WEBSTER FINANCIAL CORP
Form 10-Q
November 05, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-31486

WEBSTER FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	06-1187536
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

145 Bank Street (Webster Plaza), Waterbury, Connecticut 06702
(Address and zip code of principal executive offices)

(203) 578-2202
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). o Yes þ No
The number of shares of common stock, par value $.01 per share, outstanding as of October 31, 2013 was 90,343,433

INDEX

		Page No.
PART I – FINANCIAL INFORMATION		
Item 1.	Financial Statements	1
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	53
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	87
Item 4.	Controls and Procedures	87
PART II – OTHER INFORMATION		88
Item 1.	Legal Proceedings	88
Item 1A.	Risk Factors	88
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	88
Item 3.	Defaults Upon Senior Securities	88
Item 4.	Mine Safety Disclosures	88
Item 5.	Other Information	88
Item 6.	Exhibits	88
SIGNATURES		91
EXHIBIT INDEX		92

Table of Contents

PART I. – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	At September 30, 2013 (Unaudited)	At December 31, 2012
Assets:		
Cash and due from banks	$266,747	$252,283
Interest-bearing deposits	18,192	98,205
Securities available for sale, at fair value	3,193,772	3,136,160
Securities held-to-maturity (fair value of $3,248,620 and $3,264,718)	3,205,999	3,107,529
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	158,878	155,630
Loans held for sale	40,193	107,633
Loans and leases	12,477,965	12,028,696
Allowance for loan and lease losses	(157,545)	(177,129)
Loans and leases, net	12,320,420	11,851,567
Deferred tax asset, net	72,180	68,681
Premises and equipment, net	121,250	134,562
Goodwill	529,887	529,887
Other intangible assets, net	6,544	10,270
Cash surrender value of life insurance policies	427,113	418,293
Prepaid FDIC premiums	—	16,323
Accrued interest receivable and other assets	248,379	259,742
Total assets	$20,609,554	$20,146,765
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$2,968,727	$2,881,131
Interest-bearing	12,030,804	11,649,704
Total deposits	14,999,531	14,530,835
Securities sold under agreements to repurchase and other borrowings	1,372,290	1,076,160
Federal Home Loan Bank advances	1,602,469	1,827,612
Long-term debt	229,146	334,276
Accrued expenses and other liabilities	238,459	284,352
Total liabilities	18,441,895	18,053,235
Shareholders’ equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series A issued and outstanding - 28,939 shares	28,939	28,939
Series E issued and outstanding - 5,060 shares	122,710	122,710
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued - 93,360,197 and 90,735,596 shares	933	907
Paid-in capital	1,126,344	1,145,620
Retained earnings	1,054,117	1,000,427
Less: Treasury stock, at cost (3,575,777 and 5,772,006 shares)	(106,443)	(172,807)
Accumulated other comprehensive loss	(58,941)	(32,266)
Total shareholders' equity	2,167,659	2,093,530
Total liabilities and shareholders' equity	$20,609,554	$20,146,765

See accompanying Notes to Condensed Consolidated Financial Statements.

1

Table of Contents

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2013	2012	2013	2012
Interest Income:				
Interest and fees on loans and leases	$123,664	$121,367	$366,445	$363,487
Taxable interest and dividends on securities	42,165	43,532	126,619	135,082
Non-taxable interest on securities	5,351	6,662	17,104	20,577
Loans held for sale	573	655	1,761	1,810
Total interest income	171,753	172,216	511,929	520,956
Interest Expense:				
Deposits	10,908	14,543	35,782	45,701
Securities sold under agreements to repurchase and other borrowings	5,283	5,594	15,522	15,388
Federal Home Loan Bank advances	3,753	3,943	12,299	12,933
Long-term debt	1,822	3,246	5,482	14,298
Total interest expense	21,766	27,326	69,085	88,320
Net interest income	149,987	144,890	442,844	432,636
Provision for loan and lease losses	8,500	5,000	24,500	14,000
Net interest income after provision for loan and lease losses	141,487	139,890	418,344	418,636
Non-interest Income:				
Deposit service fees	25,170	24,728	73,786	71,810
Loan related fees	5,840	4,039	15,930	12,473
Wealth and investment services	8,095	7,186	24,781	21,656
Mortgage banking activities	665	6,515	13,584	14,522
Increase in cash surrender value of life insurance policies	3,516	2,680	10,348	7,758
Net gain on sale of investment securities	269	810	708	3,347
Other income	2,702	2,521	7,649	8,252
Total non-interest income	46,257	48,479	146,786	139,818
Non-interest Expense:				
Compensation and benefits	64,862	66,126	196,680	198,332
Occupancy	11,994	12,462	36,710	37,922
Technology and equipment	14,895	15,118	45,743	46,721
Intangible assets amortization	1,242	1,384	3,726	4,178
Marketing	3,649	4,529	12,277	13,723
Professional and outside services	2,254	2,790	5,931	8,869
Deposit insurance	5,300	5,675	15,998	17,107
Other expense	18,085	15,803	54,355	52,027
Total non-interest expense	122,281	123,887	371,420	378,879
Income before income tax expense	65,463	64,482	193,710	179,575
Income tax expense	18,158	19,489	57,915	54,404
Net income	47,305	44,993	135,795	125,171
Preferred stock dividends	(2,639)	(615)	(8,164)	(1,845)
Net income available to common shareholders	$44,666	$44,378	$127,631	$123,326
Net income per common share:				
Basic	$0.50	$0.51	$1.44	$1.41

Diluted	0.49	0.48	1.41	1.34

See accompanying Notes to Condensed Consolidated Financial Statements.

2

Table of Contents

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2013	2012	2013	2012
Net income	$47,305	$44,993	$135,795	$125,171
Other comprehensive income (loss), net of tax	6,198	14,601	(26,675)	30,927
Comprehensive income	$53,503	$59,594	$109,120	$156,098

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

Nine months ended September 30, 2013

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2012	$151,649	$907	$1,145,620	$1,000,427	$(172,807)	$ (32,266)	$2,093,530
Net income	—	—	—	135,795	—	—	135,795
Other comprehensive loss, net of tax	—	—	—	—	—	(26,675)	(26,675)
Dividends paid on common stock of $0.40 per share	—	—	—	(35,176)	—	—	(35,176)
Dividends paid on Series A preferred stock $63.75 per share	—	—	—	(1,845)	—	—	(1,845)
Dividends paid on series E preferred stock $1248.89 per share	—	—	—	(6,319)	—	—	(6,319)
Common stock warrants repurchased	—	—	(30)	—	—	—	(30)
Exercise of stock options	—	—	(729)	—	1,713	—	984
Net shares acquired related to employee share-based compensation plans	—	—	—	—	(381)	—	(381)
Stock-based compensation, net of tax effects	—	—	2,757	(2,511)	7,335	—	7,581
Issuance of common stock	—	26	(21,274)	(36,254)	57,697	—	195
Balance at September 30, 2013	$151,649	$933	$1,126,344	$1,054,117	$(106,443)	$ (58,941)	$2,167,659

Nine months ended September 30, 2012

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2011	$28,939	$907	$1,145,346	$865,427	$(134,641)	$ (60,204)	$1,845,774
Net income	—	—	—	125,171	—	—	125,171
Other comprehensive income, net of tax	—	—	—	—	—	30,927	30,927
Dividends paid on common stock of $0.25 per share	—	—	—	(21,906)	—	—	(21,906)
Dividends paid on Series A preferred stock $63.75 per share	—	—	—	(1,845)	—	—	(1,845)
Common stock warrants repurchased	—	—	(385)	—	—	—	(385)
Exercise of stock options	—	—	(1,711)	—	2,567	—	856
Net shares acquired related to employee share-based compensation plans	—	—	—	—	(2,008)	—	(2,008)
	—	—	1,735	(4,253)	9,205	—	6,687

Stock-based compensation, net of tax effects							
Issuance of common stock	—	—	407	—	—	—	407
Balance at September 30, 2012	$28,939	$907	$1,145,392	$962,594	$(124,877)	$(29,277)	$1,983,678

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)	Nine months ended September 30, 2013	2012
Operating Activities:		
Net income	$135,795	$125,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	24,500	14,000
Deferred tax expense	11,221	14,192
Depreciation and amortization	78,236	81,632
Stock-based compensation	7,757	6,735
Excess tax benefits from stock-based compensation	(255)	(303)
Gain on sale, net of write-down, on foreclosed and repossessed assets	(1,072)	(1,923)
(Gain) loss on sale net of write-down on premises and equipment	(59)	603
Loss on fair value adjustment of alternative investments	354	775
Loss on fair value adjustment of derivative instruments	290	12
Net gain on the sale of investment securities	(708)	(3,347)
Increase in cash surrender value of life insurance policies	(10,348)	(7,758)
Gain from life insurance policies	(1,070)	—
Gain on sale of loans held for sale	(13,584)	(14,522)
Proceeds from sale of loans held for sale	670,226	529,020
Origination of loans held for sale	(592,368)	(537,348)
Net decrease (increase) in accrued interest receivable and other assets	83,060	(14,154)
Net decrease in accrued expenses and other liabilities	(16,743)	(3,730)
Net cash provided by operating activities	375,232	189,055
Investing Activities:		
Net decrease in interest-bearing deposits	37,243	16,299
Purchases of available for sale securities	(835,364)	(1,009,181)
Proceeds from maturities and principal payments of available for sale securities	621,385	627,429
Proceeds from sales of available for sale securities	44,261	148,223
Purchases of held-to-maturity securities	(702,017)	(752,030)
Proceeds from maturities and principal payments of held-to-maturity securities	587,998	571,648
Net (purchase) sale of Federal Home Loan Bank and Federal Reserve Board stock	(3,248)	1,279
Net increase in loans	(503,397)	(586,375)
Purchase of life insurance policies	—	(100,000)
Proceeds from life insurance policies	1,768	—
Proceeds from the sale of foreclosed properties and repossessed assets	5,741	7,453
Proceeds from the sale of premises and equipment	1,304	1,406
Purchases of premises and equipment	(11,247)	(14,544)
Net cash used for investing activities	(755,573)	(1,088,393)
Financing Activities:		
Net increase in deposits	468,696	757,412
Proceeds from Federal Home Loan Bank advances	3,178,120	2,826,265
Repayments of Federal Home Loan Bank advances	(3,403,245)	(2,625,500)
Net increase in securities sold under agreements to repurchase and other borrowings	296,130	145,309
Repayment of long-term debt	(102,579)	(210,971)
Cash dividends paid to common shareholders	(35,176)	(21,906)
Cash dividends paid to preferred shareholders	(8,164)	(1,845)

Exercise of stock options	984	856
Excess tax benefits from stock-based compensation	255	303
Issuance of common stock	195	407
Common stock repurchased	(381)	(2,008)
Common stock warrants repurchased	(30)	(385)
Net cash provided by financing activities	394,805	867,937
Net increase (decrease) in cash and due from banks	14,464	(31,401)
Cash and due from banks at beginning of period	252,283	195,957
Cash and due from banks at end of period	$266,747	$164,556
Supplemental disclosure of cash flow information:		
Interest paid	$66,582	$92,056
Income taxes paid	42,507	30,398
Noncash investing and financing activities:		
Transfer of loans and leases, net to foreclosed properties and repossessed assets	$9,295	$5,474
Transfer of loans from portfolio to loans-held-for-sale	44	13,796

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations. Webster Financial Corporation (collectively, with its consolidated subsidiaries, “Webster” or the “Company”), is a bank holding company and financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Waterbury, Connecticut and incorporated under the laws of Delaware in 1986. At September 30, 2013, Webster Financial Corporation's principal asset was all of the outstanding capital stock of Webster Bank, National Association (“Webster Bank”).

