FOREIGN TRADE BANK OF LATIN AMERICA, INC.
Form 6-K
October 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE

SECURITIES EXCHANGE ACT OF 1934

For the month of October, 2014

BANCO LATINOAMERICANO DE COMERCIO EXTERIOR, S.A.

(Exact name of Registrant as specified in its Charter)

FOREIGN TRADE BANK OF LATIN AMERICA, INC.

(Translation of Registrant's name into English)

Business Park, Torre V, Ave. La Rotonda, Costa del Este

P.O. Box 0819-08730

Panama City, Republic of Panama

(Address of Registrant's Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x   Form 40-F ¨

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g-3-2(b) under the Securities Exchange Act of 1934.)

Yes ¨   No x

(If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82__.)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

October 31, 2014.

FOREIGN TRADE BANK OF LATIN AMERICA, INC.

By: /s/ Pedro Toll

Name: Pedro Toll
Title: General Manager

Banco Latinoamericano

de Comercio Exterior, S. A.

and Subsidiaries

Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013, and Related Consolidated Statements of Income, Comprehensive Income, Stockholders' Equity and Cash Flows (Unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013

Banco Latinoamericano de Comercio Exterior, S. A.

and Subsidiaries

Consolidated Financial Statements

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Consolidated balance sheets

September 30, 2014 and December 31, 2013

(in US$ thousand, except per share amounts)

	Notes	**September 30, 2014 (Unaudited)**	**December 31, 2013 (Audited)**
Assets			
Cash and due from banks	4,19	3,072	2,161
Interest-bearing deposits in banks (including pledged deposits of $13,905 in 2014 and $9,032 in 2013)	4,19	644,201	837,557
Trading assets	5,18,19	196	-
Securities available-for-sale (including pledged securities to creditors of $315,520 in 2014 and $296,811 in 2013)	6,19	357,792	334,368
Securities held-to-maturity (fair value of $43,720 in 2014 and $33,634 in 2013) (including pledged securities to creditors of $13,007 in 2014 and 2013)	6,19	43,663	33,759
Investment funds	7,19	52,443	118,661
Loans	8,19	6,706,071	6,148,298
Less:			
Allowance for loan losses	9,19	77,334	72,751
Unearned income and deferred fees		8,315	6,668
Loans, net		6,620,422	6,068,879
Customers' liabilities under acceptances	19	2,435	1,128
Accrued interest receivable	19	43,594	40,727
Equipment and leasehold improvements (net of accumulated depreciation and amortization of $15,721 in 2014 and $13,881 in 2013)		8,674	10,466
Derivative financial instruments used for hedging - receivable	16,18,19	7,001	15,217
Other assets		12,167	8,389
Total assets		7,795,660	7,471,312
Liabilities and stockholders' equity			
Deposits:	10,19		
Noninterest-bearing - Demand		401	663
Interest-bearing - Demand		72,845	62,384
Time		3,046,693	2,298,289

Total deposits		3,119,939	2,361,336
Trading liabilities	5,18,19	306	72
Securities sold under repurchase agreement	5,6,11,18,19	286,947	286,162
Short-term borrowings and debt	12,19	1,980,835	2,705,365
Acceptances outstanding	19	2,435	1,128
Accrued interest payable	19	19,743	13,786
Long-term borrowings and debt	13,19	1,427,050	1,153,871
Derivative financial instruments used for hedging - payable	16,18,19	18,187	8,572
Reserve for losses on off-balance sheet credit risk	9	8,108	5,222
Other liabilities		23,130	27,947
Total liabilities		6,886,680	6,563,461
Commitments and contingencies	15,19,20		
Redeemable noncontrolling interest		-	49,899
Stockholders' equity:	14,17,21		
Class A common stock, no par value, assigned value of $6.67 (Authorized 40,000,000; outstanding 6,342,189)		44,407	44,407
Class B common stock, no par value, assigned value of $6.67 (Authorized 40,000,000; outstanding 2,486,780 in 2014 and 2,520,422 in 2013)		20,683	20,683
Class E common stock, no par value, assigned value of $6.67 (Authorized 100,000,000; outstanding 29,953,644 in 2014 and 29,710,556 in 2013)		214,890	214,890
Additional paid-in capital in excess of assigned value of common stock		116,795	118,646
Capital reserves		95,210	95,210
Retained earnings		502,412	458,699
Accumulated other comprehensive loss	6,17	(7,985)	(12,575)
Treasury stock		(77,432)	(82,008)
Total stockholders' equity		908,980	857,952
Total liabilities and stockholders' equity		7,795,660	7,471,312

The accompanying notes are an integral part of these consolidated financial statements (Unaudited).

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Banco Latinoamericano de Comercio Exterior, S. A.
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Consolidated statements of income (Unaudited)

(in US$ thousand, except per share amounts)

	Notes	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest income:	16				
Deposits		340	378	1,087	1,090
Investment securities:					
Available-for-sale		2,111	2,073	6,045	5,545
Held-to-maturity		307	198	788	643
Investment funds		-	1,719	20	2,266
Loans		52,027	51,635	148,533	145,827
Total interest income		54,785	56,003	156,473	155,371
Interest expense:	16				
Deposits		2,924	3,289	8,281	9,651
Investment funds		1	762	38	1,360
Short-term borrowings and debt		5,123	7,784	18,119	19,165
Long-term borrowings and debt		9,891	7,575	27,188	33,171
Total interest expense		17,939	19,410	53,626	63,347
Net interest income		36,846	36,593	102,847	92,024
(Provision) reversal of provision for loan losses	9	(1,140)	(3,901)	(4,554)	921
Net interest income, after (provision) reversal of provision for loan losses		35,706	32,692	98,293	92,945
Other income (expense):					
Provision for losses on off-balance sheet credit risk	9	(2,632)	5,136	(2,886)	(2,412)
Fees and commissions, net		4,116	3,754	12,594	8,988
Derivative financial instruments and hedging	16	(179)	(559)	(386)	299
Recoveries, net of impairment of assets		-	-	7	-
Net gain (loss) from investment funds		580	(8,075)	(2,215)	(1,728)
Net gain (loss) from trading securities	5	(245)	69	(492)	3,280
Net gain on sale of securities available-for-sale	6	593	-	1,805	961
Net gain (loss) on foreign currency exchange		469	(654)	586	(3,810)
Other income, net		998	407	2,181	1,497
Net other income		3,700	78	11,194	7,075
Operating expenses:					

Salaries and other employee expenses		7,610	8,109	23,192	24,306
Depreciation and amortization of equipment and leasehold improvements		607	687	1,906	2,077
Professional services		1,118	813	3,047	2,408
Maintenance and repairs		371	408	1,162	1,121
Expenses from investment funds		-	(114)	416	2,030
Other operating expenses		3,096	2,991	9,436	8,723
Total operating expenses		12,802	12,894	39,159	40,665
Net income from continuing operations		26,604	19,876	70,328	59,355
Net loss from discontinued operations	3	-	-	-	(4)
Net income		26,604	19,876	70,328	59,351
Net income (loss) attributable to the redeemable noncontrolling interest		-	(2,950)	(475)	(1,492)
Net income attributable to Bladex stockholders		26,604	22,826	70,803	60,843
Amounts attributable to Bladex stockholders:					
Net income from continuing operations		26,604	22,826	70,803	60,847
Net loss from discontinued operations		-	-	-	(4)
		26,604	22,826	70,803	60,843
Earning per share from continuing operations:					
Basic	14	0.69	0.59	1.83	1.59
Diluted	14	0.68	0.59	1.83	1.58
Gain (Loss) per share from discontinued operations:					
Basic	14	-	-	-	(0.00)
Diluted	14	-	-	-	(0.00)
Earning per share:					
Basic	14	0.69	0.59	1.83	1.59
Diluted	14	0.68	0.59	1.83	1.58
Weighted average basic shares	14	38,723	38,459	38,663	38,364
Weighted average diluted shares	14	38,869	38,672	38,748	38,460

The accompanying notes are an integral part of these consolidated financial statements (Unaudited).

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Consolidated statements of comprehensive income (Unaudited)

For the nine months ended September 30, 2014 and 2013

(in US$ thousand)

	Notes	2014	2013
Net income		70,328	59,351
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available-for-sale:			
Unrealized gains (losses) arising from the period	17	6,521	(12,583)
Less: reclassification adjustments for net gains included in net income	17	(1,336)	(1,311)
Net change in unrealized gains (losses) on securities available for sale		5,185	(13,894)
Unrealized gains (losses) on derivative financial instruments:			
Unrealized gains (losses) arising from the period	17	(1,154)	(3,650)
Less: reclassification adjustments for net (gains) losses included in net income	17	1,053	1,409
Net change in unrealized gains (losses) on derivative financial instruments		(101)	(2,241)
Foreign currency translation adjustment, net of hedges:			
Current period change		(494)	(197)
Reclassification adjustments for net losses included in net income		-	24
Net change in foreign currency translation adjustment		(494)	(173)
Other comprehensive income (loss)		4,590	(16,308)
Comprehensive income		74,918	43,043
Comprehensive income (loss) attributable to the redeemable noncontrolling interest		475	(1,397)
Comprehensive income attributable to Bladex stockholders		74,443	44,440

The accompanying notes are an integral part of these consolidated financial statements (Unaudited).

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Consolidated statements of changes in stockholders' equity and redeemable noncontrolling interest (Unaudited)

For the nine months ended September 30, 2014 and 2013

(in US$ thousand)

	Stockholders' equity					
	Common stock	Additional paid-in capital in excess of assigned value of common stock	Capital reserves	Retained earnings	Accumulated other comprehen income (loss)	Tr sto
Balances at January 1, 2013	279,980	121,419	95,210	422,048	(730)	(9
Effect of deconsolidating a variable interest entity ("VIE") (Note 7)	-	-	-	-	-	-
Net income	-	-	-	60,843	-	-
Redeemable noncontrolling interest - subscriptions	-	-	-	-	-	-
Redeemable noncontrolling interest - redemptions	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(16,403)	-
Compensation cost - stock options and stock units plans	-	2,359	-	-	-	-
Issuance of restricted shares	-	(629)	-	-	-	62
Exercised options and stock units vested	-	(3,807)	-	-	-	6,
Repurchase of "Class E" common stock	-	-	-	-	-	(2
Dividends declared	-	-	-	(23,050)	-	-
Balances at September 30, 2013	279,980	119,342	95,210	459,841	(17,133)	(8
Balances at January 1, 2014	279,980	118,646	95,210	458,699	(12,575)	(8
Effect of deconsolidating a variable interest entity ("VIE") (Note 7)	-	-	-	-	-	-
Net income (loss)	-	-	-	70,803	-	-
Redeemable noncontrolling interest - subscriptions	-	-	-	-	-	-
Redeemable noncontrolling interest - redemptions	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	4,590	-
Compensation cost - stock options and stock units plans	-	1,690	-	-	-	-
Issuance of restricted shares	-	(629)	-	-	-	62
Exercised options and stock units vested	-	(2,912)	-	-	-	4,

Repurchase of "Class E" common stock	-	-	-	-	-	(3
Dividends declared	-	-	-	(27,090)	-	-
Balances at September 30, 2014	279,980	116,795	95,210	502,412	(7,985)	(7

The accompanying notes are an integral part of these consolidated financial statements (Unaudited).

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Banco Latinoamericano de Comercio Exterior, S. A.
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Consolidated statements of cash flows (Unaudited)

For the nine months ended September 30, 2014 and 2013

(in US$ thousand)

	2014	2013
Cash flows from operating activities:		
Net income	70,328	59,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Activities of derivative financial instruments and hedging	22,702	5,401
Depreciation and amortization of equipment and leasehold improvements	1,906	2,077
Reversal of provision for loan losses	4,554	(921)
Provision for losses on off-balance sheet credit risk	2,886	2,412
Net gain on sale of securities available-for-sale	(1,805)	(961)
Compensation cost - compensation plans	1,690	2,359
Amortization of premium and discounts on investments	137	3,532
Net decrease (increase) in operating assets:		
Trading assets	(196)	281
Investment funds	16,502	(13,157)
Accrued interest receivable	(2,867)	(549)
Other assets	(5,091)	(44,628)
Net increase (decrease) in operating liabilities:		
Trading liabilities	234	(32,296)
Accrued interest payable	5,957	1,548
Other liabilities	10,084	45,794
Net change from discontinued operating activities	-	87
Net cash provided by operating activities	127,021	30,330
Cash flows from investing activities:		
Effect on cash of deconsolidating a VIE	-	(2,135)
Net decrease (increase) in pledged deposits	(4,873)	659
Net increase in loans	(856,379)	(535,203)
Proceeds from the sale of loans	300,281	59,157
Acquisition of equipment and leasehold improvements	(114)	(289)
Proceeds from the redemption of securities available-for-sale	5,022	34,277
Proceeds from the sale of securities available-for-sale	217,422	47,475
Proceeds from maturities of securities held-to-maturity	12,583	13,410
Purchases of investments available-for-sale	(244,065)	(247,985)
Purchases of investments held-to-maturity	(22,624)	(11,460)
Net change from discontinued investing activities	-	63

Net cash used in investing activities	(592,747)	(642,031)
Cash flows from financing activities:		
Net increase in due to depositors	758,603	497,223
Net increase (decrease) in short-term borrowings and debt and securities sold under repurchase agreements	(723,745)	1,046,235
Proceeds from long-term borrowings and debt	585,522	233,000
Repayments of long-term borrowings and debt	(312,343)	(1,000,375)
Dividends paid	(40,664)	(34,251)
Subscriptions of redeemable noncontrolling interest	-	53,000
Redemptions of redeemable noncontrolling interest	-	(1,831)
Exercised stock options	1,424	2,954
Repurchase of common stock	(391)	(27)
Net change from discontinued financing activities	-	27
Net cash provided by financing activities	268,406	795,955
Effect of exchange rate fluctuations on cash and cash equivalents	2	81
Net decrease in cash and cash equivalents	(197,318)	184,335
Cash and cash equivalents at beginning of the period	830,686	692,511
Cash and cash equivalents at end of the period	633,368	876,846
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	47,669	61,799
Noncash financing activities:		
Effect on redeemable noncontrolling interest due to deconsolidation of a VIE (Note 7)	(49,424)	(565)

The accompanying notes are an integral part of these consolidated financial statements (Unaudited).

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Notes to consolidated financial statements (Unaudited)

1. Organization

Banco Latinoamericano de Comercio Exterior, S.A. ("Bladex Head Office" and together with its subsidiaries "Bladex" or the "Bank"), headquartered in Panama City, Republic of Panama, is a specialized supranational bank established to support the financing of trade and economic integration in Latin America and the Caribbean (the "Region"). The Bank was established pursuant to a May 1975 proposal presented to the Assembly of Governors of Central Banks in the Region, which recommended the creation of a multinational organization to increase the foreign trade financing capacity of the Region. The Bank was organized in 1977, incorporated in 1978 as a corporation pursuant to the laws of the Republic of Panama, and officially initiated operations on January 2, 1979. Under a contract signed in 1978 between the Republic of Panama and Bladex, the Bank was granted certain privileges by the Republic of Panama, including an exemption from payment of income taxes in Panama.

The Bank operates under a general banking license issued by the National Banking Commission of Panama, predecessor of the Superintendency of Banks of Panama (the "SBP").

In the Republic of Panama, banks are regulated by the SBP through Executive Decree No. 52 of April 30, 2008, which adopts the unique text of the Law Decree No. 9 of February 26, 1998, modified by the Law Decree No. 2 of February 22, 2008. Banks are also regulated by resolutions and agreements issued by this entity. The main aspects of this law and its regulations include: the authorization of banking licenses, minimum capital and liquidity requirements, consolidated supervision, procedures for management of credit and market risks, measures to prevent money laundering, the financing of terrorism and related illicit activities, and procedures for banking intervention and liquidation, among others.

Bladex Head Office's subsidiaries are the following:

- Bladex Holdings Inc. is a wholly owned subsidiary, incorporated under the laws of the State of Delaware, United States of America (USA), on May 30, 2000. Bladex Holdings Inc. maintains ownership in two companies: Bladex Representacao Ltda. and Bladex Investimentos Ltda.

- Bladex Representacao Ltda., incorporated under the laws of Brazil on January 7, 2000, acts as the Bank's representative office in Brazil. Bladex Representacao Ltda. is 99.999% owned by Bladex Head Office and the remaining 0.001% owned by Bladex Holdings Inc.

- Bladex Investimentos Ltda. was incorporated under the laws of Brazil on May 3, 2011. Bladex Head Office owns 99% of Bladex Investimentos Ltda. and Bladex Holdings Inc. owns the remaining 1%. This company has invested substantially all its assets in an investment fund incorporated in Brazil ("the Brazilian Fund"), registered with the Brazilian Securities Commission ("CVM", for its acronym in Portuguese). The Brazilian Fund is a non-consolidated variable interest entity.

Bladex Head Office has an agency in New York City, USA (the "New York Agency"), which began operations on March 27, 1989. The New York Agency is principally engaged in financing transactions related to international trade, mostly the confirmation and financing of letters of credit for customers of the Region. The New York Agency is also licensed by the State of New York Banking Department, USA, to operate an International Banking Facility ("IBF").

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Notes to consolidated financial statements (Unaudited)

The Bank has representative offices in Buenos Aires, Argentina; in Mexico City, D.F. and Monterrey, Mexico; in Lima, Peru; in Bogota, Colombia; and an international administrative office in Miami, Florida, USA.

2. Summary of significant accounting policies

a) Basis of presentation

These consolidated financial statements have been prepared under accounting principles generally accepted in the United States of America ("U.S. GAAP"). All amounts presented in the consolidated financial statements and notes are expressed in dollars of the United Stated of America ("US$"), which is the Bank's functional currency. The accompanying consolidated financial statements have been translated from Spanish to English for users outside of the Republic of Panama.

The Accounting Standards Codification (the "ASC") issued by the Financial Accounting Standards Board (the "FASB") constitute the single official source of authoritative, non-governmental GAAP, other than guidance issued by the Securities and Exchange Commission ("SEC"). All other literature is considered non-authoritative.

These unaudited consolidated financial statements should be read together with the consolidated financial statements and related notes for the fiscal year ended December 31, 2013. Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. GAAP, but not required for interim reporting purposes, has been condensed or omitted.

As noted above, the notes to the consolidated financial statements are unaudited.

b) Principles of consolidation

The consolidated financial statements include the accounts of Bladex Head Office and its subsidiaries. Bladex Head Office consolidates its subsidiaries in which it holds a controlling financial interest. The usual condition for a controlling financial interest is ownership of a majority voting interest. All intercompany balances and transactions have been eliminated for consolidation purposes.

c) Variable interest entities

Variable interest entities ("VIE") are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. Investors that finance the VIE through debt or equity interests or other counterparties that provide other forms of support, such as guarantees, or certain types of derivative contracts, are variable interest holders in the entity.

The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. The Bank would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

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Notes to consolidated financial statements (Unaudited)

- power to direct the activities of a VIE that most significantly impact the entity's economic performance; and
- obligation to absorb losses of the entity that could potentially be significant to the VIE or right to receive benefits from the entity that could potentially be significant to the VIE.

d) Specialized accounting for investment companies

The Bank maintains an investment in an investment fund ("Feeder") which is organized under a "Feeder-Master" structure. Under this structure, the Feeder invests all its assets in the Master which in turn invests in various assets on behalf of its investor. Specialized accounting for investment companies requires the Feeder to reflect its investment in the Master in a single line item equal to its proportionate share of the net assets of the Master, regardless of the level of Feeder's interest in the Master. The Feeder records the Master's results by accounting for its participation in the net interest income and expenses of the Master, as well as its participation in the realized and unrealized gains or losses of the Master (see Note 6).

e) Use of estimates

The preparation of the consolidated financial statements requires Management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowances for credit losses, impairment of securities available-for-sale and held-to-maturity, and the fair value of financial instruments. Actual results could differ from those estimates. Management believes these estimates are adequate.

f) Cash equivalents

Cash equivalents include demand deposits in banks and interest-bearing deposits in banks with original maturities of three months or less, excluding pledged deposits.

g) Repurchase agreements

Repurchase agreements are generally treated as collateralized financing transactions. When the criteria set forth in the following paragraph are met to account for the transaction as secured financing, the transaction is recorded at the amounts at which the securities will be subsequently reacquired including interest paid, as specified in the respective agreements. Interest is recognized in the consolidated statement of income over the life of the transaction. The fair value of securities to be repurchased is continuously monitored, and additional collateral is obtained or provided where appropriate, to protect against credit exposure.

The Bank’s policy is to relinquish possession of the securities sold under agreements to repurchase. Despite such relinquishment of possession, repurchase agreements qualify as secured financings if and only if all of the following conditions are met: the repurchase agreement must grant the transferor the right and obligation to repurchase or redeem the transferred financial assets; the assets to be repurchased are the same or substantially the same as those transferred; the agreement is to repurchase or redeem them before maturity, at a fixed and determinable price; and the agreement is entered into concurrently at the transfer date.

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Notes to consolidated financial statements (Unaudited)

When repurchase agreements do not meet the above-noted conditions, they qualify as sales of securities, for which the related security is removed from the balance sheet and a forward purchase agreement is recognized for the obligation to repurchase the security. Changes in fair value of the forward purchase agreement as well as any gain or loss resulting from the sale of securities under repurchase agreements are reported in earnings of the period within net gain (loss) from trading securities.

h) Trading assets and liabilities

Trading assets and liabilities include bonds acquired for trading purposes, and receivables (unrealized gains) and payables (unrealized losses) related to derivative financial instruments which are not designated as hedges or which do not qualify for hedge accounting.

Trading assets and liabilities are carried at fair value. Unrealized and realized gains and losses on trading assets and liabilities are recorded in earnings as net gain (loss) from trading securities.

i) Investment securities

Securities are classified at the date of purchase based on the ability and intent to sell or hold them as investments. These securities consist of debt securities such as: negotiable commercial paper, bonds and floating rate notes.

Interest on securities is recognized based on the interest method. Amortization of premiums and discounts are included in interest income as an adjustment to the yield.

<u>Securities available-for-sale</u>

These securities consist of debt instruments not classified as either trading securities or as held-to-maturity securities, and are subject to the same approval criteria as the rest of the credit portfolio. These securities are carried at fair value. Unrealized gains and losses are reported as net increases or decreases to other comprehensive income (loss) ("OCI") in stockholders' equity until they are realized. Realized gains and losses from the sale of securities which are included in net gain on sale of securities are determined using the specific identification method.

Securities held-to-maturity

Securities classified as held-to-maturity represent securities that the Bank has the ability and the intent to hold until maturity. These securities are carried at amortized cost and are subject to the same approval criteria as the rest of the credit portfolio.

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Notes to consolidated financial statements (Unaudited)

Impairment of securities

The Bank conducts periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other-than-temporary. Impairment of securities is evaluated considering numerous factors, and their relative significance varies case by case. Factors considered in determining whether unrealized losses are temporary include: the length of time and extent to which the fair value has been less than cost, the severity of the impairment, the cause of the impairment and the financial condition of the issuer, activity in the market of the issuer which may indicate adverse credit conditions, the intent and ability of the Bank to retain the security for a sufficient period of time to allow of an anticipated recovery in the fair value (with respect to equity securities) and the intent and probability of the Bank to sell the security before the recovery of its amortized cost (with respect to debt securities). If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to its fair value, and a loss is recognized through earnings as impairment loss on assets.

In cases where the Bank does not intend to sell a debt security and estimates that it will not be required to sell the security before the recovery of its amortized cost basis, the Bank periodically estimates if it will recover the amortized cost of the security through the present value of expected cash flows. If the present value of expected cash flows is less than the amortized cost of the security, it is determined that an other-than-temporary impairment has occurred. The amount of this impairment representing credit loss is recognized through earnings and the residual of the other-than-temporary impairment related to non-credit factors is recognized in other comprehensive income (loss).

In periods subsequent to the recognition of the other-than-temporary impairment, the difference between the new amortized cost and the expected cash flows to be collected is accreted as interest income. The present value of the expected cash flows is estimated over the life of the debt security.

The other-than-temporary impairment of securities held-to-maturity that has been recognized in other comprehensive income (loss) is accreted to the amortized cost of the debt security prospectively over its remaining life.

Interest accrual is suspended on securities that are in default, or on which it is likely that future interest payments will not be received as scheduled.

j) Investment Funds

The investment funds line includes the net asset value of Bladex investment in the Feeder and in the Brazilian Fund.

k) Other investments

Other investments that mainly consist of unlisted stock are recorded at cost and are included in other assets. The Bank determined that it is not practicable to obtain the fair value of these investments, as these shares are not traded in a secondary market. Performance of these investments is evaluated periodically and any impairment that is determined to be other-than-temporary is charged to earnings as impairment on assets.

l) Loans

Loans are reported at their amortized cost considering the principal outstanding amounts net of unearned income, deferred fees and allowance for loan losses. Interest income is recognized using the interest method. The amortization of net unearned income and deferred fees are recognized as an adjustment to the related loan yield using the effective interest method.

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Purchased loans are recorded at acquisition cost. The difference between the principal and the acquisition cost of loans, the premiums and discounts, is amortized over the life of the loan as an adjustment to the yield. All other costs related to acquisition of loans are expensed when incurred.

The Bank identifies loans as delinquent when no debt service and/or interest payment has been received for 30 days after such payments were due. The outstanding balance of a loan is considered past due when the total principal balance with one single balloon payment has not been received within 30 days after such payment was due, or when no agreed-upon periodical payment has been received for a period of 90 days after the agreed-upon date.

Loans are placed in a non-accrual status when interest or principal is overdue for 90 days or more, or before if the Bank's Management believes there is an uncertainty with respect to the ultimate collection of principal or interest. Any interest receivable on non-accruing loans is reversed and charged-off against earnings. Interest on these loans is only recorded as earned when collected. Non-accruing loans are returned to an accrual status when (1) all contractual principal and interest amounts are current; (2) there is a sustained period of repayment performance in accordance with the contractual terms of at least six months; and (3) if in the Bank Management's opinion the loan is fully collectible.

A modified loan is considered a troubled debt restructuring when the debtor is experiencing financial difficulties and if the restructuring constitutes a concession to the debtor. A concession may include modification of terms such as an extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, and reduction in the face amount of the debt or reduction of accrued interest, among others. Marketable securities received in exchange for loans under troubled debt restructurings are initially recorded at fair value, with any gain or loss recorded as a recovery or charge to the allowance, and are subsequently accounted for as securities available-for-sale.

A loan is considered impaired, and also placed on a non-accrual basis, when based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to original contractual terms of the loan agreement. Factors considered by the Bank's Management in determining impairment include collection status, collateral value, and economic conditions in the borrower's country of residence. Impaired loans also include those modified loans considered troubled debt restructurings. When current events or available information confirm that specific impaired loans or portions thereof are uncollectible, such impaired loans are charged-off against the allowance for loan losses.

The reserve for losses on impaired loans is determined considering all available evidence, including the present value of expected future cash flows discounted at the loan's original contractual interest rate and/or the fair value of the collateral, if applicable. If the loan’s repayment is dependent on the sale of the collateral, the fair value considers costs to sell.

The Bank maintains a system of internal credit quality indicators. These indicators are assigned depending on several factors which include: profitability, quality of assets, liquidity and cash flows, capitalization and indebtedness, economic environment and positioning, regulatory framework and/or industry, sensitivity scenarios and the quality of debtor’s management and shareholders.

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A description of these indicators is as follows:

Rating	Classification	Description
1 to 6	Normal	Clients with payment ability to satisfy their financial commitments.
7	Special Mention	Clients exposed to systemic risks specific to the country or the industry in which they are located, facing adverse situations in their operation or financial condition. At this level, access to new funding is uncertain.
8	Substandard	Clients whose primary source of payment (operating cash flow) is inadequate and who show evidence of deterioration in their working capital that does not allow them to satisfy payments on the agreed terms, endangering recovery of unpaid balances.
9	Doubtful	Clients whose operating cash flow continuously shows insufficiency to service the debt on the originally agreed terms. Due to the fact that the debtor presents an impaired financial and economic situation, the likelihood of recovery is low.
10	Unrecoverable	Clients with operating cash flow that does not cover their costs, are in suspension of payments, presumably they will also have difficulties to fulfill possible restructuring agreements, are in a state of insolvency, or have filed for bankruptcy, among others.

In order to maintain a periodical monitoring of the quality of the portfolio, clients are reviewed within a frequency of time between 3 and 18 months, depending on the risk rating.

The Bank's lending portfolio is summarized in the following segments: corporations, sovereign, middle-market companies and banking and financial institutions. The distinction between corporations and middle-market companies depends on the client’s level of annual sales in relation to the country risk, among other criteria. Except for the sovereign segment, segments are broken down into state-owned and private.

The Bank's lending policy is applicable to all classes of loans.

m) Transfer of financial assets

Transfers of financial assets, primarily loans, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank even in bankruptcy or other receivership; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or does not have the right to cause the assets to be returned. Upon completion of a transfer of assets that satisfies the conditions described above to be accounted for as a sale, the Bank recognizes the assets as sold and records in earnings any gain or loss on the sale. The Bank may retain interest in loans sold in the form of servicing rights. Gains or losses on sale of loans depend in part on the carrying amount of the financial instrument involved in the transfer, and its fair value at the date of transfer.

