2016 Dodd-Frank Act Stress Test (DFAST) Disclosure

October 21, 2016
1. Overview

In accordance with Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, certain financial companies with total consolidated assets between $10 billion and $50 billion are required to conduct annual stress tests (“DFAST”) to assess the potential effect of hypothetical economic scenarios on earnings and capital. Under DFAST requirements, People’s United Financial, Inc. (“People’s United” or the “Company”) and its subsidiary, People’s United Bank, N.A. (the “Bank”) are required to complete stress tests and disclose a summary of their DFAST results. This disclosure is a summary of People’s United’s company-run DFAST results under the Federal Reserve’s Supervisory Severely Adverse (“Fed Severely Adverse”) scenario. DFAST covers a nine quarter planning horizon starting with actual results as of December 31, 2015. The Company and the Bank’s stress test results were submitted to the Federal Reserve and the Office of the Comptroller of the Currency, respectively, on July 31, 2016.

As in 2015, the results of the People’s United’s 2016 DFAST indicate that both the Company and the Bank will have the financial resources to successfully navigate a severe and protracted economic downturn and will maintain capital levels that exceed regulatory minimums throughout the nine quarter planning period under the Fed Severely Adverse scenario.

People’s United’s disclosures of projected results, risks and assumptions are hypothetical and made in accordance with regulatory requirements. Risks and assumptions are tailored specifically to the Bank’s business mix and geographical concentrations. The stress scenario, risks and financial results disclosed in this document do not necessarily reflect the Board of Director’s or management’s future expectations. In addition, the results presented in this disclosure are based on regulatory standards, which may differ from U.S. Generally Accepted Accounting Principles.

2. About People’s United

People’s United Financial, Inc. is the holding company for People’s United Bank, N.A., a national banking association headquartered in Bridgeport, Connecticut with $38.9 billion in total assets as of December 31, 2015. 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. These services include personal, institutional and employee benefit trusts, cash management, and municipal banking and finance. Through its non-banking subsidiaries, People’s United offers brokerage, financial advisory services, investment management services and life insurance through People’s Securities, Inc.; equipment financing through People’s Capital and Leasing Corp. (“PCLC”) and People’s United Equipment Finance Corp. (“PUEFC”); and other insurance services through People’s United Insurance Agency, Inc.

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

People's United's results of operations are largely dependent upon revenues generated through net interest income and fee-based revenues. Sources for these revenues are diversified across the Company'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, operating results are impacted by general and local economic conditions, changes in market interest rates, government policies and actions of regulatory authorities. The Company's overall financial results are particularly dependent on economic conditions in New England and New York, which are its primary markets, although economic conditions elsewhere in the United States affect its equipment financing, mortgage warehouse lending and national credit businesses.

3. Fed Severely Adverse Scenario Overview

The Fed Severely Adverse scenario is characterized by a severe global recession, accompanied by a high unemployment rate, a sharp drop in asset prices and equity markets and negative short-term interest rates.

- Weaker economy – Unemployment rate reaches 10% in 2017; and the level of real GDP declines sharply to -7.5% by the second quarter of 2016 and begins to recover in the second quarter of 2017 to an average of 0.6% in 2017;
- Large reduction in asset prices – Equity prices, commercial real estate prices and house prices decline by approximately 50%, 30% and 25%, respectively;
- Negative short-term interest rates – Three-month Treasury rates turn negative by the second quarter of 2016 and stay negative throughout the scenario, ending at -0.5% in the fourth quarter of 2018; and
- Market liquidity conditions become strained – The spread between BBB Corporate yields and 10-year Treasuries increases from 240 bps in the fourth quarter of 2015 to 575 basis points by the end of 2016.