Webster, through Webster Bank and various non-banking financial services subsidiaries, delivers financial services to individuals, families and businesses throughout southern New England and into Westchester County, New York. Webster provides business and consumer banking, mortgage lending, financial planning, trust and investment services through banking offices, ATMs, telephone banking, mobile banking and its Internet website (www.websterbank.com). Webster Bank offers, through its HSA Bank division, health savings accounts on a nationwide basis. Webster also offers equipment financing, commercial real estate lending, and asset-based lending.

Basis of Presentation. The Condensed Consolidated Financial Statements include the accounts of Webster Financial Corporation and all other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. Webster's accounting and financial reporting policies conform, in all material respects, to accounting principles generally accepted in the United States (“GAAP”) and to general practices within the financial services industry.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (“VIE”) under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holder with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all or at least a majority of, the voting interest. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when the Company has both the power and ability to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company owns the common stock of a trust which has issued trust preferred securities. The trust is a VIE in which the Company is not the primary beneficiary and, therefore, is not consolidated. The trust's only assets are junior subordinated debentures issued by the Company, which were acquired by the trust using the proceeds from the issuance of the trust preferred securities and common stock. The junior subordinated debentures are included in long-term debt and the Company’s equity interests in the trust is included in other assets in the accompanying Condensed Consolidated Balance Sheets. Interest expense on the junior subordinated debentures is reported in interest expense on long-term debt in the accompanying Condensed Consolidated Statements of Income. See Note 9 - Long-Term Debt.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash or cash equivalents.

Use of Estimates. The preparation of the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements. Actual results could differ from those estimates. The allowance for loan and lease losses, the fair value measurements of financial instruments and valuation of investments for other-than-temporary impairment (“OTTI”), the valuation of goodwill, the deferred tax asset valuation allowance and pension and other postretirement benefits, as well as the status of contingencies are particularly subject to change.

Correction of Immaterial Error Related to Prior Periods. During the three months ended September 30, 2013, the Company identified a $1.7 million error applicable to income taxes in prior periods. The error was determined to be immaterial to the results of the prior periods, and the correction of the error resulted in the recognition of a $1.7 million tax benefit in the three months ended September 30, 2013, which was determined to be immaterial to the results of the current period. For more detailed information see the "Income Taxes" section of Management's

Discussion and Analysis of Financial Condition and Results of Operations.
Cash Equivalents and Cash Flows. For the purposes of the Condensed Consolidated Statements of Cash Flows, cash equivalents include cash on hand and due from banks, interest-bearing deposits at the Federal Reserve or other short-term money market investments. Webster classifies financial instruments with maturities of one year or less at the date of purchase as interest-bearing deposits. These deposits are carried at cost, which approximates fair value.

Table of Contents

Cash flows from loans, either originated or acquired, are classified at that time according to management's original intent to either sell or hold the loan for the foreseeable future. When management's intent is to to sell the loan, the cash flows of that loan are presented as operating cash flows. When management's intent is to hold the loan for the foreseeable future, the cash flows of that loan are presented as investing cash flows.

Investment Securities. Investment securities are classified at the time of purchase as “available for sale”, or “held-to-maturity”. Classification is re-evaluated each quarter to ensure appropriate classification and to maintain consistency with corporate objectives. Debt securities held-to-maturity are those which Webster has the ability and intent to hold to maturity. Securities held-to-maturity are recorded at amortized cost. Amortized cost includes the amortization of premiums or accretion of discounts. Such amortization and accretion is included in interest income from securities. Securities classified as available for sale are recorded at fair value. Unrealized gains and losses, net of taxes, are calculated each reporting period and presented as a separate component of other comprehensive income (“OCI”). Securities transferred from available for sale to held-to-maturity are recorded at fair value at the time of transfer. The respective gain or loss is reclassified as a separate component of OCI and amortized as an adjustment to interest income over the remaining life of the security.

Investment securities are reviewed quarterly for OTTI. All securities classified as available for sale or held-to-maturity that are in an unrealized loss position are evaluated for OTTI. The evaluation considers several qualitative factors including the amount of the unrealized loss and the period of time the security has been in a loss position. If the Company intends to sell the security or it is more than likely the Company will be required to sell the security prior to recovery of its amortized cost basis, the security is written down to fair value and the loss is recorded in non-interest income in the accompanying Condensed Consolidated Statements of Income. If the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery of its amortized cost basis, only the credit component of any impairment charge of a debt security would be recognized as a loss in non-interest income in the accompanying Condensed Consolidated Statements of Income. The remaining loss component would be recorded in OCI. A decline in the value of an equity security that is considered OTTI is recorded as a loss in non-interest income in the accompanying Condensed Consolidated Statements of Income.

The specific identification method is used to determine realized gains and losses on sales of securities.

Loans Held for Sale. Loans held for sale are primarily residential real estate mortgage loans. Loans typically are assigned this classification upon origination based on management's intent to sell when the loans are underwritten. Loans held for sale are carried at the lower of cost or fair value. Non-residential mortgage loans held for sale are carried at lower of cost or fair value and are valued on individual asset basis. Any cost amount in excess of fair value is recorded as a valuation allowance and recognized as a reduction of other income. Gains or losses on the sale of loans held for sale are included in non-interest income in the accompanying Condensed Consolidated Statements of Income. Direct loan origination costs and fees are deferred and are recognized at the time of sale.

Loans. Loans are stated at the principal amounts outstanding, net of charged off amounts and unamortized premiums and discounts and net of deferred loan fees and/or costs which are recognized as yield adjustments using the interest method. These yield adjustments are amortized over the contractual life of the related loans adjusted for estimated prepayments when applicable. Interest on loans is credited to interest income as earned based on the interest rate applied to principal amounts outstanding.

Loans are placed on non-accrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. A loan is transferred to a non-accrual basis generally when principal or interest payments become 90 days delinquent, unless the loan is well secured and in process of collection, or sooner if management concludes circumstances indicate that the borrower may be unable to meet contractual principal or interest payments. Residential real estate and consumer loans are placed on non-accrual status at 90 days past due, or at the date when the Company is notified that the borrower is discharged in bankruptcy. A charge-off is recorded at 180 days if the loan balance exceeds the fair value of the collateral less costs to sell. Commercial, commercial real estate and equipment finance loans are subject to a detailed review when 90 days past due to determine accrual status, or when payment is uncertain and a specific consideration is made to put a loan or lease on non-accrual status.

When a loan is placed on non-accrual status, the accrual of interest is discontinued and any unpaid accrued interest is reversed and charged against interest income. If ultimate repayment of a non-accrual loan is expected, any payments

received are applied in accordance with contractual terms. If ultimate repayment is not expected on commercial, commercial real estate and equipment finance loans, any payment received on a non-accrual loan is applied to principal until the unpaid balance has been fully recovered. Any excess is then credited to interest income when received. If the Company determines, through a current valuation analysis, that principal can be repaid on residential real estate and consumer loans, interest payments may be taken into income as received or on a cash basis. Loans are removed from non-accrual status when they become current as to principal and interest or demonstrate a period of performance under contractual terms and, in the opinion of management, are fully collectible as to principal and interest.

Table of Contents

Allowance for Credit Losses. The allowance for credit losses includes the allowance for loan and lease losses and the reserve for unfunded credit commitments.

Allowance for Loan and Lease Losses ("ALLL"). The allowance for loan and lease losses is a reserve established through a provision for loan and lease losses charged to expense, and represents management's best estimate of probable losses that may be incurred within the existing loan and lease portfolio as of the balance sheet date. The level of the allowance reflects management's view of trends in loss activity, current portfolio quality and present economic, political and regulatory conditions. Portions of the allowance may be allocated for specific loans and leases; however, the entire allowance is available for any loan or lease that is charged off. A charge-off is recorded on a case-by-case basis when all or a portion of the loan or lease is deemed to be uncollectible. Back-testing is performed to compare original estimated losses and actual observed losses, resulting in ongoing refinements. While management utilizes its best judgment based on the information available at the time, the ultimate adequacy of the allowance is dependent upon a variety of factors that are beyond the Company's control, which include the performance of the Company's portfolio, economic conditions, interest rate sensitivity and the view of the regulatory authorities regarding loan classifications.

The allowance for loan and lease losses consists of three elements: (i) specific valuation allowances established for probable losses on impaired loans and leases; (ii) quantitative valuation allowances calculated using loss experience for like loans and leases with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) qualitative factors determined based on general economic conditions and other factors that may be internal or external to the Company.

Loans and leases are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on a pooled basis for smaller-balance homogeneous residential and consumer loans. Commercial, commercial real estate and equipment financing loans and leases over a specific dollar amount and all troubled debt restructurings ("TDR") are evaluated individually for impairment. A loan identified as a TDR is considered an impaired loan for the entire term of the loan, with few exceptions. If a loan is impaired, a specific valuation allowance may be established, and the loan is reported net, at the present value of estimated future cash flows using the loan's original interest rate or at the fair value of collateral less cost to sell if repayment is expected from collateral liquidation. Interest payments on non-accruing impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Factors considered by management in determining impairment include payment status, collateral value, discharged bankruptcy and the likelihood of collecting scheduled principal and interest payments. Consumer modified loans are analyzed for re-default probability which is considered when determining the impaired reserve for ALLL. The current or weighted-average (for multiple notes within a commercial borrowing arrangement) interest rate of the loan is used as the discount rate when the interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation.

Reserve for Unfunded Commitments. The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal commitments available to lend. The unfunded reserve calculation includes factors that are consistent with ALLL methodology for funded loans using the loss given default, probability of default and a draw down factor applied to the underlying borrower risk and facility risk grades. The changes in the reserve for unfunded credit commitments is reported as a component of other expense and the reserve is recorded within other liabilities.

Troubled Debt Restructurings. A modified loan is considered a TDR when two conditions are met: (1) the borrower is experiencing financial difficulties and (2) the modification constitutes a concession. The Company considers all aspects of the restructuring in determining whether a concession has been granted, including the debtor's ability to access funds at a market rate. In general, a concession exists when the modified terms of the loan are more attractive to the borrower than standard market terms. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company does not employ modification programs for temporary or trial periods. The most common types of modifications include covenant modifications, forbearance and/or other concessions. If the

modification agreement is violated, the loan is reevaluated to determine if it should be handled by the Company's Restructuring and Recovery group for resolution, which may result in foreclosure. Loans for which the borrower has been discharged under Chapter 7 bankruptcy are considered collateral dependent TDRs, impaired at the date of discharge, and charged down to the fair value of collateral less cost to sell.

The Company's policy is to place all consumer loan TDRs on non-accrual status for a minimum period of 6 months. Commercial TDRs are evaluated on a case-by-case basis for determination of whether or not to place on non-accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of 6 months. Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and reported as TDRs for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of 6 months and through a fiscal year-end, and the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring. In the limited circumstances that a loan is removed from TDR classification it is the Company's policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

Table of Contents

Transfers and Servicing of Financial Assets. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is generally considered to have been surrendered when (1) the transferred assets are legally isolated from the Company or its consolidated affiliates, even in bankruptcy or other receivership, (2) the transferee has the right to pledge or exchange the assets with no conditions that constrain the transferee and provide more than a trivial benefit to the Company, and (3) the Company does not maintain the obligation or unilateral ability to reclaim or repurchase the assets.

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loans sales primarily to government-sponsored enterprises through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company’s continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value.

Recently Adopted Accounting Standards Updates

ASU No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities”. The ASU expands required disclosures of information related to the nature of an entity’s rights of setoff and related arrangements associated with its financial instruments and derivative instruments, in an effort to enhance comparability between financial statements prepared with GAAP and IFRS. The requirements include disclosure of net and gross positions in covered financial instruments and derivative instruments which are either (1) offset in accordance with ASC Sections 210-20-45 or 815-10-45, or (2) subject to an enforceable netting or other similar arrangement. The disclosures required by this amendment were applied retrospectively for all comparative periods presented. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The amendments did not have a material impact on the Company's financial statements.