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n) Allowance for credit losses

The allowance for credit losses is provided for losses derived from the credit extension process, inherent in the loan portfolio and off-balance sheet financial instruments, using the reserve method of providing for credit losses. Additions to the allowance for credit losses are made by debiting earnings. Credit losses are deducted from the allowance, and subsequent recoveries are added. The allowance is also decreased by reversals of the allowance back to earnings. The allowance attributable to loans is reported as a deduction of loans and the allowance for off-balance sheet credit risk, such as, letters of credit and guarantees, is reported as a liability.

The allowance for possible credit losses includes an asset-specific component and a formula-based component. The asset-specific component, or specific allowance, relates to the provision for losses on credits considered impaired and measured individually case-by-case. A specific allowance is established when the discounted cash flows (or observable fair value of collateral) of the credit is lower than the carrying value of that credit. The formula-based component, or generic allowance, covers the Bank's performing credit portfolio and is established based in a process that estimates the probable loss inherent in the portfolio, based on statistical analysis and management's qualitative judgment. The statistical calculation is a product of internal risk classifications, probabilities of default and loss given default. The probability of default is supported by Bladex's historical portfolio performance, complemented by probabilities of default provided by external sources, in view of the greater robustness of this external data for some cases. The loss given default is based on Bladex's historical losses experience and best practices.

The reserve balances, for both on and off-balance sheet credit exposures, are calculated applying the following formula:

Reserves = $\sum$(E x PD x LGD); where:

- Exposure (E) = the total accounting balance (on and off-balance sheet) at the end of the period under review.
- Probabilities of Default (PD) = one-year probability of default applied to the portfolio. Default rates are based on Bladex's historical portfolio performance per rating category, complemented by International Rating Agency's probabilities of default for categories 6, 7 and 8, in view of the greater robustness of data for such cases.
- Loss Given Default (LGD) = a factor is utilized, based on historical information, same as based on best practices in the banking industry. Management applies judgment and historical loss experience.

Management can also apply complementary judgment to capture elements of prospective nature or loss expectations based on risks identified in the environment that are not necessarily reflected in the historical data.

The allowance policy is applicable to all classes of loans and off-balance sheet financial instruments of the Bank.

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o) Fees and commissions

Loan origination fees, net of direct loan origination costs, are deferred, and the net amount is recognized as revenue over the contractual term of the loans as an adjustment to the yield. These net fees are not recognized as revenue during periods in which interest income on loans is suspended because of concerns about the realization of loan principal or interest. Underwriting fees are recognized as revenue when the Bank has rendered all services to the issuer and is entitled to collect the fee from the issuer, when there are no contingencies related to the fee. Underwriting fees are recognized net of syndicate expenses. In addition, the Bank recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria. Fees received in connection with a modification of terms of a troubled debt restructuring are applied as a reduction of the recorded investment in the loan. Fees earned on letters of credit, guarantees and other commitments are amortized using the straight-line method over the life of such instruments.

p) Equipment and leasehold improvements

Equipment and leasehold improvements, including the electronic data processing equipment, are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to operations using the straight-line method, over the estimated useful life of the related asset. The estimated original useful life for furniture and equipment is 3 to 5 years and for improvements is 3 to 15 years.

The Bank defers the cost of internal-use software that has a useful life in excess of one year in accordance with ASC Topic 350-40 - Intangibles – Goodwill and Other – Internal-Use Software. These costs consist of payments made to third parties related to the use of licenses and installation of both, software and hardware. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized internal use software costs are amortized using the straight-line method over their estimated useful lives, generally consisting of 5 years.

q) Borrowings and debt

Short and long-term borrowings and debt are accounted for at amortized cost.

r) Capital reserves

Capital reserves are established as a segregation of retained earnings and are, as such, a form of retained earnings. Even though the constitution of capital reserves is not required by the SBP, their reductions require the approval of the Bank's Board of Directors and the SBP.

s) Stock-based compensation and stock options plans

The Bank applies ASC Topic 718 – Compensation - Stock Compensation to account for compensation costs on restricted stock, restricted stock units and stock option plans. Compensation cost is based on the grant date fair value of both stock and options and is recognized over the requisite service period of the employee, using the straight-line method. The fair value of each option is estimated at the grant date using a binomial option-pricing model.

When options and stock are exercised, the Bank's policy is to reissue shares from treasury stock.

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t) Derivative financial instruments and hedge accounting

The Bank uses derivative financial instruments for its management of interest rate and foreign exchange risks. Interest rate swap contracts, cross-currency swap contracts and forward foreign exchange contracts have been used to manage interest rate and foreign exchange risks associated with debt securities and borrowings with fixed and floating rates, and loans and borrowings in foreign currency. These contracts can be classified as fair value and cash flow hedges. In addition, forward foreign exchange contracts are used to hedge exposures to changes in foreign currency in subsidiary companies with functional currencies other than US dollar. These contracts are classified as net investment hedges.

The accounting for changes in value of a derivative depends on whether the contract is for trading purposes or has been designated and qualifies for hedge accounting.

Derivatives held for trading purposes include interest rate swap, cross-currency swap, forward foreign exchange and future contracts used for risk management purposes that do not qualify for hedge accounting. The fair value of trading derivatives is reported as trading assets or trading liabilities, as applicable. Changes in realized and unrealized gains and losses and interest from these trading instruments are included in net gain (loss) from trading securities.

Derivatives for hedging purposes primarily include forward foreign exchange contracts and interest rate swap contracts in US dollars and cross-currency swaps. Derivative contracts designated and qualifying for hedge accounting are reported in the consolidated balance sheet as derivative financial instruments used for hedging - receivable and payable, as applicable, and hedge accounting is applied. In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, as well as how effectiveness will be assessed prospectively and retrospectively. The extent to which a hedging instrument is effective at achieving offsetting changes in fair value or cash flows must be assessed at least quarterly. Any ineffectiveness must be reported in current-period earnings.

The Bank discontinues hedge accounting prospectively in the following situations:

1. It is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item.
2. The derivative expires or is sold, terminated or exercised.
3. The Bank otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

The Bank carries all derivative financial instruments in the consolidated balance sheet at fair value. For qualifying fair value hedges, all changes in the fair value of the derivative and the fair value of the item for the risk being hedged are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to earnings as a yield adjustment. The Bank applies the shortcut method of hedge accounting that does not recognize ineffectiveness in hedges of interest rate swap that meet the requirements of ASC Topic 815-20-25-104. For qualifying cash flow hedges and net investment hedges, the effective portion of the change in the fair value of the derivative is recorded in OCI and recognized in the consolidated statement of income when the hedged cash flows affect earnings. The ineffective portion is recognized in the consolidated statement of income as activities of derivative financial instruments and hedging. If the cash flow hedge relationship is terminated, related amounts in OCI are reclassified into earnings when hedged cash flows occur.

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u) Foreign currency translation

Assets and liabilities of foreign subsidiaries whose local currency is considered their functional currency, are translated into the reporting currency, US dollars, using period-end spot foreign exchange rates. The Bank uses monthly-averaged exchange rates to translate revenues and expenses from local functional currency into US dollars. The effects of those translations adjustments are reported as a component of the Accumulated other comprehensive loss in the stockholders' equity.

Transactions whose terms are denominated in a currency other than the functional currency, including transactions denominated in local currency of the foreign entity with the US dollar as their functional currency, are recorded at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currency are translated into US dollars using period-end spot foreign exchange rates. The effects of translation of monetary assets and liabilities into US dollars are included in current year's earnings in the Gain (loss) on foreign currency exchange line item.

v) Income taxes

- Bladex Head Office is exempted from payment of income taxes in Panama in accordance with the contract signed between the Republic of Panama and Bladex.
- Bladex Representacao Ltda. and Bladex Investimentos Ltda., are subject to income taxes in Brazil.
- The New York Agency and Bladex's subsidiaries incorporated in USA are subject to federal and local taxation in USA based on the portion of income that is effectively connected with its operations in that country.

Such amounts of income taxes have been immaterial to date.

w) Redeemable noncontrolling interest

ASC Topic 810 - Consolidation requires that a noncontrolling interest, previously referred to as a minority interest, in a consolidated subsidiary be reported as a separate component of equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be presented separately, below net income in the consolidated statement of income.

Furthermore, in accordance with ASC 480-10-S99, equity securities that are redeemable at the option of the holder and not solely within the control of the issuer must be classified outside of equity. The terms of third party investments in the consolidated funds contain a redemption clause which allows the holders the option to redeem their investment at fair value. Accordingly, the Bank presents the noncontrolling interest between liabilities and stockholders' equity in the consolidated balance sheets.

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Net assets of the Feeder and the Brazilian Fund are measured and presented at fair value, given the nature of their net assets (i.e. represented mainly by cash and investments in securities). Therefore, when calculating the value of the redeemable noncontrolling interest of the Feeder under ASC Topic 810, such amount was already recorded at its fair value and no further adjustments under ASC 480-10-S99 were necessary.

x) Earnings per share

Basic earnings per share is computed by dividing the net income attributable to Bladex stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. Diluted earnings per share measure performance incorporating the effect that potential common shares, such as stock options and restricted stock units outstanding during the same period, would have on net earnings per share. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except for the denominator, which is increased to include the number of additional common shares that would have been issued if the beneficiaries of stock purchase options and other stock plans could exercise their options. The number of potential common shares that would be issued is determined using the treasury stock method.

y) Recently issued accounting standards

At the consolidated balance sheet date, new accounting standards, modifications, interpretations, and updates to standards ("ASU"), applicable to the Bank, have been issued and are not in effect. These standards establish the following:

ASU 2014-08 – Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)

The amendments in this update change the requirements for reporting discontinued operations in Sub-Topic 205-20. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results when any of the following occurs:

1. The component of the entity or group of components of the entity meets the criteria to be classified as held for sale.
2. The component of the entity or group of components of the entity is disposed of by sale.
3. The component of the entity or group of components of the entity is disposed of other than by sale (spin-off).

The amendments are effective for all disposals (or classifications as held for sale) of components of the entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 31, 2015. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. The Bank does not anticipate any material impact in its consolidated financial statements upon adoption of this update.

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ASU 2014-11 – Transfers and Servicing (Topic 860)

The amendments in this update require two accounting changes. First, the change in the accounting for repurchase-to-maturity transactions to secured borrowings accounting. Second, for repurchase financing agreements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for as repurchase agreement.

The accounting changes in this update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. Entities are required to present changes in accounting for transactions outstanding on the effective date of this update as a cumulative-effect adjustment to retained earnings at the beginning of the period of adoption. Early application for public business entities is prohibited. The Bank is currently evaluating the potential impact of this update in its consolidated financial statements.

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3. Sale of the asset management unit and discontinued operations

On April 2, 2013, the Bank reached a definitive agreement to sale its asset management unit (the “Management Unit”) to Alpha4X Asset Management, LLC and related companies (“Alpha4X”). Alpha 4X Asset Management, LLC is a company majority-owned by former executives of the Management Unit. The sale closed in the second quarter of 2013.

The sale resulted in a gain of $455 thousand, which was reported in net loss from discontinued operations in the consolidated statements of income in the second quarter of 2013. The Bank applied discontinued operations accounting to the operations of the Management Unit in accordance with ASC Topic 205-20 – Presentation of Financial Statements – Discontinued Operations.

The following table summarizes the operating results of the discontinued operations:

	Three months ended September 30		Nine months ended September 30	
(In thousands of US$)	2014	2013	2014	2013
Other income:				
Fees and commissions [1]	-	-	-	610
Other income	-	-	-	468
	-	-	-	1,078
Operating expenses:				
Salaries and other employee expenses	-	-	-	373
Depreciation and amortization	-	-	-	8
Professional services	-	-	-	462
Maintenance and repairs	-	-	-	1
Other operating expenses	-	-	-	238
Total operating expenses	-	-	-	1,082
Net gain (loss) from discontinued operations	-	-	-	(4)

(1) Includes management fees from investment funds for $567 thousand in the nine months ended September 30, 2013.

4. Cash and cash equivalents

Cash and cash equivalents are as follows:

(In thousands of US$)	September 30, 2014	December 31, 2013
Cash and due from banks	3,072	2,161
Interest-bearing deposits in banks	644,201	837,557
Total	647,273	839,718
Less:		
Pledged deposits	13,905	9,032
	633,368	830,686

On September 30, 2014 and December 31, 2013 the New York Agency had a pledged deposit with a carrying value of $3.0 million with the New York State Banking Department, as required by law since March 1994. As of September 30, 2014 and December 31, 2013, the Bank had pledged deposits with a carrying value of $10.9 million and $6.0 million, respectively, to secure derivative financial instruments transactions and repurchase agreements.

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5. Trading assets and liabilities

The fair value of trading assets and liabilities is as follows:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**
Trading assets:		
Cross-currency interest rate swaps	3	-
Forward foreign exchange	193	-
Total	196	-
Trading liabilities:		
Interest rate swaps	36	65
Cross-currency interest rate swaps	-	7
Forward foreign exchange	270	-
Total	306	72

For the nine months ended as of September 30, 2014 and 2013, the Bank recognized the following gains and losses related to trading derivative financial instruments:

	Three months ended September 30		Nine months ended September 30	
(In thousands of US$)	2014	2013	2014	2013
Interest rate swaps	8	-	(44)	61
Cross-currency swaps	-	-	-	67
Cross-currency interest rate swaps	3	2	(6)	3,244
Forward foreign exchange	(256)	67	(442)	(25)
Future contracts	-	-	-	191
Total	(245)	69	(492)	3,538

These amounts are reported in the Net gain (loss) from trading securities and Net gain (loss) from investment funds lines in the consolidated statements of income. In addition to the trading derivative financial instruments, the Bank has hedging derivative financial instruments that are disclosed in Note 16.

As of September 30, 2014 and December 31, 2013, trading derivative liabilities include or have included interest rate swap and cross-currency interest rate swap contracts that were previously designated as fair value and cash flow hedges. Adjustments to the carrying value of the hedged underlying transactions are amortized in the interest income and expense lines over the remaining term of these transactions. Changes in the fair value of these derivative instruments after discontinuation of hedge accounting are recorded in Net gain (loss) from trading securities.

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As of September 30, 2014 and December 31, 2013, information on the nominal amounts of derivative financial instruments held for trading purposes is as follows:

(In thousands of US$)	September 30, 2014			December 31, 2013		
	Nominal Amount	Fair Value Asset	Liability	Nominal Amount	Fair Value Asset	Liability
Interest rate swaps	14,000	-	36	14,000	-	65
Cross-currency interest rate swaps	281	3	-	600	-	7
Forward foreign exchange	18,711	193	270	-	-	-
Total	32,992	196	306	14,600	-	72

6. Investment securities

Securities available-for-sale

The amortized cost, related unrealized gross gain (loss) and fair value of securities available-for-sale by country risk and type of debt, are as follows:

(In thousands of US$)	September 30, 2014			
	Amortized Cost	**Unrealized Gross Gain**	**Unrealized Gross Loss**	Fair Value
Corporate debt:				
Brazil	32,043	74	434	31,683
Colombia	21,098	-	292	20,806
Chile	10,256	-	172	10,084
Honduras	7,356	-	12	7,344
Panama	3,679	-	21	3,658
Peru	11,819	-	124	11,695
Venezuela	20,355	2	137	20,220

	106,606	76	1,192	105,490
Sovereign debt:				
Brazil	32,071	236	380	31,927
Colombia	51,667	8	721	50,954
Chile	11,690	-	369	11,321
Mexico	117,045	23	1,531	115,537
Panama	17,798	27	389	17,436
Peru	15,051	-	130	14,921
Trinidad and Tobago	10,212	8	14	10,206
	255,534	302	3,534	252,302
Total	362,140	378	4,726	357,792

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	December 31, 2013			
(In thousands of US$)	**Amortized Cost**	**Unrealized Gross Gain**	**Unrealized Gross Loss**	**Fair Value**
Corporate debt:				
Brazil	41,439	11	778	40,672
Colombia	44,536	65	1,351	43,250
Chile	21,807	15	751	21,071
Honduras	9,400	-	136	9,264
Panama	7,159	-	78	7,081
Peru	29,439	42	674	28,807
Venezuela	29,871	-	1,848	28,023
	183,651	133	5,616	178,168
Sovereign debt:				
Brazil	32,751	936	645	33,042
Colombia	42,776	-	1,125	41,651
Chile	20,772	12	610	20,174
Mexico	35,730	-	2,445	33,285
Panama	12,485	71	553	12,003
Peru	11,589	-	65	11,524
Trinidad and Tobago	4,665	-	144	4,521
	160,768	1,019	5,587	156,200
Total	344,419	1,152	11,203	334,368

As of September 30, 2014 and December 31, 2013, securities available-for-sale with a carrying value of $315.5 million and $296.8 million, respectively, were pledged to secure repurchase transactions accounted for as secured financings.

The following table discloses those securities that have had unrealized losses for a period less than 12 months and for 12 months or longer:

September 30, 2014

(In thousands of US$)	Less than 12 months		12 months or longer		Total	
	Fair Value	**Unrealized Gross Losses**	**Fair Value**	**Unrealized Gross Losses**	**Fair Value**	**Unrealized Gross Losses**
Corporate debt	75,708	746	13,469	447	89,177	1,193
Sovereign debt	70,504	765	80,082	2,768	150,586	3,533
	146,212	1,511	93,551	3,215	239,763	4,726

	December 31, 2013					
(In thousands of US$)	Less than 12 months		12 months or longer		Total	
	Fair Value	**Unrealized Gross Losses**	**Fair Value**	**Unrealized Gross Losses**	**Fair Value**	**Unrealized Gross Losses**
Corporate debt	136,895	5,113	6,866	503	143,761	5,616
Sovereign debt	107,239	5,210	18,557	377	125,796	5,587
	244,134	10,323	25,423	880	269,557	11,203

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Gross unrealized losses are related mainly to changes in market interest rates and other market factors, and not due to underlying credit concerns by the Bank about the issuers.

The following table presents the realized gains and losses on sale of securities available-for-sale:

(In thousands of US$)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Gains	599	-	1,825	962
Losses	(6)	-	(20)	(1)
Net	593	-	1,805	961

The amortized cost and fair value of securities available-for-sale by contractual maturity as of September 30, 2014, are shown in the following table:

(In thousands of US$)	**Amortized Cost**	**Fair Value**
Due within 1 year	94,469	94,745
After 1 year but within 5 years	147,927	146,899
After 5 years but within 10 years	119,744	116,148
	362,140	357,792

Securities held-to-maturity

The amortized cost, related unrealized gross gain (loss) and fair value of securities held-to-maturity by country risk and type of debt are as follows:

	September 30, 2014			
(In thousands of US$)	**Amortized Cost**	**Unrealized Gross Gain**	**Unrealized Gross Loss**	**Fair Value**
Corporate debt:				
Costa Rica	2,301	1	40	2,262
Panama	28,358	26	-	28,384
	30,659	27	40	30,646
Sovereign debt:				
Colombia	13,004	70	-	13,074
Total	43,663	97	40	43,720

	December 31, 2013			
(In thousands of US$)	**Amortized Cost**	**Unrealized Gross Gain**	**Unrealized Gross Loss**	**Fair Value**
Corporate debt:				
Costa Rica	2,000	-	-	2,000
Honduras	4,118	-	-	4,118
Panama	14,634	8	18	14,624
	20,752	8	18	20,742
Sovereign debt:				
Colombia	13,007	-	115	12,892
Total	33,759	8	133	33,634

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Securities that show gross unrealized losses have had losses for less than 12 months. These losses are related mainly to changes in market interest rates and other market factors and not due to underlying credit concerns by the Bank about the issuers; therefore, such losses are considered temporary.

The amortized cost and fair value of securities held-to-maturity by contractual maturity as of September 30, 2014, are shown in the following table:

(In thousands of US$)	**Amortized Cost**	**Fair Value**
Due within 1 year	28,624	28,593
After 1 year but within 5 years	15,039	15,127
	43,663	43,720

As of September 30, 2014 and December 31, 2013, securities held-to-maturity with a carrying value of $13.0 million, for both periods, were pledged to secure repurchase transactions accounted for as secured financings.

7. Investment funds

Until March 31, 2014, the Bank applied ASC Topic 810-10-25-15 – Consolidation, to consolidate its investment in Alpha4X Feeder Fund (el “Feeder”), and retained the specialized accounting for investment companies described in Nota 2 (d). Until March 31, 2014, the Bank reported the net assets value of the Feeder within the “Investment funds” line item in the consolidated balance sheet, presenting the third party investments in the Feeder in the “Redeemable noncontrolling interest” line item between liabilities and stockholder’s equity. Up to the first quarter of 2014, the Bank reported the Feeder’s proportionate participation in the interest income and expense from the Master in the “Investment funds” line item within interest income and expense, realized and unrealized gains and losses in the “Net gain (loss) from investment funds” line item, and expenses from the Feeder and its proportionate share of expenses from the Master were reported in the “Expenses from investment funds” line item in the consolidated statement of income.

In April 2014, the Bank redeemed $13.9 million of its investment in the “Feeder”, VIE that was consolidated until March 31, 2014, following the requirements of ASC 810-10- Consolidation, prior to the implementation of FAS 167 (FIN 46 (R) (ASU 2009-17 – Consolidation of Variable Interest Entities). After this redemption, the Bank ceased to be the primary beneficiary of that VIE; and therefore deconsolidated its investment in Alpha4X Feeder Fund. The deconsolidation of this fund affected the balance of redeemable noncontrolling interest by $49.4 million.

Since April 2014, the Bank´s investment in Alpha4X Feeder Fund is adjusted to record the Bank’s participation in the profits and losses of that fund in the “Net gain (loss) from investment funds” line item. At September 30, 2014, the Bank has a participation of 49.61% in that fund (55.87% at December 31, 2013).

With the sale of the Management Unit described in Note 3, in 2013 the Bank deconsolidated its investment in Alpha4X Latam Fundo de Investimento Multimercado (previously Bladex Latam Fundo de Investimento Multimercado), because it ceased to be the primary beneficiary of that VIE. The deconsolidation of this fund affected the balance of the redeemable noncontrolling interest by $565 thousand. The Bank's investment in Alpha4X Latam Fundo de Investimento Multimercado is analyzed following the consolidation accounting policy of VIEs described in Note 2 (c). As of September 30, 2014 and December 31, 2013, the Bank is not the primary beneficiary of that VIE. This investment is adjusted to record the Bank's participation in the profits and losses of that fund in the “Net gain (loss) from investment funds” line item in the consolidated statement of income.

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The following table summarizes the balances of investments in investment funds:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**
Alpha4X Feeder Fund	46,841	113,069
Alpha4X Latam Fundo de Investimento Multimercado	5,602	5,592
	52,443	118,661

The Bank has a commitment to remain an investor in these funds, net of annual contractual redemptions, up to March 31, 2016.

8. Loans

The following table set forth details of the Bank’s loan portfolio:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**
Corporations:		
Private	3,201,011	2,375,178
State-owned	826,699	938,878
Banking and financial institutions:		
Private	1,785,311	1,785,798
State-owned	342,136	474,193
Middle-market companies:		
Private	550,914	574,107
Sovereign	-	144
Total	6,706,071	6,148,298

The composition of the loan portfolio by industry is as follows:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**
Banking and financial institutions	2,127,447	2,259,991
Industrial	1,119,694	936,290
Oil and petroleum derived products	1,270,029	1,170,684
Agricultural	1,248,691	924,251
Services	366,650	398,736
Mining	-	10,000
Sovereign	-	144
Others	573,560	448,202
Total	6,706,071	6,148,298

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Loans classified by debtor's credit quality indicators are as follows:

(In thousands of US$)	September 30, 2014						
Rating [1]	Corporations		**Banking and financial institutions**		**Middle-market companies**		
	Private	**State-owned**	Private	**State-owned**	Private	Sovereign	Total
1-6	3,197,886	826,699	1,785,311	342,136	549,997	-	6,702,029
7	-	-	-	-	-	-	-
8	-	-	-	-	917	-	917
9	3,125	-	-	-	-	-	3,125
10	-	-	-	-	-	-	-
Total	3,201,011	826,699	1,785,311	342,136	550,914	-	6,706,071

(In thousands of US$)	December 31, 2013						
Rating [1]	Corporations		**Banking and financial institutions**		**Middle-market companies**		
	Private	**State-owned**	Private	**State-owned**	Private	Sovereign	Total
1-6	2,372,053	938,878	1,785,798	474,193	574,107	144	6,145,173
7	-	-	-	-	-	-	-
8	3,125	-	-	-	-	-	3,125
9	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-
Total	2,375,178	938,878	1,785,798	474,193	574,107	144	6,148,298

(1) Current ratings as of September 30, 2014 and December 31, 2013, respectively.

The remaining loan maturities are summarized as follows:

(In thousands of US$)	**September 30,**	**December 31, 2013**

	2014	
Current:		
Up to 1 month	953,520	1,017,794
From 1 month to 3 months	1,158,869	1,749,348
From 3 months to 6 months	1,455,148	949,364
From 6 months to 1 year	1,223,097	774,803
From 1 year to 2 years	923,322	942,327
From 2 years to 5 years	967,368	711,537
From 5 years to 7 years	20,705	-
	6,702,029	6,145,173
Impaired:		
Delinquent with impairment	917	3,125
Past due with impairment	3,125	-
	4,042	3,125
Total	6,706,071	6,148,298

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The following table provides a breakdown of loans by country risk:

(In thousands of US$)	September 30, 2014	December 31, 2013
Country:		
Argentina	162,000	189,828
Bolivia	5,000	-
Brazil	1,996,293	1,708,592
Chile	240,321	490,869
Colombia	698,134	701,577
Costa Rica	318,512	410,295
Dominican Republic	146,349	190,589
Ecuador	113,158	126,001
El Salvador	120,409	123,076
France	6,000	101,006
Guatemala	246,453	199,873
Honduras	84,546	73,524
Jamaica	42,221	60,784
Mexico	937,506	517,278
Netherlands	12,584	14,867
Nicaragua	2,867	7,823
Panama	384,334	223,505
Paraguay	106,181	102,244
Peru	643,033	580,881
Switzerland	50,000	-
Trinidad and Tobago	167,201	142,642
United States of America	41,922	28,283
Uruguay	181,047	154,761
	6,706,071	6,148,298

The fixed and floating interest rate distribution of the loan portfolio is as follows:

(In thousands of US$)

	September 30, 2014	December 31, 2013
Fixed interest rates	3,348,626	3,252,331
Floating interest rates	3,357,445	2,895,967
	6,706,071	6,148,298

As of September 30, 2014 and December 31, 2013, 77% and 92%, respectively, of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days.

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The following is a summary of information of non-accruing loan balances, and interest amounts on non-accruing loans:

(In thousands of US$)	September 30, 2014	December 31, 2013
Loans in non-accrual status		
Private corporations	3,125	3,125
Middle-market companies	917	-
Total loans in non-accrual status	4,042	3,125
Interest which would have been recorded if the loans had not been in a non-accrual status	129	67
Interest income collected on non-accruing loans	4	-

An analysis of non-accruing loans with impaired balances as of September 30, 2014 and December 31, 2013 is detailed as follows:

(In thousands of US$)	September 30, 2014				Three months ended September 30, 2014	Nine months ended September 30, 2014
	Recorded investment	**Unpaid principal balance**	**Related allowance**	**Average principal loan balance**	**Interest income recognized**	**Interest income recognized**
With an allowance recorded						
Private corporations	3,125	3,125	1,563	3,125	-	-
Middle-market companies	917	18	229	148	4	-
Total	4,042	3.141	1,792	3,273	4	-

(In thousands of US$) December 31, 2013

	Recorded investment	Unpaid principal balance	Related allowance	Average principal loan balance	Three months ended September 30, 2013 Interest income recognized	Nine months ended September 30, 2013 Interest income recognized
With an allowance recorded						
Private corporations	3,125	3,125	954	9	-	-
Middle-market companies	-	-	-	-	-	-
Total	3,125	3,125	954	9	-	-

As of September 30, 2014 and December 31, 2013, there were no impaired loans without related allowance.

As of September 30, 2014 and December 31, 2013, the Bank did not have any troubled debt restructurings.

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The following table presents an aging analysis of the loan portfolio:

(In thousands of US$)	September 30, 2014							
	91-120 days	**121-150 days**	**151-180 days**	**Greater than 180 days**	**Total Past Due**	Delinquent	Current	**Total Loans**
Corporations	3,125	-	-	-	3,125	-	4,024,585	4,027,710
Banking and financial institutions	-	-	-	-	-	-	2,127,447	2,127,447
Middle-market companies	-	-	-	-	-	917	549,997	550,914
Total	3,125	-	-	-	3,125	917	6,702,029	6,706,071

(In thousands of US$)	December 31, 2013							
	91-120 days	121-150 days	151-180 days	Greater than 180 days	Total Past Due	Delinquent	Current	Total Loans
Corporations	-	-	-	-	-	3,125	3,310,931	3,314,056
Banking and financial institutions	-	-	-	-	-	-	2,259,991	2,259,991
Middle-market companies	-	-	-	-	-	-	574,107	574,107
Sovereign	-	-	-	-	-	-	144	144
Total	-	-	-	-	-	3,125	6,145,173	6,148,298

As of September 30, 2014 and December 31, 2013, the Bank has credit transactions in the normal course of business with 14% y 20%, respectively, of its Class “A” and “B” stockholders. All transactions are made based on arm’s-length terms and subject to prevailing commercial criteria and market rates and are subject to all of the Bank’s Corporate Governance and control procedures. As of September 30, 2014 and December 31, 2013, approximately 8% and 12%, respectively, of the outstanding loan portfolio is placed with the Bank’s Class “A” and “B” stockholders and their related parties. As of September 30, 2014, the Bank was not directly or indirectly owned or controlled by another corporation or any foreign government, and no Class “A” or “B” shareholder was the registered owner of more than 3.5% of the total outstanding shares of the voting capital stock of the Bank.

