ 17,080.0 | \$ 3,912.7 | \$ 961.9 | \$ 21,954.6 |
| Total average liabilities | 2,165.9 | 13,850.3 | 200.6 | 16,216.8 | 102.5 | 231.1 | 16,550.4 |

Nine months ended

September 30, 2010

| (in millions) | Retail and | | | | | | Total Consolidated |
|---|--------------------|------------------|-------------------|----------------|------------|-----------|--------------------|
| | Commercial Banking | Business Banking | Wealth Management | Total Segments | Treasury | Other | |
| Net interest income (loss) | \$ 227.1 | \$ 281.9 | \$ 2.9 | \$ 511.9 | \$ (47.3) | \$ 44.6 | \$ 509.2 |
| Provision for loan losses | 19.8 | 4.7 | 0.2 | 24.7 | | 24.4 | 49.1 |
| Total non-interest income | 39.9 | 116.8 | 56.6 | 213.3 | 12.5 | (2.5) | 223.3 |
| Total non-interest expense | 138.9 | 325.7 | 64.7 | 529.3 | 8.8 | 66.2 | 604.3 |
| Income (loss) before income tax expense (benefit) | 108.3 | 68.3 | (5.4) | 171.2 | (43.6) | (48.5) | 79.1 |
| Income tax expense (benefit) | 35.7 | 22.3 | (1.8) | 56.2 | (14.6) | (16.2) | 25.4 |
| Net income (loss) | \$ 72.6 | \$ 46.0 | \$ (3.6) | \$ 115.0 | \$ (29.0) | \$ (32.3) | \$ 53.7 |
| Total average assets | \$ 10,886.4 | \$ 5,666.4 | \$ 339.3 | \$ 16,892.1 | \$ 3,877.2 | \$ 928.6 | \$ 21,697.9 |
| Total average liabilities | 2,186.6 | 13,551.4 | 194.3 | 15,932.3 | 94.5 | 291.6 | 16,318.4 |

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

| (in millions) | Three Months Ended | | Nine Months Ended | |
|----------------------------------|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Net interest income | \$ 78.7 | \$ 65.6 | \$ 227.1 | \$ 189.4 |
| Provision for loan losses | 6.8 | 5.6 | 19.8 | 16.6 |
| Total non-interest income | 14.2 | 10.1 | 39.9 | 30.1 |
| Total non-interest expense | 47.9 | 37.1 | 138.9 | 114.6 |
| Income before income tax expense | 38.2 | 33.0 | 108.3 | 88.3 |
| Income tax expense | 12.4 | 10.7 | 35.7 | 27.4 |
| Net income | \$ 25.8 | \$ 22.3 | \$ 72.6 | \$ 60.9 |
| Total average assets | \$ 10,861.6 | \$ 9,855.5 | \$ 10,886.4 | \$ 9,792.4 |
| Total average liabilities | 2,165.9 | 2,391.5 | 2,186.6 | 2,379.9 |

Commercial Banking net income increased \$3.5 million compared to the third quarter of 2009, primarily as a result of the Financial Federal acquisition completed in February 2010. The \$13.1 million increase in net interest income reflects an increase in average earning assets (primarily the loans acquired in the Financial Federal acquisition) as well as improved spreads on commercial loans, partially offset by narrowing spreads on commercial deposits. The \$4.1 million increase in non-interest income primarily reflects an increase in commercial loan fees. The \$10.8 million increase in non-interest expense reflects PUEFC non-interest expenses, increases in amortization expense on leased equipment and higher direct expenses due to the continued loan growth in Commercial Banking.

The total average commercial banking loan portfolio increased \$1.2 billion compared to the third quarter of 2009, reflecting the addition of the PUEFC portfolio (average of \$1.0 billion in the third quarter of 2010) as well as increases of \$162 million in average commercial real estate loans and \$66 million in average commercial loans, partially offset by a \$63 million decrease in average loans originated by PCLC.

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

| (in millions) | Three Months Ended | | Nine Months Ended | |
|----------------------------------|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Net interest income | \$ 96.9 | \$ 94.6 | \$ 281.9 | \$ 283.1 |
| Provision for loan losses | 1.7 | 1.2 | 4.7 | 3.6 |
| Total non-interest income | 39.1 | 43.3 | 116.8 | 120.6 |
| Total non-interest expense | 111.3 | 100.7 | 325.7 | 311.0 |
| Income before income tax expense | 23.0 | 36.0 | 68.3 | 89.1 |
| Income tax expense | 7.5 | 11.6 | 22.3 | 28.8 |
| Net income | \$ 15.5 | \$ 24.4 | \$ 46.0 | \$ 60.3 |
| Total average assets | \$ 5,893.4 | \$ 5,855.9 | \$ 5,666.4 | \$ 6,020.1 |
| Total average liabilities | 13,850.3 | 12,732.8 | 13,551.4 | 12,479.2 |

Retail and Business Banking net income decreased \$8.9 million compared to the third quarter of 2009. The \$2.3 million increase in net interest income primarily reflects the growth in deposit balances (see below) and a slight increase in the spread on residential mortgages, partially offset by narrower spreads on deposit products resulting from the continued negative impact of a reduced interest rate environment initiated by the Federal Reserve Board in 2008, and lower residential mortgage balances. In the third quarter of 2010, average residential mortgage loans decreased \$346 million compared to the year-ago quarter, reflecting People's United Financial's past practice, through May 2010, of selling essentially all of its newly-originated residential mortgage loans.

Non-interest income decreased \$4.2 million compared to the third quarter of 2009, reflecting a \$2.8 million decrease in net gains on sales of residential mortgage loans. The \$10.6 million increase in non-interest expense reflects increases in direct and allocated expenses.

Average total liabilities increased \$1.1 billion compared to the third quarter of 2009. Average deposits increased \$764 million (including \$217 million in average deposits acquired in the Butler Bank acquisition), reflecting increases of \$210 million in average non-interest-bearing deposits and \$1.1 billion in average savings and money market deposits, partially offset by a \$577 million decrease in average time deposits.

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Wealth Management consists of trust services; corporate trust; brokerage, financial advisory services, investment management services and life insurance provided by People's Securities, Inc.; other insurance services provided through R. C. Knox and Company, Inc. and Chittenden Insurance Group, LLC; and private banking.

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--------------------------------|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Net interest income | \$ 1.0 | \$ 0.7 | \$ 2.9 | \$ 2.8 |
| Provision for loan losses | 0.1 | | 0.2 | 0.1 |
| Total non-interest income | 19.4 | 19.8 | 56.6 | 58.8 |
| Total non-interest expense | 21.2 | 20.8 | 64.7 | 64.0 |
| Loss before income tax benefit | (0.9) | (0.3) | (5.4) | (2.5) |
| Income tax benefit | (0.3) | (0.1) | (1.8) | (0.9) |
| Net loss | \$ (0.6) | \$ (0.2) | \$ (3.6) | \$ (1.6) |
| Total average assets | \$ 325.0 | \$ 304.6 | \$ 339.3 | \$ 315.6 |
| Total average liabilities | 200.6 | 141.8 | 194.3 | 142.9 |

The increase in Wealth Management's net loss in the third quarter of 2010 compared to the year-ago quarter reflects a \$0.4 million decrease in non-interest income and a \$0.4 million increase in non-interest expense. Within non-interest income, investment management fees decreased \$0.8 million reflecting broader economic weakness and the low interest rate environment, and insurance revenue increased \$0.4 million reflecting a higher level of insurance renewals. The increase in non-interest expense reflects higher direct expenses in the third quarter of 2010.

Assets managed and administered by Wealth Management, which are not reported as assets of People's United Financial, totaled \$17.1 billion at September 30, 2010 compared to \$16.4 billion at both June 30, 2010 and September 30, 2009. The increase from June 30, 2010 primarily reflects new business generated during the third quarter 2010 and market appreciation.

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

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--------------------------------|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Net interest loss | \$ (15.9) | \$ (34.5) | \$ (47.3) | \$ (99.7) |
| Total non-interest income | 4.0 | 7.6 | 12.5 | 24.5 |
| Total non-interest expense | 3.7 | 2.1 | 8.8 | 5.2 |
| Loss before income tax benefit | (15.6) | (29.0) | (43.6) | (80.4) |
| Income tax benefit | (5.1) | (10.2) | (14.6) | (28.4) |
| Net loss | \$ (10.5) | \$ (18.8) | \$ (29.0) | \$ (52.0) |
| Total average assets | \$ 3,912.7 | \$ 4,062.2 | \$ 3,877.2 | \$ 3,779.0 |
| Total average liabilities | 102.5 | 88.2 | 94.5 | 91.1 |

Treasury's net loss in the third quarter of 2010 was reduced by \$8.3 million compared to the 2009 period, reflecting a decrease in the net interest loss, partially offset by a decrease in non-interest income and an increase in non-interest expense. The \$18.6 million decrease in net interest loss reflects an increase in the funding center's net interest spread. The increase in the funding center's net interest spread is primarily due to the historically low interest rate environment over an extended period of time, resulting in long-term funding costs declining more than asset yields, reflecting the asset sensitive position of People's United Financial's balance sheet. Non-interest income in the third quarter of 2009 included \$4.8 million of security gains resulting from the sale of residential mortgage-backed securities. The increases in non-interest income (excluding security gains) and non-interest expense primarily reflect higher revenues and costs relating to derivative transactions entered into with commercial customers.

