People's United Financial, Inc.
Form 10-K
March 01, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 2018

People s United Financial, Inc.

(Exact name of registrant as specified in its charter)

001-33326

(Commission File Number)

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

850 Main Street

Bridgeport, Connecticut 06604

(Address of principal executive offices, including zip code)

(203) 338-7171

(Registrant s telephone number, including area code)

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

(Title of each class)	(Name of each exchange on which registered)
Common Stock, $0.01 par value per share	NASDAQ Global Select Market
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, $0.01 par value per share	NASDAQ Global Select Market

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

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant, based upon the last reported sales price of its common stock as of the last business day of the registrant s most recently completed second quarter on the NASDAQ Global Select Market was $6,299,988,287.

As of February 15, 2019, there were 377,616,658 shares of the registrant s common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2019, are incorporated by reference into Part III.

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PEOPLE S UNITED FINANCIAL, INC.

2018 FORM 10-K

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Part I

Item 1. Business
General

People s United Financial, Inc. (People s United or the Company) is a bank holding company and a financial holding company registered under the Bank Holding Company Act of 1956 (the BHC Act), as amended, and is incorporated under the state laws of Delaware. People s United is the holding company for People s United Bank, National Association (the Bank), a national banking association headquartered in Bridgeport, Connecticut.

Effective April 1, 2017, People s United completed its acquisition of Suffolk Bancorp (Suffolk) based in Riverhead, New York. Effective August 1, 2017, the Bank completed its acquisition of LEAF Commercial Capital, Inc. (LEAF). Effective June 27, 2018, the Bank completed its acquisition of Vend Lease Company (Vend Lease). Effective October 1, 2018, People s United completed its acquisition of First Connecticut Bancorp Inc. (First Connecticut) based in Farmington, Connecticut. The assets acquired and liabilities assumed in these transactions were recorded at their fair values as of their respective closing dates. See Note 2 to the Consolidated Financial Statements for a further discussion on these acquisitions. People s United s results of operations include the results of the acquired entities beginning with their respective effective dates.

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

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

This full range of financial services is delivered through a network of 422 branches located in Connecticut, southeastern New York, Massachusetts, Vermont, Maine and New Hampshire, including 85 full-service Stop & Shop supermarket branches throughout Connecticut and 63 in southeastern New York that provide customers with seven-day-a-week banking. The Bank s distribution network includes investment and brokerage offices, commercial banking offices, online banking and investment trading, a 24-hour telephone banking service and participation in a worldwide ATM network. PCLC, PUEFC and LEAF maintain a sales presence in 16 states to support equipment financing operations throughout the United States. The Bank maintains a mortgage warehouse lending group located in Kentucky and a national credits group that has participations in commercial loans and commercial real estate loans to borrowers in various industries on a national scale.

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

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

Further discussion of People s United s business and operations appears on pages 22 through 79.

Supervision and Regulation

People s United Financial, Inc.

General

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

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

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

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

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

Federal Securities Law

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

Delaware Corporation Law

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

Regulatory Capital Requirements

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

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

See *Management s Discussion and Analysis Regulatory Capital Requirements* beginning on page 73 for a further discussion regarding capital requirements.

Dividends and Capital Distributions

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

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

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

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Under the Federal Deposit Insurance Act (the FDI Act), an insured depository institution, such as the Bank, is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized (as such term is used in the FDI Act). Payment of dividends by the Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. See Note 13 to the Consolidated Financial Statements for a further discussion on capital distributions.

Supervision and Regulation

People s United Bank, National Association

General

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

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

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

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

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

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

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

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

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

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

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

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

- an amount equal to 5% of the bank s total assets at the time it became undercapitalized ; and

- the amount that is necessary (or would have been necessary) to bring the bank into compliance with all capital standards applicable with respect to such bank as of the time it fails to comply with a capital restoration plan.

If a bank fails to submit an acceptable plan, it is treated as if it were significantly undercapitalized. Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions. Under OCC regulations, generally, a national bank is treated as well-capitalized if its Total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 8% or greater, its Common Equity Tier 1 (CET 1) capital ratio is 6.5% or greater and its Tier 1 leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. As of December 31, 2018, the Bank s regulatory capital ratios exceeded the OCC s numeric criteria for classification as a well-capitalized institution. Basel III also revised the prompt corrective action framework by incorporating new regulatory capital minimums.

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

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

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

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

In March 2016, the FDIC issued a final rule that will serve to implement a Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the DFA) provision requiring banks with over $10 billion in assets to be responsible for recapitalizing the DIF to 1.35% of insured deposits after it reaches a 1.15% reserve ratio. The rule became effective on July 1, 2016. For banks with over $10 billion in assets, the rule imposes a 4.5 basis point surcharge to bring the DIF s reserve ratio to 1.35% by the end of 2018. For the surcharge only, the assessment base would be reduced by $10 billion. In November 2018, the FDIC announced that the DIF s reserve ratio had exceeded the 1.35% minimum reserve ratio. As such, beginning in the fourth quarter of 2018, banks with over $10 billion in assets are no longer subject to the surcharge. See *Management s Discussion and Analysis Non-Interest Expense* beginning on page 43 for a further discussion regarding regulatory assessments.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC at an annual rate of approximately 0.0014% of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature between 2017 and 2019.

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

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

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

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

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

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

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

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

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

The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a satisfactory rating in its most recent CRA examination for the evaluation period ending December 31, 2015. The Federal banking agencies adopted regulations implementing the requirements under the Gramm-Leach-Bliley Act that insured depository institutions publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements in place at this time.

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

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

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

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

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

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

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

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

The Bank, as a member of the FHLB of Boston, is currently required to purchase and hold shares of capital stock in the FHLB of Boston in an amount equal to 0.35% of the Bank s Membership Stock Investment Base plus an Activity Based Stock Investment Requirement. The Activity Based Stock Investment Requirement is equal to 3.0% of the principal balance of FHLB advances with an original maturity of one day and 4.0% of the principal balance of FHLB advances with an original maturity of two days or longer. The Bank is in compliance with these requirements. As a result of prior acquisitions, the Bank also holds shares of capital stock in the FHLB of New York. The Bank, as a member of the Federal Reserve Bank system, is currently required to purchase and hold shares of capital stock in the Federal Reserve Bank of New York (the FRB-NY) in an amount equal to 6% of its capital and surplus.

Reserve Requirements. FRB reserve regulations require banks to maintain reserves against their transaction accounts (primarily negotiable order of withdrawal and demand deposit accounts). Institutions must maintain a reserve of 3% against aggregate transaction account balances between $16.3 million and $124.2 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB within specific limits) against that portion of total transaction account balances in excess of $124.2 million. The first $16.3 million of otherwise reservable balances is exempt from the reserve requirements. The Bank is in compliance with the foregoing requirements. The required reserves must be maintained in the form of vault cash, or an interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB.

Market Area and Competition

People s United s primary market areas are New England and southeastern New York, with Connecticut, New York and Massachusetts having the largest concentration of its loans, deposits and branches. At December 31, 2018, 26%, 20% and 18% of the Company s loans by outstanding principal amount were to customers located within Connecticut, New York and Massachusetts, respectively. Loans to customers located in the New England states as a group represented 56% of total loans at December 31, 2018. However, substantially the entire equipment financing portfolio (95% at December 31, 2018) was to customers located outside of New England. At December 31, 2018, 25% of the equipment financing portfolio was to customers located in Texas, California and New York, and no other state exposure was greater than 5%.

As of June 30, 2018, People s United had: (i) the largest market share of deposits in Fairfield County, Connecticut; (ii) the third largest market share of deposits in the state of Connecticut; and (iii) the largest market share of deposits in the state of Vermont. People s United competes for deposits, loans and financial services with commercial banks, savings institutions, commercial and consumer finance companies, mortgage banking companies, insurance companies, credit unions and a variety of other institutional lenders and securities firms.

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As People s United s predominant market, Connecticut is one of the most attractive banking markets in the U.S. With a total population of approximately 3.6 million and a median household income of $78,970, Connecticut ranks seventh in the U.S., well above the U.S. median household income of $63,174, according to U.S. Census data and SNL Financial. The median household income in New York, which has the Company s second highest number of branches, was $68,659, according to U.S. Census data and SNL Financial. The median household income in Massachusetts and Vermont, which have the Company s third and fourth highest number of branches, was $82,084 and $63,157, respectively, according to U.S. Census data and SNL Financial.

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

Personnel

As of December 31, 2018, People s United had 5,536 full-time and 384 part-time employees.

Access to Information

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

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

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

Form 10-K;

Form 10-Q;

Form 8-K;

Annual Report to Shareholders; and

Proxy Statement for Annual Meeting of Shareholders

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Item 1A. Risk Factors

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

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

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

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

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

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

Asset quality measures the performance of a borrower in repaying a loan, with interest, on time. While we believe we have benefited from relatively stable asset quality, there are elements of our loan portfolio that inherently present greater credit risk, such as interest-only residential mortgage loans, home equity loans and lines with incomplete first lien data, and commercial real estate loans. Each of these portfolio risk elements, where potentially material in the context of our overall loan portfolio, are discussed in greater detail within *Management s Discussion and Analysis Asset Quality* beginning on page 56. While the Company believes that it manages asset quality through prudent underwriting practices and collection operations, it is possible that our asset quality could deteriorate, depending upon economic conditions and other factors.

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

One element of our strategy is to focus on increasing deposits by providing a wide range of convenient services to our customers. An integral component of this strategy is the Bank s supermarket banking initiative, pursuant to which, as of December 31, 2018, the Bank has established 148 full-service Stop & Shop branches throughout Connecticut and southeastern New York, most of which are in close proximity to our traditional branches, which provide customers with the convenience of seven-day-a-week banking. At December 31, 2018, 35% of the Bank s branches were located in Stop & Shop supermarkets and 13% of our total deposits at that date were held in Stop & Shop branches.

The Bank currently has exclusive branching rights in Stop & Shop supermarkets in the state of Connecticut and certain counties in the state of New York, in the form of licensing agreements between The Stop & Shop Supermarket Company and the Bank, which provides for the leasing of space to the Bank within Stop & Shop supermarkets for branch use. The Bank has the exclusive right to branch in these supermarkets until 2022, provided that the Bank does not default on its obligations under the licensing agreement.

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Under the terms of the licensing agreements, the Bank has the obligation to open branches in new Stop & Shop locations, even if Stop & Shop s market share declines or the value of the Stop & Shop brand is diminished. The licensing agreements do not stipulate the number of branch openings per year but, rather, apply only to those new Stop & Shop locations that meet or exceed specified thresholds as to size (square footage) and/or customer traffic. Based on our experience, we would expect the application of these thresholds to result in the opening of approximately 2-4 new branches per year in Stop & Shop locations.

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

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

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

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

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

During certain economic cycles, the housing and real estate markets, as well as the broader economy, may experience declines, both on a national and local level. Housing market conditions in the New England and New York metro regions, where much of our lending activity occurs, may be adversely impacted, leading to a reduced level of sales, an increased inventory of houses on the market, a decline in house prices and an increase in the length of time houses remain on the market. No assurance can be given that these economic conditions will not occur or that such conditions will not result in a decrease in our interest income, an increase in our non-performing loans, an increase in our provision for loan losses or an adverse impact on our loan losses.

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

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

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

At December 31, 2018, 26%, 20% and 18% of the Company s loans by outstanding principal amount were to customers located within Connecticut, New York and Massachusetts, respectively. Loans to people and businesses located in the New England states as a group represented 56% of total loans at that date. How well our business performs depends very much on the health of these regional and local economies. We could experience losses in our real estate-related loan portfolios if the prices for housing and other kinds of real estate decreased significantly in New England or southeastern New York.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Enactment of the DFA has resulted in significant changes in the financial regulatory landscape, many of which affect us. Among the more significant provisions of the DFA, as well as their actual or anticipated impact, if quantifiable, are:

- Changes to the regulatory landscape, including:
  - creation of the BCFP, which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection, and exercise exclusive authority over our consumer compliance examinations; and
  - restrictions on the ability of federal bank regulatory authorities to preempt the application of state consumer protection laws and regulations.
- Limitations on the amount of interchange fees that an issuer of debit cards may charge or receive:
  - The DFA limits the amount of interchange fee that an issuer of debit cards may charge or receive to an amount that is reasonable and proportional to the cost of the transaction. The DFA further provides that a debit card issuer may not restrict the number of payment card networks on which a debit card transaction may be processed to a single network or limit the ability of a merchant to direct the routing of debit card payments for processing.
- Changes impacting the financial products and services we offer to our customers:
  - All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the DFA. As of December 31, 2018, the Bank s non-interest bearing deposits totaled $8.5 billion, or 24% of total deposits. The Company s interest expense may increase and net interest margin may decrease if it begins to offer higher rates of interest than are currently offered on demand deposits.
- Stricter capital requirements for bank holding companies:
  - The DFA imposes stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on holding companies and prohibiting the inclusion of new trust preferred issuances in Tier I capital. The DFA also increases regulation of derivatives and hedging transactions, which could limit the ability of People s United to enter into, or increase the costs associated with, interest rate and other hedging transactions.
- Mortgage rules promulgated by the BCFP:
  - The BCFP has issued a series of final rules to implement provisions in the DFA related to mortgage origination and mortgage servicing. These rules, which went into effect in January 2014 and which may increase the cost of originating and servicing residential mortgage loans, include:

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

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

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

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

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

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

While People s United seeks to use the best available information to make these evaluations and, at December 31, 2018, believed that the allowance for loan losses was appropriate to cover probable losses inherent in the existing loan portfolio, it is possible that borrower defaults could exceed the current estimates for loan losses, which would reduce earnings. In addition, future increases to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, increasing charge-offs of existing problem loans, or the identification of additional problem loans and other factors, which would also reduce earnings. See Note 1 (including the section entitled New Accounting Standards) to the Consolidated Financial Statements for additional information concerning People s United s allowance for loan losses.

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

People s United evaluates goodwill for impairment on an annual basis (or more frequently, if necessary). According to applicable accounting requirements, acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. If the quoted market price for People s United common stock were to decline significantly, or if it was determined that the carrying amount of our goodwill exceeded its implied fair value, we would be required to write down the asset recorded for goodwill as reflected in the Consolidated Statements of Condition. This, in turn, would result in a charge to earnings and, thus, a reduction in stockholders equity. See Notes 1 and 6 to the Consolidated Financial Statements for additional information concerning People s United s goodwill and the required impairment test.

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

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

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

In the ordinary course of business, we rely on our ability to securely process, record, monitor and store data associated with a large number of customer transactions on a continuous basis. In doing so, our business relies on various digital technologies, computer and email systems, software and networks to conduct operations, and for which we have information security procedures and controls in place. Still, as customer, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, breakdowns and security breaches.

Security breaches and cybersecurity-related incidents may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer or proprietary information), account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties, or may result from accidental technological failure. Further sources of operational and information security risk to us include (i) our customers, who, when accessing our products and services, may use computers or mobile devices that are beyond our security control systems and (ii) third parties with whom we do business or that facilitate our business activities (including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations) should they suffer breakdowns, failures or capacity constraints of their own systems.

In recent years, information security risks for financial institutions, such as ours, have increased due, in part, to (i) the proliferation of new technologies, including internet and mobile banking capabilities, to conduct financial transactions and (ii) the increased sophistication and activities of organized crime, hackers, terrorists, hostile foreign governments, activists and other external parties. There have been several instances involving financial services and consumer-based companies reporting unauthorized access to, and disclosure of, client or customer information or the destruction or theft of corporate data. There have also been highly-publicized cases where hackers have requested ransom payments in exchange for not disclosing customer information.

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

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

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

We do not currently have statistics for our entire portfolio of home equity loans and lines of credit with respect to first liens serviced by third parties that have priority over our junior liens, as we did not historically capture that data on our loan servicing systems. As a result, we may therefore be unaware that the loan secured by the first lien is not performing, which could delay our response to an apparent deterioration in the borrower s creditworthiness. As of December 31, 2018, full and complete first lien position data was not readily available for 31% of the home equity portfolio which, in turn, represented 2% of our overall loan portfolio at that date.

We are actively working with a third-party vendor to obtain the missing first lien information and have, in certain cases, obtained the data through information reported to credit bureaus when the borrower defaults. This data collection effort, however, can be more difficult in cases where more than one mortgage is reported in a borrower s credit report and/or there is not a corresponding property address associated with a reported mortgage, in which case we are often unable to associate a specific first lien with our junior lien. See the discussion in *Management s Discussion and Analysis Asset Quality Portfolio Risk Elements Home Equity Lending* beginning on page 58 for more detail, including steps we are taking to otherwise address this issue.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

People s United s corporate headquarters is located in Bridgeport, Connecticut. The headquarters building had a net book value of $49 million at December 31, 2018 and People s United occupies 89% of the building; all other available office space is leased to an unrelated party. People s United delivers its financial services through a network of 422 branches located throughout Connecticut, southeastern New York, Massachusetts, Vermont, Maine and New Hampshire. People s United s branch network is primarily concentrated in Connecticut, where it has 172 offices (including 85 located in Stop & Shop supermarkets). People s United also has 111 branches in southeastern New York (including 63 located in Stop & Shop supermarkets), 49 branches in Massachusetts, 38 branches in Vermont and 26 branches in both Maine and New Hampshire. People s United owns 126 of its branches, which had an aggregate net book value of $55 million at December 31, 2018. People s United s remaining banking operations are conducted in leased locations. Information regarding People s United s operating leases for office space and related rent expense appears in Note 20 to the Consolidated Financial Statements. Effective January 1, 2019, the Company adopted new lease accounting guidance which requires the recognition of operating lease liabilities in the Consolidated Statement of Condition based on the present value of the remaining minimum lease payments determined using a discount rate as of the effective date (see Note 1 to the Consolidated Financial Statements).

Item 3. Legal Proceedings

The information required by this item appears in Note 20 to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

None.

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Part II

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

The common stock of People s United is listed on the NASDAQ Global Select Market under the symbol PBCT . On February 15, 2019, the closing price of People s United common stock was $17.34. As of that date, there were approximately 18,300 record holders of People s United common stock.

Five-Year Performance Comparison

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

The graph assumes $100 invested on December 31, 2013 in each of People s United s common stock, the S&P 500 Stock Index, the Russell Midcap Index and the SNL Large Cap Index. The graph also assumes reinvestment of all dividends.

The Russell Midcap Index is a market-capitalization weighted index comprised of 800 publicly-traded companies which are among the 1,000 largest U.S. companies (by market capitalization) but not among the 200 largest such companies. People s United is included as a component of the Russell Midcap Index. The SNL Large Cap Index is an index prepared by SNL Securities comprised of 36 financial institutions (including People s United) located throughout the U.S.

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Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by People s United of its common stock during the three months ended December 31, 2018:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1 31, 2018:				
Tendered by employees (1)	5,631	$ 15.91		
November 1 30, 2018:				
Tendered by employees (1)	1,124	$ 15.75		
December 1 31, 2018:				
Tendered by employees (1)	241	$ 16.57		
Total:				
Tendered by employees (1)	6,996	$ 15.91		

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

Additional information required by this item is included in Part III, Item 12 of this report, and Notes 13 and 26 to the Consolidated Financial Statements.