During the nine months ended September 30, 2014 and 2013, the Bank sold loans with a book value of $300.3 million and $59.2 million, respectively, with a net gain of $991.9 thousand and $258.4 thousand, respectively.

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9. Allowance for credit losses

The Bank classifies the allowance for credit losses into two components as follows:

a) Allowance for loan losses:

(In thousands of US$)	Three months ended September 30, 2014				
	Corporations	Banking and financial institutions	Middle-market companies	Sovereign	Total
Balance at beginning of the period	45,322	26,567	4,276	-	76,165
Provision (reversal of provision) for loan losses	928	(1,491)	1,732	-	1,169
Loan recoveries and other	-	-	-	-	-
Loans written-off	-	-	-	-	-
Balance at end of the period	46,250	25,076	6,008	-	77,334
Components:					
Generic allowance	44,687	24,847	6,008	-	75,542
Specific allowance	1,563	229	-	-	1,792
Total allowance for loan losses	46,250	25,076	6,008	-	77,334

(In thousands of US$)	Three months ended September 30, 2013				
	Corporations	Banking and financial institutions	Middle-market companies	Sovereign	Total
Balance at beginning of the period	34,286	25,327	8,540	3	68,156
Provision (reversal of provision) for loan losses	(3,774)	9,504	(1,827)	(2)	3,901
Loan recoveries and other	-	1	-	-	1
Loans written-off	-	-	-	-	-
Balance at end of the period	30,512	34,832	6,713	1	72,058
Components:					
Generic allowance	30,512	34,832	6,713	1	72,058
Specific allowance	-	-	-	-	-

Total allowance for loan losses	30,512	34,832	6,713	1	72,058

(In thousands of US$)	Nine months ended September 30, 2014				
	Corporations	Banking and financial institutions	Middle-market companies	Sovereign	Total
Balance at beginning of the period	31,516	30,865	10,369	1	72,751
Provision (reversal of provision) for loan losses	14,734	(5,789)	(4,361)	(1)	4,583
Loan recoveries and other	-	-	-	-	-
Loans written-off	-	-	-	-	-
Balance at end of the period	46,250	25,076	6,008	-	77,334
Components:					
Generic allowance	44,687	24,847	6,008	-	75,542
Specific allowance	1,563	229	-	-	1,792
Total allowance for loan losses	46,250	25,076	6,008	-	77,334

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(In thousands of US$)	Nine months ended September 30, 2013				
	Corporations	**Banking and financial institutions**	**Middle-market companies**	Sovereign	Total
Balance at beginning of the period	32,488	28,836	10,887	765	72,976
Provision (reversal of provision) for loan losses	(1,976)	5,993	(4,174)	(764)	(921)
Loan recoveries and other	-	3	-	-	3
Loans written-off	-	-	-	-	-
Balance at end of the period	30,512	34,832	6,713	1	72,058
Components:					
Generic allowance	30,512	34,832	6,713	1	72,058
Specific allowance	-	-	-	-	-
Total allowance for loan losses	30,512	34,832	6,713	1	72,058

Provision of generic allowance for credit losses are mostly related to changes in volume and composition of the credit portfolio. The net increase in the generic allowance for loan losses is primarily due to changes in volume, composition and risk profiles of the portfolio.

Following is a summary of loan balances and reserves for loan losses:

(In thousands of US$)	September 30, 2014				
	Corporations	**Banking and financial institutions**	**Middle-market companies**	Sovereign	Total
Allowance for loan losses					
Generic allowance	44,687	24,847	6,008	-	75,542
Specific allowance	1,563	229	-	-	1,792
Total of allowance for loan losses	46,250	25,076	6,008	-	77,334
Loans					
Loans with generic allowance	4,024,585	2,127,447	549,997	-	6,702,029
Loans with specific allowance	3,125	-	917	-	4,042
Total loans	4,027,710	2,127,447	550,914	-	6,706,071

(In thousands of US$)	December 31, 2013				
	Corporations	Banking and financial institutions	Middle-market companies	Sovereign	Total
Allowance for loan losses					
Generic allowance	30,562	30,865	10,369	1	71,797
Specific allowance	954	-	-	-	954
Total of allowance for loan losses	31,516	30,865	10,369	1	72,751
Loans					
Loans with generic allowance	3,310,931	2,259,991	574,107	144	6,145,173
Loans with specific allowance	3,125	-	-	-	3,125
Total loans	3,314,056	2,259,991	574,107	144	6,148,298

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b) Reserve for losses on off-balance sheet credit risk:

(In thousands of US$)	Three months ended September 30 2014	2013
Balance at beginning of the period	5,476	12,389
Provision for losses on off-balance sheet credit risk	2,632	(5,136)
Balance at end of the period	8,108	7,253

(In thousands of US$)	Nine months ended September 30 2014	2013
Balance at beginning of the period	5,222	4,841
Provision for losses on off-balance sheet credit risk	2,886	2,412
Balance at end of the period	8,108	7,253

The reserve for losses on off-balance sheet credit risk reflects the Bank's Management estimate of probable losses on off-balance sheet credit risk items such as: confirmed letters of credit, stand-by letters of credit, guarantees and credit commitments (see Note 15). The net increase in the reserve for losses on off-balance sheet credit risk was primarily due to changes in volume, composition, and risk profile of the portfolio.

10. Deposits

The remaining maturity profile of the Bank's deposits is as follows:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**

Demand	73,246	63,047
Up to 1 month	2,024,216	1,617,059
From 1 month to 3 months	623,366	311,048
From 3 months to 6 months	214,111	207,182
From 6 months to 1 year	185,000	157,000
From 1 year to 2 years	-	6,000
	3,119,939	2,361,336

The following table presents additional information about deposits:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**
Aggregate amounts of time deposits of $100,000 or more	3,119,429	2,298,289
Aggregate amounts of deposits in offices outside Panama	210,419	227,559

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	Three months ended September 30	
	2014	2013
Interest expense paid to deposits in offices outside Panama	161	287

	Nine months ended September 30	
	2014	2013
Interest expense paid to deposits in offices outside Panama	725	967

11. Securities sold under repurchase agreements

The Bank's financing transactions under repurchase agreements amounted to $286.9 million and $286.2 million as of September 30, 2014 and December 31, 2013, respectively.

During the nine months ended as of September 30, 2014 and 2103, interest expense related to financing transactions under repurchase agreements totaled $1.5 million and $1.0 million, respectively, corresponding interest expense generated by the financing contracts under repurchase agreements. These expenses are included in the interest expense – short-term borrowings and debt line in the consolidated statements of income.

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12. Short-term borrowings and debt

The breakdown of short-term borrowings and debt, together with contractual interest rates, is as follows:

(In thousands of US$)	**September 30, 2014**	**December 31, 2013**
Borrowings:		
At fixed interest rates	989,000	1,289,851
At floating interest rates	885,109	1,017,527
Total borrowings	1,874,109	2,307,378
Debt:		
At fixed interest rates	96,726	287,987
At floating interest rates	10,000	110,000
Total debt	106,726	397,987
Total short-term borrowings and debt	1,980,835	2,705,365
Average outstanding balance during the period	2,130,771	2,048,110
Maximum balance at any month-end	2,469,000	2,705,365
Range of fixed interest rates on borrowings and debt in U.S. dollars	0.63% to 1.26 %	0.67% to 1.43 %
Range of floating interest rates on borrowings and debt in U.S. dollars	0.45% to 1.15 %	0.79% to 1.47 %
Range of fixed interest rate on borrowings in Mexican pesos	-	4.13% to 4.58 %
Floating interest rate on borrowings in Mexican pesos	3.59% to 3.75 %	4.03% to 4.24 %
Fixed interest rate on debt in Japanese yens	0.75 %	0.75 %
Fixed interest rate on debt in Swiss francs	0.55 %	0.80 %
Weighted average interest rate at end of the period	0.85 %	1.09 %
Weighted average interest rate during the period	0.98 %	1.21 %

The balances of short-term borrowings and debt by currency, is as follows:

(In thousands of US$) **September 30,**

	2014	**December 31, 2013**
Currency		
U.S. dollar	1,894,152	2,536,815
Mexican peso	29,757	73,964
Japanese yen	4,559	4,749
Swiss franc	52,367	89,837
Total	1,980,835	2,705,365

Equipment financing	869.8	634.7	453.0	300.3	222.0
Total commercial banking	4,150.3	3,807.5	3,527.0	3,035.4	2,834.8
Total loans	$9,371.7	$8,572.9	$7,933.4	$7,105.0	$6,675.4

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The following table presents the contractual maturity of loans as of December 31, 2006.

As of December 31, 2006 (in millions)	Consumer Financial Services	Commercial Banking	Total
Amounts due:			
One year or less	$ 272.6	$ 604.5	$ 877.1
After one year:			
One to five years	126.8	1,552.8	1,679.6
Over five years	4,822.0	1,993.0	6,815.0
Total due after one year	4,948.8	3,545.8	8,494.6
Total	$ 5,221.4	$ 4,150.3	$ 9,371.7

The following table presents, as of December 31, 2006, loan amounts due after December 31, 2006, and whether these loans have fixed interest rates or adjustable interest rates.

(in millions)	Fixed	Adjustable	Total
Consumer Financial Services	$ 369.4	$ 4,579.4	$ 4,948.8
Commercial Banking	1,629.0	1,916.8	3,545.8
Total loans due after one year	$ 1,998.4	$ 6,496.2	$ 8,494.6

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Consumer Financial Services

Residential Mortgage Lending

People s 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 Authority insured loans and Connecticut Housing Finance Authority loans.

People s originates these loans through its network of branches and calling officers, as well as in the wholesale market, which accounted for approximately 66%, 59% and 57% of People s mortgage loan originations for 2006, 2005 and 2004, respectively.

At December 31, 2006 and 2005, 92% and 97%, respectively, of the residential mortgage portfolio was secured by properties located in Connecticut. Included in residential mortgage loans are construction loans totaling $188 million and $197 million at December 31, 2006 and 2005, respectively. In 2006, People s Bank s level of residential mortgage originations declined to $1.1 billion, compared to $1.4 billion in 2005 and $1.6 billion in 2004, consistent with industry-wide trends attributable to rising interest rates.

The mix and volume of residential mortgage loan originations vary in response to changes in market interest rates and customer preferences. Adjustable rate loans accounted for 77% of total residential mortgage originations in 2006, compared to 73% and 72% for 2005 and 2004, respectively. Overall, the volume of refinancings (approximately 41% of 2006 originations) was less than the volume of purchase mortgages as the upward movement in interest rates continues to make the refinancing market relatively less attractive for consumers.

At December 31, 2006, the adjustable rate loan portfolio included $2.2 billion, or 57%, of interest-only loans, compared to $1.6 billion, or 47%, at December 31, 2005. People s underwriting practices and credit review standards for such loans are consistent with those applied to other types of residential mortgage products. People s began originating interest-only residential mortgage loans in March 2003. The underwriting guidelines and requirements are more restrictive for interest-only loans than for amortizing adjustable rate mortgages. Properties must be a single-family and owner-occupied primary residence, loan-to-value ratios are lower, higher credit scores are required, post closing reserves requirements are greater, and there are limits on cash-out refinances as compared to amortizing adjustable rate mortgages. Amortization of an interest-only loan begins after the initial interest rate change (e.g., after 5 years for a 5/1 adjustable rate mortgage).

Adjustable rate residential loans at December 31, 2006 increased $395 million compared to year-end 2005, while fixed-rate mortgage loans decreased $3 million. Total adjustable rate residential loans increased $254 million in 2005 compared to year-end 2004, while fixed-rate mortgage loans decreased $13 million. The continued growth and performance of the residential mortgage loan portfolio in 2007 may be adversely impacted by the level and direction of interest rates, consumer preferences and the regional economy.

Historically, People s has held virtually all of the adjustable-rate residential mortgage loans that it originates on its balance sheet and has sold virtually all of the fixed-rate residential mortgage loans that it originates into the secondary market. People s has recently reassessed its pricing with respect to adjustable-rate residential mortgage loans in light of the prevailing interest rate environment. As a result, People s believes the level of adjustable-rate residential mortgage loans it originates will be reduced significantly in the near term. People s intends to continue to actively offer residential mortgage loans of all types through its extensive distribution system. However, if a reduction in originations occurs and continues for an extended period, the balance of People s residential mortgage loan portfolio will decline.

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Residential Mortgage Originations

Years ended December 31 (in millions)

Residential Mortgage Originations by Product

Year ended December 31, 2006 (percent)

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Consumer Lending

As of December 31 (in millions)	2006	2005
Home equity credit lines	$ 1,010.8	$ 1,027.8
Second mortgages	279.8	184.5
Personal installment loans	14.1	25.8
Other loans	16.6	19.4
Total consumer	$ 1,321.3	$ 1,257.5

People s offers Connecticut-based customers home equity credit lines and second mortgage loans, and to a lesser extent, other forms of installment and revolving credit loans. In the first quarter of 2006, People s began offering home equity credit lines and loans in Massachusetts and New York. Consumer loans also include unsecured personal installment loans that had been originated nationally in prior years and totaled under $1 million at December 31, 2006, compared to $12 million and $46 million at December 31, 2005 and 2004, respectively. Future growth of People s consumer loan portfolio is highly dependent upon economic conditions, the interest rate environment and competitors strategies, as well as the success of People s marketing programs and information-based strategies.

At December 31, 2006 and 2005, approximately 99% and 98%, respectively, of the consumer loan portfolio was to customers located in Connecticut. The increase in consumer loans reflects growth in home equity lending, partially offset by continued declines in national unsecured personal installment loans, which continue to run off as a result of a management decision to discontinue this type of lending. Home equity credit lines decreased $17 million, or 2%, since year-end 2005, after increasing $114 million, or 12%, during 2005 and $288 million, or 46%, during 2004. The slower rate of portfolio growth in an interest rate environment characterized by higher short-term interest rates reflects nationwide trends.

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Commercial Banking

The Commercial Banking lending businesses include commercial real estate finance, commercial and industrial lending and equipment financing by PCLC. Shared national credits are included in the commercial real estate finance and commercial and industrial lending portfolios.

Commercial Real Estate Finance

As of December 31 (in millions)	2006	2005
Property Type:		
Residential	$ 513.6	$ 439.9
Retail	390.7	435.0
Office buildings	360.0	367.1
Industrial/manufacturing	184.8	202.9
Self storage/industrial	97.8	84.9
Hospitality and entertainment	61.8	90.1
Land	61.4	44.8
Health care	53.9	47.0
Special use	47.4	52.3
Other properties	15.3	14.3
Total commercial real estate finance	$ 1,786.7	$ 1,778.3

People s manages the commercial real estate finance portfolio by limiting the concentration in any loan type, term, industry, or to any individual borrower. Historically, People s primary strategy has been to focus on lending in the state of Connecticut and adjacent states that represent its home market. In addition, People s will purchase interests in out-of-state loan participations. Included in commercial real estate finance loans are shared national credits totaling $209 million, $143 million and $105 million at December 31, 2006, 2005 and 2004, respectively. People s highest loan concentration in the commercial real estate finance loan portfolio was in the residential sector, which represented 29% of this loan portfolio at December 31, 2006, compared to 25% at December 31, 2005 and 17% at year-end 2004. Much of the growth in the residential sector was due to increases totaling $86 million, or 117%, for 2006 and $70 million, or 52% for 2005 in shared national credits.

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Commercial Real Estate Finance Portfolio

As of December 31 (dollars in millions)

At December 31, 2006, approximately 68% of People s commercial real estate finance portfolio was secured by properties located in Connecticut, compared to approximately 74% at December 31, 2005. Included in this portfolio are construction loans totaling $541 million, $512 million and $429 million at December 31, 2006, 2005 and 2004, respectively.

Commercial real estate finance 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, Connecticut s economy. The commercial real estate finance portfolio increased slightly (0.5%) in 2006 and decreased 3% in 2005 after growing 8% in 2004. The slow growth in 2006 and decrease in 2005 reflects the high level of loan prepayments during this period and People s 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 in Connecticut and may be adversely impacted if the economy slows in 2007.

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Commercial Real Estate Finance Diversification

As of December 31, 2006 (percent)

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Commercial and Industrial Lending

As of December 31 (in millions)	2006	2005
Industry:		
Manufacturing	$ 412.1	$ 414.7
Finance, insurance and real estate	354.7	330.4
Service	230.2	208.0
Wholesale distribution	119.9	127.0
Retail sales	113.6	103.6
Health services	108.5	91.9
Arts/entertainment/recreation	61.8	30.7
Transportation/utility	26.4	24.8
Other	66.6	63.4
Total commercial and industrial lending	$ 1,493.8	$ 1,394.5

People s 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.

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 2006, the commercial and industrial lending portfolio increased $100 million, or 7%, compared to increases of $159 million, or 13%, in 2005 and $201 million or 19% in 2004. The increase in 2006 includes a $47 million, or 15%, increase in shared national credits, compared to an increase of $61 million, or 24%, for the full year of 2005. Included in commercial lending are shared national credits totaling $368 million, $321 million and $260 million at December 31, 2006, 2005 and 2004, respectively. At December 31, 2006, approximately 66% of the commercial loan portfolio consisted of loans to Connecticut-based businesses, compared to approximately 69% and 72% at December 31, 2005 and 2004, respectively. The manufacturing sector remains People s highest commercial loan concentration. While People s continues to focus on asset quality, the performance of the commercial lending portfolio may be adversely impacted if the economy slows in 2007.

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Commercial and Industrial Lending Diversification

As of December 31, 2006 (percent)

Commercial and Industrial Lending Portfolio

As of December 31 (dollars in millions)

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Shared National Credits

At December 31, 2006, the shared national credits loan portfolio totaled $577 million, compared to $464 million and $365 million at December 31, 2005 and 2004, respectively, and represented 14%, 12% and 10% of the total Commercial Banking loan portfolio at the respective dates. As discussed above, included in the shared national credits portfolio at December 31, 2006, 2005 and 2004 were commercial loans totaling $368 million, $321 million and $260 million, respectively, and commercial real estate finance loans totaling $209 million, $143 million and $105 million, respectively.

People s will purchase, and to a lesser extent sell, interests in shared national credits from and to other financial institutions having comparable asset quality standards. At December 31, 2006, the shared national credits loan portfolio included $562 million in loans purchased from other financial institutions and $15 million in loans originated by People s.

At December 31, 2006, approximately $67 million, or 12%, of the shared national credits loan portfolio is to borrowers who are headquartered in Connecticut, while approximately $288 million, or 50%, is to borrowers located in California, Florida and New York. People s may grow this portfolio to represent approximately 15% of the overall Commercial Banking loan portfolio.

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PCLC

As of December 31 (in millions)	**2006**	**2005**
Industry:		
Printing	$ 308.9	$ 263.0
Transportation/utility	209.5	100.3
General manufacturing	141.6	118.0
Retail sales	85.7	41.5
Packaging	76.7	63.8
Service	28.2	26.1
Wholesale distribution	12.4	12.4
Health services	6.8	8.5
Finance, insurance and real estate		1.1
Total PCLC	$ 869.8	$ 634.7

PCLC provides equipment financing for customers in 48 states, specializing in financing for the printing, transportation/utility, general manufacturing, retail sales and packaging industries. PCLC will buy or sell portions of financing transactions in the secondary market to manage the concentration risk of the overall portfolio. At December 31, 2006, approximately 2% of the portfolio consisted of loans to Connecticut-based businesses, while approximately 39% were loans to customers located in California, Texas, Illinois and Florida.

The PCLC portfolio grew $235 million, or 37%, in 2006, after increasing $182 million, or 40%, in 2005 and $153 million, or 51%, in 2004, reflecting management s decision to grow this portfolio. Operating on a national scale, PCLC represented 21% of the Commercial Banking loan portfolio at December 31, 2006, compared to 17% and 13% at year-end 2005 and 2004, respectively. Based on the level of growth in this portfolio, the percentage increase in 2007 may not continue at recent levels.

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PCLC Diversification

As of December 31, 2006 (percent)

PCLC Loan Portfolio

As of December 31 (dollars in millions)

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Asset Quality

People s 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.

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 maintains the allowance for loan losses at a level that is believed to be adequate to absorb probable losses inherent in the existing loan portfolio, based on a quarterly evaluation of a variety of factors. These factors include, but are not limited to: People s historical loan loss experience and recent trends in that experience; risk ratings assigned by lending personnel to commercial real estate finance, commercial and PCLC loans, and the results of ongoing reviews of those ratings by People s independent loan review function; an evaluation of 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 seeks to use the best available information to make these evaluations, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, the identification of additional problem loans and other factors.

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Provision and Allowance for Loan Losses

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

Years ended December 31 (dollars in millions)	2006	2005	2004	2003	2002
Beginning allowance for loan losses	$ 75.0	$ 72.5	$ 70.5	$ 69.2	$ 73.7
Charge-offs:					
Commercial	(5.2)	(0.9)	(0.6)	(1.2)	(3.4)
Consumer	(3.4)	(4.9)	(9.7)	(16.8)	(25.3)
PCLC	(0.6)	(3.1)	(1.5)	(2.0)	(2.4)
Commercial real estate finance		(0.1)	(3.2)		
Residential mortgage	(0.1)	(0.1)	(0.2)	(0.1)	
Total charge-offs	(9.3)	(9.1)	(15.2)	(20.1)	(31.1)
Recoveries:					
Commercial	0.4	0.4	0.3	1.4	0.7
Consumer	1.6	2.0	2.8	2.9	2.6
PCLC	0.3	0.3	0.5	0.1	0.1
Commercial real estate finance	2.5	0.1	0.1	0.2	0.6
Residential mortgage	0.1	0.2	0.2	0.1	0.4
Total recoveries	4.9	3.0	3.9	4.7	4.4
Net loan charge-offs	(4.4)	(6.1)	(11.3)	(15.4)	(26.7)
Provision for loan losses	3.4	8.6	13.3	16.7	22.2
Ending allowance for loan losses	$ 74.0	$ 75.0	$ 72.5	$ 70.5	$ 69.2
Allowance for loan losses as a percentage of total loans	0.79%	0.87%	0.91%	0.99%	1.04%
Allowance for loan losses as a percentage of non-performing loans	327.9	352.5	264.6	208.4	198.2

The provision for loan losses in 2006 totaled $3.4 million, a $5.2 million, or 60%, reduction compared to $8.6 million for 2005. The 2006 period reflects $4.4 million in net loan charge-offs, partially offset by a $1.0 million reduction in the allowance for loan losses. The 2005 period reflected net loan charge-offs of $6.1 million and a $2.5 million increase in the allowance for loan losses. Net loan charge-offs decreased $1.7 million, or 28%, for 2006, compared to 2005. The allowance for loan losses as a percentage of total loans was 0.79% at December 31, 2006 and 0.87% at December 31, 2005.

Commercial loan net charge-offs reflect a $4.0 million charge-off in the third quarter of 2006 relating to one commercial banking loan that was placed on non-accrual status in the second quarter of 2006 as previously disclosed. Commercial real estate finance net recoveries reflect a $2.3 million cash recovery in the first quarter of 2006 on one non-performing loan that was resolved.

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Consumer loan net charge-offs decreased $1.2 million, or 39%, during 2006, reflecting a $1.9 million decrease in national consumer loan net charge-offs, partially offset by a $0.4 million increase in home equity loan net charge-offs and a $0.5 million increase in charge-offs related to consumer overdrafts that were previously reported in non-interest expense through the second quarter of 2005. The average national consumer loan portfolio decreased $21 million, or 81%, on a year-over-year basis and totaled slightly less than $1 million at December 31, 2006.

Net loan charge-offs as a percentage of average total loans equaled 0.05% for 2006, down from 0.07% for 2005, reflecting the $1.7 million decrease in net loan charge-offs and the impact on the ratio of a $715 million, or 9%, increase in average loans, both as compared to 2005. The very low level of net loan charge-offs in terms of absolute dollars and as a percentage of average loans is unlikely to be sustainable in the future.

The provision for loan losses decreased $4.7 million in 2005 compared to 2004, reflecting lower net loan charge-offs in 2005, partially offset by a $2.5 million increase in the allowance for loan losses in 2005, compared to a $2.0 million increase in the allowance for loan losses in 2004. Net loan charge-offs in 2005 declined $5.2 million, or 46%, compared to 2004. Consumer loan net charge-offs decreased $4.0 million, or 58%, reflecting a 72% decrease in the dollar amount of national consumer loan net charge-offs given a $60 million, or 70%, reduction in this portfolio s average balances during 2005. The increase in PCLC loan net charge-offs in 2005 reflects a $2.3 million charge-off related to one loan. Commercial real estate finance loan net charge-offs in 2004 reflected a $3.2 million charge-off related to one shared national credit that had been classified as non-performing since 2002.

Net loan charge-offs as a percentage of average total loans decreased 8 basis points to 0.07% in 2005 compared to 0.15% in 2004. In addition to the $5.2 million decrease in net loan charge-offs, the improvement in the net loan charge-off ratio reflected an $836 million, or 11%, increase in average total loans.

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

Years ended December 31	**2006**	**2005**	**2004**	**2003**	**2002**
Commercial	0.34%	0.04%	0.03%	(0.02)%	0.30%
Consumer	0.14	0.24	0.66	1.48	2.44
PCLC	0.04	0.54	0.27	0.77	1.04
Commercial real estate finance	(0.14)		0.18	(0.02)	(0.04)
Residential mortgage					(0.02)
Total portfolio	0.05%	0.07%	0.15%	0.22%	0.42%

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The following table presents the allocation of the allowance for loan losses by loan category and the percentage of loans in each category to total loans:

As of December 31	2006		2005		2004		2003		2002	
(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 real estate finance	$ 27.5	19.1%	$ 30.5	20.7%	$ 30.5	23.1%	$ 28.0	23.9%	$ 28.2	24.2%
Commercial	27.5	15.9	25.5	16.3	23.5	15.6	21.5	14.6	21.7	14.9
PCLC	16.0	9.3	13.0	7.4	10.5	5.7	8.5	4.2	4.8	3.5
Consumer	2.0	14.1	3.0	14.7	5.0	14.4	9.5	13.8	11.5	14.6
Residential mortgage	1.0	41.6	3.0	40.9	3.0	41.2	3.0	43.5	3.0	42.8
Total allowance for loan losses	$ 74.0	100.0%	$ 75.0	100.0%	$ 72.5	100.0%	$ 70.5	100.0%	$ 69.2	100.0%

Based on a review of trends in key factors used in determining the adequacy of the allowance for loan losses allocated by type of loan, including portfolio growth and changes in risk classifications, People s decreased the allowance for loan losses and the provision for loan losses by $3.0 million for the commercial real estate finance loan portfolio (reflecting the favorable resolution of non-performing loans discussed above), by $2.0 million for the residential mortgage loan portfolio (reflecting continued favorable credit experience) and by $1.0 million for the consumer loan portfolio (reflecting continued decreases in the national consumer loan portfolio balances) during 2006. These decreases were partially offset by an increase to the allowance for loan losses and a corresponding increase to the provision for loan losses by $3.0 million for the PCLC loan portfolio (reflecting loan growth) and by $2.0 million for the commercial loan portfolio (reflecting loan growth and ratings downgrades) during 2006. As a result of these changes, the total allowance for loan losses declined by $1.0 million in 2006.

A loan is classified as non-accrual generally when it becomes 90 days past due as to interest or principal payments. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the current period. 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 collectibility no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses. The classification of a loan as non-performing does not necessarily indicate that loan principal and interest ultimately will not be collected.

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People s historical experience suggests that a portion of these assets will eventually be recovered. All non-performing loans are in various stages of collection, workout, settlement or foreclosure. When loan workout efforts are exhausted and it is determined that the borrower is unable to repay the obligation, People s will complete foreclosure procedures, if applicable. Restructured commercial and commercial real estate finance loans are those for which concessions to below market terms, such as below market interest rates or deferral of interest, have been granted due to the borrowers financial condition.

Non-Performing Assets

The following table presents information regarding non-accrual loans, restructured loans, real estate owned and repossessed assets:

As of December 31 (dollars in millions)	**2006**	**2005**	**2004**	**2003**	**2002**
Non-accrual loans:					
Commercial	$ 11.9	$ 1.3	$ 5.2	$ 3.3	$ 4.8
Residential mortgage	6.7	6.7	7.5	11.4	13.2
PCLC	2.1	6.2	5.1	4.2	3.3
Consumer	1.7	1.3	0.9	2.5	3.4
Commercial real estate finance	0.2	5.8	8.7	11.4	10.2
Total non-accrual loans	22.6	21.3	27.4	32.8	34.9
Restructured loans				1.0	
Total non-performing loans	22.6	21.3	27.4	33.8	34.9
Real estate owned (REO) and repossessed assets, net	0.1	0.7	1.2	0.5	0.7
Total non-performing assets	$ 22.7	$ 22.0	$ 28.6	$ 34.3	$ 35.6
Non-performing loans as a percentage of total loans	0.24%	0.25%	0.35%	0.48%	0.52%
Non-performing assets as a percentage of total loans, REO and repossessed assets	0.24	0.26	0.36	0.48	0.53
Non-performing assets as a percentage of stockholders equity and allowance for loan losses	1.61	1.62	2.25	3.20	3.53

Non-performing assets totaled $22.7 million at December 31, 2006, an increase of $0.7 million, or 3%, compared to December 31, 2005 and improved 2 basis points to 0.24% of total loans, real estate owned and repossessed assets at December 31, 2006. The slight increase in non-performing assets during 2006 reflects increases in non-performing commercial loans of $10.6 million, partially offset by a $5.6 million reduction in non-performing commercial real estate finance loans and a $4.1 million reduction in PCLC non-performing loans. The net increase in non-performing commercial loans since December 31, 2005 reflects one $10.6 million loan classified as non-performing in the fourth quarter of 2006. The net decrease in non-performing commercial real estate finance loans since December 31, 2005 reflects one $5.5 million loan that was resolved in the first quarter of

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2006 and generated a $2.3 million cash recovery. Additional activity in non-performing commercial real estate finance loans during 2006 included one $12.1 million loan that was classified as non-performing in the first quarter of 2006 and subsequently repaid in full through payments received in the third and fourth quarters of 2006.

