WEBSTER FINANCIAL CORP
Form 10-Q
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending June 30, 2018

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, Waterbury, Connecticut 06702
(Address and zip code of principal executive offices)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically 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). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No
The number of shares of common stock, par value $.01 per share, outstanding as of July 31, 2018 was 92,228,475.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
FOWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "believes," "anticipates," "expects," "intends," "targeted," "continue," "remain," "will," "should," "may," "plans," "estimates" and similar references to future periods; however, such words are not the exclusive means of identifying such statements. References to the "Company," " Webster," "we," "our," or "us" mean Webster Financial Corporation and its consolidated subsidiaries.

Examples of forward-looking statements include, but are not limited to:

projections of revenues, expenses, income or loss, earnings or loss per share, and other financial items;
statements of plans, objectives and expectations of Webster or its management or Board of Directors;
statements of future economic performance; and
statements of assumptions underlying such statements.

Forward-looking statements are based on Webster's current expectations and assumptions regarding its business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Webster's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance.

Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

local, regional, national and international economic conditions and the impact they may have on us and our customers;
volatility and disruption in national and international financial markets;
government intervention in the U.S. financial system;
changes in the level of non-performing assets and charge-offs;
changes in estimates of future reserve requirements based upon periodic review under relevant regulatory and accounting requirements;
adverse conditions in the securities markets that lead to impairment in the value of securities in our investment portfolio;
inflation, interest rate, securities market and monetary fluctuations;
the timely development and acceptance of new products and services and perceived overall value of these products and services by customers;
changes in consumer spending, borrowings and savings habits;
technological changes and cyber-security matters;
the ability to increase market share and control expenses;
changes in the competitive environment among banks, financial holding companies and other financial services providers;
the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities, insurance and healthcare) with which we and our subsidiaries must comply, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the final rules establishing a new comprehensive capital framework for U.S. banking organizations, and the Tax Cuts and Jobs Act of 2017 (Tax Act);
the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board (FASB) and other accounting standard setters;
the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; and
our success at assessing and managing the risks involved in the foregoing items.

Any forward-looking statements made by Webster Financial Corporation (the Company) in this Quarterly Report on Form 10-Q speaks only as of the date they are made. Factors or events that could cause the Company's actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
KEY TO ACRONYMS AND TERMS

Agency CMBS	Agency commercial mortgage-backed securities
Agency CMO	Agency collateralized mortgage obligations
Agency MBS	Agency mortgage-backed securities
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
AOCL	Accumulated other comprehensive loss, net of tax
ASC	Accounting Standards Codification
ASU or the Update	Accounting Standards Update
Basel III	Capital rules under a global regulatory framework developed by the Basel Committee on Banking Supervision
CET1 capital	Common Equity Tier 1 Capital, defined by Basel III capital rules
CLO	Collateralized loan obligation securities
CMBS	Non-agency commercial mortgage-backed securities
CME	Chicago Mercantile Exchange
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FRB	Federal Reserve Bank
FTP	Funds Transfer Pricing, a matched maturity funding concept
GAAP	U.S. Generally Accepted Accounting Principles
Holding Company	Webster Financial Corporation
HSA Bank	A division of Webster Bank, National Association
LEP	Loss emergence period
LGD	Loss given default
LPL	LPL Financial Holdings Inc.
NAV	Net asset value
NII	Net interest income
OCC	Office of the Comptroller of the Currency
OCI/OCL	Other comprehensive income (loss)
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PD	Probability of default
PPNR	Pre-tax, pre-provision net revenue
RPA	Risk participation agreement
SEC	United States Securities and Exchange Commission
SERP	Supplemental defined benefit retirement plan
Tax Act	Tax Cuts and Jobs Act of 2017
TDR	Troubled debt restructuring, defined in ASC 310-40 "Receivables-Troubled Debt Restructurings by Creditors"
VIE	Variable interest entity, defined in ASC 810-10 "Consolidation-Overall"
Webster Bank	Webster Bank, National Association, a wholly-owned subsidiary of Webster Financial Corporation
Webster or the Company	Webster Financial Corporation, collectively with its consolidated subsidiaries

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

(In thousands, except share data)	**June 30, 2018 (Unaudited)**	**December 31, 2017**
Assets:		
Cash and due from banks	$228,628	$231,158
Interest-bearing deposits	70,654	25,628
Investment securities available-for-sale, at fair value	2,780,581	2,638,037
Investment securities held-to-maturity (fair value of $4,225,983 and $4,456,350)	4,356,219	4,487,392
Federal Home Loan Bank and Federal Reserve Bank stock	141,293	151,566
Loans held for sale, fair value option	18,645	20,888
Loans and leases	18,025,996	17,523,858
Allowance for loan and lease losses	(207,322)	(199,994)
Loans and leases, net	17,818,674	17,323,864
Deferred tax assets, net	106,910	92,630
Premises and equipment, net	127,973	130,001
Goodwill	538,373	538,373
Other intangible assets, net	27,688	29,611
Cash surrender value of life insurance policies	537,431	531,820
Accrued interest receivable and other assets	283,668	286,677
Total assets	$27,036,737	$26,487,645
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$4,151,259	$4,191,496
Interest-bearing	17,192,097	16,802,233
Total deposits	21,343,356	20,993,729
Securities sold under agreements to repurchase and other borrowings	862,568	643,269
Federal Home Loan Bank advances	1,576,956	1,677,105
Long-term debt	225,894	225,767
Accrued expenses and other liabilities	266,240	245,817
Total liabilities	24,275,014	23,785,687
Shareholders' equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series F issued and outstanding (6,000 shares)	145,037	145,056
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued (93,680,724 and 93,680,291 shares)	937	937
Paid-in capital	1,115,414	1,122,164
Retained earnings	1,699,767	1,595,762
Treasury stock, at cost (1,645,784 and 1,658,526 shares)	(77,496)	(70,430)
Accumulated other comprehensive loss, net of tax	(121,936)	(91,531)
Total shareholders' equity	2,761,723	2,701,958
Total liabilities and shareholders' equity	$27,036,737	$26,487,645

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
(In thousands, except per share data)	**2018**	**2017**	**2018**	**2017**
Interest Income:				
Interest and fees on loans and leases	$207,820	$174,456	$401,040	$342,264
Taxable interest and dividends on investments	47,427	46,408	94,715	92,348
Non-taxable interest on investment securities	5,096	5,722	10,367	11,338
Loans held for sale	148	203	290	519
Total interest income	260,491	226,789	506,412	446,469
Interest Expense:				
Deposits	20,225	14,679	38,381	28,114
Securities sold under agreements to repurchase and other borrowings	3,998	3,583	7,638	7,123
Federal Home Loan Bank advances	8,471	8,156	15,752	15,649
Long-term debt	2,787	2,584	5,463	5,132
Total interest expense	35,481	29,002	67,234	56,018
Net interest income	225,010	197,787	439,178	390,451
Provision for loan and lease losses	10,500	7,250	21,500	17,750
Net interest income after provision for loan and lease losses	214,510	190,537	417,678	372,701
Non-interest Income:				
Deposit service fees	40,859	38,192	81,310	75,198
Loan and lease related fees	6,333	6,344	13,329	13,552
Wealth and investment services	8,456	7,877	16,326	15,150
Mortgage banking activities	1,235	3,351	2,379	5,617
Increase in cash surrender value of life insurance policies	3,643	3,648	7,215	7,223
Impairment loss on investment securities recognized in earnings	—	(126)	—	(126)
Other income	7,848	5,265	16,562	10,979
Total non-interest income	68,374	64,551	137,121	127,593
Non-interest Expense:				
Compensation and benefits	93,052	86,394	187,817	173,893
Occupancy	15,842	16,034	30,987	32,213
Technology and equipment	24,604	22,458	48,466	44,066
Intangible assets amortization	962	1,028	1,924	2,083
Marketing	4,889	4,615	8,441	10,056
Professional and outside services	4,381	3,507	9,169	7,783
Deposit insurance	13,687	6,625	20,404	13,357
Other expense	23,042	23,758	44,866	44,752
Total non-interest expense	180,459	164,419	352,074	328,203
Income before income tax expense	102,425	90,669	202,725	172,091
Income tax expense	20,743	29,090	40,818	51,041
Net income	81,682	61,579	161,907	121,050
Preferred stock dividends and other	(2,193)	(2,094)	(4,334)	(4,224)
Earnings applicable to common shareholders	$79,489	$59,485	$157,573	$116,826
Earnings per common share:				
Basic	$0.87	$0.65	$1.71	$1.27
Diluted	0.86	0.64	1.71	1.26

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Net income	$81,682	$61,579	$161,907	$121,050
Other comprehensive (loss) income (OCL) OCI, net of tax:				
Total securities available-for-sale	(9,246)	3,200	(36,670)	975
Total derivative instruments	1,680	651	4,202	1,810
Total defined benefit pension and other postretirement benefit plans	1,109	1,094	2,063	2,126
Other comprehensive (loss) income, net of tax	(6,457)	4,945	(30,405)	4,911
Comprehensive income	$75,225	$66,524	$131,502	$125,961

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2017	$145,056	$ 937	$1,122,164	$1,595,762	$(70,430)	$ (91,531)	$2,701,958
Cumulative effect of changes in accounting principles	—	—	—	(1,362)	—	—	(1,362)
Net income	—	—	—	161,907	—	—	161,907
Other comprehensive loss, net of tax	—	—	—	—	—	(30,405)	(30,405)
Dividends and dividend equivalents declared on common stock $0.59 per share	—	—	99	(54,278)	—	—	(54,179)
Dividends paid Series F preferred stock $667.1875 per share	—	—	—	(3,938)	—	—	(3,938)
Dividends accrued Series F preferred stock	—	—	—	22	—	—	22
Stock-based compensation	—	—	(1,541)	1,654	5,766	—	5,879
Exercise of stock options	—	—	(5,308)	—	7,418	—	2,110
Common shares acquired related to stock compensation plan activity	—	—	—	—	(8,092)	—	(8,092)
Common stock repurchase program	—	—	—	—	(12,158)	—	(12,158)
Series F preferred stock issuance adjustment	(19)	—	—	—	—	—	(19)
Balance at June 30, 2018	$145,037	$ 937	$1,115,414	$1,699,767	$(77,496)	$ (121,936)	$2,761,723

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholders' Equity
Balance at December 31, 2016	$122,710	$ 937	$1,125,937	$1,425,320	$(70,899)	$ (76,993)	$2,527,012
Net income	—	—	—	121,050	—	—	121,050
Other comprehensive income, net of tax	—	—	—	—	—	4,911	4,911
Dividends and dividend equivalents declared on common stock $0.51 per share	—	—	82	(47,140)	—	—	(47,058)
Dividends paid Series E preferred stock $800.00 per share	—	—	—	(4,048)	—	—	(4,048)
Stock-based compensation	—	—	—	1,118	6,833	—	7,951
Exercise of stock options	—	—	(1,358)	—	5,949	—	4,591
Common shares acquired related to stock compensation plan activity	—	—	—	—	(9,283)	—	(9,283)
Balance at June 30, 2017	$122,710	$ 937	$1,124,661	$1,496,300	$(67,400)	$ (72,082)	$2,605,126

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
(In thousands)	**2018**	**2017**
Operating Activities:		
Net income	$161,907	$121,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	21,500	17,750
Deferred tax (benefit) expense	(4,247)	488
Depreciation and amortization	19,187	18,960
Amortization of earning assets and funding, premiums/discounts, net	26,625	23,287
Stock-based compensation	5,879	6,043
Gain on sale, net of write-down, on foreclosed and repossessed assets	(291)	(314)
Write-down, net on premises and equipment	253	559
Impairment loss on investment securities recognized in earnings	—	126
Increase in cash surrender value of life insurance policies	(7,215)	(7,223)
Gain from life insurance policies	(825)	—
Mortgage banking activities	(2,379)	(5,617)
Proceeds from sale of loans held for sale	90,063	173,338
Origination of loans held for sale	(86,694)	(147,437)
Net decrease (increase) in derivative contract assets net of liabilities	65,421	(213)
Net increase in accrued interest receivable and other assets	(9,482)	(24,054)
Net (decrease) increase in accrued expenses and other liabilities	(23,176)	5,261
Net cash provided by operating activities	256,526	182,004
Investing Activities:		
Net increase in interest-bearing deposits	(45,026)	(4,201)
Purchases of available for sale investment securities	(455,042)	(106,476)
Proceeds from maturities and principal payments of available for sale investment securities	256,179	314,038
Purchases of held-to-maturity investment securities	(157,061)	(429,711)
Proceeds from maturities and principal payments of held-to-maturity investment securities	271,195	357,283
Net proceeds of Federal Home Loan Bank stock	10,273	39,141
Alternative investments (capital call) return of capital, net	(246)	296
Net increase in loans	(523,631)	(263,241)
Proceeds from loans not originated for sale	34	7,445
Proceeds from life insurance policies	2,429	484
Proceeds from the sale of foreclosed and repossessed assets	3,801	3,371
Proceeds from the sale of premises and equipment	—	507
Additions to premises and equipment	(16,063)	(13,392)
Proceeds from redemption of other assets	—	7,581
Net cash used for investing activities	(653,158)	(86,875)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
(In thousands)	**2018**	**2017**
Financing Activities:		
Net increase in deposits	351,004	1,153,597
Proceeds from Federal Home Loan Bank advances	4,000,000	7,300,000
Repayments of Federal Home Loan Bank advances	(4,100,149)	(8,375,145)
Net increase (decrease) in securities sold under agreements to repurchase and other borrowings	219,299	(76,834)
Dividends paid to common shareholders	(53,974)	(46,862)
Dividends paid to preferred shareholders	(3,938)	(4,048)
Exercise of stock options	2,110	4,591
Common stock repurchase program	(12,158)	—
Common shares purchased related to stock compensation plan activity	(8,092)	(9,283)
Net cash provided by (used for) financing activities	394,102	(53,984)
Net (decrease) increase in cash and due from banks	(2,530)	41,145
Cash and due from banks at beginning of period	231,158	190,663
Cash and due from banks at end of period	$228,628	$231,808
Supplemental disclosure of cash flow information:		
Interest paid	$64,009	$53,354
Income taxes paid	47,781	53,334
Noncash investing and financing activities:		
Transfer of loans and leases to foreclosed properties and repossessed assets	$3,406	$3,167
Transfer of loans from loans and leases to loans-held-for-sale	35	—

See accompanying Notes to Condensed Consolidated Financial Statements.

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Note 1: Summary of Significant Accounting Policies

Nature of Operations

Webster Financial Corporation is a bank holding company and financial holding company under the Bank Holding Company Act, incorporated under the laws of Delaware in 1986 and headquartered in Waterbury, Connecticut. At June 30, 2018, Webster Financial Corporation's principal asset is all of the outstanding capital stock of Webster Bank, National Association (Webster Bank).

Webster delivers financial services to individuals, families, and businesses primarily within its regional footprint from New York to Massachusetts. Webster provides business and consumer banking, mortgage lending, financial planning, trust, and investment services through banking offices, ATMs, mobile banking, and its internet website (www.websterbank.com or www.wbst.com). Webster also offers equipment financing, commercial real estate lending, and asset-based lending primarily across the Northeast. On a nationwide basis, through its HSA Bank division, Webster Bank offers and administers health savings accounts, flexible spending accounts, health reimbursement accounts, and commuter benefits.

Basis of Presentation

The accounting and reporting policies of the Company that materially affect its financial statements conform with U.S. Generally Accepted Accounting Principles (GAAP). The accompanying unaudited Condensed Consolidated Financial Statements of the Company have been prepared in conformity with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the Company's Consolidated Financial Statements, and Notes thereto, for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on March 1, 2018.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as income and expense during the period. Actual results could differ from those estimates. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the full year or any future period.

Federal Deposit Insurance Corporation (FDIC) Assessment.

The Company recorded a $7.2 million charge to establish an accrual for additional FDIC premiums for prior periods. The accrual is management's estimate of the aggregate amount of premiums due for the period from March 31, 2015 through December 31, 2017 and is the result of a reclassification of loans under existing and modified FDIC loan category classifications. Any additional expense that may result upon final resolution of this matter is expected to be immaterial to the Company's financial statements. The matter is expected to be resolved prior to December 31, 2018.

Accounting Standards Adopted During 2018

Effective January 1, 2018, the following new Accounting Standards Updates (ASUs) were adopted by the Company:

ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.

The Update shortens the amortization period for certain investments in callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. Prior to adoption, the Company amortized the premium as a yield adjustment over the contractual life of such debt securities. The Update accelerates the Company's recognition of premium amortization on certain debt securities held within the portfolio.

The Company adopted the Update during the first quarter of 2018 on a modified retrospective basis. As a result, the Company recorded a $2.8 million cumulative-effect adjustment directly to retained earnings as of January 1, 2018.

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ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

The Update requires the Company to retrospectively report service cost as a part of compensation expense and the other components of net periodic benefit cost separately from service cost in the Company's consolidated financial statements. The Company previously included all components of net periodic benefit cost as a component of compensation and benefits expense. Upon adoption, only service cost remains in compensation and benefits expense, while the interest cost on benefit obligations, expected return on plan assets, amortization of prior service cost, and recognized net loss components of the net periodic benefit cost are included in other expense, in the accompanying Condensed Consolidated Statements of Income.

The Company adopted the Update during the first quarter of 2018 on a retrospective basis. As a result, the Company reclassified, for prior periods, the components of it's net periodic benefit costs other than the service cost component from compensation and benefits to other expense in the accompanying Condensed Consolidated Statements of Income. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

ASU No. 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.

The Update addresses the following eight specific cash flow issues, with the objective of reducing the existing diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle.

The Company adopted the Update during the first quarter of 2018 on a retrospective basis. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10)

The Updates included targeted amendments in connection with the recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practical expedient, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. The provisions also emphasized the existing requirement to use exit prices to measure fair value for disclosure purposes.

The Company adopted the Updates during the first quarter of 2018 primarily on a modified retrospective basis. As a result, the Company recorded a benefit of $1.4 million for a cumulative-effect adjustment directly to retained earnings, as of January 1, 2018, due to a change in valuation method, from cost less impairment, to net asset value using the practical expedient. Also, the measurement alternative has been elected for equity securities, existing as of January 1, 2018, without readily determinable fair values on a prospective basis.

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and subsequent ASUs issued to clarify this Topic.

The Update, and subsequent related updates, establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most previous revenue recognition guidance, including industry-specific guidance. The Updates are intended to increase comparability across industries. The core principle of the revenue model is that a company will recognize revenue when it transfers control of goods or services to customers, at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

The Company adopted the Updates during the first quarter of 2018 on a modified retrospective transition approach. The Company did not identify any material changes to the timing of revenue recognition. The Company is changing

how it presents certain recurring revenue streams associated with wealth and investment services as other income, versus a contra expense; however, these changes did not have a significant impact on the Company's consolidated financial statements. The adoption of this guidance did not have a material impact on the Company's financial condition or results of operations, and there was no cumulative effect adjustment to opening retained earnings as no material changes were identified in the timing of revenue recognition, however, additional disclosure has been incorporated in Note 17: Revenue from Contracts with Customers.

Accounting Standards Issued But Not Yet Adopted
The following list identifies ASUs applicable to the Company that have been issued by the FASB but are not yet effective:
ASU No. 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities.
The purpose of the Update is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The update requires a modified retrospective transition method in which a Company will recognize a cumulative effect of the change on the opening balance for each affected component of equity in the financial statements as of the date of adoption.
The Update is effective for the Company on January 1, 2019. The Company does not expect the new guidance to have a material impact on its financial statements.
ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.
The Update simplifies quantitative goodwill impairment testing by requiring entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit.
This changes current guidance by eliminating the second step of the goodwill impairment analysis which involves calculating the implied fair value of goodwill determined in the same manner as the amount of goodwill recognized in a business combination upon acquisition. Entities will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.
The Update is effective for the Company on January 1, 2020 and early adoption is permitted. The Update must be applied prospectively. The Company does not expect the new guidance to have a material impact on its financial statements.
ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments.
Current GAAP requires an incurred loss methodology for recognizing credit losses. This approach delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the probable threshold.
The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.
The Change from an incurred loss method to an expected loss method represents a fundamental shift from existing GAAP, and may result in a material increase to the Company's accounting for credit losses on financial instruments. To prepare for implementation of the new standard the Company has established a project lead and has empowered a cross functional steering committee comprised of members from different disciplines including Credit, Finance and Treasury as well as specific working groups to focus on key components of the development process. Through these working groups, the Company has begun to evaluate the effect that this Update will have on its financial statements and related disclosures. An implementation project plan has been created and is made up of targeted work streams focused on credit models, data management, treasury, and accounting. These work streams are collectively assessing resources that may be required, use of existing and new models, and data availability. The Company recently contracted with a system solution provider and is preparing to commence its implementation. The Update is effective for the Company on January 1, 2020. The impact of adopting the Update is expected to be influenced by assessment of the composition, characteristics, and credit quality of our loan and securities portfolios as well as the economic conditions in effect at the adoption date. Therefore, we are currently unable to reasonably estimate the impact of adopting the Update at this time.
ASU No. 2016-02, Leases (Topic 842) and subsequent ASUs issued to amend this Topic.

The Update introduces a lessee model that requires substantially all leases to be recorded as assets and liabilities on the balance sheet and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. In July 2018, the FASB issued a subsequent Update which, among other issues, incorporates a new transition method option that would allow the Company to use the effective date as the date of initial application on transition. The Company currently expects to elect this transition method.

The Company is in the process of reviewing its existing leases, and certain service contracts for embedded leases, to evaluate the impact of these Updates on the consolidated financial statements, as well as the impact to regulatory reporting, such as capital and risk-weighted assets. The Company has engaged a third party consultant to assist with the implementation efforts and has selected a third party software solution to assist with the accounting under these Updates.

The Updates are effective beginning January 1, 2019 and early adoption is permitted. The Company does not plan to early adopt, and the effect of the adoption will depend on the lease portfolio at the time of transition.

Note 2: Variable Interest Entities

The Company has an investment interest in the following entities that meet the definition of a variable interest entity (VIE).

Consolidated

Rabbi Trust. The Company established a Rabbi Trust to meet the obligations due under its Deferred Compensation Plan for Directors and Officers and to mitigate the expense volatility of the aforementioned plan. The funding of the Rabbi Trust and the discontinuation of the Deferred Compensation Plan for Directors and Officers occurred during 2012.

Investments held in the Rabbi Trust primarily consist of mutual funds that invest in equity and fixed income securities. The Company is considered the primary beneficiary of the Rabbi Trust as it has the power to direct the activities of the Rabbi Trust that significantly affect the VIE's economic performance and it has the obligation to absorb losses of the VIE that could potentially be significant to the VIE.

The Company consolidates the invested assets of the trust along with the total deferred compensation obligations and includes them in accrued interest receivable and other assets and accrued expenses and other liabilities, respectively, in the accompanying Condensed Consolidated Balance Sheets. Earnings in the Rabbi Trust, including appreciation or depreciation, are reflected as other non-interest income, and changes in the corresponding liability are reflected as compensation and benefits, in the accompanying Condensed Consolidated Statements of Income. See Note 13: Fair Value Measurements for additional information.

Non-Consolidated

Securitized Investments. The Company, through normal investment activities, makes passive investments in securities issued by VIEs for which Webster is not the manager. The investment securities consist of Agency CMO, Agency MBS, Agency CMBS, and CLO. The Company has not provided financial or other support with respect to these investment securities other than its original investment. For these investment securities, the Company determined it is not the primary beneficiary due to the relative size of its investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination which reduces the Company’s obligation to absorb losses or right to receive benefits and its inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company’s maximum exposure to loss is limited to the amount of its investment in the VIEs. See Note 3: Investment Securities for additional information.

Tax Credit - Finance Investments. The Company makes equity investments in entities that finance affordable housing and other community development projects and provide a return primarily through the realization of tax benefits. In most instances the investments require the funding of capital commitments in the future. While the Company's investment in an entity may exceed 50% of its outstanding equity interests, the entity is not consolidated as Webster is not involved in its management. For these investments, the Company determined it is not the primary beneficiary due to its inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company applies the proportional amortization method to account for its investments in qualified affordable housing projects.

At June 30, 2018 and December 31, 2017, the aggregate carrying value of the Company's tax credit-finance investments were $31.0 million and $33.5 million, respectively. At June 30, 2018 and December 31, 2017, unfunded commitments have been recognized, totaling $11.1 million and $17.3 million, respectively, and are included in accrued expenses and other liabilities in the accompanying Condensed Consolidated Balance Sheets.