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Item 6. Selected Financial Data

As of and for the years ended December 31

(dollars in millions, except per common share data)	2018	2017	2016	2015	2014
Earnings Data:					
Net interest income (fully taxable equivalent)	$ 1,262.4	$ 1,143.2	$ 1,004.5	$ 957.3	$ 931.1
Net interest income	1,236.0	1,100.5	972.2	932.1	911.9
Provision for loan losses	30.0	26.0	36.6	33.4	40.6
Non-interest income	366.4	352.9	342.7	352.4	350.8
Non-interest expense (1)	996.1	960.3	868.8	860.6	841.5
Income before income tax expense	576.3	467.1	409.5	390.5	380.6
Net income	468.1	337.2	281.0	260.1	251.7
Net income available to common shareholders (1)	454.0	323.1	279.2	260.1	251.7
Selected Statistical Data:					
Net interest margin	3.12%	2.98%	2.80%	2.88%	3.09%
Return on average assets (1)	1.04	0.79	0.71	0.71	0.75
Return on average common equity	7.8	6.0	5.8	5.5	5.4
Return on average tangible common equity (1)	14.3	11.0	10.2	10.0	10.0
Efficiency ratio (1)	57.4	57.7	60.5	61.5	62.1
Financial Condition Data:					
Total assets	$ 47,877	$ 44,453	$ 40,610	$ 38,947	$ 36,022
Loans	35,241	32,575	29,745	28,411	26,592
Securities	7,233	7,043	6,738	6,449	5,012
Short-term investments (2)	266	378	182	380	769
Allowance for loan losses	240	234	229	211	198
Goodwill and other acquisition-related intangible assets	2,866	2,560	2,142	2,088	2,103
Deposits	36,159	33,056	29,861	28,417	26,138
Borrowings	3,593	4,104	4,057	4,307	3,692
Notes and debentures	896	902	1,030	1,033	1,027
Stockholders equity	6,534	5,820	5,142	4,732	4,633
Non-performing assets (3)	186	168	167	182	224
Ratios:					
Net loan charge-offs to average total loans	0.07%	0.08%	0.06%	0.08%	0.12%
Non-performing assets to originated loans, real estate owned and repossessed assets (3)	0.61	0.56	0.57	0.66	0.88
Originated allowance for loan losses to:					
Originated loans (3)	0.77	0.77	0.77	0.73	0.74
Originated non-performing loans (3)	140.9	155.2	150.6	127.3	95.5
Average stockholders equity to average total assets	13.4	13.1	12.2	12.7	13.7
Stockholders equity to total assets	13.6	13.1	12.7	12.1	12.9
Tangible common equity to tangible assets (1)	7.6	7.2	7.2	7.2	7.5
Total risk-based capital (4)	13.2	12.6	13.3	12.6	13.0
Common Share Data:					
Diluted earnings per common share (1)	$ 1.29	$ 0.97	$ 0.92	$ 0.86	$ 0.84
Dividends paid per common share	0.6975	0.6875	0.6775	0.6675	0.6575
Common dividend payout ratio (1)	53.7%	70.6%	73.7%	77.3%	78.2%
Book value per common share (end of period)	$ 16.95	$ 16.40	$ 15.85	$ 15.62	$ 15.44
Tangible book value per common share (end of period) (1)	9.23	8.87	8.92	8.73	8.43
Stock price:					
High	20.26	19.85	20.13	16.95	15.70
Low	13.66	15.97	13.62	13.97	13.61
Close (end of period)	14.43	18.70	19.36	16.15	15.18

(1) See Non-GAAP Financial Measures and Reconciliation to GAAP.

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

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

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

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

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

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

General

People s United is a bank holding company and a financial holding company, and the Bank is a national banking association. The principal business of People s United is to provide, through the Bank and its subsidiaries, commercial banking, retail banking and wealth management services to individual, corporate and municipal customers. The Bank, which is headquartered in Bridgeport, Connecticut, had $47.9 billion in total assets as of December 31, 2018. Its deposit accounts are insured up to applicable limits by the FDIC under the DIF. The Bank is subject to regulation, examination, supervision and reporting requirements by the OCC, as its primary regulator, and by the FDIC as the deposit insurer. In addition, the BCFP has responsibility for supervising the Bank s compliance with designated consumer financial laws.

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

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Completed Acquisitions

Vend Lease

Effective June 27, 2018, the Bank completed its acquisition of Vend Lease, a Baltimore-based equipment finance company. The fair value of the consideration transferred in the Vend Lease acquisition consisted of $37.5 million in cash.

First Connecticut

Effective October 1, 2018, the Company completed its acquisition of First Connecticut based in Farmington, Connecticut. The fair value of the consideration transferred in the First Connecticut acquisition totaled $486.4 million and consisted of 28.4 million shares of People s United common stock. At the acquisition date, First Connecticut operated 25 branch locations throughout central Connecticut and western Massachusetts.

People s United s results of operations for the year ended December 31, 2018 include the results of Vend Lease and First Connecticut beginning with the respective effective dates. See Note 2 to the Consolidated Financial Statements for a further discussion of these acquisitions.

VAR Technology Finance

Effective January 2, 2019, the Bank completed its acquisition of VAR Technology Finance (VAR), a leasing and financing company headquartered in Mesquite, Texas. The fair value of the consideration transferred in the VAR acquisition consisted of $60.0 million in cash. Both Vend Lease and VAR are now considered divisions of LEAF.

Pending Acquisition

BSB Bancorp, Inc.

On November 27, 2018, People s United announced the signing of a definitive agreement to acquire BSB Bancorp, Inc. (BSB Bancorp) based in Belmont, Massachusetts. Under the terms of the definitive agreement, each share of BSB Bancorp common stock will be converted into the right to receive 2.0 shares of People s United common stock, with a total transaction value, as of December 31, 2018, of approximately $296 million. At December 31, 2018, BSB Bancorp had total assets of $3.0 billion, total deposits of $2.0 billion and operated six branches in the greater Boston area.

The acquisition, which is subject to regulatory approval, was approved by the shareholders of BSB Bancorp on February 27, 2019, and is expected to close early in the second quarter of 2019. People s United shareholder approval is not required for the acquisition.

Critical Accounting Policies

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

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

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

The Financial Accounting Standards Board (the FASB) has issued changes to several accounting standards, some of which govern key aspects of the Company s financial statements. Most notably, the FASB s standard on accounting for credit losses removes from U.S. generally accepted accounting principles (GAAP) the existing probable threshold for recognizing credit losses and, instead, utilizes an expected credit loss measurement principle. The model would be applied in the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired and adjusted each period for changes in expected credit losses. This standard represents a significant change in GAAP and may, upon adoption, result in material changes to the Company s Consolidated Financial Statements (see Note 1 to the Consolidated Financial Statements).

Non-GAAP Financial Measures and Reconciliation to GAAP

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

The efficiency ratio, which represents an approximate measure of the cost required by People s United to generate a dollar of revenue, is the ratio of (i) total non-interest expense (excluding operating lease expense, goodwill impairment charges, amortization of other acquisition-related intangible assets, losses on real estate assets and non-recurring expenses) (the numerator) to (ii) net interest income on a fully taxable equivalent (FTE) basis plus total non-interest income (including the FTE adjustment on bank-owned life insurance (BOLI) income, the netting of operating lease expense and excluding gains and losses on sales of assets other than residential mortgage loans and acquired loans, and non-recurring income) (the denominator). People s United 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 available to common shareholders those items that management considers to be of such a non-recurring or infrequent nature that, by excluding such items (net of income taxes), People s United s results can be measured and assessed on a more consistent basis from period to period. Items excluded from operating earnings, which include, but are not limited to: (i) non-recurring gains/losses; (ii) merger-related expenses, including acquisition integration and other costs; (iii) writedowns of banking house assets and related lease termination costs; (iv) severance-related costs; and (v) charges related to executive-level management separation costs, are generally also excluded when calculating the efficiency ratio. Effective in 2016, recurring writedowns of banking house assets and certain severance-related costs are no longer considered to be non-operating expenses. Operating earnings per common share (EPS) is derived by determining the per common share impact of the respective adjustments to arrive at operating earnings and adding (subtracting) such amounts to (from) diluted EPS, as reported. Operating return on average assets is calculated by dividing operating earnings (annualized) by average total assets. Operating return on average tangible common equity is calculated by dividing operating earnings (annualized) by average tangible common equity. The operating common dividend payout ratio is calculated by dividing common dividends paid by operating earnings for the respective period.

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

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

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

Years ended December 31 (dollars in millions)	2018	2017	2016	2015	2014
Total non-interest expense	$ 996.1	$ 960.3	$ 868.8	$ 860.6	$ 841.5
Adjustments to arrive at operating non-interest expense:					
Merger-related expenses	(11.4)	(30.6)	(4.0)		
Acquisition integration and other costs			(0.7)		
Writedowns of banking house assets				(10.5)	(6.2)
Severance-related costs				(2.4)	(3.3)
Total	(11.4)	(30.6)	(4.7)	(12.9)	(9.5)
Operating non-interest expense	984.7	929.7	864.1	847.7	832.0
Operating lease expense	(36.4)	(35.2)	(36.3)	(37.1)	(37.4)
Amortization of other acquisition-related intangible assets	(21.8)	(30.0)	(23.6)	(23.9)	(24.8)
Other (1)	(6.4)	(5.1)	(5.7)	(7.8)	(10.3)
Total non-interest expense for efficiency ratio	$ 920.1	$ 859.4	$ 798.5	$ 778.9	$ 759.5
Net interest income (FTE basis)	$ 1,262.4	$ 1,143.2	$ 1,004.5	$ 957.3	$ 931.1
Total non-interest income	366.4	352.9	342.7	352.4	350.8
Total revenues	1,628.8	1,496.1	1,347.2	1,309.7	1,281.9
Adjustments:					
Operating lease expense	(36.4)	(35.2)	(36.3)	(37.1)	(37.4)
Net security losses (gains)	9.8	25.4	5.9		(3.0)
BOLI FTE adjustment	1.9	3.4	2.8	2.4	2.8
Gain on sale of business, net of expenses				(9.2)	(20.6)
Other (2)		(1.3)	(0.8)	(0.1)	(0.5)
Total revenues for efficiency ratio	$ 1,604.1	$ 1,488.4	$ 1,318.8	$ 1,265.7	$ 1,223.2
Efficiency ratio	57.4%	57.7%	60.5%	61.5%	62.1%

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

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

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

Years ended December 31 (dollars in millions, except per common share data)	2018	2017	2016	2015	2014
Net income available to common shareholders	$ 454.0	$ 323.1	$ 279.2	$ 260.1	$ 251.7
Adjustments to arrive at operating earnings:					
Merger-related expenses	11.4	30.6	4.0		
Security losses associated with tax reform (1)	10.0	10.0			
Acquisition integration and other costs			0.7		
Writedowns of banking house assets				10.5	6.2
Severance-related costs				2.4	3.3
Gain on sale of business, net of expenses				(9.2)	(20.6)
Total pre-tax adjustments	21.4	40.6	4.7	3.7	(11.1)
Tax effect (2)	(14.0)	(17.9)	(1.6)	(1.3)	3.9
Total adjustments, net of tax	7.4	22.7	3.1	2.4	(7.2)
Operating earnings	$ 461.4	$ 345.8	$ 282.3	$ 262.5	$ 244.5
Diluted EPS, as reported	$ 1.29	$ 0.97	$ 0.92	$ 0.86	$ 0.84
Adjustment to arrive at operating EPS:					
Merger-related expenses	0.02	0.07	0.01		
Security losses associated with tax reform	0.02	0.02			
Tax benefits associated with tax reform	(0.02)	(0.02)			
Acquisition integration and other costs					
Writedowns of banking house assets				0.03	0.01
Severance-related costs					0.01
Gain on sale of business, net of expenses				(0.02)	(0.04)
Total adjustments per common share	0.02	0.07	0.01	0.01	(0.02)
Operating EPS	$ 1.31	$ 1.04	$ 0.93	$ 0.87	$ 0.82
Average total assets	$ 45,030	$ 42,582	$ 39,784	$ 36,894	$ 33,753
Operating return on average assets	1.02%	0.81%	0.71%	0.71%	0.72%

(1) Security losses incurred as a tax planning strategy in response to tax reform-related benefits are considered non-operating.
(2) Includes $9.2 million and $6.5 million of benefits realized in connection with tax reform for the years ended December 31, 2018 and 2017, respectively.

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

Years ended December 31 (dollars in millions)	2018	2017	2016	2015	2014
Operating earnings	$ 461.4	$ 345.8	$ 282.3	$ 262.5	$ 244.5
Average stockholders equity	$ 6,037	$ 5,592	$ 4,859	$ 4,697	$ 4,625
Less: Average preferred stock	244	244	41		
Average common equity	5,793	5,348	4,818	4,697	4,625
Less: Average goodwill and average other acquisition-related intangible assets	2,623	2,410	2,083	2,094	2,115
Average tangible common equity	$ 3,170	$ 2,938	$ 2,735	$ 2,603	$ 2,510
Operating return on average tangible common equity	14.6%	11.8%	10.3%	10.1%	9.7%

Years ended December 31 (dollars in millions)	2018	2017	2016	2015	2014
Common dividends paid	$ 243.8	$ 227.9	$ 205.7	$ 201.2	$ 196.9
Operating earnings	$ 461.4	$ 345.8	$ 282.3	$ 262.5	$ 244.5
Operating common dividend payout ratio	52.8%	65.9%	72.9%	76.6%	80.6%

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

As of December 31 (dollars in millions)	2018	2017	2016	2015	2014
Total stockholders equity	$ 6,534	$ 5,820	$ 5,142	$ 4,732	$ 4,633
Less: Preferred stock	244	244	244		
Common equity	6,290	5,576	4,898	4,732	4,633
Less: Goodwill and other acquisition-related intangible assets	2,866	2,560	2,142	2,088	2,103
Tangible common equity	$ 3,424	$ 3,016	$ 2,756	$ 2,644	$ 2,530
Total assets	$ 47,877	$ 44,453	$ 40,610	$ 38,947	$ 36,022
Less: Goodwill and other acquisition-related intangible assets	2,866	2,560	2,142	2,088	2,103
Tangible assets	$ 45,011	$ 41,893	$ 38,468	$ 36,859	$ 33,919
Tangible common equity ratio	7.6%	7.2%	7.2%	7.2%	7.5%

As of December 31 (in millions except per common share data)	2018	2017	2016	2015	2014
Tangible common equity	$ 3,424	$ 3,016	$ 2,756	$ 2,644	$ 2,530
Common shares issued	466.32	435.64	405.00	399.24	396.85
Less: Common shares classified as treasury shares	89.03	89.04	89.06	89.06	89.05
Unallocated ESOP common shares	6.27	6.62	6.97	7.32	7.67
Common shares	371.02	339.98	308.97	302.86	300.13
Tangible book value per common share	$ 9.23	$ 8.87	$ 8.92	$ 8.73	$ 8.43

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Economic Environment

People s United s results are subject to fluctuations based on economic conditions that can affect, among other things, interest rates, deposit flows, credit demand and the ability of borrowers to service debt. The U.S. economy grew more in 2018 than in any year since the financial crisis. Real gross domestic product is estimated to have increased 2.9% year-over-year compared to 2.3% in 2017 and the 2.2% average of the post-financial crisis expansion. National employment increased by 2.7 million jobs during 2018, and the national unemployment rate declined from 4.1% at the end of 2017 to 3.9% as of December 2018. The rate would have declined further, but the national economy drew 2.6 million people into the labor force as labor force participation increased from 62.7% to 63.1%.

Economic growth in 2018 supported the interest rate normalization objectives of the FRB, resulting in the Federal Open Market Committee (the FOMC) raising the target range for the federal funds rates by 100 basis points through four 25 basis point increases during 2018. The yield on the 2-year Treasury note increased from 1.89% to 2.48% over the year and the yield on the 10-year Treasury note increased from 2.41% to 2.69%. Inflation remained moderate during 2018 with the December 2018 year-over-year rates near 2017 year-end levels. The Consumer Price Index increased 1.9% (or 2.2% excluding food and energy) in 2018 compared to 2.1% (or 1.8% excluding food and energy) in 2017. FOMC projections released in December 2018 indicated that additional increases in the target range for the federal funds rate would occur in 2019, with projections varying from no increase to three increases.

The interest rate environment supported a modest expansion of the net interest margin and loan losses remained low. The Company expects economic expansion to continue throughout 2019, which should support loan and deposit growth and loan performance.

The New England region and southeastern New York comprise People s United s primary market area, with Connecticut, Massachusetts, New York and Vermont having the largest concentration of People s United s loans, deposits and branches. While the New England economy experienced a less severe contraction during the last recession than the U.S. as a whole, since the recession ended it has expanded more slowly. Employment growth since 2010 has exceeded the national average only in Massachusetts. As of November 2018, Connecticut had yet to recover all jobs lost in the recession, while Vermont, New Hampshire, New York, and Maine had increased employment but slower than the nation overall. The combination of the less severe recession, slower subsequent growth and slowly growing labor forces resulted in state unemployment rates that are less than the national rate in all states in the Company s primary market area, except for Connecticut where the unemployment rate was 4.0% as of December 31, 2018 compared to the national average of 3.9%.

Modest economic growth is expected to continue within People s United s primary market area, as its skilled labor force should enable it to be competitive in sectors of the economy with high growth potential, including health care, technology, education and advanced manufacturing.

Financial Overview

People s United completed its acquisitions of Suffolk effective April 1, 2017, LEAF effective August 1, 2017, Vend Lease effective June 27, 2018 and First Connecticut effective October 1, 2018. The assets acquired and liabilities assumed in these transactions were recorded at their estimated fair values as of the respective closing dates and People s United s results of operations include the results of these acquired companies beginning with the respective closing dates. Financial data for prior periods has not been restated to include Vend Lease, First Connecticut, LEAF and Suffolk and therefore, are not directly comparable to subsequent periods. See Note 2 to the Consolidated Financial Statements for a further discussion of these acquisitions.

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Comparison of Financial Condition at December 31, 2018 and 2017. Total assets at December 31, 2018 were $47.9 billion, a $3.4 billion increase from December 31, 2017, reflecting increases of $2.7 billion in total loans, $274 million in goodwill and $191 million in total securities, partially offset by a $111 million decrease in short-term investments. The increase in total loans from December 31, 2017 to December 31, 2018 reflects increases of $1.4 billion in commercial loans and $1.3 billion in retail loans. Originated loans increased $539 million from December 31, 2017 to $30.6 billion (commercial loans increased $464 million and retail loans increased $75 million) and acquired loans increased $2.1 billion. At the respective acquisition dates, the fair values of First Connecticut s and Vend Lease s loans and leases totaled $2.8 billion and $69 million, respectively. At December 31, 2018, the carrying amount of the acquired loan portfolio totaled $4.6 billion. The increase in total securities primarily reflects net purchases of state and municipal securities, partially offset by principal repayments and maturities of government sponsored enterprise (GSE) mortgage-backed securities.

Non-performing assets (excluding acquired non-performing loans) totaled $185.8 million at December 31, 2018, a $17.7 million increase from December 31, 2017. At December 31, 2018, acquired non-performing loans totaled $50.1 million compared to $29.7 million at December 31, 2017. The allowance for loan losses was $240.4 million at December 31, 2018 ($236.3 million on originated loans and $4.1 million on acquired loans) compared to $234.4 million at December 31, 2017 ($230.8 million on originated loans and $3.6 million on acquired loans). At December 31, 2018, the originated allowance for loan losses as a percentage of originated loans was 0.77% and as a percentage of originated non-performing loans was 140.9%, compared to 0.77% and 155.2%, respectively, at December 31, 2017.

At December 31, 2018, total liabilities were $41.3 billion, a $2.7 billion increase from December 31, 2017, reflecting a $3.1 billion increase in total deposits, partially offset by a $510 million decrease in total borrowings. At the acquisition date, the fair value of First Connecticut s deposits totaled $2.4 billion.

People s United s total stockholders equity was $6.5 billion at December 31, 2018, a $714.0 million increase from December 31, 2017. As a percentage of total assets, stockholders equity was 13.6% and 13.1% at December 31, 2018 and 2017, respectively. Tangible common equity as a percentage of tangible assets was 7.6% and 7.2% at December 31, 2018 and 2017, respectively.

People s United s (consolidated) Tier 1 Leverage capital ratio and its CET 1, Tier 1 and Total risk-based capital ratios were 8.7%, 10.3%, 10.9% and 12.5%, respectively, at December 31, 2018, compared to 8.3%, 9.7%, 10.4% and 12.2%, respectively, at December 31, 2017. The Bank s Tier 1 Leverage capital ratio and its CET 1, Tier 1 and Total risk-based capital ratios were 9.0%, 11.4%, 11.4% and 13.2%, respectively, at December 31, 2018, compared to 8.5%, 10.7%, 10.7% and 12.6%, respectively, at December 31, 2017.