Total non-performing assets at December 31, 2005 decreased $6.6 million, or 23%, from December 31, 2004 and improved 10 basis points to 0.26% of total loans, real estate owned and repossessed assets at December 31, 2005. Reductions of $3.9 million and $2.9 million in non-performing commercial and commercial real estate finance loans, respectively, were partially offset by an increase of $1.1 million in non-performing PCLC loans.

The level of non-performing assets is 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.

At December 31, 2006, 2005, 2004, 2003 and 2002, People s portfolio did not include any loans, not included in the table above, which are troubled debt restructurings as defined in SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings.

As of December 31, 2006, if all non-accruing loans had been current in accordance with their terms and had been outstanding throughout 2006 or since origination if held for part of the year, the gross interest income that would have been recorded in 2006 on such loans would have amounted to approximately $1.9 million. The amount of interest income on the non-accruing loans included in net income in 2006 was $0.7 million.

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Off-Balance-Sheet Arrangements

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

Funding

At the current time, People s primary funding sources are deposits and stockholders equity, which represent 98% of total assets at December 31, 2006. Borrowings, while less than 0.5% of total assets at December 31, 2006, are an available source of funding. Based on the Bank s membership in the Federal Home Loan Bank of Boston and the level of qualifying collateral available at December 31, 2006, People s had up to $3.5 billion of borrowing capacity. People s also had unsecured borrowing capacity of $1.1 billion at December 31, 2006.

Deposits

As of December 31	**2006**		**2005**		**2004**	
(dollars in millions)	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Core deposits:						
Non-interest-bearing	$ 2,188.1	%	$ 2,218.4	%	$ 2,105.4	%
Savings, interest-bearing checking and money market	3,192.0	1.39	3,749.8	1.29	4,217.5	0.82
Total	5,380.1	0.82	5,968.2	0.81	6,322.9	0.55
Time deposits maturing:						
Within 6 months	2,282.7	4.50	1,299.5	2.94	820.6	1.57
After 6 months but within 1 year	980.2	4.63	958.1	3.44	855.8	2.53
After 1 but within 2 years	220.8	3.65	496.4	3.64	442.8	2.75
After 2 but within 3 years	45.4	3.14	89.1	2.86	152.9	3.64
After 3 years	49.2	4.63	61.4	3.47	86.4	3.10
Total	3,578.3	4.47	2,904.5	3.23	2,358.5	2.33
Total core deposits	8,958.4	2.28	8,872.7	1.59	8,681.4	1.02
Non-core deposits	124.2	0.34	209.9	1.27	180.6	0.62
Total deposits	$ 9,082.6	2.25%	$ 9,082.6	1.59%	$ 8,862.0	1.02%

People s strategy is to focus on increasing deposits by providing a wide range of convenient services to individuals, corporations and municipalities. People s provides customers access to their deposits through 77 traditional branches, 74 full-service Stop & Shop supermarket branches, seven limited-service branches, over 250 ATMs, telephone banking and an Internet banking site that is fully integrated with People s brokerage subsidiary, PSI.

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Core deposits equaled 84% and 81% of total assets at December 31, 2006 and 2005, respectively. Core deposits and stockholders equity constituted over 98% of People s funding base at December 31, 2006 and over 94% at December 31, 2005.

The expansion of People s branch network and its commitment to developing full-service relationships with its customers are integral components of People s strategy to leverage the success of its supermarket banking initiative, expand market share and continue growing deposits. At December 31, 2006, People s statewide network of Stop & Shop branches held deposits totaling $2.1 billion and deposits in supermarket branches open for more than one year averaged $30 million per store.

In 2006, People s announced plans to expand into New York State by opening at least 15 new traditional branches in Westchester County over the next three years. Seven of these branches are expected to be opened by the end of 2007. People s also plans to continue its branch expansion in Connecticut by opening new both traditional and Stop & Shop branches.

Non-interest-bearing deposits are an important source of low-cost funding and fee income for People s. In addition, People s 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 core deposits equaled 24% and 25% of core deposits at December 31, 2006 and 2005, respectively.

Time deposits of $100,000 or more totaled $889 million at December 31, 2006, of which $247 million mature within three months, $364 million mature after three months but within six months, $241 million mature after six months but within one year and $37 million mature after one year. There were no brokered certificates of deposit at December 31, 2006, 2005 and 2004.

Commercial deposits fund a significant portion of the loan portfolio. Average non-interest-bearing commercial deposits totaled $939 million in 2006, a $43 million, or 5%, decrease compared to 2005, after increasing $43 million, or 5%, in 2005 and $64 million, or 7%, in 2004. The decrease in 2006 is reflective of the current interest rate environment.

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The following table presents, by rate category, time deposits as of December 31, 2006 and 2005.

As of December 31 (in millions)	2006	2005
2.00% or less	$ 116.7	$ 571.1
2.01% to 2.50%	92.6	143.8
2.51.% to 3.00%	167.6	261.8
3.01% to 3.50%	160.8	817.7
3.51% and over	3,045.3	1,167.7
Total	$ 3,583.0	$ 2,962.1

The following table presents, by rate category, the remaining period to maturity of time deposits outstanding as of December 31, 2006.

	Period to Maturity from December 31, 2006						
(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 years	Total
2.00% or less	$ 59.7	$ 34.4	$ 16.5	$ 6.0	$	$ 0.1	$ 116.7
2.01% to 2.50%	45.2	13.4	4.8	20.2	8.9	0.1	92.6
2.51% to 3.00%	30.4	28.0	53.8	33.9	17.1	4.4	167.6
3.01% to 3.50%	46.5	10.9	37.8	48.8	12.0	4.8	160.8
3.51% and over	549.6	1,469.3	867.3	111.9	7.3	39.9	3,045.3
Total	$ 731.4	$ 1,556.0	$ 980.2	$ 220.8	$ 45.3	$ 49.3	$ 3,583.0

Total Core Deposits

As of December 31 (dollars in millions)

Non-Interest-Bearing Deposits

As of December 31 (dollars in millions)

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Borrowings

	2006		2005		2004	
As of December 31 (dollars in millions)	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Overnight federal funds purchased	$ 4.1	5.15%	$ 269.9	3.94%	$ 240.8	2.14%
FHLB advances maturing within 1 month			25.0	4.00	100.0	2.17
Total borrowings	$ 4.1	5.15%	$ 294.9	3.94%	$ 340.8	2.15%

Total borrowings equaled less than 0.5% of total assets at December 31, 2006, compared to 3% at December 31, 2005. People s uses federal funds purchased as a source of funds, which are typically unsecured overnight loans among banks. Sources include three of the twelve regional Federal Home Loan Banks and several money center and large regional banks. Federal funds purchased represented less than 0.5% of total assets at December 31, 2006 and 2% of total assets at December 31, 2005.

In previous years, People s primary source for borrowings was advances from the Federal Home Loan Bank of Boston, which provides credit for member institutions within its assigned region. People s outstanding Federal Home Loan Bank advances at December 31, 2005 represented less than one-half of one percent of total assets. At December 31, 2006, there were no outstanding Federal Home Loan Bank advances. The average balances of People s advances from the Federal Home Loan Bank of Boston during 2006, 2005 and 2004 were $47 million, $50 million and $176 million, respectively, and the maximum Federal Home Loan Bank advances outstanding during 2006, 2005 and 2004 were $155 million, $190 million and $849 million, respectively.

Another source of funds in previous years has been repurchase agreements. These transactions involve the sale of securities to broker/dealers under agreements to repurchase the same (or substantially the same) securities. Repurchase agreements with broker/dealers are limited to Reporting Federal Reserve Dealers in government securities that have been approved by People s Board of Directors.

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Subordinated Notes

At December 31, 2006, People s had $65 million of 9.875% subordinated notes outstanding. Subordinated notes totaled $109 million at December 31, 2005. People s repaid $44 million of 7.20% subordinated notes that matured on December 1, 2006. People s repurchased $14 million of its 9.875% subordinated notes in 2005. The 9.875% subordinated notes are due in 2010 and are unsecured general obligations of People s with interest payable semi-annually, are subordinated to the claims of depositors and People s other creditors and are not redeemable prior to maturity. They qualify, up to certain limits, as supplementary (tier 2) capital for risk-based capital purposes.

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Contractual Cash Obligations

The following table is a summary of People s contractual cash obligations, other than deposit liabilities, including operating leases. Additional information concerning these contractual cash obligations is included in Notes 9, 10 and 19 to the Consolidated Financial Statements. Purchase obligations included in the table 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 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, 2006 (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Borrowings	$ 4.1	$ 4.1	$	$	$
Subordinated notes	65.3			65.3	
Total on-balance-sheet	69.4	4.1		65.3	
Operating leases	154.3	24.0	45.1	37.0	48.2
Purchase obligations	123.5	37.1	56.7	23.9	5.8
Total	$ 347.2	$ 65.2	$ 101.8	$ 126.2	$ 54.0

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Liquidity

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. Liquidity management addresses People s 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 liquidity position is monitored daily by management. The Asset and Liability Management Committee (ALCO) is responsible for setting guidelines to ensure maintenance of prudent levels of liquidity.

Asset liquidity is provided by: cash; short-term investments; proceeds from security sales, maturities and principal repayments; and proceeds from scheduled principal collections, prepayments and sales of loans. In addition, certain securities may be used to collateralize borrowings under repurchase agreements. The Consolidated Statements of Cash Flows present data on cash provided by and used in People s operating, investing and financing activities. At December 31, 2006, People s liquid assets included $30 million in trading account securities, $569 million in cash and cash equivalents, and $26 million in debt securities available for sale. At December 31, 2006, People s had pledged securities available for sale with a total fair value of $22 million as collateral for public deposits and for other purposes.

Liability liquidity is measured by People s ability to obtain core deposits and purchased funds at cost-effective rates that are diversified with respect to markets and maturities. Core deposits, which are considered the most stable source of liability liquidity, totaled $9.0 billion at December 31, 2006 , compared to $8.9 billion at December 31, 2005 (representing 85% and 82% of total funding at the respective dates). Purchased funds are used from time to time to diversify People s funding mix and to support asset growth. People s purchased funds totaled $47 million at December 31, 2006 and $0.4 billion at December 31, 2005 (representing 0.5% and 4% of total funding at the respective dates).

People s current sources of purchased funds include: federal funds purchased, advances from the FHLB of Boston and the Federal Reserve Bank of New York, municipal deposits and repurchase agreements. At December 31, 2006, People s borrowing limit from FHLB and Federal Reserve Bank advances and repurchase agreements was $3.5 billion, based on the level of qualifying collateral available for these borrowing sources. In addition, People s had unsecured borrowing capacity of $1.1 billion at December 31, 2006.

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At December 31, 2006, People s had outstanding commitments to originate loans totaling $853 million and approved, but unused, lines of credit extended to customers totaling $2.3 billion. See Note 18 to the Consolidated Financial Statements.

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

Earning Asset Mix

$9.7 billion as of December 31, 2006

Funding Base

$10.5 billion as of December 31, 2006

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Capital

People s total stockholders equity was $1.34 billion at December 31, 2006, a $51 million net increase from December 31, 2005, reflecting net income of $124.0 million, partially offset by dividends paid in 2006 of $60 million and a $25 million increase in Accumulated Other Comprehensive Loss (AOCL) since December 31, 2005. The net increase in AOCL primarily reflects a $40 million after-tax increase from the adoption of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006, partially offset by a $19 million reduction in the net unrealized loss on securities available for sale due to the sales of securities previously discussed.

People s total stockholders equity was $1.29 billion at December 31, 2005, an $89 million net increase compared to $1.20 billion at December 31, 2004. This increase primarily reflects net income of $137.1 million and net stock option-related activity totaling $15 million, partially offset by dividends paid of $52 million and an $11 million increase in AOCL since December 31, 2004. The increase in AOCL primarily reflects a $10 million increase in the after-tax net unrealized loss on securities available for sale in response to rising interest rates.

Dividends declared and paid per common share (other than shares on which Holdings waived receipt of dividends) were $0.97, $0.85 and $0.75 in 2006, 2005 and 2004, respectively. People s dividend payout ratio (dividends paid as a percentage of net income) in 2006, 2005 and 2004 was 48.3%, 38.3% and 22.9%, respectively. Stockholders equity equaled 12.5% of total assets at December 31, 2006, compared to 11.8% at December 31, 2005.

Capital Requirements. OTS capital regulations require federally chartered savings banks, such as People s, to meet three minimum capital ratios:

Tangible Capital Ratio - A 1.5% tangible capital ratio, calculated as tangible capital to adjusted total assets.

Leverage (Core) Capital Ratio - A 4% leverage (core) capital ratio, calculated as core capital to adjusted total assets. The minimum leverage (core) capital ratio is reduced to 3% if the savings bank received the highest rating on its most recent safety and soundness examination.

Risk-Based Capital Ratio - An 8% total risk-based capital ratio, calculated as total capital to risk-weighted assets. For purposes of this calculation, total capital includes core and supplementary capital, provided that supplementary capital may not exceed 100% of core capital.

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In assessing an institution s capital adequacy, the OTS takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary. People s, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with People s risk profile.

The following summary compares People s regulatory capital amounts and ratios to OTS minimum requirements as of December 31, 2006. People s adjusted total assets, as defined, totaled $10.7 billion at December 31, 2006 and People s risk-weighted assets, as defined, totaled $8.6 billion at December 31, 2006. At December 31, 2006, People s exceeded each of its capital requirements.

As of December 31, 2006 (dollars in millions)	People s		OTS Minimum Requirements	
	Amount	Ratio	Amount	Ratio
Tangible capital	$ 1,278.4(1)	12.0%	$ 159.8	1.5%
Leverage (core) capital	1,278.4(1)	12.0	426.2	4.0
Total risk-based capital	1,389.7(2)	16.1	689.5	8.0

(1) Represents total stockholders equity, excluding (i) after-tax net unrealized gains (losses) on debt and certain equity securities classified as available for sale, (ii) after-tax net unrealized losses on derivatives qualifying as cash flow hedges, (iii) certain assets not recognized in tier 1 capital (principally goodwill and other acquisition-related intangibles), and (iv) the amount recorded in accumulated other comprehensive income relating to SFAS No. 158.

(2) Represents tier 1 capital plus subordinated notes, up to certain limits, and the allowance for loan losses up to 1.25% of risk-adjusted total assets.

People s regulatory capital ratios at December 31, 2006 exceeded the OTS numeric criteria for classification as well capitalized. See Note 12 to the Consolidated Financial Statements for additional information concerning People s regulatory capital amounts and ratios.

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Market Risk Management

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

Interest Rate Risk

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

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

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

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The following table shows the estimated percentage increase (decrease) in People s Income at Risk over a one-year simulation period beginning December 31, 2006. Given the slope of the yield curve at December 31, 2006, simulations for declines in interest rates below 300 basis points were not meaningful.

Rate Change (basis points)	Percent Change in Income at Risk
+300	7.46%
+200	5.41
+100	2.88
-100	(3.11)
-200	(7.55)
-300	(15.97)

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

Internal guidelines limit the exposure of a decrease in MVE resulting from instantaneous parallel shifts of the yield curve in the following manner: for 100 basis points 10% of base case MVE; for 200 basis points 15% of base case MVE; and for 300 basis points 20% of base case MVE.

The following table shows the estimated percentage decrease in People s MVE, assuming various shifts in interest rates. Given the slope of the yield curve at December 31, 2006, simulations for declines in interest rates below 300 basis points were not meaningful.

Rate Change (basis points)	Percent Change in Market Value of Equity
+300	(6.31)%
+200	(3.65)
+100	(1.47)
-100	(0.82)
-200	(3.54)
-300	(6.64)

Management believes People s interest rate risk position at December 31, 2006 represents an acceptable level of risk. However, given the uncertainty of the magnitude, timing and direction of future interest rate movements and the shape of the yield curve, actual results may vary from those predicted by People s models.

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People s uses derivative financial instruments, including interest rate swaps and interest rate floors, as components of its IRR management. People s has written guidelines that have been approved by the Board of Directors and ALCO governing the use of these financial instruments, including approved counterparties and risk limits, and controls the credit risk of these instruments through collateral, credit approvals and monitoring procedures. At December 31, 2006, each of People s counterparties had an investment grade credit rating from the major rating agencies and is specifically approved up to a maximum credit exposure. Derivative financial instruments have been used for market risk management purposes (principally interest rate risk) and not for trading or speculative purposes.

People s is currently using interest rate swaps and interest rate floors to manage IRR associated with certain interest-earning assets and interest-bearing liabilities. Interest rate swaps, which are accounted for as fair value hedges, are used to match more closely the repricing of certain commercial real estate finance loans and the funding associated with these loans. The interest rate swaps effectively convert the funding liabilities from a variable interest rate into a fixed interest rate and consequently reduce People s exposure to increases in interest rates and their effect on interest income and interest expense.

People s is currently using interest rate floors to partially manage its exposure to a decrease in interest income resulting from declines in certain interest rates. These interest rate floors, which are accounted for as cash flow hedges, offer protection against a decline in interest income if the one-month LIBOR-index rate used to reprice certain floating-rate commercial loans declines below the strike rate on the interest rate floors. If the one-month LIBOR-index rate falls below the specified strike rate, People s would receive an interest payment on the interest rate floor equal to the difference between the one-month LIBOR-index rate on the reset date and the strike rate, which in effect, would offset the decline in interest income earned on the hedged floating rate commercial loans from the decline in interest rates.

Foreign Currency Risk

Foreign exchange forward contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People s uses these instruments on a limited basis to eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

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Derivative Financial Instruments

The following table summarizes certain information concerning derivative financial instruments utilized by People s in its management of IRR. Also see Note 18 to the Consolidated Financial Statements.

As of and for the year ended December 31, 2006

(dollars in millions)	Interest Rate Floors	Interest Rate Swaps	Foreign Exchange Contracts
Notional amount at year end	$ 700.0	$ 6.9	$ 13.1
Weighted average remaining term to maturity (in months)	49	77	2
Decrease in pre-tax income	$ (0.8)	$	$
Fair value:			
Recognized as an asset	11.5		
Recognized as a liability		0.2	0.3

As of and for the year ended December 31, 2005

(dollars in millions)	Interest Rate Floors	Interest Rate Swaps	Foreign Exchange Contracts
Notional amount at year end	$ 400.0	$ 9.6	$ 17.4
Weighted average remaining term to maturity (in months)	60	85	3
Decrease in pre-tax income	$	$ (0.7)	$
Fair value:			
Recognized as an asset	5.9		
Recognized as a liability		0.4	

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Holding Company Structure

In 1988, People s became a capital stock savings bank as part of a reorganization from its original form as a mutual savings bank. That process also resulted in the formation of People s Mutual Holdings (Holdings), a mutual-form financial holding company that is subject to regulation by the Board of Governors of the Federal Reserve System.

At December 31, 2006, Holdings owned 82.0 million shares of People s common stock, representing 57.7% of the total number of outstanding shares of People s common stock. By virtue of its ownership of a majority of People s outstanding shares, Holdings is able to elect all of the members of the Board of Directors of People s and will generally be able to significantly affect the outcome of all matters presented for consideration by the shareholders of People s.

Holdings is different in significant aspects from an ordinary financial holding company or a bank holding company. Holdings is a corporation without shares of capital stock, and Holdings Articles of Incorporation require its Board of Trustees to consider the impact of its actions on a variety of constituencies in making certain business decisions. These include the depositors, employees and debtholders of People s, and the well-being of the communities in which People s conducts business, but do not include People s shareholders. Thus, Holdings will act in a manner that furthers the general interests of these various constituencies.

Since its formation in 1988, Holdings has consistently waived the receipt of cash dividends on substantially all of the shares of People s common stock it owns. The Board of Directors of People s establishes the rate at which dividends are declared with advance knowledge of the amount of dividends to be waived by Holdings. No dividends are declared on shares for which Holdings waives the dividend. If dividends had actually been declared and paid on all outstanding shares of People s common stock at the same rate as was declared and paid on shares not subject to the waiver, Holdings would have received additional dividends of approximately $78 million in 2006. There can be no assurance that Holdings will continue to waive the receipt of cash dividends in any future period, and Holdings retains the right to accept payment of future cash dividends on all of the People s common stock it owns, at its discretion.

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On September 20, 2006, People s and Holdings announced their plan to convert from a mutual holding company structure to a fully-public stock holding company structure. The Boards of Holdings and People s have adopted a Plan of Conversion and Reorganization (the Plan). The transactions contemplated by the Plan are subject to approval by People s stockholders, its depositors and the OTS. On February 14, 2007, the OTS gave its conditional approval to the Plan. Special meetings of People s stockholders and depositors to approve the Plan are scheduled for April 5, 2007. See Note 23 to the Consolidated Financial Statements.

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Forward-Looking Statements

Periodic and other filings made by People s with the OTS (with the FDIC prior to the charter conversion on August 18, 2006) pursuant to the Securities Exchange Act of 1934 may from time to time contain information and statements that are forward-looking in nature. Such filings include the Annual Report to Shareholders, Form 10-K, Form 10-Q and Form 8-K, and may include other forms such as proxy statements. Other written or oral statements made by People s or its representatives from time to time may also contain forward-looking statements.

In general, forward-looking statements usually use words such as may, believe, expect, anticipate, should, plan, estimate, predict, potential or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to People s financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. 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 actual results or financial condition to differ materially from those expressed in or implied by such statements. Factors of particular importance to People s include, but are not limited to: (i) changes in general economic conditions, including interest rates; (ii) potential improvements or deterioration in credit quality; (iii) competition among providers of financial services; (iv) residential mortgage and secondary market activity; (v) changes in accounting and regulatory guidance applicable to banks; and (vi) price levels and conditions in the public securities markets generally.

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 does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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STATEMENT OF MANAGEMENT S RESPONSIBILITY

Management is responsible for the preparation, content and integrity of the consolidated financial statements and all other information included in this annual report. The consolidated financial statements and related footnotes are prepared in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for compliance with laws and regulations relating to safety and soundness as designated by the Office of Thrift Supervision.

The consolidated financial statements as identified in the accompanying Report of Independent Registered Public Accounting Firm have been audited by KPMG LLP, an independent registered public accounting firm. These audits were conducted in accordance with auditing standards generally accepted in the United States of America, and included tests of the accounting records and other auditing procedures considered necessary to formulate an opinion on the consolidated financial statements.

The Board of Directors has an Audit Committee composed of five outside directors, each of whom meets the criteria for independence as set forth in applicable listing standards. The Audit Committee meets regularly with the independent auditors, the internal auditors and management to ensure that the system of internal control over financial reporting is being properly administered and that financial data is being properly reported. The Audit Committee reviews the scope and timing of internal audits, including recommendations made with respect to the system of internal control over financial reporting. The independent auditors and the internal auditors have free access to the Audit Committee.

MANAGEMENT S REPORT ON INTERNAL CONTROL

OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining effective internal control over financial reporting for People s. Management maintains a system of internal control over financial reporting, including an internal audit function, which is designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized, and that accounting records are reliable for the preparation of financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in *Internal Control Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that People s maintained effective internal control over financial reporting as of December 31, 2006, based on criteria in *Internal Control Integrated Framework* issued by the COSO. Management s assessment of the effectiveness of People s internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

/s/ John A. Klein	/s/ Philip R. Sherringham
John A. Klein	Philip R. Sherringham
Chairman, Chief Executive Officer and President	*Executive Vice President and Chief Financial Officer*

February 28, 2007

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Item 8. Financial Statements and Supplementary Data

The information presented in response to this item, which begins on page F-1, is that of People s Bank, which will become the primary operating subsidiary of People s United Financial, Inc. upon completion of the conversion.

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

None.

Item 9A. Contro ls and Procedures

The information presented in response to this item relates to the disclosure controls and procedures and the internal control over financial reporting of People s Bank, which will become the primary operating subsidiary of People s United Financial, Inc. upon completion of the conversion.

The individuals providing the certifications included as exhibits to this report (the Certifying Officers) have concluded that the design and operation of People s Bank disclosure controls and procedures are effective for the purpose of ensuring that information required to be disclosed by People s Bank in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported in a timely manner. This conclusion is based on an evaluation of People s Bank disclosure controls and procedures conducted under the supervision and with the participation of the Certifying Officers.

During the quarter ended December 31, 2006, there has not been any change in People s Bank s internal control over financial reporting that has materially affected, or is reasonable likely to materially affect, People s Bank s internal control over financial reporting.

People s Bank Management s Report on Internal Control over Financial Reporting appears on page 100 and the related Report of Independent Registered Public Accounting Firm thereon appears on page F-3.

Item 9B. Ot her Information

None.

Item 10. Directors and Executiv e Officers of the Registrant

Response omitted in reliance on General Instruction I 1(a) and (b) of Form 10-K

Item 11. Executive Compensation

Response omitted in reliance on General Instruction I 1(a) and (b) of Form 10-K

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

Response omitted in reliance on General Instruction I 1(a) and (b) of Form 10-K

Item 13. Cert ain Relationships and Related Transactions, and Director Independence

Response omitted in reliance on General Instruction I 1(a) and (b) of Form 10-K

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Item 14. Principal Accounting Fees and Services

The information presented in response to this item is that of People s Bank, which will become the primary operating subsidiary of People s United Financial, Inc. upon completion of the conversion.

The Audit Committee appointed the firm of KPMG LLP, independent registered public accountants, as People s Bank s independent auditors for the year ending December 31, 2006. KPMG LLP has served as the independent auditors of People s Bank since 1986. In taking this action, the Audit Committee reviewed the firm s professional competence, proposed audit scope and related fees, and the types of non-audit services rendered by the firm and related fees. Fees billed by KPMG LLP to People s Bank for professional services rendered during each of the two most recent fiscal years were as follows:

Audit Fees

Fees for the audit of People s Bank annual consolidated financial statements for the fiscal years ended December 31, 2006 and December 31, 2005 and for the review of interim consolidated financial statements included in People s Bank s Form 10-Q filings during those years totaled $1,428,000 in 2006 and $1,243,000 in 2005. The 2006 audit fees included $165,000 related to the issuance of comfort letters and consents in conjunction with the second step conversion.

Audit-Related Fees

Fees for assurance and related services reasonably related to the audit or review of People s Bank s financial statements (to the extent not classified as Audit Fees) totaled $72,000 in 2006 and $83,000 in 2005. For each of those years, these services consisted of: financial statement audits for People s Bank s pension plan and employee savings plan; and preparation of a report on certain internal control policies and procedures of People s Bank s Trust Department.

Tax Fees

People s Bank did not pay any fees for tax compliance, tax advice or tax planning services to KPMG LLP either in 2006 or 2005.

All Other Fees

KPMG LLP did not provide or bill for any products and professional services other than those included in the three categories listed above either in 2006 or in 2005.

The Audit Committee has sole authority to appoint People s Bank s independent auditors. In making this appointment, the Audit Committee carefully considered the firm s qualifications as auditors for People s Bank. This included a review of its performance in prior years, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Committee has expressed its satisfaction with KPMG LLP in all of these respects. In addition, the Audit Committee considered the matters discussed above under the heading Audit Committee Report. The Audit Committee also considered factors relating to the independence of KPMG LLP, including whether KPMG LLP s provision of non-audit services (i.e., services giving rise to fees other than the audit fees disclosed above) is compatible with maintaining KPMG LLP s independence.

By resolution adopted on November 20, 2003, the Audit Committee has delegated to George P. Carter (Chairman of the Audit Committee and an independent director under applicable listing standards) the authority to pre-approve the rendering of audit services and permissible non-audit services by People s Bank s independent auditor. Mr. Carter is required to report any exercise of this authority to the full Audit Committee at its next scheduled meeting, and to seek the Audit Committee s ratification of any action so taken.

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Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The information presented in response to subsection (a) of this item is that of People s Bank, which will become the primary operating subsidiary of People s United Financial, Inc. upon completion of the conversion. The following consolidated financial statements of People s Bank and the independent registered public accounting firm reports thereon are included herein beginning on page F-1:

Consolidated Statements of Condition as of December 31, 2006 and 2005

Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

Reports 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. All filings made prior to September 30, 2006 were filed with the Federal Deposit Insurance Corporation.