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Other includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment, and the FTP impact from excess capital. This category also includes certain nonrecurring items, including merger-related expenses, core system conversion costs and one-time charges totaling \$5.3 million and \$51.9 million for the three and nine months ended September 30, 2010, respectively (included in total non-interest expense, a \$5.6 million gain related to the sale of the company's remaining Class B Visa shares (included in total non-interest income for the nine months ended September 30, 2009) and \$4.4 million of benefit-related and other charges (included in total non-interest expense for the nine months ended September 30, 2009). Included in Other are assets such as cash, premises and equipment, and other assets, including pension assets.

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Net interest income | \$ 15.1 | \$ 18.9 | \$ 44.6 | \$ 53.7 |
| Provision for loan losses | 13.2 | 14.7 | 24.4 | 23.1 |
| Total non-interest income | (0.8) | (0.6) | (2.5) | 3.4 |
| Total non-interest expense | 10.1 | 4.4 | 66.2 | 17.6 |
| (Loss) income before income tax expense | (9.0) | (0.8) | (48.5) | 16.4 |
| Income tax (benefit) expense | (2.9) | 0.1 | (16.2) | 7.7 |
| Net (loss) income | \$ (6.1) | \$ (0.9) | \$ (32.3) | \$ 8.7 |
| Total average assets | \$ 961.9 | \$ 791.9 | \$ 928.6 | \$ 724.2 |
| Total average liabilities | 231.1 | 381.3 | 291.6 | 384.9 |

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Net Interest Income

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

The Federal Reserve Board established a target range for the federal funds rate of 0 to 0.25 percent as of December 16, 2008, which has not changed. The improvement in the net interest margin in the third quarter of 2010 reflects the benefit from higher investment income and lower cost of deposits. However, the net interest margin continues to be impacted by the historically low interest rate environment, given the asset sensitive position of People's United Financial's balance sheet, including the investment of a portion of the company's significant excess capital position in low-yielding short-term investments for most of 2010.

Third Quarter 2010 Compared to Third Quarter 2009

The net interest margin increased 54 basis points to 3.73% compared to the third quarter of 2009. The higher net interest margin reflects lower deposit costs and the benefit from the Financial Federal acquisition completed in February 2010, partially offset by the low interest rate environment and the company's asset sensitive balance sheet, including its significant excess capital position, a portion of which was invested in low-yielding short-term investments for most of 2010. Net interest income (FTE basis) increased \$30.5 million, reflecting a \$15.6 million increase in total interest and dividend income and a \$14.9 million decrease in total interest expense.

Average earning assets totaled \$19.0 billion in the third quarter of 2010, a \$615 million increase from the third quarter of 2009, reflecting increases of \$754 million in average loans and \$1.1 billion in average securities, partially offset by a \$1.2 billion decrease in average short-term investments. Average loans, average securities and average short-term investments comprised 80%, 10% and 10%, respectively, of average earning assets in the third quarter of 2010 compared to 79%, 4% and 17%, respectively, in the 2009 period. In the current quarter, the yield earned on the total loan portfolio was 5.12% and the yield earned on securities and short-term investments was 1.47%, compared to 5.08% and 0.95%, respectively, in the year-ago quarter. Excluding adjustable-rate residential mortgage loans, which are mostly of the hybrid variety, approximately 40% of the loan portfolio has floating interest rates at September 30, 2010 compared to approximately 44% at December 31, 2009.

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The total average commercial banking loan portfolio increased \$1.2 billion, reflecting the addition of the PUEFC portfolio (average of \$1.0 billion in the third quarter of 2010), as well as increases of \$248 million in average commercial real estate loans (presented net of an \$86 million decline in average shared national credits) and \$125 million in average commercial loans (presented net of an \$59 million decline in average shared national credits), partially offset by a \$63 million decrease in average loans originated by PCLC. At September 30, 2010, the shared national credits loan portfolio totaled \$432 million compared to \$567 million at December 31, 2009.

Average residential mortgage loans decreased \$346 million compared to the year-ago quarter, reflecting People's United Financial's past practice, through May 2010, of selling essentially all of its newly-originated residential mortgage loans, partially offset by the addition of \$106 million of average residential mortgage loans from the Butler Bank acquisition. Average consumer loans decreased \$86 million, reflecting declines of \$53 million in average indirect auto loans and \$29 million in average home equity loans.

Average funding liabilities totaled \$16.2 billion in the third quarter of 2010, an \$810 million increase compared to the year-ago quarter. Average deposits increased \$764 million, reflecting increases of \$210 million in average non-interest-bearing deposits and \$1.1 billion in average savings and money market deposits, partially offset by a \$577 million decrease in average time deposits. Average deposits comprised 98% of average funding liabilities in both the third quarter of 2010 and the year-ago period.

The 43 basis point decrease to 0.78% from 1.21% in the rate paid on average funding liabilities primarily reflects the decrease in market interest rates and the shift in deposit mix. The rate paid on average deposits decreased 43 basis points from the third quarter of 2009, reflecting decreases of 107 basis points in time deposits and 7 basis points in savings and money market deposits. Average savings and money market deposits and average time deposits comprised 50% and 28%, respectively, of average total deposits in the third quarter of 2010 compared to 45% and 33%, respectively, in the 2009 period.

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Third Quarter 2010 Compared to Second Quarter 2010

The net interest margin improved 5 basis points and net interest income (FTE basis) increased \$2.0 million compared to the second quarter of 2010, primarily reflecting the combined benefit of higher investment income and a 4 basis point decrease in the rate paid on average deposits in the third quarter. Total interest and dividend income increased \$0.6 million in the third quarter and total interest expense decreased \$1.4 million.

Average earning assets increased \$6 million, as a \$759 million increase in average securities was offset by decreases of \$111 million in average loans and \$642 million in average short-term investments and securities resale agreements. Average funding liabilities increased \$123 million, primarily reflecting a \$97 million increase in average deposits.

The tables on the following pages present average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009, and the nine months ended September 30, 2010 and 2009. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People's United Financial has ceased to accrue interest. The impact of People's United Financial's use of derivative instruments in managing interest rate risk is also reflected in the tables, classified according to the instrument hedged and the risk management objective.

Table of Contents**Average Balance Sheet, Interest and Yield/Rate Analysis (1)**

| Three months ended (dollars in millions) | September 30, 2010 | | | June 30, 2010 | | | September 30, 2009 | | |
|--|--------------------|----------|----------------|--------------------|----------|----------------|--------------------|----------|----------------|
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| Assets: | | | | | | | | | |
| Short-term investments | \$ 1,176.2 | \$ 0.8 | 0.28% | \$ 2,262.1 | \$ 1.5 | 0.26% | \$ 2,344.7 | \$ 1.4 | 0.23% |
| Securities purchased under agreements to resell | 715.8 | 0.4 | 0.21 | 271.4 | 0.1 | 0.20 | 760.0 | 0.4 | 0.19 |
| Securities (2) | 1,855.9 | 12.6 | 2.72 | 1,096.7 | 9.2 | 3.33 | 782.5 | 7.5 | 3.84 |
| Loans: | | | | | | | | | |
| Commercial real estate | 5,464.7 | 76.3 | 5.59 | 5,461.4 | 75.6 | 5.54 | 5,302.3 | 73.9 | 5.58 |
| Commercial | 5,096.4 | 68.9 | 5.40 | 5,112.1 | 70.5 | 5.52 | 4,072.8 | 50.4 | 4.94 |
| Residential mortgage | 2,463.2 | 27.1 | 4.41 | 2,536.9 | 28.3 | 4.46 | 2,808.9 | 35.1 | 5.00 |
| Consumer | 2,184.1 | 22.2 | 4.06 | 2,208.8 | 22.5 | 4.08 | 2,269.9 | 24.0 | 4.24 |
| Total loans | 15,208.4 | 194.5 | 5.12 | 15,319.2 | 196.9 | 5.14 | 14,453.9 | 183.4 | 5.08 |
| Total earning assets | 18,956.3 | \$ 208.3 | 4.40% | 18,949.4 | \$ 207.7 | 4.38% | 18,341.1 | \$ 192.7 | 4.20% |
| Other assets | 2,998.3 | | | 2,922.5 | | | 2,529.0 | | |
| Total assets | \$ 21,954.6 | | | \$ 21,871.9 | | | \$ 20,870.1 | | |
| Liabilities and stockholders' equity: | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Non-interest-bearing | \$ 3,432.4 | \$ | % | \$ 3,357.0 | \$ | % | \$ 3,222.4 | \$ | % |
| Savings, interest-bearing checking and money market | 7,929.6 | 12.0 | 0.61 | 7,817.7 | 12.3 | 0.63 | 6,798.0 | 11.6 | 0.68 |
| Time | 4,439.1 | 15.6 | 1.40 | 4,529.4 | 16.7 | 1.48 | 5,016.4 | 30.9 | 2.47 |
| Total deposits | 15,801.1 | 27.6 | 0.70 | 15,704.1 | 29.0 | 0.74 | 15,036.8 | 42.5 | 1.13 |
| Borrowings: | | | | | | | | | |
| Repurchase agreements | 178.5 | 0.2 | 0.47 | 151.8 | 0.2 | 0.44 | 132.1 | 0.1 | 0.47 |
| FHLB advances | 9.8 | 0.1 | 5.19 | 8.6 | 0.1 | 6.12 | 14.6 | 0.2 | 5.30 |
| Other | 2.7 | | | 4.9 | | | | | |
| Total borrowings | 191.0 | 0.3 | 0.71 | 165.3 | 0.3 | 0.72 | 146.7 | 0.3 | 0.95 |
| Subordinated notes | 182.7 | 3.8 | 8.28 | 182.3 | 3.8 | 8.30 | 181.3 | 3.8 | 8.34 |
| Total funding liabilities | 16,174.8 | \$ 31.7 | 0.78% | 16,051.7 | \$ 33.1 | 0.83% | 15,364.8 | \$ 46.6 | 1.21% |
| Other liabilities | 375.6 | | | 362.3 | | | 370.8 | | |
| Total liabilities | 16,550.4 | | | 16,414.0 | | | 15,735.6 | | |
| Stockholders' equity | 5,404.2 | | | 5,457.9 | | | 5,134.5 | | |