ASU 2013-01- Balance Sheet (Topic 210): "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". The ASU amends Update 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in Update 2011-11. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The amendments did not have a material impact on the Company's financial statements.

ASU 2013-02- Comprehensive Income (Topic 220): "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The amendments did not have a material impact on the Company's financial statements.

ASU 2013-10- Derivatives and Hedging (Topic 815): "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force)". The ASU permits an entity to use the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the United States Treasury and London Interbank Offered Rate swap rates. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging

relationships entered into on or after July 17, 2013. The amendments did not have a material impact on the Company's financial statements.

Table of Contents

NOTE 2: Investment Securities

A summary of the amortized cost, carrying value, and fair value of Webster's investment securities is presented below:

	At September 30, 2013						
		Recognized in OCI			Not Recognized in OCI		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:							
U.S. Treasury Bills	$200	$—	$—	$200	$—	$—	$200
Agency collateralized mortgage obligations ("CMOs")	868,288	18,537	(1,349)	885,476	—	—	885,476
Agency mortgage-backed securities ("MBS")	1,318,550	9,120	(34,416)	1,293,254	—	—	1,293,254
Agency commercial mortgage-backed securities ("ACMBS")	19,988	96	—	20,084	—	—	20,084
Commercial mortgage-backed securities ("CMBS")	437,616	29,367	(1,032)	465,951	—	—	465,951
Collateralized loan obligations ("CLOs")	333,023	637	(1,126)	332,534	—	—	332,534
Pooled trust preferred securities (1)	36,581	—	(6,617)	29,964	—	—	29,964
Single issuer trust preferred securities	51,311	—	(8,009)	43,302	—	—	43,302
Corporate debt securities	109,529	4,089	—	113,618	—	—	113,618
Equity securities - financial institutions (2)	6,307	3,082	—	9,389	—	—	9,389
Total available for sale	$3,181,393	$64,928	$(52,549)	$3,193,772	$—	$—	$3,193,772
Held-to-maturity:							
Agency CMOs	368,980	—	—	368,980	11,590	(492)	380,078
Agency MBS	2,095,513	—	—	2,095,513	48,495	(35,832)	2,108,176
Municipal bonds and notes	466,084	—	—	466,084	14,135	(743)	479,476
CMBS	265,727	—	—	265,727	9,272	(4,028)	270,971
Private Label MBS	9,695	—	—	9,695	224	—	9,919
Total held-to-maturity	$3,205,999	$—	$—	$3,205,999	$83,716	$(41,095)	$3,248,620
Total investment securities	$6,387,392	$64,928	$(52,549)	$6,399,771	$83,716	$(41,095)	$6,442,392

(1) Amortized cost is net of $9.4 million of credit related other-than-temporary impairment at September 30, 2013.
(2) Amortized cost is net of $21.3 million of other-than-temporary impairment at September 30, 2013.

Table of Contents

	At December 31, 2012						
		Recognized in OCI			Not Recognized in OCI		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:							
U.S. Treasury Bills	$200	$—	$—	$200	$—	$—	$200
Agency CMOs	1,284,126	25,972	(92)	1,310,006	—	—	1,310,006
Agency MBS	1,121,941	21,437	(1,098)	1,142,280	—	—	1,142,280
CMBS	359,438	42,086	(3,493)	398,031	—	—	398,031
CLOs	88,765	—	(225)	88,540	—	—	88,540
Pooled trust preferred securities (1)	46,018	—	(19,811)	26,207	—	—	26,207
Single issuer trust preferred securities	51,181	—	(6,766)	44,415	—	—	44,415
Corporate debt securities	111,281	6,918	—	118,199	—	—	118,199
Equity securities - financial institutions (2)	6,232	2,054	(4)	8,282	—	—	8,282
Total available for sale	$3,069,182	$98,467	$(31,489)	$3,136,160	$—	$—	$3,136,160
Held-to-maturity:							
Agency CMOs	500,369	—	—	500,369	16,643	(8)	517,004
Agency MBS	1,833,677	—	—	1,833,677	88,082	(474)	1,921,285
Municipal bonds and notes	559,131	—	—	559,131	34,366	(110)	593,387
CMBS	199,810	—	—	199,810	18,324	—	218,134
Private Label MBS	14,542	—	—	14,542	366	—	14,908
Total held-to-maturity	$3,107,529	$—	$—	$3,107,529	$157,781	$(592)	$3,264,718
Total investment securities	$6,176,711	$98,467	$(31,489)	$6,243,689	$157,781	$(592)	$6,400,878

(1) Amortized cost is net of $10.5 million of credit related other-than-temporary impairment at December 31, 2012.
(2) Amortized cost is net of $21.3 million of other-than-temporary impairment at December 31, 2012.

The amortized cost and fair value of debt securities at September 30, 2013, by contractual maturity, are set forth below:

	Available for Sale		Held-to-Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$200	$200	$90	$91
Due after one year through five years	102,717	106,597	66,262	69,780
Due after five through ten years	191,973	192,790	138,276	144,351
Due after ten years	2,880,196	2,884,796	3,001,371	3,034,398
Total debt securities	$3,175,086	$3,184,383	$3,205,999	$3,248,620

For the maturity schedule above, mortgage-backed securities and collateralized loan obligations, which are not due at a single maturity date, have been categorized based on the maturity date of the underlying collateral. Actual principal cash flows may differ from this maturity date presentation because borrowers have the right to prepay obligations with or without prepayment penalties. At September 30, 2013, the Company had $849.7 million carrying value of callable securities in its CMBS, CLO and municipal bond portfolios. The Company considers these factors in the evaluation of its effective duration and interest rate risk profile.

Securities with a carrying value totaling $2.9 billion at September 30, 2013 and $2.5 billion at December 31, 2012 were pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law. At September 30, 2013 and December 31, 2012, the Company had no investments in obligations of

individual states, counties, or municipalities which exceed 10% of consolidated shareholders’ equity.

Table of Contents

The following tables provide information on the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment security category and length of time that individual investment securities have been in a continuous unrealized loss position:

	At September 30, 2013						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available for sale:							
Agency CMOs	$90,774	$(1,255)	$ 9,935	$ (94)	6	$100,709	$(1,349)
Agency MBS	880,443	(29,177)	106,834	(5,239)	92	987,277	(34,416)
CMBS	51,274	(1,032)	—	—	6	51,274	(1,032)
CLOs	217,355	(1,126)	—	—	14	217,355	(1,126)
Pooled trust preferred securities	—	—	29,964	(6,617)	6	29,964	(6,617)
Single issuer trust preferred securities	3,900	(252)	39,402	(7,757)	9	43,302	(8,009)
Total available for sale in an unrealized loss position	$1,243,746	$(32,842)	$ 186,135	$ (19,707)	133	$1,429,881	$(52,549)
Held-to-maturity:							
Agency CMOs	29,770	(492)	—	—	2	29,770	(492)
Agency MBS	1,008,677	(34,002)	41,673	(1,830)	72	1,050,350	(35,832)
Municipal bonds and notes	33,263	(707)	2,166	(36)	38	35,429	(743)
CMBS	77,145	(4,028)	—	—	8	77,145	(4,028)
Total held-to-maturity in an unrealized loss position	$1,148,855	$(39,229)	$ 43,839	$ (1,866)	120	$1,192,694	$(41,095)
Total investment securities in an unrealized loss position	$2,392,601	$(72,071)	$ 229,974	$ (21,573)	253	$2,622,575	$(93,644)

	At December 31, 2012						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available for sale:							
Agency CMOs	$69,936	$(92)	$ —	$ —	4	$69,936	$(92)
Agency MBS	275,818	(1,098)	—	—	28	275,818	(1,098)
CMBS	14,947	(17)	20,909	(3,476)	2	35,856	(3,493)
CLOs	44,775	(225)	—	—	2	44,775	(225)
Pooled trust preferred securities	—	—	26,207	(19,811)	8	26,207	(19,811)
Single issuer trust preferred securities	—	—	44,415	(6,766)	9	44,415	(6,766)
Equity securities-financial institutions	144	(4)	—	—	1	144	(4)
Total available for sale in an unrealized loss position	$405,620	$(1,436)	$ 91,531	$ (30,053)	54	$497,151	$(31,489)
Held-to-maturity:							
Agency CMOs	18,741	(8)	—	—	1	18,741	(8)
Agency MBS	161,057	(474)	—	—	12	161,057	(474)
Municipal bonds and notes	5,990	(51)	2,858	(59)	11	8,848	(110)
Total held-to-maturity in an unrealized loss position	$185,788	$(533)	$ 2,858	$ (59)	24	$188,646	$(592)

Total investment securities in an unrealized loss position	$591,408	$(1,969)	$ 94,389	$ (30,112)	78	$685,797	$(32,081)

There were no additions to credit related OTTI for the three and nine months ended September 30, 2013 or 2012. To the extent that changes in interest rates, credit movements and other factors that influence the fair value of investments occur, the Company may be required to record impairment charges for OTTI in future periods.

The following discussion summarizes, by investment security type, the basis for evaluating if the applicable investment securities within the Company's available for sale portfolio were other-than-temporarily impaired at September 30, 2013. Unless otherwise noted for an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of its amortized cost.

Agency collateralized mortgage obligations (CMOs) – There were $1.3 million in unrealized losses in the Company's investment in agency CMOs at September 30, 2013 compared to $92 thousand at December 31, 2012. The unrealized loss is attributed to an increase in market rates which resulted in lower prices in CMOs. The contractual cash flows for these investments are performing as expected and there has been no change in the underlying credit quality. As such, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Agency mortgage-backed securities (MBS) – There were $34.4 million in unrealized losses in the Company's investment in residential mortgage-backed securities issued by government agencies at September 30, 2013, compared to $1.1 million at December 31, 2012. The increase in unrealized losses is due to the impact of higher interest rates on mortgage-backed securities which resulted in a decrease in price. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Commercial mortgage-backed securities (CMBS) – The unrealized losses on the Company's investment in commercial mortgage-backed securities issued by entities other than government agencies decreased to $1.0 million at September 30, 2013, from $3.5 million at December 31, 2012. As of September 30, 2013, the unrealized loss is comprised of six positions with small unrealized losses as a result of widening credit spreads and rising interest rates. Internal and external metrics are considered when evaluating potential OTTI on credit sensitive instruments. Internal stress tests are performed on individual bonds to monitor potential loss in either base or high stress scenarios. In addition, market analytics are performed to validate internal results. Contractual cash flows for the bonds continue to perform as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Collateralized loan obligations (CLO) – There were $1.1 million in unrealized losses in the Company's investment in collateralized loan obligations at September 30, 2013, compared to $225 thousand at December 31, 2012. The increase in unrealized losses is due to wider bid/ask spreads in this market. These securities have been stress tested, and this unrealized loss does not signify any change in perceived credit quality. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Pooled trust preferred securities – The pooled trust preferred portfolio consists of collateralized debt obligations ("CDOs") containing predominantly bank and insurance company collateral that are currently non-investment grade. At September 30, 2013, the fair value of the pooled trust preferred securities was $30.0 million, an increase of $3.8 million from $26.2 million at December 31, 2012. The unrealized losses in the Company's investment in pooled trust preferred securities were $6.6 million at September 30, 2013, a decrease of $13.2 million from $19.8 million at December 31, 2012. The decrease in unrealized losses was attributable to a tightening in credit spreads (6-month average used to discount cash flows), higher projected LIBOR rates and improved collateral performance. For the nine months ended September 30, 2013, the Company recognized no other-than-temporary impairment for these securities. An internal model is used to value the pooled trust preferred securities as similar rated holdings continue to reflect an inactive market. The Company employs an internal CDO model for projection of future cash flows and discounting those cash flows to a net present value. Each underlying issuer in the pools is rated internally using the latest financial data on each institution with future deferrals, defaults and losses estimated on the basis of continued stress in the financial markets. Further, all current and projected deferrals are not assumed to cure, and all current and projected defaults are assumed to have no recovery value. The resulting net cash flows are then discounted at current market levels for similar types of products that are actively trading. To determine potential OTTI due to credit losses, management compares the amortized cost to the present value of expected cash flows adjusted for deferrals and defaults using the discount margin at the time of purchase. Other factors considered include an analysis of excess subordination and temporary interest shortfall coverage. Based on the valuation analysis, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