Webster Statutory Trust. The Company owns all the outstanding common stock of Webster Statutory Trust, a financial vehicle that has issued, and in the future may issue, trust preferred securities. The trust is a VIE in which the Company is not the primary beneficiary. 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 in the accompanying Condensed Consolidated Balance Sheets, and the related interest expense is reported as interest expense on long-term debt in the accompanying Condensed Consolidated Statements of Income.

Other Investments. The Company invests in various alternative investments in which it holds a variable interest. These investments are non-public entities which cannot be redeemed since the Company’s investment is distributed as

the underlying equity is liquidated. For these investments, the Company has determined it is not the primary beneficiary due to its inability to direct the activities that most significantly impact the economic performance of the VIEs.

At June 30, 2018 and December 31, 2017, the aggregate carrying value of the Company's other investments in VIEs were $14.6 million and $13.8 million, respectively, and the total exposure of the Company's other investments in VIEs, including unfunded commitments, were $27.5 million and $22.9 million, respectively.

The Company's equity interests in Tax Credit-Finance Investments, Webster Statutory Trust, and Other Investments are included in accrued interest receivable and other assets in the accompanying Condensed Consolidated Balance Sheets. For a description of the Company's accounting policy regarding the consolidation of VIEs, refer to Note 1 to the Consolidated Financial Statements included in its Form 10-K, for the year ended December 31, 2017.

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Note 3: Investment Securities

A summary of the amortized cost and fair value of investment securities is presented below:

	At June 30, 2018				At December 31, 2017			
(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:								
U.S. Treasury Bills	$2,491	$ —	$—	$2,491	$1,247	$ —	$—	$1,247
Agency CMO	271,712	268	(6,727)	265,253	308,989	1,158	(3,814)	306,333
Agency MBS	1,356,988	1,053	(46,200)	1,311,841	1,124,960	2,151	(19,270)	1,107,841
Agency CMBS	618,054	—	(35,378)	582,676	608,276	—	(20,250)	588,026
CMBS	373,916	958	(318)	374,556	358,984	2,157	(74)	361,067
CLO	187,697	538	(169)	188,066	209,075	910	(134)	209,851
Single issuer-trust preferred	—	—	—	—	7,096	—	(46)	7,050
Corporate debt	56,197	404	(903)	55,698	56,504	797	(679)	56,622
Available-for-sale	$2,867,055	$ 3,221	$(89,695)	$2,780,581	$2,675,131	$ 7,173	$(44,267)	$2,638,037
Held-to-maturity:								
Agency CMO	$231,943	$ 296	$(7,891)	$224,348	$260,114	$ 664	$(4,824)	$255,954
Agency MBS	2,520,455	10,139	(90,415)	2,440,179	2,569,735	16,989	(37,442)	2,549,282
Agency CMBS	677,397	—	(24,594)	652,803	696,566	—	(10,011)	686,555
Municipal bonds and notes	697,066	1,948	(16,851)	682,163	711,381	8,584	(6,558)	713,407
CMBS	229,265	551	(3,419)	226,397	249,273	2,175	(620)	250,828
Private Label MBS	93	—	—	93	323	1	—	324
Held-to-maturity	$4,356,219	$ 12,934	$(143,170)	$4,225,983	$4,487,392	$ 28,413	$(59,455)	$4,456,350

Other-Than-Temporary Impairment

The amount in the amortized cost columns in the table above includes other-than-temporary impairment (OTTI) related to certain CLO positions that were previously considered Covered Funds as defined by Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), commonly known as the Volcker Rule. The Company has taken measures to bring its CLO positions into conformance with the Volcker Rule. The following table presents activity for OTTI:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Beginning balance	$1,364	$3,231	$1,364	$3,243
Reduction for investment securities sold or called	(261)	(126)	(261)	(138)
Additions for OTTI not previously recognized in earnings	—	126	—	126
Ending balance	$1,103	$3,231	$1,103	$3,231

To the extent that changes occur in interest rates, credit movements, or other factors that impact fair value and expected recovery of amortized cost of its investment securities, the Company may, in future periods, be required to recognize OTTI in earnings.

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Fair Value and Unrealized Losses

The following tables provide information on fair value and unrealized losses for the individual investment securities with an unrealized loss, aggregated by classification and length of time that the individual investment securities have been in a continuous unrealized loss position:

	At June 30, 2018						
	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 CMO	$110,795	$(1,853)	$112,410	$(4,874)	36	$223,205	$(6,727)
Agency MBS	645,678	(16,586)	552,321	(29,614)	165	1,197,999	(46,200)
Agency CMBS	71,430	(2,761)	511,246	(32,617)	37	582,676	(35,378)
CMBS	145,960	(318)	—	—	22	145,960	(318)
CLO	41,259	(41)	15,029	(128)	3	56,288	(169)
Single issuer-trust preferred	—	—	—	—	—	—	—
Corporate debt	36,073	(278)	1,770	(625)	5	37,843	(903)
Available-for-sale in an unrealized loss position	$1,051,195	$(21,837)	$1,192,776	$(67,858)	268	$2,243,971	$(89,695)
Held-to-maturity:							
Agency CMO	$100,551	$(2,735)	$96,424	$(5,156)	24	$196,975	$(7,891)
Agency MBS	1,085,492	(29,208)	1,111,469	(61,207)	262	2,196,961	(90,415)
Agency CMBS	518,344	(18,421)	134,459	(6,173)	56	652,803	(24,594)
Municipal bonds and notes	250,878	(5,417)	218,705	(11,434)	212	469,583	(16,851)
CMBS	147,266	(3,149)	12,758	(270)	20	160,024	(3,419)
Held-to-maturity in an unrealized loss position	$2,102,531	$(58,930)	$1,573,815	$(84,240)	574	$3,676,346	$(143,170)

	At December 31, 2017						
	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 CMO	$81,001	$(449)	$119,104	$(3,365)	27	$200,105	$(3,814)
Agency MBS	416,995	(2,920)	606,021	(16,350)	135	1,023,016	(19,270)
Agency CMBS	54,182	(851)	533,844	(19,399)	36	588,026	(20,250)
CMBS	23,869	(74)	—	—	6	23,869	(74)
CLO	56,335	(134)	—	—	3	56,335	(134)
Single issuer-trust preferred	7,050	(46)	—	—	1	7,050	(46)
Corporate debt	11,082	(395)	6,265	(284)	4	17,347	(679)
Available-for-sale in an unrealized loss position	$650,514	$(4,869)	$1,265,234	$(39,398)	212	$1,915,748	$(44,267)
Held-to-maturity:							
Agency CMO	$98,090	$(1,082)	$106,775	$(3,742)	22	$204,865	$(4,824)
Agency MBS	762,107	(4,555)	1,197,839	(32,887)	205	1,959,946	(37,442)
Agency CMBS	576,770	(7,599)	109,785	(2,412)	56	686,555	(10,011)
Municipal bonds and notes	6,432	(38)	226,861	(6,520)	92	233,293	(6,558)
CMBS	92,670	(413)	14,115	(207)	13	106,785	(620)
Held-to-maturity in an unrealized loss position	$1,536,069	$(13,687)	$1,655,375	$(45,768)	388	$3,191,444	$(59,455)

Impairment Analysis

The following impairment analysis summarizes the basis for evaluating if investment securities within the Company’s available-for-sale and held-to-maturity portfolios have been impacted by OTTI since December 31, 2017. Unless otherwise noted for an investment security type, management does not intend to sell these investment securities and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these investment securities before the recovery of their amortized cost. As such, based on the following impairment analysis, the Company does not consider any of these investment securities, in unrealized loss positions, to be other-than-temporarily impaired at June 30, 2018.

Available-for-Sale Securities

Agency CMO. There were unrealized losses of $6.7 million on the Company’s investment in Agency CMO at June 30, 2018, compared to $3.8 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Agency MBS. There were unrealized losses of $46.2 million on the Company’s investment in residential mortgage-backed securities issued by government agencies at June 30, 2018, compared to $19.3 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances increased for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Agency CMBS. There were unrealized losses of $35.4 million on the Company's investment in commercial mortgage-backed securities issued by government agencies at June 30, 2018, compared to $20.3 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances increased for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

CMBS. There were unrealized losses of $318 thousand on the Company’s investment in CMBS at June 30, 2018, compared to $74 thousand at December 31, 2017. Unrealized losses and balances were essentially unchanged for the portfolio of mainly floating rate CMBS at June 30, 2018 compared to December 31, 2017. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. Contractual cash flows for the bonds continue to perform as expected.

CLO. There were unrealized losses of $169 thousand on the Company’s investments in CLO at June 30, 2018 compared to $134 thousand unrealized losses at December 31, 2017. Unrealized losses were essentially unchanged while principal balances decreased from December 31, 2017. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. Contractual cash flows for the bonds continue to perform as expected.

Corporate debt. There were unrealized losses of $903 thousand on the Company's corporate debt portfolio at June 30, 2018, compared to $679 thousand at December 31, 2017. Unrealized losses and balances were essentially unchanged since December 31, 2017. The Company performs periodic credit reviews of the issuer to assess the likelihood for ultimate recovery of amortized cost.

Held-to-Maturity Securities

Agency CMO. There were unrealized losses of $7.9 million on the Company’s investment in Agency CMO at June 30, 2018, compared to $4.8 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Agency MBS. There were unrealized losses of $90.4 million on the Company’s investment in residential mortgage-backed securities issued by government agencies at June 30, 2018, compared to $37.4 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances were essentially

unchanged for this asset class since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.
Agency CMBS. There were unrealized losses of $24.6 million on the Company’s investment in commercial mortgage-backed securities issued by government agencies at June 30, 2018, compared to $10.0 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased since December 31, 2017. These investments are issued by a government or government sponsored agency and therefore, are backed by certain government guarantees, either direct or implicit. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

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Municipal bonds and notes. There were unrealized losses of $16.9 million on the Company's investment in municipal bonds and notes at June 30, 2018, compared to $6.6 million at December 31, 2017. Unrealized losses increased due to higher market rates while principal balances decreased since December 31, 2017. The Company performs periodic credit reviews of the issuers and the securities are currently performing as expected.

CMBS. There were unrealized losses of $3.4 million on the Company's investment in CMBS at June 30, 2018, compared to $0.6 million unrealized losses at December 31, 2017. Unrealized losses increased due to higher market rates on mainly seasoned fixed rate conduit transactions while principal balances decreased since December 31, 2017. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. There has been no change in the credit quality, and the contractual cash flows are performing as expected.

Sales of Available-for Sale Investment Securities

There were no sales during the three and six months ended June 30, 2018 and 2017.

Contractual Maturities

The amortized cost and fair value of debt securities by contractual maturity are set forth below:

	At June 30, 2018			
	Available-for-Sale		Held-to-Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$23,192	$23,191	$17,891	$18,013
Due after one year through five years	34,000	34,083	3,628	3,656
Due after five through ten years	314,281	313,644	40,865	40,977
Due after ten years	2,495,582	2,409,663	4,293,835	4,163,337
Total debt securities	$2,867,055	$2,780,581	$4,356,219	$4,225,983

For the maturity schedule above, mortgage-backed securities and CLO, 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 as borrowers have the right to prepay obligations with or without prepayment penalties.

At June 30, 2018, the Company had a carrying value of $1.3 billion in callable investment securities in its CMBS, CLO, and municipal bond portfolios. The Company considers prepayment risk in the evaluation of its interest rate risk profile. These maturities may not reflect actual durations, which may be impacted by prepayments.

Investment securities with a carrying value totaling $2.4 billion at both June 30, 2018 and December 31, 2017 were pledged to secure public funds, trust deposits, repurchase agreements, and for other purposes, as required or permitted by law.

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Note 4: Loans and Leases

The following table summarizes loans and leases:

(In thousands)	At June 30, 2018	At December 31, 2017
Residential	$4,455,580	$4,490,878
Consumer	2,485,695	2,590,225
Commercial	5,981,556	5,368,694
Commercial Real Estate	4,580,200	4,523,828
Equipment Financing	522,965	550,233
Loans and leases [(1) (2)]	$18,025,996	$17,523,858

(1) *Loans and leases include net deferred fees and net premiums/discounts of $16.4 million and $20.6 million at June 30, 2018 and December 31, 2017, respectively.*

(2) *At June 30, 2018 the Company had pledged $6.5 billion of eligible residential, consumer, and commercial loans as collateral to support borrowing capacity at the Federal Home Loan Bank (FHLB) Boston and the Federal Reserve Bank (FRB) of Boston.*

Loans and Leases Aging

The following tables summarize the aging of loans and leases:

(In thousands)	At June 30, 2018						
	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$6,449	$ 4,449	$ —	$ 50,780	$ 61,678	$4,393,902	$4,455,580
Consumer:							
Home equity	8,286	3,022	—	36,849	48,157	2,208,522	2,256,679
Other consumer	1,860	1,215	—	1,583	4,658	224,358	229,016
Commercial:							
Commercial non-mortgage	3,410	1,790	62	36,687	41,949	4,979,771	5,021,720
Asset-based	—	—	—	1,160	1,160	958,676	959,836
Commercial real estate:							
Commercial real estate	720	—	—	9,609	10,329	4,411,603	4,421,932
Commercial construction	—	—	—	—	—	158,268	158,268
Equipment financing	1,991	331	—	3,510	5,832	517,133	522,965
Total	$22,716	$ 10,807	$ 62	$ 140,178	$ 173,763	$17,852,233	$18,025,996

(In thousands)	At December 31, 2017						
	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	90 or More Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential	$8,643	$ 5,146	$ —	$ 44,481	$ 58,270	$4,432,608	$4,490,878
Consumer:							
Home equity	12,668	5,770	—	35,645	54,083	2,298,185	2,352,268
Other consumer	2,556	1,444	—	1,707	5,707	232,250	237,957
Commercial:							
Commercial non-mortgage	5,212	603	644	39,214	45,673	4,488,242	4,533,915
Asset-based	—	—	—	589	589	834,190	834,779
Commercial real estate:							
Commercial real estate	478	77	248	4,484	5,287	4,238,987	4,244,274
Commercial construction	—	—	—	—	—	279,554	279,554
Equipment financing	1,732	626	—	393	2,751	547,482	550,233
Total	$31,289	$ 13,666	$ 892	$ 126,513	$ 172,360	$17,351,498	$17,523,858

Interest on non-accrual loans and leases that would have been recorded as additional interest income had the loans and leases been current in accordance with the original terms totaled $2.4 million and $2.6 million for the three months ended June 30, 2018 and 2017, respectively, and $4.3 million and $4.5 million for the six months ended June 30, 2018 and 2017, respectively.

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Allowance for Loan and Lease Losses

The following tables summarize the activity in, as well as the loan and lease balances that were evaluated for, the allowance for loan and lease losses (ALLL):

	At or for the three months ended June 30, 2018					
	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$18,777	$34,239	$95,573	$51,436	$5,324	$205,349
Provision charged to expense	659	813	4,490	4,428	110	10,500
Charge-offs	(754)	(4,907)	(5,632)	(40)	(65)	(11,398)
Recoveries	325	1,614	909	9	14	2,871
Balance, end of period	$19,007	$31,759	$95,340	$55,833	$5,383	$207,322

	At or for the three months ended June 30, 2017					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$20,264	$45,408	$76,354	$50,727	$6,354	$199,107
(Benefit) provision charged to expense	(1,621)	1,562	5,489	1,771	49	7,250
Charge-offs	(623)	(5,602)	(2,196)	(100)	(119)	(8,640)
Recoveries	407	1,120	317	4	13	1,861
Balance, end of period	$18,427	$42,488	$79,964	$52,402	$6,297	$199,578

	At or for the six months ended June 30, 2018					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$19,058	$36,190	$89,533	$49,407	$5,806	$199,994
Provision (benefit) charged to expense	909	2,493	11,910	6,532	(344)	21,500
Charge-offs	(1,671)	(9,981)	(7,129)	(117)	(110)	(19,008)
Recoveries	711	3,057	1,026	11	31	4,836
Balance, end of period	$19,007	$31,759	$95,340	$55,833	$5,383	$207,322
Individually evaluated for impairment	$4,330	$1,498	$6,007	$2,061	$18	$13,914
Collectively evaluated for impairment	$14,677	$30,261	$89,333	$53,772	$5,365	$193,408
Loan and lease balances:						
Individually evaluated for impairment	$109,636	$41,636	$87,071	$12,677	$6,185	$257,205
Collectively evaluated for impairment	4,345,944	2,444,059	5,894,485	4,567,523	516,780	17,768,791
Loans and leases	$4,455,580	$2,485,695	$5,981,556	$4,580,200	$522,965	$18,025,996

	At or for the six months ended June 30, 2017					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Total
ALLL:						
Balance, beginning of period	$23,226	$45,233	$71,905	$47,477	$6,479	$194,320
(Benefit) provision charged to expense	(4,088)	6,888	9,739	5,116	95	17,750
Charge-offs	(1,355)	(12,076)	(2,319)	(202)	(304)	(16,256)
Recoveries	644	2,443	639	11	27	3,764
Balance, end of period	$18,427	$42,488	$79,964	$52,402	$6,297	$199,578
Individually evaluated for impairment	$5,105	$1,829	$10,951	$324	$27	$18,236
Collectively evaluated for impairment	$13,322	$40,659	$69,013	$52,078	$6,270	$181,342
Loan and lease balances:						
Individually evaluated for impairment	$117,820	$47,310	$83,206	$18,677	$6,332	$273,345
Collectively evaluated for impairment	4,270,488	2,552,008	5,060,965	4,537,531	579,341	17,000,333

Loans and leases	$4,388,308	$2,599,318	$5,144,171	$4,556,208	$585,673	$17,273,678

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Impaired Loans and Leases

The following tables summarize impaired loans and leases:

	At June 30, 2018				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$ 120,019	$ 109,636	$ 68,854	$ 40,782	$ 4,330
Consumer - home equity	46,758	41,636	32,140	9,496	1,498
Commercial :					
Commercial non-mortgage	99,170	85,911	52,522	33,389	6,007
Asset-based	1,197	1,160	1,160	—	—
Commercial real estate:					
Commercial real estate	13,490	12,677	2,812	9,865	2,061
Commercial construction	—	—	—	—	—
Equipment financing	6,254	6,185	5,792	393	18
Total	$ 286,888	$ 257,205	$ 163,280	$ 93,925	$ 13,914

	At December 31, 2017				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential	$ 125,352	$ 114,295	$ 69,759	$ 44,536	$ 4,805
Consumer - home equity	50,809	45,436	34,418	11,018	1,668
Commercial :					
Commercial non-mortgage	79,900	71,882	27,313	44,569	9,786
Asset-based	3,272	589	589	—	—
Commercial real estate:					
Commercial real estate	11,994	11,226	6,387	4,839	272
Commercial construction	—	—	—	—	—
Equipment financing	3,409	3,325	2,932	393	23
Total	$ 274,736	$ 246,753	$ 141,398	$ 105,355	$ 16,554

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

	Three months ended June 30,						Six months ended June 30,					
	2018			2017			2018			2017		
(In thousands)	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income
Residential	$ 110,787	$ 948	$ 265	$ 119,398	$ 1,036	$ 286	$ 111,965	$ 1,929	$ 518	$ 118,622	$ 2,106	$ 701
Consumer - home equity	42,112	290	250	47,296	335	249	43,536	584	500	46,514	657	562
Commercial:												
Commercial non-mortgage	80,475	871	—	85,006	233	—	78,896	1,410	—	68,122	455	—
Asset based	1,347	—	—	—	—	—	875	—	—	—	—	—
Commercial real estate:												
Commercial real estate	11,802	38	—	20,454	98	—	11,951	134	—	20,851	233	—
Commercial construction	—	—	—	862	—	—	—	—	—	865	12	—
Equipment financing	6,320	35	—	6,240	67	—	4,755	71	—	6,376	138	—
Total	$ 252,843	$ 2,182	$ 515	$ 279,256	$ 1,769	$ 535	$ 251,978	$ 4,128	$ 1,018	$ 261,350	$ 3,601	$ 1,263

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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 default (PD) and the loss given default (LGD). The credit risk grade system assigns a rating to each borrower and to the facility, which together form a Composite Credit Risk Profile. The credit risk grade system categorizes borrowers by common financial characteristics that measure the credit strength of borrowers and facilities by common structural characteristics. The Composite Credit Risk Profile has ten grades, with each grade corresponding to a progressively greater risk of default. Grades (1) - (6) are considered pass ratings, and (7) - (10) are considered criticized, as defined by the regulatory agencies. Risk ratings, assigned to differentiate risk within the portfolio, are reviewed on an ongoing basis and revised to reflect changes in a borrower's current financial position and outlook, risk profile, and the related collateral and structural position. 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. Criticized loans undergo more frequent reviews and enhanced monitoring.

A (7) "Special Mention" credit has the potential weakness that, if left uncorrected, may result in deterioration of the repayment prospects for the asset. An (8) "Substandard" asset has a well defined weakness that jeopardizes the full repayment of the debt. An asset rated (9) "Doubtful" has all of the same weaknesses as a 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 (10) "Loss" in accordance with regulatory guidelines are considered uncollectible and charged off.

The following table summarizes commercial, commercial real estate and equipment financing loans and leases segregated by risk rating exposure:

	Commercial		**Commercial Real Estate**		**Equipment Financing**	
(In thousands)	**At June 30, 2018**	**At December 31, 2017**	**At June 30, 2018**	**At December 31, 2017**	**At June 30, 2018**	**At December 31, 2017**
(1) - (6) Pass	$5,574,419	$ 5,048,162	$4,422,144	$ 4,355,916	$497,193	$ 525,105
(7) Special Mention	172,017	104,594	48,683	62,065	6,490	8,022
(8) Substandard	226,275	206,883	109,373	105,847	19,282	17,106
(9) Doubtful	8,845	9,055	—	—	—	—
Total	$5,981,556	$ 5,368,694	$4,580,200	$ 4,523,828	$522,965	$ 550,233

For residential and consumer loans, the primary credit quality indicator that the Company considers is past due status. Other factors, such as, updated Fair Isaac Corporation (FICO) scores, employment status, collateral, geography, loans discharged in bankruptcy, and the status of first lien position loans on second lien position loans as credit quality indicators may also be evaluated. On an ongoing basis for portfolio monitoring purposes, the Company estimates the current value of property secured as collateral for 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 real estate price data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area.

Troubled Debt Restructurings

The following table summarizes information for troubled debt restructurings (TDRs):

(Dollars in thousands)	**At June 30, 2018**	**At December 31, 2017**
Accrual status	$150,459	$ 147,113
Non-accrual status	79,515	74,291
Total recorded investment of TDRs	$229,974	$ 221,404
Specific reserves for TDRs included in the balance of ALLL	$11,334	$ 12,384
Additional funds committed to borrowers in TDR status	7,206	2,736

For the portion of TDRs deemed to be uncollectible, Webster charged off $4.5 million and $0.6 million for the three months ended June 30, 2018 and 2017, respectively, and $5.2 million, and $2.6 million for the six months ended June

30, 2018 and 2017, respectively.

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The following table provides information on the type of concession for loans and leases modified as TDRs:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
(Dollars in thousands)	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]	Number of Loans and Leases	Post-Modification Recorded Investment[(1)]
Residential								
Extended Maturity	—	$ —	4	$ 420	—	$ —	9	$ 1,390
Adjusted Interest Rate	—	—	2	335	—	—	2	335
Maturity/Rate Combined	3	276	2	354	3	276	5	846
Other [(2)]	8	1,685	7	1,176	13	2,442	26	4,114
Consumer - home equity								
Extended Maturity	—	—	4	625	2	193	6	664
Adjusted Interest Rate	—	—	—	—	—	—	—	—
Maturity/Rate Combined	1	335	4	830	3	448	11	2,813
Other [(2)]	14	915	10	701	25	1,693	43	2,894
Commercial non - mortgage								
Extended Maturity	—	—	6	778	3	85	8	813
Adjusted Interest Rate	—	—	—	—	—	—	—	—
Maturity/Rate Combined	2	51	5	8,854	2	51	5	8,854
Other [(2)]	7	24,059	—	—	9	28,743	1	4
Commercial real estate								
Extended Maturity	1	52	—	—	2	97	—	—
Maturity/Rate Combined	1	245	—	—	1	245	—	—
Other [(2)]	1	5,111	—	—	1	5,111	—	—
Equipment Financing								
Extended Maturity	—	—	—	—	—	—	—	—
Total TDRs	38	$ 32,729	44	$ 14,073	64	$ 39,384	116	$ 22,727

(1) *Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of the restructurings was not significant.*
(2) *Other includes covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, or other concessions.*

There were no significant amounts of loans and leases modified as TDRs within the previous 12 months and for which there was a payment default during the three and six months ended June 30, 2018 or 2017.