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| | | | | | | |
|---|-------------|-------|-------------|-------|-------------|-------|
| Total liabilities and stockholders equity | \$ 21,954.6 | | \$ 21,871.9 | | \$ 20,870.1 | |
| Net interest income/spread (3) | \$ 176.6 | 3.62% | \$ 174.6 | 3.55% | \$ 146.1 | 2.99% |
| Net interest margin | | 3.73% | | 3.68% | | 3.19% |

- (1) Average yields earned and rates paid are annualized.
- (2) Average balances and yields for securities available for sale are based on amortized cost.
- (3) The FTE adjustment was \$0.8 million for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009.

Table of Contents**Average Balance, Interest and Yield/Rate Analysis (1)**

| Nine months ended | September 30, 2010 | | | September 30, 2009 | | |
|---|--------------------|----------|----------------|--------------------|----------|----------------|
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| (dollars in millions) | | | | | | |
| Assets: | | | | | | |
| Short-term investments | \$ 2,031.8 | \$ 4.0 | 0.26% | \$ 2,239.6 | \$ 4.7 | 0.28% |
| Securities purchased under agreements to resell | 406.4 | 0.6 | 0.20 | 347.0 | 0.6 | 0.20 |
| Securities (2) | 1,283.9 | 29.9 | 3.10 | 950.1 | 24.0 | 3.38 |
| Loans: | | | | | | |
| Commercial real estate | 5,439.9 | 226.2 | 5.55 | 5,160.1 | 213.7 | 5.52 |
| Commercial | 4,919.9 | 198.2 | 5.37 | 4,152.4 | 153.4 | 4.92 |
| Residential mortgage | 2,502.1 | 84.0 | 4.48 | 2,971.3 | 113.6 | 5.10 |
| Consumer | 2,209.3 | 67.5 | 4.07 | 2,266.2 | 71.9 | 4.23 |
| Total loans | 15,071.2 | 575.9 | 5.10 | 14,550.0 | 552.6 | 5.06 |
| Total earning assets | 18,793.3 | \$ 610.4 | 4.33% | 18,086.7 | \$ 581.9 | 4.29% |
| Other assets | 2,904.6 | | | 2,544.6 | | |
| Total assets | \$ 21,697.9 | | | \$ 20,631.3 | | |
| Liabilities and stockholders' equity: | | | | | | |
| Deposits: | | | | | | |
| Non-interest-bearing | \$ 3,352.8 | \$ | % | \$ 3,173.9 | \$ | % |
| Savings, interest-bearing checking and money market | 7,723.6 | 35.9 | 0.62 | 6,564.1 | 36.3 | 0.74 |
| Time | 4,494.8 | 50.4 | 1.50 | 5,020.8 | 101.2 | 2.69 |
| Total deposits | 15,571.2 | 86.3 | 0.74 | 14,758.8 | 137.5 | 1.24 |
| Borrowings: | | | | | | |
| Repurchase agreements | 165.0 | 0.6 | 0.45 | 152.9 | 0.5 | 0.45 |
| FHLB advances | 9.9 | 0.3 | 5.58 | 14.7 | 0.6 | 5.29 |
| Other | 7.0 | 0.2 | 3.26 | 2.8 | | 1.96 |
| Total borrowings | 181.9 | 1.1 | 0.84 | 170.4 | 1.1 | 0.89 |
| Subordinated notes | 182.4 | 11.4 | 8.30 | 181.0 | 11.4 | 8.36 |
| Total funding liabilities | 15,935.5 | \$ 98.8 | 0.83% | 15,110.2 | \$ 150.0 | 1.32% |
| Other liabilities | 382.9 | | | 367.8 | | |
| Total liabilities | 16,318.4 | | | 15,478.0 | | |
| Stockholders' equity | 5,379.5 | | | 5,153.3 | | |
| Total liabilities and stockholders' equity | \$ 21,697.9 | | | \$ 20,631.3 | | |

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| | | | | |
|--------------------------------|----------|-------|----------|-------|
| Net interest income/spread (3) | \$ 511.6 | 3.50% | \$ 431.9 | 2.97% |
| Net interest margin | | 3.63% | | 3.18% |

- (1) Average yields earned and rates paid are annualized.
- (2) Average balances and yields for securities available for sale are based on amortized cost.
- (3) The FTE adjustment was \$2.4 million and \$2.6 million for the nine months ended September 30, 2010 and 2009, respectively.

Table of Contents**Volume and Rate Analysis**

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

| (in millions) | Three Months Ended September 30, 2010 Compared To | | | | | |
|---|---|---------|----------|---------------------|----------|----------|
| | September 30, 2009 | | | June 30, 2010 | | |
| | Increase (Decrease) | | | Increase (Decrease) | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest and dividend income: | | | | | | |
| Short-term investments | \$ (0.8) | \$ 0.2 | \$ (0.6) | \$ (0.8) | \$ 0.1 | \$ (0.7) |
| Securities purchased under agreements to resell | | | | 0.3 | | 0.3 |
| Securities | 7.8 | (2.7) | 5.1 | 5.3 | (1.9) | 3.4 |
| Loans: | | | | | | |
| Commercial real estate | 2.2 | 0.2 | 2.4 | 0.1 | 0.6 | 0.7 |
| Commercial | 13.5 | 5.0 | 18.5 | (0.2) | (1.4) | (1.6) |
| Residential mortgage | (4.1) | (3.9) | (8.0) | (0.9) | (0.3) | (1.2) |
| Consumer | (0.9) | (0.9) | (1.8) | (0.3) | | (0.3) |
| Total loans | 10.7 | 0.4 | 11.1 | (1.3) | (1.1) | (2.4) |
| Total change in interest and dividend income | 17.7 | (2.1) | 15.6 | 3.5 | (2.9) | 0.6 |
| Interest expense: | | | | | | |
| Deposits: | | | | | | |
| Savings, interest-bearing checking and money market | 1.8 | (1.4) | 0.4 | 0.2 | (0.5) | (0.3) |
| Time | (3.2) | (12.1) | (15.3) | (0.3) | (0.8) | (1.1) |
| Total deposits | (1.4) | (13.5) | (14.9) | (0.1) | (1.3) | (1.4) |
| Borrowings: | | | | | | |
| Repurchase agreements | 0.1 | | 0.1 | | | |
| FHLB advances | (0.1) | | (0.1) | | | |
| Other | | | | | | |
| Total borrowings | | | | | | |
| Subordinated notes | | | | | | |
| Total change in interest expense | (1.4) | (13.5) | (14.9) | (0.1) | (1.3) | (1.4) |
| Change in net interest income | \$ 19.1 | \$ 11.4 | \$ 30.5 | \$ 3.6 | \$ (1.6) | \$ 2.0 |

Table of Contents**Volume and Rate Analysis**

| (in millions) | Nine Months Ended September 30, 2010 Compared To September 30, 2009 Increase (Decrease) | | |
|---|---|----------------|----------------|
| | Volume | Rate | Total |
| Interest and dividend income: | | | |
| Short-term investments | \$ (0.4) | \$ (0.3) | \$ (0.7) |
| Securities purchased under agreements to resell | | | |
| Securities | 7.9 | (2.0) | 5.9 |
| Loans: | | | |
| Commercial real estate | 11.6 | 0.9 | 12.5 |
| Commercial | 30.0 | 14.8 | 44.8 |
| Residential mortgage | (16.7) | (12.9) | (29.6) |
| Consumer | (1.7) | (2.7) | (4.4) |
| Total loans | 23.2 | 0.1 | 23.3 |
| Total change in interest and dividend income | 30.7 | (2.2) | 28.5 |
| Interest expense: | | | |
| Deposits: | | | |
| Savings, interest-bearing checking and money market | 5.9 | (6.3) | (0.4) |
| Time | (9.7) | (41.1) | (50.8) |
| Total deposits | (3.8) | (47.4) | (51.2) |
| Borrowings: | | | |
| Repurchase agreements | 0.1 | | 0.1 |
| FHLB advances | (0.3) | | (0.3) |
| Other | 0.1 | 0.1 | 0.2 |
| Total borrowings | (0.1) | 0.1 | |
| Subordinated notes | 0.1 | (0.1) | |
| Total change in interest expense | (3.8) | (47.4) | (51.2) |
| Change in net interest income | \$ 34.5 | \$ 45.2 | \$ 79.7 |