13

Table of Contents

The following table summarizes information that was also considered by management in its overall evaluation of the Pooled Trust Preferred Securities portfolio for OTTI in the current reporting period:

Deal Name	Class	Amortized Cost [1]	Gross Unrealized Losses	Fair Value	Lowest Credit Ratings as of September 30, 2013 [2]	Total OTTI through September 30, 2013	% of Performing Bank/ Insurance Issuers	Deferrals/ Defaults (As a % of Current Collateral)
(Dollars in thousands)								
Security H	B	$3,487	$(533)	$2,954	B	$(352)	91.7%	8.0%
Security I	B	4,468	(716)	3,752	CCC	(365)	87.5%	17.2%
Security J	B	5,321	(1,067)	4,254	CCC	(806)	91.7%	10.4%
Security K	A	7,432	(1,107)	6,325	CCC	(2,040)	69.1%	33.5%
Security L	B	8,728	(1,449)	7,279	CCC	(867)	91.3%	13.2%
Security M	A	7,145	(1,745)	5,400	D	(4,926)	60.7%	34.6%
Pooled trust preferred securities		$36,581	$(6,617)	$29,964		$(9,356)		

(1)For the securities previously deemed impaired, the amortized cost is reflective of previous OTTI recognized in earnings.
(2)The Company utilized credit ratings provided by Moody’s, S&P and Fitch in its evaluation of issuers.

Single issuer trust preferred securities - At September 30, 2013, the fair value of the single issuer trust preferred portfolio was $43.3 million, a decrease of $1.1 million from the fair value of $44.4 million at December 31, 2012. The unrealized losses in the Company's investment in single issuer trust preferred securities were $8.0 million at September 30, 2013, an increase of $1.2 million from $6.8 million at December 31, 2012. The single issuer portfolio consists of five investments issued by three large capitalized money center financial institutions, which continue to service the debt and have shown improved capital levels in recent years and remain well above current regulatory capital standards. Based on the review of the qualitative and quantitative factors presented above, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

The following table summarizes the lowest credit rating information that was considered by management in evaluating the Single Issuer Trust Preferred Securities portfolio for OTTI in the current reporting period:

Deal Name	Amortized Cost	Gross Unrealized Losses	Fair Value	Lowest Credit Ratings as of September 30, 2013 [1]
(Dollars in thousands)				
Security B	$6,922	$(922)	$6,000	BB
Security C	8,705	(1,280)	7,425	BBB
Security D	9,547	(1,847)	7,700	B
Security E	11,804	(1,387)	10,417	BBB
Security F	14,333	(2,573)	11,760	BBB
Single issuer trust preferred securities	$51,311	$(8,009)	$43,302	

(1)The Company utilized credit ratings provided by Moody’s, S&P and Fitch in its evaluation of issuers.

Corporate debt securities – There were no unrealized losses on the Company’s investment in corporate debt securities at September 30, 2013 or December 31, 2012.

Equity securities - financial institutions – There were no unrealized losses on the Company’s investment in equity securities at September 30, 2013, compared to $4 thousand at December 31, 2012. This portfolio consists primarily of investments in the common stock of small capitalization financial institutions based in New England. When estimating the recovery period for equity securities in an unrealized loss position, management utilizes analyst forecasts, earnings assumptions and other company-specific financial performance metrics. In addition, this assessment incorporates general market data, industry and sector cycles and related trends to determine a reasonable

recovery period. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

The following discussion summarizes, by investment security type, the basis for the conclusion that the applicable investment securities within the Company's held-to-maturity portfolio were not other-than-temporarily impaired at September 30, 2013. Unless

Table of Contents

otherwise noted under an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of its amortized cost. There were no significant credit downgrades on held-to-maturity securities during the nine months ended September 30, 2013.

Agency CMOs – There were unrealized losses of $492 thousand on the Company's investment in agency CMOs at September 30, 2013, compared to $8 thousand at December 31, 2012. This is due to an increase in market rates which resulted in lower prices. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Agency mortgage-backed securities – There were unrealized losses on the Company's investment in residential mortgage-backed securities issued by government agencies of $35.8 million at September 30, 2013, compared to $0.5 million at December 31, 2012. The increase was primarily due to the impact of higher interest rates on lower coupon mortgages. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Municipal bonds and notes – There were unrealized losses of $743 thousand on the Company's investment in municipal bonds and notes at September 30, 2013 compared to $110 thousand at December 31, 2012. This increase is primarily the result of both wider credit spreads as well as higher benchmark interest rates. The municipal portfolio is primarily comprised of bank qualified bonds, over 93.9% with credit ratings of A or better. These ratings do not consider prefunded municipal holdings to be rated AA. If this were the case, the percentage of holdings rated A or better would be 95.8%. In addition, the portfolio is comprised of 85.0% general obligation bonds, 14.5% revenue bonds and 0.5% other bonds. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

CMBS – There were unrealized losses of $4.0 million on the Company's investment in commercial mortgage-backed securities issued by entities other than government agencies at September 30, 2013 compared to no unrealized losses at December 31, 2012. As of September 30, 2013, the unrealized loss is comprised of eight positions that have unrealized losses as a result of widening credit spreads and rising interest rates. These securities are currently performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Private Label MBS - There were no unrealized losses on the Company's investment in residential mortgage-backed securities issued by entities other than government agencies at September 30, 2013 or December 31, 2012. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

The following table summarizes the proceeds and realized gains recognized from the sale of available for sale securities:

	Three months ended September 30,				Nine months ended September 30,			
	2013		2012		2013		2012	
(In thousands)	Proceeds	Gains	Proceeds	Gains	Proceeds	Gains	Proceeds	Gains
Available for sale:								
Agency CMOs	$—	$—	$16,353	$4	$—	$—	$44,851	$897
Agency MBS	—	—	86,015	806	11,771	106	86,015	806
CMBS	—	—	—	—	24,750	333	16,284	1,235
Pooled trust preferred securities	7,740	269	—	—	7,740	269	—	—
Equity securities - financial institutions	—	—	—	—	—	—	1,073	409
Available for sale securities	$7,740	$269	$102,368	$810	$44,261	$708	$148,223	$3,347

There were no realized losses or OTTI recognized from the sale of available for sale securities for the periods presented above.

Alternative Investments - In addition to investment securities, the Company has investments in certain non-public funds, which include private equity funds, SBIC equity funds and preferred share ownership in other equity ventures. These alternative investments, which totaled $19.0 million at September 30, 2013 and $19.5 million at December 31, 2012, are included in other assets in the accompanying Condensed Consolidated Balance Sheets. The majority are

held at cost, while some are carried at net asset value, which due to the illiquidity of these funds are classified in Level 3 of the fair value hierarchy. See a further discussion of fair value in Note 14 - Fair Value Measurements. The Company recognized losses of $70 thousand and $354 thousand for the three and nine months ended September 30, 2013, respectively, and losses of $518 thousand and $775 thousand for the three and nine months ended September 30, 2012, respectively. These amounts are included in other non-interest income in the accompanying Condensed Consolidated Statements of Income.

Table of Contents

NOTE 3: Loans and Leases

Recorded Investment in Loans and Leases. The following tables summarize the recorded investment by portfolio segment:

	At September 30, 2013					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate [1]	Equipment Financing	Total [2]
Recorded Investment:						
Individually evaluated for impairment	$143,534	$52,907	$62,190	$138,333	$292	$397,256
Collectively evaluated for impairment	3,217,268	2,487,122	3,134,197	2,853,099	425,535	12,117,221
Recorded investment in loans and leases	3,360,802	2,540,029	3,196,387	2,991,432	425,827	12,514,477
Less: Accrued interest	10,225	7,730	10,988	7,569	—	36,512
Loans and leases	$3,350,577	$2,532,299	$3,185,399	$2,983,863	$425,827	$12,477,965

	At December 31, 2012					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate [1]	Equipment Financing	Total [2]
Recorded Investment:						
Individually evaluated for impairment	$146,944	$54,793	$69,426	$154,978	$1,980	$428,121
Collectively evaluated for impairment	3,155,051	2,584,169	2,843,760	2,635,624	417,331	11,635,935
Recorded investment in loans and leases	3,301,995	2,638,962	2,913,186	2,790,602	419,311	12,064,056
Less: Accrued interest	10,271	8,095	9,453	7,541	—	35,360
Loans and leases	$3,291,724	$2,630,867	$2,903,733	$2,783,061	$419,311	$12,028,696

(1) Includes certain loans individually evaluated for impairment, under the Company's loan policy, that were deemed not to be impaired at both September 30, 2013 and December 31, 2012.

(2) Loans and leases include net deferred fees and unamortized premiums of $13.2 million and $12.7 million at September 30, 2013 and December 31, 2012, respectively.

At September 30, 2013, the Company had pledged $4.9 billion of eligible loan collateral to support available borrowing capacity at the Federal Home Loan Bank of Boston ("FHLB") and the Federal Reserve Bank of Boston.

Table of Contents

Loans and Leases Portfolio Aging. The following tables summarize the recorded investment of the Company's loans and leases portfolio aging by class:

(In thousands)	At September 30, 2013 30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	> 90 Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential:							
1-4 family	$12,259	$ 8,851	$—	$ 85,879	$ 106,989	$3,210,931	$3,317,920
Construction	—	—	—	390	390	42,492	42,882
Consumer:							
Home equity loans	10,407	5,318	—	45,504	61,229	2,312,883	2,374,112
Liquidating portfolio-home equity loans	1,707	1,089	—	6,554	9,350	100,537	109,887
Other consumer	434	81	—	180	695	55,335	56,030
Commercial:							
Commercial non-mortgage	2,406	622	4,239	17,453	24,720	2,557,866	2,582,586
Asset-based loans	—	—	—	—	—	613,801	613,801
Commercial real estate:							
Commercial real estate	552	—	625	15,883	17,060	2,788,443	2,805,503
Commercial construction	—	—	—	49	49	161,252	161,301
Residential development	—	—	—	4,317	4,317	20,311	24,628
Equipment financing	422	33	—	1,669	2,124	423,703	425,827
Total	$28,187	$ 15,994	$4,864	$ 177,878	$ 226,923	$12,287,554	$12,514,477

(In thousands)	At December 31, 2012 30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	> 90 Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential:							
1-4 family	$16,955	$ 8,250	$—	$ 94,853	$ 120,058	$3,142,220	$3,262,278
Construction	—	360	—	823	1,183	38,535	39,718
Consumer:							
Home equity loans	17,745	6,993	—	49,516	74,254	2,396,944	2,471,198
Liquidating portfolio-home equity loans	2,063	1,626	—	8,200	11,889	111,760	123,649
Other consumer	338	195	—	135	668	43,446	44,114
Commercial:							
Commercial non-mortgage	2,248	552	347	17,547	20,694	2,386,775	2,407,469
Asset-based loans	—	—	—	—	—	505,717	505,717
Commercial real estate:							
Commercial real estate	1,081	13,784	910	15,658	31,433	2,617,213	2,648,646
Commercial construction	—	—	—	49	49	114,097	114,146
Residential development	—	—	—	5,044	5,044	22,766	27,810
Equipment financing	1,593	333	—	3,325	5,251	414,060	419,311
Total	$42,023	$ 32,093	$1,257	$ 195,150	$ 270,523	$11,793,533	$12,064,056

Interest on non-accrual loans and leases that would have been recorded as additional interest income for the three and nine months ended September 30, 2013 and 2012, had the loans and leases been current in accordance with their original terms, totaled $3.5 million and $10.9 million and $4.7 million and $10.6 million, respectively.