Designation	Description
1.1	Engagement Letter by and among Ryan Beck & Co., Inc., People s Mutual Holdings and People s Bank, dated September 15, 2006 (incorporated by reference to Exhibit 1.1 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
1.2	Engagement Letter by and among Morgan Stanley & Co., Incorporated, People s Mutual Holdings and People s Bank, dated September 14, 2006 (incorporated by reference to Exhibit 1.2 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
1.3	Form of Agency Agreement to be entered into by People s United Financial, Inc., People s Mutual Holdings, People s Bank, Ryan Beck & Co., Inc., Morgan Stanley & Co., Incorporated, and other agents (incorporated by reference to Exhibit 1.3 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
2.1	Amended and Restated Plan of Conversion and Reorganization of People s Mutual Holdings and People s Bank (incorporated by reference to Exhibit 2.1 to Amendment No. 1 to Form S-1 filed with the Securities and Exchange Commission on December 21, 2006 (Registration No. 333-138389))
3.1	Second Amended and Restated Certificate of Incorporation of People s United Financial, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 13, 2007 (Registration No. 333-138389))
3.2	Second Amended and Restated Bylaws of People s United Financial, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 13, 2007 (Registration No. 333-138389))
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	Reserved.
4.3	Reserved.
4.4	Fiscal and Paying Agency Agreement, dated as of November 16, 2000, between People s Bank and Bankers Trust Company as Fiscal and Paying Agent (incorporated by reference to Exhibit 4.4 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))

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Designation	Description
4.5	Form of Global Notes, registered in the name of the nominee of The Depository Trust Company (November 16, 2000) (incorporated by reference to Exhibit 4.5 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.1	Executive Employment Agreement, dated effective June 1, 1999, between People s Bank and John A. Klein (incorporated by reference to Exhibit 10.1 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.1(a)	Amendment to Executive Employment Agreement, dated December 27, 2005, between People s Bank and John A. Klein (incorporated by reference to Exhibit 10.1(a) to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.2	Reserved.
10.3	Reserved.
10.4	Summary of Compensation Arrangements for Named Executive Officers (incorporated by reference to Exhibit 10.4 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.5	Form of Agreement for Compensation on Discharge Subsequent to a Change in Control (incorporated by reference to Exhibit 10.5 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.5(a)	Form of Amendment to Agreement for Compensation on Discharge Subsequent to a Change in Control (incorporated by reference to Exhibit 10.5(a) to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.6	Short Term Incentive Plan for Key Employees of People s Bank (incorporated by reference to Exhibit 10.6 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.7	People s Bank Deferred Compensation Plan for Certain Executive Officers (incorporated by reference to Exhibit 10.7 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.8	Reserved.
10.9	Amended and Restated People s Bank 1998 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 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	Reserved.

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Designation	Description
10.10(a)	Form of Amendment to Stock Option Agreements (incorporated by reference to Exhibit 10.10(a) to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.11	Form of Grant Agreement for Restricted Stock (incorporated by reference to Exhibit 10.11 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.12	Reserved.
10.13	People s Bank Cap Excess Plan (incorporated by reference to Exhibit 10.13 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.14	The People s Bank Enhanced Senior Pension Plan (incorporated by reference to Exhibit 10.14 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.14(a)	Amendment One to The People s Bank Enhanced Senior Pension Plan (incorporated by reference to Exhibit 10.14(a) to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.14(b)	Amendment Two to The People s Bank Enhanced Senior Pension Plan (incorporated by reference to Exhibit 10.14(b) to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.15	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))
10.16	Amended and Restated People s Bank Supplemental Savings Plan (incorporated by reference to Exhibit 10.16 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.16(a)	First Amendment to Amended and Restated People s Bank Supplemental Savings Plan (incorporated by reference to Exhibit 10.16(a) to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.16(b)	Second Amendment to Amended and Restated People s Bank Supplemental Savings Plan (incorporated by reference to Exhibit 10.16(b) to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))

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Designation	Description
10.17	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))
10.18	Summary of Compensation Arrangements for Non-Employee Directors (incorporated by reference to Exhibit 10.18 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.19	People s Bank Amended and Restated Deferred Compensation Plan for Directors (incorporated by reference to Exhibit 10.19 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.20	Third Amended and Restated People s Bank Directors Equity Compensation Plan (incorporated by reference to Exhibit 10.20 to Form S-1 filed with the Securities and Exchange Commission on November 2, 2006 (Registration No. 333-138389))
10.21	The Norwich Savings Society Non-Qualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.21 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.22	The Norwich Savings Society Non-Qualified Deferred Compensation Trust Agreement, dated June 27, 1995, between The Norwich Savings Society and Sachem Trust National Association (incorporated by reference to Exhibit 10.22 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.23	Amendment and Restatement of Deferred Compensation Agreements (undated) between The Norwich Savings Society and Jeremiah J. Lowney, Jr. (incorporated by reference to Exhibit 10.23 to Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on February 2, 2007 (Registration No. 333-138389))
10.24	Employee Stock Ownership Plan of People s United Financial, Inc. (incorporated by reference to Exhibit 10.24 to Amendment No. 2 to Form S-1 filed with the Securities and Exchange Commission on January 12, 2007 (Registration No. 333-138389))
10.25	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))
21	Subsidiaries (omitted in reliance on General Instruction I 1(a) and (b) of Form 10-K)
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.

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Designation	Description
32.1	Section 1350 Certifications.

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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: April 12, 2007	By: /s/ John A. Klein John A. Klein Chairman, Chief Executive Officer and President

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: April 12, 2007	By: /s/ John A. Klein John A. Klein Chairman, Chief Executive Officer and President
Date: April 12, 2007	By: /s/ Philip R. Sherringham Philip R. Sherringham Executive Vice President and Chief Financial Officer
Date: April 12, 2007	By: /s/ Christina M. Bliven Christina M. Bliven First Vice President, Acting Controller and Acting Senior Accounting Officer
Date: April 12, 2007	By: /s/ Collin P. Baron Collin P. Baron Director
Date: April 12, 2007	By: /s/ George P. Carter George P. Carter Director

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Date: April 12, 2007	By: /s/ Jerry Franklin Jerry Franklin Director
Date: April 12, 2007	By: Eunice S. Groark Director
Date: April 12, 2007	By: Janet M. Hansen Director
Date: April 12, 2007	By: Richard M. Hoyt Director
Date: April 12, 2007	By: /s/ Jeremiah J. Lowney, Jr. Jeremiah J. Lowney, Jr. Director
Date: April 12, 2007	By: /s/ Jack E. McGregor Jack E. McGregor Director
Date: April 12, 2007	By: /s/ James A. Thomas James A. Thomas Director

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People s Bank and Subsidiaries

Index to Consolidated Financial Statements

The registrant, People s United Financial, Inc., a Delaware corporation, which was incorporated on November 2, 2006, has not yet commenced operations and has engaged only in minimal activities to date; accordingly, the financial statements of People s United Financial, Inc. have been omitted because of their immateriality.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of People s Bank:

We have audited the accompanying consolidated statements of condition of People s Bank and subsidiaries (People s) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of People s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of People s Bank and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of People s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

Stamford, Connecticut

February 28, 2007

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of People s Bank:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that People s Bank and subsidiaries (People s) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). People s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of People s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that People s maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, People s maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of People s Bank and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements.

Stamford, Connecticut

February 28, 2007

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People s Bank and Subsidiaries

Consolidated Statements of Condition

As of December 31 (in millions)	2006	2005
Assets		
Cash and due from banks (note 3)	$ 344.1	$ 391.6
Short-term investments (note 3)	224.6	31.9
Total cash and cash equivalents	568.7	423.5
Securities (note 4):		
Trading account securities, at fair value	29.6	27.3
Securities available for sale, at fair value	46.8	1,334.3
Securities held to maturity, at amortized cost (fair value of $1.1 and $1.4 at each date)	1.1	1.4
Total securities	77.5	1,363.0
Securities purchased under agreements to resell (note 1)		25.0
Loans (note 5):		
Residential mortgage	3,900.1	3,507.9
Commercial	2,363.6	2,029.2
Commercial real estate finance	1,786.7	1,778.3
Consumer	1,321.3	1,257.5
Total loans	9,371.7	8,572.9
Less allowance for loan losses	(74.0)	(75.0)
Total loans, net	9,297.7	8,497.9
Bank-owned life insurance (note 1)	212.6	154.6
Premises and equipment, net (note 6)	136.8	140.1
Goodwill (note 1)	101.5	101.5
Other acquisition-related intangibles (note 1)	3.5	4.6
Other assets (note 7)	288.6	222.3
Total assets	$ 10,686.9	$ 10,932.5
Liabilities		
Deposits (note 8):		
Non-interest-bearing	$ 2,294.4	$ 2,353.1
Savings, interest-bearing checking and money market	3,205.2	3,767.4
Time	3,583.0	2,962.1
Total deposits	9,082.6	9,082.6
Borrowings (note 9):		
Federal funds purchased	4.1	269.9
Federal Home Loan Bank advances		25.0

Total borrowings	4.1	294.9
Subordinated notes (note 10)	65.3	108.6
Other liabilities	195.4	157.8
Total liabilities	9,347.4	9,643.9
Commitments and contingencies (notes 18 and 19)		
Stockholders Equity (notes 12 and 13)		
Common stock (without par value; 450.0 shares and 150.0 shares authorized; 142.2 shares and 141.6 shares issued and outstanding)	142.2	141.6
Additional paid-in capital	182.9	172.0
Retained earnings	1,062.4	998.4
Accumulated other comprehensive loss (note 15)	(48.0)	(23.4)
Total stockholders equity	1,339.5	1,288.6
Total liabilities and stockholders equity	$ 10,686.9	$ 10,932.5

See accompanying notes to consolidated financial statements.

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People s Bank and Subsidiaries

Consolidated Statements of Income

Years ended December 31 (in millions, except per share data)	**2006**	**2005**	**2004**
Interest and dividend income:			
Residential mortgage	$ 185.2	$ 154.7	$ 137.7
Commercial	146.5	108.7	73.3
Commercial real estate finance	126.0	116.2	104.9
Consumer	88.3	65.8	46.7
Total interest on loans	546.0	445.4	362.6
Securities (note 4)	30.0	60.0	72.4
Short-term investments	5.3	1.5	2.2
Securities purchased under agreements to resell	0.8	1.0	
Total interest and dividend income	582.1	507.9	437.2
Interest expense:			
Deposits (note 8)	180.1	117.5	86.7
Borrowings (note 9)	10.0	9.4	13.6
Subordinated notes	9.6	11.3	13.4
Interest allocated to discontinued operations (note 22)			(3.6)
Total interest expense	199.7	138.2	110.1
Net interest income	382.4	369.7	327.1
Provision for loan losses (note 5)	3.4	8.6	13.3
Net interest income after provision for loan losses	379.0	361.1	313.8
Non-interest income:			
Fee-based revenues:			
Service charges on deposit accounts	77.8	72.4	69.2
Insurance revenue	27.3	28.0	27.9
Brokerage commissions	12.2	11.7	12.6
Other fees	35.7	39.4	33.2
Total fee-based revenues	153.0	151.5	142.9
Net security losses (note 4)	(27.2)	(0.1)	(4.7)
Bank-owned life insurance (note 1)	9.1	3.3	
Net gains on sales of residential mortgage loans (note 5)	2.0	4.0	3.7
Gain on sale of branches (note 2)		8.1	
Other non-interest income	10.5	6.5	9.8
Total non-interest income	147.4	173.3	151.7
Non-interest expense:			
Compensation and benefits (notes 16 and 17)	202.9	195.5	194.3
Occupancy and equipment	62.2	62.4	69.3
Liability restructuring costs (notes 9, 10 and 18)		2.7	133.4
Goodwill impairment charge (note 1)		2.0	
Other non-interest expense	81.8	81.8	82.7

Total non-interest expense	346.9	344.4	479.7
Income (loss) from continuing operations before income tax expense (benefit)	179.5	190.0	(14.2)
Income tax expense (benefit) (note 11)	57.8	64.1	(8.6)
Income (loss) from continuing operations	121.7	125.9	(5.6)
Discontinued operations (note 22):			
Income from discontinued operations, net of tax	2.3	5.0	6.8
Gain on sale of discontinued operations, net of tax		6.2	198.5
Income from discontinued operations	2.3	11.2	205.3
Net income	$ 124.0	$ 137.1	$ 199.7
Earnings per common share (note 14)			
Basic:			
Income (loss) from continuing operations	$ 0.86	$ 0.89	$ (0.04)
Net income	0.88	0.97	1.43
Diluted:			
Income (loss) from continuing operations	0.85	0.89	(0.04)
Net income	0.87	0.97	1.42

See accompanying notes to consolidated financial statements.

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People s Bank and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

(in millions, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2003	$ 139.5	$ 137.7	$ 759.8	$ (35.0)	$ 1,002.0
Net income			199.7		199.7
Other comprehensive income, net of tax (note 15)				22.8	22.8
Total comprehensive income					222.5
Cash dividends on common stock ($0.75 per share)			(45.8)		(45.8)
Stock options and related tax benefits	1.3	19.8			21.1
Balance at December 31, 2004	140.8	157.5	913.7	(12.2)	1,199.8
Net income			137.1		137.1
Other comprehensive loss, net of tax (note 15)				(11.2)	(11.2)
Total comprehensive income					125.9
Cash dividends on common stock ($0.85 per share)			(52.4)		(52.4)
Stock options and related tax benefits	0.8	14.5			15.3
Balance at December 31, 2005	141.6	172.0	998.4	(23.4)	1,288.6
Net income			124.0		124.0
Other comprehensive income, net of tax (note 15)				15.4	15.4
Total comprehensive income					139.4
Cash dividends on common stock ($0.97 per share)			(60.0)		(60.0)
Stock options and related tax benefits	0.6	10.9			11.5
Adjustment to accumulated other comprehensive loss upon adoption of SFAS No. 158 on December 31, 2006				(40.0)	(40.0)
Balance at December 31, 2006	$ 142.2	$ 182.9	$ 1,062.4	$ (48.0)	$ 1,339.5

See accompanying notes to consolidated financial statements.

People s Bank and Subsidiaries

Consolidated Statements of Cash Flows

Years ended December 31 (in millions)	2006	2005	2004
Cash Flows from Operating Activities:			
Net income	$ 124.0	$ 137.1	$ 199.7
Income from discontinued operations, net of tax	(2.3)	(11.2)	(205.3)
Income (loss) from continuing operations	121.7	125.9	(5.6)
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Provision for loan losses	3.4	8.6	13.3
Depreciation and amortization of premises and equipment	19.0	19.7	22.9
Amortization of leased equipment	3.3	1.3	0.7
Goodwill impairment charge		2.0	
Amortization of other acquisition-related intangibles	1.1	1.8	3.4
Deferred income tax expense	33.8	2.7	4.3
Net security losses	27.2	0.1	4.7
Net gains on sales of residential mortgage loans	(2.0)	(4.0)	(3.7)
Originations of loans held-for-sale	(251.2)	(316.8)	(299.4)
Proceeds from sales of loans held-for-sale	197.6	326.2	308.4
Gain on sale of branches		(8.1)	
Net (increase) decrease in trading account securities	(2.3)	(15.6)	6.4
Pension plan contribution	(92.6)	(11.0)	(11.0)
Net changes in other assets and liabilities	0.8	(29.8)	376.5
Net cash provided by operating activities of continuing operations	59.8	103.0	420.9
Cash Flows from Investing Activities:			
Purchases of securities purchased under agreements to resell		(25.0)	
Proceeds from sale of securities purchased under agreements to resell	24.7		
Proceeds from sales of securities available for sale	1,648.0	394.7	1,163.1
Proceeds from principal repayments of securities available for sale	223.4	531.1	487.8
Proceeds from principal repayments of securities held to maturity	0.3		
Purchases of securities available for sale	(581.7)	(216.9)	(1,273.9)
Proceeds from sales of loans	12.5	3.8	18.1
Disbursements for loan originations, net of principal collections	(580.7)	(663.7)	(874.3)
Purchase of loans	(188.2)		
Net cash paid in branch sale		(51.0)	
Purchase of bank-owned life insurance	(50.5)	(150.0)	
Return of premium on bank-owned life insurance	0.9		
Purchases of premises and equipment	(15.7)	(20.6)	(16.4)
Purchases of leased equipment	(21.2)	(1.5)	(5.7)
Net cash provided by (used in) investing activities	471.8	(199.1)	(501.3)
Cash Flows from Financing Activities:			
Net increase in deposits		281.3	148.0
Net decrease in borrowings with terms of three months or less	(290.8)	(45.9)	(266.1)
Repayments of borrowings with terms greater than three months			(909.3)
Repayments of subordinated notes	(43.5)		
Repurchases of subordinated notes		(13.5)	(132.4)

Cash dividends paid on common stock	(60.0)	(52.4)	(45.8)
Proceeds from issuance of common stock, net of related tax benefits	5.6	15.3	19.2
Net cash (used in) provided by financing activities	(388.7)	184.8	(1,186.4)
Cash Flows from Discontinued Operations:			
Operating activities	2.3	1.6	(100.1)
Investing activities			1,285.2
Net cash provided by discontinued operations	2.3	1.6	1,185.1
Net increase (decrease) in cash and cash equivalents	145.2	90.3	(81.7)
Cash and cash equivalents at beginning of year	423.5	333.2	414.9
Cash and cash equivalents at end of year	$ 568.7	$ 423.5	$ 333.2
Supplemental Information:			
Interest payments	$ 200.0	$ 137.6	$ 121.3
Income tax payments	42.5	87.1	99.7
Real estate properties acquired by foreclosure	0.4	0.6	1.8

See accompanying notes to consolidated financial statements.

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People s Bank and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 Summary of Significant Accounting Policies

People s Bank (People s) is a federally-chartered stock savings bank offering a full range of financial services to individual, corporate and municipal customers. People s provides traditional banking services of accepting deposits and originating loans, as well as specialized financial services through its subsidiaries, including: brokerage, financial advisory services, investment management services and life insurance through People s Securities, Inc. (PSI); equipment financing through People s Capital and Leasing Corp. (PCLC); and other insurance services through R.C. Knox and Company, Inc. (RC Knox).

People s converted to a federally-chartered stock savings bank from a Connecticut-chartered stock savings bank effective August 18, 2006. The Office of Thrift Supervision (OTS) is People s regulator under the federal charter. Previously under its state charter, People s was regulated by the State of Connecticut Department of Banking and the Federal Deposit Insurance Corporation (FDIC). Simultaneously with People s conversion, People s Mutual Holdings (Holdings) converted to a federally-chartered mutual holding company from a Connecticut-chartered mutual holding company. On September 20, 2006, People s and Holdings announced their plan to convert from a mutual holding company structure to a fully-public stock holding company structure. See Note 23 for a further discussion.

People s overall financial results are particularly dependent on economic conditions in the state of Connecticut, which is its primary market, although economic conditions elsewhere in the United States affect its equipment financing and national lending businesses. Deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC.

Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of People s and its subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

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, including the classification of revenues and expenses to discontinued operations. Actual results could differ from management s current estimates, as a result of changing conditions and future events. Several estimates are particularly critical and

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are susceptible to significant near-term change, including the allowance for loan losses, the valuation of derivative financial instruments, and asset impairment judgments including other-than-temporary declines in the value of securities and the recoverability of goodwill and other intangible assets. These significant accounting policies and critical estimates, which are included in the discussion below, are reviewed with the Audit Committee of the Board of Directors.

For purposes of the Consolidated Statements of Cash Flows, cash equivalents include highly liquid instruments with an original maturity of three months or less, including commercial paper and money market mutual funds. These instruments are reported as short-term investments in the Consolidated Statements of Condition at amortized cost, which approximates fair value.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These include the reclassification of equipment leased to commercial customers, with a net book value of $9.3 million and $7.7 million at December 31, 2005 and 2004, respectively, from premises and equipment to other assets in the Consolidated Statements of Condition. For the years ended December 31, 2005 and 2004, revenue of $1.5 million and $0.9 million, respectively, and amortization expense of $1.3 million and $0.7 million, respectively, previously included in occupancy and equipment in the Consolidated Statements of Income, were reclassified to other non-interest income and other non-interest expense, respectively. The cash flows attributable to the operating and investing activities related to this equipment have been disclosed separately for all years presented in the Consolidated Statements of Cash Flows. The reclassifications were not material to People s Consolidated Financial Statements.

The cash flows attributable to residential mortgage loans originated with the intent to sell, previously classified as investing activities, are now classified as operating activities in accordance with Statement of Financial Accounting Standards (SFAS) No. 102, Statement of Cash Flows Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale. The reclassification had the effect of increasing subtotals of cash flows from operating activities of continuing operations by $9.4 million and $9.0 million for the years ended December 31, 2005 and 2004, respectively, and decreasing cash flows from investing activities by corresponding amounts. The reclassifications were not material to People s Consolidated Financial Statements.

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Securities

Marketable equity and debt securities (other than those reported as short-term investments) are classified as either trading account securities, held to maturity securities (applicable only to debt securities) or available for sale securities. Management determines the classification of a security at the time of its purchase.

Securities purchased for sale in the near term are classified as trading account securities and reported at fair value. Unrealized gains and losses are reported in non-interest income.

Debt securities for which People s has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. All other securities are classified as available for sale and reported at fair value. Unrealized gains and losses on securities available for sale are reported on an after-tax basis in stockholders equity as accumulated other comprehensive income or loss. Premiums are amortized and discounts are accreted to interest income for debt securities, using the interest method over the remaining period to contractual maturity, adjusted for the effect of actual prepayments in the case of mortgage-backed securities, collateralized mortgage obligations (CMOs) and other asset-backed securities. Federal Home Loan Bank (FHLB) stock is a non-marketable equity security reported at cost.

Security transactions are generally recorded on the trade date. Realized gains and losses are determined using the specific identification method and reported in non-interest income. Security transactions recorded on the settlement date were limited to purchases of certain mortgage-backed securities during 2004 that had settlement dates occurring up to 30 days after the trade date. These purchases had trade and settlement dates occurring within the same quarter, and interest income began to accrue when the respective security settled. As such, there was no impact on People s interim or annual financial statements.

Management conducts a periodic review and evaluation of the securities portfolio to determine if the decline in fair value of any security appears to be other than temporary. If the decline is deemed to be other than temporary, the security is written down to a new cost basis and the resulting loss is reported in non-interest income. The factors considered by management in its periodic review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; the

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ratings of the security; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions; and People s intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value.

Securities Resale Agreements

In securities resale agreements, a counterparty transfers securities to People s under an agreement to resell the same or substantially the same securities at a fixed price in the future. These agreements are accounted for as a secured loan agreement transaction since the counterparty maintains effective control over the transferred securities and the transfer meets the other criteria for such accounting. The transferred securities are pledged by the counterparty as collateral and People s does not have the right by contract to sell or repledge that collateral. The market value of the pledged collateral approximates the recorded amount of the secured loan. Decreases in the market value of the transferred securities below an established threshold will necessitate the counterparty providing additional collateral.

Loans and Allowance for Loan Losses

Loans held for sale are reported at the lower of cost or estimated fair value in the aggregate, considering the effect of forward sales commitments, with any adjustment for net unrealized losses reported in non-interest income. All other loans are reported at amortized cost less the allowance for loan losses. Management identifies and designates as loans held for sale all newly originated adjustable-rate and fixed-rate residential mortgage loans that meet certain secondary market requirements as these loans are originated with the intention to sell. From time to time, management identifies and designates certain adjustable-rate residential mortgage loans held in the loan portfolio for sale, and, accordingly, these loans are transferred to loans held for sale.

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 when realized.

Management maintains the allowance for loan losses at a level that is believed to be adequate to absorb probable losses inherent in the existing loan portfolio, based on a quarterly evaluation of a variety of factors. These factors include, but are not limited to: People s historical loan loss experience and recent trends in that experience; risk ratings assigned by lending personnel to commercial real estate finance, commercial and PCLC loans, and the

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results of ongoing reviews of those ratings by People s independent loan review function; an evaluation of 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 management seeks to use the best available information to make these evaluations, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions, results of regulatory examinations, further information obtained regarding known problem loans, the identification of additional problem loans and other factors.

The allowance for loan losses consists of amounts determined in accordance with SFAS No. 5, Accounting for Contingencies, and SFAS No. 114, Accounting by Creditors for Impairment of a Loan. In applying SFAS No. 5, management considers the factors listed in the preceding paragraph in order to estimate a loss allowance for (i) each homogeneous pool of smaller balance loans (residential mortgage and consumer loans) that are evaluated on a collective basis, and (ii) commercial real estate finance and commercial loans that are not considered impaired under SFAS No. 114. A loan is considered impaired when, based on current information and events, it is probable that People s will be unable to collect all principal and interest due according to the contractual terms of the loan. People s applies SFAS No. 114 to loans that are individually evaluated for collectibility in accordance with its normal loan review procedures. Under SFAS No. 114, impaired loans are reported based on one of three measures: the present value of expected future cash flows discounted at the loan s effective interest rate; the loan s observable market price; or the fair value of the collateral if the loan is collateral dependent. If the measure is less than an impaired loan s recorded investment, an impairment loss is recognized as part of the allowance for loan losses.

Interest and Fees on Loans

Interest on loans is accrued to income monthly based on outstanding principal balances. A loan is classified as non-accrual generally when it becomes 90 days past due as to interest or principal payments. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the current period. 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 collectibility no longer exist or until a loan is determined to be uncollectible and is charged off against the allowance for loan losses.

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Loan origination fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in interest income as an adjustment of yield. Depending on the loan portfolio, deferred amounts are amortized using either the actual life or the estimated average life of the loan.

Fee-Based Revenues

Service charges on deposit accounts are recorded when earned. Insurance revenues represent commissions earned solely from performing broker- and agency-related services. Insurance commission revenues related to agency-billed policies are recognized at the later of the policy billing date or the policy effective date. Insurance commission revenues on premiums directly billed by insurance carriers are recognized as revenue during the period commissions are paid by the insurance carrier. Brokerage commissions are recognized on a trade-date basis. Investment management fees are accrued when earned based on total assets under management.

Bank-Owned Life Insurance

Bank-owned life insurance (BOLI) represents the cash surrender value of life insurance policies purchased on certain management-level employees. People s invested $150 million in a BOLI program in 2005 and made an additional $50 million investment in 2006. Increases in the cash surrender value of these policies and death benefits in excess of the related invested premiums are included in non-interest income in the Consolidated Statements of Income, while insurance proceeds received are recorded as a reduction in the cash surrender value.

Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation and amortization, except for land, which is reported at cost. Buildings, data processing and other equipment, computer software, furniture and fixtures are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term, the estimated useful life of the improvements or 10 years. Capitalized software development costs are amortized on a straight-line basis over the estimated useful life of the software. The estimated useful lives are as follows: buildings 40 years; data processing and other equipment 3 to 5 years; computer software 3 to 5 years; and furniture and fixtures 10 years.

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Goodwill and Other Acquisition-Related Intangibles

SFAS No. 141, Business Combinations, requires, among other things, use of the purchase method to account for all business combinations and specifies criteria that acquired intangible assets must meet in order to be recognized and reported separately from goodwill. The assets and liabilities of an acquired company are recorded at fair value at the date of acquisition. Intangible assets are recognized in an amount equal to the excess of the acquisition cost over the fair value of the net assets acquired. Other acquisition-related intangibles are separately identified, where appropriate, for the estimated value of acquired customer relationships and are amortized on a straight-line basis over the estimated remaining average life of those relationships (ranging from 7 to 12 years from the respective acquisition dates). The remaining intangible asset is classified as goodwill.

SFAS No. 142, Goodwill and Other Intangible Assets, requires that goodwill be reviewed for impairment at least annually, with impairment losses charged to expense when they occur. Acquisition-related intangible assets other than goodwill are amortized to expense over their estimated useful lives and are periodically reviewed by management to assess recoverability. Impairment losses are recognized as a charge to expense if carrying amounts exceed fair values.

SFAS No. 142 requires that goodwill be tested for impairment using a two-step approach that involves the identification of reporting units and the estimation of fair values. Goodwill shall also be tested for impairment when events occur that would more likely than not reduce the implied fair value of goodwill below its carrying value. An impairment loss is recognized as a charge to expense for any excess of the goodwill carrying amount over implied fair value.

The annual goodwill impairment evaluation, as required by SFAS No. 142, was completed by management as of December 31, 2006 using the two-step approach. It was determined that the fair value of People s reporting units exceeded their respective carrying amounts and, therefore, no impairment loss was recognized in 2006.

People s goodwill totaled $101.5 million at both December 31, 2006 and 2005. At December 31, 2006, goodwill was allocated to the Consumer Financial Services and Commercial Banking segments in the amounts of $96.8 million and $4.7 million, respectively.

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People s other acquisition-related intangible assets totaled $3.5 million and $4.6 million; gross carrying amounts totaled $28.1 million and $28.1 million; and accumulated amortization totaled $24.6 million and $23.5 million, at December 31, 2006 and December 31, 2005, respectively. Certain other acquisition-related intangible assets with original gross carrying amounts totaling $13.1 million were fully amortized by December 31, 2006. Other acquisition-related intangible assets have an original weighted-average amortization period of 11 years. Amortization expense of other acquisition-related intangible assets totaled $1.1 million, $1.8 million and $3.4 million in 2006, 2005 and 2004, respectively. The estimated aggregate amortization expense over each of the next four years for other acquisition-related intangible assets is as follows: $1.1 million in 2007, $1.0 million in 2008 and 2009; and $0.4 million in 2010.

Real Estate Owned

Real estate owned (REO) properties acquired through foreclosure or deed-in-lieu of foreclosure are recorded initially at the lower of cost or estimated fair value less costs to sell. Any write-down of the recorded investment in the related loan is charged to the allowance for loan losses upon transfer to REO. Thereafter, an allowance for REO losses is established for any further declines in the property s value. This allowance is increased by provisions charged to income and decreased by charge-offs for realized losses. Management s periodic evaluation of the adequacy of the allowance is based on an analysis of individual properties, as well as a general assessment of current real estate market conditions.