Comparison of Results of Operations for the Years Ended December 31, 2018 and 2017. People s United reported net income of $468.1 million, or $1.29 per diluted common share, for the year ended December 31, 2018, compared to $337.2 million, or $0.97 per diluted common share, for the 2017 period. Included in the 2018 results are merger-related costs totaling $11.4 million ($8.9 million after-tax) or $0.02 per common share. Results for 2017 include merger-related costs totaling $30.6 million ($22.0 million after-tax) or $0.07 per common share. The results for 2018 reflect the benefits from recent acquisitions, continued loan and deposit growth, and meaningful cost control. People s United s return on average assets was 1.04% for 2018 compared to 0.79% for the 2017 period. Return on average tangible common equity was 14.3% for 2018 compared to 11.0% for the 2017 period.

FTE net interest income totaled $1.3 billion in 2018, a $119.2 million increase from the year-ago period, and the net interest margin increased 14 basis points from 2017 to 3.12%. The increase in the net interest margin primarily reflects higher yields on the loan portfolio.

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Average total earning assets increased $2.1 billion compared to 2017, primarily reflecting increases of $1.6 billion in average total loans and $559 million in average securities. Average total funding liabilities increased $1.8 billion compared to 2017, primarily reflecting a $1.9 billion increase in average total deposits.

Compared to 2017, total non-interest income increased $13.5 million and total non-interest expense increased $35.8 million. The efficiency ratio was 57.4% for 2018 compared to 57.7% for the year-ago period. The provision for loan losses in 2018 totaled $30.0 million compared to $26.0 million in the year-ago period. Net loan charge-offs as a percentage of average total loans were 0.07% in both 2018 and 2017.

Comparison of Financial Condition at December 31, 2017 and 2016. Total assets at December 31, 2017 were $44.5 billion, a $3.8 billion increase from December 31, 2016, reflecting increases of $2.8 billion in total loans, $419 million in goodwill, $305 million in total securities and $196 million in short-term investments. The increase in total loans from December 31, 2016 to December 31, 2017 reflects increases of $2.3 billion in commercial loans and $530 million in retail loans. Originated loans increased $976 million from December 31, 2016 to $30.1 billion (commercial loans increased $592 million and retail loans increased $384 million) and acquired loans increased $1.9 billion. At the respective acquisition dates, the fair value of Suffolk s and LEAF s loans totaled $1.6 billion and $718 million, respectively. At December 31, 2017, the carrying amount of the acquired loan portfolio totaled $2.5 billion. The increase in total securities primarily reflects an increase in state and municipal securities.

Non-performing assets (excluding acquired non-performing loans) totaled $168.1 million at December 31, 2017, a $0.8 million increase from December 31, 2016. At December 31, 2017, acquired non-performing loans totaled $29.7 million compared to $24.7 million at December 31, 2016. The allowance for loan losses was $234.4 million at December 31, 2017 ($230.8 million on originated loans and $3.6 million on acquired loans) compared to $229.3 million at December 31, 2016 ($223.0 million on originated loans and $6.3 million on acquired loans). At December 31, 2017, the originated allowance for loan losses as a percentage of originated loans was 0.77% and as a percentage of originated non-performing loans was 155.2%, compared to 0.77% and 150.6%, respectively, at December 31, 2016.

At December 31, 2017, total liabilities were $38.6 billion, a $3.2 billion increase from December 31, 2016, reflecting a $3.2 billion increase in total deposits, partially offset by a $129 million decrease in notes and debentures. At the acquisition date, the fair value of Suffolk s deposits totaled $1.9 billion. The decrease in notes and debentures reflects the repayment of the $125 million 5.80% fixed-rate/floating-rate subordinated notes in February 2017.

People s United s total stockholders equity was $5.8 billion at December 31, 2017, a $678.0 million increase from December 31, 2016. As a percentage of total assets, stockholders equity was 13.1% and 12.7% at December 31, 2017 and 2016, respectively. Tangible common equity as a percentage of tangible assets was 7.2% at both December 31, 2017 and 2016.

People s United s (consolidated) Tier 1 Leverage capital ratio and its CET 1, Tier 1 and Total risk-based capital ratios were 8.3%, 9.7%, 10.4% and 12.2%, respectively, at December 31, 2017, compared to 8.4%, 9.9%, 10.7% and 12.5%, respectively, at December 31, 2016. The Bank s Tier 1 Leverage capital ratio and its CET 1, Tier 1 and Total risk-based capital ratios were 8.5%, 10.7%, 10.7% and 12.6%, respectively, at December 31, 2017, compared to 8.9%, 11.3%, 11.3% and 13.3%, respectively, at December 31, 2016.

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Comparison of Results of Operations for the Years Ended December 31, 2017 and 2016. People s United reported net income of $337.2 million, or $0.97 per diluted common share, for the year ended December 31, 2017, compared to $281.0 million, or $0.92 per diluted common share, for the 2016 period. Included in the 2017 results are merger-related costs totaling $30.6 million ($22.0 million after-tax) or $0.07 per common share. Results for 2016 include merger-related costs totaling $4.7 million ($3.1 million after-tax) or $0.01 per common share. The results for 2017 reflect the benefits from recent acquisitions, continued loan and deposit growth, and meaningful cost control. People s United s return on average assets was 0.79% for 2017 compared to 0.71% for the 2016 period. Return on average tangible common equity was 11.0% for 2017 compared to 10.2% for the 2016 period. On an operating basis, return on average assets was 0.81% and return on average tangible common equity was 11.8% for 2017.

FTE net interest income totaled $1.1 billion in 2017, a $138.7 million increase from the year-ago period, and the net interest margin increased 18 basis points from 2016 to 2.98%. The increase in the net interest margin primarily reflects higher yields on the loan portfolio.

Average total earning assets increased $2.5 billion compared to 2016, primarily reflecting a $2.5 billion increase in average total loans. Average total funding liabilities increased $2.1 billion compared to 2016, reflecting an increase of $2.5 billion in average total deposits, partially offset by decreases of $238 million in average total borrowings and $127 million in average notes and debentures.

Compared to 2016, total non-interest income increased $10.2 million and total non-interest expense increased $91.5 million. The efficiency ratio was 57.7% for 2017 compared to 60.5% for the year-ago period. The provision for loan losses in 2017 totaled $26.0 million compared to $36.6 million in the year-ago period. Net loan charge-offs as a percentage of average total loans were 0.07% in 2017 compared to 0.06% in 2016.

Segment Results

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

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

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Segment Performance Summary

Years ended December 31 (in millions)	Net Income 2018	2017	2016
Commercial Banking	$ 369.6	$ 285.2	$ 247.4
Retail Banking	64.7	19.4	(3.7)
Total reportable segments	434.3	304.6	243.7
Treasury	67.7	74.4	59.5
Other	(33.9)	(41.8)	(22.2)
Total Consolidated	$ 468.1	$ 337.2	$ 281.0

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

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

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

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

For a more detailed description of the estimates and allocations used to measure segment performance, see Note 23 to the Consolidated Financial Statements.

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

Years ended December 31 (in millions)	2018	2017	2016
Net interest income	$ 699.2	$ 631.0	$ 566.5
Provision for loan losses	38.7	43.7	39.3
Total non-interest income	177.8	165.0	156.4
Total non-interest expense	383.7	357.1	322.8
Income before income tax expense	454.6	395.2	360.8
Income tax expense	85.0	110.0	113.4
Net income	$ 369.6	$ 285.2	$ 247.4
Average total assets	$ 25,956.7	$ 24,533.9	$ 22,691.1
Average total liabilities	9,305.0	7,938.6	6,733.7

Commercial Banking net income increased $84.4 million in 2018 compared to 2017, reflecting increases in net interest income and non-interest income, partially offset by an increase in non-interest expense. The $68.2 million increase in net interest income primarily reflects the benefit from an increase in average commercial loans and leases, as well as new business yields higher than the total portfolio yield, partially offset by the adverse effect of increases in net FTP funding charges and interest expense. Non-interest income increased $12.8 million in 2018 compared to 2017, primarily reflecting increases in net customer interest rate swap income, investment management fees and commercial banking lending fees. The $26.6 million increase in non-interest expense in 2018 compared to 2017 reflects higher levels of direct expenses, partially offset by a decrease in allocated expenses. Compared to 2017, average total assets increased $1.4 billion, primarily reflecting loans acquired in connection with the First Connecticut acquisition as well as organic loan growth. Average total liabilities increased $1.4 billion in 2018 compared to 2017, primarily reflecting organic deposit growth and deposits assumed in the First Connecticut acquisition.

Commercial Banking net income increased $37.8 million in 2017 compared to 2016, reflecting increases in net interest income and non-interest income, partially offset by an increase in non-interest expense. The $64.5 million increase in net interest income primarily reflects the benefit from an increase in average commercial loans and leases, as well as new business yields higher than the total portfolio yield, partially offset by the adverse effect of increases in net FTP funding charges and interest expense. Non-interest income increased $8.6 million in 2017 compared to 2016, primarily reflecting increases in commercial banking lending fees and operating lease income, partially offset by a decrease in net customer interest rate swap income. The $34.3 million increase in non-interest expense in 2017 compared to 2016 reflects higher levels of both direct and allocated expenses. Average total assets increased $1.8 billion and average total liabilities increased $1.2 billion compared to 2016, primarily reflecting the Suffolk and LEAF acquisitions, as well as organic loan and deposit growth.

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

Years ended December 31 (in millions)	2018	2017	2016
Net interest income	$ 467.2	$ 403.9	$ 347.5
Provision for loan losses	9.0	13.4	13.0
Total non-interest income	186.7	183.4	169.0
Total non-interest expense	565.3	547.0	508.9
Income (loss) before income tax expense (benefit)	79.6	26.9	(5.4)
Income tax expense (benefit)	14.9	7.5	(1.7)
Net income (loss)	$ 64.7	$ 19.4	$ (3.7)
Average total assets	$ 10,103.3	$ 9,695.1	$ 8,945.8
Average total liabilities	20,699.1	20,202.8	19,207.3

Retail Banking net income increased $45.3 million in 2018 compared to 2017, reflecting increases in net interest income and non-interest income, partially offset by an increase in non-interest expense. The $63.3 million increase in net interest income primarily reflects the benefits from an increase in average residential mortgage loans, as well as new business yields higher than the total portfolio yield and higher net FTP funding credits, partially offset by an increase in interest expense. The $18.3 million increase in non-interest expense in 2018 compared to 2017 reflects higher levels of both direct and allocated expenses. Compared to 2017, average total assets increased $408 million, primarily reflecting loans acquired in connection with the First Connecticut acquisition, as well as organic loan growth, and average total liabilities increased $496 million, primarily reflecting deposits assumed in the First Connecticut acquisition as well as organic deposit growth.

Retail Banking net income in 2017 compared to a net loss in 2016 reflects increases in net interest income and non-interest income, partially offset by an increase in non-interest expense. The $56.4 million increase in net interest income primarily reflects the benefits from an increase in average residential mortgage loans, as well as new business yields higher than the total portfolio yield and higher net FTP funding credits. Non-interest income increased $14.4 million in 2017 compared to 2016, primarily reflecting the addition of Gerstein, Fisher & Associates, Inc. (Gerstein Fisher) in November 2016, partially offset by a $3.1 million decrease in net gains on sales of residential loans. The $38.1 million increase in non-interest expense in 2017 compared to 2016 reflects higher levels of both direct and allocated expenses. Compared to 2016, average total assets increased $749 million and average total liabilities increased $996 million, primarily reflecting the Suffolk acquisition and organic loan and deposit growth.

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

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

Years ended December 31 (in millions)	2018	2017	2016
Net interest income	$ 93.0	$ 107.4	$ 87.6
Total non-interest income	8.3	11.2	9.2
Total non-interest expense	17.8	15.6	9.8
Income before income tax expense	83.5	103.0	87.0
Income tax expense	15.8	28.6	27.5
Net income	$ 67.7	$ 74.4	$ 59.5
Average total assets	$ 7,955.8	$ 7,512.1	$ 7,443.1
Average total liabilities	8,544.3	8,450.6	8,628.7

Treasury net income decreased $6.7 million in 2018 compared to 2017, reflecting decreases in net interest income and non-interest income and an increase in non-interest expense. The $14.4 million decrease in net interest income primarily reflects an increase in interest expense and the unfavorable impact of tax reform on the Company s municipal bond holdings, which resulted in a lower FTE adjustment, partially offset by the benefits from an increase in securities income and higher net FTP funding credits. Non-interest income includes BOLI death benefits received totaling $1.0 million and $0.9 million in 2018 and 2017, respectively. The $2.2 million increase in non-interest expense in 2018 compared to 2017 reflects an increase in allocated expenses. Compared to 2017, average total assets increased $444 million, primarily reflecting an increase in average securities, and average total liabilities increased $94 million, primarily reflecting an increase in average deposits, partially offset by decreases in borrowings and notes and debentures.

Treasury net income increased $14.9 million in 2017 compared to 2016, reflecting increases in net interest income and non-interest income, partially offset by an increase in non-interest expense. The $19.8 million increase in net interest income primarily reflects the benefits from an increase in securities income and higher net FTP funding credits, partially offset by an increase in interest expense. Non-interest income in 2017 includes a $16.1 million gain recorded in connection with the exchange of an ownership interest in a non-marketable equity security (previously recorded in other assets) for cash and common stock in a publicly-traded company. Net security losses in 2017 totaling $15.7 million resulting from the sale of low-yielding and short-duration U.S. Treasury and collateralized mortgage obligation (CMO) securities, with a combined amortized cost of $486.9 million, are also included in non-interest income. Non-interest income in 2016 includes $5.9 million in net security losses and income relating to distributions from an acquired equity investment. Non-interest income also includes BOLI death benefits received totaling $0.9 million and $1.4 million in 2017 and 2016, respectively. The $5.8 million increase in non-interest expense in 2017 compared to 2016 reflects an increase in allocated expenses, partially offset by a decrease in direct expenses. Compared to 2016, average total assets increased $69 million, primarily reflecting an increase in short-term investments, and average total liabilities decreased $178 million, primarily reflecting decreases in borrowings and notes and debentures, partially offset by an increase in deposits.

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Other includes the residual financial impact from the allocation of revenues and expenses (including the provision for loan losses) and certain revenues and expenses not attributable to a particular segment; assets and liabilities not attributable to a particular segment; reversal of the FTE adjustment since net interest income for each segment is presented on an FTE basis; and the FTP impact from excess capital. The Other category also includes (i) $10.0 million of security losses in each of the years ended December 31, 2018 and 2017 incurred in response to tax reform-related benefits recognized in each period, and gains totaling $7.5 million resulting from the sale of an ownership interest in a legacy privately-held investment and an interest in a real estate investment for the year ended December 31, 2016 (all included in non-interest income) and (ii) merger-related expenses totaling $11.4 million, $30.6 million and $4.7 million for the years ended December 31, 2018, 2017 and 2016, respectively (included in non-interest expense).

Years ended December 31 (in millions)	2018	2017	2016
Net interest loss	$ (23.4)	$ (41.8)	$ (29.4)
Provision for loan losses	(17.7)	(31.1)	(15.7)
Total non-interest income	(6.4)	(6.7)	8.1
Total non-interest expense	29.3	40.6	27.3
Loss before income tax benefit	(41.4)	(58.0)	(32.9)
Income tax benefit	(7.5)	(16.2)	(10.7)
Net loss	$ (33.9)	$ (41.8)	$ (22.2)
Average total assets	$ 1,013.9	$ 840.5	$ 704.3
Average total liabilities	444.1	398.0	355.2

Net Interest Income

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

Net Interest Margin

Years ended December 31 (percent)

Net Interest Income - FTE

Years ended December 31 (dollars in millions)

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In response to continued signs of a moderately expanding U.S. economy, the FRB has raised the target range for the federal funds rate four times during 2018 by a total of 100 basis points to between 2.25% and 2.50%, after raising the target rate three times during 2017 by a total of 75 basis points. For 2018, the average effective federal funds rate was 1.83%.

The net interest margin was 3.12% in 2018 compared to 2.98% in 2017. The improvement in the net interest margin in 2018 compared to 2017 primarily reflects higher yields on new loan originations and the upward repricing of floating rate-rate loans. Higher yields on the loan portfolio benefitted the net interest margin by 43 basis points, while higher funding costs reduced the net interest margin by 31 basis points.

2018 Compared to 2017

FTE net interest income increased $119.2 million compared to 2017, reflecting a $237.6 million increase in total interest and dividend income and a $118.4 million increase in total interest expense, and the net interest margin increased 14 basis points to 3.12%.

Average total earning assets were $40.5 billion in 2018, a $2.1 billion increase from 2017, primarily reflecting increases of $1.6 billion in average total loans and $559 million in average securities. The average total commercial and residential mortgage loan portfolios increased $1.2 billion and $536 million, respectively, compared to 2017, reflecting organic growth and loans acquired in the First Connecticut acquisition, and the average home equity loan portfolio decreased $109 million. Average total loans, average securities and average short-term investments comprised 81%, 18% and 1%, respectively, of average total earning assets in both 2018 and 2017. In 2018, the yield earned on the total loan portfolio was 4.19% and the yield earned on securities and short-term investments was 2.70%, compared to 3.71% and 2.59%, respectively, in the year-ago period. At December 31, 2018, approximately 43% of the Company s loan portfolio was comprised of Prime Rate and one-month Libor-based loans, compared to approximately 50% at December 31, 2017.

Average total funding liabilities were $38.2 billion in 2018, a $1.8 billion increase from the year-ago period, primarily reflecting a $1.9 billion increase in average total deposits. The increase in average total deposits reflects organic growth, deposits assumed in the First Connecticut acquisition and a $415 million increase in average brokered deposits. Excluding brokered deposits, average non-interest-bearing deposits, average time deposits and average savings increased $740 million, $514 million and $200 million, respectively. Average total deposits comprised 88% and 87% of average total funding liabilities in 2018 and 2017, respectively.

The 29 basis point increase to 0.84% from 0.55% in the rate paid on average total funding liabilities in 2018 compared to 2017 primarily reflects the increases in the target federal funds rate discussed above. The rate paid on average total deposits increased 23 basis points in 2018, reflecting increases of 47 basis points in time deposits and 24 basis points in savings, interest-bearing checking and money market deposits, partially offset by the benefit from a $740 million increase in non-interest-bearing deposits. Average savings, interest-bearing checking and money market deposits and average time deposits comprised 58% and 18%, respectively, of average total deposits in 2018 compared to 61% and 15%, respectively, in 2017.

2017 Compared to 2016

The net interest margin was 2.98% in 2017 compared to 2.80% in 2016. The improvement in the net interest margin in 2017 compared to 2016 primarily reflects higher yields on the loan portfolio (which benefitted the net interest margin by 25 basis points), partially offset by higher funding costs (which reduced the net interest margin by 13 basis points).

FTE net interest income increased $138.7 million compared to 2016, reflecting a $185.5 million increase in total interest and dividend income and a $46.8 million increase in total interest expense, and the net interest margin increased 18 basis points to 2.98%.

Average total earning assets were $38.4 billion in 2017, a $2.5 billion increase from 2016, primarily reflecting a $2.5 billion increase in average total loans. The average total commercial and residential mortgage loan portfolios increased $1.7 billion and $829 million, respectively, compared to 2016, reflecting organic growth and loans acquired in the Suffolk and LEAF acquisitions, and the average home equity loan portfolio decreased $59 million. Average total loans, average securities and average short-term investments comprised 81%, 18% and 1%, respectively, of average total earning assets in 2017, compared to 80%, 19% and 1%, respectively, in 2016. In 2017, the yield earned on the total loan portfolio was 3.71% and the yield earned on securities and short-term investments was 2.59%, compared to 3.47% and 2.30%, respectively, in the year-ago period. At December 31, 2017, approximately 50% of the Company s loan portfolio was comprised of Prime Rate and one-month Libor-based loans, compared to approximately 51% at December 31, 2016.

Average total funding liabilities were $36.4 billion in 2017, a $2.1 billion increase from the year-ago period, reflecting a $2.5 billion increase in average total deposits, partially offset by decreases of $238 million in average total borrowings and $127 million in average notes and debentures. The increase in average total deposits reflects organic growth, deposits assumed in the Suffolk acquisition and a $231 million increase in average brokered deposits. Excluding brokered deposits, average savings, interest-bearing checking and money market deposits, and average non-interest-bearing deposits both increased $1.1 billion. Average total deposits comprised 87% and 85% of average total funding liabilities in 2017 and 2016, respectively. The decrease in average notes and debentures reflects the repayment of the $125 million 5.80% fixed-rate/floating-rate subordinated notes in February 2017.