Table of Contents

Allowance for Loan and Lease Losses. The following tables summarize the ALLL by portfolio segment:

	Three months ended September 30, 2013						
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$26,876	$49,659	$43,847	$28,457	$3,603	$11,000	$163,442
Provision (benefit) charged to expense	1,075	(1,732)	3,783	6,046	(672)	—	8,500
Losses charged off	(3,800)	(5,827)	(3,245)	(4,069)	(10)	—	(16,951)
Recoveries	152	1,188	426	105	683	—	2,554
Balance, end of period	$24,303	$43,288	$44,811	$30,539	$3,604	$11,000	$157,545
Ending balance: individually evaluated for impairment	$13,003	$3,281	$1,630	$5,397	$—	$—	$23,311
Ending balance: collectively evaluated for impairment	$11,300	$40,007	$43,181	$25,142	$3,604	$11,000	$134,234

	Three months ended September 30, 2012						
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$32,063	$62,237	$48,768	$36,506	$5,433	$13,750	$198,757
Provision (benefit) charged to expense	1,110	9,740	2,944	(4,315)	(3,479)	(1,000)	5,000
Losses charged off	(3,262)	(9,234)	(8,642)	(2,655)	(187)	—	(23,980)
Recoveries	353	1,249	1,297	302	3,111	—	6,312
Balance, end of period	$30,264	$63,992	$44,367	$29,838	$4,878	$12,750	$186,089
Ending balance: individually evaluated for impairment	$15,420	$7,795	$4,552	$3,153	$3	$—	$30,923
Ending balance: collectively evaluated for impairment	$14,844	$56,197	$39,815	$26,685	$4,875	$12,750	$155,166

	Nine months ended September 30, 2013						
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$29,474	$54,254	$46,566	$30,834	$4,001	$12,000	$177,129
Provision (benefit) charged to expense	2,835	7,328	8,902	9,146	(2,711)	(1,000)	24,500
Losses charged off	(8,848)	(23,565)	(13,740)	(10,339)	(101)	—	(56,593)
Recoveries	842	5,271	3,083	898	2,415	—	12,509
Balance, end of period	$24,303	$43,288	$44,811	$30,539	$3,604	$11,000	$157,545
Ending balance: individually evaluated for impairment	$13,003	$3,281	$1,630	$5,397	$—	$—	$23,311
Ending balance: collectively evaluated for impairment	$11,300	$40,007	$43,181	$25,142	$3,604	$11,000	$134,234

Nine months ended September 30, 2012

(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$34,565	$67,785	$60,681	$45,013	$8,943	$16,500	$233,487
Provision (benefit) charged to expense	5,398	20,836	8,223	(7,054)	(9,653)	(3,750)	14,000
Losses charged off	(10,329)	(30,634)	(29,312)	(9,569)	(986)	—	(80,830)
Recoveries	630	6,005	4,775	1,448	6,574	—	19,432
Balance, end of period	$30,264	$63,992	$44,367	$29,838	$4,878	$12,750	$186,089
Ending balance: individually evaluated for impairment	$15,420	$7,795	$4,552	$3,153	$3	$—	$30,923
Ending balance: collectively evaluated for impairment	$14,844	$56,197	$39,815	$26,685	$4,875	$12,750	$155,166

Table of Contents

Impaired Loans and Leases. The following tables summarize impaired loans and leases by class:

	At September 30, 2013				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential:					
1-4 family	$159,412	$143,530	$ 23,544	$ 119,986	$13,003
Construction	446	4	1	3	—
Consumer:					
Home equity loans	55,398	46,169	23,903	22,266	2,752
Liquidating portfolio-home equity loans	9,092	6,738	3,819	2,919	529
Commercial:					
Commercial non-mortgage	67,907	62,190	21,960	40,230	1,630
Commercial real estate:					
Commercial real estate	116,349	111,421	54,512	56,909	5,361
Commercial construction	—	—	—	—	—
Residential development	13,717	12,689	12,413	276	36
Equipment financing	331	292	292	—	—
Totals:					
Residential	159,858	143,534	23,545	119,989	13,003
Consumer	64,490	52,907	27,722	25,185	3,281
Commercial	67,907	62,190	21,960	40,230	1,630
Commercial real estate	130,066	124,110	66,925	57,185	5,397
Equipment financing	331	292	292	—	—
Total	$422,652	$383,033	$ 140,444	$ 242,589	$23,311

	At December 31, 2012				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential:					
1-4 family	$160,490	$146,683	$ 24,267	$ 122,416	$14,726
Construction	446	261	156	105	5
Consumer:					
Home equity loans	56,815	47,755	23,967	23,788	2,960
Liquidating portfolio-home equity loans	11,788	7,038	3,663	3,375	651
Commercial:					
Commercial non-mortgage	90,627	69,426	21,942	47,484	6,423
Commercial real estate:					
Commercial real estate	123,861	121,193	65,212	55,981	2,572
Commercial construction	7,177	7,185	7,185	—	—
Residential development	13,444	12,771	5,029	7,742	111
Equipment financing	2,357	1,980	1,781	199	1
Totals:					
Residential	160,936	146,944	24,423	122,521	14,731
Consumer	68,603	54,793	27,630	27,163	3,611
Commercial	90,627	69,426	21,942	47,484	6,423
Commercial real estate	144,482	141,149	77,426	63,723	2,683
Equipment financing	2,357	1,980	1,781	199	1

Total	$467,005	$414,292	$ 153,202	$ 261,090	$27,449

Table of Contents

The following table summarizes the average recorded investment and interest income recognized by class of impaired loans and leases:

(In thousands)	September 30, 2013 Average Recorded Investment	Three months ended September 30, 2013 Total Interest Income	Nine months ended September 30, 2013 Total Interest Income	September 30, 2012 Average Recorded Investment	Three months ended September 30, 2012 Total Interest Income	Nine months ended September 30, 2012 Total Interest Income
Residential:						
1-4 family	$145,107	$1,533	$4,570	$141,749	$1,485	$4,236
Construction	133	2	4	197	2	4
Consumer:						
Home equity loans	46,962	551	1,700	41,724	633	1,336
Liquidating portfolio-home equity loans	6,888	112	349	7,721	132	263
Other consumer	—	—	—	4	—	—
Commercial:						
Commercial non-mortgage	65,808	794	2,187	93,090	830	3,035
Asset-based loans	—	—	—	986	—	—
Commercial real estate:						
Commercial real estate	116,307	1,109	3,675	170,213	1,479	3,921
Commercial construction	3,593	62	196	7,307	70	216
Residential development	12,730	99	286	14,083	83	254
Equipment financing	1,136	6	19	2,207	13	36
Totals:						
Residential	145,240	1,535	4,574	141,946	1,487	4,240
Consumer	53,850	663	2,049	49,449	765	1,599
Commercial	65,808	794	2,187	94,076	830	3,035
Commercial real estate	132,630	1,270	4,157	191,603	1,632	4,391
Equipment financing	1,136	6	19	2,207	13	36
Total	$398,664	$4,268	$12,986	$479,281	$4,727	$13,301

Of the total interest income recognized for the residential and consumer portfolios, $0.9 million and $2.8 million and $0.3 million and $1.0 million of interest income was recognized on a cash basis method of accounting for the three and nine months ended September 30, 2013 and 2012, respectively.

Credit Risk Management. The Company has certain credit policies and procedures in place designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and reviews reports related to loan production, loan quality, concentration of credit, loan delinquencies, and non-performing and potential problem loans.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationships rather than transactional banking. Once it is determined that the borrower’s management possesses sound ethics and solid business acumen, the Company’s management examines current and projected cash flows to determine the ability of the borrower to repay obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed and may incorporate a personal guarantee; however, some loans may be made on an unsecured basis. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those specific to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Repayment of these loans is largely dependent on the successful operation of the property securing the loan, the market in which the property is located and the tenants that conduct business at the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location, which help reduce the Company's exposure to adverse economic events that may affect any single market or industry. Management monitors and evaluates

Table of Contents

commercial real estate loans based on collateral, geography and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting its loan portfolio. Construction loans on commercial properties have unique risk characteristics and are provided to experienced developers/sponsors with strong track records of successful completion and sound financial condition and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be subject to change as the construction project proceeds. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or interim loan commitments from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections by third-party professionals and internal staff.

To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and Risk Management personnel. Policies and procedures, coupled with relatively small loan amounts, and predominately collateralized structures spread across many individual borrowers, minimize risk. Trend and outlook reports are reviewed by management on a regular basis. Underwriting factors for mortgage and home equity loans include the borrower’s FICO score, the loan amount relative to property value and the borrower’s debt to income level and are also influenced by regulatory requirements.

Credit Quality Indicators. To measure credit risk for the commercial, commercial real estate and equipment financing portfolios, the Company employs a dual grade credit risk grading system for estimating the probability of borrower default and the loss given default. A credit risk grade system assigns a rating to each borrower and to the facility, which together form a Composite Credit Risk Profile (“CCRP”). The credit risk grading system categorizes borrowers by common financial characteristics that measure the credit strength of borrowers and facilities by common structural characteristics. The CCRP has ten grades, with each grade corresponding to a progressively greater risk of default. Grades 1 through 6 are considered pass ratings, and 7 through 10 are criticized as defined by the regulatory agencies. Rating model assumptions are actively reviewed and tested against industry data and actual experience. Risk ratings are assigned to differentiate risk within the portfolio, are reviewed on an ongoing basis and revised to reflect changes in the borrowers’ current financial positions and outlook, risk profiles, and the related collateral and structural positions. Loan officers review updated financial information on at least an annual basis for all pass rated loans to assess the accuracy of the risk grade. All criticized loans undergo frequent review and enhanced monitoring of the underlying borrowers.

A “Special Mention” (7) credit has the potential weakness that, if left uncorrected, may result in deterioration of the repayment prospects for the asset. “Substandard” (8) assets have a well defined weakness that jeopardizes the full repayment of the debt. An asset rated “Doubtful” (9) has all the same weaknesses as substandard credit with the added characteristic that the weakness makes collection or liquidation in full, given current facts, conditions, and values, improbable. Assets classified as “Loss” (10) in accordance with regulatory guidelines are considered uncollectible and charged off.

The recorded investment in commercial and commercial real estate loans and equipment financing leases segregated by risk rating exposure is as follows:

(In thousands)	Commercial		Commercial Real Estate		Equipment Financing	
	At September 30, 2013	At December 31, 2012	At September 30, 2013	At December 31, 2012	At September 30, 2013	At December 31, 2012
(1) - (6) Pass	$2,990,708	$2,701,061	$2,865,921	$2,588,987	$403,943	$381,304
(7) Special Mention	74,439	43,856	9,535	56,023	7,466	12,893
(8) Substandard	130,301	167,485	115,434	143,904	14,418	25,114
(9) Doubtful	939	784	542	1,688	—	—
(10) Loss	—	—	—	—	—	—
Total	$3,196,387	$2,913,186	$2,991,432	$2,790,602	$425,827	$419,311

For residential and consumer loans, the Company considers factors such as updated FICO scores, employment status, home prices, loan to value, geography, loans discharged in bankruptcy, and the status of first lien position loans on second lien position loans as credit quality indicators. On an ongoing basis for portfolio monitoring purposes, the Company estimates the current value of property secured as collateral for both home equity and residential first mortgage lending products. The estimate is based on home price indices compiled by the S&P/Case-Shiller Home Price Indices. The Case-Shiller data indicates trends for Metropolitan Statistical Areas. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area.

