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Q1 2008 People's United Financial Inc. Earnings Conference Call

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PRESENTATION

Operator

Welcome to the People's United Financial first quarter earnings conference call. My name is Michelle, I will be your coordinator for today. At this time all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of this conference. (OPERATOR INSTRUCTIONS)

I would now like to turn the presentation over to your host for today's call, Mr. Phillip Sherringham President and Chief Executive Officer and the Company's Chief Financial Officer. Please proceed.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Thank you.

Good afternoon, everyone, and welcome to People's United Financial's first quarter 2008 earnings conference call. Again I'm Phillip Sherringham, President, CEO, and hopefully for not too much longer Chief Financial Officer of the Company. I'm pleased to be here to discuss our first quarter results. Before I begin as usual I'll ask you to please be sure to read the important disclosure statements on slides two and three at your convenience since we 're going to make some forward-looking statements as you all very well know by now.

And with that said let's move on to slide four. Net income in the first quarter was $15.1 million or $0.05 a share. There were a number of one time charges and a gain during the quarter, so adjusting for these, operating net income is $48.3 million or $0.15 a share. Operating retail intangible assets was 1% compared to 1.38% in the fourth quarter 2007.

Our net interest margin for the quarter was 368 compared to 401 for the fourth quarter 2007. We had anticipated the margin compression due in large measure to the Federal Reserve's current posture and the 200 basis point drop in short-term rates during the quarter. I'll provide more detail on the margin a bit later.

On the asset quality front, net loan charge-offs for the quarter were eight basis points to average loans indicating that asset quality remains excellent. At quarter end we had a substantial excess capital position of more than $2.5 billion. Before we delve deeper into the numbers I'd like to take a moment to briefly discuss some important recent developments which appear on slide five.

As we discussed in our January call we completed our acquisition of the Chittenden Corporation on the first of the year. I would note that for comparison purposes our 2007 results do not include the Chittenden Corporation. With the addition of the six former Chittenden banks, we now have seven banks serving six states and we are the largest regional bank based in New England. Beyond maintaining our focus on financial performance, our priorities remain continuing the seamless integration of Chittenden and judiciously managing our significant excess capital position.

Recently we announced annualized expense reductions of $57 million, eliminating 420 positions including 20 branches to other company. As you'll recall at the time of the Chittenden acquisition announcement we noted the expense savings as a result of the combination of both companies could be about $19 million in 2008 and $38 million on a fully phased in basis in 2009. As we indicated at the time of the announcement that estimate was conservative. Subsequently, pursuant to a recently completed review of our combined operations, we found additional opportunities for expense savings. And it is important to note that this recent announcement does not reflect additional anticipated savings that will be realized upon the eventual consolidation of the back office operations of the Company.

Our board earlier today approved a 12.5% dividend increase from $0.53 to $0.60 on an annual basis. This is our 16th consecutive annual dividend increase. Our board also authorized this morning an initial 5% share repurchase plan. The Company currently has 345 millions shares outstanding, so we can buy back approximately 17.3 million shares on that basis. As we move forward with this repurchase plan we will constantly assess the desirability of alternative uses for the Company's capital, the market for the common stock, the cash flow and capital level of the Company, as well as general economic conditions.

Slide six provides a reconciliation of our GAAP numbers and our operating income for the first quarter. As I noted earlier, we reported net income of $15.1 million or $0.05 a share. GAAP earnings were impacted by several one time pretax items. Merger released costs totaling approximately $41 million, other one time charges totaling $14.8 million, and a $6.9 million gain from our participation in the Visa IPO. The after tax impact of these one time events totals $33.2 million or $0.10 a share. Adding that back to the Company's reported net income results in operating net income of $48.3 million or $0.15 per share. As we all know, consensus estimates for us were $0.18 a share. Seems to me that some estimates may not have fully reflected the 200 basis point of Fed funds reduction during the quarter.

As you can see on slide seven, total average earning assets this quarter were $18.2 billion, an increase of $5.7 billion over the fourth quarter 2007. The increase was due in large measure to the Chittenden/People's United Financial combination. The increase can be attributed to $6.8 billion of earning assets from Chittenden , that's approximately $1 billion resulting from liquidation of short-term assets to complete the Chittenden transaction. There was an increase of $18.5 billion when compared with total average earning assets reported for the first quarter of 2007.