Securities Repurchase Agreements

In securities repurchase agreements, People s transfers securities to a counterparty under an agreement to repurchase the same or substantially the same securities at a fixed price in the future. These agreements are accounted for as secured financing transactions since People s maintains effective control over the transferred securities and the transfer meets the other criteria for such accounting. The transferred securities are pledged by People s as collateral and the counterparty has the right by contract to sell or repledge that collateral.

Income Taxes

Deferred taxes are recognized for the estimated future tax effects attributable to temporary differences and tax loss carryforwards. Temporary differences are differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. A deferred tax liability is recognized for all temporary differences

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that will result in future taxable income. A deferred tax asset is recognized for all temporary differences that will result in future tax deductions and for all tax loss carryforwards, subject to reduction of the asset by a valuation allowance in certain circumstances. This valuation allowance is recognized if, based on an analysis of available evidence, management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance is subject to ongoing adjustment based on changes in circumstances that affect management s judgment about the realizability of the deferred tax asset.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to future taxable income. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income tax expense in the period that includes the enactment date of the change. Tax benefits attributable to deductions arising from the exercise of non-statutory stock options are credited to additional paid-in capital.

Earnings Per Common Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or converted into additional common shares that would then share in the earnings of the entity. Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding for the year, plus an incremental number of common-equivalent shares computed using the treasury stock method.

Derivative Instruments and Hedging Activities

People s uses derivatives for market risk management purposes (principally interest rate risk) and not for trading or speculation purposes.

All derivatives are recognized as either assets or liabilities and are measured at fair value. Favorable changes in fair values result in unrealized gains that are recognized as assets, while unfavorable changes result in unrealized losses that are recognized as liabilities. People s hedge accounting methods vary depending on whether the derivative instrument is classified as a fair value hedge or a cash flow hedge. Hedge accounting is permitted only if specific criteria are met, including a requirement that a highly effective relationship exist between the derivative instrument and the hedged item, both at inception of the hedge and on an ongoing basis. Results of effective hedges are recognized in current earnings for fair value hedges. Changes in the fair value of effective cash flow hedges are recognized in other comprehensive income until earnings are affected by the variability in cash flows of the designated hedged item. Ineffective portions of hedge results are recognized in current earnings.

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People s formally documents all relationships between the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities, or to specific firm commitments or forecasted transactions. People s also formally assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of the hedged items. If it is determined that a derivative is not highly effective or has ceased to be a highly effective hedge, People s would discontinue hedge accounting prospectively. In the event of a prepayment of a hedged commercial real estate finance loan, the interest rate swap hedging such loan will be terminated. Gains or losses associated with the termination of the derivative and any basis adjustment to the commercial real estate finance loan will be recorded currently in earnings.

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

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

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Stock-Based Compensation

People s adopted SFAS No. 123-R, Share-Based Payment, effective January 1, 2006, which replaced SFAS No. 123 Accounting for Stock-Based Compensation and superseded Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations. Among other things, SFAS No. 123-R requires that costs resulting from all share-based payment transactions with employees be recognized in the financial statements. As described in Note 17, in December 2005, People s accelerated the vesting of all outstanding unvested stock options awarded to employees.

Prior to adopting SFAS No. 123-R, People s accounted for stock options in accordance with APB Opinion No. 25. Accordingly, People s did not recognize compensation expense for fixed stock options granted with an option exercise price equal to the fair value of the underlying stock at the grant date. The fair value of restricted stock awards, measured at the grant date and based on quoted market prices, was recorded as a component of stockholders equity and amortized to compensation expense on a straight-line basis over the vesting period.

SFAS No. 123 encouraged the recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period. However, as permitted by SFAS No. 123, People s continued to apply the intrinsic value-based method of accounting prescribed by APB Opinion No. 25 and disclosed certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied.

SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, provided alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amended the disclosure requirements of SFAS No. 123 by requiring prominent pro-forma disclosures in both annual and interim financial statements, which are included in the following table. See Note 17 for a further discussion of SFAS No. 123.

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The following table illustrates the effect on net income and earnings per common share for 2005 and 2004 if People s had applied the fair value recognition provisions of SFAS No. 123:

Years ended December 31 (in millions, except per share data)	**2005**	**2004**
Net income, as reported	$ 137.1	$ 199.7
Add: stock-based employee compensation expense included in reported net income, net of related tax effects	1.4	1.4
Less: total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(1.9)	(2.1)
Pro forma net income	$ 136.6	$ 199.0
Basic EPS:		
As reported	$ 0.97	$ 1.43
Pro forma	0.97	1.42
Diluted EPS:		
As reported	$ 0.97	$ 1.42
Pro forma	0.96	1.41

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Accounting Standards

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) Topic 1N, Financial Statements Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB No. 108), in order to address diversity in practice in quantifying financial statement misstatements. SAB No. 108 requires that misstatements be quantified using both the balance-sheet and income-statement approaches. Financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. SAB No. 108 is effective for annual financial statements for the first fiscal year ending after November 15, 2006. The application of SAB No. 108 did not have an impact on People s Consolidated Financial Statements.

People s adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006. Among other things, SFAS No. 158 requires an employer to recognize the funded status of its pension and other postretirement benefit plans in its statement of financial position effective for fiscal years ending after December 15, 2006. SFAS No. 158 will also require the measurement of plan assets and benefit obligations as of the date of the employer s fiscal year-end (eliminating the use of earlier measurement dates currently permissible), effective for fiscal years ending after December 15, 2008. See Note 16 for a further discussion of People s adoption of SFAS No. 158.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The application of FIN 48, beginning in the first quarter of 2007, is not expected to have a material impact on People s Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a definition and measurement date for fair value and expands the disclosures regarding fair-value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material impact on People s Consolidated Financial Statements.

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NOTE 2 Sale of Branches

In the fourth quarter of 2005, People s sold three of its branch offices located in eastern Connecticut. Included in the sale were approximately $61 million in total deposits, $0.1 million of fixed assets and leasehold improvements, and certain other miscellaneous assets and liabilities. People s recorded a gain on sale of $8.1 million, which is included in non-interest income in the Consolidated Statements of Income.

NOTE 3 Cash and Short-Term Investments

Reserves in the form of deposits with the Federal Reserve Bank and vault cash totaling $112.7 million and $116.4 million at December 31, 2006 and 2005, respectively, were maintained to satisfy federal regulatory requirements. These amounts are included in cash and due from banks in the Consolidated Statements of Condition.

Short-term investments include the following cash equivalents:

As of December 31 (in millions)	2006	2005
Federal funds sold	$ 193.3	$
Money market mutual funds	23.0	24.3
Commercial paper	8.3	7.6
Total short-term investments	$ 224.6	$ 31.9

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NOTE 4 Securities

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

As of December 31, 2006 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading account securities	$ 29.6	$	$	$ 29.6
Securities available for sale:				
Debt securities:				
U.S. Treasury and agency	25.9			25.9
Total debt securities	25.9			25.9
Equity securities:				
FHLB stock	20.1			20.1
Other securities	0.6	0.2		0.8
Total equity securities	20.7	0.2		20.9
Total securities available for sale	46.6	0.2		46.8
Securities held to maturity:				
Corporate and other	1.1			1.1
Total securities held to maturity	1.1			1.1
Total securities	$ 77.3	$ 0.2	$	$ 77.5

As of December 31, 2005 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading account securities	$ 27.3	$	$	$ 27.3
Securities available for sale:				
Debt securities:				
Mortgage-backed securities and CMOs	1,036.7	0.1	(21.9)	1,014.9
U.S. Treasury and agency	295.0		(7.3)	287.7
Total debt securities	1,331.7	0.1	(29.2)	1,302.6
Equity securities:				
FHLB stock	30.6			30.6
Other securities	0.9	0.2		1.1

Total equity securities	31.5	0.2		31.7
Total securities available for sale	1,363.2	0.3	(29.2)	1,334.3
Securities held to maturity:				
Corporate and other	1.3			1.3
Mortgage-backed securities	0.1			0.1
Total securities held to maturity	1.4			1.4
Total securities	$ 1,391.9	$ 0.3	$ (29.2)	$ 1,363.0

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People s mortgage-backed securities and CMOs had carrying values of $1.0 billion at December 31, 2005 (none at December 31, 2006). These amounts consisted of (i) securities issued or collateralized by United States government-sponsored enterprises, such as Freddie Mac and Fannie Mae, totaling $0.8 billion, and (ii) privately-issued securities of $0.2 billion.

Securities available for sale with a total fair value of $21.9 million and $146.8 million at December 31, 2006 and 2005, respectively, were pledged as collateral for public deposits and for other purposes.

Dividend income on equity securities available for sale totaled $1.6 million, $2.1 million and $1.6 million in 2006, 2005 and 2004, respectively. Tax-exempt interest income totaled $0.1 million in 2004 (none in 2005 and 2006).

The following table is a summary of the amortized cost, fair value and fully taxable equivalent (FTE) yield of debt securities based on remaining period to contractual maturity:

As of December 31, 2006 (dollars in millions)	**Available for Sale Amortized Cost**	**Available for Sale Fair Value**	**Available for Sale FTE Yield**	**Held to Maturity Amortized Cost**	**Held to Maturity Fair Value**	**Held to Maturity FTE Yield**
U.S. Treasury and agency:						
Within 1 year	$ 25.9	$ 25.9	5.11%	$	$	%
Total	25.9	25.9	5.11			
Corporate and other:						
Within 1 year				0.5	0.5	5.76
After 1 but within 5 years				0.6	0.6	6.09
Total				1.1	1.1	5.94
Total:						
Within 1 year	25.9	25.9	5.11	0.5	0.5	5.76
After 1 but within 5 years				0.6	0.6	6.09
Total debt securities	$ 25.9	$ 25.9	5.11%	$ 1.1	$ 1.1	5.94%

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The components of net security losses are summarized below. All amounts relate to securities available for sale, other than net gains (losses) on trading account securities of $0.1 million and $(0.1) million in 2006 and 2005 (none in 2004).

Years ended December 31 (in millions)	2006	2005	2004
Equity securities:			
Gains	$ 0.2	$	$ 1.3
Losses		(0.1)	(1.6)
Total equity securities	0.2	(0.1)	(0.3)
Debt securities:			
Gains	0.1		0.9
Losses	(27.5)		(5.3)
Total debt securities	(27.4)		(4.4)
Net security losses	$ (27.2)	$ (0.1)	$ (4.7)

During 2006, People s sold approximately $1.1 billion of debt securities as part of the restructuring of its balance sheet. Realized losses from these sales of $27.4 million are included in net security losses in the Consolidated Statements of Income. In the second quarter of 2006, People s decided to exit a product line and cease purchasing federal funds from a group of smaller New England community banks. The sale of securities, at a loss of $4.0 million, was undertaken to pay down the related borrowings. During the third quarter of 2006, People s completed the sale of substantially its entire remaining debt securities portfolio at a loss of $23.4 million. This sale eliminated the remaining debt securities portfolio to accelerate the restructuring of the balance sheet given the prevailing interest rate environment.

Of the five securities owned by People s at December 31, 2006, one security available for sale had an unrealized loss at that date. Management reviews those securities with unrealized losses on a regular basis in accordance with current impairment measurement and recognition guidelines under EITF 99-20 and FSP FAS 115-1 and FAS 124-1. The U.S. Government and Agency security with the unrealized loss has a short duration and has a AAA credit rating. The cause of the temporary impairment with respect to this security is directly related to changes in interest rates. People s generally views changes in fair value caused by changes in interest rates as temporary. Therefore, this security was not considered to be other than temporarily impaired because People s has the intent and ability to hold this security to receive full repayment of the amount invested. The unrealized loss at December 31, 2006 was therefore considered to be temporary.

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The following table summarizes those securities available for sale as of December 31, 2005 with unrealized losses, segregated by the length of time in a continuous unrealized loss position:

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months Or Longer		Total	
As of December 31, 2005 (in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities and CMOs	$ 118.3	$ (1.1)	$ 886.2	$ (20.8)	$ 1,004.5	$ (21.9)
U.S. Treasury and agency	24.4	(0.6)	258.9	(6.7)	283.3	(7.3)
Total	$ 142.7	$ (1.7)	$ 1,145.1	$ (27.5)	$ 1,287.8	$ (29.2)

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NOTE 5 Loans

The following table summarizes the geographic distribution of People s loan portfolio:

	2006			2005		
As of December 31 (in millions)	**Connecticut**	**Other**	**Total**	**Connecticut**	**Other**	**Total**
Residential mortgage	$ 3,576.7	$ 323.4	$ 3,900.1	$ 3,406.1	$ 101.8	$ 3,507.9
Commercial	1,010.6	1,353.0	2,363.6	978.1	1,051.1	2,029.2
Commercial real estate finance	1,216.2	570.5	1,786.7	1,308.9	469.4	1,778.3
Consumer	1,305.0	16.3	1,321.3	1,234.3	23.2	1,257.5
Total loans	$ 7,108.5	$ 2,263.2	$ 9,371.7	$ 6,927.4	$ 1,645.5	$ 8,572.9

People s loan portfolio is concentrated within the state of Connecticut with 76% and 81% of the total loan portfolio involving customers within the state at December 31, 2006 and 2005, respectively. However, substantially all (approximately 98% at December 31, 2006 and 97% at December 31, 2005) of the equipment financing activities of PCLC, which is included in commercial, involves customers outside of Connecticut. PCLC loans and leases totaled $869.8 million and $634.7 million at December 31, 2006 and 2005, respectively.

At December 31, 2006, approximately 56% of the residential mortgage loan portfolio was comprised of interest-only loans. One-to-four family residential mortgage loans totaling $3.7 billion and $3.3 billion at December 31, 2006 and 2005, respectively.

Residential mortgage and commercial real estate finance loans include construction loans totaling $728.9 million and $709.1 million at December 31, 2006 and 2005, respectively, net of the unadvanced portion of such loans totaling $544.1 million and $472.4 million, respectively.

Net deferred loan costs that are included in total loans and accounted for as interest yield adjustments totaled $29.1 million and $26.2 million at December 31, 2006 and 2005, respectively.

Certain residential mortgage loans originated by People s are sold without recourse in the secondary market. Net gains on sales of residential mortgage loans totaled $2.0 million, $4.0 million and $3.7 million in 2006, 2005 and 2004, respectively. Residential mortgage loans at December 31, 2006 and 2005 included loans held for sale (servicing released) of $25.0 million and $11.2 million, respectively, which approximate fair value.

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The following is a summary of activity in the allowance for loan losses:

Years ended December 31 (in millions)	**2006**	**2005**	**2004**
Balance at beginning of year	$ 75.0	$ 72.5	$ 70.5
Charge-offs:			
Consumer	(3.4)	(4.9)	(9.7)
Commercial	(5.2)	(0.9)	(0.6)
PCLC	(0.6)	(3.1)	(1.5)
Commercial real estate finance		(0.1)	(3.2)
Residential mortgage	(0.1)	(0.1)	(0.2)
Total charge-offs	(9.3)	(9.1)	(15.2)
Recoveries:			
Consumer	1.6	2.0	2.8
Commercial	0.4	0.4	0.3
PCLC	0.3	0.3	0.5
Commercial real estate finance	2.5	0.1	0.1
Residential mortgage	0.1	0.2	0.2
Total recoveries	4.9	3.0	3.9
Net loan charge-offs	(4.4)	(6.1)	(11.3)
Provision for loan losses	3.4	8.6	13.3
Balance at end of year	$ 74.0	$ 75.0	$ 72.5

The principal balances of non-accrual loans are summarized as follows:

As of December 31 (in millions)	**2006**	**2005**	**2004**
Commercial	$ 11.9	$ 1.3	$ 5.2
PCLC	2.1	6.2	5.1
Residential mortgage	6.7	6.7	7.5
Consumer	1.7	1.3	0.9
Commercial real estate finance	0.2	5.8	8.7
Total non-accrual loans	$ 22.6	$ 21.3	$ 27.4

If interest payments on all loans classified as non-accrual at December 31, 2006, 2005 and 2004 had been made during the respective years in accordance with the loan agreements, interest income of $1.9 million, $2.0 million and $2.1 million would have been recognized on such loans in 2006, 2005 and 2004, respectively. Interest income actually recognized on non-accrual loans totaled $0.7 million, $0.7 million and $0.9 million for 2006, 2005 and 2004, respectively.

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People s impaired loans, as defined by SFAS No. 114, consist of certain non-accrual commercial real estate finance loans and commercial loans. The recorded investment in impaired loans was $12.8 million at December 31, 2006 and $8.0 million at December 31, 2005, with allowances for loan impairment measured under SFAS No. 114 of $1.8 million and $0.6 million, respectively. These allowances are included in the overall allowance for loan losses. People s average recorded investment in impaired commercial real estate finance loans and commercial loans was approximately $10.2 million, $10.2 million and $22.4 million in 2006, 2005 and 2004, respectively. Interest collections and income recognized on impaired loans was insignificant in 2006, 2005 and 2004.

The recorded investment in accruing impaired restructured loans requiring an allowance for loan losses as defined by SFAS No. 114 totaled $0.7 million and $0.8 million at December 31, 2006 and 2005, respectively, with a related allowance for loan losses of $0.1 million in both 2006 and 2005. This allowance is also included in the overall allowance for loan losses. People s average recorded investment in accruing impaired restructured loans was approximately $0.8 million and $0.9 million in 2006 and 2005, respectively. At December 31, 2006 and 2005, there were no commitments to lend additional funds to these debtors. The recognition of interest income on these accruing impaired loans is based upon an individual assessment of each loan, however, interest income is not accrued on a loan that is more than 90 days past due. Interest income recognized related to these loans under the accrual method was insignificant for 2006 and 2005.

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NOTE 6 Premises and Equipment

The components of premises and equipment are summarized below:

As of December 31 (in millions)	2006	2005
Land	$ 14.6	$ 14.6
Buildings	167.3	162.4
Leasehold improvements	37.3	37.4
Furniture and equipment	187.1	185.8
Total	406.3	400.2
Less accumulated depreciation and amortization	269.5	260.1
Total premises and equipment, net	$ 136.8	$ 140.1

Depreciation and amortization expense included in occupancy and equipment totaled $19.0 million, $19.7 million and $22.9 million in 2006, 2005 and 2004, respectively.

NOTE 7 Other Assets

Selected components of other assets are as follows:

As of December 31 (in millions)	2006	2005
Pension benefits (note 16)	$ 83.6	$ 57.9
Receivables arising from securities brokerage and insurance businesses	44.8	47.3
Accrued interest receivable:		
Loans	44.8	36.0
Securities	0.4	6.7
Income tax receivable	28.0	
Leased equipment	27.1	9.3
Fair value of derivative financial instruments (note 20)	11.5	5.9
Deferred stock issuance costs (note 23)	3.0	
Net deferred tax asset (note 11)		16.8

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NOTE 8 Deposits

The following are analyses of People s total deposits by product type and funding source:

	2006		2005	
As of December 31 (dollars in millions)	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Analysis by Deposit Product Type:				
Non-interest-bearing	$ 2,294.4	%	$ 2,353.1	%
Savings, interest-bearing checking and money market	3,205.2	1.39	3,767.4	1.29
Total	5,499.6	0.81	6,120.5	0.79
Time deposits maturing:				
Within 6 months	2,287.3	4.49	1,357.1	2.97
After 6 months but within 1 year	980.3	4.63	958.1	3.44
After 1 but within 2 years	220.8	3.65	496.4	3.64
After 2 but within 3 years	45.4	3.14	89.1	2.86
After 3 years	49.2	3.88	61.4	3.47
Total	3,583.0	4.45	2,962.1	3.24
Total deposits	$ 9,082.6	2.25%	$ 9,082.6	1.59%
Analysis by Deposit Funding Source:				
Core	$ 8,958.4	2.28%	$ 8,872.7	1.60%
Non-core	124.2	0.34	209.9	1.27
Total deposits	$ 9,082.6	2.25%	$ 9,082.6	1.59%

Time deposits issued in amounts of $100,000 or more totaled $888.5 million and $698.1 million at December 31, 2006 and 2005, respectively. Deposit balances greater than $100,000 are generally not insured by the FDIC. Non-interest-bearing deposit overdrafts totaling $10.5 million and $5.9 million at December 31, 2006 and 2005, respectively, have been classified as loans.

Interest expense on deposits is summarized as follows:

Years ended December 31 (in millions)	**2006**	**2005**	**2004**
Savings, interest-bearing checking and money market	$ 49.6	$ 43.0	$ 34.7
Time	130.5	74.5	52.0
Total interest expense	$ 180.1	$ 117.5	$ 86.7

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NOTE 9 Borrowings

People s borrowings are as follows:

	2006		2005	
As of December 31 (dollars in millions)	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Federal funds purchased maturing within 3 months	$ 4.1	5.15%	$ 269.9	3.94%
Fixed rate FHLB advances maturing within 3 months			25.0	4.00
Total borrowings	$ 4.1	5.15%	$ 294.9	3.94%

At December 31, 2006, People s borrowing limit from FHLB and Federal Reserve Bank of New York advances, and repurchase agreements, was $3.5 billion, based on the level of qualifying collateral available for these borrowing sources. In addition, People s had unsecured borrowing capacity of $1.1 billion at December 31, 2006. FHLB advances are secured by People s investment in FHLB stock and by a blanket security agreement that requires People s 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).

In 2004, People s prepaid $799 million of FHLB advances and $110 million of long-term repurchase agreements as part of a balance sheet restructuring. Costs relating to these prepayments are included in liability restructuring costs in the Consolidated Statements of Income.

Information concerning People s borrowings under securities repurchase agreements is presented below:

As of and for the years ended December 31 (in millions)	**2006**	**2005**	**2004**
Carrying amount of collateral securities at year end	$	$	$
Average repurchase agreements outstanding during the year		1.7	36.1
Maximum repurchase agreements outstanding at any month end			205.5

Interest expense on borrowings consists of the following:

Years ended December 31 (in millions)	**2006**	**2005**	**2004**
Federal funds purchased	$ 7.6	$ 7.9	$ 3.2
FHLB advances	2.4	1.4	9.4
Repurchase agreements		0.1	1.0
Total interest expense	$ 10.0	$ 9.4	$ 13.6

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NOTE 10 Subordinated Notes

People s subordinated notes are summarized as follows:

As of December 31 (in millions)	2006	2005
9.875% subordinated notes due 2010	$ 65.3	$ 65.1
7.20% subordinated notes due 2006		43.5
Total subordinated notes	$ 65.3	$ 108.6

In December 2006, the 7.20% subordinated notes matured and were repaid. In 2005, People s repurchased $13.5 million of its 9.875% subordinated notes. In 2004, People s repurchased $70.8 million of its 9.875% subordinated notes and $61.6 million of its 7.20% subordinated notes as part of a balance sheet restructuring. Costs relating to these repurchases are included in liability restructuring costs in the Consolidated Statements of Income.

The 9.875% subordinated notes are unsecured general obligations of People s with interest payable semi-annually; are subordinated to the claims of depositors and People s other creditors; and are not redeemable prior to maturity without prior approval of the OTS. The 9.875% subordinated notes qualify, up to certain limits, as supplementary (tier 2) capital for risk-based capital purposes.

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NOTE 11 Income Taxes

The following is a reconciliation of total income tax expense:

Years ended December 31 (in millions)	2006	2005	2004
Income tax expense (benefit):			
From continuing operations	$ 57.8	$ 64.1	$ (8.6)
From discontinued operations	1.1	6.0	110.6
Total income tax expense	$ 58.9	$ 70.1	$ 102.0

The components of income tax expense (benefit) applicable to pre-tax income (loss) from continuing operations are summarized in the following table. The income tax effects on the components of other comprehensive income (loss) are described in Note 15.

Years ended December 31 (in millions)	2006	2005	2004
Current tax expense (benefit):			
Federal	$ 23.9	$ 61.3	$ (13.0)
State	0.1	0.1	0.1
Total current tax expense (benefit)	24.0	61.4	(12.9)
Deferred tax expense (benefit) (1)	33.8	2.7	4.3
Total income tax expense (benefit)	$ 57.8	$ 64.1	$ (8.6)

(1) Includes the effect of increases (decreases) in the valuation allowance for state deferred tax assets of $12.3 million, $6.3 million and $(16.7) million in 2006, 2005 and 2004, respectively.

The following is a reconciliation of expected income tax expense (benefit), computed at the U.S. federal statutory rate of 35%, to actual income tax expense (benefit) from continuing operations:

Years ended December 31 (dollars in millions)	2006	2005	2004
Expected income tax expense (benefit)	$ 62.8	$ 66.5	$ (5.0)
Income from bank-owned life insurance	(3.2)	(1.2)	
Recognition of income tax benefits	(2.4)	(2.0)	(4.0)
Dividends received deduction and tax-exempt interest	(0.3)	(0.4)	(0.4)
Non-deductible amortization of other intangible assets and goodwill impairment		0.8	0.7
Other, net	0.9	0.4	0.1
Actual income tax expense (benefit)	$ 57.8	$ 64.1	$ (8.6)
Effective income tax rate	32.2%	33.7%	60.6%

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In 1998, People s formed a passive investment company, People s Mortgage Investment Company, in accordance with Connecticut tax laws, which permit transfers of mortgage loans to such subsidiaries on or after January 1, 1999. The related earnings of the subsidiary, and any dividends it pays to the parent, are not subject to Connecticut income tax. As a result of the exclusion of such earnings and dividends from Connecticut taxable income beginning in 1999, People s has established a valuation allowance for the full amount of its Connecticut deferred tax asset attributable to net temporary differences and state net operating loss carryforwards. Connecticut tax net operating loss carryforwards totaled $995.5 million at December 31, 2006 and expire between 2020 and 2026.

The tax effects of temporary differences that give rise to People s deferred tax assets and liabilities are as follows:

As of December 31 (in millions)	**2006**	**2005**
Deferred tax assets:		
Allowance for loan losses and non-accrual interest	$ 30.0	$ 31.0
State tax net operating loss carryforwards, net of federal tax effect	48.5	33.2
Other deductible temporary differences	21.1	26.7
Total deferred tax assets	99.6	90.9
Less valuation allowance for state deferred tax assets	(47.9)	(35.6)
Total deferred tax assets, net of the valuation allowance	51.7	55.3
Deferred tax liabilities:		
Pension and other postretirement benefits	(21.8)	(14.1)
Book over tax income recognized on consumer loans	(8.6)	(7.9)
Mark-to-market and original issue discounts for tax purposes	(5.7)	(5.8)
Tax over book depreciation	(16.0)	(8.0)
Other taxable temporary differences	(3.6)	(2.7)
Total deferred tax liabilities	(55.7)	(38.5)
Net deferred tax (liability) asset	$ (4.0)	$ 16.8

Based on People s recent historical and anticipated future pre-tax earnings and the reversal of taxable temporary differences, management believes it is more likely than not that People s will realize its total deferred tax assets, net of the valuation allowance.

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NOTE 12 Regulatory Capital Requirements

People s converted to a federally-chartered stock savings bank from a Connecticut-chartered stock savings bank effective August 18, 2006. People s regulator is the OTS. Previously under its state charter, People s was regulated by the State of Connecticut Department of Banking and the FDIC. Simultaneously with People s conversion, Holdings converted to a federally-chartered mutual holding company from a Connecticut-chartered mutual holding company.

OTS regulations require federally-chartered savings banks to meet three minimum capital ratios: a tangible capital ratio of 1.5% (calculated as tangible capital to adjusted total assets); a leverage (core) capital ratio of 4.0% (calculated as core capital to adjusted total assets); and a total risk-based capital ratio of 8.0% (calculated as total risk-based capital to risk-weighted assets).

Under its prompt corrective action regulations, the OTS 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. The regulations establish a framework for the classification of banks into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, a bank is considered well capitalized if it has a leverage (core) capital ratio of at least 5.0%, a tier 1 risk-based capital ratio of at least 6.0% (calculated as tier 1 capital to risk-weighted assets) and a total risk-based capital ratio of at least 10.0%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting guidelines. Capital amounts and classifications are also subject to qualitative judgments by the OTS about capital components, risk weightings and other factors.

Management believes that, as of December 31, 2006 and 2005, People s met all capital adequacy requirements to which it is subject. Further, the most recent FDIC notifications categorized People s as a well-capitalized institution under the prompt corrective action regulations. No conditions or events have occurred since that notification that have caused management to believe any change in People s capital classification would be warranted.

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The following summary compares People s regulatory capital amounts and ratios to OTS requirements as of December 31, 2006 and FDIC requirements as of December 31, 2005 for classification as a well-capitalized institution and for minimum capital adequacy. While the capital regulations of these two agencies are substantially similar, they are not identical. People s adjusted total assets, as defined, totaled $10.7 billion at December 31, 2006 and People s risk-weighted assets, as defined, totaled $8.6 billion and $8.1 billion at December 31, 2006 and 2005, respectively.