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

(In thousands)	At June 30, 2018	At December 31, 2017
(1) - (6) Pass	$ 3,886	$ 8,268
(7) Special Mention	14,109	355
(8) Substandard	60,706	53,050
(9) Doubtful	—	—
Total	$ 78,701	$ 61,673

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Note 5: Transfers of Financial Assets

The Company sells financial assets in the normal course of business, primarily residential mortgage loans sold to government-sponsored enterprises through established programs and securitizations. Gains and losses from initial measurement and subsequent changes in fair value are recognized in earnings. The gain or loss on residential mortgage loans sold and the related origination fee income, as well as fair value adjustments to loans held-for-sale are included as mortgage banking activities in the accompanying Condensed Consolidated Statements of Income.

The Company may be required to repurchase a loan in the event of certain breaches of the representations and warranties, or in the event of default of the borrower within 90 days of sale, as provided for in the sale agreements. A reserve for loan repurchases provides for estimated losses pertaining to the potential repurchase of loans associated with the Company's mortgage banking activities. The reserve reflects management's evaluation of the identity of the counterparty, the vintage of the loans sold, the amount of open repurchase requests, specific loss estimates for each open request, the current level of loan losses in similar vintages held in the residential loan portfolio, and estimated recoveries on the underlying collateral. The reserve also reflects management's expectation of losses from repurchase requests for which the Company has not yet been notified, as the performance of loans sold and the quality of the servicing provided by the acquirer also may impact the reserve. The provision recorded at the time of the loan sale is netted from the gain or loss recorded in 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 following table provides a summary of activity in the reserve for loan repurchases:

	Three months ended June 30,		**Six months ended June 30,**	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Beginning balance	$664	$824	$872	$790
Provision (benefit) charged to expense	13	19	(190)	53
Repurchased loans and settlements charged off	(3)	—	(8)	—
Ending balance	$674	$843	$674	$843

The following table provides information for mortgage banking activities:

	Three months ended June 30,		**Six months ended June 30,**	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Residential mortgage loans held for sale:				
Proceeds from sale	$45,257	$66,718	$90,063	$173,338
Loans sold with servicing rights retained	39,822	60,167	79,726	159,667
Net gain on sale	598	2,126	1,681	2,377
Ancillary fees	402	641	812	1,409
Fair value option adjustment	235	584	(114)	1,831

The Company has retained servicing rights on residential mortgage loans totaling $2.5 billion at June 30, 2018 and $2.6 billion at December 31, 2017.

The following table presents the changes in carrying value for mortgage servicing assets:

	Three months ended June 30,		**Six months ended June 30,**	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Beginning balance	$24,403	$24,336	$25,139	$24,466
Additions	1,038	2,478	2,450	4,487
Amortization	(2,100)	(2,106)	(4,248)	(4,245)
Ending balance	$23,341	$24,708	$23,341	$24,708

Loan servicing fees, net of mortgage servicing rights amortization, were $0.3 million and $0.2 million for the three months ended June 30, 2018 and 2017, respectively, and $0.6 million and $0.4 million for the six months ended June 30, 2018 and 2017, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.

See Note 13: Fair Value Measurements for additional fair value information on loans held for sale and mortgage servicing assets.

Additionally, loans not originated for sale were sold approximately at carrying value, for cash proceeds of $34 thousand for certain commercial loans and $7.4 million for certain residential loans for the six months ended June 30, 2018 and 2017, respectively.

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Note 6: Goodwill and Other Intangible Assets

Goodwill and other intangible assets by reportable segment consisted of the following:

(In thousands)	At June 30, 2018			At December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill:						
Community Banking			$ 516,560			$ 516,560
HSA Bank			21,813			21,813
Total goodwill			$ 538,373			$ 538,373
Other intangible assets:						
HSA Bank - Core deposits	$ 22,000	$ (9,725)	$ 12,275	$ 22,000	$ (8,610)	$ 13,390
HSA Bank - Customer relationships	21,000	(5,587)	15,413	21,000	(4,779)	16,221
Total other intangible assets	$ 43,000	$ (15,312)	$ 27,688	$ 43,000	$ (13,389)	$ 29,611

As of June 30, 2018, the remaining estimated aggregate future amortization expense for intangible assets is as follows:

(In thousands)	
Remainder of 2018	$ 1,924
2019	3,847
2020	3,847
2021	3,847
2022	3,847
Thereafter	10,376

Note 7: Deposits

A summary of deposits by type follows:

(In thousands)	At June 30, 2018	At December 31, 2017
Non-interest-bearing:		
Demand	$ 4,151,259	$ 4,191,496
Interest-bearing:		
Health savings accounts	5,517,929	5,038,681
Checking	2,637,346	2,736,952
Money market	2,016,453	2,209,492
Savings	4,180,666	4,348,700
Time deposits	2,839,703	2,468,408
Total interest-bearing	17,192,097	16,802,233
Total deposits	$ 21,343,356	$ 20,993,729
Time deposits and interest-bearing checking, included in above balances, obtained through brokers	$ 936,830	$ 898,157
Time deposits, included in above balance, that meet or exceed the FDIC limit	888,419	561,512
Deposit overdrafts reclassified as loan balances	3,587	2,210

The scheduled maturities of time deposits are as follows:

(In thousands)	At June 30, 2018
Remainder of 2018	$ 1,016,354
2019	1,313,184
2020	314,856
2021	122,427

2022	47,641
Thereafter	25,241
Total time deposits	$2,839,703

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Note 8: Borrowings

Total borrowings of $2.7 billion at June 30, 2018 and $2.5 billion at December 31, 2017 are described in detail below.

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

	At June 30, 2018		At December 31, 2017	
(In thousands)	Amount	Rate	Amount	Rate
Securities sold under agreements to repurchase [1]:				
Original maturity of one year or less	$257,568	0.25%	$288,269	0.17%
Original maturity of greater than one year, non-callable	300,000	3.10	300,000	3.10
Total securities sold under agreements to repurchase	557,568	1.78	588,269	1.66
Fed funds purchased	305,000	1.99	55,000	1.37
Securities sold under agreements to repurchase and other borrowings	$862,568	1.86	$643,269	1.64

(1) *The Company has right of offset with respect to all repurchase agreement assets and liabilities. However, securities sold under agreements to repurchase represents the gross amount for these transactions, as only liabilities are outstanding for the periods presented.*

Repurchase agreements are used as a source of borrowed funds and are collateralized by U.S. Government agency mortgage-backed securities. Repurchase agreement counterparties are limited to primary dealers in government securities and commercial or municipal customers through Webster's Treasury Unit.

The following table provides information for FHLB advances:

	At June 30, 2018		At December 31, 2017	
(Dollars in thousands)	Amount	Weighted-Average Contractual Coupon Rate	Amount	Weighted-Average Contractual Coupon Rate
Maturing within 1 year	$1,075,000	1.99%	$1,150,000	1.48%
After 1 but within 2 years	153,026	1.78	103,026	1.81
After 2 but within 3 years	190,000	1.71	215,000	1.73
After 3 but within 4 years	150,000	3.24	200,000	2.06 [1]
After 4 but within 5 years	160	—	170	—
After 5 years	8,770	2.65	8,909	2.65 [1]
FHLB advances and overall rate	$1,576,956	2.06	$1,677,105	1.61 [1]
Aggregate carrying value of assets pledged as collateral	$6,216,042		$6,402,066	
Remaining borrowing capacity	2,610,327		2,600,624	

(1) *Weighted-average contractual coupon rates for December 31, 2017 are presented as revised for these classifications to correct an immaterial error in presentation. The percentages reported in the Company's 2017 Annual Report on Form 10-K were: After 3 but within 4 years - 4.13%; After 5 years - 1.96%; and overall rate - 1.85%.*

Webster Bank is in compliance with FHLB collateral requirements for the periods presented. Eligible collateral, primarily certain residential and commercial real estate loans, has been pledged to secure FHLB advances.

The following table summarizes long-term debt:

(Dollars in thousands)	At June 30, 2018	At December 31, 2017
4.375% Senior fixed-rate notes due February 15, 2024	$150,000	$ 150,000
Junior subordinated debt Webster Statutory Trust I floating-rate notes due September 17, 2033 [1]	77,320	77,320
Total notes and subordinated debt	227,320	227,320
Discount on senior fixed-rate notes	(667)	(727)
Debt issuance cost on senior fixed-rate notes	(759)	(826)
Long-term debt	$225,894	$ 225,767

(1) *The interest rate on Webster Statutory Trust I floating-rate notes, which varies quarterly based on 3-month London Interbank Offered Rate plus 2.95%, was 5.28% at June 30, 2018 and 4.55% at December 31, 2017.*

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Note 9: Accumulated Other Comprehensive Loss, Net of Tax

The following tables summarize the changes in accumulated other comprehensive loss, net of tax (AOCL) by component:

	Three months ended June 30, 2018				Six months ended June 30, 2018			
(In thousands)	Securities Available For Sale	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total	Securities Available For Sale	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$(55,371)	$(12,494)	$(47,614)	$(115,479)	$(27,947)	$(15,016)	$(48,568)	$(91,531)
(OCL) OCI before reclassifications	(9,246)	294	—	(8,952)	(36,670)	1,423	—	(35,247)
Amounts reclassified from AOCL	—	1,386	1,109	2,495	—	2,779	2,063	4,842
Net current-period OCI/(OCL)	(9,246)	1,680	1,109	(6,457)	(36,670)	4,202	2,063	(30,405)
Ending balance	$(64,617)	$(10,814)	$(46,505)	$(121,936)	$(64,617)	$(10,814)	$(46,505)	$(121,936)

	Three months ended June 30, 2017				Six months ended June 30, 2017			
(In thousands)	Securities Available For Sale	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total	Securities Available For Sale	Derivative Instruments	Defined Benefit Pension and Other Postretirement Benefit Plans	Total
Beginning balance	$(17,701)	$(15,909)	$(43,417)	$(77,027)	$(15,476)	$(17,068)	$(44,449)	$(76,993)
OCI/(OCL) before reclassifications	3,200	(472)	—	2,728	975	(411)	—	564
Amounts reclassified from AOCL	—	1,123	1,094	2,217	—	2,221	2,126	4,347
Net current-period OCI	3,200	651	1,094	4,945	975	1,810	2,126	4,911
Ending balance	$(14,501)	$(15,258)	$(42,323)	$(72,082)	$(14,501)	$(15,258)	$(42,323)	$(72,082)

The following tables provide information for the items reclassified from AOCL:

(In thousands)	Three months ended June 30,		Six months ended June 30,		Associated Line Item in the Condensed Consolidated Statements of Income
AOCL Components	**2018**	**2017**	**2018**	**2017**	
Derivative instruments:					
Cash flow hedges	$(1,861)	$(1,771)	$(3,732)	$(3,506)	Total interest expense
Tax benefit	475	648	953	1,285	Income tax expense
Net of tax	$(1,386)	$(1,123)	$(2,779)	$(2,221)	
Defined benefit pension and other postretirement benefit plans:					
Amortization of net loss	$(1,493)	$(1,734)	$(2,778)	$(3,372)	(1)
Tax benefit	384	640	715	1,246	Income tax expense
Net of tax	$(1,109)	$(1,094)	$(2,063)	$(2,126)	

(1) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost, see Note 14 - Retirement Benefit Plans for further details.

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Note 10: Regulatory Matters

Capital Requirements

Webster Financial Corporation is subject to regulatory capital requirements administered by the Federal Reserve System, 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 Financial Corporation or Webster Bank fail to meet minimum capital requirements, which could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both Webster Financial Corporation and Webster Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. These quantitative measures require minimum amounts and ratios to ensure capital adequacy.
Basel III total risk-based capital is comprised of three categories: CET1 capital, additional Tier 1 capital, and Tier 2 capital. CET1 capital includes common shareholders' equity, less deductions for goodwill, other intangibles, and certain deferred tax adjustments. Common shareholders' equity, for purposes of CET1 capital, excludes AOCL components as permitted by the opt-out election taken by Webster upon adoption of Basel III. Tier 1 capital is comprised of CET1 capital plus perpetual preferred stock, while Tier 2 capital includes qualifying subordinated debt and qualifying allowance for credit losses, that together equal total capital.
The following table provides information on the capital ratios for Webster Financial Corporation and Webster Bank:

	At June 30, 2018					
	Actual		**Minimum Requirement**		**Well Capitalized**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Webster Financial Corporation						
CET1 risk-based capital	$2,148,786	10.99%	$879,461	4.5%	$1,270,333	6.5 %
Total risk-based capital	2,581,061	13.21	1,563,486	8.0	1,954,358	10.0
Tier 1 risk-based capital	2,293,823	11.74	1,172,615	6.0	1,563,486	8.0
Tier 1 leverage capital	2,293,823	8.70	1,054,648	4.0	1,318,310	5.0
Webster Bank						
CET1 risk-based capital	$2,100,537	10.76%	$878,786	4.5%	$1,269,357	6.5 %
Total risk-based capital	2,310,455	11.83	1,562,285	8.0	1,952,857	10.0
Tier 1 risk-based capital	2,100,537	10.76	1,171,714	6.0	1,562,285	8.0
Tier 1 leverage capital	2,100,537	7.97	1,054,035	4.0	1,317,543	5.0

	At December 31, 2017					
	Actual		**Minimum Requirement**		**Well Capitalized**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Webster Financial Corporation						
CET1 risk-based capital	$2,093,116	11.14%	$845,389	4.5%	$1,221,118	6.5 %
Total risk-based capital	2,517,848	13.40	1,502,914	8.0	1,878,643	10.0
Tier 1 risk-based capital	2,238,172	11.91	1,127,186	6.0	1,502,914	8.0
Tier 1 leverage capital	2,238,172	8.63	1,036,817	4.0	1,296,021	5.0
Webster Bank						
CET1 risk-based capital	$2,114,224	11.26%	$844,693	4.5%	$1,220,113	6.5 %
Total risk-based capital	2,316,580	12.34	1,501,677	8.0	1,877,097	10.0
Tier 1 risk-based capital	2,114,224	11.26	1,126,258	6.0	1,501,677	8.0
Tier 1 leverage capital	2,114,224	8.14	1,038,442	4.0	1,298,052	5.0

Dividend Restrictions

Webster Financial Corporation is dependent upon dividends from Webster Bank to provide funds for its cash requirements, including payments 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 income for that year combined with the undistributed net income for the preceding two years. In addition, the Office of the Comptroller of the Currency (OCC) has discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds. Dividends paid by Webster Bank to Webster Financial Corporation totaled $150 million during the six months ended June 30, 2018 compared to $30 million during the six months ended June 30, 2017.

Cash Restrictions

Webster Bank is required by Federal Reserve System regulations to hold cash reserve balances on hand or with the Federal Reserve Bank. Pursuant to this requirement, Webster Bank held $89.0 million and $82.3 million at June 30, 2018 and December 31, 2017, respectively.

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Note 11: Earnings Per Common Share

Reconciliation of the calculation of basic and diluted earnings per common share follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2018**	**2017**	**2018**	**2017**
Earnings for basic and diluted earnings per common share:				
Net income	$81,682	$61,579	$161,907	$121,050
Less: Preferred stock dividends	1,969	2,024	3,916	4,048
Net income available to common shareholders	79,713	59,555	157,991	117,002
Less: Earnings applicable to participating securities	224	70	418	176
Earnings applicable to common shareholders	$79,489	$59,485	$157,573	$116,826
Shares:				
Weighted-average common shares outstanding - basic	91,893	92,092	91,913	91,989
Effect of dilutive securities:				
Stock options and restricted stock	274	397	317	475
Warrants	6	6	6	6
Weighted-average common shares outstanding - diluted	92,173	92,495	92,236	92,470
Earnings per common share:				
Basic	$0.87	$0.65	$1.71	$1.27
Diluted	0.86	0.64	1.71	1.26

Potential common shares from non-participating restricted stock, of $53 thousand and $79 thousand for the three months ended June 30, 2018 and 2017, respectively, and $61 thousand and $60 thousand for the six months ended June 30, 2018 and 2017, respectively, are excluded from the effect of dilutive securities because, due to performance conditions, they would have been anti-dilutive.

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Note 12: Derivative Financial Instruments

Risk Management Objective of Using Derivatives

Webster manages economic risks, such as interest rate, liquidity, and credit risks by managing the amount, sources, and duration of its debt funding in conjunction with the use of interest rate derivative financial instruments. Webster enters into interest rate derivatives to mitigate the exposure related to business activities that result in the future receipt or payment of, both known and uncertain, cash amounts that are impacted by interest rates. The primary objective for using interest rate derivatives is to add stability to interest expense by managing exposure to interest rate movements. To accomplish this objective, Webster uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy.

Interest rate swaps and interest rate caps designated as cash flow hedges are designed to manage the risk associated with a forecasted event or an uncertain variable-rate cash flow. Forward-settle interest rate swaps 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. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for payment of an up-front premium.

Cash flow hedges are used to regulate the variable cash flows associated with existing variable-rate debt and forecasted issuances of debt. Derivative instruments designated as cash flow hedges are recorded on the balance sheet at fair value. The effective portion of the change in fair value of the derivatives which are designated as cash flow hedges, and that qualify for hedge accounting, is recorded to AOCL and is reclassified into earnings in the subsequent periods that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of these derivatives, attributable to the difference in the effective date of the hedge and the effective date of the debt issuance, is recognized directly in earnings. During the periods presented, there was no ineffectiveness to be recognized in earnings.

Certain fixed-rate obligations can be exposed to a change in fair value attributable to changes in benchmark interest rates. On occasion, interest rate swaps will be used to manage this exposure. An interest rate swap which involves the receipt of fixed-rate amounts from a counterparty in exchange for Webster making variable-rate payments over the life of the agreement, without the exchange of the underlying notional amount, is designated as a fair value hedge. For a qualifying derivative designated as a fair value hedge, the gain or loss on the derivative, as well as the gain or loss on the hedged item, is recognized in interest expense. During the periods presented, Webster did not have any interest rate derivative financial instruments designated as fair value hedges and as a result, there was no impact to interest expense.

Additionally, in order to address certain other risk management matters, the Company also utilizes derivative instruments that do not qualify for hedge accounting. These derivative instruments, which are recorded on the balance sheet at fair value, with changes in fair value recognized each period as other non-interest income in the accompanying Condensed Consolidated Statements of Income, are described in the following paragraphs.

Interest rate swap and cap contracts are sold to commercial and other customers who wish to modify loan interest rate sensitivity. These contracts are offset with dealer counterparty transactions structured with matching terms, which results in minimal impact on earnings, except for fee income earned in such transactions. All contracts eligible for clearing are cleared through Chicago Mercantile Exchange (CME). In accordance with its amended rulebook, CME legally characterizes variation margin payments made to and received from CME as settlement of derivatives rather than as collateral against derivatives.

Risk participation agreements (RPAs) are entered into as financial guarantees of performance on interest rate swap derivatives. The purchased (asset) or sold (liability) guarantee allows the Company to participate-in (fee received) or participate-out (fee paid) the risk associated with certain derivative positions executed with the borrower by the lead bank in a loan syndication.

Other derivatives include foreign currency forward contracts related to lending arrangements and customer hedging activity, a VISA equity swap transaction, and mortgage banking derivatives such as mortgage-backed securities

related to residential loan commitments and loans held for sale. Mortgage banking derivatives are utilized by Webster in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain single-family residential mortgage loans interest rate lock commitments are generally extended to the borrowers. During the period from commitment date to closing date, Webster is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans causing a reduction in the anticipated gain on sale of the loans, or possibly resulting in a loss. In an effort to mitigate such risk, forward delivery sales commitments are established under which Webster agrees to deliver whole mortgage loans to various investors or issue mortgage-backed securities. Mandatory forward commitments establish the price to be received upon the sale of the related mortgage loan, thereby mitigating certain interest rate risk. There is, however, still certain execution risk specifically related to Webster's ability to close and deliver to its investors the mortgage loans it has committed to sell.

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Balance Sheet Impact of Derivative Instruments

The following table presents the notional amounts and fair value of derivative positions:

	At June 30, 2018				At December 31, 2017			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
(In thousands)	Notional Amounts	Fair Value	Notional Amounts	Fair Value	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Designated as cash flow hedging instruments:								
Positions subject to a master netting agreement [1]								
Interest rate derivatives [2]	$325,000	$4,685	$—	$—	$325,000	$2,770	$—	$—
Not designated as hedging instruments:								
Positions subject to a master netting agreement [1]								
Interest rate derivatives [2]	3,523,220	12,286	198,836	321	2,791,760	5,977	721,048	1,968
Mortgage banking derivatives [3]	41,718	441	32,053	199	28,497	421	39,230	110
Other	29,571	629	38,224	485	7,914	258	30,328	419
Positions not subject to a master netting agreement [4]								
Interest rate derivatives	666,149	6,987	3,055,950	71,057	1,366,299	23,009	2,146,518	25,631
RPAs	85,164	26	95,340	58	93,713	80	116,882	111
Other	8,615	240	422	17	—	—	2,073	184
Total not designated as hedging instruments	4,354,437	20,609	3,420,825	72,137	4,288,183	29,745	3,056,079	28,423
Gross derivative instruments, before netting	$4,679,437	25,294	$3,420,825	72,137	$4,613,183	32,515	$3,056,079	28,423
Less: Legally enforceable master netting agreements		729		729		2,245		2,245
Less: Cash collateral posted		16,791		—		6,704		—
Total derivative instruments, after netting		$7,774		$71,408		$23,566		$26,178

(1) *The Company has elected to report derivative positions subject to a legally enforceable master netting agreement on a net basis, net of cash collateral. Refer to the Offsetting Derivatives section of this footnote for additional information.*

(2) *Balances related to CME are presented as a single unit of account. Notional amounts of interest rate swaps cleared through CME include; $2.5 billion and $1.9 billion for asset derivatives and $171 million and $595 million for liability derivatives at June 30, 2018 and December 31, 2017, respectively, with related fair values of approximately zero.*

(3) *Notional amounts include mandatory forward commitments of $41.0 million, while notional amounts do not include approved floating rate commitments of $14.9 million, at June 30, 2018.*

(4) *Fair value of assets are included in accrued interest receivable and other assets, while, fair value of liabilities are included in accrued expenses and other liabilities, in the accompanying Condensed Consolidated Balance Sheets.*

Income Statement Impact of Derivative Instruments

The following table presents the effect on the income statement from derivative positions:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Designated as cash flow hedging instruments:				
Interest rate derivatives [1]	$1,668	$1,986	$3,491	$4,025
Not designated as hedging instruments:				
Interest rate derivatives [2]	$1,958	$1,361	$5,749	$2,895
RPAs	85	53	95	106
Mortgage banking derivatives	(134)	374	(69)	(1,667)
Other [2]	1,939	(545)	1,339	(992)
Total not designated as hedging instruments [2] [3]	$3,848	$1,243	$7,114	$342

(1) *The impact from interest rate derivatives designated as hedging instruments is included in interest expense on borrowings in the accompanying Condensed Consolidated Statements of Income.*

(2) *Amounts for 2017 are presented as revised to include impact on accrued interest for net customer swap arrangements.*

(3) *The impact from the total not designated as hedging instruments is included in other non-interest income in the accompanying Condensed Consolidated Statements of Income.*

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Amounts for the effective portion of changes in the fair value of derivatives qualifying for hedge accounting treatment are reclassified to interest expense as interest payments are made on Webster's variable-rate debt. Over the next twelve months, the Company estimates that $109 thousand will be reclassified from AOCL as an increase to interest income. Webster records gains and losses related to hedge terminations to AOCL. These balances are subsequently amortized into interest expense over the respective terms of the hedged debt instruments. At June 30, 2018, the remaining unamortized loss on the termination of cash flow hedges is $11.7 million. Over the next twelve months, the Company estimates that $5.0 million will be reclassified from AOCL as an increase to interest expense.
Additional information about cash flow hedge activity impacting AOCL, and the related amounts reclassified to interest expense is provided in Note 9: Accumulated Other Comprehensive Loss, Net of Tax. Information about the valuation methods used to measure the fair value of derivatives is provided in Note 13: Fair Value Measurements.