Table of Contents**Non-Interest Income**

| (in millions) | Three Months Ended | | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Investment management fees | \$ 7.6 | \$ 8.6 | \$ 8.4 | \$ 24.1 | \$ 24.5 |
| Insurance revenue | 8.3 | 6.3 | 7.9 | 21.9 | 23.0 |
| Brokerage commissions | 2.8 | 2.8 | 2.8 | 8.4 | 9.3 |
| Total wealth management income | 18.7 | 17.7 | 19.1 | 54.4 | 56.8 |
| Net security gains (losses): | | | | | |
| Equity securities | | | | | 5.5 |
| Debt securities | | | 4.7 | | 16.8 |
| Trading account securities | | | | | (0.2) |
| Total net security gains (losses) | | | 4.7 | | 22.1 |
| Bank service charges | 31.5 | 32.9 | 33.3 | 95.6 | 96.6 |
| Merchant services income | 6.9 | 6.4 | 6.7 | 19.1 | 18.6 |
| Net gains on sales of residential mortgage loans | 2.4 | 2.7 | 5.2 | 7.9 | 10.9 |
| Bank-owned life insurance | 1.4 | 2.6 | 2.2 | 5.8 | 6.5 |
| Other non-interest income | 15.0 | 14.5 | 9.0 | 40.5 | 25.9 |
| Total non-interest income | \$ 75.9 | \$ 76.8 | \$ 80.2 | \$ 223.3 | \$ 237.4 |

Total non-interest income decreased \$4.3 million compared to the third quarter of 2009 and \$0.9 million compared to the second quarter of 2010. Net security gains totaled \$4.7 million in the third quarter of 2009 (see below).

As compared to the third quarter of 2009, investment management fees decreased \$0.8 million, reflecting broader economic weakness and the low interest rate environment. Compared to the second quarter of 2010, the \$1.0 million decrease in investment management fees reflects the timing of certain annual fees and the \$2.0 million increase in insurance revenue reflects the seasonal nature of insurance renewals.

In the third and second quarters of 2009, People's United Financial sold residential mortgage-backed securities with an amortized cost of \$308 million and \$723 million, respectively, and recorded security gains of \$4.8 million and \$12.1 million, respectively. This investment portfolio repositioning was undertaken to mitigate prepayment risk.

Net security gains in the nine months ended September 30, 2009 also include a gain of \$5.6 million resulting from the sale of People's United Financial's remaining Class B Visa Inc. shares acquired as part of Visa's initial public offering. Including other minor gains and losses, net security gains totaled \$4.7 million and \$22.1 million for the three and nine month ended September 30, 2009, respectively (none for the nine months ended September 30, 2010).

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In connection with the sale of its remaining Class B Visa shares, People's United Financial and the buyer entered into a derivative contract providing for cash settlements that will depend, in part, on the ultimate resolution of certain litigation involving Visa. The amounts recorded for the derivative contract were insignificant through September 30, 2010.

The fluctuation in payment processing volume is the primary driver for the variances in merchant services income. The decrease in net gains on sales of residential mortgage loans from the third quarter of 2009 and second quarter of 2010 reflects the lower level of residential mortgage loan sales (a 52% decline in volume from last year's third quarter) due to the lower level in refinancing activity in 2010. BOLI income totaled \$1.4 million (\$2.1 million on a taxable-equivalent basis) in the third quarter of 2010, compared to \$2.2 million (\$3.3 million on a taxable-equivalent basis) in the year-ago quarter, and \$2.6 million in the second quarter of 2010 (\$4.0 million on a taxable-equivalent basis). BOLI income in the second quarter of 2010 includes a \$1.2 million death benefit.

Other non-interest income increased \$6.0 million compared to the third quarter of 2009, reflecting increases in rental income resulting from a higher level of equipment leased to PCLC customers, revenues relating to derivative transactions entered into with commercial customers, and commercial loan fees.

On July 6, 2010, final rules implemented by the Federal Reserve took effect that impose restrictions on overdraft fees. The new rules prohibit financial institutions, including People's United Bank, from charging consumers fees for paying overdrafts on automated teller machine and debit card transactions, unless a consumer consents to the overdraft service for those types of transactions. While it is anticipated that these changes will reduce bank service charges in future periods, the regulatory change is still being evaluated and, as such, the impact has not yet been fully quantified.

Table of Contents**Non-Interest Expense**

| (dollars in millions) | Three Months Ended | | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Compensation and benefits | \$ 93.2 | \$ 92.6 | \$ 86.0 | \$ 282.1 | \$ 261.3 |
| Occupancy and equipment | 28.0 | 28.5 | 27.5 | 86.3 | 81.8 |
| Professional and outside service fees | 18.5 | 20.8 | 11.6 | 52.9 | 34.0 |
| Merchant services expense | 5.8 | 5.3 | 5.7 | 15.9 | 15.8 |
| Other non-interest expense: | | | | | |
| Amortization of other acquisition-related intangibles | 6.1 | 4.8 | 5.1 | 15.6 | 15.6 |
| Advertising and promotion | 4.5 | 4.8 | 3.5 | 12.3 | 10.8 |
| Stationery, printing and postage | 3.3 | 3.2 | 2.9 | 10.1 | 9.1 |
| Other | 33.8 | 47.0 | 22.8 | 110.6 | 84.0 |
| Total other non-interest expense | 47.7 | 59.8 | 34.3 | 148.6 | 119.5 |
| Total | 193.2 | 207.0 | 165.1 | 585.8 | 512.4 |
| Merger-related expenses | 1.0 | 2.8 | | 18.5 | |
| Total non-interest expense | \$ 194.2 | \$ 209.8 | \$ 165.1 | \$ 604.3 | \$ 512.4 |
| Efficiency ratio | 71.8% | 72.7% | 71.3% | 73.4% | 73.4% |

Excluding the effect of merger-related expenses, total non-interest expense in the third quarter of 2010 increased \$28.1 million compared to the third quarter of 2009 and decreased \$13.8 million compared to the second quarter of 2010. Merger expenses totaling \$1.0 million relating to the Smithtown and LSB acquisitions were recorded in the third quarter of 2010. Merger-related expenses recorded in 2010 relating to the Financial Federal and Butler Bank acquisitions (\$2.8 million in the second quarter of 2010 and \$17.5 million in the nine months ended September 30, 2010) included (i) investment advisory, legal, accounting and valuation services, (ii) debt prepayment costs, (iii) compensatory charges, and (iv) regulatory filings. Included in other non-interest expense in the second quarter of 2010 is \$15.3 million related to the former CEO separation agreement (see below). Also included in total non-interest expense in the third and second quarters of 2010 are \$4.3 million and \$5.1 million, respectively, and \$18.1 million in the nine months ended September 30, 2010, of core system conversion costs. Such costs are expected to total approximately \$2 million in the fourth quarter of 2010.

The efficiency ratio was 71.8% in the third quarter of 2010 compared to 71.3% in the year-ago quarter (see Non-GAAP Financial Measures and Reconciliation to GAAP).

Compensation and benefits increased \$7.2 million compared to the year-ago quarter and increased \$0.6 million compared to the second quarter of 2010. The year-over-year increase reflects normal merit increases, higher benefit-related costs, costs related to the core system conversion and additional PUEFC and Butler Bank compensation and benefit costs.

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In March 2010, comprehensive health care reform legislation was signed into law under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the Acts). Included among the major provisions of the law is a change in tax treatment of the federal drug subsidy paid with respect to Medicare-eligible retirees. The effect of the Acts on the company's other postretirement benefits obligation, which totaled \$10.8 million at December 31, 2009, and related net periodic benefit expense, which totaled \$0.7 million for the nine months ended September 30, 2010, depends on finalization of related regulatory requirements; however, the impact is not expected to be material. People's United Financial will continue to monitor and assess the effect of the Acts as the regulatory requirements are finalized.

Costs recorded in the second quarter of 2010 related to the core system conversion and expenses related to the trade name and rebranding initiative (see below) are the principal reason for the variances in professional and outside services, and advertising and promotion. The fluctuation in payment processing volume is the primary driver for the variances in merchant services expense.