As of December 31, 2006			OTS Requirements			
	People s		Classification as Well-Capitalized		Minimum Capital Adequacy	
(dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	$ 1,278.4	12.0%	n/a	n/a	$ 159.8	1.5%
Leverage (core) capital	1,278.4	12.0	$ 532.8	5.0%	426.2	4.0
Risk-based capital:						
Tier 1	1,278.4	14.8	517.2	6.0	344.8	4.0
Total	1,389.7	16.1	861.9	10.0	689.5	8.0

As of December 31, 2005			FDIC Requirements			
	People s		Classification as Well-Capitalized		Minimum Capital Adequacy	
(dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage capital	$ 1,201.1	11.2%	$ 536.2	5.0%	$ 428.9	4.0%
Risk-based capital:						
Tier 1	1,201.1	14.8	485.7	6.0	323.8	4.0
Total	1,328.3	16.4	809.5	10.0	647.6	8.0

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The following is a reconciliation of People s total stockholders equity to regulatory capital amounts under OTS regulations as of December 31, 2006 and FDIC regulations as of December 31, 2005:

As of December 31 (in millions)	**2006**	**2005**
Total stockholders equity	$ 1,339.5	$ 1,288.6
Adjustments for regulatory capital purposes:		
Goodwill and certain other intangible assets	(105.0)	(106.4)
Net unrealized losses on derivatives accounted for as cash flow hedges, net of tax	4.0	0.1
Net unrealized (gains) losses on securities available for sale, net of tax	(0.1)	18.8
Net pension and other postretirement benefit plans, net of tax	40.0	
Total tangible, leverage and core (tier 1) capital	1,278.4	1,201.1
Qualifying allowance for loan losses	72.2	75.1
Qualifying subordinated notes	39.0	52.0
Other	0.1	0.1
Total risk-based capital	$ 1,389.7	$ 1,328.3

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NOTE 13 Common Stock and Dividends

Holdings is a mutual-form financial holding company organized in connection with the 1988 stock offering and reorganization of People s Bank. At December 31, 2006, Holdings owned 82.0 million shares of People s common stock, representing 57.7% of the total number of outstanding shares of People s common stock.

Since its formation in 1988, Holdings has consistently waived the receipt of cash dividends on substantially all of the shares of People s common stock it owns. The Board of Directors of People s establishes the rate at which dividends are declared with advance knowledge of the amount of dividends to be waived by Holdings. No dividends are declared on shares for which Holdings waives the dividend. If dividends had actually been declared and paid on all outstanding shares of People s common stock at the same rate as was declared and paid on shares not subject to the waiver, Holdings would have received additional dividends of approximately $78 million in 2006.

As a federally-chartered stock savings bank since August 18, 2006, People s ability to make capital distributions is governed by OTS regulations. The payment of dividends is considered to be a form of capital distribution under these regulations. Without specific OTS approval, the total of all capital distributions declared by People s in a given calendar year can not exceed the sum of its net income (as determined under generally accepted accounting principles) for the year to date and its retained net income for the preceding two years. The term retained net income as defined by the OTS means People s net income for each year, less the amount of capital distributions declared in each such year. People s retained net income for 2005 and 2006 totaled $135.2 million.

As a Connecticut-chartered stock savings bank prior to August 18, 2006, People s could only pay dividends (except stock dividends) from net profits, defined as the remainder of all earnings from current operations. Without specific regulatory approval, the total of all dividends declared by People s in a given calendar year could not exceed the total of People s net profits for that year plus its retained profits from the preceding two years.

These limitations did not affect the dividends paid by People s in 2006, 2005 and 2004. Dividends declared and paid per common share (other than shares on which Holdings waived receipt of dividends) totaled $0.97, $0.85 and $0.75 in 2006, 2005 and 2004, respectively. People s dividend payout ratio (dividends paid as a percentage of net income) in 2006, 2005 and 2004 was 48.3%, 38.3% and 22.9%, respectively.

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In 2006, People s shareholders approved an increase in the number of authorized shares of common stock to 450 million from 150 million. At December 31, 2006, People s had 50 million shares of preferred stock (without par value) authorized, none of which were issued or outstanding and 450 million shares of common stock (without par value) authorized.

Changes in the number of common shares outstanding are summarized as follows:

Years ended December 31 (in millions)	2006	2005	2004
Outstanding at January 1	141.6	140.8	139.5
Stock options exercised and restricted stock activity	0.6	0.8	1.3
Outstanding at December 31	142.2	141.6	140.8

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NOTE 14 Earnings Per Common Share

The following is an analysis of People s basic and diluted EPS:

Years ended December 31 (in millions, except per share data)	2006	2005	2004
Income (loss) from continuing operations	$ 121.7	$ 125.9	$ (5.6)
Income from discontinued operations	2.3	11.2	205.3
Net income	124.0	137.1	199.7
Average common shares outstanding for basic EPS	141.6	141.0	140.0
Effect of dilutive stock options and unvested stock awards	0.6	0.7	0.9
Average common and common-equivalent shares for diluted EPS	142.2	141.7	140.9
Basic EPS:			
Income (loss) from continuing operations	$ 0.86	$ 0.89	$ (0.04)
Income from discontinued operations	0.02	0.08	1.47
Net income	0.88	0.97	1.43
Diluted EPS:			
Income (loss) from continuing operations	$ 0.85	$ 0.89	$ (0.04)
Income from discontinued operations	0.02	0.08	1.46
Net income	0.87	0.97	1.42

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NOTE 15 Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss that are reported directly in stockholders equity on an after-tax basis. These items include net unrealized gains or losses on securities available for sale and derivatives accounted for as cash flow hedges, and minimum pension liability adjustments. People s total comprehensive income for 2006, 2005 and 2004 is reported in the Consolidated Statements of Changes in Stockholders Equity.

Upon the adoption of SFAS No. 158 on December 31, 2006, People s recorded an after-tax adjustment that reduced total stockholders equity by approximately $40 million. SFAS No. 158 requires that such adjustment be excluded from the presentation of total comprehensive income. People s originally included this adjustment in its rollforward of total comprehensive income for 2006. Subsequently, People s revised its Consolidated Statements of Changes in Stockholders Equity and its presentation of total comprehensive income for 2006 to exclude this adjustment. This revision increased total comprehensive income for 2006 from $99.4 million to $139.4 million. This revision did not affect net income or total stockholders equity and was not material to People s Consolidated Financial Statements.

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

As of December 31 (in millions)	2006	2005	2004
Net actuarial loss, prior service costs and transition obligation on pension and other postretirement benefit plans	$ (44.1)	$	$
Net unrealized loss on derivatives accounted for as cash flow hedges	(4.0)	(0.1)	(0.1)
Net unrealized gain (loss) on securities available for sale	0.1	(18.8)	(9.2)
Minimum pension liability adjustments		(4.5)	(2.9)
Total accumulated other comprehensive loss	$ (48.0)	$ (23.4)	$ (12.2)

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The following is a summary of the changes in the components of People s other comprehensive income (loss) for 2006, 2005 and 2004:

Year ended December 31, 2006 (in millions)	**Pre-Tax Amount**	**Tax Effect**	**After-Tax Amount**
Net unrealized gains and losses on securities available for sale:			
Net unrealized holding gains arising during the year	$ 1.9	$ (0.7)	$ 1.2
Reclassification adjustment for net realized losses included in net income	27.3	(9.6)	17.7
Net unrealized gains	29.2	(10.3)	18.9
Net unrealized loss on derivatives accounted for as cash flow hedges:			
Net unrealized losses arising during the year	(6.7)	2.3	(4.4)
Reclassification adjustment for net realized losses included in net income	0.8	(0.3)	0.5
Net unrealized losses	(5.9)	2.0	(3.9)
Minimum pension liability adjustment	0.6	(0.2)	0.4
Other comprehensive income	$ 23.9	$ (8.5)	$ 15.4

Year ended December 31, 2005 (in millions)	**Pre-Tax Amount**	**Tax Effect**	**After-Tax Amount**
Net unrealized gains and losses on securities available for sale:			
Net unrealized holding losses arising during the year	$ (14.9)	$ 5.3	$ (9.6)
Reclassification adjustment for net realized losses included in net income			
Net unrealized losses	(14.9)	5.3	(9.6)
Net unrealized loss on derivatives accounted for as cash flow hedges:			
Net unrealized losses arising during the year			
Reclassification adjustment for net realized losses included in net income			
Net unrealized losses			
Minimum pension liability adjustment	(2.4)	0.8	(1.6)
Other comprehensive loss	$ (17.3)	$ 6.1	$ (11.2)

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Year ended December 31, 2004 (in millions)	Pre-Tax Amount	Tax Effect	After-Tax Amount
Net unrealized gains and losses on securities available for sale:			
Net unrealized holding losses arising during the year	$ (9.1)	$ 3.0	$ (6.1)
Reclassification adjustment for net realized losses included in net income	4.7	(1.6)	3.1
Net unrealized losses	(4.4)	1.4	(3.0)
Net unrealized loss on derivatives accounted for as cash flow hedges:			
Net unrealized holding losses arising during the year			
Reclassification adjustment for net realized losses included in net income	40.5	(14.2)	26.3
Net unrealized gains	40.5	(14.2)	26.3
Minimum pension liability adjustment	(0.9)	0.4	(0.5)
Other comprehensive income	$ 35.2	$ (12.4)	$ 22.8

The components of the adjustment to accumulated other comprehensive loss upon the adoption of SFAS No. 158 on December 31, 2006, are as follows:

Year ended December 31, 2006 (in millions)	Pre-Tax Amount	Tax Effect	After-Tax Amount
Minimum pension liability adjustment	$ 6.3	$ (2.2)	$ 4.1
Net acturial loss on pension and other postretirement benefit plans	(67.4)	23.6	(43.8)
Prior service costs and transition obligations on pension and other postretirement benefit plans	(0.4)	0.1	(0.3)
Total adjustment	$ (61.5)	$ 21.5	$ (40.0)

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NOTE 16 Employee Benefit Plans

Employee Pension and Other Postretirement Benefits Plans

People s maintains a noncontributory defined benefit pension plan that covers substantially all full-time and part-time employees who meet certain age and length of service requirements and who were employed by People s prior to August 14, 2006. Benefits are based upon the employee s years of credited service and either the average compensation for the last five years or the average compensation for the five consecutive years of the last ten years that produce the highest average. People s funding policy is to contribute the amounts required by applicable regulations, although additional amounts may be contributed from time to time. In addition, People s maintains unfunded and nonqualified supplemental plans to provide retirement benefits to certain senior officers.

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

As discussed in Note 1, People s adopted SFAS No. 158 effective December 31, 2006. SFAS No. 158 requires an employer to recognize the over funded or under funded status of its pension and other postretirement benefit plans in its statement of financial position. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation, which is the projected benefit obligation for the pension plan and the accumulated postretirement benefit obligation for the postretirement plan.

The following table summarizes the impact of adopting SFAS No. 158 on People s Consolidated Statement of Condition:

As of December 31, 2006 (in millions)	Before the adoption of SFAS No. 158	Adjustments	After the adoption of SFAS No. 158
Other assets	$ 344.9	$ (56.3)	$ 288.6
Total assets	10,743.2	(56.3)	10,686.9
Other liabilities	211.7	(16.3)	195.4
Total liabilities	9,363.7	(16.3)	9,347.4
Accumulated other comprehensive loss	(8.0)	(40.0)	(48.0)
Total stockholders equity	1,379.5	(40.0)	1,339.5

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People s also maintains an unfunded plan that provides retirees with optional medical, dental and life insurance benefits (other postretirement benefits). People s accrues the cost of these benefits over the employees years of service to the date of their eligibility for such benefits.

The table on the following page summarizes changes in the benefit obligations and plan assets for (i) the pension plans (combining the funded plan and the unfunded supplemental plans), and (ii) the other postretirement benefits plan. The table also provides a reconciliation of the funded status (or the difference between benefit obligations and plan assets) to the net amount recognized in the Consolidated Statements of Condition. People s uses a measurement date of September 30 for plan accounting purposes and, accordingly, changes in benefit obligations and plan assets are shown for the twelve-month periods ended September 30, 2006 and September 30, 2005. Plan assets for the funded plan of $282.0 million as of September 30, 2006 exceeded both the accumulated benefit obligations of $176.2 million and the projected benefit obligations of $198.4 million at that date.

Employer contributions for the next fiscal year are expected to total $2.2 million for both the unfunded plan and the other postretirement benefits plan, representing net benefit payments expected to be paid under these plans. Expected future net benefit payments for the pension plans as of December 31, 2006 are: $6.8 million in 2007; $7.3 million in 2008; $7.9 million in 2009; $8.5 million in 2010; $9.4 million in 2011; and an aggregate of $66.0 million in 2012 through 2016. Expected future net benefit payments for the other postretirement benefits plan as of December 31, 2006 are: $1.1 million in 2007; $1.0 million in 2008; $1.1 million in 2009; $1.0 million in 2010 and 2011; and an aggregate of $4.4 million in 2012 through 2016. In September 2006, People s contributed $91.5 million to the pension plan, representing approximately the maximum deductible contribution per Internal Revenue Service rules.

To develop the expected long-term rate of return on asset assumptions, People s considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.25% long-term rate of return on asset assumption.

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The Pension Protection Act of 2006 (PPA) was signed into law on August 17, 2006. While the PPA will have some effect on specific plan provisions in People s retirement program, its primary effect will be to change the minimum funding requirements for plan years beginning in 2008. The changes in the timing and amount of People s required contributions are not expected to be materially different than current projections. Until regulations are issued by the Treasury Department, the financial effect on People s is uncertain.

The supplemental pension plans had total projected benefit obligations of $29.1 million and $25.8 million in 2006 and 2005, respectively. Although these plans hold no assets, People s has funded a trust to provide for benefit payments to the extent such benefits are not paid directly by People s. Trust assets of $11.8 million and $11.3 million are included in People s short-term investments as of December 31, 2006 and 2005, respectively.

The effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) have been recognized in People s postretirement benefits plan in 2006 and 2005 in accordance with the guidance provided in FASB Staff Position 106-2. The prescription drug benefit provided by People s for certain retirees is at least actuarially equivalent to the benefit provided under the Act.

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(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Benefit obligations:				
Beginning of period	$ 214.2	$ 186.4	$ 12.2	$ 12.1
Service cost	7.9	7.5	0.2	0.2
Interest cost	12.1	11.0	0.6	0.7
Plan amendments	0.1			
Actuarial loss (gain)	(0.1)	15.3	(1.0)	
Actuarial gain due to Medicare subsidy			(0.1)	
Benefits paid	(6.7)	(6.0)	(0.7)	(0.8)
End of period	227.5	214.2	11.2	12.2
Fair value of plan assets:				
Beginning of period	179.8	158.5		
Actual return on assets	16.3	16.3		
Employer contributions	92.6	11.0	0.7	0.8
Benefits paid	(6.7)	(6.0)	(0.7)	(0.8)
End of period	282.0	179.8		
Funded status at September 30	54.5	(34.4)	(11.2)	(12.2)
Fourth-quarter contributions	0.3	0.2	0.2	0.3
Unrecognized net actuarial loss (1)	n/a	75.5	n/a	1.7
Unrecognized net transition obligation	n/a		n/a	2.6
Unrecognized prior service cost	n/a	0.1	n/a	(2.1)
Net amount recognized at end of year	$ 54.8	$ 41.4	$ (11.0)	$ (9.7)
Components of the net amount recognized:				
Prepaid benefit cost	n/a	$ 57.9	n/a	$
Accrued benefit cost	n/a	(16.5)	n/a	(9.7)
Additional minimum liability	n/a	(7.1)	n/a	
Intangible asset	n/a	0.2	n/a	
Accumulated other comprehensive loss (pre-tax basis)	n/a	6.9	n/a	
Noncurrent assets	$ 83.6	n/a	$	n/a
Current liabilities	(1.1)	n/a	(1.0)	n/a
Noncurrent liabilities	(27.7)	n/a	(10.0)	n/a
Net amount recognized at end of year	$ 54.8	$ 41.4	$ (11.0)	$ (9.7)

n/a not applicable

(1) Unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or the fair value of plan assets are amortized over the average remaining service period of active plan participants.

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The following tables summarize the accumulated and projected benefit obligations for the funded and unfunded plans at the respective September 30 measurement dates:

(in millions)	Pension Benefits 2006	2005
Accumulated benefit obligations:		
Funded plan	$ 176.2	$ 167.8
Unfunded plan	24.8	23.8
Total	$ 201.0	$ 191.6
Projected benefit obligations:		
Funded plan	$ 198.4	$ 188.4
Unfunded plan	29.1	25.8
Total	$ 227.5	$ 214.2

Components of the net periodic benefit cost are as follows:

	Pension Benefits			Other Postretirement Benefits		
Years ended December 31 (in millions)	2006	2005	2004	2006	2005	2004
Service cost	$ 7.9	$ 7.5	$ 7.4	$ 0.2	$ 0.2	$ 0.3
Interest cost	12.1	11.0	10.2	0.6	0.7	0.8
Expected return on plan assets	(14.1)	(13.0)	(12.0)			
Amortization of unrecognized net transition obligation				0.4	0.4	0.4
Recognized net actuarial loss	6.4	5.0	4.5			0.2
Recognized prior service cost	0.1	0.1	0.2	(0.2)	(0.2)	(0.2)
Net periodic benefit cost	$ 12.4	$ 10.6	$ 10.3	$ 1.0	$ 1.1	$ 1.5

The pre-tax amounts in accumulated other comprehensive loss that have not been recognized as components of net periodic pension cost are as follows:

As of December 31, 2006 (in millions)	Pension Benefits	Other Postretirement Benefits
Accumulated actuarial loss (gain)	$ 66.8	$ 0.6
Transition obligation (asset)		2.3
Prior service cost (credit)		(1.9)
Total accumulated other comprehensive loss	$ 66.8	$ 1.0

In 2007, approximately $4.5 million and $0.1 million in net actuarial losses and prior service cost, respectively, are expected to be recognized as components of net periodic pension cost for the funded and unfunded plans, and approximately $0.4 million and $0.2 million in net transition obligation and prior service credit, respectively, are expected to be recognized as components of net periodic benefit cost for the other postretirement benefit plan.

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The following assumptions were used in determining benefit obligations and net periodic benefit costs:

	Pension Benefits			Other Postretirement Benefits		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Weighted-average assumptions used to determine benefit obligations at December 31:						
Discount rate	6.00%	5.75%	6.00%	6.00%	5.75%	6.00%
Rate of compensation increase	3.50	3.50	4.00	n/a	n/a	n/a
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:						
Discount rate	5.75%	6.00%	6.00%	5.75%	6.00%	6.00%
Expected return on plan assets	8.25	8.25	8.25	n/a	n/a	n/a
Rate of compensation increase	3.50	4.00	4.00	n/a	n/a	n/a
Assumed health care cost trend rates at December 31: (1)						
Health care cost trend rate assumed for next year	n/a	n/a	n/a	10.00%	11.00%	12.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.00	5.00	5.00
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2013	2013	2013

n/a not applicable

(1) Changes in the periodic benefit cost and the benefit obligation from a one-percentage-point increase or decrease in this assumed trend rate would not be significant.

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The following table summarizes the percentages of fair value for each major category of plan assets as of the respective measurement dates:

	Plan Assets	
At September 30	**2006**	**2005**
Equity securities	49%	79%
Fixed income securities	51(1)	21
Total	100%	100%

(1) Reflects the temporary investment of the $91.5 million pension contribution in September 2006.

People s retirement plan investment policy includes the following asset allocation guidelines:

	Asset Class	
	Policy Target %	**Policy Range %**
Cash reserves	3	1 -5
Equity securities	64	50 -76
Fixed income securities	33	27 -39

Equity securities may include convertible securities, and are required to be diversified among industries and economic sectors. Limitations are placed on the overall allocation to any individual security at both cost and market value. A limit of 22% of equity holdings may be invested in international equities. Short sales, margin purchases and similar speculative transactions are prohibited.

Fixed income securities are oriented toward risk-averse, investment-grade securities rated A or higher. A limit of up to 10% of the fixed income holdings may be invested in issues rated below Baa by Moody s or BBB by Standard & Poor s, if the higher investment risk is compensated for by the prospect of a positive incremental investment return. With the exception of U.S. Government securities, in which the plan may invest the entire fixed income allocation, fixed income securities require diversification among individual securities and sectors. There is no limit on the maximum maturity of securities held. Short sales, margin purchases and similar speculative transactions are prohibited.

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Employee Savings Plans

People s also sponsors an employee savings plan that qualifies as a 401(k) plan under the Internal Revenue Code. Under the current plan, employees may contribute up to 20% of their pre-tax compensation up to certain limits, and People s makes a matching contribution equal to 100% of a participant s contributions up to 4% of pre-tax compensation. People s may increase the amount of its matching contribution to 5% of pre-tax compensation if certain bankwide performance objectives are met. Participants vest immediately in their own contributions and after one year in People s contributions. A supplemental savings plan has also been established for certain senior officers. Expense recognized for the 401(k) and supplemental savings plans totaled $7.2 million, $6.4 million and $7.4 million in 2006, 2005 and 2004, respectively.

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NOTE 17 Stock-Based Compensation Plans

Long-Term Incentive Plan

People s 1998 Long-Term Incentive Plan, as amended (the Incentive Plan), provides for awards to officers and employees in the form of (i) incentive stock options that may afford tax benefits to recipients, (ii) non-statutory stock options that do not afford tax benefits to recipients but may provide tax benefits to People s, and (iii) stock appreciation rights, restricted stock and performance units. A total of 9,412,329 shares of People s common stock are reserved for issuance under the Incentive Plan. At December 31, 2006, a total of 3,841,524 reserved shares remain available for future awards.

Non-statutory stock options have been granted under the Incentive Plan at exercise prices equal to the fair value of People s common stock at the grant dates. Option expiration dates are fixed at the grant date, with a maximum term of ten years. Options granted generally vest 50% after two years, 75% after three years and 100% after four years. All options become fully exercisable in the event of a change of control, as defined in the Incentive Plan. As discussed in Note 1, People s adopted SFAS No. 123-R effective January 1, 2006.

Stock Options Awarded Prior to January 1, 2006

All stock options are fixed options that were granted at exercise prices equal to the fair value of People s common stock at the respective grant dates. Therefore, in accordance with APB Opinion No. 25, compensation expense was not recognized with respect to these options. If People s had adopted the alternative fair-value-based method defined in SFAS No. 123, the grant-date fair value of options would have been recognized as compensation expense over the vesting period. The estimated per-share fair value of options granted in 2005 and 2004 was approximately $5.00 and $3.70, respectively, using the Black-Scholes option-pricing model with assumptions as follows: dividend yield of 3.0% in 2005 and 3.4% in 2004; expected volatility rate of 25% in both years; risk-free interest rate of 3.8% in 2005 and 3.0% in 2004; and expected option life of 5 years. Note 1 discloses the effect on net income and earnings per common share if People s had applied the fair value recognition provisions of SFAS No. 123 using these assumptions.

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On December 22, 2005, People s accelerated the vesting of all unvested stock options previously awarded to employees that were outstanding at that time. Shares of common stock acquired pursuant to the exercise of an accelerated option may not be sold or otherwise transferred until the earlier of (a) the date the option would have vested under the terms on which it was initially awarded, or (b) termination of the option holder s employment with People s. The purpose of the acceleration was to eliminate compensation expense associated with these options in future years upon the adoption of SFAS No. 123-R in the first quarter of 2006. As a result of the acceleration, options to purchase 0.9 million shares of common stock became immediately exercisable. Substantially all of these options were in-the-money at the time of acceleration. The accelerated vesting of these options eliminated potential pre-tax compensation expense through 2008 of approximately $1.7 million, including approximately $0.8 million in 2006. People s recorded a one-time charge of $0.7 million in 2005 as a result of the accelerated vesting, which is included in compensation and benefits in the Consolidated Statements of Income.

Stock Options Awarded in 2006

People s granted 262,882 stock options in 2006. All stock options are non-statutory fixed options that were granted at exercise prices equal to the fair value of People s common stock at the respective grant dates. The estimated weighted-average grant-date fair value of these options was $6.48 per option, using the Black-Scholes option-pricing model with assumptions as follows: dividend yield of 2.8%; expected volatility rate of 23%; risk-free interest rate of 4.6%; and expected option life of 5 years. Expected volatilities were based on historical volatilities from People s traded common stock. The expected term of stock options represents the period of time that options granted are expected to be outstanding. People s used historical data to estimate voluntary suboptimal (early) exercises by continuing employees, and estimates of post-vest option exercise or forfeiture by terminated employees. Suboptimal exercise data and employee termination estimates are incorporated into Monte Carlo simulations of People s common stock prices to calculate the expected term. The risk-free interest rate approximated the U.S. Treasury yield curve at the time of the grant.

Compensation expense is recognized on a straight-line basis generally over the option vesting period and totaled $0.3 million in 2006. Unamortized compensation cost for unvested stock options, which reflects an estimated forfeiture rate of 6.0% per year for the vesting periods, totaled $1.0 million at December 31, 2006, and is expected to be recognized over the remaining weighted-average period of 3.1 years.

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The following is a summary of stock option activity under People s Incentive Plan:

	Shares Subject To Option	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at December 31, 2003	2,674,587	$ 11.82		
Granted	385,913	19.86		
Forfeited	(61,031)	11.43		
Exercised	(1,156,575)	12.19		
Options outstanding at December 31, 2004	1,842,894	13.28		
Granted	249,045	25.36		
Forfeited	(17,531)	16.75		
Exercised	(656,551)	11.60		
Options outstanding at December 31, 2005	1,417,857	16.14		
Granted	262,882	31.41		
Forfeited	(3,240)	31.31		
Exercised	(252,351)	13.88		
Options outstanding at December 31, 2006	1,425,148	$ 19.32	6.7	$ 36.0

The weighted-average grant-date fair value of stock options granted during 2006 was $6.48 per option. The total intrinsic value of stock options exercised during 2006 was $4.8 million.

Additional information concerning options outstanding and options exercisable at December 31, 2006 is summarized as follows:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number	Weighted Average Remaining Life (in years)	Exercise Price	Number	Weighted Average Exercise Price
$10.04 - $11.16	307,013	6	$ 10.88	307,013	$ 10.88
11.45 - 14.45	305,888	4	12.26	305,888	12.26
19.84 - 25.25	548,645	8	22.17	548,645	22.17
31.26 - 44.71	263,602	9	31.43	3,960	32.46

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Prior to adopting SFAS No. 123-R, People s presented income tax-related benefits of deductions resulting from the exercise of stock options and vesting of restricted stock as an operating activity in the Consolidated Statements of Cash Flows. SFAS No. 123-R requires the cash flows from income tax-related benefits resulting from income tax deductions in excess of the compensation expense recognized for those stock options and restricted stock to be classified as a financing activity. An excess income tax benefit of $2.1 million was classified as a financing activity in 2006.

Restricted Stock Awards

People s has also granted restricted stock awards under the Incentive Plan. Employees become fully vested in these shares generally after a three- or four-year period, with requisite service conditions and no performance-based conditions to such vesting. Unvested restricted stock awards become fully vested in the event of a change in control, as defined in the Incentive Plan. During the vesting period, dividends are accrued on the restricted stock and the recipients are entitled to vote these restricted shares. The fair value of restricted stock awards is measured at the grant date based on quoted market prices.

The following is a summary of activity during 2006 in restricted stock awards under People s Incentive Plan:

	Shares	Weighted-Average Grant Date Fair Value
Unvested restricted shares outstanding at December 31, 2005	330,778	$ 18.74
Granted	263,554	33.55
Forfeited	(16,100)	21.50
Vested	(131,254)	14.61
Unvested restricted shares outstanding at December 31, 2006	446,978	$ 28.59

Straight-line amortization of unvested restricted stock awards, expected to be recognized over the remaining weighted-average period of 2.4 years, resulted in compensation expense of $2.5 million in 2006. Unamortized compensation cost for unvested restricted stock awards, which reflects an estimated forfeiture rate of 4.5% per year over the vesting period, totaled $7.6 million at December 31, 2006. The total fair value of restricted stock awards vested during 2006 was $4.1 million.

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Restricted shares awarded during 2005 and 2004 totaled 101,691 shares and 172,379 shares, respectively, with weighted average fair values at the grant dates of $25.40 and $19.81, respectively. Compensation expense totaled $2.1 million and $2.0 million in 2005 and 2004, respectively.

Directors Equity Compensation Plan

The Third Amended and Restated People s Bank Directors Equity Compensation Plan (Directors Equity Plan) was adopted in 2006 as the successor plan to the Second Amended and Restated People s Bank Directors Equity Compensation Plan. The Directors Equity Plan provides for an annual award of $95,000 worth of shares of People s common stock to each non-employee director immediately following each annual meeting of shareholders. Shares of People s common stock issued pursuant to the Directors Equity Plan are not transferable until the third anniversary of the grant date or, if earlier, upon the director s cessation of service. A total of 425,000 shares of People s common stock are reserved for issuance under the Directors Equity Plan.

In April 2006, directors were granted a total of 25,173 shares of People s common stock based on a grant-date fair value of $33.97 per share. Expense is recognized on a straight-line basis over a one-year period and $0.9 million, $0.8 million and $0.8 million was recognized in 2006, 2005 and 2004, respectively, for the Directors Equity Plan and the predecessor plan. At December 31, 2006, 202,389 shares remain available for issuance.

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NOTE 18 Financial Instruments

In the normal course of business, People s is a party to both on-balance-sheet and off-balance-sheet financial instruments involving, to varying degrees, elements of credit risk and interest rate risk in addition to the amounts recognized in the Consolidated Statements of Condition. The contractual amounts of off-balance-sheet instruments reflect the extent of People s involvement in particular classes of financial instruments.