Offsetting Derivatives

Derivatives subject to a legally enforceable master netting agreement are reported on a net basis, net of cash collateral. Net gain positions are recorded as assets and are included in accrued interest receivable and other assets, while, net loss positions are recorded as liabilities and are included in accrued expenses and other liabilities, in the accompanying Condensed Consolidated Balance Sheets.
The following table presents the transition from a gross basis to net basis, due to the application of counterparty netting agreements:

	At June 30, 2018				**At December 31, 2017**			
(In thousands)	**Gross Amount**	**Relationship Offset**	**Cash Collateral Offset**	**Net Amount**	**Gross Amount**	**Relationship Offset**	**Cash Collateral Offset**	**Net Amount**
Derivative instrument gains:								
Hedge accounting	$4,685	$ —	$ 4,685	$ —	$2,770	$ 91	$ 2,679	$ —
Non-hedge accounting	12,915	729	12,106	80	6,222	2,154	4,025	43
Total assets	$17,600	$ 729	$ 16,791	$ 80	$8,992	$ 2,245	$ 6,704	$ 43
Derivative instrument losses:								
Hedge accounting	$—	$ —	$ —	$ —	$—	$ —	$ —	$ —
Non-hedge accounting	806	729	—	77	2,387	2,245	—	142
Total liabilities	$806	$ 729	$ —	$ 77	$2,387	$ 2,245	$ —	$ 142

Counterparty Credit Risk

Use of derivative contracts may expose Webster Bank to counterparty credit risk. The Company has International Swaps and Derivatives Association Master Agreements, including a Credit Support Annex, with all derivative counterparties.
In accordance with counterparty credit agreements and derivative clearing rules, the Company had approximately $66.6 million in net margin collateral received from financial counterparties at June 30, 2018, comprised of $34.5 million in initial margin posted and $101.1 million in variation margin collateral received from financial counterparties or the derivative clearing organization. Collateral levels for approved financial institution counterparties are monitored daily and adjusted as necessary. In the event of default, should the collateral not be returned, the exposure would be offset by terminating the transaction.
The Company regularly evaluates the credit risk of its counterparties, taking into account the likelihood of default, net exposures, and remaining contractual life, among other related factors. Credit risk exposure is mitigated as transactions with customers are generally secured by the same collateral of the underlying transactions being hedged. The Company's net current credit exposure relating to interest rate derivatives with Webster Bank customers was $7.0 million at June 30, 2018. In addition, the Company monitors potential future exposure, representing its best estimate of exposure to remaining contractual maturity. The potential future exposure relating to interest rate derivatives with Webster Bank customers totaled $30.2 million at June 30, 2018.

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Note 13: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using quoted market prices. However, in many instances, quoted market prices are not available. In such instances, fair values are determined using appropriate valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. Accordingly, categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As such, the fair value estimates may not be realized in an immediate transfer of the respective asset or liability.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings or any part of a particular financial instrument. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These factors are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair Value Hierarchy

The three levels within the fair value hierarchy are as follows:

- *Level 1:* Valuation is based upon unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2:* Fair value is calculated using significant inputs other than quoted market prices that are directly or indirectly observable for the asset or liability. The valuation may rely on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit ratings, etc.), or inputs that are derived principally or corroborated by market data, by correlation, or other means.
- *Level 3:* Inputs for determining the fair value of the respective assets or liabilities are not observable. Level 3 valuations are reliant upon pricing models and techniques that require significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Available-for-Sale Investment Securities. When quoted prices are available in an active market, the Company classifies investment securities within Level 1 of the valuation hierarchy. U.S. Treasury Bills are classified within Level 1 of the fair value hierarchy.

When quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayments speeds, credit information, and respective terms and conditions for debt instruments. Management maintains procedures to monitor the pricing service's results and establishes processes to challenge their valuations, or methodology, that appear unusual or unexpected. Available-for-Sale investment securities which include Agency CMO, Agency MBS, Agency CMBS, CMBS, CLO, and corporate debt, are classified within Level 2 of the fair value hierarchy.

Derivative Instruments. Foreign exchange contracts are valued based on unadjusted quoted prices in active markets and classified within Level 1 of the fair value hierarchy.

All other derivative instruments are valued using third-party valuation software, which considers the present value of cash flows discounted using observable forward rate assumptions. The resulting fair values are validated against valuations performed by independent third parties and are classified within Level 2 of the fair value hierarchy. In determining if any fair value adjustment related to credit risk is required, Webster evaluates the credit risk of its counterparties by considering factors such as the likelihood of default by the counterparties, its net exposures, the remaining contractual life, as well as the amount of collateral securing the position. Webster reviews its counterparty exposure on a regular basis, and, when necessary, appropriate business actions are taken to mitigate the exposure. When determining fair value, Webster applies the portfolio exception with respect to measuring counterparty credit

risk for all of its derivative transactions subject to a master netting arrangement. The CME rulebook legally characterizes variation margin payments for over-the-counter derivatives as settlements rather than collateral, which impacts Webster's counterparty relationship with CME, resulting in the fair value of the instrument including cash collateral to be represented as a single unit of account.

The change in value of derivative assets and liabilities attributable to credit risk was not significant during the reported periods.

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Mortgage Banking Derivatives. Forward sales of mortgage loans and mortgage-backed securities are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain single-family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are established, under which the Company agrees to deliver whole mortgage loans to various investors or into issuances of mortgage-backed securities. The fair value of mortgage banking derivatives is determined based on current market prices for similar assets in the secondary market and, therefore, classified within Level 2 of the fair value hierarchy.
Originated Loans Held For Sale. Residential mortgage loans typically are classified as held for sale upon origination based on management's intent to sell such loans. The Company has elected to measure originated loans held for sale under the fair value option of Accounting Standards Codification (*ASC) Topic 825 "Financial Instruments,"* on a loan-by-loan basis. The fair value of residential mortgage loans held for sale is based on quoted market prices of similar loans sold in conjunction with securitization transactions. Accordingly, these loans are classified within Level 2 of the fair value hierarchy.
The following table presents the fair value, unpaid principal balance, and accrual status, of assets accounted for under the fair value option:

	At June 30, 2018			**At December 31, 2017**		
(In thousands)	**Fair Value**	**Unpaid Principal Balance**	**Difference**	**Fair Value**	**Unpaid Principal Balance**	**Difference**
Originated loans held for sale	$ 18,645	$ 18,234	$ 411	$ 20,888	$ 20,346	$ 542

Electing to measure originated loans held for sale at fair value reduces certain timing differences and better matches changes in the value of these assets with changes in the value of the derivatives used as an economic hedge on these assets.
Investments Held in Rabbi Trust. Investments held in the Rabbi Trust primarily include mutual funds that invest in equity and fixed income securities. Shares of mutual funds are valued based on net asset value, which represents quoted market prices for the underlying shares held in the mutual funds. Therefore, investments held in the Rabbi Trust are classified within Level 1 of the fair value hierarchy. Webster has elected to measure the investments held in the Rabbi Trust at fair value. The cost basis of the investments held in the Rabbi Trust is $2.0 million at June 30, 2018.
Alternative Investments. Equity investments have a readily determinable fair value when quoted prices are available in an active market. The Company classifies alternative investments with a readily determinable fair value within Level 1 of the fair value hierarchy. Equity investments that do not have a readily available fair value may qualify for net asset value (NAV) measurement based on specific requirements. The Company's alternative investments accounted for at NAV consist of investments in non-public entities that generally cannot be redeemed since the Company's investments are distributed as the underlying equity is liquidated. Alternative investments recorded at NAV are not classified within the fair value hierarchy. At June 30, 2018, these alternative investments had a remaining unfunded commitment of $0.3 million.

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Summaries of the fair values of assets and liabilities measured at fair value on a recurring basis are as follows:

	At June 30, 2018				
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total**
Financial assets held at fair value:					
U.S. Treasury Bills	$2,491	$—	$ —	$ —	$2,491
Agency CMO	—	265,253	—	—	265,253
Agency MBS	—	1,311,841	—	—	1,311,841
Agency CMBS	—	582,676	—	—	582,676
CMBS	—	374,556	—	—	374,556
CLO	—	188,066	—	—	188,066
Single issuer-trust preferred	—	—	—	—	—
Corporate debt	—	55,698	—	—	55,698
Total available-for-sale investment securities	2,491	2,778,090	—	—	2,780,581
Gross derivative instruments, before netting [(1)]	869	24,425	—	—	25,294
Originated loans held for sale	—	18,645	—	—	18,645
Investments held in Rabbi Trust	4,726	—	—	—	4,726
Alternative investments	2,439	—	—	1,895	4,334
Total financial assets held at fair value	$10,525	$2,821,160	$ —	$1,895	$2,833,580
Financial liabilities held at fair value:					
Gross derivative instruments, before netting [(1)]	$485	$71,652	$ —	$ —	$72,137

	At December 31, 2017				
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total**
Financial assets held at fair value:					
U.S. Treasury Bills	$1,247	$—	$ —	$ —	$1,247
Agency CMO	—	306,333	—	—	306,333
Agency MBS	—	1,107,841	—	—	1,107,841
Agency CMBS	—	588,026	—	—	588,026
CMBS	—	361,067	—	—	361,067
CLO	—	209,851	—	—	209,851
Single issuer-trust preferred	—	7,050	—	—	7,050
Corporate debt	—	56,622	—	—	56,622
Total available-for-sale investment securities	1,247	2,636,790	—	—	2,638,037
Gross derivative instruments, before netting [(1)]	258	32,257	—	—	32,515
Originated loans held for sale	—	20,888	—	—	20,888
Investments held in Rabbi Trust	4,801	—	—	—	4,801
Alternative investments	—	—	—	3,495	3,495
Total financial assets held at fair value	$6,306	$2,689,935	$ —	$3,495	$2,699,736
Financial liabilities held at fair value:					
Gross derivative instruments, before netting [(1)]	$587	$27,836	$ —	$ —	$28,423

(1) *For information relating to the impact of netting derivative assets and derivative liabilities as well as the impact from offsetting cash collateral paid to the same derivative counterparties see Note 12: Derivative Financial Instruments.*

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Assets Measured at Fair Value on a Non-Recurring Basis
Certain assets are measured at fair value on a non-recurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. The following is a description of valuation methodologies used for assets measured on a non-recurring basis.
Alternative Investments. The measurement alternative has been elected for alternative investments without readily determinable fair values that do not qualify for the NAV practical expedient. The measurement alternative requires investments to be accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. These alternative investments are investments in non-public entities that generally cannot be redeemed since the investment is distributed as the underlying equity is liquidated. Accordingly, these alternative investments are classified within Level 2 of the fair value hierarchy. The carrying amount of these alternative investments was $2.5 million at June 30, 2018. No reduction for impairments, or increase or decrease due to observable price changes, was identified during the three or six months ended June 30, 2018.
Transferred Loans Held For Sale. Certain loans are transferred to loans held for sale once a decision has been made to sell such loans. These loans are accounted for at the lower of cost or market and are considered to be recognized at fair value when they are recorded at below cost. This activity is primarily commercial loans with observable inputs and is classified within Level 2. On the occasion should these loans include adjustments for changes in loan characteristics using unobservable inputs, the loans would be classified within Level 3.
Collateral Dependent Impaired Loans and Leases. Impaired loans and leases for which repayment is expected to be provided solely by the value of the underlying collateral are considered collateral dependent and are valued based on the estimated fair value of such collateral using customized discounting criteria. As such, collateral dependent impaired loans and leases are classified as Level 3 of the fair value hierarchy.
Other Real Estate Owned and Repossessed Assets. The total book value of other real estate owned (OREO) and repossessed assets was $6.0 million at June 30, 2018. OREO and repossessed assets are accounted for at the lower of cost or market and are considered to be recognized at fair value when they are recorded at below cost. The fair value of OREO is based on independent appraisals or internal valuation methods, less estimated selling costs. The valuation may consider available pricing guides, auction results, and price opinions. Certain assets require assumptions about factors that are not observable in an active market in the determination of fair value; as such, OREO and repossessed assets are classified within Level 3 of the fair value hierarchy.
The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis as of June 30, 2018:

(Dollars in thousands)

Asset	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
Collateral dependent impaired loans and leases	$15,414	Real Estate Appraisals	Discount for appraisal type	0% - 15%
			Discount for costs to sell	0% - 8%
OREO	$467	Real Estate Appraisals	Discount for appraisal type	0% 20%
			Discount for costs to sell	8%

Fair Value of Financial Instruments and Servicing Assets
The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities, for which it is practicable to estimate fair value, as well as servicing assets. The following is a description of valuation methodologies used for those assets and liabilities.
Cash, Due from Banks, and Interest-bearing Deposits. The carrying amount of cash, due from banks, and interest-bearing deposits is used to approximate fair value, given the short time frame to maturity and, as such, these assets do not present unanticipated credit concerns. Cash, due from banks, and interest-bearing deposits are classified within Level 1 of the fair value hierarchy.

Held-to-Maturity Investment Securities. When quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayments speeds, credit information, and respective terms and conditions for debt instruments. Management maintains procedures to monitor the pricing service's results and establishes processes to challenge their valuations, or methodology, that appear unusual or unexpected. Held-to-Maturity investment securities, which include Agency CMO, Agency MBS, Agency CMBS, CMBS, municipal bonds and notes, and private label MBS securities, are classified within Level 2 of the fair value hierarchy.

Loans and Leases, net. The estimated fair value of loans and leases held for investment is calculated using a discounted cash flow method, using future prepayments and market interest rates inclusive of an illiquidity premium for comparable loans and leases. The associated cash flows are adjusted for credit and other potential losses. Fair value for impaired loans and leases is estimated using the net present value of the expected cash flows. Loans and leases are classified within Level 3 of the fair value hierarchy.

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Deposit Liabilities. The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. Deposit liabilities are classified within Level 2 of the fair value hierarchy.
Time Deposits. The fair value of a fixed-maturity certificate of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. Time deposits are classified within Level 2 of the fair value hierarchy.
Securities Sold Under Agreements to Repurchase and Other Borrowings. The carrying value is an estimate of fair value for those securities sold under agreements to repurchase and other borrowings that mature within 90 days. Fair value of all other borrowings is estimated using discounted cash flow analysis based on current market rates adjusted, as appropriate, for associated credit risks. Securities sold under agreements to repurchase and other borrowings are classified within Level 2 of the fair value hierarchy.
Federal Home Loan Bank Advances and Long-Term Debt. The fair value of FHLB advances and long-term debt is estimated using a discounted cash flow technique. Discount rates are matched with the time period of the expected cash flow and are adjusted, as appropriate, to reflect credit risk. FHLB advances and long-term debt are classified within Level 2 of the fair value hierarchy.
Mortgage Servicing Assets. Mortgage servicing assets are accounted for at cost, subject to impairment testing. Mortgage servicing assets are considered to be recognized at fair value when they are recorded at below cost. Changes in fair value are included as a component of other non-interest income in the accompanying Condensed Consolidated Statements of Income. Fair value is calculated as the present value of estimated future net servicing income and relies on market based assumptions for loan prepayment speeds, servicing costs, discount rates, and other economic factors; as such, the primary risk inherent in valuing mortgage servicing assets is the impact of fluctuating interest rates on the servicing revenue stream. Mortgage servicing assets are classified within Level 3 of the fair value hierarchy.
The estimated fair values of selected financial instruments and servicing assets are as follows:

	At June 30, 2018		**At December 31, 2017**	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Level 2				
Held-to-maturity investment securities	$4,356,219	$4,225,983	$4,487,392	$4,456,350
Level 3				
Loans and leases, net	17,818,674	17,642,617	17,323,864	17,211,619
Mortgage servicing assets	23,341	49,182	25,139	45,309
Liabilities:				
Level 2				
Deposit liabilities	$18,503,653	$18,503,653	$18,525,321	$18,525,321
Time deposits	2,839,703	2,811,645	2,468,408	2,455,245
Securities sold under agreements to repurchase and other borrowings	862,568	862,371	643,269	644,084
FHLB advances	1,576,956	1,576,797	1,677,105	1,678,070
Long-term debt [(1)]	225,894	230,223	225,767	234,359

(1) Adjustments to the carrying amount of long-term debt for unamortized discount and debt issuance cost on senior fixed-rate notes are not included for determination of fair value, see Note 8: Borrowings.

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Note 14: Retirement Benefit Plans

Defined benefit pension and other postretirement benefits

The following table summarizes the components of net periodic benefit cost:

	Three months ended June 30,					
	2018			2017		
(In thousands)	Pension Plan	SERP	Other Benefits	Pension Plan	SERP	Other Benefits
Service cost	$—	$—	$ —	$13	$—	$ —
Interest cost on benefit obligations	1,935	(21)	19	1,844	93	25
Expected return on plan assets	(3,180)	—	—	(3,075)	—	—
Amortization of prior service cost	—	—	—	—	—	—
Recognized net loss	1,160	333	—	1,515	212	7
Net periodic benefit cost	$(85)	$312	$ 19	$297	$305	$ 32

	Six months ended June 30,					
	2018			2017		
(In thousands)	Pension Plan	SERP	Other Benefits	Pension Plan	SERP	Other Benefits
Service cost	$—	$—	$ —	$25	$—	$ —
Interest cost on benefit obligations	3,720	166	39	3,657	185	50
Expected return on plan assets	(6,360)	—	—	(6,148)	—	—
Amortization of prior service cost	—	—	—	—	—	—
Recognized net loss	2,320	458	—	2,932	425	15
Net periodic benefit cost	$(320)	$624	$ 39	$466	$610	$ 65

The components of net periodic benefit cost, other than the service cost component, are included as a component of other expense reflected in non-interest expense in the accompanying Condensed Consolidated Statements of Income.

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Note 15: Share-Based Plans

Stock compensation plans

Webster maintains stock compensation plans under which restricted stock, restricted stock units, non-qualified stock options, incentive stock options, or stock appreciation rights may be granted to employees and directors. The Company believes these share awards better align the interests of its employees with those of its shareholders. Stock compensation cost is recognized over the required service vesting period for the awards, based on the grant-date fair value, net of estimated forfeitures, and is included as a component of compensation and benefits reflected in non-interest expense.

Stock compensation expense of $2.5 million and $2.7 million for the three months ended June 30, 2018 and 2017, respectively, and $5.9 million and $6.0 million for the six months ended June 30, 2018 and 2017, respectively, related to restricted stock awards, was recognized in the accompanying Condensed Consolidated Statements of Income.

At June 30, 2018 there was $18.4 million of unrecognized stock compensation expense for restricted stock expected to be recognized over a weighted-average period of 2.0 years.

The following table provides a summary of the stock compensation plans activity for the six months ended June 30, 2018:

	Restricted Stock Awards Outstanding				Stock Options Outstanding	
	Time-Based		Performance-Based			
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Exercise Price
Outstanding, at January 1, 2018	207,800	$ 43.16	78,916	$ 45.35	673,039	$ 18.75
Granted	122,948	56.87	75,707	55.82	—	—
Vested restricted stock awards (1)	87,408	43.71	38,426	45.26	—	—
Forfeited	3,296	52.74	6,192	50.64	—	—
Exercised options	—	—	—	—	180,247	11.71
Outstanding and exercisable, at June 30, 2018	240,044	$ 49.85	110,005	$ 52.29	492,792	$ 21.33

(1) Vested for purposes of recording compensation expense.

Time-based restricted stock. Time-based restricted stock awards vest over the applicable service period ranging from 1 to 3 years. The number of time-based awards that may be granted to an eligible individual in a calendar year is limited to 100,000 shares. Compensation expense is recorded over the vesting period based on a fair value, which is measured using the Company's common stock closing price at the date of grant.

Performance-based restricted stock. Performance-based restricted stock awards vest after a 3 year performance period. The awards vest with a share quantity dependent on that performance, in a range from 0 to 150%. The performance criteria for 50% of the shares granted in 2018 is based upon Webster's ranking for total shareholder return versus Webster's compensation peer group companies and the remaining 50% is based upon Webster's average of return on equity during the 3 year vesting period. The compensation peer group companies are utilized because they represent the financial institutions that best compare with Webster. The Company records compensation expense over the vesting period, based on a fair value calculated using the Monte-Carlo simulation model, which allows for the incorporation of the performance condition for the 50% of the performance-based shares tied to total shareholder return versus the compensation peer group, and based on a fair value of the market price on the date of grant for the remaining 50% of the performance-based shares tied to Webster's return on equity. Compensation expense is subject to adjustment based on management's assessment of Webster's return on equity performance relative to the target number of shares condition.

Stock options. Stock option awards have an exercise price equal to the market price of Webster Financial Corporation's stock on the date of grant. Each option grants the holder the right to acquire a share of Webster Financial Corporation common stock over a contractual life of up to 10 years. All awarded options have vested. There were 458,904 non-qualified stock options and 33,888 incentive stock options outstanding at June 30, 2018.

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Note 16: Segment Reporting

Webster’s operations are organized into three reportable segments that represent its primary businesses - Commercial Banking, HSA Bank, and Community Banking. These three segments reflect how executive management responsibilities are assigned, the primary businesses, the products and services provided, the type of customer served, and how discrete financial information is currently evaluated. The Corporate Treasury unit of the Company, along with the amounts required to reconcile profitability metrics to amounts reported in accordance with GAAP, are included in the Corporate and Reconciling category.

Description of Segment Reporting Methodology

Webster’s reportable segment results are intended to reflect each segment as if it were a stand-alone business. Webster uses an internal profitability reporting system to generate information by operating segment, which is based on a series of management estimates and allocations regarding funds transfer pricing, provision for loan and lease losses, non-interest expense, income taxes, and equity capital. These estimates and allocations, certain of which are subjective in nature, are periodically reviewed and refined. Changes in estimates and allocations that affect the reported results of any operating segment do not affect the consolidated financial position or results of operations of Webster as a whole. The full profitability measurement reports, which are prepared for each operating segment, reflect non-GAAP reporting methodologies. The differences between full profitability and GAAP results are reconciled in the Corporate and Reconciling category.

Webster allocates interest income and interest expense to each business, while also transferring the primary interest rate risk exposures to the Corporate and Reconciling category, using a matched maturity funding concept called Funds Transfer Pricing (FTP). The allocation process considers the specific interest rate risk and liquidity risk of financial instruments and other assets and liabilities in each line of business. The matched maturity funding concept considers the origination date and the earlier of the maturity date or the repricing date of a financial instrument to assign an FTP rate for loans and deposits originated each day. Loans are assigned an FTP rate for funds used and deposits are assigned an FTP rate for funds provided. This process is executed by the Company’s Financial Planning and Analysis division and is overseen by the Company's Asset/Liability Committee (ALCO).

Webster allocates the provision for loan and lease losses to each segment based on management’s estimate of the inherent loss content in each of the specific loan and lease portfolios. Provision expense for certain elements of risk that are not deemed specifically attributable to a reportable segment, such as the provision for the consumer liquidating portfolio, is shown as part of the Corporate and Reconciling category.

Webster allocates a majority of non-interest expense to each reportable segment using a full-absorption costing process. Costs, including corporate overhead, are analyzed, pooled by process, and assigned to the appropriate reportable segment. The $7.2 million charge related to an accrual for additional FDIC premiums, for the three and six months ended June 30, 2018, is included in the Corporate and Reconciling category. See Note 1 to the Condensed Consolidated Financial Statements included in Item 1 of this report for additional information.

Beginning in 2018, income tax expense is estimated for each reportable segment individually. The 2017 income tax expense was estimated for all segments using the consolidated effective tax rate. This change in the estimate of income tax expense reflects an estimate of full profitability for each of the individual business segments based on the nature of their operations.