4. Capital Actions

The capital actions incorporated in People's United's DFAST results are in accordance with DFAST Final Rules:

- Regular additional paid-in capital related to employee compensation expense is incorporated; The Company's $125 million of subordinated debt matures on February 14, 2017 as scheduled and is not replaced;
- An annual shareholder dividend increase was effected in the second quarter of 2016 but was subsequently reduced from a quarterly rate of $0.17 to $0.01 per share starting in the fourth quarter of 2016 to build Company liquidity and capital;
• In the first quarter of 2016, the Bank exercised its call option on $100 million of intercompany subordinated debt; in the same quarter, the Company downstreamed $250 million in the form of a capital contribution to the Bank; and
• The Bank dividends 95% of its earnings to the Company each quarter

5. Summary of Results

The following tables provide quantitative information for People’s United’s 2016 DFAST results and the chart illustrates the key drivers of the change in regulatory capital ratios under the Fed Severely Adverse scenario. The numbers provided below are cumulative, unless stated otherwise.

People’s United Financial, Inc.

Capital and Risk Weighted Assets (“RWA”) Projections

Under the stress scenario, capital ratios are projected to decline in the nine-quarter forecast period due to reduced net income and growth of RWA. Quarterly shareholder dividend is reduced from $0.17 to $0.01 per share starting in the fourth quarter of 2016 to conserve liquidity and capital. The Company remains well capitalized and all capital ratios are above regulatory minimums. Although the reduction in dividends as outlined in Section 4 enhanced capital, the Company’s capital ratios exceeded regulatory minimums prior to the dividend reductions. The following chart illustrates key drivers of the change in Common Equity Tier 1 capital ratio in the nine-quarter projection period.
Profit and Loss Projections

Under the Fed Severely Adverse scenario, the Company’s net income before taxes declines due to credit quality deterioration, lower interest rates, slower loan growth and reduced non-interest income, but remains profitable on an annual basis.

<table>
<thead>
<tr>
<th>People’s United Financial, Inc.</th>
<th>Millions of Dollars</th>
<th>Percentage of Avg Assets</th>
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<tbody>
<tr>
<td>Pre-Provision Net Revenue ²</td>
<td>$713.4</td>
<td>1.9%</td>
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<tr>
<td>Other Revenue</td>
<td>0.0</td>
<td>0.0%</td>
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<tbody>
<tr>
<td>Provision for Loan Losses</td>
<td>467.6</td>
<td>1.2%</td>
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<tr>
<td>Realized Losses/(Gains) on Securities ³</td>
<td>0.1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Trading and Counterparty Losses</td>
<td>0.0</td>
<td>0.0%</td>
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<td>Other Losses/(Gains)</td>
<td>0.0</td>
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Net Income Before Taxes: $245.7 0.6%

**Notes:**

1. Average assets over 9-quarter planning period
2. Pre-Provision Net Revenue ("PPNR") = Net interest income + Non-Interest Income - Non-Interest Expense
3. Includes both available-for-sale ("AFS") and held-to-maturity ("HTM") securities
Loan Loss Projections

Loan losses increase to $335 million in the nine-quarter period due to credit quality deterioration under the Fed Severely Adverse scenario. This amount is well in excess of the Company’s loss expectations under a normal economic environment and significantly higher than losses we realized during the 2007 – 2009 financial crisis. The stress results indicate that both the commercial and industrial and the commercial real estate portfolios generate the largest magnitude of losses within People’s United’s lending portfolios.

People’s United Bank, N.A.

Capital and Risk Weighted Assets (“RWA”) Projections

The Bank’s Common Equity Tier 1 capital ratio increases at the end of the nine-quarter period from 10.2% to 10.5%. This increase is due primarily to the $250 million capital contribution from the Company to the Bank in the first quarter of 2016. The following chart illustrates key drivers of the change in the Bank’s Common Equity Tier 1 capital ratio in the nine-quarter projection period.
Profit and Loss Projections

People’s United Bank, N.A. - Projected 9-Quarter Cumulative Net Income Before Taxes

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<tr>
<td>Pre-Provision Net Revenue</td>
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Equals

Net Income Before Taxes $271.3 0.7%

Notes:
1. Average assets of 9-quarter planning period
2. Pre-Provision Net Revenue = Net interest income + Non-Interest Income - Non-Interest Expense
3. Includes both AFS and HTM securities

The Bank’s net income declines in the Fed Severely Adverse scenario but remains profitable on an annual basis.