Table of Contents

Troubled Debt Restructurings. The following table summarizes the information for the Company's TDRs:

(Dollars in thousands)	At September 30, 2013		At December 31, 2012	
Recorded investment of TDRs:				
Accrual status	$260,786		$288,578	
Non-accrual status	110,888		115,583	
Total recorded investment of TDRs	$371,674		$404,161	
Accruing TDRs performing under modified terms more than one year	60.1	%	60.2	%
Specific reserves for TDRs included in the balance of allowance for loan and lease losses	$23,153		$27,317	
Additional funds committed to borrowers in TDR status (1)	8,171		3,263	

(1) This amount may be limited by contractual rights and/or the underlying collateral supporting the loan or lease.

For the three and nine months ended September 30, 2013 and 2012, Webster charged off $3.2 million and $17.3 million and $10.2 million and $33.8 million, respectively, for the portion of TDRs deemed to be uncollectible.

The following tables provide information on loans and leases modified as TDRs in the period:

(Dollars in thousands)	Three months ended September 30, 2013					2012				
	Number of Loans and Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Post-Modification Coupon Rate		Number of Loans and Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Post-Modification Coupon Rate	
Residential:										
1-4 family	24	$ 4,872	$ 4,872	4.5	%	120	$ 17,441	$ 17,441	4.7	%
Construction	—	—	—	—		1	159	159	6.4	
Consumer:										
Home equity loans	31	1,058	1,058	5.2		459	23,277	23,277	5.1	
Liquidating portfolio-home equity loans	10	223	223	5.6		108	5,542	5,542	5.5	
Commercial:										
Commercial non-mortgage	14	4,921	4,921	5.4		8	4,786	4,786	3.1	
Commercial real estate:										
Commercial real estate	2	340	340	5.6		4	21,507	21,507	2.2	
Residential development	—	—	—	—		—	—	—	—	
Equipment financing	—	—	—	—		1	248	248	6.1	
Total TDRs	81	$ 11,414	$ 11,414	5.0	%	701	$ 72,960	$ 72,960	4.1	%

(Dollars in thousands)	Nine months ended September 30, 2013					2012				
	Number of Loans and Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Post-Modification Coupon Rate		Number of Loans and Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Post-Modification Coupon Rate	
Residential:										
1-4 family	96	$ 19,130	$ 19,130	4.0	%	170	$ 26,269	$ 26,269	4.4	%
Construction	—	—	—	—		2	263	263	6.6	

Consumer:										
Home equity loans	96	5,036	5,036	4.4		486	25,549	25,549	5.0	
Liquidating portfolio-home equity loans	19	657	657	5.2		112	5,577	5,577	5.6	
Commercial:										
Commercial non-mortgage	24	13,109	13,109	6.5		33	21,772	21,772	6.3	
Commercial real estate:										
Commercial real estate	5	12,053	12,053	2.8		7	23,919	23,919	2.5	
Residential development	2	189	189	5.0		—	—	—	—	
Equipment financing	—	—	—	—		8	590	590	6.7	
Total TDRs	242	$ 50,174	$ 50,174	4.4	%	818	$ 103,939	$ 103,939	4.6	%

Table of Contents

TDR loans may be modified by means of extended maturity, below market adjusted interest rates, a combination of rate and maturity, or by other means including covenant modifications, or other concessions. The following tables provide information on how loans and leases were modified as TDRs in the period:

	Three months ended September 30,									
	2013					2012				
(In thousands)	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other [(1)]	Total	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other [(1)]	Total
Residential:										
1-4 family	$1,898	$654	$ 1,142	$1,178	$4,872	$604	$—	$ 2,131	$14,706	$17,441
Construction	—	—	—	—	—	—	—	—	159	159
Consumer:										
Home equity loans	213	—	157	688	1,058	38	117	448	22,674	23,277
Liquidating portfolio-home equity loans	93	—	7	123	223	—	—	—	5,542	5,542
Commercial:										
Commercial non-mortgage	—	—	353	4,568	4,921	—	—	737	4,049	4,786
Commercial real estate:										
Commercial real estate	—	—	340	—	340	—	—	—	21,507	21,507
Residential development	—	—	—	—	—	—	—	—	—	—
Equipment financing	—	—	—	—	—	—	—	248	—	248
Total TDRs	$2,204	$654	$ 1,999	$6,557	$11,414	$642	$117	$ 3,564	$68,637	$72,960

	Nine months ended September 30,									
	2013					2012				
(In thousands)	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other [(1)]	Total	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other [(1)]	Total
Residential:										
1-4 family	$4,418	$1,888	$7,213	$5,611	$19,130	$1,634	$1,006	$5,695	$17,934	$26,269
Construction	—	—	—	—	—	—	—	104	159	263
Consumer:										
Home equity loans	788	154	1,374	2,720	5,036	993	224	1,335	22,997	25,549
Liquidating portfolio-home equity loans	173	—	7	477	657	35	—	—	5,542	5,577
Commercial:										
Commercial non-mortgage	7,520	—	982	4,607	13,109	314	—	1,023	20,435	21,772
Commercial real estate:										
Commercial real estate	38	—	12,015	—	12,053	2,068	—	245	21,606	23,919

Residential development	189	—	—	—	189	—	—	—	—	—
Equipment financing	—	—	—	—	—	142	—	288	160	590
Total TDRs	$13,126	$2,042	$21,591	$13,415	$50,174	$5,186	$1,230	$8,690	$88,833	$103,939

(1) Includes covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, and/or other concessions.

The Company's loan and lease portfolio at September 30, 2013 included eleven loans with an A Note/B Note structure, with a combined recorded investment of $37.4 million. The loans were restructured into A Note/B Note structures as a result of evaluating the cash flow of the borrowers to support repayment. Webster immediately charged off the balance of B Notes totaling $17.3 million. TDR classification has been removed from two A Notes with the combined recorded investment of $13.5 million, as the borrowers passed the minimum compliance with the modified terms requirements. The restructuring agreement specifies a market interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring. The A Notes are paying under the terms of the modified loan agreements. Of the eleven A Notes, eight are on accrual status as the borrowers are paying under the terms of the loan agreements prior to and subsequent to the modification. The remaining A Notes are on non-accrual status due to the continuing financial difficulties of the borrower.

Table of Contents

The following tables provide information on loans and leases modified as TDRs within the previous 12 months and for which there was a payment default during the periods presented:

	Three months ended September 30,			
	2013		2012	
(Dollars in thousands)	Number of Loans and Leases	Recorded Investment	Number of Loans and Leases	Recorded Investment
Residential:				
1-4 family	8	$ 1,116	—	$ —
Consumer:				
Home equity loans	2	51	—	—
Liquidating portfolio-home equity loans	1	2	3	93
Commercial:				
Commercial non-mortgage	1	500	—	—
Commercial real estate:				
Commercial real estate	—	—	—	—
Total	12	$ 1,669	3	$ 93

	Nine months ended September 30,			
	2013		2012	
(Dollars in thousands)	Number of Loans and Leases	Recorded Investment	Number of Loans and Leases	Recorded Investment
Residential:				
1-4 family	12	$ 1,814	1	$ 406
Consumer:				
Home equity loans	6	341	3	554
Liquidating portfolio-home equity loans	1	2	3	93
Commercial:				
Commercial non-mortgage	1	500	—	—
Commercial real estate:				
Commercial real estate	—	—	—	—
Total	20	$ 2,657	7	$ 1,053

The recorded investment in commercial, commercial real estate and equipment financing TDRs segregated by risk rating exposure is as follows:

(In thousands)	At September 30, 2013	At December 31, 2012
(1) - (6) Pass	$ 56,456	$ 56,661
(7) Special Mention	—	—
(8) Substandard	118,353	143,903
(9) Doubtful	423	1,860
(10) Loss	—	—
Total	$ 175,232	$ 202,424

Table of Contents

NOTE 4: Transfers of Financial Assets and Mortgage Servicing Assets

Transfers of Financial Assets

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loan sales primarily to government-sponsored enterprises through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest, and thus, qualify for derecognition.

With the exception of servicing rights and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and limited to market customary representations and warranties, for which the Company enters into agreements covering certain characteristics of the mortgage loans sold and its origination process. The Company may be required to repurchase a loan in the event of certain breaches of these representations and warranties or in the event of default of the borrower within 90 days of origination. The reserve for loan repurchases provides for estimated losses associated with the repurchase of loans sold in connection with the Company's mortgage banking operations. The reserve reflects management's continual evaluation of loss experience and the quality of loan originations. It also reflects management's expectation of losses from repurchase requests for which management has not yet been notified. Factors considered in the evaluation process for establishing the reserves include the identity of counterparty, the vintage of the loans sold, the amount of open repurchase requests, specific loss estimates for each open request, current level of loan losses in similar vintages held in the residential loan portfolio, and estimated recoveries on the underlying collateral. While management uses its best judgment and information available, the adequacy of this reserve is dependent upon factors outside the Company's control including the performance of loans sold and the quality of the servicing provided by the acquirer. The provision recorded at the time of loan sale is netted from mortgage banking activities, while any incremental provision, post loan sale, is recorded in other non-interest expense in the accompanying Condensed Consolidated Statements of Income. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets.

The following table provides detail of activity in the Company's reserve for loan repurchases:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2013	2012	2013	2012
Beginning balance	$2,648	$2,394	$2,617	$2,269
Provision	447	522	1,462	1,103
Loss on repurchased loans and settlements	(586)	(312)	(1,570)	(768)
Ending balance	$2,509	$2,604	$2,509	$2,604

The Company sold residential loans totaling $199.2 million and $643.6 million for the three and nine months ended September 30, 2013, respectively, and $211.9 million and $510.8 million for the three and nine months ended September 30, 2012, respectively. Servicing rights were retained on $192.3 million and $622.6 million and on $206.3 million and $497.6 million of the residential loans sold for the three and nine months ended September 30, 2013 and 2012, respectively. In addition, the Company sold commercial loans totaling $13.0 million for the nine months ended September 30, 2013, and $1.0 million and $4.7 million for the three and nine months ended September 30, 2012.

The net gain on the sale of residential loans of $0.7 million and $13.9 million and $6.2 million and $14.2 million for the three and nine months ended September 30, 2013 and 2012, respectively, and commercial loan sale losses of $315 thousand for the nine months ended September 30, 2013, and gains of $275 thousand and $308 thousand for the three and nine months ended September 30, 2012, respectively, are included as mortgage banking activities in the accompanying Condensed Consolidated Statements of Income.

Mortgage Servicing Assets

The Company has retained servicing rights on consumer loans totaling $2.3 billion at September 30, 2013 and $2.1 billion at December 31, 2012, resulting in mortgage servicing assets of $20.6 million at September 30, 2013 and $14.0 million at December 31, 2012, which are carried at the lower of cost or fair value. See Note 14 - Fair Value Measurements for a further discussion on the fair value of mortgage servicing assets.
Loan servicing fees, net of mortgage servicing rights amortization, were $0.4 million and $2.5 million and $0.4 million and $1.6 million for the three and nine months ended September 30, 2013 and 2012, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.