The increase in other non-interest expense from the third quarter of 2009 reflects higher FDIC insurance premiums, core system conversion costs, higher amortization expense on leased equipment and costs related to derivative transactions entered into with commercial customers. Other non-interest expense for the three months ended June 30, 2010 includes \$15.3 million related to costs incurred in connection with the former CEO separation agreement. As previously disclosed in Form 8-K filed on November 4, 2010, People's United Financial announced the planned retirement of its head of Commercial Banking effective December 31, 2010. As a result, non-interest expense for the three months ended December 31, 2010 is expected to include charges totaling approximately \$2-\$3 million related to costs associated with the accelerated vesting of unvested share-based awards upon his retirement.

In connection with People's United Financial's acquisition of Chittenden Corporation (Chittenden) in January 2008, a trade name intangible asset with a fair value of \$122.7 million was established and assigned an indefinite useful life based on management's intentions at that time. In June 2010, People's United Financial announced a plan to re-brand, as People's United Bank, the former Chittenden banks in connection with the scheduled completion of its core system conversion in July 2010. Management believes the name change better leverages the People's United brand and the full range of services available to its customers.

As a result of the decision to re-brand the Chittenden banks, the useful life of the trade name intangible asset was no longer deemed to be indefinite and management was required to perform a final impairment test prior to amortizing the asset over its estimated remaining useful life beginning July 1, 2010. People's United Financial performed its final trade name impairment test as of June 30, 2010 and determined that the fair value of the trade name intangible exceeded its carrying amount. As a result, no impairment loss was recognized. The trade name intangible will be amortized on an accelerated basis over a period of approximately 20 years, reflecting the manner in which the related benefit is realized.

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Scheduled amortization expense attributable to other acquisition-related intangible assets for the full-year of 2010 and each of the next five years is as follows: \$21.6 million in 2010; \$22.9 million in 2011; \$21.6 million in 2012; \$20.9 million in 2013; \$19.6 million in 2014; and \$18.9 million in 2015.

Income Taxes

People's United Financial's effective income tax rate was 32.5% compared to 30.4% in the second quarter of 2010 and 31.2% in the third quarter of 2009. The effective income tax rate in the second quarter of 2010 reflects a \$1.2 million non-taxable BOLI death benefit. People's United Financial's effective income tax rate was 32.1% in the first nine months of 2010. Excluding the non-taxable BOLI death benefit, the income tax rate was 32.6% in the first nine months of 2010, which approximates the expected income tax rate for the remainder of 2010.

The difference between People's United Financial's effective income tax rate for the nine months ended September 30, 2010 and the U.S. federal statutory rate of 35% is primarily attributable to: (i) tax exempt income from bank-owned life insurance; (ii) federal income tax credits associated with the company's investment in affordable housing limited partnerships; and (iii) tax exempt interest earned on certain investments.

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FINANCIAL CONDITION

General

Total assets at September 30, 2010 were \$21.9 billion, a \$640 million increase from December 31, 2009, reflecting increases of \$1.6 billion in total securities, \$981 million in total loans, \$340 million in securities purchased under agreements to resell, and \$272 million in goodwill, partially offset by a \$2.6 billion decrease in short-term investments. People's United Financial used short-term investments of approximately \$293 million to fund the cash consideration in the Financial Federal acquisition (see Note 2 to the Consolidated Financial Statements) and approximately \$816 million to repay Financial Federal and Butler Bank borrowings.

At September 30, 2010, liabilities totaled \$16.5 billion, a \$376 million increase from December 31, 2009, reflecting increases of \$229 million in total deposits and \$95 million in borrowings.

The increase in total loans from December 31, 2009 to September 30, 2010 reflects increases of \$1.0 billion in commercial loans and \$94 million in commercial real estate loans, partially offset by decreases of \$71 million in residential mortgage loans and \$69 million in consumer loans. At the respective acquisition dates, the fair values of the Financial Federal (now PUEFC) loans (included in commercial loans) and Butler Bank loans totaled \$1.2 billion and \$147 million, respectively. Residential mortgage loans at September 30, 2010 and December 31, 2009 included loans held for sale (substantially all to be sold servicing released) of \$70.2 million and \$71.3 million, respectively, which approximate fair value.

Non-performing assets (excluding acquired non-accrual loans) totaled \$312.0 million at September 30, 2010, a \$106.4 million increase from year-end 2009, primarily reflecting increases of \$34.3 million in non-accrual residential mortgage loans, \$16.9 million in non-accrual commercial loans, \$14.5 million in non-accrual equipment financing loans, \$12.6 million in non-accrual commercial real estate loans, \$12.8 million in repossessed assets (including \$14.3 million of Financial Federal (now PUEFC) repossessed assets) and \$11.0 million in real estate owned (REO) (including \$11.4 million acquired in the Butler Bank acquisition). The level of the allowance for loan losses remained unchanged at \$172.5 million at September 30, 2010 compared to December 31, 2009. At September 30, 2010, the allowance for loan losses as a percent of originated loans was 1.21% and as a percent of originated non-accrual loans was 68.6%, compared to 1.21% and 102.2%, respectively, at December 31, 2009.

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People's United Financial's total stockholders' equity was \$5.4 billion at September 30, 2010, a \$264 million increase from December 31, 2009. This increase primarily reflects the issuance of 26.0 million shares of common stock with a fair value (net of issuance costs) of approximately \$405 million in connection with the Financial Federal acquisition, net income of \$53.7 million and a \$15.4 million decrease in Accumulated Other Comprehensive Loss since December 31, 2009, partially offset by dividends paid of \$162.9 million and the open market repurchase of 5.6 million shares of common stock at a total cost of \$76.9 million. As a percentage of total assets, stockholders' equity was 24.5% at September 30, 2010 compared to 24.0% at December 31, 2009. Tangible stockholders' equity as a percentage of tangible assets was 17.8% at September 30, 2010 compared to 18.2% at December 31, 2009.

People's United Bank's leverage (core) capital ratio, tier 1, and total risk-based capital ratios were 13.0%, 15.4% and 16.4%, respectively, at September 30, 2010, compared to 10.0%, 13.1% and 14.1%, respectively, at December 31, 2009 (see Regulatory Capital Requirements).

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Asset Quality

Recent Trends

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

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

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

During the recent credit cycle, People's United Financial has experienced an increase in the number of loan modification requests. Certain loans whose terms have been modified 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 Financial, such as, but not limited to: (i) a reduction of the stated interest rate for the remaining contractual life of the loan; (ii) 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; (iii) capitalization of interest; or (iv) forgiveness of principal or interest. Generally, TDRs are placed on non-accrual status (and reported as non-performing loans) until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Loans may continue to be reported as TDRs after they are returned to accrual status.

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Portfolio Risk Elements Residential Mortgage Lending

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

At September 30, 2010, the loan portfolio included \$481 million of interest-only residential mortgage loans, of which \$61 million are stated income loans. People's United Financial began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. In general, People's United Financial's underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post closing reserves. People's United Financial has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 adjustable rate mortgage).

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

People's United Financial orders updated independent third-party appraisals for residential mortgage loans once a loan becomes 90 days past due. At September 30, 2010, non-performing residential mortgage loans totaling \$2.8 million had current loan-to-value ratios of more than 100%.

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

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

Portfolio Risk Elements Commercial Lending

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

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

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People's United Financial's outstanding construction loan portfolio totaled \$725 million (approximately 5% of total loans) at September 30, 2010. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, totaled \$952 million. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At September 30, 2010, outstanding construction loans totaling \$271 million had remaining available interest reserves totaling \$18 million. At that date, the company had no construction loans with interest reserves that were on non-accrual status and included in non-performing loans.

The recent economic downturn has resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which have related repayment guarantees. Modifications of commercial real estate loans involving maturity extensions are evaluated according to the company's normal underwriting standards and are classified as TDRs if the company does not receive a current market interest rate commensurate with current underwriting for a new loan with similar risk. People's United Financial had no restructured construction loans as of September 30, 2010.

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

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

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

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

Allowance and Provision for Loan Losses

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

People's United Financial did not change its practices with respect to determining the allowance for loan losses during the third quarter of 2010. While People's United Financial seeks to use the best available information to make these evaluations, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, the identification of additional problem loans and other factors.

Generally, the company's impaired loans represent classified commercial loans in excess of \$250,000 that have been placed on non-accrual status. Individually impaired loans are measured based upon observable market prices, the present value of expected future cash flows (including reasonably assured guarantor payments) discounted at the loan's original effective interest rate or, in the case of collateral dependent loans, appraised values. If the recorded investment in a loan exceeds the amount measured as described in the preceding sentence, a specific allowance for loan losses would be established as a component of the overall allowance for loan losses or, in the case of a collateral dependent loan, a charge-off would be recorded for the difference between the loan's recorded investment and management's estimate of the fair value of the collateral (less costs to sell). It would be rare for the company to identify a loan that meets the criteria stated above and requires a specific allowance or a charge-off and not deem it impaired solely as a result of the existence of a guarantee.