The following table presents total assets for Webster's reportable segments and the Corporate and Reconciling category:

(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Consolidated Total**
At June 30, 2018	$9,972,737	$73,914	$8,793,382	$ 8,196,704	$27,036,737
At December 31, 2017	9,350,028	76,308	8,909,671	8,151,638	26,487,645

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The following tables present the operating results, including all appropriate allocations, for Webster's reportable segments and the Corporate and Reconciling category:

	Three months ended June 30, 2018				
(In thousands)	Commercial Banking	HSA Bank	Community Banking	Corporate and Reconciling	Consolidated Total
Net interest income (expense)	$ 88,459	$ 35,265	$ 101,902	$ (616)	$ 225,010
Provision (benefit) for loan and lease losses	10,915	—	(415)	—	10,500
Net interest income (expense) after provision for loan and lease losses	77,544	35,265	102,317	(616)	214,510
Non-interest income	15,041	22,882	26,378	4,073	68,374
Non-interest expense	42,979	31,220	95,197	11,063	180,459
Income (loss) before income tax expense	49,606	26,927	33,498	(7,606)	102,425
Income tax expense (benefit)	12,203	7,001	6,666	(5,127)	20,743
Net income (loss)	$ 37,403	$ 19,926	$ 26,832	$ (2,479)	$ 81,682

	Three months ended June 30, 2017				
(In thousands)	Commercial Banking	HSA Bank	Community Banking	Corporate and Reconciling	Consolidated Total
Net interest income (expense)	$ 78,946	$ 25,574	$ 95,902	$ (2,635)	$ 197,787
Provision (benefit) for loan and lease losses	10,692	—	(3,442)	—	7,250
Net interest income (expense) after provision for loan and lease losses	68,254	25,574	99,344	(2,635)	190,537
Non-interest income	12,532	19,750	28,058	4,211	64,551
Non-interest expense	37,304	28,750	94,322	4,043	164,419
Income (loss) before income tax expense	43,482	16,574	33,080	(2,467)	90,669
Income tax expense (benefit)	14,158	5,323	10,353	(744)	29,090
Net income (loss)	$ 29,324	$ 11,251	$ 22,727	$ (1,723)	$ 61,579

	Six months ended June 30, 2018				
(In thousands)	Commercial Banking	HSA Bank	Community Banking	Corporate and Reconciling	Consolidated Total
Net interest income (expense)	$ 173,110	$ 68,189	$ 200,830	$ (2,951)	$ 439,178
Provision for loan and lease losses	18,093	—	3,407	—	21,500
Net interest income (expense) after provision for loan and lease losses	155,017	68,189	197,423	(2,951)	417,678
Non-interest income	30,357	45,551	51,573	9,640	137,121
Non-interest expense	84,224	62,735	192,026	13,089	352,074
Income (loss) before income tax expense	101,150	51,005	56,970	(6,400)	202,725
Income tax expense (benefit)	24,883	13,261	11,337	(8,663)	40,818
Net income	$ 76,267	$ 37,744	$ 45,633	$ 2,263	$ 161,907

	Six months ended June 30, 2017				
(In thousands)	Commercial Banking	HSA Bank	Community Banking	Corporate and Reconciling	Consolidated Total
Net interest income (expense)	$ 157,193	$ 49,626	$ 189,492	$ (5,860)	$ 390,451
Provision for loan and lease losses	17,489	—	261	—	17,750
Net interest income (expense) after provision for loan and lease losses	139,704	49,626	189,231	(5,860)	372,701
Non-interest income	25,956	39,021	53,437	9,179	127,593
Non-interest expense	75,428	56,989	189,501	6,285	328,203
Income (loss) before income tax expense	90,232	31,658	53,167	(2,966)	172,091
Income tax expense (benefit)	26,762	9,389	15,769	(879)	51,041
Net income (loss)	$ 63,470	$ 22,269	$ 37,398	$ (2,087)	$ 121,050

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Note 17: Revenue from Contracts with Customers

The Company adopted *ASU 2014-09, Revenue from Contracts with Customers (Topic 606),* and the subsequent clarifying ASUs, effective January 1, 2018. The Updates are applicable to the Company's deposit service fees, wealth and investment services, and an insignificant component of other income included within non-interest income in the accompanying Condensed Consolidated Statements of Income.

The Company's revenue associated with net interest income, and certain non-interest income line items (loan and lease related fees, mortgage banking activities, increase in cash surrender value of life insurance policies, gain on sale of investment securities, net, impairment loss on securities recognized in earnings, and a majority of other income), are not within the scope of Topic 606. As a result, a substantial amount of the Company's revenue is not affected.

Under the updated guidance, for in-scope revenue streams, the Company identifies the performance obligations included in the contracts with customers, determines the transaction price, allocates the transaction price to the performance, as applicable, and recognizes revenue when performance obligations are satisfied. The Company's existing recognition practices are largely consistent with the updated guidance.

The following tables present the disaggregation by operating segment and major revenue stream, with disaggregated revenue reconciled to segment revenue as presented in Note 16: Segment Reporting:

	Three months ended June 30, 2018				
(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Consolidated Total**
Major Revenue Streams					
Deposit service fees	$3,180	$22,006	$ 15,663	$ 10	$ 40,859
Wealth and investment services	2,587	—	5,878	(9)	8,456
Other income	—	876	640	—	1,516
Revenue from contracts with customers	5,767	22,882	22,181	1	50,831
Non-interest income within the scope of other GAAP topics	9,274	—	4,197	4,072	17,543
Total non-interest income	$15,041	$22,882	$ 26,378	$ 4,073	$ 68,374

	Three months ended June 30, 2017				
(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Consolidated Total**
Major Revenue Streams					
Deposit service fees	$3,015	$19,034	$ 16,081	$ 62	$ 38,192
Wealth and investment services	2,445	—	5,441	(9)	7,877
Other income	—	716	163	—	879
Revenue from contracts with customers	5,460	19,750	21,685	53	46,948
Non-interest income within the scope of other GAAP topics	7,072	—	6,373	4,158	17,603
Total non-interest income	$12,532	$19,750	$ 28,058	$ 4,211	$ 64,551

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(In thousands)	Six months ended June 30, 2018				
	Commercial Banking	HSA Bank	Community Banking	Corporate and Reconciling	Consolidated Total
Major Revenue Streams					
Deposit service fees	$6,402	$43,818	$ 30,972	$ 118	$ 81,310
Wealth and investment services	5,126	—	11,217	(17)	16,326
Other income	—	1,733	1,133	—	2,866
Revenue from contracts with customers	11,528	45,551	43,322	101	100,502
Non-interest income within the scope of other GAAP topics	18,829	—	8,251	9,539	36,619
Total non-interest income	$30,357	$45,551	$ 51,573	$ 9,640	$ 137,121

(In thousands)	Six months ended June 30, 2017				
	Commercial Banking	HSA Bank	Community Banking	Corporate and Reconciling	Consolidated Total
Major Revenue Streams					
Deposit service fees	$5,893	$37,518	$ 31,611	$ 176	$ 75,198
Wealth and investment services	4,817	—	10,350	(17)	15,150
Other income	—	1,503	387	—	1,890
Revenue from contracts with customers	10,710	39,021	42,348	159	92,238
Non-interest income within the scope of other GAAP topics	15,246	—	11,089	9,020	35,355
Total non-interest income	$25,956	$39,021	$ 53,437	$ 9,179	$ 127,593

Deposit service fees

Deposit service fees predominately consist of fees earned from deposit accounts and interchange revenue. Fees earned from deposit accounts relate to event-driven services and periodic account maintenance activities. Webster's obligations for event-driven services are satisfied at the time the service is delivered, while the obligations for maintenance services is satisfied monthly. Interchange fees are assessed as the performance obligation is satisfied, which is at the point in time the card transaction is authorized.

Wealth and investment services

Wealth and investment services consists of fees earned from investment and securities-related services, trust and other related services. Obligations for wealth and investment services are generally satisfied over time through a time-based measurement of progress, but certain obligations may be satisfied at points in time for activities that are transactional in nature.

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Note 18: Commitments and Contingencies

Credit-Related Financial Instruments

The Company offers credit-related financial instruments in the normal course of business to meet certain financing needs of its customers, that involve off-balance sheet risk. These transactions may include an unused commitment to extend credit, standby letter of credit, or commercial letter of credit. Such transactions involve, to varying degrees, elements of credit risk.

The following table summarizes the outstanding amounts of credit-related financial instruments with off-balance sheet risk:

(In thousands)	At June 30, 2018	At December 31, 2017
Commitments to extend credit	$5,929,945	$ 5,567,687
Standby letter of credit	206,506	195,902
Commercial letter of credit	44,176	43,200
Total credit-related financial instruments with off-balance sheet risk	$6,180,627	$ 5,806,789

Commitments to Extend Credit. The Company makes commitments under various terms to lend funds to customers at a future point in time. These commitments include revolving credit arrangements, term loan commitments, and short-term borrowing agreements. Most of these loans have fixed expiration dates or other termination clauses where a fee may be required. Since commitments routinely expire without being funded, or after required availability of collateral occurs, the total commitment amount does not necessarily represent future liquidity requirements.

Standby Letter of Credit. A standby letter of credit commits the Company to make payments on behalf of customers if certain specified future events occur. The Company has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit, which is often part of a larger credit agreement under which security is provided. Historically, a large percentage of standby letters of credit expire without being funded. The contractual amount of a standby letter of credit represents the maximum amount of potential future payments the Company could be required to make, and is the Company's maximum credit risk.

Commercial Letter of Credit. A commercial letter of credit is issued to facilitate either domestic or foreign trade arrangements for customers. As a general rule, drafts are committed to be drawn when the goods underlying the transaction are in transit. Similar to a standby letter of credit, a commercial letter of credit is often secured by an underlying security agreement including the assets or inventory to which they relate.

These commitments subject the Company to potential exposure in excess of the amounts recorded in the financial statements, and therefore, management maintains a specific reserve for unfunded credit commitments. This reserve is reported as a component of accrued expenses and other liabilities in the accompanying Condensed Consolidated Balance Sheets.

The following table provides a summary of activity in the reserve for unfunded credit commitments:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Beginning balance	$2,294	$2,655	$2,362	$2,287
Provision (benefit) charged to expense	302	(111)	234	257
Ending balance	$2,596	$2,544	$2,596	$2,544

Litigation

Webster is involved in routine legal proceedings occurring in the ordinary course of business and is subject to loss contingencies related to such litigation and claims arising therefrom. Webster evaluates these contingencies based on information currently available, including advice of counsel and assessment of available insurance coverage. Webster establishes an accrual for litigation and claims when a loss contingency is considered probable and the related amount is reasonably estimable. This accrual is periodically reviewed and may be adjusted as circumstances change. Webster also estimates certain loss contingencies for possible litigation and claims, whether or not there is an accrued probable

loss. Webster believes it has defenses to all the claims asserted against it in existing litigation matters and intends to defend itself in all matters.

Based upon its current knowledge, after consultation with counsel and after taking into consideration its current litigation accrual, Webster believes that at June 30, 2018 any reasonably possible losses, in addition to amounts accrued, are not material to Webster's consolidated financial condition. However, in light of the uncertainties involved in such actions and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the amounts currently accrued by Webster or that the Company's litigation accrual will not need to be adjusted in future periods. Such an outcome could be material to the Company's operating results in a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of the Company's income for that period.

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Note 19: Subsequent Events

The Company has evaluated events from the date of the Condensed Consolidated Financial Statements and accompanying Notes thereto, June 30, 2018, through the issuance of this Quarterly Report on Form 10-Q and determined that no significant events were identified requiring recognition or disclosure.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 1, 2018, and in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included in Item 1 of this report. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results for the full year ending December 31, 2018, or any future period.

Regulatory Developments

On May 24, 2018, the President signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (the EGRRCPA) which, among other things, amended certain provisions of the Dodd-Frank Act. The EGRRCPA provides limited regulatory relief to certain financial institutions while preserving the existing framework under which U.S. financial institutions are regulated. Together with the interagency statement regarding the impact of the EGRRCPA released by the FRB, the FDIC, and the OCC on July 6, 2018, the EGRRCPA relieves the Company from the requirement to conduct annual company-run stress testing for the Company and Webster Bank. In addition to amending the Dodd Frank Act, the EGRRCPA also includes certain additional banking-related, consumer protection, and securities law-related provisions. The Company expects to continue to evaluate the potential impact of the EGRRCPA as it is further implemented by the regulators.

Application of Critical Accounting Policies and Accounting Estimates

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in its 2017 Annual Report on Form 10-K. Modifications to significant accounting policies made during the year are described in Note 1 to the Condensed Consolidated Financial Statements included in Item 1 of this report.

The preparation of the Condensed Consolidated Financial Statements in accordance with GAAP and practices generally applicable to the financial services industry requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

Management has identified the Company's most critical accounting policies as:

- allowance for loan and lease losses;
- fair value measurements for valuation of investments;
- evaluation for impairment of goodwill; and
- assessing the realizability of deferred tax assets and the measurement of uncertain tax positions.

These particular significant accounting policies are considered most critical in that they are important to the Company's financial condition and results, and they require management's subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. The accounting policies and estimates, including the nature of the estimates and types of assumptions used, are described throughout Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in Webster's 2017 Form 10-K, and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report.

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Results of Operations

Selected financial highlights are presented in the following table:

(In thousands, except per share and ratio data)	At or for the three months ended June 30, 2018	At or for the three months ended June 30, 2017	At or for the six months ended June 30, 2018	At or for the six months ended June 30, 2017
Earnings:				
Net interest income	$225,010	$197,787	$439,178	$390,451
Provision for loan and lease losses	10,500	7,250	21,500	17,750
Total non-interest income	68,374	64,551	137,121	127,593
Total non-interest expense	180,459	164,419	352,074	328,203
Net income	81,682	61,579	161,907	121,050
Earnings applicable to common shareholders	79,489	59,485	157,573	116,826
Share Data:				
Weighted-average common shares outstanding - diluted	92,173	92,495	92,236	92,470
Diluted earnings per common share	$0.86	$0.64	$1.71	$1.26
Dividends and dividend equivalents declared per common share	0.33	0.26	0.59	0.51
Dividends declared per preferred share	328.13	400.00	667.19	800.00
Book value per common share	28.40	26.93	28.40	26.93
Tangible book value per common share *(non-GAAP)*	22.25	20.74	22.25	20.74
Selected Ratios:				
Net interest margin	3.57 %	3.27 %	3.51 %	3.25 %
Return on average assets *(annualized basis)*	1.22	0.94	1.21	0.93
Return on average common shareholders' equity *(annualized basis)*	12.22	9.63	12.18	9.53
CET1 risk-based capital	10.99	10.84	10.99	10.84
Tangible common equity ratio *(non-GAAP)*	7.75	7.47	7.75	7.47
Return on average tangible common shareholders' equity *(annualized basis) (non-GAAP)*	15.76	12.65	15.74	12.56
Efficiency ratio *(non-GAAP)*	57.78	60.65	58.75	61.36

Providing the non-GAAP financial measures identified in the preceding table provide investors with information useful in understanding the Company's financial performance, performance trends and financial position. These measures are used by management for internal planning and forecasting purposes, as well as by securities analysts, investors and other interested parties to compare peer company operating performance. Management believes that the presentation, together with the accompanying reconciliations provides a complete understanding of the factors and trends affecting the Company's business and allows investors to view its performance in a similar manner. These non-GAAP financial measures should not be considered a substitute for GAAP basis measures and results. Because non-GAAP financial measures are not standardized, it may not be possible to compare these measures with other companies that present measures having the same or similar names.

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The following tables reconcile the non-GAAP financial measures with financial measures defined by GAAP:

	At June 30,	
(Dollars and shares in thousands, except per share data)	**2018**	**2017**
Tangible book value per common share (non-GAAP):		
Shareholders' equity (GAAP)	$2,761,723	$2,605,126
Less: Preferred stock (GAAP)	145,037	122,710
Goodwill and other intangible assets (GAAP)	566,061	569,964
Tangible common shareholders' equity (non-GAAP)	$2,050,625	$1,912,452
Common shares outstanding	92,151	92,195
Tangible book value per common share (non-GAAP)	**$22.25**	**$20.74**
Tangible common equity ratio (non-GAAP):		
Tangible common shareholders' equity (non-GAAP)	$2,050,625	$1,912,452
Total Assets (GAAP)	$27,036,737	$26,174,930
Less: Goodwill and other intangible assets (GAAP)	566,061	569,964
Tangible assets (non-GAAP)	$26,470,676	$25,604,966
Tangible common equity ratio (non-GAAP)	**7.75** %	**7.47** %

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Return on average tangible common shareholders' equity (non-GAAP):				
Net income (GAAP)	$81,682	$61,579	$161,907	$121,050
Less: Preferred stock dividends (GAAP)	1,969	2,024	3,916	4,048
Add: Intangible assets amortization, tax-effected (GAAP)	760	668	1,520	1,354
Income adjusted for preferred stock dividends and intangible assets amortization (non-GAAP)	$80,473	$60,223	$159,511	$118,356
Income adjusted for preferred stock dividends and intangible assets amortization, annualized (non-GAAP)	$321,892	$240,892	$319,022	$236,712
Average shareholders' equity (non-GAAP)	$2,754,355	$2,597,222	$2,738,560	$2,578,392
Less: Average preferred stock (non-GAAP)	145,037	122,710	145,099	122,710
Average goodwill and other intangible assets (non-GAAP)	566,522	570,560	567,032	571,083
Average tangible common shareholders' equity (non-GAAP)	$2,042,796	$1,903,952	$2,026,429	$1,884,599
Return on average tangible common shareholders' equity (non-GAAP)	**15.76** %	**12.65** %	**15.74** %	**12.56** %
Efficiency ratio (non-GAAP):				
Non-interest expense (GAAP)	$180,459	$164,419	$352,074	$328,203
Less: Foreclosed property activity (GAAP)	(106)	(143)	(21)	(69)
Intangible assets amortization (GAAP)	962	1,028	1,924	2,083
Other expense (non-GAAP) [(1)]	8,599	1,587	8,599	2,710
Non-interest expense (non-GAAP)	$171,004	$161,947	$341,572	$323,479
Net interest income (GAAP)	$225,010	$197,787	$439,178	$390,451
Add: Tax-equivalent adjustment (non-GAAP)	2,217	4,136	4,447	8,169
Non-interest income (GAAP)	68,374	64,551	137,121	127,593
Other (non-GAAP) [(1)]	359	555	654	946
Income (non-GAAP)	$295,960	$267,029	$581,400	$527,159
Efficiency ratio (non-GAAP)	**57.78** %	**60.65** %	**58.75** %	**61.36** %

(1) *Other expense includes facility optimization charges, while other income includes low income housing tax credits and impairment loss on investment securities. In addition, other expense amounts for the three and six months ended June 30, 2018 include a charge related to an accrual for additional FDIC assessments relating to prior periods.*

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Financial Performance

Comparison to Prior Year Quarter

For the three months ended June 30, 2018, income before income tax expense of $102.4 million increased $11.8 million, or 13.0%, compared to the three months ended June 30, 2017. Net interest income increased 13.8%, the provision for loan and lease losses increased 44.8%, non-interest income increased 5.9%, and non-interest expense increased 9.8%.

After income tax expense of $20.7 million and $29.1 million for the three months ended June 30, 2018 and 2017, respectively, net income was $81.7 million and diluted earnings per share was $0.86 for the three months ended June 30, 2018 compared to net income of $61.6 million and diluted earnings per share of $0.64 for the three months ended June 30, 2017.

Comparison to Prior Year to Date

For the six months ended June 30, 2018, income before income tax expense of $202.7 million increased $30.6 million, or 17.8%, compared to the six months ended June 30, 2017. Net interest income increased 12.5%, the provision for loan and lease losses increased 21.1%, non-interest income increased 7.5%, and non-interest expense increased 7.3%.

After income tax expense of $40.8 million and $51.0 million for the six months ended June 30, 2018 and 2017, respectively, net income was $161.9 million and diluted earnings per share was $1.71 for the six months ended June 30, 2018 compared to net income of $121.1 million and diluted earnings per share of $1.26 for the six months ended June 30, 2017.

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The following tables summarize daily average balances, interest, yield/rate, and net interest margin on a fully tax-equivalent basis:

	Three months ended June 30,					
	2018			2017		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Loans and leases	$17,886,685	$208,490	4.63%	$17,266,424	$175,421	4.04%
Investment securities *(based upon historical amortized cost)*	7,142,572	52,277	2.90	7,030,120	53,569	3.04
FHLB and FRB stock	133,114	1,546	4.66	165,087	1,563	3.80
Interest-bearing deposits	66,339	247	1.47	64,812	169	1.03
Loans held for sale	15,211	148	3.90	22,956	203	3.53
Total interest-earning assets	25,243,921	$262,708	4.13%	24,549,399	$230,925	3.74%
Non-interest-earning assets	1,631,032			1,633,049		
Total Assets	$26,874,953			$26,182,448		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits	$4,109,165	$—	— %	$3,979,330	$—	— %
Health savings accounts	5,519,917	2,735	0.20	4,822,188	2,392	0.20
Interest-bearing checking, money market and savings	9,041,286	7,859	0.35	9,479,595	6,331	0.27
Time deposits	2,732,709	9,631	1.41	2,057,335	5,956	1.16
Total deposits	21,403,077	20,225	0.38	20,338,448	14,679	0.29
Securities sold under agreements to repurchase and other borrowings	869,238	3,998	1.82	844,837	3,583	1.68
FHLB advances	1,399,344	8,471	2.39	1,997,069	8,156	1.62
Long-term debt	225,863	2,787	4.94	225,604	2,584	4.58
Total borrowings	2,494,445	15,256	2.42	3,067,510	14,323	1.85
Total interest-bearing liabilities	23,897,522	$35,481	0.59%	23,405,958	$29,002	0.49%
Non-interest-bearing liabilities	223,076			179,268		
Total liabilities	24,120,598			23,585,226		
Preferred stock	145,037			122,710		
Common shareholders' equity	2,609,318			2,474,512		
Total shareholders' equity	2,754,355			2,597,222		
Total Liabilities and Shareholders' Equity	$26,874,953			$26,182,448		
Tax-equivalent net interest income		$227,227			$201,923	
Less: Tax-equivalent adjustments		(2,217)			(4,136)	
Net interest income		$225,010			$197,787	
Net interest margin			3.57%			3.27%

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(Dollars in thousands)	Six months ended June 30, 2018 Average Balance	Interest	Yield/ Rate	2017 Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Loans and leases	$17,821,094	$402,354	4.50%	$17,154,412	$344,150	4.00%
Investment securities (based upon historical amortized cost)	7,150,495	104,766	2.91	7,050,583	106,420	3.01
FHLB and FRB stock	133,177	3,001	4.54	173,601	3,250	3.78
Interest-bearing deposits	59,563	448	1.50	66,476	299	0.89
Loans held for sale	15,768	290	3.68	29,560	519	3.51
Total interest-earning assets	25,180,097	$510,859	4.04%	24,474,632	$454,638	3.71%
Non-interest-earning assets	1,636,345			1,637,865		
Total Assets	$26,816,442			$26,112,497		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Demand deposits	$4,136,115	$—	— %	$3,957,403	$—	— %
Health savings accounts	5,473,715	5,359	0.20	4,779,245	4,684	0.20
Interest-bearing checking, money market and savings	9,191,181	15,572	0.34	9,402,581	11,819	0.25
Time deposits	2,596,683	17,450	1.35	2,040,024	11,611	1.15
Total deposits	21,397,694	38,381	0.36	20,179,253	28,114	0.28
Securities sold under agreements to repurchase and other borrowings	872,516	7,638	1.74	874,871	7,123	1.62
FHLB advances	1,355,830	15,752	2.31	2,066,551	15,649	1.51
Long-term debt	225,831	5,463	4.84	225,572	5,132	4.55
Total borrowings	2,454,177	28,853	2.34	3,166,994	27,904	1.75
Total interest-bearing liabilities	23,851,871	$67,234	0.57%	23,346,247	$56,018	0.48%
Non-interest-bearing liabilities	226,011			187,858		
Total liabilities	24,077,882			23,534,105		
Preferred stock	145,099			122,710		
Common shareholders' equity	2,593,461			2,455,682		
Total shareholders' equity	2,738,560			2,578,392		
Total Liabilities and Shareholders' Equity	$26,816,442			$26,112,497		
Tax-equivalent net interest income		$443,625			$398,620	
Less: Tax-equivalent adjustments		(4,447)			(8,169)	
Net interest income		$439,178			$390,451	
Net interest margin			3.51%			3.25%

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Net interest income and net interest margin are impacted by the level of interest rates, mix of assets earning and liabilities paying those interest rates, and the volume of interest-earning assets and interest-bearing liabilities. These conditions are influenced by changes in economic conditions that impact interest rate policy, competitive conditions that impact loan and deposit pricing strategies, as well as the extent of interest lost to non-performing assets.

Net interest income is the difference between interest income on earning assets, such as loans and investments, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 76.2% of total revenue for the six months ended June 30, 2018. Net interest margin is the ratio of tax-equivalent net interest income to average earning assets for the period.