Loan Loss Projections

Loan loss projections are equivalent for the Company and the Bank. Please refer to loan loss projections under People’s United Financial, Inc. for a detailed description of cumulative credit losses.
6. Risks Captured

Market Risk
Market risk is the risk of fluctuation of earnings and capital due to an adverse change in interest rates and market prices. At People’s United, market risk is reflected through changes in net interest income and unrealized gains or losses on AFS securities, which have an impact on common equity through AOCI. Certain non-interest income items are also indirectly impacted by market risk, such as trust and investment management fees, brokerage commissions and operating lease income.

Credit Risk
Credit risk arises from the potential that a borrower or counterparty will fail to perform on an obligation. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer or borrower performance. Exposure to credit risk comes primarily from loan portfolios including commercial real estate, commercial and industrial, residential mortgage and home equity.

Operational Risk
Operational risk is the loss on earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. Specifically, operational risks captured in People’s United’s stress testing include:

- Internal and external fraud;
- Employment practices & workplace safety;
- Clients’ products & business practices;
- Disaster & public safety;
- Technology & infrastructure failures; and
- Execution, delivery & process management.

Operational risk costs are included in non-interest expense under PPNR.

Liquidity Risk
Liquidity risk is the potential that an institution will be unable to meet loan requests, deposit maturities and withdrawals, and other cash commitments under both normal operating conditions and periods of stress due to the inability to liquidate assets or obtain adequate funding at reasonable costs. People's United's liquidity risk is measured in stress testing through comprehensive analysis of various liquidity events in each scenario and the impact on ratios and policy limits established by the Treasury and Finance Committee of the Company. Significant liquidity events from repayment of borrowings, payment of shareholder dividends, and large loan and deposit outflows are considered in each stress scenario. Stress test results indicated that available asset liquidity and funding sources reached internal minimum levels. Therefore, as discussed in Section 4 Capital Actions, the shareholder dividend was reduced, in part, to preserve liquidity at the Company.

Model Risk
A model is a theoretical construct representing processes and relationships between a set of variables. It is a simplified framework designed to illustrate complex realities and therefore has limitations. Model risk occurs when invalid assumptions and variables are used or the model fails to capture all risks and events that could impact model outcomes.
7. Description of Methodologies

To support the assessments used to create DFAST projections, the Company utilized multiple forms of quantitative and qualitative analyses of historical performance. The results of these analyses served as inputs in the Company’s forecast of balance sheet, income statement and loan loss categories. Models used in DFAST are 1) developed and implemented within People’s United’s model risk governance framework, 2) undergo independent validation, and 3) are subject to review and oversight by a model risk management committee of the Company. The model projections are reviewed with business lines and enterprise risk management. In some cases, management judgment is utilized to address certain model limitations. The following is a description of the main elements of the 2016 DFAST Fed Severely Adverse scenario projection:

Pre-Provision Net Revenue

PPNR is defined as net interest income plus non-interest income minus non-interest expense. The Company includes operational risk events in PPNR. To project PPNR, business line projections together with a variety of volume, net interest income and non-interest income models are utilized.

Net interest income represents the interest earned on securities, loans and other interest earning assets less the interest paid on deposits, borrowings and other interest bearing liabilities. Key drivers of net interest income are balance sheet growth and runoff, interest rates and pricing assumptions. Loan and deposit volume assumptions are based on internally built econometric volume model projections. Loan pricing spreads are based on actual experience and deposit pricing assumptions are based on a combination of historical experience and the business lines’ future expectations.

The Company utilizes macro econometric models and business line input when formulating non-interest income projections for DFAST. Six non-interest income models were utilized for 2016 DFAST. These models cover approximately 39% of non-interest income:

- Investment management fees;
- Insurance revenue;
- Brokerage commissions;
- Bank Service Charges - ATM Interchange Fees;
- Bank Service Charges - Debit Card Interchange Fees; and
- Bank Service Charges - Retail Checking Overdraft Fees.