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

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

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

Loans acquired in the Financial Federal and Butler Bank acquisitions have been recorded at fair value without a carryover of either Financial Federal's or Butler Bank's allowance for loan losses. Fair values of the loans are determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on such loans and then applying a market-based discount rate to those cash flows. The discounts on the loans acquired in the Financial Federal and Butler Bank transactions were due, in part, to credit quality. The excess of expected cash flows at the acquisition date over estimated fair value is referred to as the accretable yield, which is recognized into interest income over the remaining lives of the acquired loans.

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The difference between contractually required principal and interest payments at the acquisition date and the cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference, which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. Decreases in the expected cash flows in subsequent periods will require People's United Financial to record an allowance for loan losses. Improvements in expected cash flows in future periods will result in a reduction of the nonaccretable difference, with such amount reclassified as part of the accretable yield and subsequently recognized into interest income over the remaining lives of the acquired loans. Charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

As such, selected asset quality metrics now distinguish between the originated portfolio and the acquired portfolio. All loans of Financial Federal (now PUEFC) and Butler Bank at the respective acquisition dates comprise the acquired loan portfolio; all other loans of the company comprise the originated portfolio, including PUEFC originations subsequent to the acquisition date.

Provision and Allowance for Loan Losses

| (dollars in millions) | Three Months Ended | | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Balance at beginning of period | \$ 172.5 | \$ 172.5 | \$ 167.0 | \$ 172.5 | \$ 157.5 |
| Charge-offs | (22.6) | (19.0) | (17.2) | (52.5) | (31.0) |
| Recoveries | 0.8 | 1.2 | 1.2 | 3.4 | 2.6 |
| Net loan charge-offs | (21.8) | (17.8) | (16.0) | (49.1) | (28.4) |
| Provision for loan losses | 21.8 | 17.8 | 21.5 | 49.1 | 43.4 |
| Balance at end of period | \$ 172.5 | \$ 172.5 | \$ 172.5 | \$ 172.5 | \$ 172.5 |
| Allowance for loan losses as a percentage of: | | | | | |
| Originated loans | 1.21% | 1.23% | 1.21% | 1.21% | 1.21% |
| Originated non-accrual loans | 68.6 | 78.5 | 98.2 | 68.6 | 98.2 |

The provision for loan losses totaled \$21.8 million in the third quarter of 2010, reflecting \$21.8 million in net loan charge-offs. The provision for loan losses in the year-ago period reflected \$16.0 million in net loan charge-offs and a \$5.5 million increase in the allowance for loan losses. The allowance for loan losses as a percentage of originated loans was 1.21% at both September 30, 2010 and December 31, 2009.

Table of Contents**Net Loan Charge-Offs**

| (in millions) | Three Months Ended | | | Nine Months Ended | |
|------------------------|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Commercial real estate | \$ 13.5 | \$ 4.8 | \$ 7.7 | \$ 24.1 | \$ 9.1 |
| Commercial | 3.1 | 8.0 | 1.5 | 11.9 | 4.5 |
| Consumer | 2.1 | 0.7 | 1.3 | 4.1 | 3.7 |
| Equipment financing | 1.6 | 3.7 | 2.0 | 6.2 | 4.6 |
| Residential mortgage | 1.2 | 0.4 | 2.6 | 1.7 | 3.9 |
| Indirect auto | 0.3 | 0.2 | 0.9 | 1.1 | 2.6 |
| Total | \$ 21.8 | \$ 17.8 | \$ 16.0 | \$ 49.1 | \$ 28.4 |

Net loan charge-offs as a percentage of average total loans increased 13 basis points in the third quarter of 2010 compared to the year-ago period, reflecting a \$5.8 million increase in net loan charge-offs. Commercial real estate net loan charge-offs in the third quarter of 2010 include two construction loans totaling \$9.8 million, both of which carried specific reserves totaling \$9.0 million at June 30, 2010. The relatively low level of net loan charge-offs in terms of absolute dollars and as a percentage of average loans is unlikely to be sustainable in the future. Management believes that the level of the allowance for loan losses at September 30, 2010 is adequate to cover probable losses.

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

| | Three Months Ended | | | Nine Months Ended | |
|------------------------|--------------------|------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2010 | June 30, 2010 | Sept. 30, 2009 | Sept. 30, 2010 | Sept. 30, 2009 |
| Commercial real estate | 0.98% | 0.35% | 0.58% | 0.59% | 0.23% |
| Commercial | 0.69 | 0.62 | 0.22 | 0.57 | 0.21 |
| Indirect auto | 0.59 | 0.39 | 1.54 | 0.74 | 1.44 |
| Consumer | 0.42 | 0.14 | 0.26 | 0.27 | 0.24 |
| Equipment financing | 0.29 | 0.63 | 0.63 | 0.39 | 0.49 |
| Residential mortgage | 0.20 | 0.07 | 0.37 | 0.09 | 0.18 |
| Total portfolio | 0.57% | 0.46% | 0.44% | 0.43% | 0.26% |

People's United Financial's charge-off policies, which comply with standards established by banking regulators, are consistently applied from period to period. For unsecured consumer loans, charge-offs generally occur when the loan is deemed to be uncollectible or 120 days past due, whichever comes first. For consumer loans secured by real estate, including residential mortgage loans, charge-offs generally occur when the loan is deemed to be uncollectible or 180 days past due, whichever comes first, unless it can be clearly demonstrated that repayment will occur regardless of the delinquency status. Factors that demonstrate an ability to repay may include (i) a loan that is secured by adequate collateral and is in the process of collection, (ii) a loan supported by a valid guarantee or insurance, or (iii) a loan supported by a valid claim against a solvent estate.

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For commercial loans, including commercial real estate loans, a charge-off is recorded when the company determines that it will not collect 100% of the amount contractually due based on the fair value of the collateral (less costs to sell), or the net present value of expected future cash flows. Charge-offs are recorded on a monthly basis. Partially charged-off loans continue to be evaluated on a monthly basis and additional charge-offs or loan loss provisions may be taken on the remaining loan balance based on the same criteria.

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

Non-Performing Assets

A loan is generally considered non-performing when it is placed on non-accrual status. A loan is generally placed on non-accrual status when it becomes 90 days past due as to interest or principal payments. However, a loan may be placed on non-accrual status earlier if such loan has been identified as presenting uncertainty with respect to the collectibility of interest and principal. A loan past due 90 days or more may remain on accruing status if such loan is both well secured and in the process of collection. People's United Financial's historical experience suggests that a portion of these non-performing loans will eventually be recovered. All non-performing loans are in various stages of collection, workout, settlement or foreclosure. When loan workout efforts are exhausted and it is determined that the borrower is unable to repay the obligation, People's United Financial will complete foreclosure procedures, if appropriate.

Table of Contents**Non-Performing Assets**

| (dollars in millions) | Sept. 30 2010 | June 30, 2010 | March 31, 2010 | Dec. 31, 2009 | Sept. 30 2009 |
|--|------------------|------------------|-------------------|---------------------|------------------|
| Originated non-accrual loans: | | | | | |
| Residential mortgage | \$ 87.0 | \$ 80.9 | \$ 66.7 | \$ 52.7 | \$ 49.8 |
| Commercial real estate | 85.0 | 67.2 | 65.8 | 72.4 | 80.2 |
| Equipment financing | 35.1 | 37.0 | 23.1 | 20.6 | 18.6 |
| Commercial | 34.3 | 25.2 | 28.9 | 17.4 | 21.0 |
| Consumer | 9.5 | 9.0 | 7.5 | 5.7 | 6.1 |
| Indirect auto | 0.5 | 0.4 | 0.3 | | |
| Total originated non-accrual loans (1) | 251.4 | 219.7 | 192.3 | 168.8 | 175.7 |
| Repossessed assets | 25.7 | 27.6 | 31.8 | 12.9 | 6.8 |
| REO | 34.9 | 37.2 | 23.4 | 23.9 | 10.2 |
| Total non-performing assets | \$ 312.0 | \$ 284.5 | \$ 247.5 | \$ 205.6 | \$ 192.7 |
| Acquired non-accrual loans (2) | \$ 59.4 | \$ 60.1 | \$ 51.7 | \$ | \$ |
| Originated non-accrual loans as a percentage of originated loans (3) | 1.77% | 1.56% | 1.36% | 1.19% | 1.23% |
| Non-performing assets as a percentage of: | | | | | |
| Originated loans, REO and repossessed assets (3) | 2.18 | 2.01 | 1.74 | 1.44 | 1.35 |
| Tangible stockholders' equity and allowance for loan losses | 8.29 | 7.47 | 6.37 | 5.47 | 5.11 |

(1) Reported net of government guarantees totaling \$8.8 million at Sept. 30, 2010, \$6.8 million at June 30, 2010, \$7.3 million at March 31, 2010, \$8.3 million at Dec. 31, 2009 and \$7.2 million at Sept. 30, 2009.

(2) Represents those loans acquired in the Financial Federal and Butler Bank transactions that meet People's United's definition of a non-accrual loan but for which the risk of credit loss has been considered by virtue of our estimate of acquisition-date fair value and/or the existence of an FDIC loss-share agreement.