Table of Contents

NOTE 5: Goodwill and Other Intangible Assets

As further discussed in Note 17 - Business Segments, the Company reorganized its management reporting structure during the first quarter 2013 and, accordingly, its segment reporting structure and goodwill reporting units. In connection with the reorganization, management reallocated goodwill to the new reporting unit using a relative fair value approach, resulting in amounts detailed as follows:

The following tables present the carrying value allocated to the business segments for goodwill and other intangible assets, net of accumulated amortization:

	At September 30, 2013	
(In thousands)	Goodwill	Core Deposits
Business Segments/reporting units		
Consumer Deposits [a]	$377,605	$6,544
Small Business Banking [a]	138,955	—
Community Banking	516,560	6,544
Other (HSA Bank)	13,327	—
Total	$529,887	$6,544

a) These reporting units are included in the Community Banking segment for financial reporting purposes.

	At December 31, 2012	
(In thousands)	Goodwill	Core Deposits
Business Segments		
Retail Banking	$516,560	$10,270
Other (HSA Bank)	13,327	—
Total	$529,887	$10,270

Webster uses a valuation methodology that addresses market concerns, Basel III, and fully allocates capital. Capital allocation for segment reporting is based on regulatory targets aimed at risk-weighted assets, tangible assets and deposits. Actual regulatory targets are applied to each of the asset bases and an implied target is used for deposits. The methodology creates two asset bases, risk-weighted assets and tangible assets, as well as a deposit base, intangibles and management assessment.

Webster tests its goodwill for impairment annually as of August 31 (the “Measurement Date”). In performing Step 1 of the goodwill impairment testing and measurement process, the Company primarily relied on the income approach to arrive at an indicated range of fair value for the reporting units, which was then corroborated with the market approach comparable company method and the market capitalization reconciliation. The income approach consists of discounting projected long-term future cash flows, which are derived from internal forecasts and economic expectations for the respective reporting units. The internal forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations.

The projected future cash flows are discounted using estimated rates based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and unsystematic risk and size premium adjustments specific to the reporting unit. In this analysis, the discount rates ranged from 10.1% to 13.0%. The long-term growth rate used in determining the terminal value of the reporting units cash flows was estimated at 4.0% and is based on management's assessment of the minimum expected terminal growth rate of each reporting unit as well as broader economic considerations. There was no impairment indicated as a result of the Step 1 test performed at August 31, 2013, as the fair value of the Consumer deposits, Small Business Banking, and Other reporting units exceeded carrying value by 52.5%, 18.1%, and 257.8%, respectively.

Table of Contents

The gross carrying value and accumulated amortization of other intangible assets allocated to the business segments are as follows:

(In thousands)	At September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposits:			
Community Banking/Consumer Deposits [a]	$49,420	$(42,876)	$6,544
Core deposits	$49,420	$(42,876)	$6,544

a) These reporting units are included in the Community Banking segment for financial reporting purposes.

(In thousands)	At December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposits:			
Retail Banking	$49,420	$(39,150)	$10,270
Other (HSA Bank)	4,699	(4,699)	—
Core deposits	$54,119	$(43,849)	$10,270

Amortization of intangible assets for the three and nine months ended September 30, 2013 and 2012, totaled $1.2 million and $3.7 million and $1.4 million and $4.2 million, respectively. Estimated annual amortization expense is summarized below:

(In thousands)	
Remainder of 2013	$1,193
2014	2,685
2015	1,523
2016	1,143
Total	$6,544

NOTE 6: Deposits

A summary of deposits by type follows:

(In thousands)	At September 30, 2013	At December 31, 2012
Non-interest-bearing:		
Demand	$2,968,727	$2,881,131
Interest-bearing:		
Checking	1,895,362	1,810,040
Health savings accounts	1,478,758	1,269,727
Money market	2,571,712	2,205,072
Savings	3,827,345	3,819,713
Time deposits	2,257,627	2,545,152
Total interest-bearing	12,030,804	11,649,704
Total deposits	$14,999,531	$14,530,835
Demand deposit overdrafts reclassified as loan balances	$1,745	$1,654

Table of Contents

At September 30, 2013, the scheduled maturities of time deposits (certificates of deposit and brokered deposits) are as follows:

(In thousands)	
Years ending December 31:	
2013	$372,906
2014	1,110,328
2015	393,203
2016	207,395
2017	68,333
Thereafter	105,462
Time deposits	$2,257,627

The following table presents additional information about the Company's brokered deposits:

(In thousands)	At September 30, 2013	At December 31, 2012
Interest-bearing checking obtained through brokers	$56,306	$43,693
Time deposits obtained through brokers	133,554	126,299
Total brokered deposits	$189,860	$169,992

NOTE 7: Securities Sold Under Agreements to Repurchase and Other Borrowings

The following table summarizes securities sold under agreements to repurchase and other borrowings:

(In thousands)	At September 30, 2013	At December 31, 2012
Securities sold under agreements to repurchase:		
Original maturity of one year or less	$337,290	$326,160
Callable at the option of the counterparty	100,000	300,000
Non-callable	550,000	450,000
	987,290	1,076,160
Other borrowings:		
Federal funds purchased	385,000	—
Total securities sold under agreements to repurchase and other borrowings	$1,372,290	$1,076,160

Repurchase agreements are used as a source of borrowed funds and are collateralized by U.S. Government agency mortgage-backed securities which are delivered to broker/dealers. Repurchase agreements with broker/dealers are limited to primary dealers in government securities or commercial and municipal customers through Webster's Treasury Sales desk. Repurchase agreements with dealer counterparties have the right to pledge, transfer or hypothecate purchased securities during the term of the transaction.

Table of Contents

NOTE 8: Federal Home Loan Bank Advances

The following table summarizes Federal Home Loan Bank advances:

	At September 30, 2013		At December 31, 2012	
(Dollars in thousands)	Total Outstanding	Weighted-Average Contractual Coupon Rate	Total Outstanding	Weighted-Average Contractual Coupon Rate
Stated Maturity:				
2013	$1,100,000	0.19 %	$1,425,000	0.34 %
2016	145,934	1.80	145,934	1.80
2017	500	5.66	500	5.66
2018-2032	355,968	1.32	256,093	1.29
	1,602,402	0.59 %	1,827,527	0.59 %
Unamortized premiums	67		85	
Total Federal Home Loan Bank advances	$1,602,469		$1,827,612	

At September 30, 2013, Webster Bank had pledged loans with an aggregate carrying value of $4.7 billion as collateral for borrowings and had additional borrowing capacity from the FHLB of approximately $1.2 billion, as well as an unused line of credit of approximately $5.0 million. At December 31, 2012, Webster Bank had pledged loans with an aggregate carrying value of $3.7 billion as collateral for borrowings and had additional borrowing capacity from the FHLB of approximately $0.5 billion, as well as an unused line of credit of approximately $5.0 million. At September 30, 2013 and December 31, 2012, Webster Bank was in compliance with FHLB collateral requirements.

NOTE 9: Long-Term Debt

The following table summarizes long-term debt:

(Dollars in thousands)	Maturity Date	Stated Interest Rate	At September 30, 2013	At December 31, 2012
Senior fixed-rate notes	2014	5.125%	150,000	150,000
Subordinated fixed-rate notes [1]	2013	5.875%	—	102,579
Junior subordinated debt Webster Statutory Trust I floating-rate notes [2]	2033	3.204%	77,320	77,320
Total notes and subordinated debt			227,320	329,899
Unamortized discount, net			(39)	(93)
Hedge accounting adjustments			1,865	4,470
Total long-term debt			$229,146	$334,276

(1) The Bank used cash on hand to pay off the subordinated fixed-rate notes which matured on January 15, 2013.

(2) The interest rate on Webster Statutory Trust I floating-rate notes, which varies quarterly based on 3-month LIBOR plus 2.95%, was 3.204% at September 30, 2013 and 3.258% at December 31, 2012.

Table of Contents

NOTE 10: Other Comprehensive Income

The following tables summarize the changes in accumulated other comprehensive (loss) income by component:

	Three months ended September 30, 2013			
(In thousands)	Derivative Instruments	Available For Sale and Transferred Securities	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$(22,872)	$ 2,729	$ (44,996)	$(65,139)
Other comprehensive (loss) income before reclassifications	(1,413)	5,330	528	4,445
Amounts reclassified from accumulated other comprehensive (loss) income	1,400	(173)	526	1,753
Net current-period other comprehensive (loss) income, net of tax	(13)	5,157	1,054	6,198
Ending balance	$(22,885)	$ 7,886	$ (43,942)	$(58,941)

	Three months ended September 30, 2012			
(In thousands)	Derivative Instruments	Available For Sale and Transferred Securities	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$(28,396)	$ 29,768	$ (45,250)	$(43,878)
Other comprehensive (loss) income before reclassifications	(1,384)	14,817	360	13,793
Amounts reclassified from accumulated other comprehensive (loss) income	676	(527)	659	808
Net current-period other comprehensive (loss) income, net of tax	(708)	14,290	1,019	14,601
Ending balance	$(29,104)	$ 44,058	$ (44,231)	$(29,277)

	Nine months ended September 30, 2013			
(In thousands)	Derivative Instruments	Available For Sale and Transferred Securities	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$(27,902)	$ 42,741	$ (47,105)	$(32,266)
Other comprehensive income (loss) before reclassifications	467	(34,400)	1,584	(32,349)
Amounts reclassified from accumulated other comprehensive (loss) income	4,550	(455)	1,579	5,674
Net current-period other comprehensive income (loss), net of tax	5,017	(34,855)	3,163	(26,675)
Ending balance	$(22,885)	$ 7,886	$ (43,942)	$(58,941)

	Nine months ended September 30, 2012			
(In thousands)	Derivative Instruments	Available For Sale and Transferred Securities	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$(28,884)	$ 15,967	$ (47,287)	$(60,204)
Other comprehensive (loss) income before reclassifications	(3,065)	30,267	1,079	28,281
Amounts reclassified from accumulated other comprehensive (loss) income	2,845	(2,176)	1,977	2,646
Net current-period other comprehensive (loss) income, net of tax	(220)	28,091	3,056	30,927

Ending balance	$(29,104)	$ 44,058	$ (44,231)	$(29,277)

30

Table of Contents

The following tables summarize the reclassifications out of accumulated other comprehensive (loss) income:

Details About Accumulated Other Comprehensive (Loss) Income Components	Three months ended September 30, 2013 Amount Reclassified From Accumulated Other Comprehensive (Loss) Income	2012 Amount Reclassified From Accumulated Other Comprehensive (Loss) Income	Affected Line Item in the Condensed Consolidated Statements Of Income
(In thousands)			
Derivative instruments:			
Cash flow hedges	$(2,182)	$(1,053)	Total interest expense
Tax benefit	782	377	Income tax expense
Net of tax	$(1,400)	$(676)	
Available for sale and transferred securities:			
Unrealized gains (losses) on available for sale securities	$269	$810	Net gain on sale of investment securities
Tax expense	(96)	(283)	Income tax expense
Net of tax	$173	$527	
Defined benefit pension and postretirement benefit plans:			
Amortization of net loss	$(803)	$(1,009)	Compensation and benefits
Prior service costs	(18)	(18)	Compensation and benefits
Tax benefit	295	368	Income tax expense
Net of tax	$(526)	$(659)	

Details About Accumulated Other Comprehensive (Loss) Income Components	Nine months ended September 30, 2013 Amount Reclassified From Accumulated Other Comprehensive (Loss) Income	2012 Amount Reclassified From Accumulated Other Comprehensive (Loss) Income	Affected Line Item in the Condensed Consolidated Statements Of Income
(In thousands)			
Derivative instruments:			
Cash flow hedges	$(7,090)	$(4,431)	Total interest expense
Tax benefit	2,540	1,586	Income tax expense
Net of tax	$(4,550)	$(2,845)	
Available for sale and transferred securities:			
Unrealized gains (losses) on available for sale securities	$708	$3,347	Net gain on sale of investment securities
Tax expense	(253)	(1,171)	Income tax expense
Net of tax	$455	$2,176	
Defined benefit pension and postretirement benefit plans:			

Amortization of net loss	$(2,407)	$(3,026)	Compensation and benefits
Prior service costs	(54)	(54)	Compensation and benefits
Tax benefit	882	1,103	Income tax expense
Net of tax	$(1,579)	$(1,977)	

31

Table of Contents

NOTE 11: Regulatory Matters

Regulatory Capital Requirements. Banks and bank holding companies are subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. These quantitative measures, to ensure capital adequacy, require minimum amounts and ratios.