Slide eight illustrates changes in the mix of our average earning assets. Average securities and short-term investments increased to 20% of total earning assets compared to 4% a year ago. As a result of the proceeds from the second step conversion. This also reflects, as I just mentioned, the liquidation of approximately $1 billion to purchase Chittenden.

Commercial and home equity loans at the end of the first quarter represented approximately the same respective percentages of our earning asset mix from the year ago period due to the sharp increase in short-term investments. Slide nine illustrates the Company's loan mix. As you can see, our commercial banking loans as a portion of our total loans increased 12% due to the low mix at Chittenden while our residential loans as a portion of our total loans decreased 12%. So in other words, our tilt--our shift towards the commercial bank mix is increasing.

Slide 10 addresses our commercial loan portfolio. Our total commercial loan portfolio increased 98% as a result of the acquisition of $3.8 billion in Chittenden commercial loans. As you can see, commercial real estate loan represent the largest increase followed by C&I loans. PCLC, our equipment finance strategy continues to grow, up 12% compared to the first quarter of last year.

While our shared national credit portfolio increased 28% from last year, that number will decline in future quarters reflecting our decision to unwind this portfolio over the next two to three years. The account here represents 10% of total commercial loans and only 5.6% of total loans. I want to reemphasize as I did last quarter that our shared national credit portfolio which was built up from a very low base has performed and continues to perform exceptionally well.

Now, let's move to the liability side of the balance sheet on slide 11. We acquired deposits of about $6.1 billion as a result of the Chittenden transaction. Once again, our loans are fully funded by deposits and stockholder's equity. Slide 12 shows a comparison of our average funding mix in the first quarters of 2008 and 2007. As you can see, our stockholder's equity nearly doubled from 13% to 25% largely a reflection of the proceeds of our second step conversion.

Slide 13 illustrates the components of the bank's deposits. The across the board increases also affect the acquisition of about $6.1 billion in Chittenden deposits. Savings now accounts and money market accounts which represent 42% of our deposit mix are up 92% compared to the first quarter 2007 which also included $84 million in escrow funds from the stock offering.

Time deposits representing 37% of the mix are up 53% and demand deposits representing 21% are up 48%. Our overall cost of funds for the quarter was 2.32%, however, the real strength of our balance sheet can be seen in the equity and core deposits. The weighted average cost of which is only 68 basis points for the quarter. Looking at demand deposits more closely, consumer demand deposits were flat year-over-year while commercial EDA increased about $1 billion or 107%. This reflects the deposit composition of the Chittenden corporation which was largely commercially focused as we know.

Now let's take a look at the income statement on slide 14. First quarter 2008 operating net income was up 44% from first quarter 2007 levels. The Company's adjusted earnings per share for the first quarter 2008 increased 36% compared to the same period last year. First quarter 2008 net interest income was negatively impacted to the tune of about $13 million or $0.03 a share to the previously mentioned federal reserve rate cuts.

The provision for loan losses in the first quarter 2008 reflects net loan charge loss of 8 basis points for average loans, more evidence of the Company's excellent asset quality; and by the way, the lower tax rate this quarter reflects a (inaudible - highly accented language) death benefit. First quarter 2008 no interest expenses were relatively flat when compared with fourth quarter 2007 proforma results.

The bar chart on slide 15 shows the trend in our margin. The Company's margin reflects a negative impact of approximately 30 basis points compared to fourth quarter 2007 as a result of declining interest rates and our decision to stay liquid. An additional six basis points of negative impact is due to the amortization or fair value adjustments related to the Chittenden purchase.

As I said before, you should think of us as an $18.5 billion asset bank with an additional $2.5 billion stash of extra capital, if you look at slide 16. Obviously the liquid capital are extraordinarily asset sensitive and exacerbates the more modest asset sensitivity of the core bank. This slide breaks out the impact of those two factors.