(3) Calculations exclude acquired loans. Including acquired loans and acquired non-accrual loans at Sept. 30, 2010, June 30, 2010 and March 31, 2010, non-accrual loans were 2.04%, 1.84% and 1.59% of total loans and non-performing assets were 2.43%, 2.26% and 1.95% of total loans, REO and repossessed assets, respectively.

For the originated loan portfolio, representing all loans other than those acquired in the Financial Federal and Butler Bank transactions, non-accrual loans totaled \$251.4 million at September 30, 2010, and the ratio of non-accrual loans to originated loans was 1.77 percent, compared to \$168.8 million and 1.19 percent, respectively, at December 31, 2009.

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

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Total non-performing assets increased \$106.4 million from December 31, 2009 and equaled 2.18% of originated loans, REO and repossessed assets at September 30, 2010. The change in total non-performing assets from December 31, 2009 includes increases in non-accrual residential mortgage loans of \$34.3 million, non-accrual commercial loans of \$16.9 million, non-accrual equipment financing loans of \$14.5 million, non-accrual commercial real estate loans of \$12.6 million, repossessed assets of \$12.8 million and REO of \$11.0 million. The increase in non-accrual residential mortgage loans is a reflection of higher levels of unemployment across People's United Financial's franchise and slower resolution of the foreclosure process. The increases in the commercial portfolios reflect broader economic weakness. The increase in repossessed assets reflects the addition of repossessed assets acquired in the Financial Federal acquisition (\$14.3 million at September 30, 2010). The increase in REO primarily reflects the addition of \$11.4 million of REO in connection with the Butler Bank acquisition. Loans past due 90 days and still accruing totaled \$5.7 million at September 30, 2010 compared to \$11.8 million at December 31, 2009.

In addition to the non-performing loans discussed above, People's United Financial has also identified approximately \$462 million in potential problem loans at September 30, 2010. Potential problem loans represent loans that are currently performing, but for which known information about possible credit deterioration on the part of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with contractual loan repayment terms and which may result in the disclosure of such loans as non-performing at some time in the future. The potential problem loans are generally loans that, although performing, have been classified as "substandard" in accordance with People's United Financial's loan rating system, which is consistent with guidelines established by banking regulators.

At September 30, 2010, potential problem loans consisted of commercial real estate loans, equipment financing loans, and commercial and industrial loans of \$202 million, \$133 million and \$127 million, respectively. Such loans are closely monitored by management and have remained in performing status for a variety of reasons including, but not limited to, delinquency status, borrower payment history and fair value of the underlying collateral. Management cannot predict the extent to which economic conditions may worsen or whether other factors may adversely impact the ability of these borrowers to make payments. Accordingly, there can be no assurance that potential problem loans will not become 90 days or more past due, be placed on non-accrual status, be restructured, or require additional provisions for loan losses.

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The levels of non-performing assets and potential problem loans are expected to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with management's degree of success in resolving problem assets. Management takes a proactive approach with respect to the identification and resolution of problem loans. However, given the current state of the U.S. economy and, more specifically, the real estate market, the level of non-performing assets may continue to increase in 2010.

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Liquidity

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

Asset liquidity is provided by: cash; short-term investments and security resale agreements; proceeds from security sales, maturities and principal repayments; and proceeds from scheduled principal collections, prepayments and sales of loans. In addition, certain securities may be used to collateralize borrowings under repurchase agreements. The Consolidated Statements of Cash Flows present data on cash provided by and used in People's United Financial's operating, investing and financing activities. At September 30, 2010, People's United Financial (parent company) liquid assets included \$740 million in securities purchased under agreements to resell and \$524 million in debt securities available for sale. People's United Bank's liquid assets included \$798 million in cash and cash equivalents, \$1.8 billion in debt securities available for sale and \$83 million in trading account securities. Securities available for sale with a fair value of \$669 million at September 30, 2010 were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by People's United Financial's and People's United Bank's ability to obtain deposits and borrowings at cost-effective rates that are diversified with respect to markets and maturities. Deposits, which are considered the most stable source of liability liquidity, totaled \$15.7 billion at September 30, 2010 and represented 73% of total funding (the sum of total deposits, total borrowings, subordinated notes and stockholders' equity). Borrowings are used to diversify People's United Financial's funding mix and to support asset growth. Borrowings and subordinated notes totaled \$254 million and \$183 million, respectively, at September 30, 2010, representing 1.2% and 0.9%, respectively, of total funding.

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People's United Bank's current sources of borrowings include: federal funds purchased, advances from the FHLB of Boston and the Federal Reserve Bank of New York, and repurchase agreements. At September 30, 2010, People's United Bank's total borrowing limit from the FHLB and Federal Reserve Bank of New York for advances and repurchase agreements was \$3.2 billion, based on the level of qualifying collateral available for these borrowings. In addition, People's United Bank had unsecured borrowing capacity of \$0.5 billion.

At September 30, 2010, People's United Bank had outstanding commitments to originate loans totaling \$0.8 billion and approved, but unused, lines of credit extended to customers totaling \$3.7 billion (including \$1.8 billion of home equity lines of credit).

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

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Stockholders' Equity and Dividends

People's United Financial's total stockholders' equity was \$5.36 billion at September 30, 2010, a \$264 million increase compared to \$5.10 billion at December 31, 2009. This increase primarily reflects the issuance of 26.0 million shares of common stock with a fair value (net of issuance costs) of approximately \$405 million in connection with the Financial Federal acquisition, net income of \$53.7 million and a \$15.4 million decrease in Accumulated Other Comprehensive Loss since December 31, 2009, partially offset by dividends paid of \$162.9 million and the open market repurchase of 5.6 million shares of common stock at a total cost of \$76.9 million.

Stockholders' equity equaled 24.5% of total assets at September 30, 2010 and 24.0% at December 31, 2009. Tangible stockholders' equity (total stockholders' equity less goodwill and other acquisition-related intangibles) equaled 17.8% of tangible assets (total assets less goodwill and other acquisition-related intangibles) at September 30, 2010 and 18.2% at December 31, 2009.

In October 2010, People's United Financial's Board of Directors declared a quarterly dividend on its common stock of \$0.1550 per share. The dividend is payable on November 15, 2010 to shareholders of record on November 1, 2010.

Table of Contents**Regulatory Capital Requirements**

People's United Bank's tangible capital ratio was 13.0% at September 30, 2010, compared to the minimum ratio of 1.5% generally required by its regulator, the Office of Thrift Supervision (OTS).

People's United Bank is also subject to the OTS's risk-based capital regulations, which require minimum ratios of leverage capital and total risk-based capital of 4.0% and 8.0%, respectively. People's United Bank satisfied these requirements at September 30, 2010 with ratios of 13.0% and 16.4%, respectively, compared to 10.0% and 14.1%, respectively, at December 31, 2009. Increases in these ratios from December 31, 2009 primarily reflect a \$488 million increase in People's United Bank's capital resulting from the Financial Federal acquisition. People's United Bank's regulatory capital ratios exceeded the OTS's numeric criteria for classification as a well capitalized institution at September 30, 2010.

The following summary compares People's United Bank's regulatory capital amounts and ratios as of September 30, 2010 to the OTS minimum requirements. At September 30, 2010, People's United Bank's adjusted total assets, as defined, totaled \$19.0 billion and its total risk-weighted assets, as defined, totaled \$16.0 billion. At September 30, 2010, People's United Bank exceeded each of its regulatory capital requirements. Regulatory capital amounts and ratios presented are for People's United Bank and therefore do not reflect the additional capital residing at People's United Financial.

| As of September 30, 2010 (dollars in millions) | People's United Bank | | OTS Requirements | | | |
|---|----------------------|-------|------------------------------------|-------|--------------------------|-------|
| | Amount | Ratio | Classification as Well-Capitalized | | Minimum Capital Adequacy | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Tangible capital | \$ 2,468.2(1) | 13.0% | n/a | n/a | \$ 284.8 | 1.5% |
| Leverage (core) capital | 2,468.2(1) | 13.0 | \$ 949.2 | 5.0% | 759.3 | 4.0 |
| Total risk-based capital | 2,621.5(2) | 16.4 | 1,598.3 | 10.0 | 1,278.6 | 8.0 |

- (1) Represents total stockholder's equity, excluding: (i) after-tax net unrealized gains (losses) on certain securities classified as available for sale; (ii) after-tax net gains on derivatives qualifying as cash flow hedges; (iii) certain assets not recognized in tier 1 capital (principally goodwill and other acquisition-related intangibles); and (iv) the amount recorded in accumulated other comprehensive income (loss) relating to pension and other postretirement benefits.
- (2) Represents tier 1 capital plus the allowance for loan losses up to 1.25% of total risk-weighted assets.

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Market Risk Management

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

Interest Rate Risk

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

Management evaluates the impact of IRR on Income at Risk using an earnings simulation model to project earnings under multiple interest rate environments over a one-year time horizon resulting in a quantification of IRR. Income at Risk includes significant interest rate sensitive income sources, such as net interest income, gains on sales of residential mortgage loans and BOLI income.