As defined in the regulations, the Total risk-based and Tier 1 capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill and other intangible assets, allocated by risk-weight category, and certain off-balance sheet items, primarily loan commitments. As defined in the regulations, the Tier 1 leverage capital to adjusted quarterly average assets is calculated by dividing Tier 1 capital by adjusted quarterly average total assets. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weighting and other factors.

The following table provides information on the capital ratios for Webster Financial Corporation and Webster Bank, N.A.:

	Actual		Capital Requirements		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2013						
Webster Financial Corporation						
Total risk-based capital	$1,939,194	14.3 %	$1,088,630	8.0 %	$1,360,788	10.0 %
Tier 1 capital	1,775,605	13.1	544,315	4.0	816,473	6.0
Tier 1 leverage capital	1,775,605	9.0	792,663	4.0	990,829	5.0
Webster Bank, N.A.						
Total risk-based capital	$1,791,608	13.2 %	$1,084,672	8.0 %	$1,355,840	10.0 %
Tier 1 capital	1,629,406	12.0	542,336	4.0	813,504	6.0
Tier 1 leverage capital	1,629,406	8.2	791,132	4.0	988,915	5.0
At December 31, 2012						
Webster Financial Corporation						
Total risk-based capital	$1,840,736	13.7 %	$1,072,749	8.0 %	$1,340,936	10.0 %
Tier 1 capital	1,672,009	12.5	536,375	4.0	804,562	6.0
Tier 1 leverage capital	1,672,009	8.7	767,289	4.0	959,111	5.0
Webster Bank, N.A.						
Total risk-based capital	$1,718,564	12.9 %	$1,069,652	8.0 %	$1,337,064	10.0 %
Tier 1 capital	1,551,238	11.6	534,826	4.0	802,239	6.0
Tier 1 leverage capital	1,551,238	8.1	766,025	4.0	957,532	5.0

Webster is subject to regulatory capital requirements administered by the Federal Reserve, while Webster Bank is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC"). Regulatory authorities can initiate certain mandatory actions if Webster or Webster Bank fail to meet minimum capital requirements, which could have a direct material effect on the Company’s financial statements.

Dividend Restrictions. In the ordinary course of business, Webster is dependent upon dividends from Webster Bank to provide funds for its cash requirements, including payment of dividends to shareholders. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Webster Bank to fall below specified minimum levels, or if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. In addition, the OCC has discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds. Dividends paid by Webster Bank to Webster during the nine months ended September 30, 2013 and 2012 totaled $70.0 million and $110.0 million, respectively.

Trust Preferred Securities. The Company owns the common stock of a trust which has issued trust preferred securities. The trust is a VIE in which the Company is not the primary beneficiary and, therefore, is not consolidated. At

September 30, 2013 and December 31, 2012, $75.0 million in trust preferred securities have been included in the Tier 1 capital of Webster for regulatory reporting purposes pursuant to the Federal Reserve's capital adequacy guidelines. Certain provisions of the Basel III capital framework require the Company to phase out trust preferred securities from Tier 1 capital beginning January 1, 2015. Excluding trust preferred securities from the Tier 1 capital will not affect Webster's ability to meet all capital adequacy requirements to which it is subject.

Table of Contents

NOTE 12: Earnings Per Common Share

The calculation of basic and diluted earnings per common share follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2013	2012	2013	2012
Earnings for basic and diluted earnings per common share:				
Net income available to common shareholders	$44,666	$44,378	$127,631	$123,326
Less: Dividends to participating shares	(48)	(37)	(137)	(102)
Income allocated to participating shares	(114)	(149)	(360)	(470)
Net income allocated to common shareholders	$44,504	$44,192	$127,134	$122,754
Shares:				
Weighted-average common shares outstanding - basic	89,759	87,394	88,318	87,301
Effect of dilutive securities:				
Stock options and restricted stock	451	260	406	281
Warrants - Series A1 and A2	—	4,114	1,300	4,060
Warrants - other	213	116	169	112
Weighted-average common shares outstanding - diluted	90,423	91,884	90,193	91,754
Earnings per common share:				
Basic	$0.50	$0.51	$1.44	$1.41
Diluted	0.49	0.48	1.41	1.34

Stock Options

Options to purchase 1.1 million shares and 1.2 million shares for the three and nine months ended September 30, 2013, respectively, and 2.0 million shares for both the three and nine months ended September 30, 2012 were excluded from the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of Webster's common stock for the respective periods.

Restricted Stock

Non-participating restricted stock awards of 189 thousand shares and 224 thousand shares for the three and nine months ended September 30, 2013, respectively, and 127 thousand shares and 145 thousand shares for three and nine months ended September 30, 2012, respectively, whose issuance is contingent upon the satisfaction of certain performance conditions, were deemed to be anti-dilutive and, therefore, are excluded from the calculation of diluted earnings per share for the respective periods.

Warrants

Series A1 and A2: The Series A1 and A2 warrants issued in connection with the Warburg investment represented an aggregate 8.6 million potential issuable shares of common stock while outstanding. On March 22, 2013, the Company issued 4,564,930 shares of its common stock to Warburg in exchange for all the outstanding Series A1 and A2 warrants in a cashless exercise based on an exercise price of $11.50 per share. The weighted-average dilutive effect of these warrants, prior to the March 22, 2013 exercise, is included in the calculation of diluted earnings per share for the nine months ended September 30, 2013 and the three and nine months ended September 30, 2012 because the exercise price of the warrants was less than the average market price of Webster's common stock for the respective periods.

Other: Warrants initially issued to the U.S. Treasury and sold in a secondary public offering on June 8, 2011 represent 0.7 million potential issuable shares of common stock at both September 30, 2013 and 2012. The weighted-average dilutive effect of these warrants is included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 because the exercise price of the warrants was less than the average market price of Webster's common stock for the respective periods.

Series A Preferred Stock

The Series A Preferred Stock represents potential issuable common stock at September 30, 2013 and 2012. The weighted-average effect of 1.1 million shares of common stock associated with the Series A Preferred Stock was

deemed to be anti-dilutive and, therefore, is excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2013 and 2012.

Table of Contents

NOTE 13: Derivative Financial Instruments

Risk Management Objective of Using Derivatives

Webster is exposed to certain risks arising from both its business operations and economic conditions. Webster principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Webster manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, Webster enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The type of hedge accounting designation used depends on the specific risk being hedged. Webster uses fair value hedges to mitigate changes in fair values due to fixed rates or prices, while changes in cash flows due to variable rates or prices may be reduced or eliminated by a cash flow hedge.

Cash Flow Hedges of Interest Rate Risk

Webster's primary objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, Webster uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps and caps designated as cash flow hedges are designed to manage the risk associated with a forecasted event or an uncertain variable rate cash flow.

Webster uses forward-settle interest rate swaps to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on forecasted debt issuances. Forward-settle swaps are typically cash settled to coincide with a debt issuance. The change in fair value of the forward-settle swaps is recorded in accumulated other comprehensive income ("AOCI") during the swap term. Upon termination, the AOCI gain or loss at the time of debt issuance is amortized into interest expense over the life of the debt.

Webster has four $25 million forward-settle interest rate swap hedges outstanding as of September 30, 2013, which qualify for cash flow hedge accounting. The swaps, entered into in August and September 2013, protect the Company against adverse fluctuations in interest rates by reducing exposure to variability in cash flows related to interest payments on forecasted issuance of five-year debt. Each swap will pay a fixed rate and receive 1-month LIBOR indexed floating rate, effective on June 30, 2014, and maturing on June 30, 2019. Cash settlement is expected to occur on the effective date and the forecasted five-year debt issuances are anticipated to occur between March 31, 2014 and March 31, 2015.

In addition, during September 2013, Webster executed two $25 million forward-settle swaps with dealer counterparties which qualify for hedge accounting. The swaps are intended to reduce interest rate variability of cash flows related to future debt issuance at the holding company. The swaps are structured as an inter-affiliate transaction executed at the Bank on behalf of its holding company. The hedge designations are transferred from the Bank to the holding company through additional intercompany swap transactions at both the Bank and holding company. Each swap will pay a fixed-rate and receive 3-month LIBOR indexed floating rate, effective on December 31, 2013 and maturing on December 31, 2023. Cash settlement is expected to occur on the effective date and the forecasted ten-year debt issuances are anticipated to occur between October 31, 2013 and June 30, 2014.

Previously terminated forward-settle swap losses have been recorded in AOCI and will be amortized into earnings over the respective term of the associated debt instrument. At September 30, 2013, the remaining unamortized loss on the termination of cash flow hedges was $34.5 million. Over the next twelve months, Webster estimates that $8.1 million will be reclassified from AOCI to interest expense. There was no hedge ineffectiveness for the three and nine months ended September 30, 2013 and 2012.

Webster has two $25 million interest rate caps which are designated as cash flow hedge transactions against the risk of changes in cash flows related to the Company's $150 million 3-month LIBOR indexed floating rate FHLB advance maturing December 30, 2021. The caps each have a strike rate of 3.0% indexed to 3-month LIBOR. The change in fair value of the caps is marked through OCI and there is a $1.1 million gain as of September 30, 2013. Webster paid a $2.0 million premium, which will be reclassified from AOCI to interest expense over the life of the cap according to a predetermined cap value schedule. Over the next twelve months, the amount to be reclassified is insignificant based

on the cap value schedule.

Amounts reported in AOCI related to current cash flow derivatives will be reclassified to interest expense as interest payments are made on Webster's variable-rate debt. Over the next twelve months, Webster estimates that $1.5 million will be reclassified as an increase to interest expense.

Table of Contents

The table below presents the fair value of Webster's derivative financial instruments designated as cash flow hedges as well as their classification in the accompanying Condensed Consolidated Balance Sheets:

		At September 30, 2013			At December 31, 2012		
(Dollars in thousands)	Balance Sheet Classification	# of Instruments	Notional Amount	Estimated Fair Value	# of Instruments	Notional Amount	Estimated Fair Value
Interest rate derivatives designated as cash flow hedges:							
Forward-settle interest rate swap on anticipated debt [1]	Other liabilities	2	$50,000	$(901)	—	$—	$—
Forward-settle interest rate swap on anticipated debt	Other liabilities	4	100,000	(1,293)	4	100,000	(1,130)
Interest rate cap on FHLB advances	Other assets	2	50,000	3,048	—	—	—
Interest rate swap on FHLB advances	Other liabilities	—	—	—	1	100,000	(497)

(1) Inter-affiliate swaps between the Bank and holding company total an additional $100 million in aggregate notional value with gains and losses that offset.

The net impact on interest expense related to cash flow hedges is presented below:

	Three months ended September 30,			
	2013		2012	
(In thousands)	Interest Expense	Amount Reclassified From AOCI	Interest Expense	Amount Reclassified From AOCI
Impact reported as an increase (reduction) in interest expense on borrowings:				
Interest rate swaps on FHLB advances	$—	$1,353	$351	$1,139
Interest rate swaps on subordinated debt	—	—	—	(21)