Slide 17 addresses non-interest income. The trust area added $5.7 million in fees for the quarter compared to the fourth quarter 2007 in large part due to Chittenden acquisition. Also as a result of the Chittenden acquisition, fee based revenues were up 54%. Net security gains included a one time $6.9 million benefit related to the Visa IPO and a $1.5 million gain from the sale of the former Chittenden securities earlier in the year and their reinvestment at (inaudible - highly accented language). Adjusted non-interest income increased 72% from the first quarter 2007 to the first quarter 2008.

Slide 18 shows non-interest expense highlights. Operating non-interest expenses increased largely as a result of the Chittenden acquisition. As I noted earlier, first quarter 2008 non-interest expenses were relatively flat when compared with fourth quarter '07 proforma results.

While slide 19 illustrates the trends in our efficiency ratio, the absolute levels are hugely impacted by the recent trends in interest rates. We here at the bank remain committed to continually looking for ways to run the bank more efficiently and control the actual levels of expenses; and the results this quarter did not reflect any meaningful acquisition related cost savings at this early stage of the integration.

But as you-all know the efficiency ratio is also driven by revenues. Given our high levels of liquid investments this has caused an increase in the efficiency ratio in the short term. While our long-term growth remains an efficiency ratio in the mid-50% range, it will be dependent upon the continued deployment of capital.

We're very pleased to report our asset quality as seen on slide 20 continues to be excellent. The former Chittenden banks accounted for $46.5 million or roughly 65% of non-performing assets in the first quarter of 2008. The provision for loan losses this quarter reflect a $4.5 million increase in the allowance for loan officers resulting from aligning the former Chittenden reserving methodology with that of People's United Financial. And as I noted earlier, net charge-offs are only 8 basis points for average loans which is quite remarkable in the current environments. Now, here at the risk of sounding again like a broken record, let me restate we have no subprime, (inaudible - highly accented language) or SIV exposure and that at present we see no cracks in the foundation in terms of our asset quality across all our loan portfolios.

Slide 21 illustrates the differential impact of rate moves on our excess capital position compared to the core bank. As you can see, if rates were to decline a hundred basis points, the net interest margin on the excess capital would drop by 40% contrasted to only a 4% decline in the core bank's margin. If Fed funds remain flat at 225 basis points, which would translate to 250 basis points on average for the year, the margin would be 345 for the year. Should the Fed funds rate drop to 150 basis points or 200 basis points on average for the year, the margin would decline by 13 basis points to 332.

Now I'd like to provide some insight into our outlook for the remainder of the year. From current operating levels this quarter, we expect that total average earning assets will increase by about 2% by year end as a decline in total average loans of roughly 2% should be offset by additional growth in liquid investments. While loans overall should decline as residential loans and national credits drop by almost 15%, this should be partially offset by continued growth in commercial lending of approximately 8%. I know it says 6% on your slide, but that's a typo, it should be 8%, so please make that change, thank you.

We assume our deposits will increase 2% by year end and that our net interest margin will be 345 for the year given no change in the current short-term rates. Non-interest income expect to be stable, and we expect to realize low interest expense savings of 8% to 10%, not 8% to 12%, 8% to 10% based on the cost reduction efforts we discussed earlier in this presentation. Finally we believe that our strong asset quality and significant capital position will continue to set us apart from our peers.

In summary, and as I stated at the beginning of this presentation our area of--areas of focus are very clear. The successful integration of Chittenden , continued strong financial performance, and effective management of capital. By maintaining our focus, we believe we will be well positioned to deliver the level of shareholder returns that our franchise of performance warrants regardless of the greater macro issues hurting so many of our peers. This concludes my review of this quarter's results.

Now I'll be happy to answer any questions you

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS)

And your first question comes from the line of Ken Zerbe of Morgan Stanley , please

Ken Zerbe ***Morgan Stanley - Analyst***

Great, thanks.

With 2.5 billion of excess capital that is clearly depressing your earnings, how long are you willing to hold that, because I saw that the 5% or the 5% buy back, but I guess in the grand scheme of things that really doesn't move the dial too much?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, yes, a couple things here. Hi Ken first of all.

The 5% as you mention is initial purchase. Depending on how we feel about the world we could obviously come back and increase it later. As to your question as to how long we're willing to hold that capital, if you go back to exactly a year ago when we closed the deal on the road show then, people asked us how long it would take us to deploy the capital and the answer was three to five years, so we're sticking with that. Obviously we didn't waste time with Chittenden, and I think based on that you can say another two to four years, two to three years.