A summary of the contractual or notional amounts of People s financial instruments follows:

As of December 31 (in millions)	2006	2005
Lending-Related Instruments: (1)		
Loan origination commitments and unadvanced lines of credit:		
Consumer	$ 1,354.8	$ 1,309.0
Commercial	1,056.4	980.4
Commercial real estate finance	728.3	572.1
Residential mortgage	18.4	71.8
Letters of credit	44.5	41.1
Derivative Financial Instruments: (2)		
Interest rate floors	700.0	400.0
Interest rate swaps	6.9	9.6
Foreign exchange contracts	13.1	17.4
Forward commitments to sell residential mortgage loans	44.4	16.3
Interest rate-lock commitments on residential mortgage loans	44.4	16.9

(1) The contractual amounts of these financial instruments represent People s maximum potential exposure to credit loss, assuming (i) the instruments are fully funded at a later date, (ii) the borrower does not meet contractual repayment obligations, and (iii) any collateral or other security proves to be worthless.

(2) The contractual or notional amounts of these financial instruments are substantially greater than People s maximum potential exposure to credit loss.

Lending-Related Instruments

The contractual amounts of People s lending-related financial instruments do not necessarily represent future cash requirements since certain of these instruments may expire without being funded and others may not be fully drawn upon. These instruments are subject to People s credit approval process, including an evaluation of the customer s creditworthiness and related collateral requirements. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee by the customer. The geographic distribution of People s lending-related financial instruments is similar to the distribution of its loan portfolio, as described in Note 5.

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People s issues both stand-by and commercial letters of credit. Stand-by letters of credit are conditional commitments issued by People s to guarantee the performance of a customer to a third party. The letter of credit is generally extended for an average term of one year and secured similar to existing extensions of credit. For each letter of credit issued, if the customer fails to perform under the terms of the agreement, People s would have to fulfill the terms of the letter of credit. The fair value of People s obligations relating to $43.2 million of stand-by letters of credit at December 31, 2006 was $0.3 million, which is included in other liabilities in the Consolidated Statements of Condition. The credit risk involved in issuing stand-by letters of credit is essentially the same as that involved in extending loan facilities to customers.

A commercial letter of credit is normally a short-term instrument issued by a financial institution on behalf of its customer. The letter of credit authorizes a beneficiary to draw drafts on the financial institution or one of its correspondent banks, provided the terms and conditions of the letter of credit have been met. In issuing a commercial letter of credit, the financial institution has substituted its credit standing for that of its customer. After drafts are paid by the financial institution, the customer is charged or an obligation is created under an existing reimbursement agreement. An advance under a reimbursement agreement is recorded as a loan by the financial institution and is subject to terms and conditions similar to other commercial obligations.

Derivative Financial Instruments

People s uses derivative financial instruments for risk management purposes and not for trading or speculative purposes. People s controls the credit risk of these instruments through collateral, credit approvals and monitoring procedures. Under netting arrangements collateral is obtained, when appropriate, through physical delivery of securities or cash to reduce People s exposure to credit losses in the event of non-performance by the counterparties to these transactions. People s also controls its counterparty risk by entering into arrangements only with highly-rated counterparties that are specifically approved by People s up to a maximum credit exposure. People s credit exposure on its derivative contracts, representing those contracts with net positive fair values including the effect of bilateral netting, amounted to $11.4 million and $6.0 million at December 31, 2006 and 2005, respectively.

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People s principal derivative positions outstanding at December 31, 2006 and 2005 were interest rate floors accounted for as cash flow hedges relating to long-term commercial loans that reprice based on the one-month LIBOR-index rate. Hedge ineffectiveness recorded in 2006 and 2005 was insignificant. To a much lesser extent, People s engages in derivative transactions accounted for as fair value hedges. The ineffective portion of hedge results related to fair value hedges recorded in 2006, 2005 and 2004 was insignificant.

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

Interest Rate Floors

Interest rate floors are a type of option contract that exercises when the underlying interest rate falls below a specified strike rate. People s purchased interest rate floors for the purpose of partially managing its exposure to decreases in the one-month LIBOR-index rate used to reprice certain long-term commercial loans. If the one-month LIBOR-index rate falls below the specified strike rate, People s would receive an interest payment on the interest rate floor equal to the difference between the one-month LIBOR-index rate on the reset date and the strike rate.

The change in fair value of a derivative that is highly effective, and is designated and qualifies as a cash flow hedge, is recorded in accumulated other comprehensive income or loss until earnings are affected by the variability in cash flows of the designated hedged item. The fair value of interest rate floors at December 31, 2006 reflected the unamortized premium and unrealized loss (with a corresponding charge to accumulated other comprehensive loss, after applicable taxes). The unrealized loss in accumulated other comprehensive loss of $6.0 million at December 31, 2006 represented the changes in market values resulting from increases in interest rates since the original dates the interest rate floors were purchased. Interest rate floors outstanding at December 31, 2006 mature in 2011.

The group of individual transactions being hedged is People s one-month Libor-index commercial loan monthly interest cash flows. People s has identified the hedged forecasted transaction as the first one-month Libor-index interest payments received on commercial loans. These are individual transactions that share the same risk exposure, because the interest payments received on the one-month Libor-index commercial loans are subject to interest rate risk related to changes in the one-month Libor rate. The occurrence of one-month Libor interest payment cash flows is probable, and the prepayment of a given loan is not expected to have an effect on the

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hedging relationship, as the aggregate principal balance of the one-month Libor-index rate commercial loan portfolio underlying the interest payments is maintained at an amount sufficiently greater than the notional amount of the interest rate floors.

Interest Rate Swaps

People s pay fixed/receive floating swaps, which are accounted for as fair value hedges, are used to hedge the change in fair value of certain long-term, fixed-rate commercial real estate finance loans from rising interest rates. Under interest rate swaps, People s agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional amount. People s enters into these transactions to match more closely the repricing of its assets and liabilities, and to reduce its exposure to increases in interest rates and their effect on interest income and interest expense. For example, certain fixed rate assets may be funded with floating rate borrowings. People s enters into interest rate swaps in which it pays a fixed rate and receives a floating rate, in order to effectively match fund the asset and liability.

The change in fair value of a derivative that is highly effective, and is designated and qualifies as a fair value hedge, is recorded in earnings. The change in fair value on the hedged asset or liability is also recorded in earnings. People s liability at December 31, 2006 of $0.2 million represented the unrealized losses at that date on these fair value hedges. Interest rate swaps outstanding at December 31, 2006 mature as follows: $5 million in 2012; and $2 million thereafter.

The net effect of interest rate floors, interest rate swaps and interest rate corridors was to decrease net interest income by $0.8 million, $0.4 million and $3.9 million in 2006, 2005 and 2004, respectively. In 2005, other non-interest income included $0.1 million and other non-interest expense included $0.4 million relating to the cancellations of certain interest rates swaps.

People s canceled interest rate swaps and interest rate corridors with notional amounts of $335 million and $435 million, respectively, in 2004 as part of a balance sheet restructuring. Costs to cancel those derivatives related to People s credit card business were reported in discontinued operations, due to the sale of that business in 2004, while the costs to cancel the remaining derivatives were reported in liability restructuring costs in the Consolidated Statements of Income. At December 31, 2006 and 2005, there were no interest rate corridors remaining.

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Forward Exchange Contracts

Foreign exchange forward contracts are commitments to buy or sell foreign currency on a future date at a contractual price. People s uses these instruments on a limited basis to eliminate its exposure to fluctuations in currency exchange rates on certain of its commercial loans that are denominated in foreign currencies. Gains and losses on foreign exchange contracts substantially offset the translation gains and losses on the related loans.

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

People s enters into forward commitments to sell adjustable-rate and fixed-rate residential mortgage loans in order to reduce the market risk associated with originating loans for sale in the secondary market. In order to fulfill a forward commitment, People s delivers originated loans at prices or yields specified by the contract. The risks associated with such contracts arise from the possible inability of counterparties to meet the contract terms or People s inability to originate the necessary loans. Gains and losses realized on the forward contracts are reported in the Consolidated Statements of Income as a component of the net gains on sales of residential mortgage loans. In the normal course of business, People s will commit to an interest rate on a mortgage loan application at a time after the application is approved by People s. Fixed-rate residential mortgage loan commitments on held-for-portfolio loans totaled $0.4 million (interest rates from 5.75% to 6.00%) and $0.6 million (interest rates from 5.88% to 6.13%) at December 31, 2006 and 2005, respectively. The risks associated with these interest rate-lock commitments arise if market interest rates change prior to the closing of these loans. Both forward sales commitments and interest rate-lock commitments made to borrowers on held-for-sale loans are accounted for as derivatives and are reflected in the Consolidated Statements of Condition at fair value. See Note 20.

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The following is a summary of certain information concerning derivative financial instruments utilized by People s for risk management purposes:

As of December 31 (dollars in millions)	**2006**	**2005**
Interest Rate Floors:		
Notional principal amounts	$ 700.0	$ 400.0
Weighted average strike rate	5.00%	4.30%
Weighted average remaining term to maturity (in months)	49	60
Fair value recognized as an asset	$ 11.5	$ 5.9
Interest Rate Swaps:		
Notional principal amounts:		
Pay fixed rate/receive floating rate	$ 6.9	$ 9.6
Weighted average interest rates:		
Pay fixed (receive floating)	5.59%(5.35%)	5.51%(4.29%)
Weighted average remaining term to maturity (in months)	77	85
Fair value recognized as a liability	$ 0.2	$ 0.4
Foreign Exchange Contracts:		
Notional principal amounts	$ 13.1	$ 17.4
Weighted average remaining term to maturity (in months)	2	3
Fair value recognized as a liability	$ 0.3	$

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NOTE 19 Legal Proceedings and Lease Commitments

Legal Proceedings

In the normal course of business, People s is subject to various legal proceedings. Management has discussed the nature of these legal proceedings with legal counsel. In the opinion of management, People s financial condition or results of operations will not be affected materially as a result of the outcome of these legal proceedings.

Lease Commitments

At December 31, 2006, People s was obligated under various noncancelable operating leases for office space, which expire on various dates through 2027. Certain leases contain renewal options and provide for increased rentals based principally on the consumer price index and fair market rental value provisions. The future minimum rental commitments under operating leases in excess of one year at December 31, 2006 were: $24.0 million in 2007; $22.9 million in 2008; $22.2 million in 2009; $19.7 million in 2010; $17.3 million in 2011; and an aggregate of $48.2 million in 2012 through 2027. Rent expense under operating leases was $17.8 million, $17.5 million and $16.8 million in 2006, 2005 and 2004, respectively.

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NOTE 20 Fair Values of Financial Instruments

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

	2006		2005	
	Carrying	Estimated	Carrying	Estimated
As of December 31 (in millions)	**Amount**	**Fair Value**	**Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 568.7	$ 568.7	$ 423.5	$ 423.5
Securities (1)	77.5	77.5	1,363.0	1,363.0
Securities purchased under agreements to resell			25.0	24.8
Loans, net	9,297.7	9,318.0	8,497.9	8,547.2
Accrued interest receivable	45.2	45.2	42.7	42.7
Financial liabilities:				
Time deposits	3,583.0	3,562.7	2,962.1	2,933.9
Other deposits	5,499.6	5,499.6	6,120.5	6,120.5
Federal funds purchased	4.1	4.1	269.9	269.9
FHLB advances			25.0	25.0
Subordinated notes	65.3	75.0	108.6	122.1
Accrued interest payable	3.3	3.3	3.6	3.6
Derivative financial instruments: (2)				
Recognized as an asset:				
Interest rate floors	11.5	11.5	5.9	5.9
Forward commitments to sell residential mortgage loans	0.1	0.1		
Interest rate-lock commitments on residential mortgage loans	0.1	0.1		
Recognized as a liability:				
Interest rate swaps	0.2	0.2	0.4	0.4
Foreign exchange contracts	0.3	0.3		
Forward commitments to sell residential mortgage loans	0.1	0.1		
Interest rate-lock commitments on residential mortgage loans	0.1	0.1		

(1) Includes trading account securities of $29.6 million and $27.3 million at December 31, 2006 and 2005, respectively. No other financial instruments in this table were held for trading purposes.

(2) See Note 18 for a further discussion of derivative financial instruments. People s has certain off-balance-sheet financial instruments, as described in Note 18, with carrying amounts that primarily consist of deferred fee income and other accruals. The estimated fair values of these other instruments approximated the carrying amounts, which were not significant.

SFAS No. 107 requires disclosures about the fair values of financial instruments for which it is practicable to estimate fair value. Fair value is defined in SFAS No. 107 as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Quoted market

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prices are used to estimate fair values when those prices are available. However, active markets do not exist for many types of financial instruments. Consequently, fair values for these instruments must be estimated by management using techniques such as discounted cash flow analysis and comparison to similar instruments. These estimates are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are made as of a specific point in time, they are susceptible to material near-term changes. Fair values disclosed in accordance with SFAS No. 107 do not reflect any premium or discount that could result from the sale of a large volume of a particular financial instrument, nor do they reflect possible tax ramifications or estimated transaction costs.

The following is a description of the principal valuation methods used by People s to estimate the fair values of its financial assets and liabilities:

Securities

The fair values of securities were based primarily upon market prices or dealer quotes. Certain fair values were estimated using independent pricing models or were based on comparisons to market prices of similar securities.

Loans

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

The fair values of performing residential mortgage, commercial real estate finance, commercial and consumer loans were estimated by discounting the anticipated cash flows from the respective portfolios. Estimates of the timing and amount of these cash flows considered factors such as future loan prepayments and credit losses. The discount rates reflected current market rates for loans with similar terms to borrowers of similar credit quality. The fair values of non-performing loans were based on recent collateral appraisals or management s analysis of estimated cash flows discounted at rates commensurate with the credit risk involved.

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The fair value of home equity lines of credit was based on the outstanding loan balances, as required by SFAS No. 107, and, therefore, does not reflect the value associated with earnings from future loans to existing customers. Management believes that the fair value of these customer relationships has a substantial intangible value separate from the loan balances currently outstanding.

Deposit Liabilities

The fair values of time deposits represent contractual cash flows discounted using interest rates currently offered on time deposits with similar characteristics and remaining maturities. In accordance with SFAS No. 107, the fair values of other deposit liabilities (those with no stated maturity, such as checking and savings accounts) are equal to the carrying amounts payable on demand. As required by SFAS No. 107, deposit fair values do not include the intangible value of core deposit relationships that comprise a significant portion of People s deposit base. Management believes that People s core deposit relationships provide a relatively stable, low-cost funding source that has a substantial intangible value separate from the deposit balances.

Borrowings and Subordinated Notes

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

Other Financial Assets and Liabilities

The fair value of securities purchased under agreements to resell was estimated using an independent pricing model. Cash and cash equivalents, accrued interest receivable and payable, and federal funds purchased have fair values that approximate the respective carrying amounts because the instruments are payable on demand or have short-term maturities, and present relatively low credit risk and interest rate risk.

Derivative Financial Instruments

The carrying amounts for interest rate floors and interest rate swaps represent fair values. The fair values of interest rate floors and interest rate swaps were estimated using a valuation model based on market interest rates and other pricing terms prevailing for similar agreements at the valuation date. These fair values approximate the amounts that People s would receive or pay to terminate the interest rate floors and interest rate swaps at the valuation date. The carrying amount for foreign exchange contracts represents fair value. The fair value of foreign

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exchange contracts was estimated using a valuation model based on market interest rates and other pricing terms prevailing for similar agreements at the valuation date. The fair values of forward commitments to sell and interest rate-lock commitments on adjustable-rate and fixed-rate residential mortgage loans were estimated based on current secondary market prices for commitments with similar terms.

Off-Balance-Sheet Financial Instruments

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

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NOTE 21 Business Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires public companies to report (i) certain financial and descriptive information about reportable operating segments, as defined, and (ii) certain enterprise-wide financial information about products and services, geographic areas and major customers. Operating segment information is reported using a management approach that is based on the way management organizes the segments for purposes of making operating decisions and assessing performance.

People s reportable business segments are as follows:

Commercial Banking consists principally of commercial lending, commercial real estate finance lending and commercial deposit gathering activities. This segment also includes the equipment financing operations of PCLC, as well as cash management, correspondent banking and municipal banking.

Consumer Financial Services includes, as its principal business lines, consumer deposit gathering activities, and residential mortgage, home equity and other consumer lending (excluding the national consumer loan portfolio, which is reported in Other). In addition to trust services, this segment also includes brokerage, financial advisory services, investment management services and life insurance provided by PSI, and other insurance services provided through RC Knox.

Treasury encompasses the securities portfolio, short-term investments, wholesale funding activities, such as borrowings, and the Funding Center, which includes the impact of derivative financial instruments used for risk management purposes.

People s business segment disclosure is based on information generated by an internal profitability reporting system, which generates information by business segment based on a series of management estimates and allocations regarding funds transfer pricing (FTP), the provision for loan losses, non-interest expense and income taxes. These estimates and allocations, some of which can be subjective in nature, are continually being reviewed and refined. Any changes in estimates and allocations that may affect the reported results of any business segment will not affect the consolidated financial position or results of operation of People s as a whole. Certain reclassifications have been made to prior year amounts to conform to the current year s presentation (see below).

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FTP is used in the calculation of the respective business segment s net interest income, and measures the value of funds used in and provided by a business segment. Under this process, a money desk buys funds from liability-generating business lines (such as consumer deposits) and sells funds to asset-generating business lines (such as commercial lending). The price at which funds are bought and sold on any given day is set by People s Treasury group and is based on the wholesale cost to People s of assets and liabilities with similar maturities. Liability-generating businesses sell newly originated liabilities to the money desk and recognize a funding credit, while asset-generating businesses buy funding for newly originated assets from the money desk and recognize a funding charge. Once funding for an asset is purchased from or a liability is sold to the money desk, the price that is set by the Treasury group will remain with that asset or liability until it matures or reprices, which effectively transfers responsibility for managing interest rate risk to the Treasury group. This process results in a difference between total net interest income for the reportable business segments and the amounts reported in the Consolidated Statements of Income, which is reflected in the Funding Center as part of Treasury.

In 2006, People s revised its FTP methodology assumptions relating to those deposit products with indeterminate maturities, based on a comprehensive historical analysis of the implied maturities and repricing characteristics of those deposits. As a result, the duration for most of those deposits was lengthened, which in turn increased their value and corresponding FTP credit. In addition, the Funding Center s results, which include the impact of interest rate risk and were previously included in Other, were realigned to Treasury, since Treasury is responsible for managing People s interest rate risk. Segment information for all years presented reflects the changes resulting from the revised FTP methodology assumptions and the realignment of the Funding Center to Treasury.

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The provision for loan losses for the Commercial Banking and Consumer Financial Services segments is generally based on a five-year rolling average net charge-off rate for the respective segment. People s allocates a majority of non-interest expenses to each business segment using a full-absorption costing process. Direct and indirect costs are analyzed and pooled by process and assigned to the appropriate business segment and corporate overhead costs are allocated to each business segment. Income tax expense is allocated to each business segment using a constant rate, based on an estimate of the consolidated effective income tax rate for the year.

The category Other includes the residual financial impact from the allocation of revenues and expenses and certain revenues and expenses not attributable to a particular segment. This category also includes: revenues and expenses relating to the national consumer loan portfolio; liability restructuring costs in 2004; other nonrecurring income and expense; income from discontinued operations, including the gain on sale of the credit card business; and income tax benefits. Total assets at year end for each reportable business segment represent earning assets. Included in Other are assets such as cash, national consumer loans, premises and equipment and other assets.

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The following tables provide selected financial information for People s business segments:

Year ended December 31, 2006 (in millions)	Commercial Banking	Consumer Financial Services	Treasury	Total Reportable Segments	Other	Total Consolidated
Net interest income	$ 130.5	$ 256.4	$ (26.2)	$ 360.7	$ 21.7	$ 382.4
Provision for loan losses	10.5	3.0		13.5	(10.1)	3.4
Non-interest income	22.8	140.5	(18.2)	145.1	2.3	147.4
Non-interest expense	78.3	261.3	0.5	340.1	6.8	346.9
Income (loss) from continuing operations before income tax expense (benefit)	64.5	132.6	(44.9)	152.2	27.3	179.5
Income tax expense (benefit)	22.6	46.8	(18.9)	50.5	7.3	57.8
Income (loss) from continuing operations	41.9	85.8	(26.0)	101.7	20.0	121.7
Income from discontinued operations, net of tax					2.3	2.3
Net income (loss)	$ 41.9	$ 85.8	$ (26.0)	$ 101.7	$ 22.3	$ 124.0
Total assets at year end	$ 4,155.0	$ 5,366.4	$ 469.0	$ 9,990.4	$ 696.5	$ 10,686.9

Year ended December 31, 2005 (in millions)	Commercial Banking	Consumer Financial Services	Treasury	Total Reportable Segments	Other	Total Consolidated
Net interest income	$ 129.7	$ 266.4	$ (43.0)	$ 353.1	$ 16.6	$ 369.7
Provision for loan losses	9.4	3.5		12.9	(4.3)	8.6
Non-interest income	23.7	143.5	4.1	171.3	2.0	173.3
Non-interest expense	73.7	259.4	1.4	334.5	9.9	344.4
Income (loss) from continuing operations before income tax expense (benefit)	70.3	147.0	(40.3)	177.0	13.0	190.0
Income tax expense (benefit)	24.6	52.8	(15.3)	62.1	2.0	64.1
Income (loss) from continuing operations	45.7	94.2	(25.0)	114.9	11.0	125.9
Income from discontinued operations, net of tax					5.0	5.0
Gain on sale of discontinued operations, net of tax					6.2	6.2
Income from discontinued operations					11.2	11.2
Net income (loss)	$ 45.7	$ 94.2	$ (25.0)	$ 114.9	$ 22.2	$ 137.1

Total assets at year end	$ 3,812.2	$ 4,900.7	$ 1,553.2	$ 10,266.1	$ 666.4	$ 10,932.5

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Year ended December 31, 2004 (in millions)	Commercial Banking	Consumer Financial Services	Treasury	Total Reportable Segments	Other	Total Consolidated
Net interest income	$ 125.8	$ 268.0	$ (88.4)	$ 305.4	$ 21.7	$ 327.1
Provision for loan losses	8.8	3.3		12.1	1.2	13.3
Non-interest income	19.8	129.5	(4.4)	144.9	6.8	151.7
Non-interest expense	67.4	252.1	0.2	319.7	160.0	479.7
Income (loss) from continuing operations before income tax expense (benefit)	69.4	142.1	(93.0)	118.5	(132.7)	(14.2)
Income tax expense (benefit)	24.3	52.1	(32.5)	43.9	(52.5)	(8.6)
Income (loss) from continuing operations	45.1	90.0	(60.5)	74.6	(80.2)	(5.6)
Income from discontinued operations, net of tax					6.8	6.8
Gain on sale of discontinued operations, net of tax					198.5	198.5
Income from discontinued operations					205.3	205.3
Net income (loss)	$ 45.1	$ 90.0	$ (60.5)	$ 74.6	$ 125.1	$ 199.7
Total assets at year end	$ 3,531.8	$ 4,487.9	$ 2,086.8	$ 10,106.5	$ 611.4	$ 10,717.9

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NOTE 22 Discontinued Operations

On March 5, 2004, People s completed the sale of its credit card business, which included $2.0 billion of credit card receivables, as well as the transfer of its related credit card operations and 420 employees, to The Royal Bank of Scotland Group (RBS). Gross proceeds from the sale, after the completion of normal post-closing adjustments, totaled $2.4 billion. The net pre-tax gain on sale of $305.4 million, after deducting transaction-related costs and other adjustments, is included in income from discontinued operations in the Consolidated Statements of Income.

As a result of the sale of the credit card business, the assets and results of operations of this business for all years prior to the sale were reclassified to discontinued operations in the Consolidated Financial Statements. Interest expense was allocated to discontinued operations by applying the weighted-average cost of funds previously used for credit card business segment reporting purposes to the discontinued operation s average earning assets for 2004, with a corresponding reduction in total interest expense in the Consolidated Statements of Income.

The Consolidated Statements of Condition included an accrued liability of $24.3 million at December 31, 2004 for contract termination and other exit costs related to the credit card sale. In 2005, People s resolved the remaining issues regarding its financial obligations under a contract for the servicing of its credit card portfolio. Therefore, the accrued liability was reversed and a $9.7 million pre-tax gain was recorded, which is included in income from discontinued operations on an after-tax basis for the year ended December 31, 2005 in the Consolidated Statements of Income. Income from discontinued operations for the year ended December 31, 2006 includes an after-tax charge of $0.5 million from the resolution of a contingency related to the credit card sale.

People s continues to generate recoveries from collection efforts on previously charged-off credit card accounts that were not included in the sale of the credit card business. These recoveries are included in income from discontinued operations in the Consolidated Statements of Income. Recoveries, net of collection costs, totaled $4.1 million, $7.7 million and $11.2 million in 2006, 2005 and 2004, respectively.

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NOTE 23 Plan of Conversion and Reorganization

On September 20, 2006, People s and Holdings announced their plan to convert from a mutual holding company structure to a fully-public stock holding company structure. The Boards of Holdings and People s have adopted a Plan of Conversion and Reorganization (the Plan). Pursuant to the Plan, Holdings will merge with and into People s, with People s as the surviving entity, and People s will become a wholly-owned subsidiary of People s United Financial, Inc. (PUFI), a Delaware corporation.

In connection with the conversion, shares of People s common stock currently owned by Holdings will be canceled and new shares of PUFI common stock, representing the 57.7% ownership interest of Holdings, will be offered for sale by PUFI. Concurrent with the completion of the offering, People s existing public stockholders will receive shares of PUFI common stock for each share of People s common stock they own at that date, based on an exchange ratio to ensure that they will own approximately the same percentage of PUFI common stock as they owned of People s common stock immediately prior to the conversion.

The transactions contemplated by the Plan are subject to approval by People s stockholders, its depositors and the OTS. Special meetings of People s stockholders and depositors will be held on April 5, 2007 to approve the Plan. On February 14, 2007, the OTS gave its conditional approval to the Plan.

PUFI intends to contribute 2 million shares of PUFI common stock and $20.0 million in cash from the offering proceeds to The People s Community Foundation (the Foundation), a charitable foundation to be established in connection with the conversion and offering. The shares of common stock contributed to the Foundation will be in addition to the shares being offered for sale. This contribution of common stock and cash will be an additional operating expense and will reduce PUFI s net income in the year that the Foundation is established, which is expected to be the year ending December 31, 2007.

People s has incurred $3.0 million of conversion costs through December 31, 2006. If the conversion is completed, conversion costs will be netted against the offering proceeds. If the conversion is terminated, such costs will be expensed.

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NOTE 24 Selected Quarterly Financial Data (Unaudited)

The following table presents People s quarterly financial data for 2006 and 2005:

	2006				2005			
(in millions, except per share data)	**First**	**Second**	**Third**	**Fourth**	**First**	**Second**	**Third**	**Fourth**
Interest and dividend income	$ 137.8	$ 144.3	$ 149.4	$ 150.6	$ 119.9	$ 125.6	$ 128.6	$ 133.8
Interest expense	43.8	48.2	53.2	54.5	28.7	32.9	36.1	40.5
Net interest income	94.0	96.1	96.2	96.1	91.2	92.7	92.5	93.3
Provision for loan losses	(2.3)	0.2	4.1	1.4	1.3	0.9	1.1	5.3
Net interest income after provision for loan losses	96.3	95.9	92.1	94.7	89.9	91.8	91.4	88.0
Non-interest income	42.4	39.2	20.5	45.3	37.7	39.0	44.5	52.1
Non-interest expense	87.6	86.6	87.1	85.6	81.7	86.0	86.2	90.5
Income from continuing operations before income tax expense	51.1	48.5	25.5	54.4	45.9	44.8	49.7	49.6
Income tax expense	17.2	16.3	8.6	15.7	16.1	15.4	17.3	15.3
Income from continuing operations	33.9	32.2	16.9	38.7	29.8	29.4	32.4	34.3
Discontinued operations:								
Income from discontinued operations, net of tax	0.9	0.7	0.1	0.6	1.6	1.4	1.1	0.9
Gain on sale of discontinued operations, net of tax						6.2		
Income from discontinued operations	0.9	0.7	0.1	0.6	1.6	7.6	1.1	0.9
Net income	$ 34.8	$ 32.9	$ 17.0	$ 39.3	$ 31.4	$ 37.0	$ 33.5	$ 35.2
Basic earnings per common share	$ 0.24	$ 0.23	$ 0.12	$ 0.29	$ 0.22	$ 0.26	$ 0.24	$ 0.25
Diluted earnings per common share	0.24	0.23	0.12	0.28	0.22	0.26	0.24	0.25
Average common shares:								
Basic	141.43	141.61	141.67	141.70	140.65	141.05	141.20	141.28
Diluted	142.04	142.18	142.34	142.48	141.42	141.72	141.88	141.96
Common stock price:								
High	$ 33.83	$ 34.50	$ 41.15	$ 45.40	$ 28.00	$ 30.48	$ 33.75	$ 33.57
Low	30.00	30.87	31.89	39.24	23.99	26.27	28.17	28.85
Cash dividends paid (1)	13.6	15.4	15.5	15.5	11.9	13.5	13.5	13.5
Cash dividends per common share (1)	0.22	0.25	0.25	0.25	0.19	0.22	0.22	0.22
Total dividend payout ratio (1)	39.0%	46.9%	91.0%	39.3%	37.7%	36.5%	40.3%	38.6%

(1) Reflects the waiver of cash dividends on the substantial majority of the common shares owned by People s Mutual Holdings. See Note 13.