The ten basis point increase to 0.55% from 0.45% in the rate paid on average total funding liabilities in 2017 compared to 2016 primarily reflects the increases in the target federal funds rate discussed above. The rate paid on average total deposits increased seven basis points in 2017, reflecting increases of 12 basis points in savings, interest-bearing checking and money market deposits and two basis points in time deposits, partially offset by the benefit from a $1.1 billion increase in non-interest-bearing deposits. Average savings, interest-bearing checking and money market deposits and average time deposits comprised 61% and 15%, respectively, of average total deposits in 2017 compared to 63% and 16%, respectively, in 2016.

Average Balance Sheet, Interest and Yield/Rate Analysis

The table on the following page presents average balance sheets, FTE-basis interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2018, 2017 and 2016. The average balances are principally daily averages and, for loans, include both performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which People s United has ceased to accrue interest. Premium amortization and discount accretion (including amounts attributable to purchase accounting adjustments) are also included in the respective interest income and interest expense amounts. The impact of People s United s use of derivative instruments in managing IRR is also reflected in the table, classified according to the instrument hedged and the related risk management objective.

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Average Balance Sheet, Interest and Yield/Rate Analysis

Years ended December 31 (dollars in millions)	2018 Average Balance	2018 Interest	2018 Yield/ Rate	2017 Average Balance	2017 Interest	2017 Yield/ Rate	2016 Average Balance	2016 Interest	2016 Yield/ Rate
Assets:									
Short-term investments (1)	$ 278.9	$ 5.0	1.81%	$ 358.3	$ 3.7	1.04%	$ 328.7	$ 1.5	0.45%
Securities (2)	7,343.7	200.9	2.74	6,785.0	181.3	2.67	6,786.7	158.8	2.34
Loans:									
Commercial real estate	11,017.7	463.4	4.21	10,961.2	405.7	3.70	10,013.3	344.6	3.44
Commercial and industrial	8,611.7	375.4	4.36	8,278.6	313.9	3.79	7,821.8	268.8	3.44
Equipment financing	4,040.8	212.3	5.25	3,264.3	152.1	4.66	2,972.3	130.9	4.40
Residential mortgage	7,188.6	237.1	3.30	6,653.0	208.4	3.13	5,824.1	181.5	3.12
Home equity and other consumer	1,995.6	88.6	4.44	2,107.9	80.0	3.80	2,163.8	73.5	3.40
Total loans	32,854.4	1,376.8	4.19	31,265.0	1,160.1	3.71	28,795.3	999.3	3.47
Total earning assets	40,477.0	$ 1,582.7	3.91%	38,408.3	$ 1,345.1	3.50%	35,910.7	$ 1,159.6	3.23%
Other assets	4,552.7			4,173.3			3,873.6		
Total assets	$ 45,029.7			$ 42,581.6			$ 39,784.3		
Liabilities and stockholders equity:									
Deposits:									
Non-interest-bearing	$ 8,069.8	$	%	$ 7,329.3	$	%	$ 6,236.1	$	%
Savings, interest-bearing checking and money market	19,630.1	127.4	0.65	19,486.7	80.1	0.41	18,258.2	53.0	0.29
Time	5,901.4	88.7	1.50	4,915.7	50.6	1.03	4,760.4	47.9	1.01
Total deposits	33,601.3	216.1	0.64	31,731.7	130.7	0.41	29,254.7	100.9	0.34
Borrowings:									
FHLB advances	2,653.6	54.5	2.05	2,677.5	31.5	1.17	3,093.7	19.2	0.62
Federal funds purchased	682.2	13.6	2.00	643.5	7.1	1.11	568.1	2.9	0.50
Customer repurchase agreements	252.7	1.0	0.40	311.0	0.6	0.19	337.2	0.7	0.19
Other borrowings	104.5	1.8	1.66	132.0	2.1	1.60	2.8		0.66
Total borrowings	3,693.0	70.9	1.92	3,764.0	41.3	1.10	4,001.8	22.8	0.57
Notes and debentures	889.8	33.3	3.75	921.3	29.9	3.25	1,048.5	31.4	3.00
Total funding liabilities	38,184.1	$ 320.3	0.84%	36,417.0	$ 201.9	0.55%	34,305.0	$ 155.1	0.45%
Other liabilities	808.4			573.0			619.9		
Total liabilities	38,992.5			36,990.0			34,924.9		
Stockholders equity	6,037.2			5,591.6			4,859.4		
Total liabilities and stockholders equity	$ 45,029.7			$ 42,581.6			$ 39,784.3		

Net interest income/spread (3)	$ 1,262.4	3.07%	$ 1,143.2	2.95%	$ 1,004.5	2.78%
Net interest margin		3.12%		2.98%		2.80%

(1) Includes securities purchased under agreements to resell.
(2) Average balances and yields for securities are based on amortized cost.
(3) The FTE adjustment was $26.4 million, $42.7 million and $32.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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Volume and Rate Analysis

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

	2018 Compared to 2017 Increase (Decrease)			2017 Compared to 2016 Increase (Decrease)		
(in millions)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Short-term investments	$ (1.0)	$ 2.3	$ 1.3	$ 0.1	$ 2.1	$ 2.2
Securities	15.2	4.4	19.6		22.5	22.5
Loans:						
Commercial real estate	2.1	55.6	57.7	34.0	27.1	61.1
Commercial and industrial	13.0	48.5	61.5	16.3	28.8	45.1
Equipment financing	39.2	21.0	60.2	13.3	7.9	21.2
Residential mortgage	17.3	11.4	28.7	26.0	0.9	26.9
Home equity and other consumer	(4.4)	13.0	8.6	(1.9)	8.4	6.5
Total loans	67.2	149.5	216.7	87.7	73.1	160.8
Total change in interest and dividend income	81.4	156.2	237.6	87.8	97.7	185.5
Interest expense:						
Deposits:						
Savings, interest-bearing checking and money market	0.6	46.7	47.3	3.8	23.3	27.1
Time	11.6	26.5	38.1	1.6	1.1	2.7
Total deposits	12.2	73.2	85.4	5.4	24.4	29.8
Borrowings:						
FHLB advances	(0.3)	23.3	23.0	(2.9)	15.2	12.3
Federal funds purchased	0.5	6.0	6.5	0.4	3.8	4.2
Customer repurchase agreements	(0.1)	0.5	0.4	(0.1)		(0.1)
Other borrowings	(0.5)	0.2	(0.3)	2.1		2.1
Total borrowings	(0.4)	30.0	29.6	(0.5)	19.0	18.5
Notes and debentures	(1.1)	4.5	3.4	(4.0)	2.5	(1.5)
Total change in interest expense	10.7	107.7	118.4	0.9	45.9	46.8
Change in net interest income	$ 70.7	$ 48.5	$ 119.2	$ 86.9	$ 51.8	$ 138.7

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The following table provides the weighted average yields earned and rates paid for each major category of earning assets and funding liabilities as of December 31, 2018:

(dollars in millions)	Balance	Yield/Rate
Earning assets:		
Short-term investments	$ 266.3	2.32%
Securities	7,233.2	2.65
Loans	35,241.4	4.32
Total earning assets	$ 42,740.9	4.03%
Funding liabilities:		
Non-interest-bearing deposits	$ 8,543.0	%
Interest-bearing deposits:		
Money market	9,859.7	1.10
Interest-bearing checking	6,723.6	0.90
Time	6,916.2	1.78
Savings	4,116.5	0.09
Borrowings	3,593.4	2.36
Notes and debentures	895.8	3.81
Total funding liabilities	$ 40,648.2	1.03%

Non-Interest Income

				Percentage Increase (Decrease)	
Years ended December 31 (dollars in millions)	2018	2017	2016	2018/2017	2017/2016
Bank service charges	$ 99.9	$ 98.5	$ 98.0	1.4%	0.5%
Investment management fees	68.7	66.5	48.3	3.3	37.7
Operating lease income	44.9	43.8	41.2	2.5	6.3
Commercial banking lending fees	37.3	35.5	31.6	5.1	12.3
Insurance revenue	34.6	33.2	32.9	4.2	0.9
Cash management fees	27.1	26.1	25.0	3.8	4.4
Brokerage commissions	12.8	12.1	12.2	5.8	(0.8)
Net security losses	(9.8)	(25.4)	(5.9)	n/m	n/m
Other non-interest income:					
Customer interest rate swap income, net	14.6	12.3	14.4	18.7	(14.6)
BOLI	7.2	6.3	5.7	14.3	10.5
Credit card fees	6.4	5.6	5.6	14.3	
Net gains on sales of residential mortgage loans	1.2	3.2	6.3	(62.5)	(49.2)
Net gains on sales of acquired loans	1.8	2.4		(25.0)	n/m
Other	19.7	32.8	27.4	(39.9)	19.7
Total other non-interest income	50.9	62.6	59.4	(18.7)	5.4
Total non-interest income	$ 366.4	$ 352.9	$ 342.7	3.8%	3.0%

n/m not meaningful

Total non-interest income in 2018 increased $13.5 million compared to 2017 and increased $10.2 million in 2017 compared to 2016. The increase in non-interest income in 2018 compared to 2017 primarily reflects increases in customer interest rate swap income and investment management fees, and a decrease in net security losses. The increase in non-interest income in 2017 compared to 2016 primarily reflects increases in investment management fees and commercial banking lending fees, partially offset by an increase in net security losses.

The increase in bank service charges in 2018 compared to 2017 primarily reflects benefits from the acquisition of First Connecticut effective October 1, 2018, partially offset by continued lower overdraft fees. The improvement in investment management fees in 2018 compared to 2017 reflects the continued benefits from new revenue initiatives, additional personnel in our key markets and a broader suite of product offerings. The improvement in investment management fees in 2017 compared to 2016 primarily reflects the acquisition of Gerstein Fisher in November 2016. At December 31, 2018, assets under administration totaled $23.2 billion, of which $8.6 billion are under discretionary management, compared to $23.8 billion and $9.1 million, respectively, at December 31, 2017.

The increase in operating lease income in 2018 and 2017 primarily reflects the acquisition of LEAF in August 2017. The increase in commercial banking lending fees in 2018 and 2017 is primarily related to higher levels of prepayment fees collected in each year. The level of insurance revenue over the past few years reflects both the continued soft commercial insurance market as well as the benefits from the recent acquisitions.

In response to tax reform-related benefits realized following enactment of the Tax Cuts and Jobs Act, People s United sold (i) GSE mortgage-backed securities with an amortized cost of $235.5 million and recorded $10.0 million of gross realized losses in December 2018 and (ii) U.S. Treasury and CMO securities with a combined amortized cost of $291.3 million and recorded $10.0 million of gross realized losses in December 2017. Also in 2017, People s United sold U.S. Treasury and CMO securities with a combined amortized cost of $486.9 million and recorded $15.7 million of gross realized losses. In 2016, People s United sold U.S. Treasury and CMO securities with a combined amortized cost of $403.0 million and recorded $6.1 million of gross realized losses.

The increase in net customer interest rate swap income in 2018 compared to 2017 and the decrease in 2017 compared to 2016 reflects fluctuations in both the number and notional value of swap transactions. On an FTE basis, BOLI income totaled $9.1 million in 2018, compared to $9.7 million in 2017 and $8.5 million in 2016. BOLI income includes death benefits received totaling $1.0 million, $0.9 million and $1.4 million in 2018, 2017 and 2016, respectively. The FTE adjustment on BOLI income beginning in 2018 reflects a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018.

The decrease in net gains on sales of residential mortgage loans in 2018 compared to 2017 primarily reflects a 40% decrease in the volume of residential mortgage loans sold, as well as narrower spreads on pricing. The decrease in net gains on sales of residential mortgage loans in 2017 compared to 2016 primarily reflects narrower spreads on pricing as well as a 33% decrease in the volume of residential mortgage loan sales.

Net gains on sales of acquired loans in 2018 and 2017 (none in 2016) reflect sales of acquired loans with contractual balances of $10.0 million and $7.9 million, respectively (carrying amounts of $4.4 million and $5.0 million, respectively).

During the quarter ended March 31, 2017, the Company exchanged its ownership interest in a non-marketable equity security (previously recorded in other assets) for total consideration of $16.3 million, including (i) cash and (ii) common stock in a publicly-traded company with a fair value of approximately $10.8 million at acquisition. Included in other non-interest income in 2017 is a $16.1 million gain recorded in connection with this transaction. Included in other non-interest income in 2016 are gains totaling $7.5 million resulting from the sale of an ownership interest in a legacy privately-held investment and an interest in a real estate investment.

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Non-Interest Expense

Years ended December 31 (dollars in millions)	2018	2017	2016	Percentage Increase (Decrease) 2018/2017	2017/2016
Compensation and benefits	$ 562.9	$ 522.7	$ 464.1	7.7%	12.6%
Occupancy and equipment	168.2	159.6	150.4	5.4	6.1
Professional and outside services	77.6	81.5	67.8	(4.8)	20.2
Regulatory assessments	37.9	41.7	37.5	(9.1)	11.2
Operating lease expense	36.4	35.2	36.3	3.4	(3.0)
Amortization of other acquisition-related intangible assets	21.8	30.0	23.6	(27.3)	27.1
Other non-interest expense:					
Stationery, printing, postage and telephone	24.7	22.8	22.3	8.3	2.2
Advertising and promotion	15.8	12.6	11.2	25.4	12.5
Other	50.8	54.2	55.6	(6.3)	(2.5)
Total other non-interest expense	91.3	89.6	89.1	1.9	0.6
Total non-interest expense	$ 996.1	$ 960.3	$ 868.8	3.7%	10.5%
Efficiency ratio	57.4%	57.7%	60.5%		

Total non-interest expense increased $35.8 million in 2018 compared to 2017 and increased $91.5 million in 2017 compared to 2016. Included in total non-interest expense are merger-related expenses totaling $11.4 million in 2018, $30.6 million in 2017 and $4.7 million in 2016.

The improvement in the efficiency ratio in both 2018 and 2017 reflects increases in both adjusted total revenues and adjusted total expenses (see Non-GAAP Financial Measures and Reconciliation to GAAP). The efficiency ratio in 2018 reflects the unfavorable impact (approximately 70 basis points) of a lower FTE adjustment on net interest income and BOLI income resulting from a reduction in the U.S. federal corporate income tax rate from 35% to 21%.

Compensation and benefits increased $40.2 million in 2018 compared to 2017 and $58.6 million in 2017 compared to 2016. Compensation and benefits includes merger and severance-related costs totaling $3.5 million in 2018, $3.9 million in 2017 and $0.7 million in 2016. Excluding such costs, compensation and benefits increased $40.6 million, or 7.8%, in 2018 compared to 2017 and $55.4 million, or 12.0%, in 2017 compared to 2016. The increase in 2018 compared to 2017 primarily reflects First Connecticut and Vend Lease personnel costs in the current year, a full year of Suffolk and LEAF personnel costs, as well as normal merit increases and higher incentive-related costs. The increase in 2017 compared to 2016 primarily reflects Suffolk, LEAF and Gerstein Fisher personnel costs in 2017, normal merit increases and higher incentive-related and health care costs.

In March 2017, the FASB amended its standards to (i) require that the service cost component of net benefit cost associated with pension and postretirement plans be reported in the same line item in which the related employees compensation cost is reported and (ii) specify that only the service cost component is eligible for capitalization. The other components of net benefit cost, which may not be capitalized, are to be presented separately. This amendment, which is required to be applied retrospectively, became effective for People s United on January 1, 2018. Accordingly, net periodic pension and postretirement benefit income (a result of the expected return on plan assets exceeding the sum of the other components) previously reported within compensation and benefits expense is now reported within other non-interest expense in the Consolidated Statements of Income. For the years ended December 31, 2017 and 2016, $8.7 million and $8.5 million, respectively, of net periodic pension and postretirement benefit income was reclassified in accordance with the requirements of the standard.

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The FASB s amended standard with respect to the accounting for leases, which is effective for the Company on January 1, 2019 (see Note 1 to the Consolidated Financial Statements), provides a narrower definition of eligible initial direct costs for lessors. As such, adoption of the standard will result in the Company recognizing immediately (rather than deferring) certain lease origination-related expenses. Such expenses would be offset by the recognition of a higher yield on the underlying leases over their contractual term. As a result, compensation and benefits costs are expected to increase by approximately $12 million in 2019.

The increase in occupancy and equipment expense in 2018 and 2017 primarily reflects higher equipment-related costs and the incremental costs resulting from acquisitions completed in 2018 and 2017, partially offset by the benefits from consolidating branches and other office space over the past several years. In 2018, the Company closed 10 branches compared to 12 branches in 2017 and 11 branches in 2016. Since the beginning of 2011, the Company has closed 87 branches, most of which were traditional branches, and opened 29 branches, of which 19 branches are more cost efficient Stop & Shop locations.

Professional and outside services fees include merger-related expenses totaling $6.3 million in 2018, $15.3 million in 2017 and $3.9 million in 2016. Excluding such expenses, professional and outside services fees increased $5.1 million in 2018 compared to 2017 and $2.3 million in 2017 compared to 2016. The increase in both 2018 and 2017 primarily reflects higher levels of spending on projects. The fluctuations in operating lease expense primarily relates to the levels of equipment leased to equipment financing customers. The fluctuations in advertising and promotion expense primarily reflect the timing of certain advertising campaigns.

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

In March 2016, the FDIC issued a final rule that will serve to implement a DFA provision requiring banks with over $10 billion in assets to be responsible for recapitalizing the DIF to 1.35% of insured deposits after it reaches a 1.15% reserve ratio. The rule became effective on July 1, 2016. For banks with over $10 billion in assets, the rule imposes a 4.5 basis point surcharge bringing the DIF s reserve ratio to 1.35% by September 2020. For the surcharge only, the assessment base would be reduced by $10 billion. In November 2018, the FDIC announced that the DIF s reserve ratio had exceeded the 1.35% minimum reserve ratio. As such, beginning in the fourth quarter of 2018, banks with over $10 billion in assets are no longer subject to the surcharge. The decrease in regulatory assessments in 2018 compared to 2017 primarily reflects the benefit of eliminating the FDIC surcharge in the fourth quarter of 2018 with the benefit in 2019 expected to be approximately $12 million. The increase in regulatory assessments in 2017 compared to 2016 primarily reflects an increase in the Bank s average total assets, as well as a change in deposit insurance assessments discussed above.

The decline in amortization of other acquisition-related intangible assets expense in 2018 reflects certain core deposit intangible assets that were fully amortized as of December 31, 2017. Scheduled amortization expense attributable to other acquisition-related intangible assets for each of the next five years is as follows: $26.1 million in 2019; $24.0 million in 2020; $21.7 million in 2021; $19.7 million in 2022; and $14.2 million in 2023. Included in other non-interest expense are merger-related costs totaling $0.9 million and $10.6 million in 2018 and 2017, respectively.

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Income Taxes

Income tax expense totaled $108.2 million, $129.9 million and $128.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. People s United s effective income tax rate was 18.8%, 27.8% and 31.4% for the respective years. Income tax expense in each year includes $12.3 million, $11.6 million and $5.3 million, respectively, of federal income tax credits, which relate, primarily, to an increase in tax-advantaged investments. People s United s effective income tax rate for 2019 is expected to be approximately 21%.

Differences, if any, arising between People s United s effective income tax rate and the U.S. federal statutory rate of 21% for 2018 and 35% for both 2017 and 2016 are generally attributable to: (i) tax-exempt interest earned on certain investments; (ii) tax-exempt income from BOLI; and (iii) state income taxes.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The most significant provision of the Act applicable to the Company serves to reduce the U.S. federal corporate income tax rate, effective January 1, 2018, from 35% to 21%. In connection with its accounting for enactment of the Act, the Company recognized an income tax benefit of $6.5 million during the quarter ended December 31, 2017. This benefit, which served to reduce income tax expense, reflected the revaluation of certain deferred tax assets ($58.0 million) and deferred tax liabilities ($64.5 million) based on the rates at which they are expected to reverse in the future (generally 21%). During the quarter ended December 31, 2018, the Company recognized an income tax benefit of $9.2 million related, primarily, to voluntary employer contributions totaling $50 million made to the Company s defined benefit pension plans in February 2018 and deducted (as permitted) on the Company s 2017 federal income tax return.