Ken Zerbe ***Morgan Stanley - Analyst***

Okay, and then maybe switching gears a little bit, could you just talk a little bit about acquisition opportunities right now? What are you seeing out there in the market, is it more attractive potentially than doing buy backs and what's your appetite for large versus smaller deals?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, maybe I'll answer the last question first.

Larger deals, smaller deals, that question comes up pretty often. Candidly all things being equal, which candidly they never are, larger deals are better, because they move the needle, they're simple more efficient in terms of our own resources here internally. Doesn't mean we wouldn't look at small deals, we're going to be very open minded about this. So we could look at both. I still have a preference for larger deals to the extent they're available.

Now back to the first part of your question, are they available, what do we see as attractive? On paper if we could do deals at prices closer to what market is today, for many potential targets it could be fairly attractive. We think it would be actually probably more attractive than buying our stock. Whether or not that's actually possible as you know that's a one on one discussion with potential targets and it may or may not happen.

Ken Zerbe ***Morgan Stanley - Analyst***

Okay, great, thank you very much.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes.

Operator

And your next question comes from the line of James Abbott of FBR Capital, please proceed.

Mr. Abbott, your line is now open.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Sorry. Yes, hi, Phil, how are you?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Good, how are you.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Good, thanks. Housekeeping question, on the BOLI line item--or the amount of the BOLI income for the quarter that's unusual or nonrecurring related to the debt, can you give us that amount? I think it's in the other fee income line.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes, it's about $2.3 million.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Okay.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Remember, that's not taxable.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Right, correct, okay. And would the tax rate return back to around 32% to 33% level in the second quarter?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes, 34%.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

34%, okay.

And then also on a little bit more substantive question, how should we model or think about modeling in the cost savings. I think you mentioned that you begin that process in the third quarter as far as--and so forth if I remember from the press release; and at what point would 100% of that $57 million be fully factored in.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, the $57 million should start impacting second quarter numbers actually, and that's an annualized rate. So I mean roughly something like say 12 to $14 million a quarter starting in the second quarter of the year. Again, it depends--some of this may be subject to some phase in, but you should start seeing impact in the second quarter.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Okay. So we can take, we can take the non-interest expense line item of the $219 million, we need to subtract the merger expense.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

No, no, no let me stop you James.

It's not the 219, it's the 167, start with that, right? The 219 includes the nonrecurring one time numbers--expenses I should say. So go from 219 to 167; 167 again reflects essentially no synergies at all between the two companies. If you go back to the proforma numbers which we had, in fact, disclosed earlier, you add our expenses in the fourth quarter which were $100 million to the corporation Chittenden expenses adjusting them a little bit, like $60 million, so the total was about $160 million the fourth quarter proforma.

So what I'm saying is you're not looking at 167.9, so essentially flat like that a little bit, 167.9. So yes, so that number 167.9 should start to be reduced in the second quarter to the tune of anywhere from 10 to $14 million a quarter over time.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Okay.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

And those expense saves of course are permanent in nature.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Okay. Thank you, that's helpful. So we should expect it in the second quarter completed?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, not maybe entirely completed, but you should see a big piece of it, yes.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

The vast majority.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Okay, and the last question that I had anyway is on the amount of construction loans in the shared national credit portfolio. Do you have that handy with you, I know there's some construction loans in there, and I just didn't know if you could give us the dollar amount of the number; and then also sort of the health of those construction loans?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, unfortunately I don't have the exact number handy, so I'll call you back on that later, I'll be happy to give it to you. But as far as the health of the portfolio is concerned, so far it's going very well. I mean this is a portfolio--I know it sounds surprising to most of you, but again it goes to the quality of our underwriting frankly; as well as our monitoring and management of the portfolio. So far this portfolio is performing just fine.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Were you the lead back on those construction or are you just a participant?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

No, we're participants.

James Abbott ***Friedman, Billings, Ramsey Group, Inc. - Analyst***

Okay. Okay. Thanks very much.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Sure.

Operator

Your next question comes from the line of Rick Weiss of Janney, please proceed.