The earnings projections are based on a static balance sheet and estimates of pricing levels for People's United Financial's products under multiple scenarios intended to reflect instantaneous yield curve shocks. People's United Financial estimates its base case Income at Risk using current interest rates. Internal policy regarding IRR simulations specify that for instantaneous parallel shifts of the yield curve, estimated Income at Risk for the subsequent one-year period should not decline by more than: 10% for a 100 basis point shift; 15% for a 200 basis point shift; and 20% for a 300 basis point shift.

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The following table shows the estimated percentage increase (decrease) in People's United Financial's Income at Risk over a one-year simulation period beginning September 30, 2010. Given the interest rate environment at September 30, 2010, simulations for declines in interest rates below 25 basis points were not deemed to be meaningful.

| Rate Change (basis points) | Percent Change in Income at Risk |
|-------------------------------|-------------------------------------|
| +300 | 20.4% |
| +200 | 13.3 |
| +100 | 6.0 |
| -25 | (0.6) |

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

Internal policy limits the exposure of a decrease in Net Present Value of Equity at Risk resulting from instantaneous parallel shifts of the yield curve in the following manner: for 100 basis points 10% of base case NPV; for 200 basis points 15% of base case NPV; and for 300 basis points 20% of base case NPV.

The following table shows the estimated percentage increase (decrease) in People's United Financial's Net Present Value of Equity at Risk, assuming various shifts in interest rates. Given the interest rate environment at September 30, 2010, simulations for declines in interest rates below 25 basis points were not deemed to be meaningful.

| Rate Change (basis points) | Percent Change in Net Present Value |
|-------------------------------|--|
| +300 | 1.2% |
| +200 | 1.7 |
| +100 | 1.3 |
| -25 | (0.6) |

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People's United Financial's interest rate risk position at September 30, 2010, as set forth in the Income at Risk and Net Present Value of Equity at Risk tables above, reflects its significant excess capital position at that date. Management's current posture is to invest a portion of such excess capital in highly liquid, low risk, short-term investments and securities resale agreements. While this strategy places additional pressure on net interest income in a low rate environment, management views such risk as an acceptable alternative in light of the current credit environment. Given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by People's United Financial's models.

People's United Financial's asset-sensitive balance sheet includes more than just its significant excess capital position. In fact, a 100 basis point increase in the federal funds interest rate translates to an approximate \$40 million improvement in net interest income on an annualized basis.

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

At September 30, 2010, People's United Financial used interest rate swaps on a limited basis to manage IRR associated with certain interest-earning assets. Interest rate swaps are used to match more closely the repricing of fewer than five commercial real estate loans and the funding associated with these loans. The interest rate swaps effectively convert the fixed rate assets to a variable interest rate and consequently reduce People's United Financial's exposure to increases in interest rates. Interest rate swaps are accounted for as fair value hedges.

In the first quarter of 2009, People's United Financial terminated its remaining \$600 million (notional amount) interest rate floor contracts. The decision to do so was based on management's belief that, in light of the current interest rate environment, the derivative contracts had achieved their stated market risk management objective. Termination of the derivative contracts also served to reduce the company's counterparty credit risk. At the time of termination, the interest rate floors had an unrealized gain of \$40.1 million. The gain is included (on a net-of-tax basis) as a component of accumulated other comprehensive loss and is being recognized in income over the period during which the hedged items (certain floating rate commercial loans) affect earnings (approximately 2 years). A total of \$14.8 million of this gain was recognized in income during the nine months ended September 30, 2010 and the remaining unrecognized gain at September 30, 2010 was \$5.4 million, which is expected to be recognized in income over the next six months.

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

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

Certain of People's United Financial's derivative contracts contain provisions establishing collateral requirements (subject to minimum collateral posting thresholds) based on the company's external credit rating. If the company's senior unsecured debt rating were to fall below the level generally recognized as investment grade, the counterparties to such derivative contracts could require additional collateral on those derivative transactions in a net liability position (after considering the effect of bilateral netting arrangements and posted collateral). The aggregate fair value of derivative instruments with such credit-related contingent features that were in a net liability position at September 30, 2010 was \$5.1 million, for which People's United Financial had posted \$2.4 million of collateral in the normal course of business. If the company's senior unsecured debt rating had fallen below investment grade as of that date, \$2.7 million in additional collateral would have been required.

Foreign Currency Risk

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

Table of Contents**Derivative Financial Instruments**

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

| As of September 30, 2010 | | |
|---|---------------------|----------------------------|
| (dollars in millions) | Interest Rate Swaps | Foreign Exchange Contracts |
| Notional principal amounts | \$ 5.8 | \$ 11.7 |
| Weighted average interest rates: | | |
| Pay fixed (receive floating) | 5.60%(0.23%) | N/A |
| Weighted average remaining term to maturity (in months) | 30 | 1 |
| Fair value: | | |
| Recognized as an asset | \$ | \$ |
| Recognized as a liability | 0.5 | 0.2 |

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

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

| As of September 30, 2010 | | |
|---|---------------------|--------------|
| (dollars in millions) | Interest Rate Swaps | |
| | Customer | Counterparty |
| Notional principal amounts | \$ 428.9 | \$ 428.9 |
| Weighted average interest rates: | | |
| Pay fixed (receive floating) | 0.23%(3.40%) | 3.31%(0.23%) |
| Weighted average remaining term to maturity (in months) | 100 | 100 |
| Fair value: | | |
| Recognized as an asset | \$ 30.1 | \$ |
| Recognized as a liability | | 27.8 |

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

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Item 3 Quantitative and Qualitative Disclosures About Market Risk

The information required by this item appears on pages 89 through 93 of this report.

Item 4 Controls and Procedures

People's United Financial's management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of People's United Financial's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that People's United Financial's disclosure controls and procedures are effective, as of September 30, 2010, to ensure that information relating to People's United Financial, which is required to be disclosed in the reports People's United Financial files with the Securities and Exchange Commission under the Exchange Act, is (i) recorded, processed, summarized and reported as and when required, and (ii) accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

During the quarter ended September 30, 2010, there has not been any change in People's United Financial's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, People's United Financial's internal control over financial reporting.

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Part II Other Information

Item 1 Legal Proceedings

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

Item 1A Risk Factors

There have been no material changes in risk factors since December 31, 2009.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information with respect to purchases made by People's United Financial of its common stock.

Issuer Purchases of Equity Securities

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|--------------------------------|--|------------------------------------|--|---|
| July 1 - 31, 2010: | | | | |
| Tendered by employees (1) | 17,417 | \$ 13.92 | | |
| Publicly announced program (2) | 176,493 | \$ 13.91 | 176,493 | 13,367,135 |
| August 1 - 31, 2010: | | | | |
| Tendered by employees (1) | | \$ | | |
| Publicly announced program (2) | 1,294,282 | \$ 13.31 | 1,294,282 | 12,072,853 |
| September 1 - 30, 2010: | | | | |
| Tendered by employees (1) | 13,671 | \$ 13.02 | | |
| Publicly announced program (2) | 411,817 | \$ 12.94 | 411,817 | 11,661,036 |
| Total: | | | | |
| Tendered by employees (1) | 31,088 | \$ 13.53 | | |
| Publicly announced program (2) | 1,882,592 | \$ 13.29 | 1,882,592 | 11,661,036 |

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

(2) In April 2008, People's United Financial's Board of Directors approved a stock repurchase program. Under the program, up to 5% of People's United Financial's then-outstanding common stock, or up to 17.3 million shares, can be repurchased, either directly or through agents, in the open market at prices and terms satisfactory to management. Through September 30, 2010, 5.6 million shares, at a total cost of \$76.9 million, had been repurchased under this program. Shares acquired in this manner have not been retired by People's United Financial and, as a result, remain available for issuance in the future.

Item 3 Defaults Upon Senior Securities

None

Item 4 (Removed and Reserved)

Item 5 Other Information

None

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Item 6 Exhibits

The following Exhibits are filed herewith:

| Exhibit No. | Description |
|-------------|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification |
| 32 | Section 1350 Certifications |
| 101.1** | The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 formatted in XBRL: (i) Consolidated Statements of Condition at September 30, 2010 and December 31, 2009; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2009; (iii) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009; and (v) Notes to Consolidated Financial Statements. |

** As provided in Rule 406T of Regulation S-T, the Interactive Data File is deemed not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

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

PEOPLE'S UNITED FINANCIAL, INC.

Date: November 9, 2010

By: /s/ John P. Barnes
John P. Barnes
President and Chief Executive Officer

(Principal Executive Officer)

Date: November 9, 2010

By: /s/ Paul D. Burner
Paul D. Burner
Senior Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: November 9, 2010

By: /s/ Jeffrey Hoyt
Jeffrey Hoyt
Senior Vice President and Controller
(Principal Accounting Officer)

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INDEX TO EXHIBITS

| Designation | Description |
|-------------|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification |
| 32 | Section 1350 Certifications |
| 101.1** | The following financial information from People's United Financial, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 formatted in XBRL: (i) Consolidated Statements of Condition at September 30, 2010 and December 31, 2009; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2009; (iii) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009; and (v) Notes to Consolidated Financial Statements. |

** As provided in Rule 406T of Regulation S-T, the Interactive Data File is deemed not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.