People s United holds ownership interests in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout its franchise area. The underlying partnerships, which are considered variable interest entities, are not consolidated into the Company s Consolidated Financial Statements. These investments have historically played a role in enabling the Bank to meet its CRA requirements while, at the same time, providing tax benefits, including federal income tax credits. The cost of the Company s investments is amortized on a straight-line basis over the period during which the related federal income tax credits are realized (generally ten years). Amortization expense, which is now included as a component of income tax expense, totaled $19.1 million, $16.7 million and $12.6 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

See Notes 1 and 12 to the Consolidated Financial Statements for additional information concerning income tax expense.

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Securities

As of December 31 (in millions)	2018 Amortized Cost	2018 Fair Value	2017 Amortized Cost	2017 Fair Value	2016 Amortized Cost	2016 Fair Value
Debt securities held-to-maturity:						
State and municipal	$ 2,352.4	$ 2,369.4	$ 2,060.4	$ 2,120.3	$ 1,499.1	$ 1,509.5
GSE mortgage-backed securities	1,367.5	1,334.3	1,474.9	1,459.8	500.8	497.6
Corporate	70.9	70.7	51.3	52.1	4.0	4.0
Other	1.5	1.5	1.5	1.5	1.5	1.5
Total debt securities held-to-maturity	$ 3,792.3	$ 3,775.9	$ 3,588.1	$ 3,633.7	$ 2,005.4	$ 2,012.6
Debt securities available-for-sale:						
U.S. Treasury and agency	$ 699.0	$ 678.0	$ 687.1	$ 668.8	$ 889.9	$ 859.7
GSE mortgage-backed and CMO securities	2,486.6	2,443.0	2,477.8	2,456.5	3,573.1	3,550.0
Total debt securities available-for-sale	$ 3,185.6	$ 3,121.0	$ 3,164.9	$ 3,125.3	$ 4,463.0	$ 4,409.7

People s United strives to maintain an appropriate balance between loan portfolio growth and deposit funding. The Company s management believes that a large debt securities portfolio funded with wholesale borrowings provides limited economic value and therefore, at December 31, 2018, the debt securities portfolio only comprised 14% of total assets.

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

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

At December 31, 2018, the fair value of People s United s debt securities available-for-sale portfolio totaled $3.12 billion, or 7% of total assets, compared to $3.13 billion, or 7% of total assets, at December 31, 2017 and $4.41 billion, or 11% of total assets, at December 31, 2016. The $4.3 million decrease in fair value in 2018 compared to 2017 primarily reflects the sale of GSE mortgage-backed securities in December 2018 with an amortized cost of $235.5 million and a $25.0 million increase in the unrealized loss in 2018, essentially offset by debt securities acquired in the First Connecticut acquisition. The $1.3 billion decrease in the fair value in 2017 compared to 2016 primarily reflects: (i) the sale of U.S. Treasury and CMO securities in December 2017, with a combined amortized cost of $291.3 million, to take advantage of higher marginal income tax rates in 2017; (ii) the sale of low-yielding and short-duration U.S. Treasury and CMO securities, with a combined amortized cost of $486.9 million, during the quarter ended March 31, 2017; and (iii) principal repayments and maturities of GSE mortgage-backed and CMO securities.

At December 31, 2018, 2017 and 2016, the amortized cost exceeded the fair value of the debt securities available-for-sale portfolio by $64.6 million, $39.6 million and $53.3 million, respectively.

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With respect to available-for-sale debt securities, all unrealized gains and those unrealized losses representing temporary declines in value due to factors other than credit are recorded in stockholders equity, net of income taxes, as a component of accumulated comprehensive income (loss). As a result, management anticipates continued fluctuations in stockholders equity due to changes in the fair value of such debt securities, albeit on a relatively modest scale due to the duration of the portfolio. The duration of the entire debt securities portfolio was approximately 4.8 years, 4.9 years and 4.7 years at December 31, 2018, 2017 and 2016, respectively.

The increase in investment grade state and municipal securities in both 2018 and 2017 reflects the Company s continued investment in such securities based on their value relative to other securities of comparable duration, yield and credit risk.

In addition to the held-to-maturity and available-for-sale debt securities discussed above, the Bank holds shares of capital stock in both the FHLB of Boston and New York (total cost of $124.9 million at December 31, 2018) and the FRB-NY (total cost of $178.5 million at December 31, 2018). Dividend income on FHLB capital stock totaled $8.3 million, $6.6 million and $5.8 million for the years ended December 31, 2018, 2017 and 2016, respectively. Dividend income on FRB-NY capital stock totaled $5.1 million, $3.7 million and $3.1 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Lending Activities

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

Total loans increased $2.67 billion in 2018 compared to 2017 and increased $2.83 billion in 2017 compared to 2016. At the respective acquisition dates in 2018, the fair value of First Connecticut s and Vend Lease s loans and leases totaled $2.84 billion and $68.9 million, respectively. At the respective acquisition dates in 2017, the fair value of Suffolk s and LEAF s loans and leases totaled $1.62 billion and $717.9 million, respectively. Loans acquired in connection with business combinations are referred to as acquired loans as a result of the manner in which they are accounted for (see further discussion under Acquired Loans in Note 1 to the Consolidated Financial Statements). All other loans are referred to as originated loans. At December 31, 2018, 2017 and 2016, the carrying amount of the acquired loan portfolio totaled $4.59 billion, $2.46 billion and $610.2 million, respectively. Loans held-for-sale at December 31, 2018 and 2017 consisted of newly-originated residential mortgage loans with carrying amounts of $19.5 million and $16.6 million, respectively.

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

As of December 31 (in millions)	2018	2017	2016	2015	2014
Commercial:					
Commercial real estate	$ 11,649.6	$ 11,068.7	$ 10,247.3	$ 10,028.8	$ 9,404.3
Commercial and industrial	9,088.9	8,731.1	8,125.1	7,748.7	7,189.6
Equipment financing	4,339.2	3,905.4	3,032.5	2,973.3	2,865.5
Total Commercial Portfolio	25,077.7	23,705.2	21,404.9	20,750.8	19,459.4
Retail:					
Residential mortgage:					
Adjustable-rate	6,662.0	5,926.6	5,549.1	4,851.2	4,393.8
Fixed-rate	1,492.2	879.1	667.6	605.8	538.2
Total residential mortgage	8,154.2	6,805.7	6,216.7	5,457.0	4,932.0
Home equity and other consumer:					
Home equity	1,962.5	2,015.2	2,072.6	2,153.7	2,143.1
Other consumer	47.0	49.2	50.7	49.4	57.5
Total home equity and other consumer	2,009.5	2,064.4	2,123.3	2,203.1	2,200.6
Total Retail Portfolio	10,163.7	8,870.1	8,340.0	7,660.1	7,132.6
Total loans	$ 35,241.4	$ 32,575.3	$ 29,744.9	$ 28,410.9	$ 26,592.0

People s United s loan portfolio is primarily concentrated within New England and New York. At December 31, 2018, 56% and 20% of the total loan portfolio represented loans to customers located within the New England states and New York, respectively, as compared to 54% and 23% of the total loan portfolio, respectively, at December 31, 2017.

Total Loans

As of December 31 (dollars in billions)

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Contractual Maturity and Interest Rate Sensitivity

The following table presents the contractual maturity of People s United s loan portfolio as of December 31, 2018:

(in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total Due After One Year	Total
Contractual maturity:					
Commercial	$ 2,971.7	$ 11,800.3	$ 10,305.7	$ 22,106.0	$ 25,077.7
Retail	89.9	240.1	9,833.7	10,073.8	10,163.7
Total	$ 3,061.6	$ 12,040.4	$ 20,139.4	$ 32,179.8	$ 35,241.4

The following table presents, as of December 31, 2018, loan amounts due after December 31, 2019, and whether these loans have adjustable or fixed interest rates:

	Interest Rate		
(in millions)	Adjustable	Fixed	Total
Commercial	$ 13,262.2	$ 8,843.8	$ 22,106.0
Retail	8,124.3	1,949.5	10,073.8
Total loans due after one year	$ 21,386.5	$ 10,793.3	$ 32,179.8

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

As of December 31, 2018 (in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total
Contractual maturity:				
Commercial and industrial loans	$ 1,758.7	$ 4,124.4	$ 3,205.8	$ 9,088.9
Construction loans:				
Commercial real estate	128.1	225.4	220.6	574.1
Residential mortgage	12.5	44.8		57.3
Total	$ 1,899.3	$ 4,394.6	$ 3,426.4	$ 9,720.3

As of December 31, 2018 (in millions)	One Year or Less	After One Year Through Five Years	After Five Years	Total
Interest rate sensitivity:				
Variable rates	$ 6,986.4	$ 427.1	$ 139.1	$ 7,552.6
Fixed rates	167.2	832.1	1,168.4	2,167.7
Total	$ 7,153.6	$ 1,259.2	$ 1,307.5	$ 9,720.3

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Commercial Portfolio

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

Commercial Real Estate

People s United manages the commercial real estate portfolio by limiting the concentration in any particular loan type, term, industry, or to any individual borrower. People s United s highest loan concentration in the commercial real estate loan portfolio is in the residential (multifamily) sector, which represented 35% of this loan portfolio at both December 31, 2018 and 2017.

As of December 31 (in millions)	2018	2017
Property Type:		
Residential (multifamily)	$ 4,026.2	$ 3,894.0
Retail	3,231.3	2,901.5
Office buildings	2,132.9	2,142.7
Hospitality/entertainment	710.5	622.6
Industrial/manufacturing	558.0	642.4
Health care	395.2	394.8
Mixed/special use	242.8	205.1
Self storage	190.6	173.0
Land	35.4	44.0
Other	126.7	48.6
Total commercial real estate	$ 11,649.6	$ 11,068.7

Commercial Real Estate Portfolio

As of December 31 (dollars in billions)

The commercial real estate portfolio increased $581 million in 2018 compared to 2017, reflecting the addition of loans acquired in connection with the First Connecticut acquisition completed in 2018, partially offset by expected run-off totaling $434 million in the transactional portion of the New York multifamily portfolio and run-off in the acquired portfolio. The Company expects run-off in the transactional portion of the New York multifamily portfolio to be in the range of $400 to $500 million in 2019. The commercial real estate portfolio increased $821 million in 2017 compared to 2016, reflecting organic growth of $114 million, or 1% of the commercial real estate portfolio, and the addition of loans acquired in connection with the Suffolk acquisition completed in 2017, partially offset by run-off in the acquired portfolio. Included in the commercial real estate portfolio are construction loans totaling $574 million and $423 million at December 31, 2018 and 2017, respectively, net of the unadvanced portion of such loan totaling $519 million and $294 million, respectively. During 2018 and 2017 (none in 2016), the Company sold acquired loans with outstanding principal balances totaling $10.0 million and $7.9 million, respectively (carrying amounts of $4.4 million and $5.0 million, respectively) and recognized net gains on sales totaling $1.8 million and $2.4 million, respectively.

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At December 31, 2018 and 2017, 33% and 38%, respectively, of People s United s commercial real estate portfolio was secured by properties located in New York, and 23% and 19%, respectively, were secured by properties located in Connecticut at December 31, 2018 and 2017. In addition, 25% and 24% of the commercial real estate portfolio was secured by properties located in Massachusetts, Vermont and New Hampshire at December 31, 2018 and 2017, respectively. No other state exposure was greater than 5% at December 31, 2018.

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

Commercial Real Estate Diversification by Property Type

As of December 31, 2018 (percent)

Commercial and Industrial

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

As of December 31 (in millions)	2018	2017
Industry:		
Service	$ 1,734.8	$ 1,586.0
Finance and insurance	1,366.7	1,473.1
Manufacturing	1,275.6	1,297.7
Wholesale trade	1,240.1	1,166.9
Real estate, rental and leasing	926.7	819.3
Health services	846.8	724.2
Retail trade	702.9	756.9
Transportation and utilities	344.2	296.4
Construction	252.5	248.8
Arts, entertainment and recreation	145.9	146.5
Information and media	114.5	99.2
Public administration	59.2	65.0
Other	79.0	51.1
Total commercial and industrial	$ 9,088.9	$ 8,731.1

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Commercial and Industrial Portfolio

As of December 31 (dollars in billions)

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

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

In 2018, the commercial and industrial portfolio increased $358 million compared to 2017, reflecting organic growth of $162 million, or 2% of the commercial and industrial portfolio, and the addition of loans acquired in connection with the First Connecticut acquisition completed in 2018, partially offset by run-off in the acquired portfolio. In 2017, the commercial and industrial portfolio increased $606 million compared to 2016, reflecting organic growth of $191 million, or 2% of the commercial and industrial portfolio, and the addition of loans acquired in connection with the Suffolk acquisition completed in 2017, partially offset by run-off in the acquired portfolio.

At December 31, 2018 and 2017, the commercial and industrial portfolio included $685 million and $616 million, respectively, of asset-based lending loans to companies with annual sales between $15 million and $500 million, of which 76% and 78% were to companies located within the Company s geographic footprint at December 31, 2018 and 2017, respectively. Targeted industries include wholesale and distribution, manufacturing, food distribution and processing, transportation, and retail and business services. Credit facilities include revolving and working capital lines of credit, machinery and equipment term loans and lines of credit, owner-occupied real estate mortgage loans and stretch term loans for qualified customers. The commercial and industrial portfolio also includes $802 million of mortgage warehouse loans at December 31, 2018, compared to $1.0 billion at December 31, 2017. Such loans represent lines of credit extended to a loan originator to fund a mortgage that a borrower initially used to purchase a property. The extension of credit generally lasts from the loan s point of origination to the point when the mortgage is sold into the secondary market. At December 31, 2018 and 2017, 13% and 11%, respectively, of the mortgage warehouse loans were to customers located within the Company s footprint.

At December 31, 2018 and 2017, 22% and 20%, respectively, of the commercial and industrial loan portfolio consisted of loans to Connecticut-based businesses. Commercial and industrial loan exposure in the states of Vermont, Massachusetts and New Hampshire totaled a combined 35% and 36% at December 31, 2018 and 2017, respectively, and in the state of New York totaled 19% and 20%, respectively. No other state exposure was greater than 5%. While People s United continues to focus on asset quality, the performance of the commercial lending and industrial portfolio may be adversely impacted if the economy weakens in the future.

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Commercial and Industrial Diversification by Industry

As of December 31, 2018 (percent)

Equipment Financing

People s Financial has three equipment financing businesses PCLC, PUEFC and LEAF. The three companies have different business models and go-to-market strategies, and are viewed in the marketplace as separate companies. PCLC is an equipment finance company specializing in financing for the transportation, equipment rental, construction, manufacturing, printing, packaging and service industries in all 50 states. PCLC assists companies in acquiring new and used equipment and/or refinancing existing equipment. PUEFC is a secured equipment finance company with a focus on the construction, equipment rental, road transportation and waste industries nationwide. LEAF maintains a nationwide origination footprint working with manufacturers, distributors, dealers and end-users of essential use equipment and software in a variety of industries including industrial, manufacturing, light construction, office products and medical. Substantially the entire equipment financing portfolio (95% at both December 31, 2018 and 2017) was to customers located outside of New England. At December 31, 2018, 29% of the equipment financing portfolio consisted of loans to customers located in Texas, California and New York, and no other state exposure was greater than 6%.

As of December 31 (in millions)	2018	2017
Industry:		
Transportation and utilities	$ 1,181.3	$ 1,148.5
Construction	558.1	495.1
Rental and leasing	543.0	505.5
Service	542.2	388.9
Manufacturing	234.2	201.9
Wholesale trade	202.8	189.1
Printing	197.9	201.3
Waste management	192.6	191.9
Health services	184.3	168.0
Packaging	118.6	99.4
Retail trade	99.2	79.6
Mining, oil and gas	47.2	53.4
Other	237.8	182.8
Total equipment financing	$ 4,339.2	$ 3,905.4

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Equipment Financing Portfolio

As of December 31 (dollars in billions)

The equipment financing portfolio increased $434 million in 2018 compared to 2017, reflecting organic growth of $629 million, or 19% of the equipment and financing portfolio, partially offset by run-off in the LEAF acquired portfolio. The equipment financing portfolio increased $873 million in 2017 compared to 2016, reflecting organic growth of $288 million, or 10% of the equipment and financing portfolio, and the addition of loans and leases acquired in connection with the LEAF acquisition completed in 2017, partially offset by run-off in the PUEFC acquired portfolio. Operating on a national scale, equipment financing represented 17% and 16% of the commercial portfolio at December 31, 2018 and 2017, respectively. While People s United continues to focus on asset quality, the performance of the equipment financing portfolio may be adversely impacted if the national economy weakens in the future.

Equipment Financing Diversification by Industry

As of December 31, 2018 (percent)

Retail Portfolio

Residential Mortgage Lending

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

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At December 31, 2018 and 2017, 78% and 79%, respectively, of the residential mortgage loan portfolio was secured by properties located in New England and 12% and 13%, respectively, at these dates, was secured by properties located in New York. At both December 31, 2018 and 2017, the residential mortgage loan portfolio included $1.2 billion of interest-only loans. See *Asset Quality* for further discussion of interest-only loans. Also included in residential mortgage loans at December 31, 2018 and 2017 are construction loans totaling $57 million and $65 million, respectively.

People s United s residential mortgage loan originations totaled $1.3 billion in 2018, $1.7 billion in 2017 and $2.3 billion in 2016. The mix and volume of residential mortgage loan originations vary in response to changes in market interest rates, customer preferences and the level of refinancing activity. ARM loans accounted for 68% of total residential mortgage originations in 2018 compared to 71% in 2017 and 75% in 2016.

Residential Mortgage Originations

Years ended December 31 (dollars in millions)

In 2018, ARM loans increased $735 million compared to 2017, reflecting organic growth of $72 million, or 1% of ARM loans, and the addition of loans acquired in connection with the First Connecticut acquisition completed in 2018, partially offset by run-off in the acquired portfolio. In 2017, ARM loans increased $378 million compared to 2016, reflecting organic growth of $329 million, or 6% of ARM loans, and the addition of loans acquired in connection with the Suffolk acquisition completed in 2017, partially offset by run-off in the acquired portfolio. Fixed-rate residential mortgage loans increased $613 million in 2018 compared to 2017, primarily reflecting the addition of loans acquired in connection with the First Connecticut acquisition completed in 2018, and increased $212 million in 2017 compared to 2016. The Company currently retains in its portfolio most of its originated adjustable-rate and certain fixed-rate residential mortgage loans.

Residential Mortgage Originations by Product

Year ended December 31, 2018 (percent)

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

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Home Equity and Other Consumer Lending

People s United offers home equity lines of credit (HELOCs) and home equity loans, and to a lesser extent, other forms of installment and revolving credit loans. At December 31, 2018, 84% of the consumer loan portfolio was to customers located within the New England states. Future growth of People s United s home equity and other consumer loan portfolio is highly dependent upon economic conditions, the interest rate environment and competitors strategies.

As of December 31 (in millions)	2018	2017
HELOCs	$ 1,729.9	$ 1,796.1
Home equity loans	232.5	219.1
Other	47.1	49.2
Total home equity and other consumer	$ 2,009.5	$ 2,064.4

Asset Quality

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

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

Certain loans whose terms have been modified are considered troubled debt restructurings (TDRs). Purchased credit impaired (PCI) loans (see Note 5 to the Consolidated Financial Statements) that are modified are not considered for TDR classification provided they are evaluated for impairment on a pool basis. Loans are considered TDRs if the borrower is experiencing financial difficulty and is afforded a concession by People s United, such as, but not limited to: (i) payment deferral; (ii) a reduction of the stated interest rate for the remaining contractual life of the loan; (iii) an extension of the loan s original contractual term at a stated interest rate lower than the current market rate for a new loan with similar risk; (iv) capitalization of interest; or (v) forgiveness of principal or interest.