In addition, expert judgement is utilized for certain other non-interest income projections. Together, expert judgement and models derive approximately two thirds of the total non-interest income in scenario projections. The remaining one third of non-interest income is deemed insensitive to changes in interest rates or macroeconomic conditions.

Credit Losses

Credit losses arise from three sources: loans, securities and counterparty derivatives. The aggregate loan portfolio is the largest driver of credit losses.

People’s United utilizes loan level models for a majority of its loan portfolios. Loan level data was extracted from a centralized data warehouse to build commercial real estate, commercial and industrial, residential mortgage and home equity portfolio models. Credit losses are calculated as (probability of default) multiplied by (loss given default rate) multiplied by (exposure at default). Econometric and regression models are used for each component to establish relationships between macroeconomic
factors and People United’s historical experience.

Loss estimates for the securities portfolio are derived from nationally recognized statistical rating organizations’ risk rating migration matrices. At December 31, 2015, the Company maintained a portfolio of GSE-backed residential mortgage bonds as well as high quality municipal bonds which exhibit minimal credit losses.

Counterparty derivative portfolio loss estimates are derived from counterparty credit exposures that result from fluctuations in the value of derivatives as interest rates change. The loss estimate is considered conservative as it does not incorporate the benefit of collateral agreements in place between the Bank and its counterparties.

**Provision and Allowance for Loan and Lease Losses**

The projection of provision and Allowance for Loan and Lease Losses (“ALLL”) takes into consideration the following factors:

- Projected net charge offs;
- The highest historical provision to net charge off ratios in the previous ten years; and
- The highest historical ALLL coverage ratio in the previous ten years.

The Company increases its provision in recognition of credit quality deterioration under the Fed Severely Adverse scenario in conformance with the Company’s ALLL accounting practices.

**Accumulated Other Comprehensive Income**

AOCI includes two key components, (i) unrealized gains and losses on AFS securities and (ii) deferred pension items, both on an after-tax basis. Unrealized gains and losses on AFS securities are caused by market risk and are captured in the stress test results based on changes in market interest rates, portfolio duration and balances in the forecast period. The pension items represent the deferred expense due to the net actuarial loss of the defined pension plan. Pension expenses are kept constant throughout the forecast period.

AOCI reduces tangible common equity when interest rates rise and increases tangible common equity when interest rates fall. Since the Company elected to opt out of the requirement to include AOCI in its calculation of regulatory capital as permitted under Basel III, changes in AOCI do not impact regulatory capital ratios.

**Risk Weighted Assets**

RWA are calculated per FR Y 9-C instructions. The process starts with assigning risk weightings to each portfolio based on the FR Y 9-C that was filed as of December 31, 2015. This initial risk weighting mix remains constant over the nine-quarter forecast period. The RWA are then calculated as the initial risk weighting mix multiplied by Fed Severely Adverse scenario portfolio volumes.

**Capital Ratios**

Capital levels are forecasted based on income and balance sheet projections as well as capital action assumptions built in the projection. The projection of net interest income, credit losses, operational losses, non-interest income/expense changes and capital actions, as permitted under DFAST instructions, are reflected in the projected capital levels for the Company and Bank. As of December 31, 2015 and throughout the nine-quarter scenario horizon, the Company had no preferred equity and therefore, both its Common Equity Tier 1 ratio and Tier 1 risk-based capital ratio are equivalent.
Forward-Looking Statements

This disclosure is a summary of the Company’s and the Bank’s DFAST results under the Fed Severely Adverse scenario. It is important to note that the results contained herein do not necessarily reflect People’s United’s future expectations of results of operations and are not intended to represent People’s United’s forecast of future economic or financial conditions, but rather reflect potential results under the Fed Severely Adverse scenario. This disclosure contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimates", "expects", "potential", "continues", "may", "will", "approximately", "projects", or other comparable words and similar expressions identify forward-looking statements. 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.