Richard Weiss ***Janney Montgomery Scott - Analyst***

Hi guys.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Hi Rick.

Richard Weiss ***Janney Montgomery Scott - Analyst***

I was wondering if you could discuss the integration of Chittenden in some more detail and whether you've received any surprises both positive and negative; and also what kind of deposit runoff have you seen?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes.

First of all, no surprises. Chittenden , we thought it was a good bank, that's why we bought it, it's been confirmed, Chittenden is a good bank. Again, in terms of asset quality, their methodology for reserving and things like that was a little different from ours, we made the adjustment this quarter. So we're now on the same plane, if you will, on that front.

In terms of how the integration is going, it's going very well. Some aspects are going faster than others as was expected. The good news is really no

Richard Weiss ***Janney Montgomery Scott - Analyst***

Okay. And when you say the reserve methodology is a little different, does that mean they tend to have higher reserve levels than People's did?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Actually it's gone the other way around. The way they looked at non-performing assets compared to the way we look at non-performing assets, the slight differential differences which led us to increase the allowance 2 to 4.5 million in the first quarter as we indicated.

Richard Weiss ***Janney Montgomery Scott - Analyst***

Okay, and I was wondering for the one time charges excluding the merger ones, kind of what were the main elements of that?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, as we indicated there's some charges related to the passing of our former CEO, Mr. Klein--John Klein. And then there's some other collection of minor items including we set up a reserve for potential legal exposure, which is now fully covered stuff like that.

Richard Weiss ***Janney Montgomery Scott - Analyst***

Okay. That's all I have, thank you.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes.

Operator

(OPERATOR INSTRUCTIONS)

And your next question comes from the line of Collyn Gilbert of Stifel Nicolaus, please proceed.

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Thanks.

Hey Phillip, how are you?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Hey Collyn, how are you?

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Good.

Just a question on credit quality. You had said that Chittenden had 46.5 million of MPAs; but were they about, I guess, I'm showing somewhere that at the third quarter they were about 30 million of MPAs.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

At the end of the fourth quarter that's the number we disclosed also, they're basically at $36 million. Okay, so yes, if you look at our numbers, if you look at what their numbers were, the increase came almost entirely from the former Chittenden banks. In other words, on a proforma basis MPAs were basically $62 million as of December 31st; now they're 72 and that increase came almost entirely from the former Chittenden banks. In fact, to be more specific, most of it goes to the last bank that Chittenden acquired CBNT, Community Bank and Trust in Wolfboro, New Hampshire, that was a very small bank actually, but they had a few (inaudible - highly accented language) so that's what I--

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Okay, and you've been--all along been pretty clear on what the credit profile looks like for you guys, for People's; and you had said that you don't see any major issues for the combined organization. But do you anticipate reserve building at all here now with Chittenden on the books just given the profile with credits, given that they have done some acquisitions in the last few quarters, specifically the CBNT where credit may not be quite as strong.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

As you know, Collyn, as we have discussed many times in the past, reserve building is largely discretionary proposition for us, or anybody else for that matter; it's a function of ultimately actual asset quality charge-off levels and so on. At this point, frankly no, I think our ratio of allowance to total loans now stands at 105 which on a combined basis, of course, is higher than what we used to be stand alone and we're very comfortable with that.

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Okay, and then just in terms of the CFO search, could you give us any color as to how that's going or potential timing on when you may announce a hire.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, again, if you know of any good candidates let me know, you've got my number. Anybody out there please call me. We're actively looking, we have engaged (inaudible - highly accented language) to help us with that. It's one of those things, it's a very important position for us as you might imagine; and it's going to take the time it takes. I'm hoping frankly it can be concluded within the next couple months, but I can't promise anything.

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Okay, and then just finally on the share repurchase, I know you've indicated you're obviously going to be opportunistic and market conditions are going to affect that, etc. Is there any guidance you can give on how we should really model that? The fact that you came out of the gates with only a 5% authorization is less than certainly what we've seen from your peers. But just any color on how we should be factoring that in?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

I wish I could help you, Collyn, but I'm afraid I can't, because it's really going to depend--we have given a list of factors we're going to be considering including of course basically a combination of alternatives we may have, the market for the stock itself and so on. So I cannot--I cannot be more specific, I wish I could.