Guidance issued by the OCC requires that loans subject to a borrower s discharge from personal liability following a Chapter 7 bankruptcy be treated as TDRs, included in non-performing loans and written down to the estimated collateral value, regardless of delinquency status. Included in TDRs at December 31, 2018 are $22.0 million of such loans. Of this amount, $16.6 million, or 76%, were less than 90 days past due on their payments as of that date.

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

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During 2018, we performed 98 loan modifications that were not classified as TDRs. The balances of the loans at the time of the respective modifications totaled $176.6 million. In each case, we concluded that the modification did not result in the granting of a concession based on one or more of the following considerations: (i) the receipt of additional collateral (the nature and amount of which was deemed to serve as adequate compensation for other terms of the restructuring) and/or guarantees; (ii) the borrower having access to funds at a market rate for debt with similar risk characteristics as the restructured debt; and (iii) the restructuring resulting in a delay in payment that is insignificant in relation to the other terms of the obligation. See Note 5 to the Consolidated Financial Statements for additional disclosures relating to TDRs.

Portfolio Risk Elements Residential Mortgage Lending

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

At December 31, 2018, the loan portfolio included $1.2 billion of interest-only residential mortgage loans. People s United began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements for such loans are generally more restrictive than those applied to other types of residential mortgage loans. People s United has not originated interest-only residential mortgage loans that permit negative amortization or optional payment amounts. Amortization of an interest-only residential mortgage loan begins after the initial interest rate changes (e.g. after 5 years for a 5/1 ARM loan). In general, People s United s underwriting guidelines for residential mortgage loans require the following: (i) properties must be single-family and owner-occupied primary residences; (ii) lower loan-to-value (LTV) ratios (less than 60% on average); (iii) higher credit scores (greater than 700 on average); and (iv) sufficient post-closing reserves.

Updated estimates of property values are obtained from an independent third-party for residential mortgage loans 90 days past due. At December 31, 2018, non-performing residential mortgage loans totaling $0.2 million had current LTV ratios of more than 100%. At that date, the weighted average LTV ratio and FICO score for the residential mortgage loan portfolio were 63% and 759, respectively.

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

During 2018, the Company issued 27 investor refunds, totaling $0.1 million, under contractual recourse agreements. Based on the limited number of repurchase requests the Company has historically received, the immaterial cost associated with such repurchase requests and management s view that this past experience is consistent with our current and near-term estimate of such exposure, the Company has established a reserve for such repurchase requests, which totaled $0.1 million at December 31, 2018.

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

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Portfolio Risk Elements Home Equity Lending

The majority of our HELOCs have an initial draw period of $9^1/_2$ years followed by a 20-year repayment phase. During the initial draw period, interest-only payments are required, after which the disbursed balance is fully amortized over a 20-year repayment term. HELOCs carry variable rates indexed to the Prime Rate with a lifetime interest rate ceiling and floor, and are secured by first or second liens on the borrower s primary residence. The rate used to qualify borrowers is the Prime Rate plus 3.00%, even though the initial rate may be substantially lower. The maximum LTV ratio is 80% on a single-family property, including a condominium, and 70% on a two-family property. Lower LTV ratios are required on larger line amounts. The minimum FICO credit score is 680. The borrower has the ability to convert the entire balance or a portion of the balance to a fixed-rate term loan during the draw period. There is a limit of three term loans that must be fully amortized over a term not to exceed the original HELOC maturity date.

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

The following table sets forth, as of December 31, 2018, the committed amount of HELOCs scheduled to have the draw period end during the years shown:

December 31, (in millions)	Credit Lines
2019	$ 105.9
2020	157.2
2021	308.4
2022	467.6
2023	451.3
Later years	2,135.9
Total	$ 3,626.3

Approximately 84% of our HELOCs are presently in their draw period. Although converted amortizing payment loans represent only a small portion of the portfolio, our default and delinquency statistics indicate a higher level of occurrence for such loans when compared to HELOCs that are still in the draw period.

Delinquency statistics for the HELOC portfolio as of December 31, 2018 are as follows:

	Portfolio	Delinquencies	
(dollars in millions)	Balance	Amount	Percent
HELOC status:			
Still in draw period	$ 1,459.5	$ 6.1	0.42%
Amortizing payment	270.4	15.1	5.58

For the three months ended December 31, 2018, 53% of our borrowers with balances outstanding under HELOCs paid only the minimum amount due.

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

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We are not able, at this time, to develop statistics for the entire home equity portfolio (both HELOCs and home equity loans) with respect to first liens serviced by third parties that have priority over our junior liens, as lien position data has not historically been captured on our loan servicing systems. As of December 31, 2018, full and complete first lien position data was not readily available for 31% of the home equity portfolio. Effective January 2011, we began tracking lien position data for all new originations and our collections department continues to add lien position data once a loan reaches 75 days past due in connection with our updated assessment of combined loan-to-value (CLTV) exposure, which takes place for loans 90 days past due. In addition, when we are notified that the holder of a superior lien has commenced a foreclosure action, our home equity account is identified in the collections system for ongoing monitoring of the legal action. As of December 31, 2018, the portion of the home equity portfolio more than 90 days past due with a CLTV greater than 80% was $4.4 million.

As of December 31, 2018, full and complete first lien position data was readily available for 69%, or $1.3 billion, of the home equity portfolio. Of that total, 39%, or $531.3 million, are in a junior lien position. We estimate that of those junior liens, 35%, or $186.0 million, are held or serviced by others.

When the first lien is held by a third party, we can, in some cases, obtain an indication that a first lien is in default through information reported to credit bureaus. However, because more than one mortgage may be reported in a borrower s credit report and there may not be a corresponding property address associated with reported mortgages, we are often unable to associate a specific first lien with our junior lien. As of December 31, 2018, there were 27 loans totaling $2.3 million for which we have received notification that the holder of a superior lien has commenced foreclosure action. For 13 of the loans (totaling $0.9 million), our second lien position was performing at the time such foreclosure action was commenced. There was no estimated loss related to those 13 loans as of December 31, 2018. It is important to note that the percentage of new home equity originations for which we hold the first lien has increased steadily from approximately 40% in 2009 to approximately 60% as of December 31, 2018.

We believe there are several factors that serve to mitigate the potential risk associated with the limitations on available first lien data. Most importantly, our underwriting guidelines for home equity loans, which have been, and continue to be, consistently applied, generally require the following: (i) properties located within our geographic footprint; (ii) lower LTV ratios; and (iii) higher credit scores. Notwithstanding the maximum LTV ratios and minimum FICO scores discussed previously, actual LTV ratios at origination were less than 60% on average and current FICO scores of our borrowers are greater than 750 on average. In addition, as of December 31, 2018, 97% of the portfolio balance relates to originations that occurred since 2005, which is generally recognized as the peak of the last housing bubble. We believe these factors are a primary reason for the portfolio s relatively low level of non-performing loans and net loan charge-offs, both in terms of absolute dollars and as a percentage of average total loans.

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

As of December 31, 2018, the weighted average CLTV ratio and FICO score for the home equity portfolio were 57% and 762, respectively.

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Portfolio Risk Elements Commercial Real Estate Lending

In general, construction loans originated by People s United are used to finance improvements to commercial, industrial or residential property. Repayment is typically derived from the sale of the property as a whole, the sale of smaller individual units or by a take-out from a permanent mortgage. The term of the construction period generally does not exceed two years. Loan commitments are based on established construction budgets that represent an estimate of total costs to complete the proposed project, including both hard (direct) costs (such as building materials and labor) and soft (indirect) costs (such as legal and architectural fees). 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 on the progress of the project toward completion. The amount of interest advanced is added to the total outstanding principal under the loan commitment. Should the project not progress as scheduled, the adequacy of the interest reserve necessary to carry the project through to completion is subject to close monitoring by management. Should the interest reserve be deemed to be inadequate, the borrower is required to fund the deficiency. Similarly, once a loan is fully funded, the borrower is required to fund all interest payments.

People s United s construction loan portfolio totaled $651.2 million (2% of total loans) at December 31, 2018. The total committed amount at that date, including both the outstanding balance and the unadvanced portion of such loans, was $1.2 billion. In some cases, a portion of the total committed amount includes an accompanying interest reserve. At December 31, 2018, construction loans totaling $296.3 million had remaining available interest reserves of $25.6 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.

Historically, certain economic conditions have resulted in an increase in the number of extension requests for commercial real estate and construction loans, some of which may have included 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 borrower is experiencing financial difficulty and is afforded a concession by People s United similar to those discussed previously. People s United had $4.1 million of restructured construction loans at December 31, 2018.

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 usually 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.

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

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

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

Allowance and Provision for Loan Losses

Originated Portfolio

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

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

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

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Acquired Portfolio

Loans acquired in a business combination are initially recorded at fair value with no carryover of an acquired entity s previously established allowance for loan losses. Fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. Acquired loans are evaluated upon acquisition and classified as either purchased performing or PCI, which represents those acquired loans with specific evidence of deterioration in credit quality since origination and for which it is probable that, as of the acquisition date, all contractually required principal and interest payments will not be collected. PCI loans are generally accounted for on a pool basis, with pools formed based on the loans common risk characteristics, such as loan collateral type and accrual status. Each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

For purchased performing loans, the required allowance for loan losses is determined in a manner similar to that for originated loans with a provision for loan losses only recorded when the required allowance for loan losses exceeds any remaining purchase discount at the loan level. For PCI loans, the difference between contractually required principal and interest payments at the acquisition date and the undiscounted cash flows expected to be collected at the acquisition date is referred to as the nonaccretable difference , which includes an estimate of future credit losses expected to be incurred over the life of the loans in each pool. A decrease in the expected cash flows in subsequent periods requires the establishment of an allowance for loan losses at that time. At December 31, 2018 and 2017, the allowance for loan losses on acquired loans was \$4.1 million and \$3.6 million, respectively.

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

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

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

Years ended December 31 (dollars in millions)	2018	2017	2016	2015	2014
Allowance for loan losses on originated loans:					
Balance at beginning of period	$ 230.8	$ 223.0	$ 202.9	$ 188.1	$ 177.5
Charge-offs:					
Commercial:					
Commercial real estate	(5.2)	(4.6)	(1.0)	(3.9)	(11.3)
Commercial and industrial	(8.6)	(9.4)	(6.1)	(9.8)	(9.4)
Equipment financing	(5.7)	(3.1)	(6.4)	(6.4)	(1.6)
Total	(19.5)	(17.1)	(13.5)	(20.1)	(22.3)
Retail:					
Residential mortgage	(0.8)	(1.1)	(2.5)	(2.5)	(3.6)
Home equity	(1.6)	(4.2)	(5.0)	(4.1)	(5.5)
Other consumer	(0.9)	(1.1)	(1.0)	(1.3)	(2.0)
Total	(3.3)	(6.4)	(8.5)	(7.9)	(11.1)
Total charge-offs	(22.8)	(23.5)	(22.0)	(28.0)	(33.4)
Recoveries:					
Commercial:					
Commercial real estate	0.9	0.4	0.6	1.1	0.3
Commercial and industrial	1.5	2.9	1.3	1.4	2.2
Equipment financing	1.1	1.3	0.2	2.4	1.1
Total	3.5	4.6	2.1	4.9	3.6
Retail:					
Residential mortgage	0.6	0.5	1.4	1.1	1.3
Home equity	1.2	1.0	1.1	0.8	0.5
Other consumer	0.3	0.6	0.5	0.5	0.6
Total	2.1	2.1	3.0	2.4	2.4
Total recoveries	5.6	6.7	5.1	7.3	6.0
Net loan charge-offs	(17.2)	(16.8)	(16.9)	(20.7)	(27.4)
Provision for loan losses	22.7	24.6	37.0	35.5	38.0
Balance at end of period	$ 236.3	$ 230.8	$ 223.0	$ 202.9	$ 188.1
Allowance for loan losses on acquired loans:					
Balance at beginning of period	$ 3.6	$ 6.3	$ 8.1	$ 10.2	$ 10.3
Charge-offs	(8.1)	(4.4)	(1.4)		(2.7)
Recoveries	1.3	0.3			
Net loan charge-offs	(6.8)	(4.1)	(1.4)		(2.7)

Provision for loan losses	7.3	1.4	(0.4)	(2.1)	2.6
Balance at end of period	$ 4.1	$ 3.6	$ 6.3	$ 8.1	$ 10.2
Total allowance for loan losses	$ 240.4	$ 234.4	$ 229.3	$ 211.0	$ 198.3
Originated commercial allowance for loan losses as a percentage of originated commercial loans	0.93%	0.93%	0.95%	0.90%	0.91%
Originated retail allowance for loan losses as a percentage of originated retail loans	0.36	0.35	0.30	0.28	0.27
Total originated allowance for loan losses as a percentage of:					
Originated loans	0.77	0.77	0.77	0.73	0.74
Originated non-performing loans	140.9	155.2	150.6	127.3	95.5

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The provision for loan losses on originated loans totaled $22.7 million in 2018, reflecting net loan charge-offs of $17.2 million and a $5.4 million increase in the originated allowance for loan losses in response to portfolio-specific risk factors and loan growth. The provision for loan losses on originated loans totaled $24.6 million in 2017, reflecting net loan charge-offs of $16.8 million and a $12.5 million increase in the originated allowance for loan losses in response to portfolio-specific risk factors and loan growth. The originated allowance for loan losses as a percentage of originated loans was 0.77% at both December 31, 2018 and 2017.

The provision for loan losses on acquired loans in 2018 reflects net loan charge-offs of $6.8 million, while the provision for loan losses on acquired loans in 2017 reflects net loan charge-offs of $4.1 million.

Loan Charge-Offs

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

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

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

The decision whether to charge-off all or a portion of a loan rather than to record a specific or general loss allowance is based on an assessment of all available information that aids in determining the loan s net realizable value. Typically, this involves consideration of both (i) the fair value of any collateral securing the loan, including whether the estimate of fair value has been derived from an appraisal or other market information and (ii) other factors affecting the likelihood of repayment, including the existence of guarantees and insurance. If the amount by which the Company s recorded investment in the loan exceeds its net realizable value is deemed to be a confirmed loss, a charge-off is recorded. Otherwise, a specific or general reserve is established, as applicable. The comparatively low level of net loan charge-offs in recent years, in terms of absolute dollars and as a percentage of average total loans, may not be sustainable in the future.

The following table summarizes net loan charge-offs by class of loan and total net loan charge-offs to average total loans:

Years ended December 31	2018	2017	2016	2015	2014
Commercial:					
Commercial real estate	0.04%	0.04%	0.02%	0.03%	0.15%
Commercial and industrial	0.08	0.08	0.06	0.11	0.11
Equipment financing	0.28	0.17	0.21	0.14	0.02
Retail:					
Residential mortgage		0.01	0.02	0.03	0.05
Home equity	0.02	0.15	0.19	0.15	0.24
Other consumer	1.27	1.09	0.98	1.64	2.34
Total portfolio	0.07%	0.07%	0.06%	0.08%	0.12%

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

As of December 31	2018		2017		2016		2015		2014	
(dollars in millions)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Commercial:										
Commercial real estate	$ 77.7	32.0%	$ 77.8	33.6%	$ 73.7	34.5%	$ 73.1	35.3%	$ 63.8	35.4%
Commercial and industrial	83.8	27.1	80.0	27.0	86.4	27.3	80.0	27.3	78.2	27.0
Equipment financing	44.1	12.8	43.3	11.0	38.7	10.2	28.7	10.4	27.6	10.8
Retail:										
Residential mortgage	21.7	22.2	20.5	21.7	16.7	20.9	11.2	19.2	9.2	18.5
Home equity	8.3	5.8	8.3	6.5	6.9	7.0	8.9	7.6	8.3	8.1
Other consumer	0.7	0.1	0.9	0.2	0.6	0.1	1.0	0.2	1.0	0.2
Total originated allowance for loan losses	$ 236.3	100.0%	$ 230.8	100.0%	$ 223.0	100.0%	$ 202.9	100.0%	$ 188.1	100.0%

The allocation of the allowance for loan losses on originated loans at December 31, 2018 reflects management s assessment of credit risk and probable loss within each portfolio. This assessment is based on a variety of internal and external factors including, but not limited to, the likelihood and severity of loss, portfolio growth and related risk characteristics, and current economic conditions. With respect to the originated portfolio, an allocation of a portion of the allowance to one loan segment does not preclude its availability to absorb losses in another loan segment. Management believes that the level of the allowance for loan losses at December 31, 2018 is appropriate to cover probable losses.

Non-Performing Assets

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

All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the period in which the accrual of interest is discontinued. Interest payments received on non-accrual loans (including impaired loans) are generally applied as a reduction of principal if future collections are doubtful, although such interest payments may be recognized as income. A loan remains on non-accrual status until the factors that indicated doubtful collectability no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses. There were no loans past due 90 days or more and still accruing interest at December 31, 2018 or 2017.

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People s United s non-performing assets are summarized as follows:

As of December 31 (dollars in millions)	2018	2017	2016	2015	2014
Originated non-performing loans:					
Commercial:					
Commercial real estate	$ 33.5	$ 23.7	$ 22.3	$ 30.2	$ 60.2
Commercial and industrial	38.0	32.6	41.5	44.9	55.8
Equipment financing	42.0	44.3	39.4	27.5	25.4
Total	113.5	100.6	103.2	102.6	141.4
Retail:					
Residential mortgage	38.9	32.7	27.4	37.2	37.6
Home equity	15.3	15.4	17.4	19.5	17.9
Other consumer				0.1	0.1
Total	54.2	48.1	44.8	56.8	55.6
Total originated non-performing loans (1)	167.7	148.7	148.0	159.4	197.0
REO:					
Commercial	8.7	9.3	4.0	5.5	11.0
Residential	5.5	7.6	8.1	7.1	13.6
Total REO	14.2	16.9	12.1	12.6	24.6
Repossessed assets	3.9	2.5	7.2	9.5	2.5
Total non-performing assets	$ 185.8	$ 168.1	$ 167.3	$ 181.5	$ 224.1
Originated non-performing loans as a percentage of originated loans	0.55%	0.49%	0.51%	0.58%	0.77%
Non-performing assets as a percentage of:					
Originated loans, REO and repossessed assets	0.61	0.56	0.57	0.66	0.88
Tangible stockholders equity and originated allowance for loan losses	4.76	4.81	5.19	6.38	8.24

(1) Reported net of government guarantees totaling $1.9 million, $3.1 million, $13.1 million, $16.9 million and $17.6 million at December 31, 2018, 2017, 2016, 2015 and 2014, respectively. These government guarantees relate, almost entirely, to guarantees provided by the Small Business Administration as well as selected other Federal agencies and represent the carrying value of the loans that are covered by such guarantees, the extent of which (i.e. full or partial) varies by loan. At December 31, 2018, the principal loan classes to which these government guarantees relate are commercial and industrial loans (87%) and commercial real estate loans (13%).

The table above excludes acquired loans that are (i) accounted for as PCI loans and/or (ii) covered by an FDIC loss-share agreement (LSA) which totaled $44.1 million at December 31, 2018; $25.1 million at December 31, 2017; $24.7 million at December 31, 2016; $30.0 million at December 31, 2015; and $103.6 million at December 31, 2014. Such loans otherwise meet People s United s definition of a non-performing loan but are excluded because the loans are included in loan pools that are considered performing and/or credit losses are covered by an FDIC LSA. The discounts arising from recording these loans at fair value were due, in part, to credit quality. Accordingly, such loans are generally accounted for on a pool basis and the accretable yield on the pools is being recognized as interest income over the life of the loans based on expected cash flows at the pool level. In addition, the table excludes $6.0 million and $4.7 million of purchased performing loans at December 31, 2018 and 2017, respectively, all of which became non-performing subsequent to acquisition.

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Total non-performing assets increased $17.7 million from December 31, 2017 and equaled 0.61% of originated loans, REO and repossessed assets at December 31, 2018. The increase in total non-performing assets from December 31, 2017 primarily reflects increases of $9.8 million in non-performing commercial real estate loans, $6.2 million in non-performing residential mortgage loans and $5.4 million in non-performing commercial and industrial loans, partially offset by decreases of $2.7 million in REO and $2.3 million in non-performing equipment financing loans.