Webster manages the risk of changes in interest rates on net interest income and net interest margin through ALCO and through related interest rate risk monitoring and management policies. ALCO meets at least monthly to make decisions on the investment and funding portfolios based on the economic outlook, its interest rate expectations, the portfolio risk position, and other factors.

Four main tools are used for managing interest rate risk:

- the size, duration and credit risk of the investment portfolio;
- the size and duration of the wholesale funding portfolio;
- off-balance sheet interest rate contracts; and
- the pricing and structure of loans and deposits.

The Federal Open Market Committee increased the federal funds rate target range from 1.25-1.50% at December 31, 2017, first to 1.50-1.75% effective March 22, 2018 and then, to 1.75-2.00% effective June 13, 2018. See the "Asset/Liability Management and Market Risk" section for further discussion of Webster’s interest rate risk position.

Net Interest Income

Comparison to Prior Year Quarter

Net interest income totaled $225.0 million for the three months ended June 30, 2018 compared to $197.8 million for the three months ended June 30, 2017, an increase of $27.2 million.

Net interest margin increased 30 basis points to 3.57% for the three months ended June 30, 2018 from 3.27% for the three months ended June 30, 2017. On a fully tax-equivalent basis, net interest income increased $25.3 million when compared to the same period in 2017. The increase for the three months ended June 30, 2018 was primarily the result of strong loan growth at increased yields, partially offset by an increase in the cost of deposits other than health savings accounts.

Comparison to Prior Year to Date

Net interest income totaled $439.2 million for the six months ended June 30, 2018 compared to $390.5 million for the six months ended June 30, 2017, an increase of $48.7 million.

Net interest margin increased 26 basis points to 3.51% for the six months ended June 30, 2018 from 3.25% for the six months ended June 30, 2017. On a fully tax-equivalent basis, net interest income increased $45.0 million when compared to the same period in 2017. The increase for the six months ended June 30, 2018 was primarily the result of strong loan growth at increased yields, partially offset by an increase in the cost of deposits other than health savings accounts.

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Changes in Net Interest Income

The following table presents the components of the change in net interest income attributable to changes in rate and volume, and reflects net interest income on a fully tax-equivalent basis:

	Three months ended June 30, 2018 vs. 2017 Increase (decrease) due to			Six months ended June 30, 2018 vs. 2017 Increase (decrease) due to		
(In thousands)	Rate [(1)]	Volume	Total	Rate [(1)]	Volume	Total
Interest on interest-earning assets:						
Loans and leases	$26,044	$7,025	$33,069	$43,707	$14,496	$58,203
Loans held for sale	13	(69)	(56)	14	(243)	(229)
Investments [(2)]	(1,900)	669	(1,231)	(2,828)	1,075	(1,753)
Total interest income	$24,157	$7,625	$31,782	$40,893	$15,328	$56,221
Interest on interest-bearing liabilities:						
Deposits	$3,779	$1,766	$5,545	$7,223	$3,044	$10,267
Borrowings	3,733	(2,800)	933	7,095	(6,146)	949
Total interest expense	$7,512	$(1,034)	$6,478	$14,318	$(3,102)	$11,216
Net change in net interest income	$16,645	$8,659	$25,304	$26,575	$18,430	$45,005

(1) The change attributable to mix, a combined impact of rate and volume, is included with the change due to rate.
(2) Investments include: Investment securities, FHLB and FRB stock, and Interest-bearing deposits.

Average loans and leases for the six months ended June 30, 2018 increased $0.7 billion compared to the average for the six months ended June 30, 2017. The loan and lease portfolio comprised 70.8% of the average interest-earning assets at June 30, 2018 compared to 70.1% of the average interest-earning assets at June 30, 2017. The loan and lease portfolio yield increased 50 basis points to 4.50% for the six months ended June 30, 2018 compared to the loan and lease portfolio yield of 4.00% for the six months ended June 30, 2017. The increase in the yield on the average loan and lease portfolio is due to variable rate loans resetting higher. Additionally, rising interest rates resulted in a reduction in variable rate loans at their floors.

Average investments for the six months ended June 30, 2018 increased $52.6 million compared to the average for the six months ended June 30, 2017. The investments portfolio comprised 29.2% of the average interest-earning assets at June 30, 2018 compared to 29.8% of the average interest-earning assets at June 30, 2017. The investments portfolio yield decreased 7 basis points to 2.95% for the six months ended June 30, 2018 compared to the investments portfolio yield of 3.02% for the six months ended June 30, 2017. The decrease in investments portfolio yield is primarily due to the negative effect from the Tax Act on tax exempt securities.

Average total deposits for the six months ended June 30, 2018 increased $1.2 billion compared to the average for the six months ended June 30, 2017. The increase is comprised of an increase of $0.2 billion in non-interest-bearing deposits and an increase of $1.0 billion in interest-bearing deposits. The increase in average interest-bearing deposits was primarily due to health savings account deposit growth. The average cost of deposits increased 8 basis points to 0.36% for the six months ended June 30, 2018 from 0.28% for the six months ended June 30, 2017. The average cost of deposits increased due to pricing shifts resulting from rising interest rates on most products other than health savings accounts. Higher cost time deposits increased, to 15.0% for the six months ended June 30, 2018 from 12.6% for the six months ended June 30, 2017, as a percentage to total interest-bearing deposits.

Average total borrowings for the six months ended June 30, 2018 decreased $712.8 million compared to the average for the six months ended June 30, 2017. Average securities sold under agreements to repurchase and other borrowings decreased $2.4 million, and average FHLB advances decreased $710.7 million as utilization of advances maturing within one year declined. The average cost of borrowings increased 59 basis points to 2.34% for the six months ended June 30, 2018 from 1.75% for the six months ended June 30, 2017. The increase in average cost of borrowings was primarily due to increases in the federal funds rate.

Cash flow hedges impacted the average cost of borrowings as follows:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017

Interest rate swaps on FHLB advances	$1,513	$1,714	$3,143	$3,482
Interest rate swaps on senior fixed-rate notes	77	77	153	153
Interest rate swaps on brokered CDs and deposits	78	195	195	390
Net increase to interest expense on borrowings	$1,668	$1,986	$3,491	$4,025

Provision for Loan and Lease Losses

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at levels appropriate to absorb estimated credit losses in the loan and lease portfolio.

Comparison to Prior Year Quarter

The provision for loan and lease losses was $10.5 million for the three months ended June 30, 2018, which increased $3.3 million compared to the three months ended June 30, 2017. The increase in provision for loan and lease losses was primarily due to loan growth. Total net charge-offs was $8.5 million and $6.8 million for the three months ended June 30, 2018 and 2017, respectively. The increase in net charge-offs was primarily due to commercial lending activity.

Comparison to Prior Year to Date

The provision for loan and lease losses was $21.5 million for the six months ended June 30, 2018, which increased $3.8 million compared to the six months ended June 30, 2017. The increase in provision for loan and lease losses was primarily due to loan growth. Total net charge-offs was $14.2 million and $12.5 million for the six months ended June 30, 2018 and 2017, respectively. The increase in net charge-offs was primarily due to commercial lending activity.

Allowance for Loan and Lease Losses

The ALLL is a significant accounting estimate that is determined through periodic and systematic detailed reviews of the Company's loan and lease portfolio. The ALLL is determined based on an analysis which assesses the inherent risk for probable losses within the portfolio. Significant judgments and estimates are necessary in the determination of the ALLL. Significant judgments include, among others, loan risk ratings and classifications, the probability of loan defaults, the net loss exposure in the event of loan defaults, the loss emergence period, the determination and measurement of impaired loans, and other quantitative and qualitative considerations.

At June 30, 2018, the ALLL totaled $207.3 million, or 1.15% of total loans and leases, as compared to $200.0 million, or 1.14% of total loans and leases, at December 31, 2017.

See the "Loans and Leases" through "Allowance for Loan and Lease Losses Methodology" sections for further details.

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Non-Interest Income

	Three months ended June 30,		Increase (decrease)		Six months ended June 30,		Increase (decrease)	
(Dollars in thousands)	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Deposit service fees	$40,859	$38,192	$2,667	7.0 %	$81,310	$75,198	$6,112	8.1 %
Loan related fees	6,333	6,344	(11)	(0.2)	13,329	13,552	(223)	(1.6)
Wealth and investment services	8,456	7,877	579	7.4	16,326	15,150	1,176	7.8
Mortgage banking activities	1,235	3,351	(2,116)	(63.1)	2,379	5,617	(3,238)	(57.6)
Increase in cash surrender value of life insurance policies	3,643	3,648	(5)	(0.1)	7,215	7,223	(8)	(0.1)
Impairment loss recognized in earnings	—	(126)	126	100.0	—	(126)	126	100.0
Other income	7,848	5,265	2,583	49.1	16,562	10,979	5,583	50.9
Total non-interest income	$68,374	$64,551	$3,823	5.9	$137,121	$127,593	$9,528	7.5

Comparison to Prior Year Quarter

Total non-interest income for the three months ended June 30, 2018 was $68.4 million, an increase of $3.8 million, or 5.9%, compared to $64.6 million for the three months ended June 30, 2017. The increase is primarily attributable to higher deposit service fees, and other income, primarily offset by lower mortgage banking activities.

Deposit service fees totaled $40.9 million for the three months ended June 30, 2018, compared to $38.2 million for the three months ended June 30, 2017. The increase was a result of higher checking account service charges and check card interchange attributable to health savings account growth and usage activity.

Mortgage banking activities totaled $1.2 million for the three months ended June 30, 2018, compared to $3.4 million for the three months ended June 30, 2017. The decrease was primarily driven by lower originations.

Other income totaled $7.8 million for the three months ended June 30, 2018, compared to $5.3 million for the three months ended June 30, 2017. The increase was primarily the result of additional client hedging income.

Comparison to Prior Year to Date

Total non-interest income for the six months ended June 30, 2018 was $137.1 million, an increase of $9.5 million, or 7.5%, compared to $127.6 million for the six months ended June 30, 2017. The increase is primarily attributable to higher deposit service fees, and other income, primarily offset by lower mortgage banking activities.

Deposit service fees totaled $81.3 million for the six months ended June 30, 2018, compared to $75.2 million for the six months ended June 30, 2017. The increase is primarily due to increased checking account service charges and check card interchange attributable to health savings account growth and usage activity.

Mortgage banking activities totaled $2.4 million for the six months ended June 30, 2018, compared to $5.6 million for the six months ended June 30, 2017. The decrease is driven by lower originations and lower volume in loans held for sale.

Other income totaled $16.6 million for the six months ended June 30, 2018, compared to $11.0 million for the six months ended June 30, 2017. The increase is due to an increase in treasury derivative gains and break-funding revenue.

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Non-Interest Expense

(Dollars in thousands)	Three months ended June 30,		Increase (decrease)		Six months ended June 30,		Increase (decrease)	
	2018	**2017**	**Amount**	**Percent**	**2018**	**2017**	**Amount**	**Percent**
Compensation and benefits	$93,052	$86,394	$6,658	7.7 %	$187,817	$173,893	$13,924	8.0 %
Occupancy	15,842	16,034	(192)	(1.2)	30,987	32,213	(1,226)	(3.8)
Technology and equipment	24,604	22,458	2,146	9.6	48,466	44,066	4,400	10.0
Intangible assets amortization	962	1,028	(66)	(6.4)	1,924	2,083	(159)	(7.6)
Marketing	4,889	4,615	274	5.9	8,441	10,056	(1,615)	(16.1)
Professional and outside services	4,381	3,507	874	24.9	9,169	7,783	1,386	17.8
Deposit insurance	13,687	6,625	7,062	106.6	20,404	13,357	7,047	52.8
Other expense	23,042	23,758	(716)	(3.0)	44,866	44,752	114	0.3
Total non-interest expense	$180,459	$164,419	$16,040	9.8	$352,074	$328,203	$23,871	7.3

Comparison to Prior Year Quarter

Total non-interest expense for the three months ended June 30, 2018 was $180.5 million, an increase of $16.0 million, or 9.8%, compared to $164.4 million for the three months ended June 30, 2017. The increase is primarily attributable to compensation and benefits, technology and equipment, and deposit insurance.

Compensation and benefits totaled $93.1 million for the three months ended June 30, 2018, compared to $86.4 million for the three months ended June 30, 2017. The increase is primarily due to strategic hires and annual merit increases.

Technology and equipment totaled $24.6 million for the three months ended June 30, 2018, compared to $22.5 million for the three months ended June 30, 2017. The increase is primarily due to higher depreciation and service contracts to support infrastructure.

Deposit insurance totaled $13.7 million for the three months ended June 30, 2018, compared to $6.6 million for the three months ended June 30, 2017. The increase is due to a $7.2 million charge related to an accrual for additional FDIC premiums. See Note 1 to the Condensed Consolidated Financial Statements included in Item 1 of this report for additional information.

Comparison to Prior Year to Date

Total non-interest expense for the six months ended June 30, 2018 was $352.1 million, an increase of $23.9 million, or 7.3%, compared to $328.2 million for the six months ended June 30, 2017. The increase is primarily attributable to compensation and benefits, technology and equipment, and deposit insurance.

Compensation and benefits totaled $187.8 million for the six months ended June 30, 2018, compared to $173.9 million for the six months ended June 30, 2017. The increase is primarily due to strategic hires as well as annual merit increases.

Technology and equipment totaled $48.5 million for the six months ended June 30, 2018, compared to $44.1 million for the six months ended June 30, 2017. The increase is primarily due to increased service contracts and additional depreciation on infrastructure to support bank growth.

Deposit insurance totaled $20.4 million for the six months ended June 30, 2018, compared to $13.4 million for the six months ended June 30, 2017. The increase is due to the $7.2 million charge referenced above.

Income Taxes

Webster recognized income tax expense of $20.7 million and $40.8 million reflecting effective tax rates of 20.3% and 20.1% for the three and six months ended June 30, 2018, respectively, compared to $29.1 million and $51.0 million reflecting 32.1% and 29.7%, for the three and six months ended June 30, 2017, respectively.

The decreases in both tax expense and the effective tax rates for both the three and six months ended June 30, 2018 as compared to the same periods in 2017 principally reflect the reduction of the U.S. corporate tax rate effective in 2018, as a result of the Tax Act.

The decreases in both tax expense and the effective tax rate for the three months ended June 30, 2018 also reflect $2.3 million of tax benefits specific to the period, including $1.2 million attributable to the $7.2 million charge relating to deposit insurance assessments for periods prior to 2018, as compared to $0.6 million of tax benefits specific to the

same period in 2017.

For additional information on Webster's income taxes, including deferred tax assets and uncertain tax positions, see Note 8 - Income Taxes in the Notes to Consolidated Financial Statements contained in Webster's 2017 Form 10-K.

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Segment Reporting
Webster’s operations are organized into three reportable segments that represent its primary businesses - Commercial Banking, HSA Bank, and Community Banking. These three segments reflect how executive management responsibilities are assigned, the primary businesses, the products and services provided, the type of customer served, and how discrete financial information is currently evaluated. The Corporate Treasury unit of the Company, along with adjustments required to reconcile profitability metrics to amounts reported in accordance with GAAP, are included in the Corporate and Reconciling category.
Commercial Banking is comprised of Commercial Banking and Private Banking operating segments.
Commercial Banking provides commercial and industrial lending and leasing, commercial real estate lending, and treasury and payment solutions. Specifically, Webster Bank deploys lending through middle market, commercial real estate, equipment financing, asset-based lending and specialty lending units. These groups utilize a relationship approach model throughout its footprint when providing lending, deposit, and cash management services to middle market companies. In addition, Commercial Banking serves as a referral source to the other lines of business.
Private Banking provides local, full relationship banking that serves high net worth clients, not-for-profit organizations, and business clients for asset management, financial planning services, trust services, loan products, and deposit products. These client relationships generate fee revenue on assets under management or administration, while a majority of the relationships also include lending and/or deposit accounts which provide net interest income and other ancillary fees.
HSA Bank offers a comprehensive consumer directed healthcare solution that includes, health savings accounts, health reimbursement accounts, flexible spending accounts, and other financial solutions. Health savings accounts are used in conjunction with high deductible health plans in order to facilitate tax advantages for account holders with respect to health care spending and retirement savings, in accordance with applicable laws. Health savings accounts are offered through employers for the benefit of their employees or directly to individual consumers and are distributed nationwide directly as well as through national and regional insurance carriers, benefit consultants and financial advisors.
HSA Bank deposits provide long duration low-cost funding that is used to minimize the Company’s use of wholesale funding in support of the Company’s loan growth. As such, net interest income represents the difference between a funding credit allocation, reflecting the value of the duration funding, and the interest paid on deposits. In addition, non-interest revenue is generated predominantly through service fees and interchange income.
Community Banking is comprised of Personal Banking and Business Banking operating segments.
Through a distribution network, consisting of 163 banking centers and 329 ATMs, a customer care center, and a full range of web and mobile-based banking services, it serves consumer and business customers primarily throughout southern New England and into Westchester County, New York.
Personal Banking offers consumer deposit and fee-based services, residential mortgages, home equity lines/loans, unsecured consumer loans, and credit card products. In addition, investment and securities-related services, including brokerage and investment advice is offered through a strategic partnership with LPL Financial Holdings Inc. (LPL), a broker dealer registered with the SEC, a registered investment advisor under federal and applicable state laws, a member of the Financial Industry Regulatory Authority, and a member of the Securities Investor Protection Corporation. Webster Bank has employees located throughout its banking center network, who, through LPL, are registered representatives.
Business Banking offers credit, deposit, and cash flow management products to businesses and professional service firms with annual revenues of up to $25 million. This group builds broad customer relationships through business bankers and business certified banking center managers, supported by a team of customer care center bankers and industry and product specialists.
Description of Segment Reporting Methodology
Webster’s reportable segment results are intended to reflect each segment as if it were a stand-alone business. Webster uses an internal profitability reporting system to generate information by operating segment, which is based on a series of management estimates and allocations regarding funds transfer pricing, provision for loan and lease losses, non-interest expense, income taxes, and equity capital. These estimates and allocations, certain of which are subjective

in nature, are periodically reviewed and refined. Changes in estimates and allocations that affect the reported results of any operating segment do not affect the consolidated financial position or results of operations of Webster as a whole. The full profitability measurement reports, which are prepared for each operating segment, reflect non-GAAP reporting methodologies. The differences between full profitability and GAAP results are reconciled in the Corporate and Reconciling category.

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Webster allocates interest income and interest expense to each business, while also transferring the primary interest rate risk exposures to the Corporate and Reconciling category, using a matched maturity funding concept called FTP. The allocation process considers the specific interest rate risk and liquidity risk of financial instruments and other assets and liabilities in each line of business. The matched maturity funding concept considers the origination date and the earlier of the maturity date or the repricing date of a financial instrument to assign an FTP rate for loans and deposits originated each day. Loans are assigned an FTP rate for funds used and deposits are assigned an FTP rate for funds provided. This process is executed by the Company's Financial Planning and Analysis division and is overseen by the Company's ALCO.

Webster allocates the provision for loan and lease losses to each reportable segment based on management's estimate of the inherent loss content in each of the specific loan and lease portfolios. Management believes the reserve level is adequate to cover inherent losses in each reportable segment. For additional discussion related to asset quality metrics, see the "Asset Quality" section elsewhere within this report.

Webster allocates a majority of non-interest expense to each reportable segment using a full-absorption costing process. Costs, including corporate overhead, are analyzed, pooled by process, and assigned to the appropriate reportable segment. The $7.2 million charge related to an accrual for additional FDIC premiums, for the three and six months ended June 30, 2018, is included in the Corporate and Reconciling category. See Note 1 to the Condensed Consolidated Financial Statements included in Item 1 of this report for additional information.

Beginning in 2018, income tax expense is estimated for each reportable segment individually. The 2017 income tax expense was estimated for all segments using the consolidated effective tax rate. This change in the estimate of income tax expense reflects an estimate of full profitability for each of the individual business segments based on the nature of their operations.

The following tables present net income (loss), selected balance sheet information, and assets under administration/management for Webster's reportable segments and the Corporate and Reconciling category for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Net income (loss):				
Commercial Banking	$37,403	$29,324	$76,267	$63,470
HSA Bank	19,926	11,251	37,744	22,269
Community Banking	26,832	22,727	45,633	37,398
Corporate and Reconciling	(2,479)	(1,723)	2,263	(2,087)
Consolidated Total	$81,682	$61,579	$161,907	$121,050

	At June 30, 2018				
(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Consolidated Total**
Total assets	$9,972,737	$73,914	$8,793,382	$8,196,704	$27,036,737
Loans and leases	9,935,808	108	8,090,080	—	18,025,996
Goodwill	—	21,813	516,560	—	538,373
Deposits	3,680,638	5,517,929	11,795,776	349,013	21,343,356
Not included in above amounts:					
Assets under administration/management	2,058,092	1,476,030	3,450,703	—	6,984,825

	At December 31, 2017				
(In thousands)	**Commercial Banking**	**HSA Bank**	**Community Banking**	**Corporate and Reconciling**	**Consolidated Total**
Total assets	$9,350,028	$76,308	$8,909,671	$8,151,638	$26,487,645
Loans and leases	9,323,376	328	8,200,154	—	17,523,858
Goodwill	—	21,813	516,560	—	538,373
Deposits	4,122,608	5,038,681	11,476,334	356,106	20,993,729
Not included in above amounts:					

Assets under administration/management	2,039,375	1,268,402	3,376,185	—	6,683,962

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Commercial Banking

Operating Results:

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net interest income	$88,459	$78,946	$173,110	$157,193
Provision for loan and lease losses	10,915	10,692	18,093	17,489
Net interest income after provision	77,544	68,254	155,017	139,704
Non-interest income	15,041	12,532	30,357	25,956
Non-interest expense	42,979	37,304	84,224	75,428
Income before income taxes	49,606	43,482	101,150	90,232
Income tax expense	12,203	14,158	24,883	26,762
Net income	$37,403	$29,324	$76,267	$63,470

Comparison to Prior Year Quarter

Net income increased $8.1 million for the three months ended June 30, 2018 as compared to the same period in 2017. Net interest income increased $9.5 million, primarily due to loan growth and higher loan and deposit margins. The provision for loan and lease losses increased $0.2 million. Non-interest income increased $2.5 million primarily due to greater client interest rate hedging activity in the quarter as compared to prior year. Non-interest expense increased $5.7 million, primarily due to investments in people, product enhancements and infrastructure.

Comparison to Prior Year to Date

Net income increased $12.8 million for the six months ended June 30, 2018 as compared to the same period in 2017. Net interest income increased $15.9 million, primarily due to loan growth and higher loan and deposit margins. The provision for loan and lease losses increased $0.6 million. Non-interest income increased $4.4 million, primarily due to client interest rate hedging activity. Non-interest expense increased $8.8 million, primarily due to investments in people, product enhancements and infrastructure.

Selected Balance Sheet Information and Assets Under Administration/Management:

(In thousands)	At June 30, 2018	At December 31, 2017
Total assets	$9,972,737	$ 9,350,028
Loans and leases	9,935,808	9,323,376
Deposits	3,680,638	4,122,608
Not included in above amounts:		
Assets under administration/management	2,058,092	2,039,375

Loans and leases increased $612.4 million at June 30, 2018 compared to December 31, 2017. Loan originations in the six months ended June 30, 2018 and 2017 were $2.0 billion and $1.6 billion, respectively.

Deposits decreased $442.0 million at June 30, 2018 compared to December 31, 2017, primarily due to competitive pricing in the market for short term deposit rates.

Through Private Banking, Commercial Banking held approximately $379.8 million and $357.5 million in assets under administration at June 30, 2018 and December 31, 2017, respectively. In addition, Commercial Banking held $1.7 billion in assets under management at June 30, 2018 and December 31, 2017.

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HSA Bank

Operating Results:

(In thousands)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Net interest income	$35,265	$25,574	$68,189	$49,626
Non-interest income	22,882	19,750	45,551	39,021
Non-interest expense	31,220	28,750	62,735	56,989
Income before income taxes	26,927	16,574	51,005	31,658
Income tax expense	7,001	5,323	13,261	9,389
Net income	$19,926	$11,251	$37,744	$22,269

Comparison to Prior Year Quarter

Net income increased $8.7 million for the three months ended June 30, 2018 as compared to the same period in 2017. Net interest income increased $9.7 million, primarily due to growth in deposits and improved deposit spreads. Non-interest income increased $3.1 million due to increased account growth. Non-interest expense increased $2.5 million primarily due to account growth and continued investment in the business including expanded distribution.