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Okay, and I keep saying final question, but I'm stealing one more.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

That's all right, go ahead.

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Acquisition plans you had commented on size, what about mix? I know in the past you've been pretty adamant about not diluting the balance sheet mix or sticking to more of a commercial orientation. Are you broadening your criteria at all as it relates to opportunities?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Not really. I mean, again, initially the answer is no. I mean if we're completely unsuccessful on that front we may reconsider it, but at this point we're not; we haven't given up at all. I think we're building a nice balance sheet, a very nice commercial bank; and as you know, the reason we're doing this is because ultimately this is where the profitability is. You can't build a high performing bank on a mortgage portfolio loan, doesn't happen.

Collyn Gilbert ***Stifel Nicolaus - Analyst***

Okay. All right, that's all, thanks.

Operator

And your next question comes from the line of Phillip Robert of Westwood, please proceed.

Phillip Robert *Westwood - Analyst*

Hey Philip, how are you?

Philip Sherringham *People's United Financial Inc. - CEO & CFO*

Good, how are you?

Phillip Robert *Westwood - Analyst*

Hey, good thanks. Listen, I was wondering if you could kind of lay out the parameters and criteria for your acquisition strategy. Obviously the stock coming out at 20, then you do the Chittenden deal, evidently the market feels like you over paid for Chittenden, whatever that may be. Given the relatively short track record you guys have for doing deals, part of the thesis for having excess capital is to deploy that in an acquisition. So, how can you assure us that it essentially won't be diluted again; if you can just walk through that strategy that would certainly help?

Philip Sherringham *People's United Financial Inc. - CEO & CFO*

Well, first of all I could take issue with some of your statements, but I won't because we all have our perspective on this and that's fine. At the end of the day we think that Chittenden was a great deal. We think that our stock while it's been battered some, as all financial institution's stocks has done on comparatively, frankly, very well as you well know. I could list a number of companies who would be delighted to have our performance and stock price. But, anyway, be that as it may, yes, you're right, when we raise the capital we were unambiguous, very clear I thought at the time about our desire to deploy--buy acquisitions.

We think that well priced acquisitions are franchise accretive. We have got a very clear target profile, which again let me restate it, we're talking about commercially oriented franchises in our general designated market area, the Northeast, that goes from Maine to Washington D.C. at this point. We are looking for companies that are commercial oriented that have philosophies, great cultures somewhat similar to ours if possible, good deposit franchises, that's what we're looking for.

Phillip Robert *Westwood - Analyst*

Okay, and in terms of ROE kind of hurdle metrics of internal rate of return that you guys are going to deploy?

Philip Sherringham *People's United Financial Inc. - CEO & CFO*

Right.

As you know and thanks for bringing it up, our most important metric, what we pay most attention to is in fact the internal rate of return; and we stated initially they ought to be--the internal rate of return--any acquisition ought to be higher than our cost of capital. That happened to be the case with Chittenden , otherwise, of course we wouldn't have done the deal; and we announce an IRR of 13.5 as you recall. Cost of capital we figure is around 11, between 10 and 11. So that met the hurdle right then.

I think today it's different and given the environment being considerably different, the hurdle rate is just increased. My target is now at least 20%. So the IRR should be at least 20% for us to do a

Phillip Robert *Westwood - Analyst*

Great, thank you for sharing that Philip.

Philip Sherringham *People's United Financial Inc. - CEO & CFO*

Sure.

Operator

And your next question comes from the line of Steve Shepherd of HGK Asset Management, please proceed.

Steven Shepherd ***HGK Asset Management - Analyst***

Hi.

I noticed if I remember correctly a few months ago in the local paper there you were selling some most of your buildings in downtown Bridgeport. Is that still the case that you're consolidating your operations there?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, first of all, let me clarify something. We have indeed put a bundle of properties in downtown Bridge port on the market. Those are properties that we have owned in some cases for a very, very long time; and frankly none of them involve our operations. Those are properties that are currently used by a variety of commercial tenants. They have--they're on the book for about $8 million, so it's not exactly an earth shaking transaction. Frankly, our thinking is very straightforward to the extent there is right now a start--a little bit of a beginning of a renaissance in Bridgeport. Our thinking is that outside investors or potentially developers or others will be in a better position than we are to maximize the best use of those properties and that's why we're doing it.