All loans and REO acquired in the Butler Bank acquisition are subject to an FDIC LSA (expiring in 2020), which provides for coverage by the FDIC, up to certain limits, on all such covered assets . The FDIC is obligated to reimburse the Company for 80% of any future losses on covered assets up to $34 million. The Company will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Company 80% reimbursement under the loss-sharing coverage.

In addition to the non-performing loans discussed above, People s United has also identified $517.0 million in potential problem loans at December 31, 2018 (all of which are included in the originated portfolio). 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 s loan rating system, which is consistent with guidelines established by banking regulators.

At December 31, 2018, potential problem loans consisted of equipment financing loans ($254.5 million), commercial and industrial loans ($209.5 million) and commercial real estate loans ($53.0 million). Such loans are closely monitored by management and have remained in performing status for a variety of reasons including, but not limited to, delinquency status, borrower payment history and fair value of the underlying collateral. Management cannot predict the extent to which economic conditions may worsen or whether other factors may adversely impact the ability of these borrowers to make payments. Accordingly, there can be no assurance that potential problem loans will not become 90 days or more past due, be placed on non-accrual status, be restructured, or require additional provisions for loan losses.

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

Off-Balance-Sheet Arrangements

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

Funding

People s United s primary funding sources are deposits and stockholders equity, which represent 89% of total assets at December 31, 2018. Borrowings and notes and debentures also are available sources of funding.

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Deposits

People s United s strategy is to focus on increasing deposits by providing a wide range of convenient services to commercial, retail, business and wealth management customers. People s United provides customers access to their deposits through 422 branches, including 148 full-service Stop & Shop supermarket branches, 607 ATMs, telephone banking and an Internet banking site.

As of December 31 (dollars in millions)	2018 Amount	2018 Weighted Average Rate	2017 Amount	2017 Weighted Average Rate	2016 Amount	2016 Weighted Average Rate
Non-interest-bearing	$ 8,543.0	%	$ 8,002.4	%	$ 6,660.8	%
Money market	9,859.7	1.10	9,138.4	0.60	7,802.2	0.30
Interest-bearing checking	6,723.6	0.90	6,050.7	0.53	6,457.9	0.23
Total	16,583.3	1.04	15,189.1	0.57	14,260.1	0.27
Savings	4,116.5	0.09	4,410.5	0.14	4,397.7	0.14
Time deposits maturing:						
Within 3 months	1,480.0	1.66	1,785.3	1.04	1,054.9	0.70
After 3 but within 6 months	1,375.6	1.67	740.5	0.90	852.4	0.75
After 6 months but within 1 year	2,511.5	1.83	1,354.9	1.14	835.2	0.75
After 1 but within 2 years	1,275.5	1.98	1,060.0	1.42	1,256.3	1.09
After 2 but within 3 years	153.5	1.97	358.9	1.73	142.7	1.26
After 3 but within 4 years	102.1	1.63	62.0	1.03	335.1	1.81
After 4 but within 5 years	18.0	1.29	92.6	1.62	65.5	1.03
After 5 years (1)		1.01	0.1	0.86	0.1	0.93
Total	6,916.2	1.78	5,454.3	1.17	4,542.2	0.93
Total deposits	$ 36,159.0	0.83%	$ 33,056.3	0.47%	$ 29,860.8	0.29%

(1) Amount totaled less than $0.1 million at December 31, 2018.

Deposits equaled 75%, 74% and 74% of total assets at December 31, 2018, 2017 and 2016, respectively. Deposits and stockholders equity constituted 89%, 89% and 87% of People s United s funding base at December 31, 2018, 2017 and 2016, respectively.

The expansion of People s United s branch network and its commitment to developing full-service relationships with its customers are integral components of People s United s strategy to leverage the success of its supermarket banking initiative, expand market share and continue growing deposits. At December 31, 2018, People s United s network of Stop & Shop branches held $4.5 billion in total deposits and deposits in supermarket branches open for more than one year averaged $30 million per store.

Non-interest-bearing deposits are an important source of low-cost funding and fee income for People s United. In addition, People s United believes that checking accounts represent one of the core relationships between a financial institution and its customers, and it is from these relationships that cross-selling of other financial services can be achieved. Non-interest-bearing deposits equaled 24%, 24% and 22% of total deposits at December 31, 2018, 2017 and 2016, respectively. Time deposits of $100,000 or more totaled $3.0 billion at December 31, 2018, of which $376 million mature within three months, $558 million mature after three months but within six months, $1.4 billion mature after six months but within one year and $736 million mature after one year. Included in total deposits at December 31, 2018 are $3.6 billion of brokered deposits, comprised of money market ($2.1 billion), time ($1.3 billion) and interest-bearing checking ($138 million). See Note 9 to the Consolidated Financial Statements for additional information concerning deposits.

Total Deposits

As of December 31 (dollars in billions)

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

	Period to Maturity from December 31, 2018								
(in millions)	Within Three Months	Over Three to Six Months	Over six Months to One Year	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	Over Four to Five Years	Over Five Years	Total
0.50% or less	$ 217.5	$ 149.2	$ 231.0	$ 72.7	$ 0.5	$	$	$	$ 670.9
0.51% to 1.00%	25.0	29.5	39.2	72.7	54.7	24.9	11.0		257.0
1.01% to 1.50%	196.2	269.1	17.5	14.4	17.8	6.2	3.8		525.0
1.51% to 2.00%	475.1	570.3	1,227.4	520.2	6.6	40.4	0.3		2,840.3
2.01% to 2.50%	563.5	354.4	950.7	456.7	12.7	30.4	0.8		2,369.2
2.51% and greater	2.7	3.1	45.7	138.8	61.2	0.2	2.1		253.8
Total	$ 1,480.0	$ 1,375.6	$ 2,511.5	$ 1,275.5	$ 153.5	$ 102.1	$ 18.0	$	$ 6,916.2

Borrowings

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

At December 31, 2018, the Bank s total borrowing capacity from (i) the FHLB of Boston and the FRB-NY for advances and (ii) repurchase agreements was $10.9 billion based on the level of qualifying collateral available for these borrowings. In addition, the Bank had unsecured borrowing capacity of $1.0 billion at that date. FHLB advances are secured by the Bank s investment in FHLB stock and by a security agreement that requires the Bank to maintain, as collateral, sufficient qualifying assets not otherwise pledged (principally single-family residential mortgage loans, home equity lines of credit and loans, and commercial real estate loans).

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At December 31, 2018, total borrowings equaled 8% of total assets, compared to 9% at December 31, 2017 and 10% at December 31, 2016. FHLB advances, federal funds purchased and customer repurchase agreements represented 5%, 2% and 1% of total assets at December 31, 2018, respectively. At December 31, 2017, other borrowings included one remaining securitization assumed in the LEAF acquisition, which was paid without penalty in June 2018. See Note 10 to the Consolidated Financial Statements for additional information concerning borrowings.

	2018		2017		2016	
As of December 31 (dollars in millions)	Amount	Weighted Rate	Amount	Weighted Rate	Amount	Weighted Rate
Fixed-rate FHLB advances maturing:						
Within 1 month	$ 2,270.3	2.59%	$ 1,863.0	1.49%	$ 2,250.0	0.69%
After 1 month but within 1 year	61.0	1.76	891.5	1.86	550.0	0.77
After 1 but within 2 years	54.2	1.75			256.1	2.71
After 2 but within 3 years	6.8	2.11	15.1	1.76		
After 3 but within 4 years	1.3	0.52				
After 4 but within 5 years	0.6	0.05	0.9	0.75		
After 5 years	10.3	1.64	3.9	1.50	5.0	1.34
Total FHLB advances	2,404.5	2.54	2,774.4	1.61	3,061.1	0.87
Federal funds purchased maturing:						
Within 1 month	845.0	2.53	820.0	1.47	617.0	0.71
Customer repurchase agreements maturing:						
Within 1 month	332.9	0.61	301.6	0.19	343.3	0.19
Other borrowings maturing:						
Within 1 year	11.0	2.40	2.4	1.33	35.4	0.55
After 5 years			205.4	2.58		
Total other borrowings	11.0	2.40	207.8	2.57	35.4	0.55
Total borrowings	$ 3,593.4	2.36%	$ 4,103.8	1.53%	$ 4,056.8	0.79%

Notes and Debentures

Notes and debentures totaled $896 million, $902 million and $1.0 billion at December 31, 2018, 2017 and 2016, respectively, and equaled 2% of total assets at each respective date. On February 14, 2017, the Company repaid the $125 million 5.80% fixed-rate/floating-rate subordinated notes. Concurrent with the repayment, the interest rate swap designated to these subordinated notes matured. See Notes 11 and 21 to the Consolidated Financial Statements for additional information concerning notes and debentures and interest rate swaps.

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Contractual Cash Obligations

The following table is a summary of People s United s contractual cash obligations, other than deposit liabilities. Additional information concerning the Company s contractual cash obligations is included in Notes 9, 10, 11 and 20 to the Consolidated Financial Statements. Purchase obligations included in the table below represent those agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions. A substantial majority of People s United s purchase obligations are renewable on a year-to-year basis. As such, the purchase obligations included in this table only reflect the contractual commitment.

		Payments Due by Period			
As of December 31, 2018 (in millions)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Borrowings	$ 3,593.4	$ 3,520.2	$ 61.0	$ 1.9	$ 10.3
Notes and debentures	895.8			497.7	398.1
Interest payments on fixed-rate borrowings and notes and debentures (1)	170.9	41.8	70.1	50.6	8.4
Operating leases (2)	334.3	65.4	116.5	63.9	88.5
Purchase obligations	228.8	103.5	93.3	30.1	1.9
Total	$ 5,223.2	$ 3,730.9	$ 340.9	$ 644.2	$ 507.2

(1) Interest payments on floating-rate borrowings are not included in the table above as the timing and amount of such payments is uncertain. See Note 10 to the Consolidated Financial Statements.

(2) Effective January 1, 2019, the Company adopted new lease accounting guidance which requires the recognition of operating lease liabilities in the Consolidated Statement of Condition based on the present value of the remaining minimum lease payments determined using a discount rate as of the effective date (see Note 1 to the Consolidated Financial Statements).

Future contingent commitments totaling $119.7 million at December 31, 2018, related to limited partnership affordable housing investments, are not included in the table above as the timing of the related capital calls cannot be estimated. Similarly, income tax liabilities totaling $5.2 million, including related interest and penalties, are not included in the table above as the timing of their resolution cannot be estimated. See Note 12 to the Consolidated Financial Statements.

Also not included in the table above are expected future net benefit payments related to the Company s pension and other postretirement plans that are due as follows: $43.1 million in less than one year; $67.6 million in one to three years; $72.0 million in four to five years; and $206.1 million after five years. See Note 17 to the Consolidated Financial Statements.

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 both People s United s and the 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 s, as well as the Bank s, liquidity positions are monitored daily by management. The Asset and Liability Management Committee (ALCO) of the Bank has been authorized by the Board of Directors of People s United to set guidelines to ensure maintenance of prudent levels of liquidity for People s United as well as for the Bank. ALCO reports to the Treasury and Finance Committee of the Board of Directors of People s United.

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Asset liquidity is provided by: cash; short-term investments and securities purchased under agreements to resell; proceeds from maturities, principal repayments and sales of securities; 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 s operating, investing and financing activities. At December 31, 2018, People s United (parent company) liquid assets included $292 million in cash and $8 million in equity securities, while the Bank s liquid assets included $3.1 billion in debt securities available-for-sale and $640 million in cash and cash equivalents. At December 31, 2018, debt securities available-for-sale with a fair value of $2.2 billion and debt securities held-to-maturity with an amortized cost of $1.5 billion were pledged as collateral for public deposits and for other purposes.

Liability liquidity is measured by both People s United s and the 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 $36.2 billion at December 31, 2018 and represented 77% of total funding (the sum of total deposits, total borrowings, notes and debentures, and stockholders equity). Borrowings are used to diversify People s United s funding mix and to support asset growth. Borrowings and notes and debentures totaled $3.6 billion and $896 million, respectively, at December 31, 2018, representing 8% and 2%, respectively, of total funding at that date.

The Bank s current available sources of borrowings include: federal funds purchased, advances from the FHLB of Boston and the FRB-NY, and repurchase agreements. At December 31, 2018, the Bank s total borrowing capacity from (i) the FHLB of Boston and the FRB-NY for advances and (ii) repurchase agreements was $10.9 billion based on the level of qualifying collateral available for these borrowings. In addition, the Bank had unsecured borrowing capacity of $1.0 billion at that date.

Earning Asset Mix

$42.8 billion as of December 31, 2018 (percent)

Funding Base

$47.2 billion as of December 31, 2018 (percent)

At December 31, 2018, the Bank had outstanding commitments to originate loans totaling $7.9 billion and approved, but unused, lines of credit extended to customers totaling $1.3 billion (including $2.1 billion of HELOCs).

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

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Stockholders Equity and Dividends

People s United s total stockholders equity was $6.53 billion at December 31, 2018, a $714.0 million increase from December 31, 2017. This increase primarily reflects: (i) the issuance of 28.4 million shares of People s United common stock in the First Connecticut acquisition with a fair value of $486.4 million; (ii) net income in 2018 of $468.1 million; and (iii) net stock option and restricted stock and related transactions in 2018 totaling $48.4 million, partially offset by common and preferred dividends paid in 2018 totaling $257.9 million. As a percentage of total assets, stockholders equity was 13.6% at December 31, 2018 compared to 13.1% at December 31, 2017. Tangible common equity as a percentage of tangible assets was 7.6% and 7.2% at December 31, 2018 and December 31, 2017, respectively.

People s United s total stockholders equity was $5.82 billion at December 31, 2017, a $678.0 million increase from December 31, 2016. This increase primarily reflects: (i) the issuance of 26.6 million shares of People s United common stock in the Suffolk acquisition with a fair value of $484.8 million; (ii) net income in 2017 of $337.2 million; and (iii) net stock option and restricted stock-related transactions in 2017 totaling $78.3 million, partially offset by common and preferred dividends paid in 2017 totaling $242.0 million. As a percentage of total assets, stockholders equity was 13.1% at December 31, 2017 compared to 12.7% at December 31, 2016. Tangible common equity as a percentage of tangible assets was 7.2% at both December 31, 2017 and 2016.

Common dividends declared and paid per common share totaled $0.6975, $0.6875 and $0.6775 for the years ended December 31, 2018, 2017 and 2016, respectively. People s United s common dividend payout ratio (common dividends paid as a percentage of net income available to common shareholders) for the years ended December 31, 2018, 2017 and 2016 was 53.7%, 70.6% and 73.7%, respectively. The Company s Board of Directors declared a quarterly dividend on its common stock of $0.175 per share in January 2019, which was paid on February 15, 2019 to shareholders of record on February 1, 2019.

The Bank paid cash dividends totaling $342 million, $292 million and $271 million to People s United (parent company) in 2018, 2017 and 2016, respectively, and $104 million in February 2019.

Regulatory Capital Requirements

On January 1, 2015, both People s United and the Bank became subject to new capital rules (the Basel III capital rules) issued by U.S. banking agencies. When fully phased-in on January 1, 2019, the Basel III capital rules will require U.S. financial institutions to maintain: (i) a minimum ratio of CET 1 capital to total risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET 1 risk-based capital ratio as that buffer is phased-in beginning in 2016, effectively resulting in a minimum CET 1 risk-based capital ratio of 7.0% upon full implementation); (ii) a minimum ratio of Tier 1 capital to total risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 risk-based capital ratio as that buffer is phased-in beginning in 2016, effectively resulting in a minimum Tier 1 risk-based capital ratio of 8.5% upon full implementation); (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to total risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% Total risk-based capital ratio as that buffer is phased-in beginning in 2016, effectively resulting in a minimum Total risk-based capital ratio of 10.5% upon full implementation); and (iv) a minimum Tier 1 Leverage capital ratio of at least 4.0%, calculated as the ratio of Tier 1 capital to average total assets, as defined.

In order to avoid limitations on distributions, including dividend payments, and certain discretionary bonus payments, a financial institution must hold a capital conservation buffer above its minimum risk-based capital requirements. For 2018, the capital conservation buffer is 1.875% and increases to 2.5% in 2019, the final year of the phase-in period.

U.S. banking agencies have released a proposal for comment intended to simplify certain aspects of the regulatory capital rules. Management does not expect the impact of this proposal to have a material effect on the Company s or the Bank s risk-based capital ratios.

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For regulatory capital purposes, subordinated note issuances qualify, up to certain limits, as Tier 2 capital for both People s United s and the Bank s Total risk-based capital. Beginning in 2019, and for each of the next four years, the eligible amount of the Bank s $400 million subordinated notes due 2014 included in Tier 2 capital will be reduced each year by 20%, or $80 million, in accordance with regulatory capital rules.

The following is a summary of People s United s and the Bank s regulatory capital amounts and ratios under the Basel III capital rules. The minimum capital required amounts as of December 31, 2018 are based on the capital conservation buffer phase-in provisions of the Basel III capital rules. In connection with the adoption of the Basel III capital rules, both the Company and the Bank elected to opt-out of the requirement to include most components of AOCL in CET 1 capital. At December 31, 2018, People s United s and the Bank s total risk-weighted assets, as defined, were both $35.9 billion. As discussed in Note 1 to the Consolidated Financial Statements, the Company adopted, effective January 1, 2019, new accounting guidance relating to leases. Upon adoption, the Company recorded (i) operating lease liabilities totaling approximately $269 million and (ii) corresponding right-of-use assets totaling approximately $249 million. This transition adjustment serves to increase risk-weighted assets, resulting in an approximate 5-10 basis point decrease in the risk-based capital ratios of both the Company and the Bank.

	As of December 31, 2018		Minimum Capital Required Basel III Phase-In (2018)		Classification as Well-Capitalized	
(dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Capital (1):						
People s United	$ 3,927.2	8.7%	$ 1,806.0	4.0%	N/A	N/A
Bank	4,076.0	9.0	1,805.4	4.0	$ 2,256.8	5.0%
CET 1 Risk-Based Capital (2):						
People s United	3,683.1	10.3	2,289.3	6.375	N/A	N/A
Bank	4,076.0	11.4	2,287.1	6.375	2,331.9	6.5
Tier 1 Risk-Based Capital (3):						
People s United	3,927.2	10.9	2,827.9	7.875	2,154.6	6.0
Bank	4,076.0	11.4	2,825.2	7.875	2,870.0	8.0
Total Risk-Based Capital (4):						
People s United	4,505.7	12.5	3,546.1	9.875	3,591.0	10.0
Bank	4,719.1	13.2	3,542.7	9.875	3,587.5	10.0

(1) Tier 1 Leverage Capital ratio represents CET 1 Capital plus Additional Tier 1 Capital instruments (together, Tier 1 Capital) divided by Average Total Assets (less goodwill, other acquisition-related intangibles and other deductions from CET 1 Capital).
(2) CET 1 Risk-Based Capital ratio represents equity capital, as defined, less: (i) after-tax net unrealized gains (losses) on certain securities classified as available-for-sale; (ii) after-tax net unrealized gains (losses) on securities transferred to held-to-maturity; (iii) goodwill and other acquisition-related intangible assets; and (iv) the amount recorded in AOCL relating to pension and other postretirement benefits divided by Total Risk-Weighted Assets.
(3) Tier 1 Risk-Based Capital ratio represents Tier 1 Capital divided by Total Risk-Weighted Assets.
(4) Total Risk-Based Capital ratio represents Tier 1 Capital plus subordinated notes and debentures, up to certain limits, and the allowance for loan losses, up to 1.25% of Total Risk-Weighted Assets, divided by Total Risk-Weighted Assets.

See Notes 1 and 14 to the Consolidated Financial Statements for additional information concerning both the Company s and the Bank s regulatory capital amounts and ratios.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk
Market Risk Management

Market risk represents the risk of loss to earnings, capital and the economic values of certain assets and liabilities resulting from changes in interest rates, equity prices and foreign currency exchange rates. The only significant market risk exposure for People s United at this time is IRR, which is a result of the Company s core business activities of making loans and accepting deposits.