Comparison to Prior Year to Date

Net income increased $15.5 million for the six months ended June 30, 2018 as compared to the same period in 2017. Net interest income increased $18.6 million, primarily due to growth in deposits and improved deposit spreads. Non-interest income increased $6.5 million due to increased account growth. Non-interest expense increased $5.7 million primarily due to account growth as well as continued investment in the business.

Selected Balance Sheet Information and Assets Under Administration:

(In thousands)	At June 30, 2018	At December 31, 2017
Total assets	$ 73,914	$ 76,308
Deposits	5,517,929	5,038,681
Not included in above amounts:		
Assets under administration	1,476,030	1,268,402

Deposits increased $479.2 million at June 30, 2018 compared to December 31, 2017, due to an increase in new accounts as well as organic growth in existing account balances.

Additionally, HSA Bank had $1.5 billion in assets under administration through linked brokerage accounts at June 30, 2018 compared to $1.3 billion at December 31, 2017. The $207.6 million increase in linked brokerage balances is driven by investment account growth, continued net contributions by account holders and changes in market value of investments.

At June 30, 2018, there were $7.0 billion in total footings, comprised of $5.5 billion in deposit balances and $1.5 billion in assets under administration.

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Community Banking

Operating Results:

(In thousands)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Net interest income	$101,902	$95,902	$200,830	$189,492
(Benefit) provision for loan and lease losses	(415)	(3,442)	3,407	261
Net interest income after provision	102,317	99,344	197,423	189,231
Non-interest income	26,378	28,058	51,573	53,437
Non-interest expense	95,197	94,322	192,026	189,501
Income before income taxes	33,498	33,080	56,970	53,167
Income tax expense	6,666	10,353	11,337	15,769
Net income	$26,832	$22,727	$45,633	$37,398

Comparison to Prior Year Quarter

Net income increased $4.1 million for the three months ended June 30, 2018 as compared to the same period in 2017. Net interest income increased $6.0 million, primarily due to growth in loan and deposit balances, coupled with improved interest rate spreads on deposits. The provision for loan and lease losses increased $3.0 million. Non-interest income decreased $1.7 million primarily resulting from decreased returns on mortgage banking activities related to lower mortgage production, partially offset by growth in fees from investment services and other miscellaneous fee income. Non-interest expense increased $0.9 million as a result of higher compensation expenses, investments in technology and risk management; partially offset by reductions in other expense categories.

Comparison to Prior Year to Date

Net income increased $8.2 million for the six months ended June 30, 2018 as compared to the same period in 2017. Net interest income increased $11.3 million, primarily due to growth in loan and deposit balances as well as improved interest rate spreads on deposits. The provision for loan and lease losses increased $3.1 million. Non-interest income decreased $1.9 million primarily resulting from decreased returns on mortgage banking activities related to lower mortgage production, partially offset by growth in fees from investment services and other miscellaneous fee income. Non-interest expense increased $2.5 million as a result of higher compensation expenses, investments in technology and risk management; partially offset by lower marketing-related expenses, FDIC charges and reductions in other expense categories.

Selected Balance Sheet Information and Assets Under Administration:

(In thousands)	At June 30, 2018	At December 31, 2017
Total assets	$8,793,382	$ 8,909,671
Loans	8,090,080	8,200,154
Deposits	11,795,776	11,476,334
Not included in above amounts:		
Assets under administration	3,450,703	3,376,185

Loans decreased $110.1 million at June 30, 2018 compared to December 31, 2017. The net lower loan balances are related to decreases in residential mortgages, home equity and unsecured personal loans as principal paydowns exceeded new originations; partially offset by growth in business banking loan balances.

Loan originations in the six months ended June 30, 2018 and 2017 were $0.7 billion and $1.0 billion, respectively. The $338.9 million decrease in originations was driven by a decrease in originations of residential mortgages, home equity and other consumer loans.

Deposits increased $319.4 million at June 30, 2018 compared to December 31, 2017 due to growth in time and demand deposits partially offset by lower balances in money market accounts.

Additionally, at June 30, 2018 and December 31, 2017, Webster Bank's investment services division held $3.5 billion and $3.4 billion of assets under administration, respectively, in its strategic partnership with LPL.

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Financial Condition

Webster had total assets of $27.0 billion at June 30, 2018 and $26.5 billion at December 31, 2017 as:

- loans and leases of $17.8 billion, net of ALLL of $207.3 million, at June 30, 2018 increased $0.5 billion compared to loans and leases of $17.3 billion, net of ALLL of $200.0 million, at December 31, 2017, while;
- total deposits of $21.3 billion at June 30, 2018 increased $0.3 billion compared to total deposits of $21.0 billion at December 31, 2017, the result of a 2.3% increase, in interest bearing deposits due to growth in health savings accounts.

At June 30, 2018, total shareholders' equity of $2.8 billion increased $59.8 million compared to total shareholders' equity of $2.7 billion at December 31, 2017. Changes in shareholders' equity for the six months ended June 30, 2018 include:

- an increase of $161.9 million in net income;
- an increase of $5.9 million related to share-based award activity, partially offset by;
- a reduction of $20.3 million for purchases of treasury stock at cost, and;
- reductions of $54.2 million in common dividends and $3.9 million in preferred dividends.

The quarterly cash dividend to shareholders was increased to $0.33 per common share effective April 23, 2018. See the selected financial highlights under the "Results of Operations" section and Note 10: Regulatory Matters in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for information on regulatory capital levels and ratios.

Investment Securities

Webster Bank's investment securities are managed within regulatory guidelines and corporate policy, which include limitations on aspects such as concentrations in and type of investments as well as minimum risk ratings per type of security. The OCC may establish additional individual limits on a certain type of investment if the concentration in such investment presents a safety and soundness concern. In addition to Webster Bank, Webster Financial Corporation (the Holding Company) also may directly hold investment securities from time-to-time. At June 30, 2018, the Company had no holdings in obligations of individual states, counties, or municipalities which exceeded 10% of consolidated shareholders' equity.

Webster maintains, through its Corporate Treasury Unit, investment securities that are primarily used to provide a source of liquidity for operating needs, to generate interest income, and as a means to manage interest-rate risk. Investment securities are classified into two major categories, available-for-sale and held-to-maturity. Available-for-sale currently consists of U.S Treasury Bills, Agency CMO, Agency MBS, Agency CMBS, CMBS, CLO, and Corporate debt. Held-to-maturity currently consists of Agency CMO, Agency MBS, Agency CMBS, municipal bonds and notes, CMBS, and private label MBS.

The combined carrying value of investment securities totaled $7.1 billion at both June 30, 2018 and December 31, 2017.

- Available-for-sale investment securities increased by $142.5 million, primarily due to principal purchase activity for Agency MBS and CMBS more than offsetting principal paydowns throughout the portfolio. The tax-equivalent yield in the portfolio was 2.85% for the six months ended June 30, 2018 compared to 2.77% for the six months ended June 30, 2017.
- Held-to-maturity investment securities decreased by $131.2 million, primarily due to principal paydowns throughout the portfolio exceeding purchase activity for Agency MBS and municipal bonds and notes. The tax-equivalent yield in the portfolio was 2.95% for the six months ended June 30, 2018 compared to 3.18% for the six months ended June 30, 2017.

The Company held $5.9 billion in investment securities that are in an unrealized loss position at June 30, 2018. Approximately $3.2 billion of this total has been in an unrealized loss position for less than twelve months, while the remainder, $2.8 billion, has been in an unrealized loss position for twelve months or longer. These investment securities were evaluated by management and were determined not to be other than temporarily impaired. The Company does not have the intent to sell these investment securities, and it is more likely than not that it will not have to sell these investment securities before the recovery of their cost basis. To the extent that credit movements and

other related factors influence the fair value of its investment securities, the Company may be required to record impairment charges for OTTI in future periods. The total unrealized loss was $232.9 million at June 30, 2018.

The following table summarizes the amortized cost and fair value of investment securities:

	At June 30, 2018				At December 31, 2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:								
U.S. Treasury Bills	$2,491	$—	$—	$2,491	$1,247	$—	$—	$1,247
Agency CMO	271,712	268	(6,727)	265,253	308,989	1,158	(3,814)	306,333
Agency MBS	1,356,988	1,053	(46,200)	1,311,841	1,124,960	2,151	(19,270)	1,107,841
Agency CMBS	618,054	—	(35,378)	582,676	608,276	—	(20,250)	588,026
CMBS	373,916	958	(318)	374,556	358,984	2,157	(74)	361,067
CLO	187,697	538	(169)	188,066	209,075	910	(134)	209,851
Single issuer-trust preferred	—	—	—	—	7,096	—	(46)	7,050
Corporate debt	56,197	404	(903)	55,698	56,504	797	(679)	56,622
Available-for-sale	$2,867,055	$ 3,221	$(89,695)	$2,780,581	$2,675,131	$ 7,173	$(44,267)	$2,638,037
Held-to-maturity:								
Agency CMO	$231,943	$ 296	$(7,891)	$224,348	$260,114	$ 664	$(4,824)	$255,954
Agency MBS	2,520,455	10,139	(90,415)	2,440,179	2,569,735	16,989	(37,442)	2,549,282
Agency CMBS	677,397	—	(24,594)	652,803	696,566	—	(10,011)	686,555
Municipal bonds and notes	697,066	1,948	(16,851)	682,163	711,381	8,584	(6,558)	713,407
CMBS	229,265	551	(3,419)	226,397	249,273	2,175	(620)	250,828
Private Label MBS	93	—	—	93	323	1	—	324
Held-to-maturity	$4,356,219	$ 12,934	$(143,170)	$4,225,983	$4,487,392	$ 28,413	$(59,455)	$4,456,350

The benchmark 10-year U.S. Treasury rate increased to 2.86% at June 30, 2018 from 2.41% at December 31, 2017. Webster Bank has the ability to use its investment securities, as well as interest-rate financial instruments within internal policy guidelines, to hedge and manage interest-rate risk as part of its asset/liability strategy. See Note 12: Derivative Financial Instruments in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for additional information concerning derivative financial instruments.

Alternative Investments

Investments in Private Equity Funds. The Company has investments in private equity funds. These investments, which totaled $15.3 million at June 30, 2018 and $11.8 million at December 31, 2017, are included in other assets in the accompanying Condensed Consolidated Balance Sheets. The Company recognized a net gain of $1.3 million and $0.5 million for the three months ended June 30, 2018 and 2017, respectively, and a net gain of $1.9 million and $1.7 million for the six months ended June 30, 2018 and 2017, respectively. These amounts are included in other non-interest income in the accompanying Condensed Consolidated Statements of Income.

Other Non-Marketable Investments. The Company holds certain non-marketable investments, which include ownership in other equity ventures. These investments, which totaled $6.3 million at June 30, 2018 and $6.3 million at December 31, 2017, are included in other assets in the accompanying Condensed Consolidated Balance Sheets. The Company recorded a net loss of $3 thousand and nothing for the three months ended June 30, 2018 and 2017, respectively, and a net gain of $14 thousand and $27 thousand for the six months ended June 30, 2018 and 2017, respectively. These amounts are included in other non-interest income in the accompanying Condensed Consolidated Statements of Income.

See Note 13: Fair Value Measurements in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for a discussion on fair value accounting of alternative investments.

See the "Supervision and Regulation" section of Item 1. Business, contained in Webster's 2017 Form 10-K, for information on Covered Funds, as defined by the Volcker Rule.

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Loans and Leases

The following table provides the composition of loans and leases:

	At June 30, 2018		At December 31, 2017	
(Dollars in thousands)	Amount	%	Amount	%
Residential	$4,428,997	24.6	$4,464,651	25.5
Consumer:				
Home equity	2,241,239	12.4	2,336,846	13.3
Other consumer	228,752	1.3	237,695	1.4
Total consumer	2,469,991	13.7	2,574,541	14.7
Commercial:				
Commercial non-mortgage	5,042,515	28.0	4,551,580	26.0
Asset-based	962,940	5.3	837,490	4.8
Total commercial	6,005,455	33.3	5,389,070	30.8
Commercial real estate:				
Commercial real estate	4,427,839	24.6	4,249,549	24.3
Commercial construction	158,254	0.9	279,531	1.6
Total commercial real estate	4,586,093	25.4	4,529,080	25.9
Equipment financing	519,012	2.9	545,877	3.1
Unamortized premiums	15,281	0.1	15,316	0.1
Deferred fees	1,167	—	5,323	—
Total loans and leases	$18,025,996	100.0	$17,523,858	100.0

Total residential loans were $4.4 billion at June 30, 2018, a decrease of $35.7 million from December 31, 2017. The net decrease is a result of net principal paydowns exceeding the originations to the portfolio.

Total consumer loans were $2.5 billion at June 30, 2018, a decrease of $104.6 million from December 31, 2017. The net decrease is primarily due to continued net principal paydowns within the home equity lines and auto loan portfolios exceeding originations.

Total commercial loans were $6.0 billion at June 30, 2018, an increase of $616.4 million from December 31, 2017. The net increase primarily related to originations of $1.4 billion, partially offset by payments and payoffs.

Total commercial real estate loans were $4.6 billion at June 30, 2018, a increase of $57.0 million from December 31, 2017. The increase is a result of originations of $687.9 million, partially offset by payments and payoffs.

Equipment financing loans and leases were $519.0 million at June 30, 2018, a decrease of $26.9 million from December 31, 2017. The net decrease was primarily related to scheduled amortization and higher prepayments, partially offset by originations of $78.9 million.

Asset Quality

Management maintains asset quality within established risk tolerance levels through its underwriting standards, servicing, and management of loan and lease performance. Loans and leases, particularly where a heightened risk of loss has been identified, are regularly monitored to mitigate further deterioration which could potentially impact key measures of asset quality in future periods. Past due loans and leases, non-performing assets, and credit loss levels are considered to be key measures of asset quality.

The following table provides key asset quality ratios:

	At June 30, 2018	At December 31, 2017
Non-performing loans and leases as a percentage of loans and leases	0.78 %	0.72 %
Non-performing assets as a percentage of loans and leases plus OREO	0.81	0.76
Non-performing assets as a percentage of total assets	0.54	0.50
ALLL as a percentage of non-performing loans and leases	148.00	158.00
ALLL as a percentage of loans and leases	1.15	1.14
Net charge-offs as a percentage of average loans and leases (1)	0.16	0.20

Ratio of ALLL to net charge-offs [(1)]	7.31x	5.68x

(1) Calculated for the June 30, 2018 period based on the year-to-date net charge-offs, annualized.

Potential Problem Loans and Leases

Potential problem loans and leases are defined by management as certain loans and leases that, for:

- commercial, commercial real estate, and equipment financing are performing loans and leases classified as Substandard and have a well-defined weakness that could jeopardize the full repayment of the debt; and
- residential and consumer are performing loans 60-89 days past due and accruing.

Potential problem loans and leases exclude past due 90 days or more and accruing, non-accrual, and TDR classifications.

Management monitors potential problem loans and leases due to a higher degree of risk associated them. The current expectation of probable losses is included in the ALLL, however management cannot predict whether these potential problem loans and leases ultimately will become non-performing or result in a loss. The Company had potential problem loans and leases of $283.6 million at June 30, 2018 compared to $271.5 million at December 31, 2017.

Past Due Loans and Leases

The following table provides information regarding loans and leases past due 30 days or more and accruing income:

	At June 30, 2018		At December 31, 2017	
(Dollars in thousands)	Amount	% [(1)]	Amount	% [(1)]
Residential	$10,861	0.25	$13,771	0.31
Consumer:				
Home equity	11,281	0.50	18,397	0.79
Other consumer	3,073	1.34	3,997	1.68
Commercial non-mortgage	5,186	0.10	5,809	0.13
Commercial real estate	719	0.02	551	0.01
Equipment financing	2,322	0.45	2,358	0.43
Loans and leases past due 30-89 days	33,442	0.19	44,883	0.26
Commercial non-mortgage	62	—	644	0.01
Commercial Real Estate	—	—	243	0.01
Loans and leases past due 90 days and accruing	62	—	887	0.01
Total	33,504	0.19	45,770	0.26
Deferred costs and unamortized premiums, net	81		77	
Total loans and leases over 30 days past due and accruing income	$33,585		$45,847	

(1) Represents the principal balance of loans and leases over 30 days past due and accruing income as a percentage of the outstanding principal balance within the comparable loan and lease category.

The balance of loans and leases past due 30 days or more and accruing income decreased $12.3 million at June 30, 2018 compared to December 31, 2017 and was centered in home equity and residential. The ratio of loans and leases past due 30 days or more and accruing income as a percentage of loans and leases declined to 0.19% at June 30, 2018 as compared to 0.26% at December 31, 2017.

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Non-performing Assets

The following table provides information regarding non-performing assets:

	At June 30, 2018		At December 31, 2017	
(Dollars in thousands)	Amount	% (1)	Amount	% (1)
Residential	$50,654	1.14	$44,407	0.99
Consumer:				
Home equity	36,807	1.64	35,601	1.52
Other consumer	1,583	0.69	1,706	0.72
Total consumer	38,390	1.55	37,307	1.45
Commercial:				
Commercial non-mortgage	36,730	0.73	39,402	0.87
Asset-based loans	1,197	0.12	589	0.07
Total commercial	37,927	0.63	39,991	0.74
Commercial real estate:				
Commercial real estate	9,606	0.22	4,484	0.11
Commercial construction	—	—	—	—
Total commercial real estate	9,606	0.21	4,484	0.10
Equipment financing	3,510	0.68	393	0.07
Total non-accrual loans and leases	140,087	0.78	126,582	0.72
Deferred costs and unamortized premiums, net	91		(69)	
Total recorded investment in non-accrual loans and leases (2)	$140,178		$126,513	
Total non-accrual loans and leases	$140,087		$126,582	
Foreclosed and repossessed assets:				
Residential and consumer	5,812		5,759	
Equipment financing	148		305	
Total foreclosed and repossessed assets	5,960		6,064	
Total non-performing assets	$146,047		$132,646	

(1) *Represents the principal balance of non-accrual loans and leases as a percentage of the outstanding principal balance within the comparable loan and lease category.*

(2) *Includes non-accrual TDRs of $79.5 million at June 30, 2018 and $74.3 million at December 31, 2017.*

Non-performing assets increased $13.4 million at June 30, 2018 compared to December 31, 2017. The increase in non-performing assets at June 30, 2018 is primarily due to residential and commercial real estate portfolios. As a result, overall non-performing assets as a percentage of total assets increased to 0.54% at June 30, 2018 as compared to 0.50% at December 31, 2017.

The following table provides detail of non-performing loan and lease activity:

	Six months ended June 30,	
(In thousands)	2018	2017
Beginning balance	$126,582	$134,035
Additions	55,745	77,657
Paydowns/draws	(23,185)	(29,014)
Charge-offs	(15,964)	(13,051)
Other reductions	(3,091)	(3,258)
Ending balance	$140,087	$166,369

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Impaired Loans and Leases

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, consumer loans and small business loans. Commercial, commercial real estate, and equipment financing loans and leases over a specific dollar amount and all TDR are evaluated individually for impairment.

At June 30, 2018, there were 1,549 impaired loans and leases with a recorded investment balance of $257.2 million, which included loans and leases of $93.9 million with an impairment allowance of $13.9 million. This compares to 1,606 impaired loans and leases with a recorded investment balance of $246.8 million, which included loans and leases of $105.4 million, with an impairment allowance of $16.6 million at December 31, 2017. For additional information, see Note 4: Loans and Leases in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report.

Troubled Debt Restructurings

A modified loan is considered a TDR when two conditions are met: (i) the borrower is experiencing financial difficulties; and (ii) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company considers all aspects of the restructuring in determining whether a concession has been granted, including the debtor's ability to access market rate funds. In general, a concession exists when the modified terms of the loan are more attractive to the borrower than standard market terms. Common modifications include material changes in covenants, pricing, and forbearance. Loans for which the borrower has been discharged under Chapter 7 bankruptcy are considered collateral dependent TDRs and thus, 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 consumer loan TDRs, except those that were performing prior to TDR status, on non-accrual status for a minimum period of six months. Commercial TDRs are evaluated on a case-by-case basis for determination of accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Initially, all TDRs are reported as impaired. Generally, a TDR is classified as an impaired loan and reported as a TDR 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 six months and through one 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 circumstance 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.

The following tables provide information for TDRs:

	Six months ended June 30,	
(In thousands)	**2018**	**2017**
Beginning balance	$221,404	$223,528
Additions	39,523	21,291
Paydowns/draws	(24,039)	(17,498)
Charge-offs	(5,224)	(2,584)
Transfers to OREO	(1,690)	(1,638)
Ending balance	$229,974	$223,099

(In thousands)	**At June 30, 2018**	**At December 31, 2017**
Accrual status	$150,459	$ 147,113
Non-accrual status	79,515	74,291
Total recorded investment of TDRs	$229,974	$ 221,404
Specific reserves for TDRs included in the balance of ALLL	$11,334	$ 12,384
Additional funds committed to borrowers in TDR status	7,206	2,736

Overall, TDR balances increased $8.6 million at June 30, 2018 compared to December 31, 2017, while the specific reserves for TDRs decreased from year end, reflective of management's current assessment of reserve requirements.

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Allowance for Loan and Lease Losses Methodology

The ALLL policy is considered a critical accounting policy. Executive management reviews and advises on the adequacy of the ALLL reserve, which is maintained at a level deemed sufficient by management to cover probable losses inherent within the loan and lease portfolios.

The quarterly process for estimating probable losses is based on predictive models, to measure the current risk profile of loan portfolio and combines other quantitative and qualitative factors together with the impairment reserve to determine the overall reserve requirement. Management's judgment and assumptions influence loss estimates and ALLL balances. Quantitative and qualitative factors that management considers include factors such as the nature and volume of portfolio growth, national and regional economic conditions and trends, other internal performance metrics, and how each of these factors is expected to impact near term loss trends. While actual future conditions and realized losses may vary significantly from assumptions, management believes the ALLL is adequate at June 30, 2018.

The Company's methodology for assessing an appropriate level of the ALLL includes three key elements:

- Impaired loans and leases are either analyzed on an individual or pooled basis and assessed for specific reserves measured based on the present value of expected future cash flows discounted at the effective interest rate of the loan or lease, except that as a practical expedient, impairment may be measured based on a loan or lease's observable market price, or the fair value of the collateral, if the loan or lease is collateral dependent. A loan or lease is collateral dependent if the repayment of the loan or lease is expected to be provided solely by the underlying collateral. The Company considers the pertinent facts and circumstances for each impaired loan or lease when selecting the appropriate method to measure impairment and evaluates, on a quarterly basis, each selection to ensure its continued appropriateness.
- Loans and leases that are not considered impaired and have similar risk characteristics, are segmented into homogeneous pools and modeled using quantitative methods. The Company's loss estimate for its commercial portfolios utilizes an expected loss methodology that is based on probability of default (PD) and LGD models. The PD and LGD models are based on borrower and facility risk ratings assigned to each loan and are updated throughout the year as a borrower's financial condition changes. PD and LGD models are derived using the Company's portfolio specific historic data and are refreshed annually. Residential and consumer portfolio loss estimates are based on roll rate models that utilize the Company's historic delinquency and default data. For each segmentation the loss estimates incorporate a loss emergence period (LEP) model which represents an amount of time between when a loss event first occurs to when it is charged-off. An LEP is determined for each loan type based on the Company's historical experience and is reassessed at least annually.
- The Company also considers qualitative factors, consistent with interagency regulatory guidance, that are not explicitly factored in the quantitative models but that can have an incremental or regressive impact on losses incurred in the current loan and lease portfolio.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate and service its debt. Underwriting standards are designed to focus on and support the promotion of relationships rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company 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. Management regularly monitors the cash flows of borrowers as results may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed and may incorporate personal guarantees of the principals.

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 of the property securing the loan. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location, which reduces the Company's exposure to adverse economic events that may affect a particular market. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk

grade criteria. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting its commercial real estate loan portfolio.
Commercial construction loans 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 appraisals, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Commercial construction loans are generally based upon estimates of costs and value associated with the complete project. Estimates may be subject to change as the construction project proceeds. In addition, these loans often include partial or full completion guarantees. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. Management closely monitors these loans with on-site inspections by third-party professionals and the Company's internal staff.