Steven Shepherd ***HGK Asset Management - Analyst***

Okay. Question in development in the area, are you one of the--are you involved with the loans for the new train stations and things that are going on in Fairfield and in Bridgeport?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

No, we have got nothing to do with that.

Steven Shepherd ***HGK Asset Management - Analyst***

Okay, that's a positive I think. All right. Thank you very much.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes.

Operator

(OPERATOR INSTRUCTIONS)

And your next question comes from the line of Matt Kelley of Sterne, Agee, please proceed.

Matthew Kelley ***Sterne, Agee & Leach, Inc. - Analyst***

Yes, hi guys.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Hi Matt.

Matthew Kelley ***Sterne, Agee & Leach, Inc. - Analyst***

Putting some of this guidance together and the margin guidance, and I appreciate all the detail you provided. But you put it all together and it's difficult to see '08 coming in higher than last year; and so if you have flat earnings I'm wondering if the 20% IRR would coincide with another deal that you would consider being 15% accretive to earnings and 26% dilutive to tangible book. Does that change at all?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Maybe you could rephrase that, I'm not quite sure I understand the--

Matthew Kelley ***Sterne, Agee & Leach, Inc. - Analyst***

The Chittenden deal was originally--it was 15% creative to earnings in the Power Point presentation when the deal was an announced.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Oh, you mean the Chittenden deal?

Matthew Kelley ***Sterne, Agee & Leach, Inc. - Analyst***

Right, and so if we're looking at flat earnings now for '08, that's just the way I'm coming up with it right now you be looking at $0.75 for next year if you were to an announce a similar type of transaction to Chittenden, and then Chittenden was 26% dilutive to your tangible book; and I'm wondering if you would repeat that type of transaction or not?

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, I think the math would probably change some, honestly, because the premiums we would be paying would probably be lower at least we would hope. I can't really--it depends on the specific situation. I understand your logic.

I think this year our earnings, again, depending on what the Fed does, (inaudible - highly accented language) if rates stay flat it's one thing, down more it's another, if they go up it will be much better. I want to emphasize, by the way, that we think it's really prudent for us at this point to stage forward in terms of our capital. We have all kinds of options we could go out and take more credit risk, more duration risk and come up with earnings that would be fairly significant; be higher this year already, Matt.

But as you know you can't, I mean cash can't be marked down unlike everything else and given the huge amount of uncertainty and the volatility in the financial markets I think that it's just better part of valor at this point is to stay in cash; and so we're being very vocal about this to you and everybody else who cares to ask and listen. It will have an impact, but you understand it's a very temporary situation.

In a way it doesn't really reflect in my mind at all on the earnings potential of the Company. This is a temporary deployment of capital, it's in cash for now. We're looking for acquisitions. Should we determine after a certain period of time which remains to be seen, say a year, two years--two years from now we can't find anything that meets our criteria, we can always buy the stock back massively or there's all kinds of options.

Matthew Kelley ***Sterne, Agee & Leach, Inc. - Analyst***

Okay.

And can you just remind us again on the geographic regions that you would find appealing for acquisition strategies, and maybe rank those a little bit in terms of markets you'd like to expand the franchise into more than others.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

We're very open minded there. I think there are excellent up and down the East coast. There are excellent markets still in New England that we're not in; Boston is one of them, as I point out often. We're not in Rhode Island as you've observed I'm sure, so that's-- There's very good markets in New Jersey, very good markets in Pennsylvania, Delaware, all the way down to D.C. So it really will depend on who we can talk to who will see the value of associating with us.

Matthew Kelley ***Sterne, Agee & Leach, Inc. - Analyst***

Okay. Fair enough, thank you.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Yes.

Operator

And that does conclude the question and answer session. I'll now turn it back to Mr. Sherringham for closing remarks.

Philip Sherringham ***People's United Financial Inc. - CEO & CFO***

Well, very good, thank you all for your questions; and I look forward to our next call. Again, thank you very much for participating.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a good day.