Interest Rate Risk

The effective management of IRR is essential to achieving the Company s financial objectives. Responsibility for overseeing management of IRR resides with ALCO. The goal of ALCO is to generate a stable net interest margin over entire interest rate cycles regardless of changes in either short- or long-term interest rates. Generating earnings by taking excessive IRR is prohibited by the IRR limits established by the Company s Board of Directors. ALCO manages IRR by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles of the Company.

Net Interest Income at Risk Simulation is used to measure the sensitivity of net interest income to changes in market rates over a period of time, such as 12 or 24 months. This simulation captures underlying product behaviors, such as asset and liability re-pricing dates, balloon dates, interest rate indices and spreads, rate caps and floors, as well as other behavioral attributes. The simulation of net interest income also requires a number of key assumptions such as: (i) future balance sheet volume and mix assumptions that are management judgments based on estimates and historical experience; (ii) prepayment projections for loans and securities that are projected under each interest rate scenario using internal and external analytics; (iii) new business loan spreads that are based on recent new business origination experience; and (iv) deposit pricing assumptions that are based on historical experience and management judgment. Combined, these assumptions can be inherently uncertain, and as a result, actual results may differ from simulation forecasts due to the timing, magnitude and frequency of interest rate changes, future business conditions, as well as unanticipated changes in management strategies.

The Company uses two sets of standard scenarios to measure net interest income at risk. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Yield curve twist scenarios assume the shape of the curve flattens or steepens instantaneously centered on the 18-month point of the curve, thereby segmenting the yield curve into a short-end and a long-end .

The following tables set forth the estimated percent change in the Company s net interest income at risk over one-year simulation periods beginning December 31, 2018 and 2017. A down 200 basis points scenario has been added to the parallel shock simulation for December 31, 2018.

Parallel Shock Rate Change	Estimated Percent Change in Net Interest Income	
(basis points)	2018	2017
+300	7.6%	9.3%
+200	5.3	6.5
+100	2.8	3.4
-100	(3.6)	(4.9)
-200	(9.9)	N/A

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Yield Curve Twist	Estimated Percent Change in Net Interest Income	
Rate Change (basis points)	2018	2017
Short End -100	(1.7)%	(2.5)%
Short End +100	1.6	1.7
Long End -100	(1.8)	(2.3)
Long End +100	1.3	1.8

The net interest income at risk simulation results indicate that at both December 31, 2018 and 2017, the Company is asset sensitive over the twelve-month forecast horizon (i.e. net interest income will increase if market rates rise). The asset sensitive position at December 31, 2018 primarily reflects: (i) approximately 90% of the Company s loan portfolio being funded by less rate-sensitive core deposits; (ii) approximately 43% of the Company s loan portfolio being comprised of Prime Rate and one-month Libor-based loans; and (iii) the repricing of variable-rate loans, the origination of fixed-rate loans and the reinvestment of securities proceeds all over the twelve-month forecast horizon.

The Company s net interest income at risk exposure in the down rate scenarios has improved since December 31, 2017 primarily due to: (i) slower mortgage-backed security and residential mortgage loan prepayments as a result of higher interest rates; (ii) an increase in deposit pricing elasticity assumptions in the IRR model; and (iii) the benefits from the Company s ability to lower deposit rates in light of the current rate environment. The acquisition of First Connecticut had minimum impact on the Company s net interest income at risk exposure. Based on the Company s IRR position at December 31, 2018, an immediate 100 basis point parallel increase in interest rates translates to an approximate $39 million increase in net interest income on an annualized basis.

Economic Value of Equity at Risk Simulation is conducted in tandem with net interest income simulations, to ascertain a longer term view of the Company s IRR position by capturing longer-term re-pricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. Economic value of equity at risk simulation values only the current balance sheet and does not incorporate the growth assumptions used for income simulations. As with net interest income modeling, this simulation captures product characteristics such as loan resets, re-pricing terms, maturity dates, rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. The Company conducts core deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to periodic review.

Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The current spot interest rate curve is shocked up and down to generate new interest rate curves for parallel rate shock scenarios. These new curves are then used to re-calculate economic value of equity at risk for these rate shock scenarios.

The following table sets forth the estimated percent change in the Company s economic value of equity at risk, assuming various instantaneous parallel shocks in interest rates. A down 200 basis points scenario has been added to the parallel shock simulation at December 31, 2018.

Parallel Shock	Estimated Percent Change in Economic Value of Equity	
Rate Change (basis points)	2018	2017
+300	(12.0)%	(10.5)%
+200	(7.2)	(5.4)
+100	(2.8)	(1.4)
-100	(1.0)	(2.9)
-200	(6.7)	N/A

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The Company s economic value of equity at risk profile indicates that at December 31, 2018, the Company s economic value of equity is liability sensitive in a rising rate environment. The increase in liability sensitivity since December 31, 2017 primarily reflects: (i) an increase in mortgage-backed security and residential mortgage loan duration; (ii) a decrease in the modeled weighted average life of non-maturity deposits resulting from higher interest rates; (iii) an increase in deposit pricing elasticity assumptions in the IRR model; and (iv) the addition of First Connecticut s residential mortgage and commercial real estate loan portfolios.

People s United s IRR position at December 31, 2018, as set forth in the net interest income at risk and economic value of equity at risk tables above, reflects an asset sensitive net interest income at risk position and a liability sensitive economic value of equity position. From a net interest income perspective, asset sensitivity over the next 12 months is primarily attributable to the effect of the substantial Prime and Libor-based loan balances that are funded mainly by less rate-sensitive deposits. From an economic value of equity perspective, in a rising rate environment, the Company s assets are more price sensitive than its liabilities due to slightly longer asset duration, which serves to create a liability sensitive risk position. 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 the Company s models.

Management has established procedures to be followed in the event of an anticipated or actual breach in policy limits. As of December 31, 2018, there were no breaches of the Company s internal policy limits with respect to either IRR measure. Management utilizes both interest rate measures in the normal course of measuring and managing IRR and believes that each measure is valuable in understanding the Company s IRR position.

People s United uses derivative financial instruments, including interest rate swaps, as components of its market risk management (principally to manage IRR). Certain other derivatives are entered into in connection with transactions with commercial customers. Derivatives are not used for speculative purposes. At December 31, 2018, People s United used interest rate swaps to manage IRR associated with certain interest-bearing assets and interest-bearing liabilities.

The Bank has entered into pay floating/receive fixed interest rate swaps to reduce its IRR exposure to the variability in interest cash flows on certain floating-rate commercial loans. The Bank has agreed with the swap counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated based on notional amounts totaling $210 million. The floating-rate interest payments made under the swaps are calculated using the same floating rate received on the commercial loans. The swaps effectively convert the floating-rate one-month LIBOR interest payments received on the commercial loans to a fixed rate and consequently reduce the Bank s exposure to variability in short-term interest rates. These swaps are accounted for as cash flow hedges.

The Bank has entered into a pay floating/receive fixed interest rate swap to hedge the change in fair value due to changes in interest rates of the Bank s $400 million subordinated notes. The Bank has agreed with the swap counterparty to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated based on a notional amount of $375 million. The fixed-rate interest payments received on the swap will essentially offset the fixed-rate interest payments made on these notes, notwithstanding the notional difference between these notes and the swap. The floating-rate interest amounts paid under the swap are calculated based on three-month LIBOR plus 126.5 basis points. The swap effectively converts the fixed-rate subordinated notes to a floating-rate liability. This swap is accounted for as a fair value hedge.

People s United 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 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. In accordance with the Company s balance sheet offsetting policy (see Note 1 to the Consolidated Financial Statements), amounts reported as derivative assets represent derivative contracts in a gain position, without consideration for derivative contracts in a loss position with the same counterparty (to the extent subject to master netting arrangements) and posted collateral. People s United 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 s derivatives include major financial institutions and exchanges that undergo comprehensive and periodic internal credit analysis as well as maintain investment grade credit ratings from the major credit 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 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 master netting arrangements and posted collateral). There were no derivative instruments with such credit-related contingent features in a net liability position at December 31, 2018.

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 uses these instruments on a limited basis to (i) eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies and (ii) provide foreign exchange contracts on behalf of commercial customers within credit exposure limits. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

Derivative Financial Instruments

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

	Interest Rate Swaps		
As of December 31, 2018 (dollars in millions)	Cash Flow Hedge	Fair Value Hedge	Foreign Exchange Contracts
Notional principal amounts	$210.0	$375.0	$ 145.2
Weighted average interest rates:			
Pay floating (receive fixed)	2.35% (1.72%)	Libor +1.265% (4.00%)	N/A
Weighted average remaining term to maturity (in months)	22	67	1
Fair value:			
Recognized as an asset	$	$	$ 0.9
Recognized as a liability			0.8

People s United enters into interest rate swaps and caps with certain of its commercial customers. In order to minimize its risk, these customer interest rate swaps (pay floating/receive fixed) and caps have been offset with essentially matching interest rate swaps (pay fixed/receive floating) and caps with People s United s institutional counterparties. Hedge accounting has not been applied for these derivatives. Accordingly, changes in the fair value of all such interest rate swaps and caps are recognized in current earnings.

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

	Interest Rate Swaps		Interest Rate Caps	
As of December 31, 2018 (dollars in millions)	Commercial Customers	Institutional Counterparties	Commercial Customers	Institutional Counterparties
Notional principal amounts	$7,455.9	$7,161.3	$ 329.1	$ 329.1
Weighted average interest rates:				
Pay floating (receive fixed)	2.27% (2.51%)		N/A	N/A
Pay fixed (receive floating)		2.37% (2.36%)	N/A	N/A
Weighted average strike rate	N/A	N/A	0.53%	0.53%
Weighted average remaining term to maturity (in months)	79	81	28	28
Fair value:				
Recognized as an asset	$76.3	$22.6	$0.6	$2.5
Recognized as a liability	102.6	32.4	2.5	0.6

See Notes 21 and 22 to the Consolidated Financial Statements for further information relating to derivatives.

Item 8. Financial Statements and Supplementary Data

The information required by this item begins on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

People s United s management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of People s United 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 s disclosure controls and procedures are effective, as of December 31, 2018, to ensure that information relating to People s United, which is required to be disclosed in the reports People s United files with the SEC 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 December 31, 2018, there has not been any change in People s United s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, People s United s internal control over financial reporting. People s United s Management s Report on Internal Control Over Financial Reporting appears on page 88 and the related Report of Independent Registered Public Accounting Firm appears on page F-3.

Item 9B. Other Information

None.

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Part III

Item 10. Directors, Executive Officers and Corporate Governance

Directors of the Corporation

The information required by this item appears under the caption Nominees for Director in the People s United Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed within 120 days of People s United s fiscal year end (the Proxy Statement) and is herein incorporated by reference.

Audit Committee Financial Expert

The Board of Directors has determined that William F. Cruger, Jr. and Janet M. Hansen, members of the Audit Committee of the Board, are each an audit committee financial expert and are independent within the meaning of those terms as used in the instructions to this Item 10.

Executive Officers of the Corporation

The information required by this item appears under the caption Executive Officers who are not Directors in the Proxy Statement and is herein incorporated by reference.

People s United has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The text of the Code of Ethics is available on People s United s website at www.peoples.com, under Investor Relations Governance Documents Code of Ethics for Senior Financial Officers.

Additional information required by this item appears under the caption Board of Directors and Committees in the Proxy Statement and is herein incorporated by reference.

Item 11. Executive Compensation

The information required by this item appears under the caption Compensation Discussion and Analysis in the Proxy Statement and is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item appears under the caption Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement and is herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item appears under the caption Transactions with Certain Related Persons in the Proxy Statement and is herein incorporated by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item appears under the caption Ratification of the Appointment of Independent Registered Public Accounting Firm in the Proxy Statement and is herein incorporated by reference.

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Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following consolidated financial statements of People s United Financial, Inc. and the independent registered public accounting firm report thereon are included herein beginning on page F-1:

Consolidated Statements of Condition as of December 31, 2018 and 2017

Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

(a)(2) Financial statement schedules have been omitted as they are not applicable or the information is included in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The following Exhibits are filed with this Report or are incorporated by reference. Each exhibit identified by an asterisk constitutes a management contract or compensatory plan, contract or arrangement.

Designation	Description
3.1	Third Amended and Restated Certificate of Incorporation of People s United Financial, Inc. (incorporated by reference to Exhibit 3.1 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
3.2	Amended Eight Amended and Restated Bylaws of People s United Financial, Inc. (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on June 26, 2018)
4.1	Form of Stock Certificate of People s United Financial, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 13, 2007 (Registration No. 333-138389))
4.2	Indenture, dated as of February 14, 2007, by and between Chittenden Corporation and The Bank of New York Trust Company, N.A. as Trustee (incorporated by reference to Exhibit 4.2 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
4.3	Form of Global Note, registered in the name of Cede & Co. as nominee (February 17, 2007) (incorporated by reference to Exhibit 4.3 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
4.5	Senior Indenture dated as of December 6, 2012 between People s United Financial, Inc. and The Bank of New York Mellon as Trustee (incorporated by reference to Exhibit 4.5 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013)

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Designation	Description
4.6	Form of Global Note, registered in the name of Cede & Co. as nominee (December 6, 2012) (incorporated by reference to Exhibit 4.6 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013)
4.7	Issuing and Paying Agency Agreement dated June 26, 2014 between People s United Bank as Issuer and Bank of New York Mellon as Agent (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on June 26, 2014)
4.8	Form of Global Subordinated Note, registered in the name of Cede & Co. as nominee (June 26, 2014) (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on June 26, 2014)
10.1*	Form of Change in Control Agreement (Senior Executive Vice Presidents) (incorporated by reference to Exhibit 10.2(c) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.2*	People s United Financial, Inc. Short-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
10.3*	Amended and Restated People s Bank 1998 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2007)
10.4*	People s United Financial, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.10 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010)
10.5*	Form of Stock Option Agreement under 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013)
10.6*	Form of Grant Agreement for Restricted Stock under 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.8 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013)
10.7*	People s United Financial, Inc. Amended and Restated 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
10.7(a)*	Amendment No. 1 to the People s United Financial, Inc. 2014 Long-Term Incentive Plan, as Amended and Restated, February 16, 2017 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 1, 2018)
10.7(b)*	Form of Grant Agreement for Performance Shares under the People s United Financial, Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7(a) to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
10.7(c)*	Form of Grant Agreement for Stock Options under the People s United Financial, Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7(b) to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)

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Designation	Description
10.7(d)*	Form of Grant Agreement for Stock Options under the People s United Financial, Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7(c) to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
10.7(e)*	Form of Grant Agreement for Restricted Stock under the People s United Financial, Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7(d) to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
10.7(f)*	Form of Grant Agreement for Restricted Stock under the People s United Financial, Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7(e) to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2017)
10.8*	First Amended and Restated People s United Bank Cap Excess Plan (incorporated by reference to Exhibit 10.13 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
10.8(a)*	First Amendment to the First Amended and Restated People s United Bank Cap Excess Plan (incorporated by reference to Exhibit 10.9(a) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.9*	The People s United Bank Enhanced Senior Pension Plan First Amendment and Restatement (incorporated by reference to Exhibit 10.14 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
10.9(a)*	First Amendment to The People s United Bank Enhanced Senior Pension Plan (incorporated by reference to Exhibit 10.10(a) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.10*	Non-Qualified Pension Trust Agreement, dated as of March 18, 1997, between People s Bank and Morgan Guaranty Trust Company of New York (incorporated by reference to Exhibit 10.15 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.10(a)*	Amendment to People s Bank Non-Qualified Pension Trust Agreement (incorporated by reference to Exhibit 10.15(a) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2008)
10.10(b)*	Trustee Engagement Agreement (Non-Qualified Pension Plans) dated May 21, 2014 between People s United Bank and First Bankers Trust Services, Inc. (incorporated by reference to Exhibit 10.11(b) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2015)
10.11*	People s United Bank, N.A. Nonqualified Savings and Retirement Plan (amended and restated as of January 1, 2016) (incorporated by reference to Exhibit 10.11 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016)
10.12*	People s Bank Supplemental Savings Plan Non-Qualified Trust Agreement, dated as of July 23, 1998, between People s Bank and Morgan Guaranty Trust Company of New York (incorporated by reference to Exhibit 10.17 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.12(a)*	Amendment to People s Bank Supplemental Savings Plan Non-Qualified Trust Agreement (incorporated by reference to Exhibit 10.17(a) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2008)
10.12(b)*	Trustee Engagement Agreement (Nonqualified Savings and Retirement Plan) dated May 21, 2014 between People s United Bank and First Bankers Trust Services, Inc. (incorporated by reference to Exhibit 10.13(b) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2015)

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Designation	Description
10.13*	People s United Financial, Inc. Second Amended and Restated Directors Equity Compensation Plan (incorporated by reference to Exhibit 10.14 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 12, 2014)
10.14*	People s Bank Change-in-Control Employee Severance Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 13, 2007 (Registration No. 333-138389))
10.15*	People s United Financial, Inc. 2007 Recognition and Retention Plan (amended) (incorporated by reference to Exhibit 10.26 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2008)
10.15(a)*	Form of Grant Agreement for Restricted Stock under 2007 Recognition and Retention Plan (incorporated by reference to Exhibit 10.16(d) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.16*	People s United Financial, Inc. 2007 Stock Option Plan (amended) (incorporated by reference to Exhibit 10.27 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2008)
10.16(a)*	Form of Grant Agreement for Stock Options under 2007 Stock Option Plan (incorporated by reference to Exhibit 10.17(d) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.17*	Chittenden Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.28 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
10.17(a)*	Amendment No. 1 to the Chittenden Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.28(a) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
10.17(b)*	Amendment No. 2 to the Chittenden Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.18(b) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.17(c)*	Amendment No. 3 to the Chittenden Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.18(c) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.18*	The Chittenden Corporation Supplemental Executive Savings Plan (incorporated by reference to Exhibit 10.30 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
10.18(a)*	Amendment No. 1 to the Chittenden Corporation Supplemental Executive Savings Plan (incorporated by reference to Exhibit 10.30(a) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009)
10.18(b)*	Amendment No. 2 to the Chittenden Corporation Supplemental Executive Savings Plan (incorporated by reference to Exhibit 10.19(b) to Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012)
10.19*	Purchase and Assumption Agreement dated as of April 16, 2010 among Federal Deposit Insurance Corporation as Receiver of Butler Bank, Federal Deposit Insurance Corporation, and People s United Bank (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 20, 2010)

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Designation	Description
21	Subsidiaries
23	Consent of KPMG LLP
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
99.1	Impact of Inflation
101.1	The following financial information from People s United Financial, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 formatted in XBRL: (i) Consolidated Statements of Condition as of December 31, 2018 and 2017; (ii) Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2018, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 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: March 1, 2019	By:	/s/ John P. Barnes John P. Barnes Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of People s United Financial, Inc. and in the capacities and on the dates indicated.

Date: March 1, 2019	By:	/s/ John P. Barnes John P. Barnes Chairman, Chief Executive Officer and Director (Principal Executive Officer)
Date: March 1, 2019	By:	/s/ R. David Rosato R. David Rosato Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: March 1, 2019	By:	/s/ Jeffrey A. Hoyt Jeffrey A. Hoyt Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
Date: March 1, 2019	By:	/s/ Collin P. Baron Collin P. Baron Director
Date: March 1, 2019	By:	/s/ Kevin T. Bottomley Kevin T. Bottomley Director
Date: March 1, 2019	By:	/s/ George P. Carter George P. Carter Lead Director
Date: March 1, 2019	By:	/s/ Jane Chwick Jane Chwick Director

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Date: March 1, 2019	By:	/s/ William F. Cruger, Jr. William F. Cruger, Jr. Director
Date: March 1, 2019	By:	/s/ John K. Dwight John K. Dwight Director
Date: March 1, 2019	By:	/s/ Jerry Franklin Jerry Franklin Director
Date: March 1, 2019	By:	/s/ Janet M. Hansen Janet M. Hansen Director
Date: March 1, 2019	By:	/s/ Nancy McAllister Nancy McAllister Director
Date: March 1, 2019	By:	/s/ Mark W. Richards Mark W. Richards Director
Date: March 1, 2019	By:	/s