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Policies and procedures are in place to manage consumer loan risk and are developed and modified, as needed. 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. Additionally, Webster Bank originates both qualified mortgage and non-qualified mortgage loans as defined by the Consumer Financial Protection Bureau rules that went into effect on January 10, 2014.

At June 30, 2018 the ALLL was $207.3 million compared to $200.0 million at December 31, 2017. The increase of $7.3 million in the reserve at June 30, 2018 compared to December 31, 2017 is primarily due to growth in commercial banking and a net increase in reserves for impaired loans. The ALLL reserve remains adequate to cover inherent losses in the loan and lease portfolios. ALLL as a percentage of loans and leases, also known as the reserve coverage, increased to 1.15% at June 30, 2018 from 1.14% at December 31, 2017, reflecting an updated assessment of inherent losses and impaired reserves. ALLL as a percentage of non-performing loans and leases decreased to 148.00% at June 30, 2018 from 158.00% at December 31, 2017.

The following table provides an allocation of the ALLL by portfolio segment:

	At June 30, 2018		**At December 31, 2017**	
(Dollars in thousands)	**Amount**	**%** [(1)]	**Amount**	**%** [(1)]
Residential	$19,007	0.43	$19,058	0.42
Consumer	31,759	1.28	36,190	1.40
Commercial	95,340	1.59	89,533	1.67
Commercial real estate	55,833	1.22	49,407	1.09
Equipment financing	5,383	1.03	5,806	1.06
Total ALLL	$207,322	1.15	$199,994	1.14

(1) *Percentage represents allocated ALLL to total loans and leases within the comparable category. The allocation of a portion of the ALLL to one category of loans and leases does not preclude its availability to absorb losses in other categories.*

The following table provides detail of activity in the ALLL:

	At or for the three months ended June 30,		**At or for the six months ended June 30,**	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Beginning balance	$205,349	$199,107	$199,994	$194,320
Provision	10,500	7,250	21,500	17,750
Charge-offs:				
Residential	(754)	(623)	(1,671)	(1,355)
Consumer	(4,907)	(5,602)	(9,981)	(12,076)
Commercial	(5,632)	(2,196)	(7,129)	(2,319)
Commercial real estate	(40)	(100)	(117)	(202)
Equipment financing	(65)	(119)	(110)	(304)
Total charge-offs	(11,398)	(8,640)	(19,008)	(16,256)
Recoveries:				
Residential	325	407	711	644
Consumer	1,614	1,120	3,057	2,443
Commercial	909	317	1,026	639
Commercial real estate	9	4	11	11
Equipment financing	14	13	31	27
Total recoveries	2,871	1,861	4,836	3,764
Net charge-offs	(8,527)	(6,779)	(14,172)	(12,492)
Ending balance	$207,322	$199,578	$207,322	$199,578

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The following table provides a summary of net charge-offs (recoveries) to average loans and leases by category:

	Three months ended June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
(Dollars in thousands)	Amount	% [(1)]	Amount	% [(1)]	Amount	% [(1)]	Amount	% [(1)]
Residential	$429	0.04	$216	0.02	$960	0.04	$711	0.03
Consumer	3,293	0.53	4,482	0.68	6,924	0.55	9,633	0.73
Commercial	4,723	0.32	1,879	0.15	6,103	0.21	1,680	0.07
Commercial real estate	31	—	96	0.01	106	—	191	0.01
Equipment financing	51	0.04	106	0.07	79	0.03	277	0.09
Net charge-offs	$8,527	0.19	$6,779	0.16	$14,172	0.16	$12,492	0.15

(1) Net charge-offs (recoveries) to average loans and leases, percentage calculated based on period-to-date activity, annualized.

Net charge-offs increased $1.7 million for the three and six months ended June 30, 2018 as compared to the same periods in 2017. The increase for both periods is primarily due to a increase in commercial charge-offs partly offset by an decrease in consumer charge-offs. To assist management with its review, reports related to loan production, loan quality, concentrations of credit, loan delinquencies, non-performing loans, and potential problem loans are generated by loan reporting systems.

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Sources of Funds and Liquidity

Sources of Funds. The primary source of Webster Bank's cash flow for use in lending and meeting its general operational needs is deposits. Operating activities, such as loan and mortgage-backed securities repayments, and other investment securities sale proceeds and maturities, also provide cash flow. While scheduled loan and investment security repayments are a relatively stable source of funds, loan and investment security prepayments and deposit inflows are influenced by prevailing interest rates and local economic conditions and are inherently uncertain. Additional sources of funds are provided by FHLB advances or other borrowings.

Federal Home Loan Bank and Federal Reserve Bank Stock. Webster Bank is a member of the Federal Home Loan Bank System, which consists of eleven district Federal Home Loan Banks, each subject to the supervision and regulation of the Federal Housing Finance Agency. An activity-based FHLB capital stock investment is required in order for Webster Bank to access advances and other extensions of credit for sources of funds and liquidity purposes. The FHLB capital stock investment is restricted in that there is no market for it, and it can only be redeemed by the FHLB. The FHLB has initiated a process to redeem the holdings of its member banks in excess of their membership and activity requirements, based on current conditions. As a result, Webster Bank held $90.6 million of FHLB capital stock at June 30, 2018 compared to $100.9 million at December 31, 2017, for its membership and for outstanding advances and other extensions of credit. On May 2, 2018, the FHLB paid a cash dividend equal to an annual yield of 5.46%.

Additionally, Webster Bank is required to hold FRB stock equal to 6% of its capital and surplus of which 50% is paid. The remaining 50% is subject to call when deemed necessary by the FRB. The FRB capital stock investment is restricted in that there is no market for it, and it can only be redeemed by the FRB. At both June 30, 2018 and December 31, 2017, Webster Bank held $50.7 million of FRB capital stock. A semi-annual dividend payment from the FRB is calculated as the lesser of three percent or yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend.

Deposits. Webster Bank offers a wide variety of deposit products for checking and savings (including: ATM and debit card use, direct deposit, ACH payments, combined statements, mobile banking services, internet-based banking, bank by mail, as well as overdraft protection via line of credit or transfer from another deposit account) designed to meet the transactional, savings, and investment needs for both consumer and business customers throughout 163 banking centers within its primary market area. Webster Bank manages the flow of funds in its deposit accounts and provides a variety of accounts and rates consistent with FDIC regulations. Webster Bank's Retail Pricing Committee and its Commercial and Institutional Liability Pricing Committee meet regularly to determine pricing and marketing initiatives.

Total deposits were $21.3 billion at June 30, 2018 compared to $21.0 billion at December 31, 2017. The increase is predominately related to an increase in health savings accounts of $0.5 billion. See Note 7: Deposits in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for additional information.

Borrowings. Borrowings primarily consist of FHLB advances which are utilized as a source of funding for liquidity and interest rate risk management purposes. At June 30, 2018 and December 31, 2017, FHLB advances totaled $1.6 billion and $1.7 billion, respectively. Webster Bank had additional borrowing capacity from the FHLB of approximately $2.6 billion at both June 30, 2018 and December 31, 2017. Webster Bank also had additional borrowing capacity at the FRB of approximately $0.4 billion at June 30, 2018 and $0.5 billion at December 31, 2017. Securities sold under agreements to repurchase, whereby securities are delivered to counterparties under an agreement to repurchase the securities at a fixed price in the future, to a lesser extent, are also utilized as a source of funding. Unpledged investment securities of $4.4 billion at June 30, 2018 could have been used for collateral on borrowings such as repurchase agreements or, alternatively, to increase borrowing capacity by approximately $4.1 billion at the FHLB or approximately $4.2 billion at the FRB. In addition, Webster Bank may utilize term and overnight Fed funds to meet short-term liquidity needs. The Company also maintains long-term debt consisting of senior fixed-rate notes maturing in 2024 and junior subordinated notes maturing in 2033.

Total borrowed funds were $2.7 billion at June 30, 2018 compared to $2.5 billion at December 31, 2017. Borrowings represented 9.9% and 9.6% of total assets at June 30, 2018 and December 31, 2017, respectively. The increase in borrowings was the net result of increased Fed funds purchased balances somewhat offset by decreased FHLB

advances. For additional information, see Note 8: Borrowings in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report.

Liquidity. Webster meets its cash flow requirements at an efficient cost under various operating environments through proactive liquidity management at both the Holding Company and Webster Bank. Liquidity comes from a variety of cash flow sources such as operating activities, including principal and interest payments on loans and investments, or financing activities, including unpledged investment securities, which can be sold or utilized to secure funding, and new deposits. Webster is committed to maintaining a strong, increasing base of core deposits, consisting of demand, checking, savings, health savings, and money market accounts, to support growth in its loan and lease portfolio. Liquidity is reviewed and managed in order to maintain stable, cost effective funding to promote overall balance sheet strength. Net cash provided by operating activities was $256.5 million for the six months ended June 30, 2018 as compared to $182.0 million for the six months ended June 30, 2017. The increase is most significantly a result of net derivative contract activity during the current period.

Holding Company Liquidity. The primary source of liquidity at the Holding Company is dividends from Webster Bank. Webster Bank paid $150 million in dividends to the Holding Company during the six months ended June 30, 2018. To a lesser extent, investment income, net proceeds from investment sales, borrowings, and public offerings may provide additional liquidity. The main uses of liquidity are the payment of principal and interest to holders of senior notes and capital securities, the payment of dividends to preferred and common shareholders, repurchases of its common stock, and purchases of available-for-sale investment securities. There are certain restrictions on the payment of dividends by Webster Bank to the Holding Company, which are described in the section captioned "Supervision and Regulation" in Item 1 of Webster's 2017 Form 10-K. At June 30, 2018, there was $274.5 million of retained earnings available for the payment of dividends by Webster Bank to the Holding Company.

The Company has a common stock repurchase program authorized by the Board of Directors, with $91.7 million of remaining repurchase authority at June 30, 2018. In addition, Webster periodically acquires common shares outside of the repurchase program related to stock compensation plan activity. The Company records the purchase of shares of common stock at cost based on the settlement date for these transactions. During the six months ended June 30, 2018, a total of 353,717 shares of common stock were repurchased for approximately $20.3 million, of which 215,000 shares were purchased under the common stock repurchase program at a cost of approximately $12.2 million, and 138,717 shares were purchased, at market prices, related to stock compensation plan activity for a cost of approximately $8.1 million.

Webster Bank Liquidity. Webster Bank's primary source of funding is core deposits. The primary use of this funding is for loan portfolio growth. Including time deposits, Webster Bank had a loan to total deposit ratio of 84.5% and 83.5% at June 30, 2018 and December 31, 2017, respectively.

Webster Bank is required by OCC regulations to maintain liquidity sufficient to ensure safe and sound operations. Whether liquidity is adequate, as assessed by the OCC, depends on such factors as the overall asset/liability structure, market conditions, competition, and the nature of the institution's deposit and loan customers. Webster Bank exceeded all regulatory liquidity requirements as of June 30, 2018. The Company has a detailed liquidity contingency plan designed to respond to liquidity concerns in a prompt and comprehensive manner. The plan is designed to provide early detection of potential problems and details specific actions required to address liquidity stress scenarios.

Applicable OCC regulations require Webster Bank, as a commercial bank, to satisfy certain minimum leverage and risk-based capital requirements. As an OCC regulated commercial institution, it is also subject to a minimum tangible capital requirement. As of June 30, 2018, Webster Bank was in compliance with all applicable capital requirements and exceeded the FDIC requirements for a well-capitalized institution. See Note 10: Regulatory Matters in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for a further discussion of regulatory requirements applicable to Webster Financial Corporation and Webster Bank.

The liquidity position of the Company is continuously monitored, and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to have a material adverse effect on the Company's liquidity, capital resources, or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, which, if implemented, would have a material adverse effect on the Company.

Off-Balance Sheet Arrangements

Webster engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements or are recorded in amounts that differ from the notional amounts. Such transactions are utilized in the normal course of business, for general corporate purposes or for customer financing needs. Corporate purpose transactions are structured to manage credit, interest rate, and liquidity risks, or to optimize capital. Customer transactions are structured to manage their funding requirements or facilitate certain trade arrangements. These transactions give rise to, in varying degrees, elements of credit, interest rate, and liquidity risk. For the six months ended June 30, 2018, Webster did not engage in any off-balance sheet transactions that would have a material effect on its financial condition. For additional information, see Note 18: Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report.

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Asset/Liability Management and Market Risk

An effective asset/liability management process must balance the risks and rewards from both short and long-term interest rate risks in determining management strategy and action. To facilitate and manage this process, interest rate sensitivity is monitored on an ongoing basis by ALCO.

The following table summarizes the estimated impact that gradual parallel changes in income of 100 and 200 basis points, over a twelve month period starting June 30, 2018 and December 31, 2017, might have on Webster's net interest income (NII) for the subsequent twelve month period compared to NII assuming no change in interest rates:

NII	-200bp	-100bp	+100bp	+200bp
June 30, 2018	N/A	(4.8)%	3.1%	5.7%
December 31, 2017	N/A	(5.9)%	3.4%	6.4%

The following table summarizes the estimated impact that gradual parallel changes in interest rates of 100 and 200 basis points, over a twelve month period starting June 30, 2018 and December 31, 2017, might have on Webster's pre-tax, pre-provision net revenue (PPNR) for the subsequent twelve month period compared to PPNR assuming no change in interest rates:

PPNR	-200bp	-100bp	+100bp	+200bp
June 30, 2018	N/A	(8.2)%	4.8%	8.7%
December 31, 2017	N/A	(10.4)%	5.3%	9.9%

Interest rates are assumed to change up or down in a parallel fashion, and NII and PPNR results in each scenario are compared to a flat rate scenario as a base. The flat rate scenario holds the end of period yield curve constant over a twelve month forecast horizon. The flat rate scenario as of June 30, 2018 and December 31, 2017 assumed a Fed Funds rate of 2.00% and 1.50% respectively. This increase in rates resulted in higher NII and PPNR. Asset sensitivity for both NII and PPNR was lower as of June 30, 2018 when compared to December 31, 2017, primarily due to this increase in flat rate scenario income and an increase in fixed mortgage rates which lowered forecast prepayments in mortgage-related investments.

Webster can also hold futures, options, and forward foreign currency contracts to minimize the price volatility of certain assets and liabilities. Changes in the market value of these positions are recognized in earnings.

The following table summarizes the estimated impact that yield curve twists or immediate non-parallel changes in interest rates might have on Webster's NII for the subsequent twelve month period starting June 30, 2018 and December 31, 2017:

	Short End of the Yield Curve				Long End of the Yield Curve			
NII	-100bp	-50bp	+50bp	+100bp	-100bp	-50bp	+50bp	+100bp
June 30, 2018	(7.4)%	(3.4)%	1.7%	3.3%	(3.6)%	(1.7)%	1.3%	2.3%
December 31, 2017	(8.5)%	(4.3)%	2.0%	3.9%	(3.9)%	(1.7)%	1.3%	2.3%

The following table summarizes the estimated impact that immediate non-parallel changes in interest rates might have on Webster's PPNR for the subsequent twelve month period starting June 30, 2018 and December 31, 2017:

	Short End of the Yield Curve				Long End of the Yield Curve			
PPNR	-100bp	-50bp	+50bp	+100bp	-100bp	-50bp	+50bp	+100bp
June 30, 2018	(12.3)%	(5.6)%	2.4%	4.7%	(5.1)%	(2.8)%	2.4%	4.2%
December 31, 2017	(14.8)%	(7.5)%	2.9%	5.7%	(4.8)%	(2.2)%	2.2%	4.0%

The non-parallel scenarios are modeled with the short end of the yield curve moving up or down 50 and 100 basis points, while the long end of the yield curve remains unchanged and vice versa. The short end of the yield curve is defined as terms of less than eighteen months, and the long end as terms of greater than eighteen months. The results above reflect the annualized impact of immediate rate changes.

Sensitivity to increases in the short end of the yield curve for NII and PPNR are less positive as of June 30, 2018 when compared to December 31, 2017 due primarily to higher earnings from higher starting rates and to the maturity and roll forward of long-term fixed-rate borrowings. Sensitivity to decreases in the short end of the yield curve for NII and PPNR are less negative from December 31, 2017 due to the higher rate environment as of June 30, 2018 and the impact of deposit floors. As of June 30, 2018, Webster has greater ability to decrease deposit expense which results in less negative sensitivity results. As market rates have risen, Webster has increased selected deposit rates. Sensitivity to the long end of the yield curve remained essentially unchanged since December 31, 2017.

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The following table summarizes the estimated economic value of assets, liabilities, and off-balance sheet contracts at June 30, 2018 and December 31, 2017 and the projected change to economic values if interest rates instantaneously increase or decrease by 100 basis points:

(Dollars in thousands)	Book Value	Estimated Economic Value	Estimated Economic Value Change	
			-100 bp	+100 bp
June 30, 2018				
Assets	$27,036,737	$26,321,382	$540,717	$(640,066)
Liabilities	24,275,014	22,652,305	686,399	(596,088)
Net	$2,761,723	$3,669,077	$(145,682)	$(43,978)
Net change as % base net economic value			(4.0)%	(1.2)%
December 31, 2017				
Assets	$26,487,645	$25,971,043	$505,148	$(631,744)
Liabilities	23,785,687	22,509,322	729,967	(624,789)
Net	$2,701,958	$3,461,721	$(224,819)	$(6,955)
Net change as % base net economic value			(6.5)%	(0.2)%

Changes in economic value can be best described using duration. Duration is a measure of the price sensitivity of financial instruments for small changes in interest rates. For fixed-rate instruments, it can also be thought of as the weighted-average expected time to receive future cash flows. For floating-rate instruments, it can be thought of as the weighted-average expected time until the next rate reset. The longer the duration, the greater the price sensitivity for given changes in interest rates. Floating-rate instruments may have durations as short as one day and, therefore, have very little price sensitivity due to changes in interest rates. Increases in interest rates typically reduce the value of fixed-rate assets as future discounted cash flows are worth less at higher discount rates. A liability's value decreases for the same reason in a rising rate environment. A reduction in value of a liability is a benefit to Webster.

Duration gap is the difference between the duration of assets and the duration of liabilities. A duration gap near zero implies that the balance sheet is matched and would exhibit no change in estimated economic value for a small change in interest rates. Webster's duration gap was negative 0.6 years at June 30, 2018. At December 31, 2017, the duration gap was negative 0.9 years. A negative duration gap implies that liabilities are longer than assets and, therefore, they have more price sensitivity than assets and will reset their interest rates slower than assets. Consequently, Webster's net estimated economic value would generally be expected to increase when interest rates rise as the benefit of the decreased value of liabilities would more than offset the decreased value of assets. The opposite would generally be expected to occur when interest rates fall. Earnings would also generally be expected to increase when interest rates rise and decrease when interest rates fall over the longer term absent the effects of new business booked in the future. The change in Webster's duration gap is due primarily to the higher starting interest rates and the resulting decrease in forecast prepayment assumptions in mortgage-related investments and roll forward and maturities of borrowings.

These estimates assume that management does not take any action to mitigate any positive or negative effects from changing interest rates. The earnings and economic values estimates are subject to factors that could cause actual results to differ. Management believes that Webster's interest rate risk position at June 30, 2018 represents a reasonable level of risk given the current interest rate outlook. Management, as always, is prepared to act in the event that interest rates do change rapidly.

For a detailed description of the Company's asset/liability management process, refer to the section captioned "Asset/Liability Management and Market Risk" in Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations included in its Form 10-K for the year ended December 31, 2017.

Impact of Inflation and Changing Prices

The Condensed Consolidated Financial Statements and related data presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a banking institution are monetary in nature. As a result, interest rates have a more significant impact on Webster's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The required information is set forth above, in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, see the section captioned "Asset/Liability Management and Market Risk," which is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

The Company has performed an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined i

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, Webster and its subsidiaries are subject to certain legal proceedings and claims in the ordinary course of business. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not be material to Webster or its consolidated financial position. Webster establishes an accrual for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur that could cause Webster to adjust its litigation accrual or could have, individually or in the aggregate, a material adverse effect on its business, financial condition, or operating results.

ITEM 1A. RISK FACTORS

During the six months ended June 30, 2018, there were no material changes to the risk factors previously disclosed in Webster's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information with respect to any purchase of equity securities of Webster Financial Corporation's common stock made by or on behalf of Webster or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, during the three months ended June 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Amount Available for Repurchase Under the Plans or Programs (1)	Total Number of Warrants Purchased (2)	Average Price Paid Per Warrant
April	1,021	$ 55.47	—	$91,745,715	—	$ —
May	28,290	65.74	—	91,745,715	—	—
June	179	63.51	—	91,745,715	—	—
Total	29,490	65.37	—	91,745,715	—	—

(1) *On October 24, 2017, the Company's Board of Directors approved a common stock repurchase program which authorizes management to repurchase, in open market or privately negotiated transactions, subject to market conditions and other factors, up to a maximum of $100 million of common stock. The program will remain in effect until fully utilized or until modified, superseded, or terminated.*

All 29,490 shares purchased during the three months ended June 30, 2018 were, acquired outside of the repurchase program, related to stock compensation plan activity, at market prices.

(2) *On June 3, 2011, the Company announced that, with approval from its Board of Directors, it had repurchased a significant number of the warrants issued as part of Webster's participation in the U.S. Treasury's Capital Purchase Program in a public auction conducted on behalf of the U.S. Treasury. The Board approved plan provides for additional repurchases from time-to-time, as permitted by securities laws and other legal requirements. There remain 8,152 outstanding warrants to purchase a share (1:1) of the Company's common stock, which carry an exercise price of $18.28 per share and expire on November 21, 2018.*

Restrictions on Dividends

Holders of the Company's common stock are entitled to receive such dividends as the Board of Directors may declare out of funds legally available for such payments. Also, as a bank holding company, the ability to declare and pay dividends is dependent on certain federal regulatory considerations. See Note 10: Regulatory Matters in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this report for additional information.

The Company has 6,000,000 outstanding Depository Shares, each representing 1/1000th interest in a share of 5.25% Series F Non-Cumulative Perpetual Preferred Stock, par value $.01 per share, with a liquidation preference of $25,000 per share (or $25 per depository share). The Series F Preferred Stock is redeemable at Webster's option, in whole or in part, on December 15, 2022, or any dividend payment date thereafter, or in whole but not in part, upon a "regulatory capital treatment event" as defined in the Prospectus Supplement. The terms of the Series F Preferred Stock prohibit the Company from declaring or paying any cash dividends on its common stock, unless Webster has declared and paid full dividends on the Series F Preferred Stock for the most recently completed dividend period.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

The exhibits to this Quarterly Report on Form 10-Q are set forth on the Exhibit Index immediately preceding such exhibits and are incorporated herein by reference.

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SIGNATURES

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

WEBSTER FINANCIAL CORPORATION
Registrant

Date: August 3, 2018 By: /s/ John R. Ciulla
John R. Ciulla
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 3, 2018 By: /s/ Glenn I. MacInnes
Glenn I. MacInnes
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 3, 2018 By: /s/ Albert J. Wang
Albert J. Wang
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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WEBSTER FINANCIAL CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
3	Certificate of Incorporation and Bylaws.				
3.1	Fourth Amended and Restated Certificate of Incorporation		10-Q	3.1	8/9/2016
3.2	Certificate of Designations establishing the rights of the Company's 8.50% Series A Non-Cumulative Perpetual Convertible Preferred Stock		8-K	3.1	6/11/2008
3.3	Certificate of Designations establishing the rights of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B		8-K	3.1	11/24/2008
3.4	Certificate of Designations establishing the rights of the Company's Perpetual Participating Preferred Stock, Series C		8-K	3.1	7/31/2009
3.5	Certificate of Designations establishing the rights of the Company's Non-Voting Perpetual Participating Preferred Stock, Series D		8-K	3.2	7/31/2009
3.6	Certificate of Designations establishing the rights of the Company's 6.40% Series E Non-Cumulative Perpetual Preferred Stock		8-A12B	3.3	12/4/2012
3.7	Certificate of Designations establishing the rights of the Company's 5.25% Series F Non-Cumulative Perpetual Preferred Stock		8-A12B	3.3	12/12/2017
3.8	Bylaws, as amended effective June 9, 2014		8-K	3.1	6/12/2014
10.25	Change in Control Agreement, dated July 16, 2018, between Webster Financial Corporation, and Karen Higgins-Carter	X			
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer.	X			
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer.	X			
32.1	Written statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer.	+			
32.2	Written statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer.	+			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embeded within the Inline XBRL document				
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X			

+ This exhibit is furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.